

# Sustainable Growth in Victoria

*Sydney may be a primary association with Australia, but Melbourne is growing faster and attracting a different type of investments and immigrants. With a diverse economy, ambitious planning, and excellent infrastructure, the city benefits from the country's economic growth and handles well sluggish periods. It is the city of choice for fund managers, designers, manufacturers, biotechnology, and students from all over the world.*

## **What are the unique advantages features of Victoria? How do you attract foreign investments?**

Victoria is a small State in Australia and represents only about 3% of Australia's land mass, but accounts for 25% of the population. It has a very diversified economy, which doesn't rely too much on natural resources. The mining sector contributes less than 2% of the state GDP.

The key sectors of the economy are food processing, IT, aerospace, and advanced manufacturing, including automotive. The defense industry is also very strong, as well as ship building, food processing, biotechnology and financial services, energy, and education. Overall, the structure of the economy of Victoria is quite similar to the structure of a European country.

The diversification of the economy has resulted in consistent growth over the last 15 years. We're definitely not growing at the rate of China, but we managed to grow even during the Asian and the dot-com crises. Over the past five years our growth rate has been around 3% per annum. While we expect the global financial crisis

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will have a significant impact on this, our sense is that Victoria will be more insulated from the downturn than most developed economies.

Overall, we rely more on intellectual capital than on natural resources. We have nine universities, a huge number of international students, and education is our largest export industry.

## **What type of students do you attract? Do they come mainly from Indonesia, Malaysia, China, Hong Kong, and India?**

Yes, but we also have many students from Europe, mainly in postgraduate studies. Master programs and doctorates are undertaken by students from Germany, Ireland, France, and the UK. The University of Melbourne ranks in the top 50 universities in the world and the Melbourne Business School has a very good reputation.

## **What are the main differences and similarities between Melbourne and Sydney?**

In many ways, Melbourne and Sydney are twin cities that are very complementary. Sydney is only an hour away by plane, which is almost a commuter distance.

It is important to note, however, that in Australia we have very strong ethics about promoting the country as the right destination. The competition between the cities is only secondary. We collaborate very well together in international markets, regardless whether it concerns Brisbane, Melbourne, Adelaide, or Sydney.

In Melbourne, there is more concentration in design for the fashion and automotive industries.



**PETER COLLENS** heads up a team within Invest Victoria, the Victorian Government's investment promotion agency that has responsibility to attract foreign direct investment to the State of Victoria through its international business network.

Collens has extensive experience in commercial, international and merchant banking, having held key positions both in Australia and offshore. He returned to Australia in 1990 to direct a key investigation into Australian banking practice and procedures.

Prior to joining the Department, Collens held senior positions within Austrade, the Australian Government's key export development agency.

## Economic Summary

		VICTORIA	AUSTRALIA	SHARE (%)
GSP/GDP	2006-07	247 A\$ (bn)	1,046 A\$ (bn)	23.60%
GSP/GDP growth (volume)	2006-07	2.70%	3.20%	
GSP/GDP per capita	2006-07	48,037 A\$	50,264 A\$	
Population	09/2007	5.2 m	21.1 m	24.60%
Employment	01/2008	2.6 m	10.6 m	24.50%
Labour Force	02/2008	2.8 m	11.1 m	25.20%
Unemployment Rate	02/2008	4.40%	4.10%	
Participation Rate	02/2008	65.10%	65.20%	
Inflation Rate (CPI)	2006-07	3.30%	2.40%	
Exports (goods)	2006-07	20 A\$ (bn)	168 A\$ (bn)	11.90%
Business R&D	2006-07	3.0 A\$ (bn)	10.1 A\$ (bn)	29.30%

