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now lies in closer alignment, and further integration, into one of the triad economies. The paper by Maitland and Nicholas suggests that history has shaped the nature of Australia’s outward FDI and consequently, there is something unique about Australian MNEs. Devinney, challenges the opponents of globalisation and argues that inward FDI has been beneficial to Australia, and that there is no evidence that the Australian corporate sector is being taken over by foreigners. These three contributions provide a bird’s-eye view on the experience of two small economies with globalisation. We hope these insights from down under will generate debate on these topics, and more international business research about Australia and New Zealand.

Judging by their populations, contributions to world merchandise trade and foreign investment activities, both Australia and New Zealand are relatively small economies by world standards (table 1). Although they are geographically isolated from the major world markets, they are inextricably linked to the process of globalisation. Because of their small domestic markets, both rely on their export sectors for growth. New Zealand exports mainly land-based products (dairy, meat, wool, timber, fruits and vegetables) whereas Australia has a more diversified economy that exports minerals and mineral fuels, metals and industrial products in addition to grains and cereals, dairy, meat, wool and horticultural products. The triad markets (Asia, Europe and US) are the main markets for both countries’ exports although trade between the two countries is also significant. Australia is the single largest market for New Zealand (taking 21% of NZ exports in 2000), and New Zealand is Australia’s fourth largest export market. Both countries are staunch sup-

FAQs
The most frequently asked questions relate to the length and format for submissions to Insights. We do not have strict guidelines for submissions. We encourage you to send material in the format that you believe will provide the best insights. If we want to include the material, we may then ask you to make changes to suit a particular issue. We do have general guidelines:

- submissions should be short (usually about two printed pages, although there will be both longer and shorter pieces), and
- they should be "insightful" (providing knowledge obtained by mental penetration - Oxford), and can be provocative (inviting a reaction, stimulating a response – Mirriam -Webster)
- necessary references should be provided as end notes
porters of free trade, are among the most open in the world and have standards of living comparable to the OECD average (table 1). Thus, the overall picture is one of two remote, small open export-oriented economies competing in the triad markets in an environment which has become more global. Furthermore, the external environment has been subjected to a new element in recent months: Terrorism. Given this context, we address two questions: How well have enterprises in Australia and New Zealand responded to the pressures of globalisation? And, What does the future look like for enterprises in both countries given the current global economic and political climate?

Responding to Globalisation

As two former British colonies, Australia and New Zealand have historically depended on Britain for their exports, imports and investments. And, because of this heavy reliance on the UK, both countries have been slow in developing and diversifying their export and investment sectors. Both account for a minute share of world merchandise trade, rely heavily on the exports of agricultural products, find it relatively difficult to attract FDI and have difficulty in investing overseas (see table 1). As with most countries, globalisation has presented both opportunities and threats to both Australian and New Zealand enterprises. On the one hand, the opening of world markets has presented opportunities for Australian and New Zealand home-based multinationals through increased access to world markets. On the other hand, market liberalisation is also threatening the survival of domestic firms as more and more foreign multinationals compete with these firms in their home markets.

On balance, the processes of globalisation have made it more difficult for Australian and New Zealand industries to achieve and sustain strong competitive positions in world markets. In New Zealand, for example, the pressures of globalisation have led to three main changes at the corporate level that tend to reduce economic activity:

(1) The centralisation effect: There has been an increasing trend in recent years for New Zealand businesses to move their corporate management offshore -- closer to the ‘centre of gravity’ of their markets. For example, several New Zealand MNEs (e.g., Heinz-Wattie, Brierley, Bendon, and Air New Zealand), have relocated their head offices offshore (mainly to Australia and Singapore) in recent years. Although corporate migration may lead to improved performance for the firm, it also tends to diminish economic activity at home as the services of supporting industries (such as materials suppliers, and providers of
accounting and legal services) are no longer required. It also reduces the opportunity for corporate role modeling in the domestic economy, which adversely affects innovation and upgrading, especially in management skills.

(2) The expansion effect: This involves firms moving offshore to locate in larger markets. The market seeking strategy is particularly relevant for firms from small economies given the limited scope for them to expand and grow locally. There has been a tendency in recent years for more New Zealand firms to relocate their production to the larger Australian market (e.g. Fisher and Paykel, Nufarm and Heinz-Wattie).

