



FACTBase

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Investment and Trade: Drilling Down into Our Global Attractiveness

Kirsten Martinus and Bo Guo

Introduction

Foreign direct investment (FDI) has become a key means by which corporations and government measure national success. For governments, greater FDI leads to more economic growth, human capital development and jobs, as well as access to the expertise, skills, and technology of the investing company. This in turn generates more investment opportunities. For corporations, FDI can be seen as an investment in a nation to acquire resources, technologies or products, or to sell their products. Corporations invest abroad to realise greater profits and diversify income sources, and governments often attract these investments by offering profit-making schemes such as lower tax zones and tax incentives for research and development.

The OECD (2008) defines FDI as 'cross-border investment made by a resident in one [national] economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in a [national] economy other than that of the direct investor' (p.17). It stresses the relevance of a 'strategic

Summary of Key Findings

- Foreign direct investment (FDI) is a key measure of national success in investment attraction and capacity for economic development.
- FDI is strongly linked to national assets such as resources, as well as national economic strategic interests.
- State trade data points to where this attractiveness lies.
- Australian inward FDI attractiveness is strong globally and is increasing relative to outward FDI.
- Our most attractive industry sector is Mining and Quarrying – areas of strength for Western Australia.
- FDI is a major source for business creation, employment generation, asset holdings, production of exports and services, and industry value-add.
- Western Australia exports considerably more than other Australian States, most of which is connected to its resources industry.
- Its relatively low level of imports and state domestic demand means Western Australia runs a trade surplus.
- The downside of Western Australia's attractiveness to global investment is an overheating of the economy and exacerbating spatial inequality – factors that need addressing through appropriate State policy and strategy.

long-term relationship', which is further defined by 'at least 10% of the voting power of the direct investment enterprise' (p.17). This means that foreign companies are able to gain access to national resources which are not available through any other means. It represents the investors' desire for control in actively managing foreign operations, and makes FDI distinct from passive foreign investment types. It is a key tool in the integration of

global markets, and therefore a major driver of globalisation.

In short, FDI is a measure of national attractiveness and the competitiveness of its industry in the context of the global market. It tells us who is investing in our nation, and where we as a nation are investing in. In Australia, it is strongly linked to our resource assets as well as to our strategic and economic interests. For example, FDI provides an avenue

to grow emerging markets (such as renewable energies and bio-technologies) that might not be as attractive to domestic funding.

Despite these advantages, several drawbacks to the attraction of FDI exist. Firstly, governments may protect certain strategic industries (such as defence) from foreign ownership in order to maintain control and secrecy. Secondly, FDI may detract quality resources (human or other) away from local industries, creating income and market disparities that negatively impact local economies. Thirdly, the inflow of FDI may be deceptive, as it is likely attached to an outflow (or repatriation) of corporate profits from nations being invested in to other locations (e.g., tax havens or the country of the investor). As such, FDI is only one measure of what is occurring in terms of investment, and FDI needs to be combined with other factors to understand the true complexity of what is happening in a national economy. To this end, this Bulletin will also unpack the trade and investment dynamics of the Australian States.

This FACTBase Bulletin primarily focuses on FDI and other measures, such as Gross State Product and inter-State trade, to understand the investment attractiveness of Western Australia and, by proxy, Perth as its capital city. To do so, it draws on Australian Bureau of Statistics (ABS) trade and investment data mapping trajectories since 2001. The final section offers concluding comments regarding the attractiveness of Western Australia (WA) to FDI, based on our analysis. The Bulletin ends with a cautionary note regarding the impact of WA's success across Perth, as Australia gears up for the next upsurge in global resource demand.

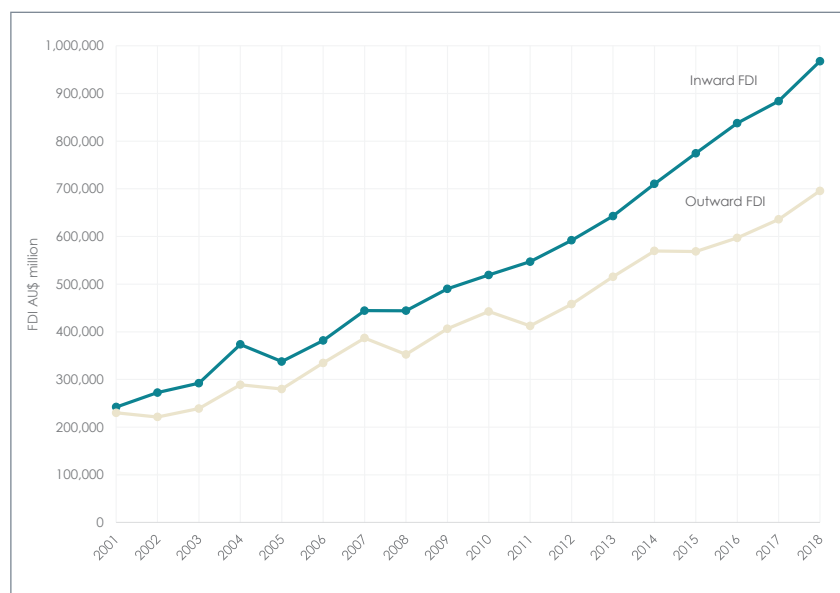
How does Australia fare globally?