SOURCE: INVEST VICTORIA

## FDI & Victoria

TOP 3 SOURCES OF FDI IN 2007-2008

### Country

North America	\$955m
Japan	\$301m
United Kingdom	\$219m

### Sector

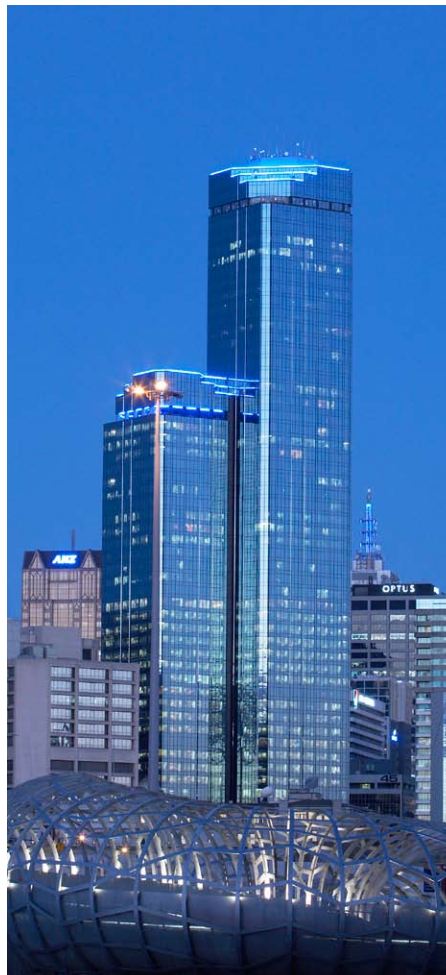
Automotive	\$480m
Retail	\$340m
Energy	\$300m

SOURCE: INVEST VICTORIA

Rip Curl in surf wear designs is a good example. Another focus is the biotechnology research. Probably 40% of all the biotech IPOs in the southern hemisphere come out of Melbourne.

Despite Melbourne being a city of 3.5 million people, we don't experience infrastructure issues to the extent of other comparable cities. An important differentiator is the world-class infrastructure around the port and the airport. Melbourne is a planned city with the largest container port in Australia and in the southern hemisphere. A significant part of the import and export occurs through that port, ranging from fresh food to automobiles. It is incredible that the small state of Victoria actually exports about 13% of the globally traded dairy products.

One of our key selling points to advanced manufacturing companies is that their manufacturing will be set very close to this major shipping hub. Modern manufacturing heavily relies on imported components and on just-in-time delivery. As a result, Melbourne has become a very big manufacturing location. About 300,000 people are directly or indirectly involved in this sector. We are competitive on a global scale, but we have reduced our tariffs and provided the required infrastructure to support it.



I believe that one of the main advantages of Melbourne is the investor and business friendly environment.

### Do you have an active program for educating and promoting the creative professions in entertainment, fashion, automotive or aircraft industries?

Melbourne is a city that prides itself on its creativity, and nurtures it wherever possible. According to Richard Florida, Heinz Professor of Economic Development at Carnegie Mellon University in the United States, and author of *The Rise of the Creative Class*, a city's tolerance and acceptance of diversity is key to

its success in attracting and retaining talented people. The cities most likely to succeed in the twenty-first century, he says, offer the three Ts: tolerance, talent and technology. In 2004 Professor Florida assessed Melbourne with his Creativity Index, ranking it fourth amongst 268 regions globally.

In terms of design, the Design Victoria program is unique in Australia and support the growth of Victoria's design capability as well as international recognition of the excellent design emerging from Victoria, and Melbourne in particular. The State of Design festival is a yearly event held in July, that includes trade fairs, public events, a business and design symposium, as well as the Premier's Design Awards, to communicate the benefit of design to the local community and recognise the innovative and state-of-the-art designs coming out of Victoria. The Design Victoria program also includes a series of seminars and workshops to increase business capability of Victorian designers, across the entertainment, fashion and product design spectrum.

An estimated 4,200 design consultancies operate in Victoria, with an increase of 35% over the last five years, with the greatest design cohorts in visual communications, industrial design and multimedia. Victorian business also use design at rates comparable with other OCED countries such as Denmark and Ireland, with Victorian design firms winning about a quarter of their work internationally or nationally (7% overseas).

In the field of fashion, Melbourne is nurturing emerging designers by providing premium fashion design students and recent graduates with a platform to present their collections within the L'Oreal Melbourne Fashion Festival, as well as hosting a forum for designers to assist them in their entrée onto the international arena.

We're also very proud to have established a new state-of-the-art Automotive Centre of Excellence here in Melbourne, which is the focal point of the Victorian automotive industry, bringing together automotive training, and research and development, in one fantastic location. This is the first automotive training facility awarded the highest accolade under the Institute for Trade Skills Excellence's Star Rating System.

Melbourne is home to the largest purpose-built training facility for the aviation industry in the State - the Aerospace Industry Training Centre (AITC). It is a major supplier of quality accredited aerospace training for domestic and international markets within the Asia-Pacific region.

