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A KEY FACTOR IN FDI DECISIONS
FOR AUSTRALIAN MULTINATIONALS**

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EXPORTING COSTS: A KEY FACTOR IN FDI DECISIONS FOR AUSTRALIAN MULTINATIONALS

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ABSTRACT

Australian industry has quickly extended its reach into international markets over the last fifteen years. Foreign Direct Investment has grown particularly quickly. This paper focuses on four questions:

What motivates Australian multinationals to invest abroad?
Why do they find theUK to be the most attractive location?
Do the investments lead to a reduction in exporting?
Does foreign production follow an export mode?

Survey research showed exporting costs to play an important role in all these issues.

Key words: multinationals; location; mode; exports; FDI; motivation.

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1. Introduction

Industry bodies and Government have encouraged Australian business to adopt a global perspective (Keating, 1994, p.57, Yetton et al, 1991). Manufacturing, in particular, has been urged to improve its efficiency levels to match international benchmarks and to target world markets (Keating, 1994, p.57). Companies are pursuing the opportunities offered by international markets by establishing foreign production subsidiaries as well as by exporting. Data supplied below shows that Australian Foreign Direct Investment (FDI) abroad has grown more quickly than merchandise trade since the early 1980's. The motives for the investments, the nature of the business activities, the locational choices for the subsidiaries and the reasons the companies prefer to manufacture overseas rather than export are the topics of this paper.

Section 2 of the paper summarises the relevant literature on aspects of the internationalisation process, the motives of companies involved and the relationship between foreign production and exporting. Sections 3 reviews the statistical data relating to Australia's FDI. Section 4 describes the research methodology and Section 5 summarises the results of surveys of Australian subsidiaries in the UK, Malaysia and Thailand. The remaining sections relate the motives and activities of the sampled firms to the internationalisation literature and make some concluding comments.

2. Internationalisation Literature

The motivation of foreign companies to invest in a particular location may involve a desire to access the local or regional market or its physical or human resources (Dunning, 1979). Resource driven investment may reflect a loss of comparative advantage by the investing country, inducing companies in the affected industries to seek new locations with lower relative resource costs (Thomsen and Nicholaides, 1991, p.41). Products made by foreign subsidiaries may be imported by the parent company for distribution in the home market (Caves, 1982, p.39). Questions to be explored in this paper include whether Australian subsidiaries in the UK, Malaysia or Thailand are used as production bases for exporting to Australia and elsewhere, thereby replacing production in Australia.

Demand induced or market seeking FDI is aimed at capturing additional markets which are not as accessible, if accessible at all, by exporting (Dunning, 1973). Companies from countries with small and middle sized markets are more likely to look abroad for markets to allow corporate growth than are companies with large domestic markets (Hirsh and Thomsen, 1993). Companies that supply non-tradeable items can only access markets by operating within them. Many services, for example, are non-tradeable, requiring an element of face to face contact between provider and supplier in their delivery (Thomsen and Nicholaides 1991, p.81). Product differentiation, a standard practice of multinational corporations, commonly calls for a physical presence to alert customers to the particular advantages of the company's product (Thomsen & Nicholaides, 1991, p.71).

Internationalisation of firms has been observed to occur in steps (Calof and Beamish, 1995, Cavusgil, 1984, Johanson and Vahlne, 1977, Johanson and Wiedersheim-Paul, 1975).

Businesses move from indirect exporting, through the use of a sales subsidiary and eventually to full production in foreign markets. Each stage calls for more commitment to international markets and more risk. This incremental extension proceeds as companies gain knowledge and skill in the conduct of international business and confidence in foreign markets. Do Australian companies follow this pattern?

The 'psychic distance' model asserts that the locational pattern of FDI is determined by the costs of acquiring and internalising relevant information about business conditions in other countries, the perception of risk and uncertainty involved in foreign operations, and the resources required to gain access to foreign networks (Johanson and Vahlne, 1977). The costs involved in overcoming psychic distance decline over time as a function of the experience gained by the firm. Firms are thus usually expected to enter neighbouring markets first because of their historical familiarity, and then fan out into progressively more remote territory (Hirsh & Thomas, 1993).