This section provides an overview of how attractive Australia and its industries are to investors from other nations through the analysis of FDI by nation as well as by industry sector. Figure 1 demonstrates the levels of Australian business monetary investments in other economies, as well as the interest of other countries for investing in Australia. Since 2001, both inward and outward Australian FDI has increased steadily, with the rate of inward FDI outpacing that of outward FDI. The resources boom generated significant increases between 2003 and 2007 in both inward and outward FDI. This indicates both the attractiveness of Australia and Australia's increased wealth which was being invested elsewhere. This period was

followed by a slight downturn as a consequence of the 2007-2009 Global Financial Crisis (GFC), particularly in terms of the outward FDI. This reflects the strength of the Australian resources sector, which did not experience the same downturn as the financial sector.

Interestingly, whilst resources experienced a decline during the 2012-2017 period, its impact is not found in the outward FDI trend line until 2014. There appeared to be almost no impact in the inward FDI. By 2018, Australian businesses received AU\$967.5 billion of foreign direct investments, and invested AU\$695.6 billion elsewhere. In other words, Australia pulled in more foreign investment than it spent elsewhere. This is a positive indicator of its overall attractiveness as an investment destination.

Figure 1: A comparison between Australia's total inward and outward FDI 2001-2018.

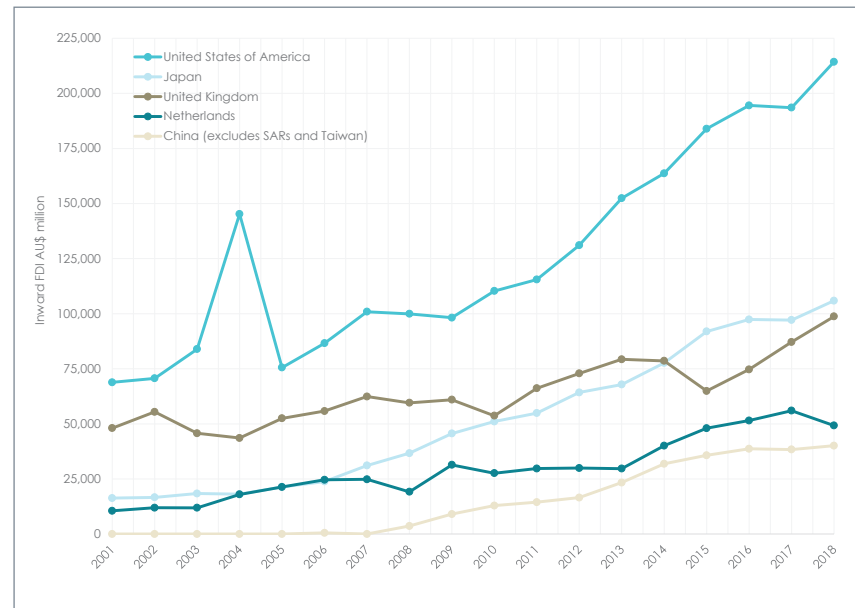


Source: ABS (2019a)

Figure 2 shows Australia's top five investors in 2018, mapping their trajectories from 2001. These are the USA, Japan, the UK, the Netherlands and China. The USA has been the biggest investor in Australia since 2001 and at an increasingly greater rate. The spike in 2004 coincided with the highest growth recorded in Australia in the 30 years before this (Gruen and Kennedy, 2006). By 2018, investments from the USA totalled AU\$214.3 billion or 22% of the total inward FDI. This investment relationship is worth AU\$1.47 trillion, or almost as much as Australia's Gross Domestic Product (GDP), and is related to industries connected to our everyday lives (Holden and Mondschein, 2017). Japan surpassed the UK to become the second largest investor in Australia after 2014 at AU\$105.9 billion (11% of total inward FDI) – nearly half of the USA's investment.

Founded on linkages of a strong shared history, the UK investments in Australia remained relatively stable between 2001 and 2010; rising afterwards, but only to dip again in 2015. In 2018, it contributed 10% of Australia's total inward FDI. Surprisingly, the low-tax region of the Netherlands is the fourth largest FDI investor, having significant increases in investment into Australia since 2008. This may indicate that the corporations the Netherlands attracts to invest in its borders through its low tax offerings considered Australia as a safe investment option after the GFC (cf. Martinus et al., 2018; Sigler et al., 2019).

Figure 2: Australia's inward FDI trend based on top five investor countries in 2018.



