THE RETREAT AND RELOCATION OF THE FDI IN THE AUTOMOTIVE INDUSTRY IN AUSTRALIA, ANALYSIS OF THE TOYOTA CASE

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1. ABSTRACT

The paper seeks for the analysis of the Foreign Direct Investment withdrawal of multinational automotive companies from the Australian territory. This is an interesting event to study, because is a situation currently suffered by this country and is impacting it in a considerable way since this industry is the largest manufacturing sector in Australia.

We will see that a country, that has been showing a stable and healthy economic growth can unexpectedly experience remarkable setbacks due to manifestations of this growth as can be currency appreciation, general increase in wages, free trade agreements, or many other factors that affect business.

In this document we presented an evaluation based on an international economic context. Focusing on Toyota as a case study for other car manufactures like Ford and General Motors, we analyzed their decision of closing their plants and withdrawing their investments.

This project aims at providing facts and data, performing analysis and obtaining conclusions to confirm if the reasons presented by the automotive firms for their retreat of Australia are truthful and to see if there are no others hidden motives. Finally, this paper will present a base to assess the possibility of having similar outcomes in other Australian industries or in other countries facing similar cases and show what host countries should prevent if they want to avoid losing their FDI.
1.1. **ABSTRACT IN ITALIAN**

Il documento studia l'analisi del ritiro Investimenti Diretti Esteri (FDI) delle aziende automobilistiche multinazionali del territorio australiano. Questo è un evento interessante da studiare, perché attualmente è una situazione sofferta da questo paese ed ha un impatto notevole dal momento che questa industria è il settore produttivo più grande in Australia.

Vedremo che un paese, che ha mostrato una crescita economica stabile e sana, può inaspettatamente incombere in notevoli battute d'arresto a causa di dimostrazioni di questa crescita come può essere la rivalutazione monetaria, l'aumento generale dei salari, gli accordi di libero scambio, o molti altri fattori che influenzano il business.

In questo documento abbiamo presentato una valutazione basata su un contesto economico internazionale. Concentrandosi su Toyota come caso di studio per gli altri produttori di auto come Ford e General Motors, abbiamo analizzato la loro decisione di chiudere i loro impianti e revocare i loro investimenti.

Questo progetto mira a fornire fatti e dati, a compiere delle analisi e trarre conclusioni per confermare se le ragioni presentate dalle imprese automobilistiche per il loro ritiro in Australia sono veritiere e per vedere se non ci sono altri motivi nascosti. Infine, questo documento presenta una base per valutare la possibilità di avere risultati analoghi in altri settori australiani o in altri paesi che affrontano casi simili, e mostrare ciò che i paesi ospitanti devono evitare se non vogliono perdere il loro IDE.
2. INTRODUCTION

Nowadays international companies are in a constant search of possibilities to make their business profitable and looking for opportunities to grow. An alternative to make this feasible is through the investment in foreign markets; as we known, the Foreign Direct Investment (FDI) is considered as an important point for the progress of the world’s economy.

Australian currently situation regarding its Automotive Industry is an interesting phenomenon to analyze. Commonly studies tend to focus on why FDI increase in a country, but not frequently comes up the question of why companies leave. This important issue is the main point that will be analyzed in this paper.

The case investigated in this project is remarkable taking into account that now Australia is considered as one of the best countries in the world for FDI (according with the Hellenic-Australian Business Council) thanks to the strong competitiveness and improved economy reached through the past of last years and more in detailed it is important to mention that the Automotive Industry is considered the largest industry of the manufacturing sector in the country, contributing to the research and development of Australia, involving different industries as: retailers, logistics, component producers, between others; offering more than 50,000 jobs and improving the welfare of its citizens.

This year 2014, Australia is suffering an unfortunately and significant event; after more than 80 years hosting car manufacturing companies, this business activity is ceasing. Automotive companies as Toyota, General Motors and Ford, classified as part of the top ten car manufacturing in the world, announced that they are planning to stop their manufacturing activities in Australia. Now it seems that the host country is no longer providing them the same benefits or gains as before forcing them to seek for another countries with comparative advantages.

In this paper, we are focusing on the Toyota case study and in the analysis of the reasons why car-manufacturing companies decided to take out their FDI’s and close their production facilities in the country. We will review the importance of the FDI for the economy and welfare of the country as the possible effects of its withdraw.