(3) The acquisition effect: Domestic firms that perform well internationally are also vulnerable to acquisition by overseas companies, which then take intellectual property and skilled workforces offshore (MAS and Dorf Industries). This has also been a significant trend in recent years, accelerated by the weak local currency. Another aspect of the acquisition effect has been the sale of many state assets (rail, electricity, gas, and forests) to foreign interests that have then rapidly realized capital gains (sometimes through asset depletion) that have been repatriated offshore.

Data on FDI (see table 1) also suggest that Australia and New Zealand have not been particularly successful in attracting foreign MNEs (see table 1). This is especially the case for technology-focused and knowledge-based multinationals. Recent failures to attract American and European technology companies in both countries have been linked to the small size of the domestic markets, limited supply of skilled workers, limited infrastructure, and limited history of technology-based innovation and geographic isolation. As a means of countering these disadvantages, the Australian governments (at both federal and state levels) have devised policies consisting of financial incentives such as preferential corporate tax rates, and tax exemption for R&D and regional economic development incentives to attract foreign investment. New Zealand is now considering such incentives, but its strict neo-classical policies of the last 15 years has made it ideologically difficult to ‘change gear’ in a way that develops effective intervention policies.

### Issues for the Future

It seems likely that the events of 11 September, on top of the earlier pricking of the ‘New Economy’ bubble, have established a lasting risk premium on investment in globalised economic activity. This will have mixed effects ‘down under’. Australian and New Zealand exports have relied heavily on trade liberalisation so that, to the extent that stronger security measures increase the costs of international business and/or re-raise trade barriers, the economies of these countries will be adversely affected. This is, of course, in addition to the impact of recession in export markets.

A higher risk profile for international investment, especially in rela-

### Table 1: Economic Characteristics of Selected Countries

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
<th>AUS</th>
<th>NZ</th>
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<tbody>
<tr>
<td><strong>Population: 1999</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>total (million)</td>
<td>245</td>
<td>57</td>
<td>19</td>
<td>3.8</td>
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<tr>
<td>per sq. km (person)</td>
<td>29</td>
<td>242</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td><strong>GDP per Cap. (US$ 000) (2000)</strong></td>
<td>33.2</td>
<td>21</td>
<td>24.5</td>
<td>18.4</td>
</tr>
<tr>
<td><strong>Export as % GDP (1998)</strong></td>
<td>11</td>
<td>27</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td><strong>Agriculture as % of total exports (1998)</strong></td>
<td>8</td>
<td>6</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td><strong>Share of world merchandise export (%)</strong></td>
<td>12.3</td>
<td>4.4</td>
<td>1.0</td>
<td>0.21</td>
</tr>
<tr>
<td><strong>Direct Investments as % of GDP, (1998)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>inflows</td>
<td>2.3</td>
<td>4.9</td>
<td>1.85</td>
<td>3.2</td>
</tr>
<tr>
<td>outflows</td>
<td>1.5</td>
<td>8.5</td>
<td>0.19</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Source: OECD in Figures, 2000

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distinctive features of Australian MNEs. Path dependency has played a key role in the international growth of Australian firms. The dominance of foreign MNEs in the domestic Australian market both pushed indigenous firms into niche sectors at home. Emerging from a slow-growing mature economy, Australian MNEs have been successful in fast-growing emerging markets, particularly in Asia. Carving out niche areas of profitable activity, they have avoided head-on competition with the type of MNEs that dominate the manufacturing sector at home.

The nature of Australian MNEs and their pattern of internationalisation raise several important questions. First, whether this pattern of internationalisation is unique to Australia or shares common attributes with other similar economies. Second, whether firms from other small open economies can learn from the Australian internationalisation experience and whether Australians firms can learn from the experiences of similar firms in other countries. In order to address these questions, further survey work is required to expand our knowledge of the operation and performance of Australian MNEs in other Asia countries as well as the US and Europe, which account for the overwhelming share of Australian FDI. Currently there is a comparative research project that is comparing the internationalisation processes from Australia, Hong Kong and the Scandinavian countries, which will enrich our understanding of how firms from small open economies are responding to the pressures of globalisation. The behaviour and performance of Australian MNEs remain a neglected area of research mainly because so little data are available to understand our industrial past or our economic future under globalisation.

End Notes


2 Merrett, 2000. "Australia’s Outward FDI"

3 The Australian Centre for International Business surveyed Australian MNEs, collecting data on 35 firms in Vietnam, 64 in Indonesia and 171 in China.