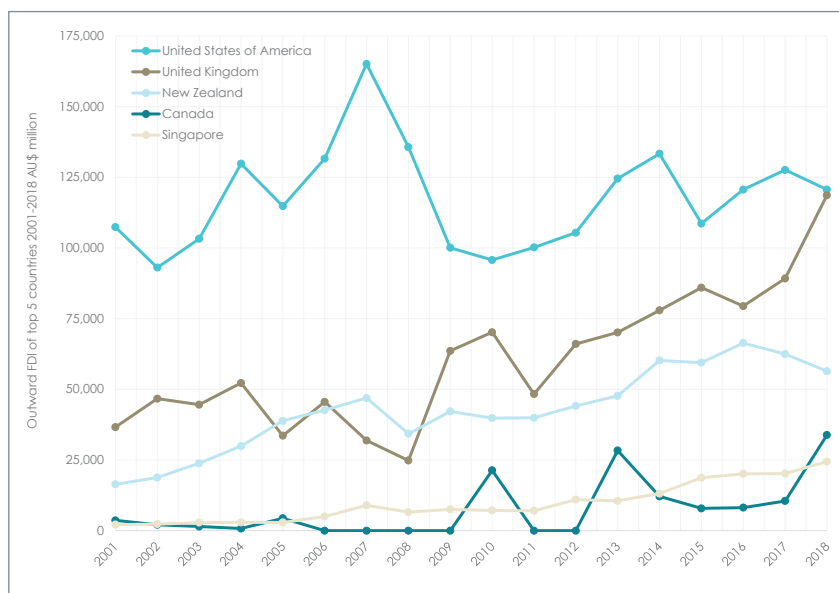
Source: ABS (2019a)

China occupies the fifth place in the list, with a significant increase to 4% of Australia's total inward FDI in 2008 – the year in which China had an annual outward FDI growth of 111% (MOFCOM, 2008). However, China emerged on the top five list only after surpassing Singapore and Canada in 2013. This reflects the change in the business practices of its state-owned enterprises towards more investment overseas, as well as its emerging economy status from a recipient of foreign investment to an investor in foreign assets. Overall, this points to the increasing global influence of China (Zhou and Leung, 2015).

Figure 3 shows where Australia invests, with the top five 2018 destinations for outward FDI being the USA, the UK, New Zealand, Canada, and Singapore. The large inward and outward FDI flows highlight the very strong bilateral investment relationships of Australia with both the USA and the UK. However, Figure 4 demonstrates large differences in the relationship of each country in terms of in- and out-ward FDI. The sharp rise of Australian investments in the USA appeared to be influenced by the GFC (most likely many of these investments lost money in the GFC). As such, inward FDI from the USA (to Australia) surpassed the reverse FDI flows after 2009 (see Figure 4), when there was a sharp decline in outward FDI indicating Australian declines in investing in the USA. This has only recovered slightly since 2013, with another decline in the lead up to the Presidential election in 2016.

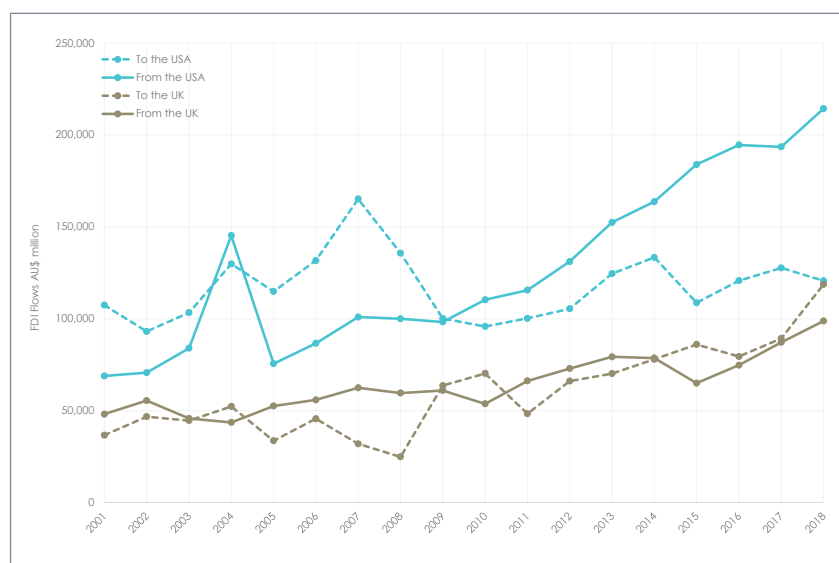
Investments in the UK and New Zealand both fell after the GFC, mostly likely as investors were hit by the resulting stock market crash. The high investment rate in these nations is not surprising given the strong social and historic links between them. Since 2008, the UK has become an increasingly favoured investment destination. In 2018, it became equal to the USA, pointing to the shift in Australian investments from the USA to the UK. Investments in Singapore are relatively stable, albeit slowly increasing. These investments are likely due to Singapore's low tax rates (Martinus et al., 2018; Sigler et al., 2019). Australia's increasing investment in Canada may be attributed to the similarities in the resource industries between the two countries, and to the increasing role of the Australian resource companies in contributing knowledge and other resources to projects there.

Figure 3: Australia's outward FDI trend based on top five investor countries in 2018.



Source: ABS (2019a)

Figure 4: Bilateral investment relationships with the USA and the UK.



Source: ABS (2019a)

Figure 4 provides a comparison between inward and outward FDI with the top two bilateral investment partners of Australia – the USA and the UK. In 2009, the end of the GFC, the inward and outward investments were similar in both countries. Since then, however, there has been a rapid rise in investments from the USA

as compared to the Australian investments in the USA. This appears to indicate a growing uncertainty regarding investing in the USA, perhaps due to its trade wars by both its own residents and the Australians (Kirchner, 2018) who may instead be choosing to invest domestically. Figure 4 suggests that Australians

appear to be considering the UK as a more favourable investment destination, although the in- and out- flows have increased at a relatively similar rate since 2009.