This project begins with a brief overview about the country that will help us to understand better the reasons why foreign firms are interested in make some investments in Australia; we will proceed talking about the FDI in the country and of its benefits. Then explain the importance of the automotive industry for the economy, followed by one an analysis of the reasons why these foreign automotive companies are shutting their Australian plants and relocating them elsewhere. Finally a conclusion summarizing the ideas and knowledge gain during the development of this project.
3. AUSTRALIAN BACKGROUND

3.1. SOCIAL CONTEXT

Australia, officially the Commonwealth of Australia is a country constituted by two landmasses, the mainland of the Australian continent and the island of Tasmania. Australia’s landmass has 7,627,930 square kilometres and is considered as the world’s smallest continent and sixth-largest country by total area.\(^1\) Its population density, 2.8 inhabitants per square kilometre, remains among the lowest in the world.

In the following table are presented the population of the three largest cities of Australia.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sydney</td>
<td>4,667,283</td>
</tr>
<tr>
<td>2</td>
<td>Melbourne</td>
<td>4,246,345</td>
</tr>
<tr>
<td>3</td>
<td>Brisbane</td>
<td>2,189,878</td>
</tr>
</tbody>
</table>

Table 1: Population of the largest cities of Australia

Source: Data from Australian Bureau of Statistics (ABS); Own Production

According to the estimated statistics at September 2013, Australia counted with 23,235,800 citizens.\(^2\)

The government of this country is based on a constitutional monarchy with a federal division of powers. It is considered constitutional because the Government follows the rules and fundamentals marked in the constitution and monarchy because Queen Elizabeth II of the United Kingdom is also considered as the Queen of Australia.

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3.2. ECONOMICAL CONTEXT

Australia is considered as a developed country and one of the wealthiest in the world, with a relative high Gross Domestic Product (GDP) per capita, and a relatively low rate of poverty. Australia has enjoyed a period of continuous growth, registering during 1960 a GDP (Nominal) value of US$ 18.6 billion and over the last 23 years, its economy has experienced a strong financial system and a continuous growth, registering in 2012 a GDP (Nominal) value of US$ 1.52 trillion US$. From 1991 onwards is the largest period of growth that Australia has registered for at least the past century (according to the Reserve Bank of Australia). Additionally, it is worth noting that Australia is a G20 economy. The Australian dollar (AU$), also called Aussie, is the currency of the nation.

Australia ranked second in terms of world economy average rate, just after Switzerland in 2013, although the nation’s poverty rate increased from 10.2 per cent to 11.8 per cent since 2000\(^3\); and third according by the 2014 Index of Economic Freedom.\(^4\) According to the International Monetary Fund, Australia is the world's twelfth largest economy.

The graphic below shows Australia's historical GDP (Nominal and PPP) evolution from 2004 to 2012, this data is given in current U.S. dollars. We can see that the country has experienced a constant growth in their Gross Domestic Product index. Thanks to this positive growth, Australia continues being considered as one of the world’s countries that maintains economic stability.

**Figure 1: Australia’s GDP (current US$)**

![Australia's GDP (current US$)](image)

Source: Data from World Bank; Own Production

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3.\(^3\) The Australian - News (12 October 2013). “Richest nation but poverty increasing”.

The service sector of the economy accounts for about 70% of GDP and the industry sector with the 27%.\(^5\)

Now, we are going to see the tendency that has experienced the Australian GDP per capita, this statistic help us to evaluate the changes over the time in national income.

Statistics shows a weak growth rate on GDP per capita from 2011 to 2012, even though, we can say that Australia’s GDP per capita have been presented a constantly positive movement in the last few years.

\[\text{Figure 2: Australia’s GDP per capita (current US$)}\]

According to information provided by the Australian Bureau of Statistics, in April 2014, the employed people were 11,561,400 and the unemployed people were 723,800 corresponding to the rate of 5.9%.\(^6\)

In the next chart we can see that the unemployment rate trend decreased from 2004 to 2012. This tendency is positive for the country welfare, means that has had enough investments allowing the creation of new and more job opportunities.

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Australia’s largest export markets are Japan, China, the US, South Korea and New Zealand.

An important part to mention about Australia’s economy is the one related to the Free Trade Agreements, these agreements allows exportations expand to new markets, contribute to the welfare and growth of the country and also benefits their trade partners.

