

## **Queensland Government Submission**

### **“Enterprising Australia – Planning, Preparing and Profiting from Trade and Investment”**

The Queensland Government places major emphasis on trade and investment as a means to expand Queensland’s economy, create wealth, increase employment, and improve the quality of life for Queenslanders. Consequently, efforts by the Commonwealth to strengthen Australia’s trade and investment capabilities are welcomed.

The Inquiry’s Terms of Reference are very wide ranging. As a result, the focuses on the following does not respond in great detail to the specific Terms of Reference and addresses those key issues of particular significance to the Queensland Government.

There are three fundamental issues that the Queensland Government would ask the Committee to consider. These are:

- The importance of a coordinated approach to economic development planning, export and investment promotion, infrastructure and industry development, guided by a future-oriented vision for the Australian economy;
- The importance of skills in ensuring Australia’s ability to attract appropriate investment and expand its export competitiveness; and
- The need to improve and expand infrastructure planning and provision to underpin future investment and export growth, particularly for knowledge-based industries.

The first three of the Inquiry’s Terms of Reference, examining the role and success of economic development agencies in other jurisdictions, are not afforded attention here other than to note:

- The difficulty in drawing comparisons and micro-level lessons from examples of other countries whose economic development agencies operate in quite different institutional settings (eg Federal versus Unitary system of Government), possess different attributes to Australia (eg membership of EU, proximity to very large markets), and face a very different set of economic circumstances to that faced by Australia at present;
- The important role of financial incentives in the success of certain locations. These were offered at a level well beyond what Australia, let alone individual States and Territories, could offer without the flexibility of external support (eg Ireland). However, there is some evidence that for some locations, Government incentives created an initial critical mass in particular sectors which then attracted continuing FDI on their own merits;
- On a macro level, the experience of exemplary economic development agencies highlight a common theme of drawing together the key elements of economic

planning, industry development, infrastructure development, investment attraction and export promotion responsibilities within a single agency, operating within an overarching strategic framework. Similarly, most Australian States and Territories have employed such a model which offers greater coordination and more streamlined access for business.

**The following addresses the remaining Terms of Reference.**

***Incentives and impediments to foreign investment in Australia such as transport systems, taxation, telecommunication infrastructure, production costs, industrial relations structures, legal systems, federal systems of government and research and development initiatives.***

Foreign investors will accord different levels of importance to different aspects of a location's business environment. Some investors seek new markets for their product or service, some seek access to resources or assets such as raw materials, a skilled workforce or a 'created asset' such as a location's image, while others are seeking greater efficiency through cheaper resources, inputs or lower operating costs. Different motivation will mean different aspects of the business environment will be of importance to different investors. In this sense, it is difficult to be definitive about impediments to foreign investment when speaking in general terms.

While many of the issues that affect the attractiveness of Australia as an investment location are largely the responsibility of the Commonwealth Government, the Queensland Government undertakes a wide range of activities to increase the investment attractiveness of the State. These efforts can best be captured in terms of improving:

- The ease of doing business (eg red tape reduction, streamlining approval processes);
- The cost of doing business (eg reforms in the gas and electricity markets);
- Access to resources or assets (eg regulatory framework for minerals, bioprospecting);
- The availability of infrastructure (eg infrastructure planning, private/public partnerships);
- Access to appropriately skilled workforce (eg enhancement of skills base); and
- Raising awareness of Queensland's competitiveness in the wider investment community (eg investment promotion).