Transportation costs can play a role in the decision to produce overseas rather than export. They will also influence the locational choice for foreign facilities. A focus on transportation costs suggests that the higher the cost of transporting an item relative to its value, the less likely it is to be traded internationally and the closer production will be to the market (Swedenbourg, 1979, p.24). However demand as well as cost factors will influence the location decision. Losch (1954) for example, has contended that demand determines the location of production and, in equilibrium, that the viable location is one that commands a sales area of a certain size. Thus the location of facilities to cater for large and growing markets (such as the US and EC) is a common feature of MNE strategies (Bureau of Industry Economics, 1993, p.93).

Governments can influence locational decisions by altering the attractiveness of their jurisdictions through taxation, industry regulation or the supply of infrastructure (Boddedwyn and Brewer, 1994; Losch 1954). It follows that specific trade policies including tariffs, quotas and non-tariff barriers such as voluntary export restraints, could have a strong influence on FDI. Companies may be induced to invest and produce in a protected market rather than supply it via exports (Bureau of Industry Economics, 1993:93).

This paper will investigate whether cultural familiarity, transportation costs or government policies have significantly affected the decisions of Australian companies to locate in the UK, Malaysia and Thailand.

Thomsen and Nicholaides have argued that the relationship between FDI and bilateral trade may be either positive or negative and may vary over time (1992, p.79). The negative possibility is that the foreign operations replace their parent company's exports to the foreign host country, those to neighbouring countries and even sales in the parent company's home market. There is some evidence to support this possibility in the Australian case. For example, McKinsey and Company found 10 per cent of firms surveyed reported a reduction in exports after the establishment of foreign operations. However, the same report found export sales were unchanged in 31 per cent of cases and exports continued to grow in 59 per cent (McKinsey and Company, 1993, p.32).

Where FDI occurs in downstream industries or in marketing and distribution, it may contribute to exports if the parent company supplies the subsidiary with inputs. On the other hand, where investment is directed to upstream activities, for example by accessing raw materials or components previously sourced from domestic suppliers, imports may grow. In each case, the effect on merchandise trade will depend on whether the investment leads to new or additional business. For example, if a company takes over a former supplier, there may be no effect on imports at all. Even where the takeover leads to a reduction in domestic purchases, the move to more efficient suppliers may be the basis for enhanced competitiveness for the company, sufficient to generate additional exports (East Asia Analytical Unit, 1994, p.14). Where the investment is in activities similar to the parent company's, there is potential for net exports to either increase, decrease or to be unaffected. To the extent there is a restructuring by the parent to allow for more specialised patterns of production in which the home country exports a narrower range of products more efficiently, supplying these to its plants abroad, exports will be enhanced (East Asia Analytical Unit, 1994, p.14).

Exporting is a low cost, low risk means of entering foreign markets and can be down scaled quickly. By establishing foreign operations, companies make a longer term commitment which cannot be easily withdrawn. FDI creates sunk costs, establishing a physical and personal link in the foreign country even if the original market conditions which attracted the firm cease to apply (Buckley and Casson, 1981).

It is possible that the surge in Australia's FDI from the late 1970's facilitated an increase in the level of Australia's manufacturing exports. From 1985 the trend growth rate in manufacturing exports noticeably increased. Menzies and Heenan explain the trend partly by reference to the significant depreciation of the Australian currency in the mid 1980's (Menzies and Heenan, 1993, p.4). Subsequent appreciations, however, have not reversed the export trend. They argue that the sunk costs of entering export markets had generated a structural increase in the level of exports. These sunk costs include the FDI to establish foreign distribution, marketing and production facilities.

3. Characteristics of Australia's FDI

Ninety per cent of Australia's foreign assets has been accumulated in the last ten years (Australian Bureau of Statistics Catalogue 5305, see Table 1). By June 1993, the total stock of FDI, at A$45,140m, was over ten times its level in 1980. The greatest increases came in 1987 and 1988 when the growth rate reached 50 per cent per annum. In 1988 the outflow of FDI from Australia exceeded the inflow by A$5.2 billion, a remarkable statistic given Australia's historical reliance on foreign savings to finance its economic development. Clearly, foreign business activities now provide an important option for Australian companies as they plan to tackle new markets.