Table 1 disaggregates inward FDI in 2014 and 2018 by industry sector to highlight the level of investment attractiveness of different Australian industries. The sector of *Mining & Quarrying* has consistently attracted the majority of FDI (approximately 40%), increasing over the 2014 and 2018 periods by 23.6%. Further, in 2018, the resources and energy sector in general contributed 45% of the total export of goods and services (DIIS, 2019). This strongly points to the value of this sector to the Australian economy – of which *Mining & Quarrying* is a component. *Manufacturing* is the second strongest FDI attractor, increasing by 24.7% since 2014.

Nonetheless, there has been a slow decrease in *Mining & Quarrying* FDI as a proportion of the total inward FDI, dropping from 41.7% in 2014 to 37.8% in 2018. The trend has been similar for *Manufacturing* FDI, which experienced a proportional drop from 12.2% in 2014 to 11.1% in 2018. This demonstrates the declining dependence of the country on *Mining & Quarrying* (-3.9% decline in four years) and *Manufacturing* (-1.1% decline in four years). This is most probably due to the fact that many resource construction projects came to an end. In contrast, *Financial & Insurance Activities* and *Real Estate Activities* have become proportionally more attractive for FDI, increasing by 111.2% and 119.7% respectively between 2014 and 2018. These top four industries accounted for 70.6% of the total inward FDI in 2018.

Table 2 shows the number and value of Australian businesses that were at least 10% owned by foreign interests during 2014-2015. Although these businesses

Table 1: Level of Australia's inward FDI by industry sector, 2014 and 2018.

Industry	2014		2018	
	AU\$million	%	AU\$million	%
Mining and Quarrying	295,842	41.7%	365,516	37.8%
Manufacturing	86,341	12.2%	107,651	11.1%
Financial and Insurance Activities	50,915	7.2%	107,529	11.1%
Real Estate Activities	46,815	6.6%	102,851	10.6%
Wholesale and Retail Trade	58,683	8.3%	56,667	5.9%
Information and Communication	25,027	3.5%	26,891	2.8%
Construction	18,942	2.7%	22,447	2.3%
Electricity, Gas, and Water	12,814	1.8%	21,677	2.2%
Transportation and Storage	13,576	1.9%	19,493	2.0%
Accommodation and Food Service Activities	8,138	1.1%	8,745	0.9%
Professional, Scientific, and Technical Activities	3,786	0.5%	6,484	0.7%
Administrative and Support Service Activities	1,832	0.3%	4,652	0.5%
Human Health and Social Work Activities	3,641	0.5%	3,933	0.4%
Agriculture, Forestry, and Fishing	1,544	0.2%	3,163	0.3%
Public Administration; Households and Extraterritorial Organisations	np	-	839	0.1%
Education	-	-	np	-
Arts, Entertainment, and Recreation	232	0.0%	np	-
Other Service Activities	np	-	np	-
Unallocated	81,681	11.5%	108,187	11.2%
Total	710,233	100%	967,505	100%

Source: ABS (2019a)

Table 2: Impact of Australia's inward FDI, 2014-2015.

Activity Type	FDI (Ownership greater than 10%)	
Operating business	No.	11,154 (0.5%)
Employment	'000s	1,170.8 (10.6%)
Total assets	\$m	2,654,702.2 (24.7%)
Industry value-add	\$m	286,010.8 (26.8%)

Source: ABS (2018a)

accounted for only 0.5% of all the businesses in Australia, they were of significant value and contribution to the Australian economy. They created a total

of 1,170,800 jobs (10.6% of all employment) and had an industry value-add of AU\$286,010.8 million (26.8% of all total industry value-add in Australia).

Table 3: Impact of foreign owned business (ownership greater than 50%) in Australia ranked by different activity types, 2014-2015.

