



Investor's Guide – Country Report

AUSTRALIA

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Executive Summary

Australia from the investor's point of view is going to be analysed in the following report. After the analyses of the political, economic, social and technological environment we come to the conclusion that Australia is highly attractive for foreign investments.

The reasons can be summed up like this:

1. Strong economic credentials
2. Democratic and politically stable location
3. Highly skilled and multicultural workforce
4. Cost competitive location
5. Sophisticated telecommunications and IT systems
6. Innovative culture with excellent R&D infrastructure
7. Open and efficient regulatory environment
8. Strategic time zone advantages
9. Excellent quality of life
10. Welcoming attitude to foreign investment.

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Introduction

Australia's proximity to Asia has led to a growing economic and cultural relationship with its Asian neighbours, a benefit recognised by many international businesses which build their regional headquarters in Australia. But Australia also looks beyond the Asia-Pacific region, playing an active role in the global economic, social and international community.

The combination of Australia's competitive economy, its stable and democratic society, its immense natural resources, and highly skilled and educated workforce make Australia's prospects for the 21st century extremely favourable.

The following country report wants to be a guide to investors and give them a comprehensive analysis of the political, economic, social and technological environment right now in Australia to come up with their investment decisions.

Political environment

1.1. System of government

Australia's government is a liberal democratic, federal-state system recognizing the British monarch as sovereign after the Commonwealth of Australia was established in 1901. Executive power is vested in the governor-general, who represents Queen Elizabeth II.

The Commonwealth of Australia comprises a federation of six states (New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania) and two territories (Northern Territory and Australian Capital Territory). Therefore there are three levels of government in Australia: Federal, State and Territory, and Local.

The *Federal Government* based in Canberra is the major governmental body. The Federal Parliament is bicameral and comprises two chambers: the House of Representatives (Lower House) and the Senate (Upper House). The 150 members of the House of Representatives are directly elected by a preferential voting system for a three-year term. Whereas one-half of the 76 members of the Senate (twelve from each of the six States and two from each of the two mainland territories) are elected every three years by popular vote to serve six-year terms.

Both are responsible for national laws, such as: trade, taxation, immigration, citizenship, social security, industrial relations and foreign affairs. Legislation has to be approved by both houses before it can become law.

A cabinet, presided over by the prime minister, is appointed by the governor-general on the basis of party strength in the House of Representatives.

The second level, the *State and Territory Governments*, pass their own laws, except on matters exclusive to the Federal Government. They are particularly concerned with the running of State and Territory facilities, e.g. for the education and the hospitals.

The third level is *Local Government*, which has restricted powers. Land use and development usually fall within Local Government control, although Federal, State or Territory Government bodies may have some authority, especially on major projects. Local Governments are active in promoting industrial and commercial development in their own areas.

Relations between levels of government

The Commonwealth and State Governments co-operate in many areas where States and Territories are formally responsible, such as education, transport, health and law enforcement.

Income tax is levied federally, and debate between the levels of governments about access to revenue is a perennial feature of Australian politics.

1.2. Political parties

The main political parties are the Labor Party, Liberal Party, National Party and the Australian Democrats. Less important are the Greens, the Country Labor Party and the One Nation Party.

Traditionally, *Labor* was the party of the working class, *Liberals* were supported by the middle and upper classes, and the *National Party* represented farmers. The boundaries between Liberal and Labor supporters have become increasingly blurred over time and many voters, most notably Australia's large middle class, now have no firm political loyalty. In this climate, the major parties have become increasingly public-opinion driven, focusing on issues of concern to these mainly middle-class "swinging voters". As a result, policy differences between major parties tend to be relatively small.

The National Party remains firmly based in the sparsely populated countryside, with little support in provincial towns and almost none in major cities. Despite its narrow support base, the National Party is often an essential member of coalition governments; typically, the Liberal Party has not held enough lower house seats to govern in its own right. By convention, the leader of the National Party holds the position of deputy prime minister in coalition governments.

The principles of the Liberal Party have been to encourage private enterprise, competition and efficiency in industry, reduce taxation and government spending, as well as to raise the living standards of Australians. Whereas the principles of the National Party have always been to encourage export industries and private enterprise, taking care of the family, maintain Australia's security and remain loyal to Britain and her empire.

Australia's fourth major political party, the *Australian Democrats*, was formed during the late 1970s. Although the Democrats have won a number of Senate seats, they have never won a seat in the lower house. The Greens are the fifth political force in Australia, and have only recently (October 2002) won a lower house seat, albeit in a by-election. The importance of these parties outweighs their numbers, since together with independents, they hold the balance of power in the Senate. One Nation, a small, right-wing, anti-immigration party - based largely on rural discontent - formed in the second half of the 1990s, but has since all but collapsed.