Most of the investment has gone to English speaking countries. In 1993, 25 per cent was located in the US, 16 per cent in New Zealand and 29 per cent in the UK (See Table 1). The United Kingdom has been a favoured destination but 1988 was a year of particularly large investment. In that year the stock of FDI in the UK nearly trebled, taking the country from being the second largest recipient of Australia's FDI, behind the US, to the largest by a clear margin.

ASEAN's share of Australia's FDI experienced a marked decline during the period. In 1980, 28 per cent of the FDI stock was located in ASEAN. This grew to 35 per cent in 1982. Thereafter the share fell rapidly to just 2 per cent of the total in 1986 as companies sold their subsidiaries. However, the trend turned in 1987 and ASEAN now accounts for 8 per cent of a much larger total. (All FDI data is taken from ABS Catalogue 5305 and other unpublished ABS data). This relative lack of interest in Asia as a production base cannot be explained by poor rates of return. Research by Booz, Allen and Hamilton (1990, p.7) and the Business Council of Australia (1992, p.19) has shown that returns from direct investments in Asian and Pacific countries are much higher than those in the US and Europe. The reason Australian businesses have shunned Asia in favour of the UK is a key research question for this paper.

A final categorisation of Australia's FDI outflow is by industry. This shows that the investment is largely in the service sectors of the host countries. Finance, property and business services, transport and storage accounted for 37 per cent of the total in mid 1993. Thirty two per cent went into manufacturing (See Table 2). The preponderance of FDI going to finance, property and business services applies to both regions being considered in this paper. Sixty one per cent of the FDI holdings in Europe and seventy per cent of those in ASEAN are in this category (ABS Catalogue 5305).

Australian investment is more prominent in the UK than in any other country, as discussed above (p.7). Two thirds of the FDI stock in the UK is held in finance, property and business services, of which finance makes up nearly two thirds. The rush of investment in the last ten years was initially to the financial sector but since 1990 it has been directed to the UK's manufacturing sector (ABS Catalogue 5305). In total, FDI holdings in the UK increased by 70 per cent between 1987 and 1992 (See Table 3). Australia is the fourth largest investor in the UK (Allen Consulting, 1994:18). By contrast, a relatively small amount of Australian FDI has been directed to Malaysia ($A1558m) and Thailand ($A90m) (ABS Catalogue 5303).

Eighty per cent of the investment in Malaysia has gone to manufacturing and twenty per cent to services (Unpublished ABS data).

TABLE 1
AUSTRALIAN INVESTMENT ABROAD - TOTAL DIRECT - LEVELS OF INVESTMENT AS AT 30 JUNE
(A$ millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
OECD														
USA	553	655	763	905	1348	2427	4042	5043	5662	9789	8580	8491	10015	11069
New Zealand	340	441	544	666	800	791	1522	2982	4470	4425	5794	6328	6306	7145
UK	499	469	735	755	1249	1958	2438	3287	9440	10001	12850	14048	15930	13261
Other OECD	227	184	271	943	886	1296	537	1657	2520	2692	2788	2949	2961	3834
Total OECD	1619	1749	2313	3269	4282	6472	8539	12968	22092	26906	30012	31815	35213	35308
ASEAN	1193	1774	2023	1562	1136	676	309	884	799	919	1760	1566	1978	3528
Papua New Guinea	244	438	742	533	560	504	720	NP	1663	1345	1402	1513	1655	2064
Other Countries	1135	558	764	1141	1646	2103	3138	NP	6865	8148	7048	NP	4	np
Unallocated	28	43	3	4	7	16	311	NP	-430	-17	-237	NP	-374	np
TOTAL	4219	4562	5845	6510	7631	9771	13018	20597	30988	37302	39985	38883	42697	45140

