DETERMINANTS OF INVESTMENT ATTRACTION: LESSONS FROM ABROAD

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For most regions, investment promotion and attraction is fundamental to economic development. As well as providing much needed dollars, investment can also stimulate jobs, innovation and local value chains. Direct local investment and foreign direct investment (FDI) usually provide access to international, national and regional markets. In short, investment is a key determinant of long-term economic growth.

REGIONAL COMPARATIVE ADVANTAGE

Efforts to attract investment to regions or Local Government areas must be informed by a clearly articulated and strategic approach which builds on comparative advantage. This is best considered of as an area of relative strength or specialisation. Efforts to develop regional economies are most successful when they focus on building on these strengths.

Plentiful regional examples abound. For many years Australia benefited from substantial comparative advantage in tourism, attracting Japanese investment to the Gold Coast for example. Australia's wine industry also captured investment and held a competitive international position for many years. In more recent times however, these sectors have struggled to maintain a competitive edge. Of course, Australia's resource economy also has comparative advantage. But this too is reliant on global demand – currently waning, and subject to international environmental trends that are not always favourable.

For economic development practitioners, what appears to be a regional comparative advantage will not last forever. But with a strategic approach towards global markets, and also a combination of factors such as resources, skills and the ability to innovate, there is every reason to be optimistic.

A STRATEGIC APPROACH TO INVESTMENT ATTRACTION

In addition to the direct stimulus of jobs and regional gross domestic product, new investment (from foreign or domestic sources) can increase competitiveness and productivity. Such investment has the potential to:

- integrate local markets with ex-regional / national and world markets through enhanced supply chain and trade integration;
- enable technological transfers from external companies (from elsewhere in Australia and overseas) to local firms through interactions with suppliers, customers, and competitors;
- up-skill local workers (human capital transfer), through training and on-the-job learning;
- enhance the productivity of the local / regional economy by increasing competitiveness in local economic clusters, leading to a more efficient allocation of resources and lower prices; and
- improve lifestyle and liveability factors through the injection of new capital, resources, infrastructure and facilities (both directly and through investment 'flow-on' effects).

It is important to stress that strategies to attract investment from outside the local area will be an important catalyst for new growth and economic development. But a successful investment enhancement strategy will be one that also encourages new investment and growth from business and industry already located in the region.

GLOBALLY, REGIONS ARE ATTRACTING INVESTMENT DESPITE THE ODDS

Let's consider some of the world's most successful regions in regard to investment attraction.

Denmark is a small European regional economy characterised by a high level of diversity and a heavy reliance on the country's human resources or 'knowledge base'. The Danes are as shrewd in policy-making as they are in international trade. True, they could not fight the tide of global competition - the ship building industry was one such fatality. However, today Denmark takes leading international competitive roles in such value sectors as pork production, organic production, renewable energies, international logistics, life sciences and biotechnology. The diversity of Denmark's economic activity is illustrated in the country's 'export tree map', also known as the atlas of economic complexity which illustrates Denmark's total trade in 2012.

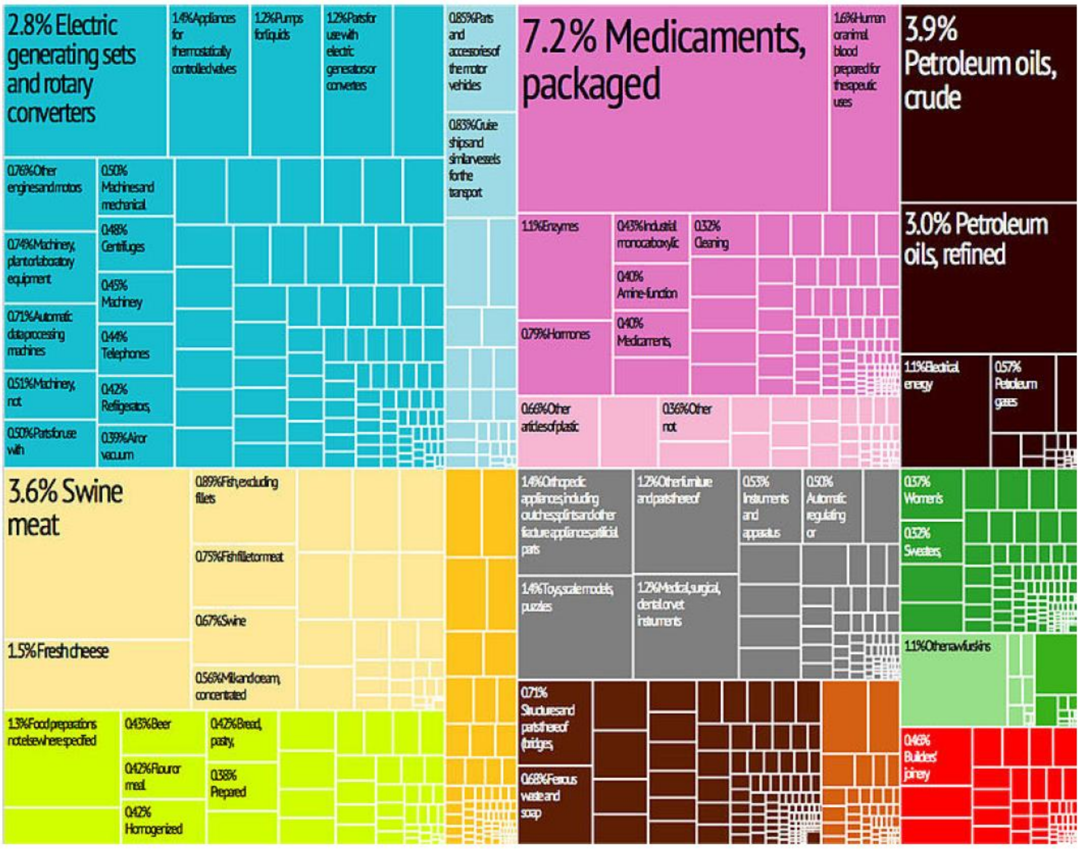
Regions of California have, over the last 80-100 years, faced economic meltdown followed by reinvention with new business and industries derived from agriculture and the defence sector. Today California boasts world leadership positions in entertainment (Hollywood), life sciences (several locations), applied defence sectors (especially southern California), ICT and the digital economy (especially in Silicon Valley). We can also see real advantage that follows a flair for design in many regions of Italy, in sectors from automotive design to handbags and fashion design.