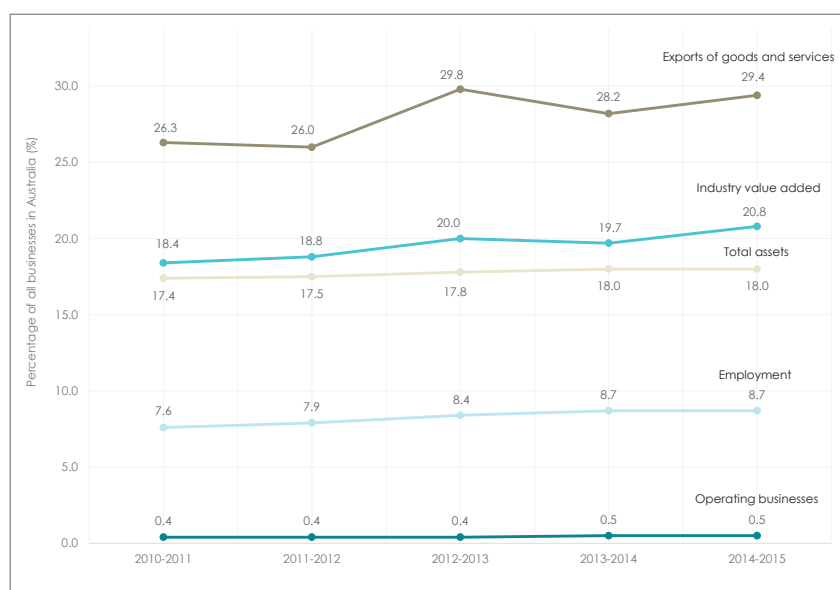
Rank	1	2	3	4	5
Operating businesses (No.)	United States 2,039 (20.5%)	United Kingdom 842 (8.5%)	Japan 538 (5.4%)	New Zealand 420 (4.2%)	Germany 341 (3.4%)
Employment ('000s)	United States 272.7 (28.2%)	United Kingdom 141.4 (14.6%)	Japan 73.9 (7.6%)	The Netherlands 65.1 (6.7%)	Germany 43.5 (4.5%)
Total Assets (\$m)	United States 593,361.8 (30.8%)	Japan 219,001.7 (11.4%)	United Kingdom 166,527.2 (8.6%)	Switzerland 153,814.1 (8%)	China 137,480.8 (7.1%)
Exports of goods and services (%)	United States 36.8%	Japan 14.1%	United Kingdom 11.0%	Switzerland 6.4%	China 5.5%
Industry value added (\$m)	United States 71,613.9 (32.3%)	United Kingdom 29,538 (13.3%)	Japan 21,960.6 (9.9%)	Switzerland 10,854.2 (4.9%)	Germany 9,731.4 (4.4%)

Source: ABS (2018a).

Table 3 shows the influence of different foreign countries in Australia in 2014-2015 for those businesses which had over 50% foreign ownership. The USA was the most influential foreign country with 2,039 operating businesses (20.5% of the total), creating 272,000 jobs and holding AU\$593.3 billion in assets. It contributed 36.8% of the total foreign-owned business exports and services, and had an industry value-add of AU\$71.6 billion to domestic industry. The UK followed by Japan are also highly influential, despite their less significant contributions than that of the USA. Switzerland, Germany, China, the Netherlands, and New Zealand all had moderate impacts in varying aspects.

Figure 5 shows that Australia had maintained a low level of foreign business ownership (0.4~0.5% of all businesses in Australia) between 2010 and 2015. However, the impact of this ownership is significant, and has been relatively consistent for each category since 2010. In the 2014-2015 period, foreign-owned businesses created 8.7% employment, held 18% of the total assets, contributed 20.8% of the total industry value-add, and generated 29.4% of total goods and services exports.

Figure 5: Change in the impact of foreign owned businesses in Australia by activity, 2010-2015.



Source: ABS (2018a)

Disaggregating the impact of foreign ownership by industry sector, inward FDI to Mining and Manufacturing over the 2014-2018 period added the greatest industry value and had the highest total assets. However, it created relatively less employment (ABS, 2018a). This is possibly because the construction boom in Western Australia (which demanded high employment) had slowed by 2014 (e.g., Wheatstone

and Gorgon projects) as the resource sector entered the less job-intensive production phase. However, it seems that the sector is poised again for large employment creation as large lithium construction projects experience the same investment boost (Diss, 2018).

Trade and Investment at the State Level

Trade and investment are key elements associated with FDI. They are, in turn, connected to each of the Australian States in varying ways. To understand FDI, it is useful to look at the trade of each of the States and how they relate to each other. Thus, we examined State imports, exports, Gross State Product (GSP), as well as the trade dependency of each State (cf. Plummer, 2019).

Figure 6 details the imports and exports for each Australian State from 2001 to 2018. It provides an indicator of the degree to which each Australian State is dependent on trade both domestically (to and from other States) and globally. If the export value is higher than the import value for a particular State, it will lead to a trade surplus for