Source: Australian Bureau of Statistics

TABLE 2
AUSTRALIAN DIRECT INVESTMENT ABROAD:
LEVELS OF INVESTMENT BY COUNTRY BY INDUSTRY OF INVESTEE
($A million)

INDUSTRY OF INVESTEE	As at 30 June 1988	As at 30 June 1989	As at 30 June 1990	As at 30 June 1991	As at 30 June 1992	As at 30 June 1993
TOTAL DIRECT INVESTMENT						
Agriculture, forestry, fishing and hunting	60	np	np	np	np	np
Mining	5,801	6,290	5,647	5,537	6,705	7,549
Manufacturing-	7,905	10,401	10,912	11,154	13,925	14580
Construction	np	674	598	887	970	1175
Wholesale and retail trade	1,062	2,127	1,532	2,194	2,457	2997
Transport and storage	806	1,170	1,333	1,278	824	879
Finance, property and business services	13,915	15,220	17,308	17,698	17,464	16544
Community services	62	np	np	np	321	414
Recreational, personal and other services-	748	472	np	-15	259	52
TOTAL ALL INDUSTRIES	30,988	37,302	39,985	38,883	42,697	45140

Source: Australian Bureau of Statistics

The pattern of FDI in Malaysia contrasts with the general pattern, discussed above, where manufacturing takes up around one third of the total. No equivalent data is available for Thailand. However, half the total investment there in 1993 was placed in the insurance industry (Unpublished ABS data).

TABLE 3
AUSTRALIAN INVESTMENT ABROAD:
LEVELS OF INVESTMENT FOR THE UK, MALAYSIA AND THAILAND
($A million)

	As at 30 June 1989	As at 30 June 1990	As at 30 June 1991	As At 30 June 1992	As at 30 June 1993
UK	10001	12850	14048	15930	13261
MALAYSIA	NP	1378	1475	1558	NP
THAILAND	NP	NP	NP	NP	90

NP = Not published

Source: Australian Bureau of Statistics

4. Research Methodology and Details of the Sample

The paper will investigate Australian FDI by analysing survey data of Australian businesses in the UK, Thailand and Malaysia. Between 1992 and 1994 interviews were conducted with Australian manufacturing companies in the three countries. The UK was chosen because it is the single largest recipient of Australian FDI (Table 1). Its limited geographic size facilitated the research. Why is the UK so attractive as a location for Australian companies? The research was expected to expose the factors which have discouraged Australian investment in Asia, so Malaysia and Thailand were also included in the survey work. Comparisons of FDI behaviour to the two regions potentially offered additional insights.

Manufacturing companies were chosen simply to narrow the field of research. Separate surveys of service companies have since been carried out and will be reported in forthcoming publications. The data includes survey material collected by the authors (UK and Thailand) and equivalent data for Malaysia collected by Siva Muthaly (See end note t).

Research assisted by ABIE (Australian Business in Europe) identified 25 Australian owned manufacturers in Britain. Twenty of these agreed to participate in the survey. The AMBC-Victoria (Australia-Malaysia Business Council) identified 14 Australian manufacturers in Malaysia. All were included in the study. The Thai-Australia Chamber of Commerce assisted in identifying six Australian manufacturers in Thailand. Four of these were included. Senior managers of the sample companies, usually Chief Executive Officers, were interviewed.

The survey questions were broad ranging, designed to gain an understanding of the corporate history of the subsidiary and to focus on the central issues of concern to this paper. Among many others, the following questions were asked:

- What were the parent company's motives in establishing this subsidiary?
- What were the reasons for choosing this region?
- What were the reasons for choosing this country?
- How has the subsidiary's operation affected the Australian parent's employment, production and export levels?
- What involvement did your parent company have in this country before the subsidiary was established?

The interviews took an hour on average and allowed the interviewees to elaborate where appropriate.

The companies included in the survey were diverse in scale, with company size ranging from large (1400 employees) to very small (9 employees). The few expatriates employed held executive, management or specialist positions. For example, the most common position held by Australian expatriates in the United Kingdom was that of Chief Executive Officer. Typically the CEO was the only Australian involved in the business. It was noticeable that newer subsidiaries in the UK were more likely to have Australian CEO's. In the UK the businesses were involved in producing a diverse range of products including food and beverages, chemicals, building and construction items and household products. In Malaysia and Thailand the respondents manufactured latex products, chemicals, food, forest products and motor vehicle parts.