Support for minor parties and independents, especially in the Senate, has increased over recent years. Typically, they gain support from those disaffected by the major parties' focus on "middle Australia", as well as from "single issue" voters. Most recently, disarray and division within the Australian Democrats has seen support for them shift towards the Greens. Social tensions within Australia (political, ethnic, cultural and religious) tend to be low and are not reflected in political allegiances. Labor draws support from the union movement and the National Party from farmers, but other visible links between particular groups within society and political parties are absent.

Current Situation

In Australia's latest federal election on 10 November 2001 the since March 1996 ruling Liberal Party-National Party (LP/NP) coalition led by prime minister John Howard was successfully re-elected after getting 82 seats in the House of Representatives compared to 65 for the Australian Labor Party (ALP), independent and other gained three seats. In the Senate LP/NP increased to 35 seats, compared to 28 for the ALP, Australian Democrats got eight and other five seats.

1.3. Legal system

Australia has two sources of law: legislation decreed by the Federal and State Governments, and common law which comprises judicial decisions.

The Australian judicial system, which is based on the British common law system, operates both at Federal level and at State and Territory level.

Each State and the Territories have their own judicial system and hierarchy of courts headed by a Supreme Court. The hierarchy of courts includes specialised boards and tribunals established under legislation to handle disputes of a particular nature.

1.4. Outlook

According to the World Competitiveness Yearbook 2002 the Australian political environment is considered as one of the most stable in the world, ranked first in the region.

An executive opinion survey concludes that Australia ranks fifth in the world on the transparency of government policy, ahead of the US, UK, Germany, France and Canada (World Competitiveness Yearbook 2002).

The political outlook in the near term will be dominated by the participation of Australia in Iraq, concern about North Korea's nuclear programme and the threat of international terrorism. So there was e.g. a no-confidence motion against Prime Minister John Howard over his handling of the Iraq crisis in March, which was the Senate's first-ever vote of no-confidence in a serving leader. Furthermore the opposition Labor Party has been boosted by its third consecutive victory in the state election in New South Wales this March, but they look increasingly vulnerable at the federal level. So all in all it is more likely that the current stable situation continues.

Economic environment

2.1. GDP and GDP growth

Australia has been observed as being the world's most robust economy during global economic slow downs..

Over the past 10 years the country has shown a remarkable ability to sustain steady growth in the face of falling world demand.

GDP growth

Real GDP rose by 4.2 per cent through the year to the March quarter 2002. Real GDP growth was 2.0 per cent over the 2000-01 financial year.

Australia's slowdown in growth in 2000-01, from its typical rate of more than 4 per cent, has partly diminished from weaker than average growth in the September and December quarters of 2000. In part, this reflected several one-off occurrences, including a taxation reform and, to a lesser extent, the Olympic games



An annual growth rate of 4.2 percent through the year to the March quarter, is significantly higher than any of the G7 countries and year growth rates for major advanced trading partners to the March quarter.

Government sector

The OECD reports that Australian government sector outlays are expected to be 32.5 per cent of GDP in 2002.

The Australian consolidated general government sector has been in surplus since 1997-98 with an estimated balance of 0.3 of GDP in 2001-02 and further surpluses projected in the forward years.

Australia is governed by three tiers of government: the Commonwealth (Federal) Government, eight State or Territory Governments and numerous Local Governments. In 2000-01, the Commonwealth Government accounted for around 50 per cent of total government expenditure, while the remaining 50 per cent was State/local and multi-jurisdictional sector expenditure.

Australia's consolidated general government net debt is among the lowest in the OECD, with net debt estimated at 4.6 per cent in 2001-02.

2.2. Monetary policy and inflation

The conduct of monetary policy is the responsibility of the Reserve Bank of Australia (RBA), and is set with the objective of maintaining a stable inflation rate between 2 and 3 per cent, on average, over the course of the economic cycle. Monetary policy is conducted by targeting the official cash rate. The official cash rate is currently at 4.75 per cent. Australia's inflation rate in the year to March quarter 2002 was 2.9 per cent which is inside the target band.

The Consumer price index (CPI) as adopted by Australia as the best measure of inflation, is a means by which to gauge changes in purchasing power, or a measure of changes in the cost of living. This can be done by measuring changes, over time, in the prices of a selected basket of goods and services. The history of the CPI in Australia can be seen in Appendix 2A.