### **What have been the major developments in the last two years?**

The U.S. and Europe are very interested in our financial services industry and there is a lot happening in the aerospace area. There are new models and new markets in the automotive area for Australian-built Toyota and GM cars and with Federal Government initiatives the focus is now on producing “green” cars.

Our film industry has also been strong. Steven Spielberg just finished a \$100 million film called *The Pacific*, which was shot in Docklands Studios and locations around Melbourne.

Another strength is the legislation for intellectual property rights in biotechnology and other industries. The time period for Phase I and Phase II trials is significantly lower than in the U.S. or Europe. In general, we provide a very high-quality controlled environment, but for a lower cost than in the U.S.

### **The last five years have been positive for Australia on a surge in the demand for raw materials. How has Victoria benefited from those events?**

The entire economy of Australia benefits from the royalties and taxes generated through the iron and coal exports and the development around those mines. The headquarters of BHP Billiton are in Victoria.

Victoria benefits indirectly from the growing demand for raw materials, with the hard capital going into Queensland and Western Australia. However, we are not losing workforce to those states. On the contrary, Victoria’s population has been growing and the new homes construction is at record levels. The indirect benefit has been the extra impetus for growth through the international skilled immigration.

### **How is the demographics of Victoria changing?**

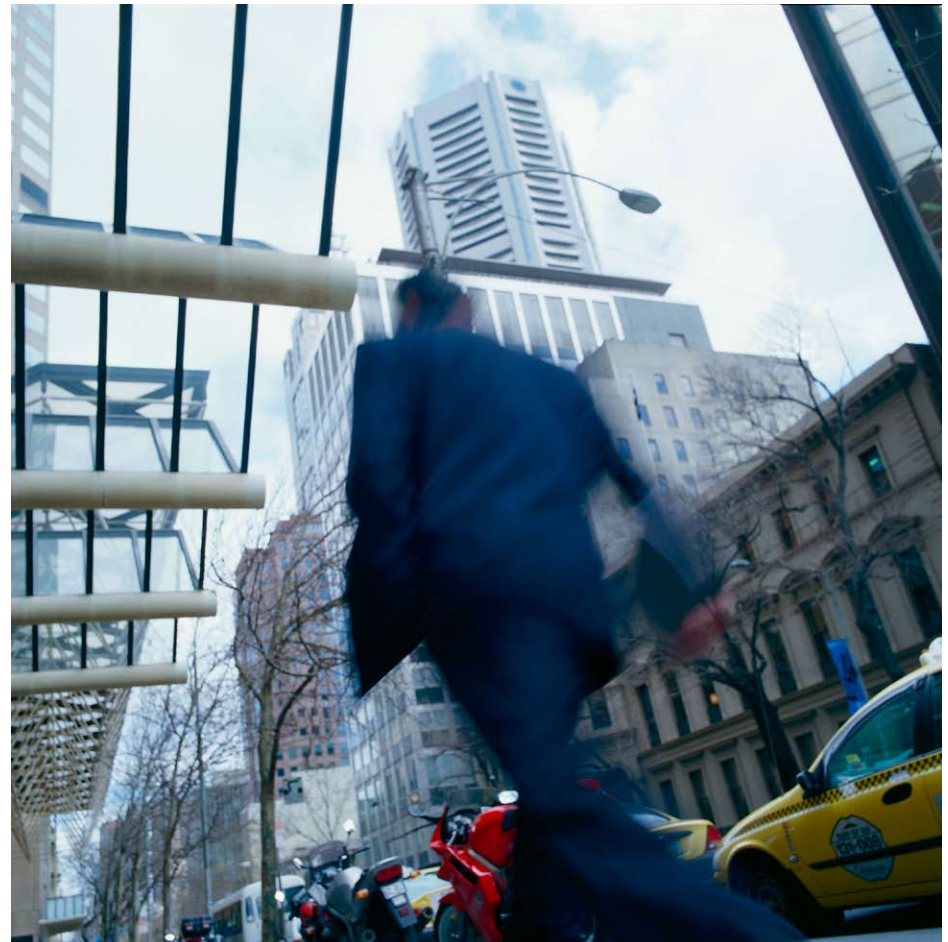
The government recently announced a new planning document based on higher than

expected population growth rate. Melbourne is expected to be the largest city in Australia by 2030.

Overall, Melbourne is becoming that city of choice for the skilled immigrants.