Most of the businesses surveyed had been established since 1980. In the UK, 6O per cent of the firms interviewed had commenced since 1980. In Malaysia, 56 per cent of the firms commenced in the same period. Three quarters of the small number of companies interviewed in Thailand had commenced since 1980.

One of the four manufacturers interviewed in Thailand was a joint venture with a local company. In Malaysia, 79 per cent of the sample companies were joint ventures and 21 per cent were fully owned by their Australian principals. In the United Kingdom, 15 per cent of firms were involved in joint ventures.

5. Summary of Survey Results

(a) Motivation for Establishing Foreign Business Operations

The primary motive for establishing subsidiaries in all countries was to gain access to markets. Ninety per cent of the Malaysia (12), ninety five per cent of the UK (19) and seventy five percent of the Thailand (3) respondents reported that market growth was the primary motive. In the UK and Malaysia cases it was the local, not regional, markets that were the initial attraction. The same motive applied in three of the Thai cases. One large manufacturer in Thailand located there primarily to access raw materials, with production being sold mainly to Europe and the US.

Sixty per cent of the Malaysia firms (8) reported that competitive labour cost factors were a secondary motive, and a similar percentage were attracted by the low cost of business overheads in Malaysia. Three Thailand respondents (75 percent) cited low labour costs as an important secondary motive in their investment decision. However, rising professional wages and poor productivity among factory workers meant labour costs were no longer as attractive as was considered the case in the planning phase.

No Australian firm in the UK mentioned cost factors as a motive, however one company said access to technology had been the key factor. A number of companies reported that UK labour costs, low by European standards, had influenced their choice of region in the UK. Other secondary motives included protection from tariffs (in earlier times), avoidance of Australia's trade cycle, access to raw materials and access to processing capacity for Australian production.

This finding is consistent with that of McKinsey (1993, p.32). 'High cost labour is not the main reason for moving offshore although, for 44 per cent of respondents, it is one factor in the decision to relocate. Being close to customers and realising a market opportunity are the two main reasons firms move offshore.'

(b) Country Specific Attractions

Once the companies' general motives for establishing overseas had been identified, they were asked why they had chosen the UK, Malaysia and Thailand in particular. Australian firms were attracted to the British market because of the familiarity of the language, culture, history, society and legal system. The UK market offered the Australian parent the potential to use Australian management personnel. Other attractions in UK were the high income, large population and limited geographic size of the market. Attractions in Malaysia and Thailand were based on the market growth potential and its low labour and overhead costs eg: rental, power and communications. Respondents in both regions were also attracted by the possibility of expanding into their respective regions. Government incentives played no role in the decision to invest in either region.

	UK	MALAYSIA	THAILAND
ATTRACTIONS (Ranked in order of importance)	Familiarity of culture, language and history.	Malaysia's growth potential	Regional growth
	Legal, economic and political environment.	Competitive cost of labour	Low labour costs
	Size of domestic market.	Low cost of overheads	Ability to repatriate profits
	Access to the EC market.	Window into ASEAN	Low cost of overhead
		Location in Asia	

(c) Market Focus

The UK subsidiaries had a greater orientation to regional markets than did Malaysian or Thai firms. In the United Kingdom, 65 per cent of the Australian firms exported to the Continent and 55 per cent had established plants on the Continent. In Malaysia however, just 35 per cent of the firms exported to other countries. Of these, 77 per cent exported less than 30 per cent of sales. No clear picture emerged from the Thailand research. Half the firms (2) had no export sales. Clearly, Australian manufacturing firms were using the UK as a spring board to the European Union to a much greater extent than equivalents were using Malaysia or Thailand as a base for ASEAN sales. This may reflect the greater level of economic integration that applies in Europe generally, as compared to S.E. Asia (East Asia Analytical Unit, 1994, p.22).