2.3. Employment and unemployment

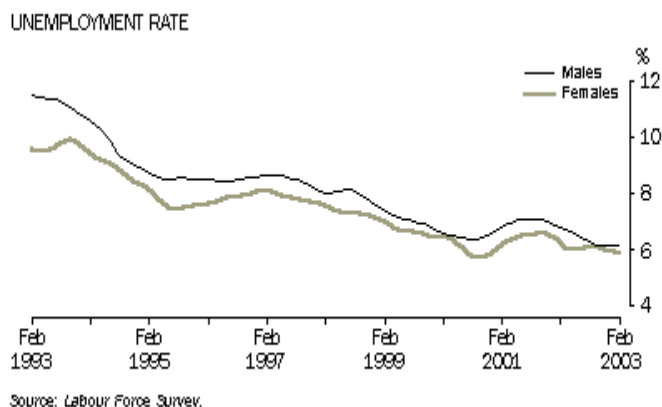
Employment relations

The main legislation is the Government's Workplace Relations Act 1996. It aims to provide the legal framework within which employers can work with their employees to change work practices and improve productivity.

Unemployment trends

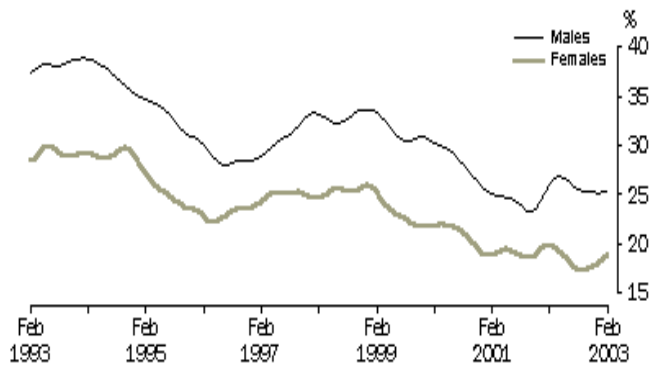
Unemployment Rate: Trend Series

The rate of unemployment in Australia has steadily declined over the past ten years. This is largely due to growing consumer demand, an expansion of their export industries and the control of inflation.



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PROPORTION OF TOTAL UNEMPLOYMENT



Source: Labour Force Survey.

Long-Term unemployment: Trend Series

The liquidity of the labour market has also improved substantially. This is reflected by the decreasing proportion of workers who are made unemployed left unable to re-enter the work force.

2.4. Foreign exchange

The value of the Australian currency, the Australian dollar, is determined under a floating exchange rate regime.

The Australian dollar was floated in 1983.

During April 2003 the midpoint of the buying and selling rates of \$A1.00 was US Dollars 0.6082, up from 0.6013 during March 2003. The Australian dollar has now appreciated against the US Dollar over eight consecutive months. At 7am AEST on the final trading day of April 2003 the midpoint of the buying and selling rates for \$A1.00 was US Dollars 0.6220, up from 0.5999 at the end of March 2003.

2.5. Foreign investment in Australia

The level of foreign investment in Australia increased by \$21.3 billion in 2001-02 to reach \$844.5 billion at 30 June 2002.

- Portfolio investment accounted for \$464.9 billion (55%),
- Direct investment for \$211.7 billion (25%),
- Financial derivatives for \$31.5 billion (4%),
- Other investment liabilities for \$136.3 billion (16%).

Of the portfolio investment liabilities, debt securities accounted for \$304.3 billion (65%) and equity securities for \$160.7 billion (35%).

The graph in appendix 2B illustrates the percentage share, by leading countries, of the total level of foreign investment in Australia at 30 June 2002.

Socio-cultural environment

3.1. Census Data / Demographics

Australia's estimated resident population at June 2000 was just over 19 million. The main component of Australia's population growth of 1.2% in 2000 has been natural increase. Net overseas migration has also contributed to natural increase, albeit indirectly, through children born to migrants.

Population projections indicate that continued low fertility, combined with the increase in deaths from an ageing population, will result in natural increase falling below zero sometime in the mid 2030s.

3.2. Health

The majority (82%) of Australians consider themselves to be in good health. The proportion of people reporting fair or poor health increased with age, from 9% of those aged 15-24 years to 39% of those aged 75 years and over.

Days away from work

Some 14% of employed persons aged 15-64 years reported that they had one or more days away from work in the previous 2 weeks due to their own illness or injury (11%) or to care for another who was ill (4%). These absences from work accounted for around 3.7 million days lost from work. The proportion of females taking days away from work was higher than that for males (16% and 13% respectively).

3.3 Working hours

For full-time adult non-managerial employees, the average weekly total hours paid for was 40.4 for males and 38.0 for females. Part-time employees worked 19.1 hours a week.