### **Do you expect renewable energy to become a major source of future growth?**

In terms of renewable energy, Australia is probably at the level of the U.S. and lagging behind Europe, however our potential is



significant. Australia is currently moving from a regime of mandatory renewable targeting into a carbon trading regime consistent with Kyoto and the leading European countries. This will significantly boost investment in Australia’s power industry.

The wind power industry is developing, with 300 MW currently operating in Victoria and over 3000 MW in the planning process.

We have also heavily invested in solar energy. A key example has been Solar System’s large scale demonstration plant, based on innovative Australian technology, which involves concentrated mirror technology.

Also, we develop silicon cells for photovoltaic electricity generation at the Australian National University in Canberra.

We do a lot of work on clean coal technology. We are building a \$700-million demonstration plant because, if there is a source of energy that the state is rich on other than wind and solar, then it’s coal. However, the coal is very wet and unsuitable for transporting and has a very high carbon footprint. So, we are working on better solutions around that

coal and there’s international interest in that.

### **How important and developed is the information technology industry?**

That’s a very strong part of our economy. Victoria is leading the Australian ICT industry and accounts for 25% of the national ICT revenue – approximately A\$ 25 billion.

Victorian headquartered companies have annual revenues of A\$2.1 billion from overseas operations and exports of ICT equipment and services. Opportunities abound as firms continue to explore the endless range of applications of their technology across our vibrant industry base.

Victoria's ICT industry offers a highly diverse industry capability and workforce. It comprises more than 15,825 companies employing over 84,800 people, 33.25% of national ICT industry employment.

Victoria boasts global strengths in knowledge based industries, high level skills, technology and innovation. Victoria leads Australia in terms of ICT skills availability with over 34% of the nations ICT graduates.

International players based in Victoria are successfully leveraging the creative talent and technological strengths that Victoria has to offer. Australia's top ICT R&D spenders are based in Melbourne, including NEC, Robert Bosch Australia, Agilent, NICTA (National ICT Australia), CA and Telstra.

Due to the advantageous time zone, many organisations have located their 'follow the sun' technical support and customer services operations in Victoria including GE Money, Verisign, BMC Software, IBM Australia, Oracle and Microsoft.

The strength of the Victorian ICT industry is represented through the companies that have chosen Victoria as their location for their ICT activity.

### **What's the shape of the financial services industry and how it compares to that of Sydney?**

Melbourne's financial services industry is increasingly focused on funds management and pensions, with prospects for growth prompting many global industry players and boutique funds managers establish a presence in Melbourne, while the majority of the retail operations are run out of Sydney.

Overall, about 60% of the industry and the pension funds are based in Melbourne. Some of the largest funds in Melbourne include the Future Fund with over \$100 billion, the Telstra's Pension Fund, and the AustralianSuper, which is a collection of pension funds. The Victorian Fund Management Corporation is government pensions and obligations fund, which also manages some of the university endowments funds.


Traditionally, the Australian financial services industries are built on four major trading banks. Two of them are headquartered in Melbourne and two of them are in Sydney. The stock exchange is operated between Melbourne and Sydney, but the capital market has drifted towards Sydney, while the funds management side has drifted towards Melbourne.

A number of major industries, such as healthcare or construction, have their own pension systems, which are also run in Melbourne. We have a compulsory pension savings scheme and all the employees have to put 9% of their income every year into a pension fund, It is not a government fund and you can invest with any approved manager. The tax structures discourage taking out the money before the age of 55, and the money saved averages about 15% of Australia's total wages. It's a very large pool of money and a multi-billion dollar industry.

So, there are many pension management companies and the associated financial services in Melbourne. The Northern Trust Custodial Services are set up here; we also have the headquarters for Asia-Pacific of Axa, GE Capital and Mercer, who employ over 2,000 people here. The U.S. based BlackRock and Vanguard funds management firms also run their retail operations out of Melbourne.

Overall, there are about 110,000 people employed in Melbourne's financial services. In Sydney, that number is around 160,000, so their industry is larger, but it is mainly related to capital markets, foreign banks, and representative offices.

### **Is there a significant difference in the prices for warehousing or office space between Melbourne and other parts of the country?**

In Melbourne, we are still building new high-level commercial and residential properties. Melbourne is cheaper than comparable cities in terms of premium properties in the central business district. Due to the efficiency of the port and surrounding infrastructure, Melbourne is a very attractive place for warehousing and distribution operations. Due to greater supply, Melbourne office space is very competitive with cities of comparable size. 



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### **About Ticker Q&A**

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