MARKET FOCUS	UK	MALAYSIA	THAILAND
Domestic market only	35%	66%	50%
Domestic and export markets	65%	34%	50%

6. Motives for Australia's Foreign Direct Investment

Australian investment has been directed to the service sectors of high wage countries, the UK, US and New Zealand (See Tables 1 & 2). The attraction of these countries is their market size combined with a familiar business environment. Australian companies do not judge Asia to have sufficient market appeal to justify investment on the level of that going to the UK, US and New Zealand. Low costs of production were not a factor attracting Australian companies to the UK and only a secondary factor attracting them to Malaysia and Thailand. Market growth through access to the domestic and regional markets of the host countries was the primary motive for the manufacturers interviewed.

7. Applicability of the Staged Entry Model

The great majority (72 per cent) of the UK based companies had never sold goods in that market prior to establishing their subsidiaries. In these cases no 'staged entry' had taken place. The burden of transportation costs involved in exporting from Australia was the main reason that exporting had not been pursued. In some cases the goods were so bulky by comparison with their selling price that their sales were restricted to a limited radius around their British plants. In other cases the limited shelf life of the product or the need for its customisation had precluded exporting as a means to enter the market.

The literature reports other examples of companies skipping the export stage. An Australian study of 228 examples of FDI found no prior presence in the host market in 39 per cent of cases (Bureau of Industry Economics, 1984). Similarly, a study of 43 UK firms in the US found 36 of them had established a manufacturing facility without first forming a sales subsidiary in the country (Newbould, Buckley and Thurwell, 1978). Millington and Bayliss (1990) found that staged internationalisation was the exception rather than the rule.

However, there was evidence that a minority of the UK subsidiaries had experienced various stages in their history. Four companies made the point that while they had originally exported to the UK, this strategy was no longer viable. Their comments suggested that the interaction between market conditions and exporting costs meant the companies had passed through stages in their internationalisation. The result was an incremental extension of marketing.

In the first stage products were exported. Their newness commanded a premium price if no similar products existed. At first, volumes were small and the selling price was high. Economies of scale from expanding home production offset the costs of exporting.

The second stage saw the product maturing. Sales increased in volume as the company progressively moved beyond niche markets towards the mainstream. Local rivals, unburdened by transport costs, entered the market. Customers came to demand more service, both before and after sale. All these forces worked to lower the selling price and reduce profit margins.

Reduced margins and increased exporting costs associated with the increased volume of sales caused the company to consider local production.

The third stage commenced when the burden of transport costs and heightened customer demands convinced the company to develop a production facility in the market.

The costs associated with exporting were considerable. In addition to the direct costs of land transport to the port, transfers, shipping costs, insurance and foreign exchange risk, exporting costs included the opportunity cost of capital tied up in stock in transit. Further, once the goods reached their market there were import duties to pay. All these costs increased with the volume of exports and distance. A point was reached when the fixed cost of building a local facility was less than the present value of the future cost of exporting. The smaller the cost of establishing a production facility and the greater the cost of exporting, the sooner the production facility became viable.

The same analysis applied to the export of particular components and models. Six of the UK companies surveyed imported components or models despite having extensive local production facilities. They reported that the sales volume did not justify the investment required for local production. This would be reviewed if the volume of imports grew.

It is interesting to note that the economics of exporting may partially explain Australia's preference to export to closer, regional markets in Asia, but to invest and produce locally in the distant European market. If exporters follow the path described, Australian investment in Asian markets will sensibly lag investment in more distant countries. The growing volume of exports to Asia may eventually justify more FDI for production facilities there. However, goods which are standardised, cheaply transported relative to value, free of import duties and which call for little producer-consumer interaction are more likely to be exported, even in the long term.

Once again, it should be noted that staged entry was evident in only a minority of cases. In the majority of cases transportation costs, limited shelf life or the market's demand for customisation meant that the initial market entry required the creation of a production subsidiary in the market.