Australia currently has seven Free Trade Agreements:

- Australia-New Zealand FTA (ASEAN)
- Australia-Chile FTA
- Australia-New Zealand Closer Economic Relations
- Australia-United States FTA
- Malaysia-Australia FTA
- Singapore-Australia FTA
- Thailand-Australia FTA

It should be noted that besides those agreements mentioned before, Australia counts with some others pacts signed but not yet in force, and some other under negotiations.

Australia’s competitiveness is ranked in the 21th place out of 148 countries evaluated, according to The Global Competitiveness Report 2013-2014. This report provides a detailed evaluation of the country’s productive potential.
Using as a tool 12 pillars of evaluation, the report helps us to understand the role of the different key factors that influence the economic progress, serves as a guide for people related to the economic environment to frame improved economic guidelines and official reforms; among others useful reviews and information.

The 12 pillars of competitiveness are:

1st. Institutions. This category includes the interactions between individuals and companies with the legal and administrative framework in order to generate wealth.

2nd. Infrastructure. Refers to the localization of the economic activities, and the identification of the different activities that can grow within a country. A well-organized infrastructure is important to assure successful performance of the economy.

3rd. Macroeconomic environment. Concerns to the evaluation of the constancy of the economic environment during the past of the time, this stability allows the growing of the economy.

4th. Health and primary education. It is necessary to provide citizens with a quality basic education to improve their performance at work. Health it is also essential, since healthy workers can be more competitive and productive.

5th. Higher education and training. This point emphasizes the importance of the quality on higher education and the significance of offering training to people for the purpose of moving up in the value chain. In this pillar it is evaluated the quality of the education as the secondary and tertiary enrolment rates.

6th. Goods market efficiency. The less the government interferes in the exchange of goods, better the economic environment. An efficient market leads to business productivity.

7th. Labour market efficiency. Refers to motivate workers and promote equity between genders. This point mentioned the importance of flexibility of moving workers from one economic activity to another, in a fast way and with a low cost to reach labour market efficiency.

8th. Financial market development. This pillar considers an efficient financial market the one that distributes to their most productive uses, the resources coming from overseas and those kept by nations residents.

9th. Technological readiness. Here is measured the ability of the country to implement current technologies so as to succeed, increase their productivity and compete globally.

10th. Market size. It is well known that market size influences productivity due to large markets makes possible for companies to accomplish economies of scale.
For the assessment of the market size are considered the domestic and foreign markets.

11th. *Business sophistication.* Evaluates the quality of a nation’s business networks and the quality of individual enterprise’s processes and strategies.

12th. *Innovation.* This pillar focuses on technological innovations, as it leads to the opportunity of value generation.

The twelve pillars work together complementing each other, so we can also say that a weakness in one of them can generate undesirable effects in others.

### 4. AUSTRALIAN MOST IMPORTANT FOREIGN DIRECT INVESTMENTS

After seen some important social an economical aspects of Australia, we are going to concentrate on the analysis of its sources of FDI.

#### 4.1. WHAT IS FDI

On 2004 the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) propose a definition for FDI: "Foreign direct investment enterprise is an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure."\(^7\)

This is a fairly simple and comprehensive definition, nevertheless we would like to present a second definition found in Investopedia, that helps round the picture of FDI even more: "An investment made by a company or entity based in one country, into a company or entity based in another country.

Foreign direct investments differ substantially from indirect investments such as portfolio flows: where in overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

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The investing company may make its overseas investment in a number of ways either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

The accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. That is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.

An example of foreign direct investment would be an American company taking a majority stake in a company in China. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile.8

4.2. STANDARD REASONS/BENEFITS FOR FDI

When analyzing a FDI a firm must evaluate a complex set of key factors before making its decision; for example, one of the main reasons that companies invest in foreign operations is to realize cost savings for production, transportation or administrative activities. However, the election to launch a new foreign branch or subsidiary may also be driven by sales goals and objectives such as the need to follow a key domestic customer, diversify, build a new customer base or respond to competitive pressures. Finally, direct foreign investment may be required in order to avoid or minimize the impact of trade restrictions in foreign countries or a company may be drawn to invest in a particular foreign market by incentives offered by local governments.