3.4. Education

The total education expenses of governments in 1999-2000 amounted to \$m 7,787 and were distributed as follows: primary and secondary education comprised 54% of total operating expenses on education, university education 28%, and technical and further education 10%.

3.5. Unemployment and underemployment

As of March 2003 the unemployment rate amounted to 6.1% and was constantly declining during the past years (10.5% in 1993). The number of persons employed part-time has increased considerably over recent decades, and in September 2002 accounted for 28% of total employment. The majority of part-time workers (78% in September 2002) do not want to work additional hours. The 22% of part-time workers who would prefer to work

more hours can be considered as persons whose labour is not fully utilised. The rate of growth in the labour force is likely to slow as Australia's population continues to age. As a result, minimising the amount of underutilised labour resources will become increasingly important in maintaining economic growth. Between September 1994 and September 2002, the number of underemployed people increased by 25%, from 459,000 to 574,000 with the underemployment rate rising from 5.1% to 5.7%.

Demographic characteristics of underemployed part-time workers

Most underemployed people (92% in September 2002) are part-time workers wanting more work. The majority of underemployed people are also women, reflecting the fact that women are far more likely to be working part-time than men. In September 2002 there were 1.9 million women working part-time, compared with 749,000 men. However, men working part-time are more likely to be underemployed than women working part-time, although this difference has decreased slightly in recent years. In 2002, 27% of all male part-time workers were underemployed, compared with 17% of female part-time workers.

Underemployed part-time workers tend to be younger than other part-time workers. They are more likely to be aged under 25 years and less likely to be aged 45 years or over.

Difficulties in finding work

In September 2002, almost one in three (30%) underemployed part-time workers looking for additional hours of work said their main difficulty in finding work with more hours was that there were no vacancies in their line of work, or simply no vacancies at all. For an additional 29%, the main difficulty was that there were too many applicants for available jobs, that they were considered too young or too old by employers, or that they lacked necessary skills or education.

Men were more likely than women to mention one of these five reasons as their main difficulty in finding additional work (62% of male part-time workers looking and available for additional work compared with 56% of females). Women were more likely than men to cite difficulties related to a lack of necessary skills or education (9% of males compared with 12% of females) and unsuitable hours (6% of males compared with 10% of females).

3.6. Life styles

The 2001 National Health Survey collected information on a number of lifestyle behaviours and related characteristics which have been established as risks to health. The risk factors covered were smoking, alcohol consumption, exercise, being overweight and some dietary habits.

Compared with results from previous surveys in 1989-90 and 1995, the 2001 survey found that Australian adults are improving against the risk factors of smoking and exercise, but as shown in the following chart, the proportion of adults who are overweight continues to increase and risky and high risk alcohol use is unchanged since 1989-90.

Technical environment

4.1. IT and internet readiness

Australia offers a world class environment for investment across all industry sectors. Investors to Australia are provided with a high level of ICT infrastructure and our high level technological adaptability. Amongst Asian competitors, IT skills in Australia are ahead of Singapore, Hong Kong and in world comparison Australian IT is ahead of the United Kingdom. Secure servers, essential for businesses are ranked third in the world and their E-Business readiness is considered world class. Internet costs are lower than many countries including Hong Kong, Canada and the United Kingdom. In proportion to GDP, ICT spending is the 4th highest in the world.

Although home computer access is not at the top of the game, the proportion of households with home access continues to rise for both computers and the Internet. Higher levels of access occur in households with higher incomes, in households with children under 18 years and among households located in metropolitan areas.

4.2. Foreign investment incentives in Australia

Foreign investment in Australia has increased substantially over the last few years. During the past year, foreign investment increase by \$21.3 billion dollars bringing the figure to an outstanding \$844.5 billion dollars. Leading investors in Australia as of June 30, 2002 include the United States, United Kingdom, Japan, Hong Kong and Singapore.

Business enterprises in Australia may be operated by an individual, a trust, a company, a joint venture, a partnership or a branch of a foreign company. Each possible enterprise has different legal and taxation implications.

Company registering in Australia must first register with the appropriate governing body which in overall respect is governed by the Commonwealth Corporations Act 2001. The Corporations Act 2001 allows for the registration of four types of companies: a company limited by shares, a company limited by guarantee, a company with unlimited liability and a no liability company which is only available in the mining sector.

In terms of post registration obligations, a registered foreign company is required to lodge with ASIC, at least once every calendar year, a copy of its balance sheet, profit and loss and cash flow statements. Registered foreign companies must also notify ASIC of certain changes as they occur (within prescribed time limits) – such

as changes to the structure of the company itself (i.e. its name or constitution) or changes concerning its directors, local agent or office addresses.