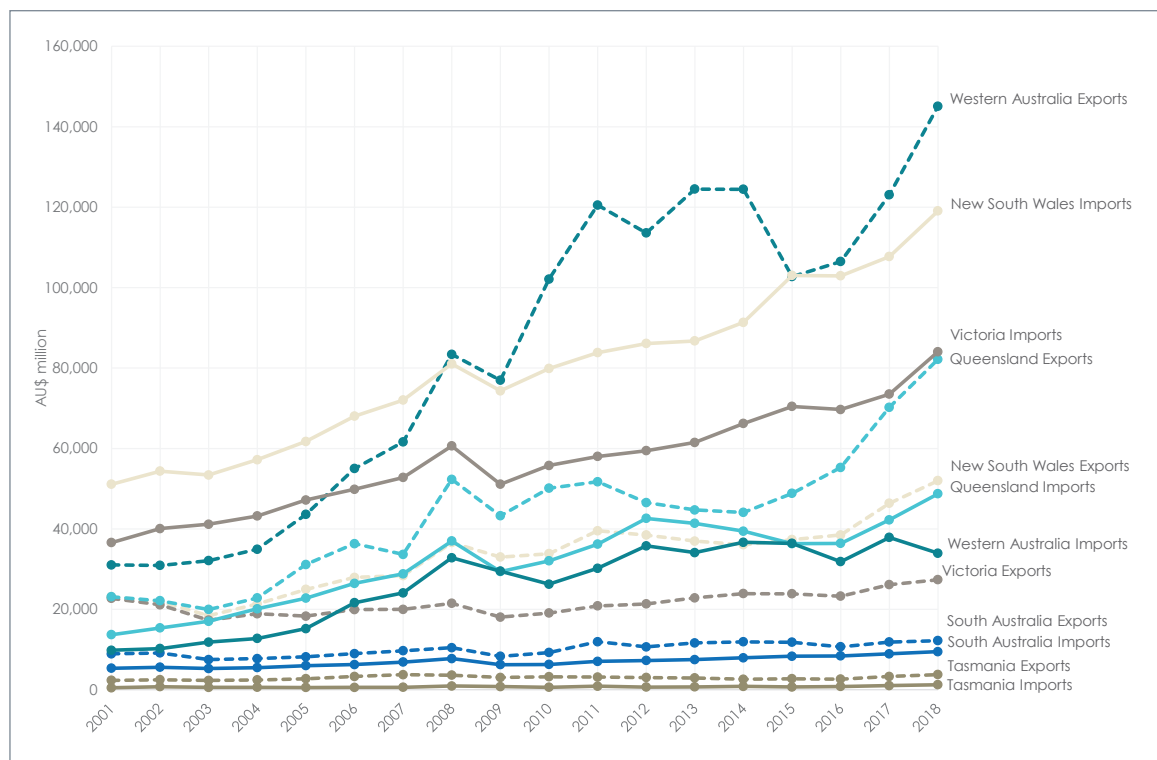
that State. Reinvestment of the wealth that is accumulated back into the State can further stimulate economic growth (Plummer, 2019).

Among the six Australian States, there are four States with a trade surplus: Western Australia, Queensland, South Australia, and Tasmania. The large difference between exports and imports for Western Australia and Queensland is likely due to both States being strong mining States and global exporters. In contrast, the low values and slight differences in the balance between exports and imports for South Australia and Tasmania reflects their smaller economies – both in terms of resource production and populations. The New South Wales and Victoria trends show that they are overall importers of goods and services. This may be due to the greater

economic diversification of these States in advanced manufacturing, IT, and medical related industries, in addition to being involved in resource production (DFAT, 2019).

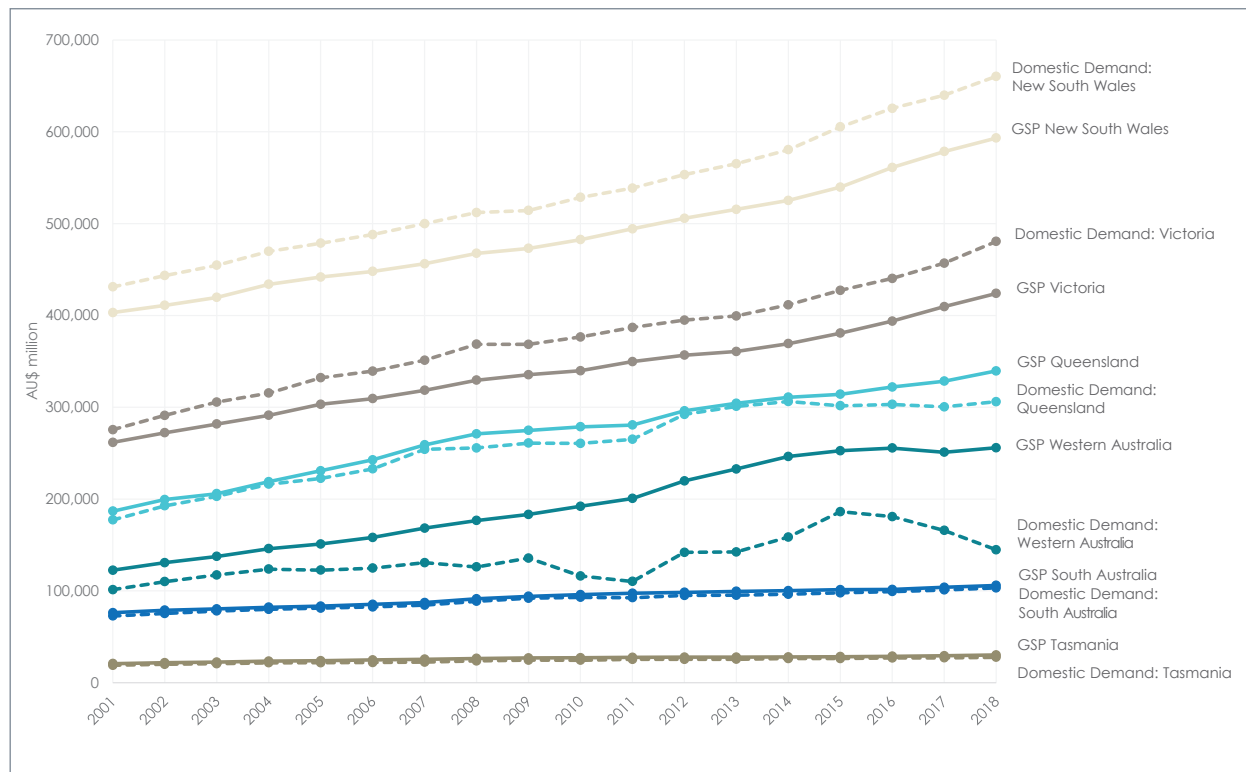
Focusing on Western Australia, Figure 6 highlights the start of the resources boom with State exports rising significantly from when it began in 2004. Imports also rose during this time, but at a lower rate. Whilst there was a slight decrease in both imports and exports during 2008-2009, the GFC appeared to have had little impact on the State's meteoric growth in exports, continuing strongly again after a slight dip in 2008. The sudden decline in exports in 2014 denoted the end of the boom, and was accompanied by similar (albeit less severe) dips in import demand. The Western Australian trends highlight the

Figure 6: Imports and Exports for each Australian State, 2001-2018.