The most common factors to analyze are:

- Reduction of Production Costs
- Reduction of Transport Costs
- Efficiencies of Domestic Production
- Rationalized Production
- Vertical Integration
- Increased Efficiency
- Management of Changes in Exchange Rates
- Protecting or Increasing Sales Revenues
- Strategic Considerations
- Political Considerations

4.3. AUSTRALIA SOURCES OF FDI

The strong economic competitiveness of Australia has made it one of the preferred world’s destinations for foreign direct investment (FDI).

Australia’s FDI stock has increased since the negative inflows faced in 2005 that caused disinvestment, and with another period of difficulties due to the global crisis experienced on 2008. According to A.T. Kearney’s 2012 FDI Confidence Index, Australia is moving upward climbing positions and becoming more attractive as a FDI destination. This growing is due to the robust economic performance of the country over the past years.

![Figure 4: Foreign Direct Investments in Australia ($ billions)](source)

The figure above demonstrates the flow of the FDI during the past years, and let us infer that after a constant period of growth in the country foreign investment since 2005, Australia decreased from around 66 billion in 2011 to 56 billion in 2012.

In the next figure we present the top three largest investors of Australia, in order of contribution they are: United States with 23.9%, United Kingdom with 14.4% and Japan with 11.1% of inward FDI.
The figure below illustrates the percentage of FDI contribution according to the different sectors; we can see that the Software & IT Services and Business Services attracted almost the half of the FDI projects during 2011.

Source: Data from World Bank; Own Production

Source: Data from Australian Government; Own Production
The car manufacturing industry is a developed activity that has acquired great importance worldwide and one of the economic sectors more important by reason of the profits generated. This business has benefited and boosted the progress of other industries that supply them with products required for the car production.

The automotive industry includes the different activities of design, development, manufacturing, marketing and sales of motor vehicles, nevertheless also creates networks along other sectors that produce outputs necessary for the car manufacturing, as an example of this complementary processes we can mention the manufacture of seatbelts, manufacturing of some plastic components, tires manufacturing, among other important complements.

The automotive industry is considered as an important feature for the positive evolution of the nation’s economy, stimulate growth; create competitiveness resulting in generation of new sources of employment, greater incomes, technology transfer and innovation and generate interest for new investments.

The carmaker segment impacts on the world economy in a different and varied ways and benefit the overall economy of the country, this fact has led nations to pursue the development and strengthening of this industry.

The automotive industry, presented a production level of 84,208,200 vehicles during 2012, and in the next year showed an increment of 87,300,115 vehicles produced during 2013. (See graphic below).
The following table presents the top 10 world’s ranking of vehicle manufacturers according to the total number of units produced during 2012.

Table 2: World Ranking of Manufacturers by vehicle production

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toyota</td>
</tr>
<tr>
<td>2</td>
<td>G.M.</td>
</tr>
<tr>
<td>3</td>
<td>Volkswagen</td>
</tr>
<tr>
<td>4</td>
<td>Hyundai</td>
</tr>
<tr>
<td>5</td>
<td>Ford</td>
</tr>
<tr>
<td>6</td>
<td>Nissan</td>
</tr>
<tr>
<td>7</td>
<td>Honda</td>
</tr>
<tr>
<td>8</td>
<td>PSA</td>
</tr>
<tr>
<td>9</td>
<td>Suzuki</td>
</tr>
<tr>
<td>10</td>
<td>Renault</td>
</tr>
</tbody>
</table>

Source: Data from OICA; Own Production
5.2. AUSTRALIAN AUTOMOTIVE INDUSTRY HISTORY

Some developed countries, as Australia, with the competencies required to manufacture cars and with the purchasing power to generate demand for it, are considered as a favourable market for carmakers.

Australia household three major manufacturing companies General Motors (Holden), Ford and Toyota and about 150 more companies that provide inputs for this automotive sector.

- Ford Motor Company of Australia: Was the first automotive group, which decided to invest in this country, it started to run activities in 1925 in Geelong, Victoria.
- GM Holden Ltd: Holden was founded in Port Melbourne, Victoria and started its activities in the automotive sector in 1908 becoming a subsidiary of General Motors in 1931.
- Toyota Motor Corporation Australia: Toyota Australia is based in Port Melbourne, Victoria since 1958, is a subsidiary of Toyota Motor Corporation based in Japan.

In Australia, the automotive industry is one of the biggest employers, giving jobs to more than 50,000 manufacturing workers in 2013 and generating an automotive production value of $5.37 billion in 2012.