Some specific issues in relation to this Term of Reference include:

- Taxation, which continues to be an issue that is frequently raised in reference to Australia's investment competitiveness. Ongoing reforms of the Commonwealth's tax regime have addressed a number of issues, and overall, Australia's tax regime is now less of a consideration for investors than it once was. However, some individual taxation issues remain which include:
  - The Capital Gains Tax regime, which even after recent changes, still poses impediments to international venture capital investment. Large US pension

funds, long identified as a significant source of potential venture capital funding in Australia, have largely been excluded from CGT exemption provisions as the venture capital funds through which they invest are not eligible for exemptions;

- The taxation treatment of expatriate personnel. Firms that rely on attracting key expatriate staff to relocate in Australia as part of their investment strategy have indicated that a range of issues, including superannuation requirements and the taxation of expatriates' foreign income, increases the cost of employing key expatriate personnel and reduces the attractiveness for expatriate personnel to move to Australia. These concerns are particularly important for firms in the knowledge-intensive industries that Australia is increasingly relying upon to secure its economic future; and
  - The level of Australia's corporate tax rates which have been identified, among a suite of other factors, as encouraging Australian firms to move offshore, rather than re-invest or expand locally.
- Australia's R&D performance, which will be a critical factor in attracting ongoing investment in the nation's current and emerging knowledge intensive industries. The Queensland Government recognises recent Commonwealth initiatives to increase R&D, and encourages further efforts to increase investment in R&D by Australian firms, development of greater public and private R&D capabilities and the upgrading of R&D facilities to world standards. However, proposed changes under the Innovation Action Plan to R&D tax concession are thought to be limited in terms of the ability of firms, including off-shore entities, to claim the 175% tax concession.

***The adequacy of a skilled workforce in Australia, particularly in new growth areas such as, though not limited to, financial services, information technology, e-business, education, pharmaceuticals and health care, and the competitiveness of that workforce***

The knowledge-based economy of the 21st century has generated the need for a highly educated and skilled workforce that has the capacity to meet the challenges of the international economy. Industries also recognise that they require a workforce with a balance of generic, and work specific competencies, personal attributes and interpersonal skills if they are to remain competitive. While the Australian economy is gradually moving from a reliance on tangible assets to intangible assets to generate wealth, greater support is required for the development of:

- knowledge and skills in mathematics and science in the education sector;
- the enabling technologies such as information technology and biotechnologies that underpin a range of new enterprises;
- other new technologies and innovations that support emerging industries including spatial information, environmental management and freight transport logistics; and

- the need for a strategic, international and collaborative approach to higher learning and research.

Government and industry also need to promote the benefits of life long learning, encouraging workers to both upgrade and acquire new skills.

Reflecting the view that education, skills and training is an important infrastructure in its own right, Queensland is undertaking the following to improve its skills base:

- Implementing *Skilling Queensland - the Queensland Vocational and Education and Training Strategy (2000-2003)* to accelerate the Queensland workforce's knowledge and skills development;
- Implementing *The Queensland Communication and Information Strategic Plan 1999-2004* and accompanying Action Plan to address the State's IT&T skills shortage;
- Implementing *The Innovation Strategy* and *Biotechnology Strategy* which incorporates education and training initiatives;
- Advocating specific skills, training and education action plans in the draft State Infrastructure Plan; and
- Emphasising the development of knowledge and skills in science, mathematics and IT in Queensland's primary and secondary education sectors.

On a national level, there remains considerable scope for action. Specifically, the Commonwealth is encouraged to:

- Develop policies to redress Queensland's historical disadvantage in the allocation of funding to support Research Higher Degrees;
- Adequately fund universities and other government funded research agencies to enable them to effectively transfer skills and knowledge to new generations. In this regard the Committee should be aware of a concurrent Senate review into the capacity of publicly funded universities to meet Australia's higher education needs; and
- Develop initiatives to encourage the workforce to learn continuously and acquire new skills rapidly.

The overall system for education and training, and apparent skill shortages, cannot be considered in isolation from the employment opportunities that are available regionally and nationally. It does little for the nation if our education system produces graduates of high quality, if those graduates are forced to look elsewhere for a rewarding working environment. Many jurisdictions have recognised this and have programs in place to develop domestic research and industrial capacity to help retain or repatriate highly skilled workers. Similarly, the attractiveness of other locations for work, particularly the attraction of significantly higher wages, can only serve to undermine efforts to develop an adequate skills base in Australia. This issue has become particularly acute in New Zealand, and the Commonwealth is encouraged to consider the New Zealand experience.