Source: ABS (2019b)

Figure 7: Gross State Product and State domestic demand for each Australian State, 2001-2018.



Source: ABS (2019b; 2018b)

different fundamentals that drive its economy compared to New South Wales and Victoria, as well as the fluctuations (particularly in exports) associated with the changing nature of investments and production in a resource economy. As Figure 6 illustrates, the upward trends of all other States have been significantly smoother.

Figure 7 compares the GSP and domestic demand of each Australian State from 2001 to 2018. GSP is the total State value of produced goods and services. It indicates the proportion by which each State contributes to the Gross Domestic Product (GDP) of Australia as a whole. State domestic demand is GSP plus State imports, minus State exports – or the total value of products and services the State demands after all production, imports, and exports have been taken into account.

South Australia and Tasmania demonstrated little difference in GSP and State demand over the 2001-2018 period. New South Wales and Victoria both had an increasingly higher State demand than GSP, a result of higher import than export levels. In contrast, the reverse is true for the resource States of Queensland and Western Australia where GSP outweighed State demand. Western Australia stands out in Figure 6 amongst all of the States with both the largest gap between GSP and State demand, as well as distinct differences in the trend lines. Indeed, the decline in State demand after 2008 demonstrates that the State's population was affected by the GFC even more than the populations of the other States.

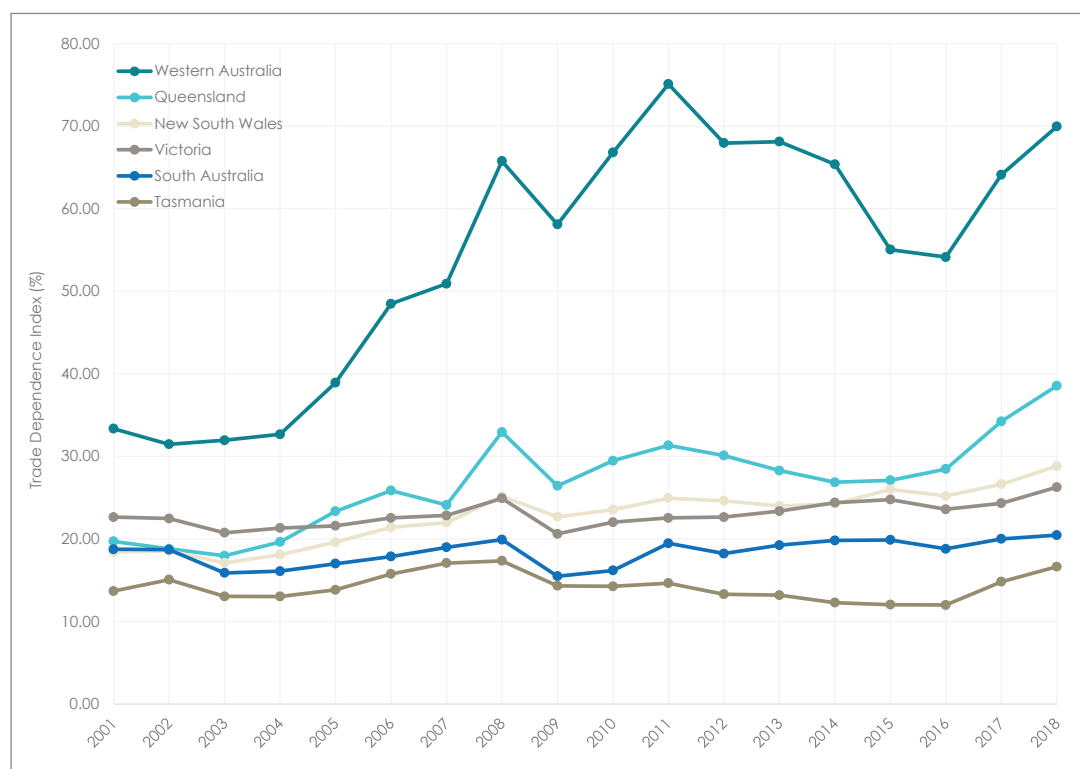
In 2011, we see State demand again increasing until 2015 after the decline of resource

investment in major infrastructure investments (recorded as a slight dip in the GSP). These changes are most likely a reflection of population changes over the period that impacted demand for housing supply and construction (id., 2017). Nonetheless, GSP appears to only slightly slow (not decline) after the reduction in construction investments in 2014. This points to the continued wealth of the State as it shifts from construction to production phases – signalled in Figure 7 by the decline in State domestic demand and continued State production of wealth (or GSP).