Figure 8: Australian Automotive Industry Employment

![AAI Employment](#)

Source: Data from Australian Government; Own Production
The automotive manufacturing industry serves as a substantial contributor for the nation’s economy in terms of Foreign Direct Investments, work opportunities, development and increase of the country exports.

**Figure 9: Economic Value of Australian Automotive Exports**

The Australian automotive sector generates one of the highest amounts of the country exports. As we see in the chart above, in 2012 the value obtained by the automotive outputs was $3.71 billion, taking into account the vehicles and complementary components used in the manufacturing industry.

In the next chart we can see that the higher quantity of Australia’s 2012 exports correspond to the Middle East followed by the regions covered in the NAFTA’s agreement.

Source: Data from Australian Government; Own Production
Based on the previous chart, we confirm that Toyota remains as the carmaker leader during the 2012, with the 20% of market share in Australia.
5.3. REASONS FOR FDI (FOCUS ON JAPANESE AUTOMOTIVE INDUSTRY)

According to the Australian Government, Japan is the third largest economic investor of Australia (123.4 billion AU$, at 2011) and this nation is the 4th preferred destination of Japan’s outward FDI. Australia gained this position due to the availability of resources and raw materials, market potential, economic growth trend, stability, closeness, low production costs, technology and free trade agreements, which contributes to the rapid and continuous investment of Japanese companies in Australia.

It is well known that the main reason for FDI is to achieve cost advantages by minimizing the cost of transporting the raw material to the factories and/or the manufactured finish products to the market place. However other factors may be in play. The flow of FDI and Multinational Corporations (MNCs) into other countries take place due to push and pull factors, country and firm specific disadvantages push firms to go across national borders and country and firm specific advantages drown them to a final destination.

For the case of Japanese FDI in the automotive sector in Australia, over the years there were several investments made by several MNCs in the form of new plants, subsidiary companies, branch offices and sale units. The most notorious are:

- Toyota Motors in 1963
- Nissan Motors in 1966
- Mazda in 1967
- Honda in 1969
- Kawasaki Motors in 1975
- Kubota Tractor in 1977
- Suzuki in 1980
- Yamaha Motors in 1983

These investment were followed by automotive sub-contractors and suppliers such as:

- Toyo Tire and Rubber in 1975
- Yokohama Tire in 1976
- Nihon Denso in 1998

Here we would like to review the main push and pull factors between Australian and Japan.
5.3.1. Japan's disadvantages for the automotive industry

According to the Japanese Technical Information Service⁹, Japan depends vastly on foreign resources. For example of 2006 Japan depended on imported resources for 100% of its coal and iron ore consumption, 99.7% for its fossil fuel, 94.6% for its natural gas, and 76% of food grains. Apparently the island nation is in fact, as the popular saying goes, a resource hungry nation. It seems that with less than 5% of the land area than Australia, Japan's main resources lay on its sea waterfront and coastlines, and on a highly skilled, educated, and committed human force.

At the end of WWII Japanese industry was severally damage. It took them 5 years to reach its pre-war development level, but by 1950 Japan was back on track. On April 1949 Japan and the USA entered in a fixed exchange rate of 1US$ for 360 YEN. Additionally Japanese goods gained almost barrier free access to the USA. All this in addition to the booms in demand generated by the Korean and Vietnam wars in 1950s and 1970s let Japanese industry to a "golden age". From 1970s onward, the island nation had constant positive trade balances with the USA and with most of the developed nations.

Due to all this, on the 1970s and 1980s Japanese wages rose to very high levels compared to any developing and many developed countries. Industries found themselves in desperate need of cheap labour in order to remain cost effective. Multinational Corporations, small, medium and large, were in need of finding new manufacturing bases in cheap labour countries. And since ASEAN countries have very large primary resources deposits and were within a short-time reach, MNCs paid very big attention to them. Because of the abundance of resources and location advantage, Australia also received an enormous attention.

In the 1980s continued the trade surplus with the USA and the world development led to frictions.

A movement against the "made in Japan" products started to affect industries exports. This made Japanese firms look for new manufacturing bases in countries that were in a friendly business and diplomatic relationships with the West and especially the USA.