Struggling economies of post-Soviet Europe now hold commanding positions in their sectors. Regions in Poland, Bulgaria and the Baltic states are beginning to benefit from comparative advantages in tourism, including health and retirement tourism, which did not exist 20 years ago.

From desperate economic times experienced in the 1960s and '70s, Germany's Ruhr district has moved from coal and steel production to environmental technology and other high tech sectors. Even far flung and population challenged regions such as Scotland's Highlands and Islands, Iceland and Canada's Atlantic provinces, have not only endured extreme economic hardships in recent times, but have gone on to carve out competitive economic niches based on unique environments, investment in the knowledge sector and adoption of disruptive new technologies.

For example, Nova Scotia has seen its fishing industry depleted over 80 years. Coal mining, steel production, forestry, pulp and paper all suffered the same fate. Now the remnants of these sectors have been transformed

Figure 1: Denmark's Export Tree Map



ce: Harvard Atlas of Economic Complexity, viewed at http://en.wikipedia.org/wiki/Economy_of_Denmark through policy measures and investment attraction. Today Nova Scotia has a new economic future centred on Canada's defence sector, Canada's fourth largest film industry, thriving eco-tourism, and the disruptive benefits of the ICT sector. The largest foreign employer, Michelin, now has three plants in the region.

LESSONS FROM OVERSEAS EXPERIENCE

So what can Australia's regions learn from the rest of the developed world? Well, it is generally accepted that around 70% of investment is made by existing firms (i.e. established businesses plus newly established firms or 'start-ups', and already established foreign-owned companies). Hence, locally-based enterprises often present the greatest potential to take advantage of new trends and opportunities. Local firms should always be in sight and start as the basis of competitive new industries.

For this reason, investment attraction strategies will be well-served by activities to identify and nurture existing and potential supply chain links, between existing business and industry and prospective new investors. To do this, the regional economic development organisation responsible for establishing and administering the investment attraction strategy must recognise and promote the region's strategic competitive advantages. To be really effective in its work, it also needs the genuine and wholehearted commitment of local and regional government as well as national/federal policy and programme support.

Other matters concern the need to facilitate private sector business growth and development from within the local area or region (SME and other local business growth or establishment) as well as, critically, providing the 'enablers' or critical preconditions for economic growth and development – specifically, infrastructure and an urban environment that is appealing to 'knowledge workers'.

In this regard, the investment attraction strategy will need to reflect the vision and strategic priorities as articulated in local planning documents.

To be successful in attracting investment to a region, a multiplicity of factors need to be in place. Amongst a multitude of investment determinants are:

- Business facilitation - community amenities: This includes housing, liveability, safety, community facilities and cultural and recreation facilities. Attracting investment means accommodating management (and their families) and in many cases skilled workers. Companies who perceive difficulties in attracting quality staff due to a lack of social amenities will take these matters into account in selecting places in which to invest.

- Resource / Asset-seeking – physical infrastructure: This includes ports, airports, roads, power, telecommunications, water and other utilities. This of course includes the land which is serviced by this infrastructure. The whole package must be able to be procured in a suitable form and in a timely fashion with a high degree of certainty of delivery.

- Efficiency-seeking: Transport and communication costs to/from and within the host economy.

- Human Resource Development: Human resource development is a prerequisite needed to identify and to seize investment opportunities, yet many places often under-invest in human resource development due in part to a range of market failures. Policies that develop and maintain a skilled, adaptable and healthy workforce, and ensure the full and productive deployment of human resources, thus support a favourable investment environment.

- Agglomeration Economies: Other characteristics include the use of agglomeration economies, which causes investment to gravitate towards spatial clusters of related activities or support industries. Firms will form in clusters, such as technology parks and CBD 'downtown' areas, in order to benefit from positive externalities from activities such as new knowledge creation and the exchange of information.

Australian regional investment attraction strategies should place sufficient weight on targeted approaches to attracting new investment from companies located elsewhere in Australia and overseas. In particular it is important to recognise that foreign direct investment (FDI) can be a necessary catalyst for growth. But FDI alone will not be sufficient. Strong re-investment strategies, SME development programmes, innovation support and working links to the knowledge/education sector are also going to be required for long term, sustainable economic outcomes.

Councils, RDA Committees and regional development organisations looking to attract investment from outside their region or from overseas, will need to consider and address these attributes and challenges to ensure their region has the information and resources in place to pro-actively seek-out and facilitate new investment and ultimately, sustainable economic development.

How to assess your region's real potential and how to build a successful economic development strategy will be probed further in our next article.