Finally, we investigate the level of trade dependence for each State to highlight the significance of their respective imports and exports to each State economy. This can be measured by a Trade Dependence Index (TDI), which is the ratio of all trade (sum of imports and exports) to GSP (Plummer, 2019). A ratio essentially standardises across otherwise different size populations, and is only useful as a means of comparison. The ratios for all States are illustrated in Figure 8. A small TDI indicates that trade with the outside (both international and with other States) is not of significance to the local State economy, whereas a large TDI signals an economy that is highly trade-dependent.

Figure 8 reveals that the high levels of exports and imports associated with Western Australia led to a high trade dependence. This dependence was more significant than all the other States, and had a greater propensity to fluctuate. This fluctuation can be linked to the state of the Western Australian economy as it moved through the 2004-2014 boom period, the state of outside markets as they responded to the 2008-2009 GFC, and to the more recent rises after 2014 as the next boom appears on the horizon.

Figure 8: Trade Dependence Index, 2001-2018.



Source: ABS (2019b; 2018b)

Concluding Comments

Perth's economy is provincial and distant from other places around the globe. This FACTBase Bulletin seeks to contextualise Perth's economy by understanding the impact of global financial flows across industry markets on Western Australia – being ultimately reflected in the infrastructure, population, and business amassed through time in Perth.

In examining various FDI movements to and from Australia, we note the strong industry role Western Australia plays in providing an attractive destination for foreign direct investment. Mining and Quarrying is one of the largest industries of investment – most of which is located in the mining State of Western Australia. This is confirmed by an examination of the import, export, and GSP trends of Western Australia relative to the rest of the Australian States. This FACTBase analysis shows that WA is highly subject to the investment and production fluctuations of resource economies, including large export volumes relative to import volumes or domestic demand.

The relative attractiveness of Australia as an investment location is evident in the growing inbound flow of money relative to outbound flows. This is likely to be a product of a relatively stable political environment and good governance structures, both key elements in the long-term investment decisions of foreign investors. Further, we consistently observe strong bilateral financial flows between nations Australia has had long-standing relations with. This includes Japan, which is often forgotten in the midst of media hype around China's investment potential.

Also of interest are Australia's complex relations with nations

often considered tax havens or off-shore financial centres (THOFC) – a category which is defined by low or no tax rates as well as secrecy laws shrouding financial trails (cf. Martinus et al., 2018; Sigler et al., 2019). For example, money from corporations located in the Netherlands is invested in Australia, and Australians favour investing in Singapore. Both are well-known THOFC nations. Australian corporate investment flows appear to benefit from the global THOFC system.

In summary, this FACTBase Bulletin provides evidence of both the importance of FDI to the Western Australian economy as well as its relative attractiveness for foreign investment. However, the trends noted in this Bulletin – coupled with WA's previous resource boom experiences – point to the need to be careful of overheating the economy. Indeed, the investment attracted during our most recent boom was the result of production and infrastructure construction projects largely associated with iron ore, oil, and gas. The increased pressure these placed on both metropolitan and regional economies across Western Australia had consequences in terms of the ability of local populations to afford housing, goods, and services. This was particularly true of those people not directly involved in the high-wage resource sector.

The result was a dual economy of *the haves* and *the have-nots*. Resource wealth was not evenly distributed, but trapped in specific regions associated with socio-economically advantaged persons (see evidence in previous FACTBase Bulletins – No. 37, 38 and 47). This occurred as incomes and prices were driven up by the redirection of labour, housing, production, and

services towards the delivery of resource production and/or the construction of large state infrastructure projects.

The latest resource news points to Western Australia once again gearing up for another production and infrastructure construction boom. As well as projected expansion to existing sectors, Lithium is fast emerging as an important sector, with rising demand for batteries and green technologies (Lynch, 2019). The analysis of this Bulletin shows that this will again attract FDI. In this way, WA is blessed with abundance and diversity of natural resources. Moreover, it has the governance structures and human capital needed to deliver quality products to the world. The combination of these factors makes WA highly attractive for FDI investment relative to other places in the globe. The implementation of appropriate economic development policy and strategy across the State is critical to ensure that we neither waste the next boom nor allow it to further exacerbate structural inequality across Perth.

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About FACTBase

FACTBase is a collaborative research project between the Committee for Perth and The University of Western Australia. It aims to benchmark the liveability of Perth and its global connectedness through an examination of Perth's economic, social, demographic and political character.

The FACTBase team of academics and researchers condense a plethora of existing information and databases on the major themes, map what is happening in Perth in pictures as well as words, and examine how Perth compares with, and connects to, other cities around the world.

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About the authors



Dr Kirsten Martinus is a Senior Research Fellow in Human Geography at The University of Western Australia. She researches the redistribution of resources and factors to increase innovation and industry competitiveness. Her work is highly applied, regularly informing strategy and policy. She publishes in leading journals, and is on the Australian Academy of Sciences National Committee for Geographical Sciences.



Bo Guo is a PhD Candidate at The University of Western Australia. His research interest is within economic geography, with a strong focus on the interaction between city networks and corporate networks, in the context of contemporary globalisation processes.