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5.3.2. Australia’s advantages for attracting FDI

Australia is famous for its abundant natural resources. These include, coal, iron ore, gold, copper, liquefied natural gas (LNG), crude petroleum, zinc, tin ores, nickel, aluminium, wheat, barley, raw sugar, wool, mutton, beef and other rural farm products, forest products, fish and other sea products. It also has a long coastal line (35,876 km) with many navigable seaports, and 7,692,024 square kilometres of inland territory.

In addition Australia is ranked 21 in the overall index of the World Economy Forum (WEF) Global Competitiveness Report. Furthermore its ranks 13 in the Efficiency enhancers category, that include the pillars: Higher education and training, Goods market efficiency, Labour market efficiency, Financial market development Technological readiness and Market size.

![Figure 12: Australia map compared with Japan](image)

Source: Australian Government

Due to all this mentioned before, we imagine the perspective of a Japanese MNCs CEO and Board when facing the decision to conduct a FDI and move their manufacturing bases from Japan, elsewhere. They needed to move for 3 main reasons:

- The main raw materials for manufacturing cars like Steel (Iron ore), Rubber, Plastics, Copper, Aluminium, and electricity in Japan where imported. Making them more costly. Probably one of the reasons the
Japanese develop so much in work techniques related to production and management practices like the Toyota Production System is known as Kaizen.

- Secondly, there has been a continue increase in Japanese wages, until the point that Japanese salaries where more than double than in other region countries.
- Finally there was an anti "made in Japan" movement in the USA and other western countries.

Additionally, being among the first Japanese FDIs, the MNCs would prefer not moving their operations too far away, in order to make easier to keep a closer eye over them. Let's remember that on those days there was no Internet, globalization was far behind the road and distances seem longer.

Under this perspective the CEO and Board would had review ASEAN countries and find lots of natural resources and cheap labour, yes, but at the 1970s not the security or stability they would like. Remember the Vietnam war broke out, Cambodia was under the shadow of Pol Pot, and Thailand, Myanmar, Lao, Indonesia, etc., where not really going through quiet, calm political and social environments. So, investing in them would be a gamble. Whereas, a little further south Australia was waiting with its impressive quantities of natural resources too. Wages weren't as low as in the ASEAN countries, but still considerably lower than in Japan. And different than the ASEAN, Australia had stability, working infrastructure, much more access to higher educated workforce, and most important as member of the Commonwealth and a former main member of the Allies, it enjoyed a very good business and diplomatic relations with the USA and the rest of the Western world.

6. ANALYSIS OF THE RETREAT OF FDI IN THE AUTOMOTIVE INDUSTRY IN AUSTRALIA

6.1. CURRENT SITUATION

Currently Australia is experiencing an undesirable situation affecting its manufacturing industry. The three current major Australian automobile manufacturers: Toyota, Holden and Ford, after many years of history producing in this territory, and following the path taken by Mitsubishi in 2008, they announced their decision to conclude with their assembly operations by the end of 2017.

The local-made car sales have been registering low levels on sales affecting automobile assembly companies and bringing the market to a not anymore viable position for manufacturing activities, reason why Ford after almost 90 of being
producing in Australia, decided to close its two plants in October 2016 triggering a pulling effect on its manufacturing partners.

Toyota and the rest of carmakers are taking this critical decision of plant closures and looking for another countries where to do foreign direct investment, because they found that the social and economical situation of Australia has been changing not for the benefit of manufacturing companies.

The Australian Coalition Government is concern about this issue and is in a current analysis of the situation and on the search of a possible way to help the car industry with the approval of some funding, but there are some country factors that should need to change in conjunction with the funding, consequently, there is a little to do for the government that could retain indefinitely this manufacture businesses.

In the following part will be analyzed the different factors that have made decide Toyota Motor Co. and its partners to cease its operations as an assembly companies in Australia.

6.2. FACTORS CAUSING TOYOTA’S MOTOR CO. SHUTDOWN

6.2.1. Country factors

6.2.1.1. Demographics

Australia’s population growth rate showed a remarkable increase during 2008 and continued maintaining a stable rate. In next graph we can see the tendency of this population growth rate.
This growth on population is due principally to the high number of immigrants and the baby bonus offered to increase fertility rate and reduce the effects of elderly population.