The Queensland Government would encourage the Committee to examine two recent Commonwealth Government reports – the Australian Science Capability

Review and the Innovation Summit Implementation Group. Queensland Government submissions to these reviews contained significant education and skills development components.

***Opportunities for encouraging inward investment and promoting export sales.***

The Queensland Government devotes considerable resources to attracting investment into Queensland, and supporting and expanding the State's export capacity. The Queensland Government employs a State-wide network of State Development Centres to assist in the identification of trade and investment opportunities. With the recent establishment of the Queensland Trade and Investment Office in Korea, Queensland now has ten overseas offices covering major trade and investment target markets. Queensland also has three business advisers in Europe (Paris, Amsterdam, Munich) and two Honorary Business Ambassadors in Singapore. Further, two special representatives cover the Middle East, Africa and India, and South East Asia.

The Queensland Government focuses, on the supply side, on improving exporter skills and encouraging SMEs to form alliances to access major export opportunities. On the demand side, the Government is focusing on collecting, analysing, disseminating and acting on high quality market intelligence closely matched to the State's supply capacity. A number of innovative market entry mechanisms, including the use of electronic support technologies to assist in service delivery and business matching, are employed. There is a strong but not exclusive focus on the export of high value services, both in the 'new economy' areas such as ITC and bioindustries, and in more traditional sectors such as agribusiness, mining and tourism. The Queensland Government works closely with Austrade both in Australia (eg through jointly-funded *TradeStart* offices located in State Development Centres) and in overseas markets. The Queensland Government would like to see this cooperation expanded and closer partnerships formed with allies such as Austrade in the areas identified above.

The Queensland Government works closely with Invest Australia to identify and facilitate potential new investments. From the Queensland Government perspective, Invest Australia is a useful mechanism for pursuing new investment opportunities, particularly through its international representation. That said, Invest Australia's current structure could be re-examined, with a view to expanding the staffing levels in its overseas offices. In particular, there is significant scope to increase Invest Australia's representation in North America and Europe, where increased staff numbers would result in a greater range of opportunities being exploited. The provision of investment incentives for new investments could also be usefully reviewed, with an assessment of the appropriate direction of future incentive packages. To date, a significant proportion of financial assistance provided by the Commonwealth has been directed to traditional sectors, particularly resource development projects and manufacturing. In this regard, a reorientation of incentive packages towards new economy projects may have significantly greater benefit to Australia in the longer term.

The provision of appropriate infrastructure is a key element of a nation's capacity to attract new investment and facilitate economic development more generally. A long term under-investment in infrastructure throughout Australia is now becoming increasingly apparent. Further, the high level of importance placed on soft infrastructure (skills, R&D capacity, intellectual property legislation) has raised the stakes for locations actively pursuing increased investment in knowledge intensive sectors. In this regard, there is an urgent role for the Commonwealth, in partnership with States and Territories, to expand funding for infrastructure planning and development. A key issue will be developing appropriate frameworks for increasing private/public sector partnerships to facilitate infrastructure provision.

At a state level, the Queensland Government will shortly finalise a *State Infrastructure Plan*, which assesses infrastructure needs and provides guidance for the future development of traditional and new economy infrastructure. Further, the Queensland Government has established a Private/Public Sector Infrastructure Taskforce that has worked to develop a framework for this type of infrastructure development and is now working to identify specific priority projects for advancement.

Also critical is for the Commonwealth to consider new ways to attract investment in regional areas, and in particular, identified regions of economic disadvantage. Representations have been made to the Prime Minister, outlining an urgent need to put in place special economic zones, offering tax incentives that will encourage industry to relocate or establish new operations in designated areas. Such innovative approaches will assist Australia as a whole to gain most from new investment and export opportunities.