8. The Impact of FDI on Export Sales

In the great majority of cases (72 per cent), the parent companies had never exported to Britain. For the reasons discussed above the goods were deemed to be non-tradeable. Hence, the establishment of a subsidiary was the only way to enter the market. Commencement of the subsidiary had had no effect on the parent company's export sales.

In a minority of cases, the impact of foreign production on the Australian parents' operations and their export sales was a dynamic one. Initially, foreign production replaced Australian exports as the new subsidiaries addressed existing markets. Once the subsidiary became established in the new market the impact on Australian exports was reversed. Commonly the foreign facilities used Australian components or raw materials in their production processes. Given the heightened potential for additional sales offered by a physical presence, this second stage saw many companies exporting a much greater value of goods from Australia than they had done during their initial export stage when total foreign sales were more modest in value.

When the subsidiary's role in the new market matured and took on a 'local' character, possibly with local management, opportunities to replace imports of standard items were increasingly explored. For the long established British subsidiaries this often meant imports from Australia were limited to core proprietary items or intellectual property (eg. product specifications).

9. Psychic Distance and the Locational Pattern of Australia's FDI.

The locational pattern of Australia's FDI is consistent with that described in the psychic distance literature. However, where Scandinavian companies ventured into neighbouring countries first and then into Europe and beyond, Australian firms saw the psychic distance between home and the UK, US and New Zealand as being less than that separating Australia and Asia, despite Asia's geographical proximity (Yetton, Davis and Swan, 1991). Only a relatively small number of firms, including those interviewed in Malaysia and Thailand, have interpreted the environment differently, placing greater value on the rewards of a quickly expanding market than the comfort factor of the 'old country'.

In every case, the UK based companies reported that Britain had been their parent company's first foreign operation. In contrast, only one of the Asian subsidiaries reported that it had been the first foreign investment.

10. Conclusion

The prime motive for establishing production facilities in all three countries surveyed was the desire to access markets. A domestic population of 17.5 million people, comparable to that of London or New York, offers Australian businesses limited scope for growth. Other motives for FDI were found to be of little importance in the sample. This was true for investments in Malaysia and Thailand where labour costs are very much lower than in Australia as well as for those in Britain where comparable wages apply. Cheap labour is therefore not the driving force behind Australia's direct investment abroad.

The UK market is particularly attractive in its own right, having a high average income and a compact geographic area, but also because it allows access to the Continental market. The UK was the first overseas venture for all the companies surveyed in Britain. However, the factors which pulled the investment to Britain and not to the more centrally located European countries were those emphasised by the 'psychic distance' model. Familiarity of language, custom, business practice and legal system minimised the risk of foreign investment. Subsequent investment by the longer established companies has gone to less familiar places on the Continent and in Asia as the 'psychic distance' of those countries has been reduced through exposure to international business.

The great majority of Australian multinational companies in Britain produced non-tradeable goods that required them to produce the goods in their target market. No prior experience of exporting was possible. For them, a staged entry had not been viable. They had to plunge into the market or remain at home. In a minority of cases, exporting had preceded local manufacture. However, transportation costs and expanding sales volume encouraged them to progressively replace their export strategy with local production in the UK. The bulky nature of many of the products required that they move into the UK very soon after entering the market.

This balancing of the incremental sales that are expected to flow from acquiring a local production facility, the facility's cost and the cost of transportation, all feature in the decision to manufacture locally. This finding is consistent with that of Calof and Beamish (1995, p.123). 'Executives indicated that mode choice could be attributed to their view of potential sales volume in the foreign market, belief that each mode could generate a certain sales volume and beliefs regarding the cost of each mode.'

The closeness of the Asian market, allows more companies to export longer, thus partly explaining the smaller level of investment in Asia. If this pattern continues, expanding sales, driven by Asia's rapid economic growth, may, over time, encourage a change to local production to protect market share and save on transportation costs.

There is little evidence that FDI, either in the UK, Thailand or Malaysia is causing a reduction of Australian production or exports. Instead, they are producing primarily for their host markets, relying, in part, on imports from Australia for their inputs. Only one case of corporate 'emigration' was found. The companies were generally large and successful in Australia and were looking for additional markets, not replacement ones.

NOTES

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