Australia offers all potential investors a one stop service to investing. This service provides incentives and support programs such as major projects facilitation and funding assistance.

4.3. Patents, copyrights and trademarks

In Australia all copyrights, patents, trademarks, industrial designs and integrated circuits are protected under Australian law. Patents for all technological inventions are available under the Patent Act of 1990. Registration of trade secrets under the Designs Act will secure protection for one year, with extensions to this available.

Registering trade names and marks under the Trademark Act of 1995 which came into force on 1 January 1996, will secure protection for ten years, and this can be renewed indefinitely for ten year periods. The use of trade names and marks may also, without registration, result in additional common law protection.

Copyrights are protected under the Copyright Act of 1968 for the life of the author plus 50 years, and do not require registration. The parallel importation of overseas sound recordings and computer software is illegal. However, the federal government is considering the removal of these restrictions.

4.4. Taxation

Over the last few years, Australia has reformed its taxation system to increase investment, create jobs and reduce inequities. These reforms in turn make Australia a much more internationally competitive location for investing. Features of the recent tax reforms include changes to the indirect tax, business tax, and the personal tax sections amongst others. In the indirect tax section, the government has introduced a 10 percent Goods and Services Tax on the consumption of certain good and services. This tax makes it so that the tax bill is shared amongst businesses and guarantees revenues to the states that deliver their services. Another facet of the newly reformed tax regulations include the replacement of the old wholesale tax and embedded taxes reducing industry costs. In the personal tax sector, there have been significant reductions in personal income tax through an increase in the tax free threshold. These tax cuts are worth around \$12 billion a year and mean that more than three-quarters of taxpayers face a top marginal tax rate of 30 per cent or less. Last worthwhile to mention are the reforms to the business tax section which includes a reduction in the company tax rate to 30 per cent, a unified capital allowance regime, and an extension to the thin capitalization regime, which will serve to prevent multinational corporations from allocating a disproportionate amount of debt to their Australian operations.

Conclusion

We can conclude that Australia is one of the few countries in the world at the moment, which provides a attractive investment climate. The political environment remains to be stable, the economic outlook is good, the social situation is promising for recruiting high-skilled workforce and at last the technological environment provides the investor with state of the art technology and many other incentives.

Therefore we recommend to invest right now in Australia to explore not only this market, but using the presence there to build up a hub for whole Asia.

Appendices

2A: The history of the consumer price index in Australia

Longer term series:

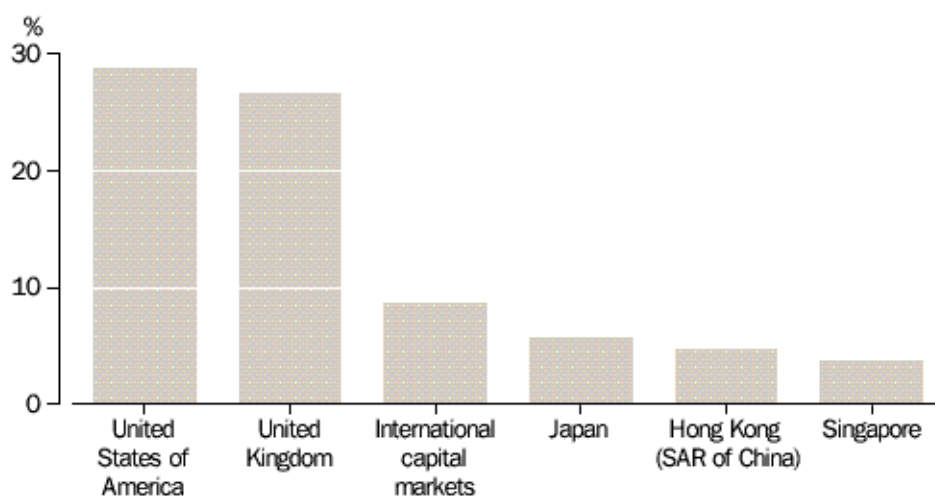
<i>Inflation</i> Year	Quarter ending			
	31 March	30 June	30 September	31 December
1985	68.1	69.7	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	124.1
2000	125.2	126.2	130.9	131.3
2001	132.7	133.8	134.2	135.4
2002	136.6	137.6	138.5	139.5
2003	141.3			

(a) Base of each index: 1989-90 = 100.0

Source: Australian Bureau of Statistics.

2B: Percentage share of total foreign investment in Australia at 30 June 2002.

FOREIGN INVESTMENT IN AUSTRALIA, LEVELS: 30 June 2002



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