There are almost 40% of Australian citizens over 45 years old (see graphic below), and according to the Australian Bureau of Statistics, there is an expectancy of increase on elderly people rate as a result of the low levels of fertility and the high levels of life expectancy presented in the country.
Education also plays an important role on labour force in as much as contributes to a higher productive job performance. Next figure show the school enrolment trend over the last years. The % gross of tertiary education is lower than the other two types of education, this shows that population did not continue with university education.

As a result of these tendencies, we can infer, that in the future Australia will count with less labour force, affecting in this case assembly companies, reason why Australia will need to enhance immigration programs and promote continuous education in order to sustain reasonable levels of labour force in the areas needed and avoid the shortage of qualified workers.

### 6.2.1.2. Foreign Exchange Market

One of the main reasons why automotive companies as Toyota are closing their Australian plants is because the rate at which the Aussie dollar is exchangeable with Japan and US currencies had been changing benefiting Australia.

At the beginning, one of the reasons why this companies decided to venture in the Australian market was because of the combination of a strong US dollar and/or YEN and a weak AU$, generating robust profits for the automotive companies, even though, nowadays, the situation is changing, the Australian
The dollar has reached strength (ranked as the fifth most-traded currency in the world\textsuperscript{10}) forcing consumers to look for more economic imports.

The changes on the Australia’s currency occurs due to some elements that influences Australian Currency Rate as the economic strength of the country compared with other developed countries in terms of GDP, balance of payments, and other economic indicators. All these mentioned before have an impact on the demand and supply of the AU$ in the world foreign exchange market.

The next graph shows the exchange rate of the last 100 days based on historic data of Australian currency (AU$) to Japanese Yen (JPY).

Figure 16: Historic Exchange Rates AU$ to JPY

According to the data above, the “Aussie” appreciated to a highest value of: $1AU$=$96.0956$ JPY in $22^{\text{nd}}$ April 2014, the lower value: $1AU$=$88.5231$ JPY in $3^{\text{rd}}$ February 2014, creating a medium value of: $1AU$=$92.9749$ JPY.

The largest export market of Australia is Japan, and this overvalued AU$/JPY exchange rate has altered these countries business.

The next graphic shows the exchange rate of the last 100 days based on historic data of Australian currency (AU$) to US currency (US$).

Figure 17: Historic Exchange Rates AU$ to US dollars

Exchange Rate AUD to USD

According to the data above, the “Aussie” has been strengthened reaching a highest value of: 1AU$ = 0.9418 AUS in 14th April 2014, the lower value: 1AU$ = 0.8683 US$ in 25th January 2014, creating a medium value of: 1AU$ = .9077 US$.

Next graphic present the changes of the AU$ compared to US$ over the past of the years (1960-2012).
Most of the Australian exports have been disturbed by the recent Aussie appreciation, making some products and industries of this nation, like carmakers, unsuccessful. This current exchange rate fluctuations have moved the Australian currency into a risky zone for nation’s business. Ford, Holden and Toyota have announced their resolution of left Australia’s to look for another economies to invest in.

This appreciation of the Australian dollar against the yen and US dollar is transforming a manufacturing business that used to be profitable, into an unprofitable one.

### 6.2.1.3. Market Competitiveness

#### 6.2.1.3.1. Local Market

Taking into account Demand conditions of the market, one of Porter’s Diamonds for Competitive Advantage, we can infer that the regional demand is an important factor for the product development, as Porter argues: “Nation’s firms gain competitive advantage if their domestic consumers are sophisticated and demanding”, so, in this case of automotive companies, buyers plays the important role of push manufacturing industries to reach high quality and innovation on the products offered.
The Australian market can be considered as small market, limiting the product variety and scale of automotive production, resulting in an insufficient demand of outputs, affecting the economies of scale and also as a consequence, the productivity of the automakers.

As we see in next table, Toyota's Motor Company local sales of home made automobiles have been decrease in a 1.6% during 2013, this reflects that the company have been losing market, and this result affect their production.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
<th>2012</th>
<th>2013</th>
<th>% diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toyota</td>
<td>218.176</td>
<td>214.630</td>
<td>-1.6%</td>
</tr>
<tr>
<td>2</td>
<td>Holden</td>
<td>114.665</td>
<td>112.059</td>
<td>-2.3%</td>
</tr>
<tr>
<td>3</td>
<td>Mazda</td>
<td>103.886</td>
<td>103.144</td>
<td>-0.7%</td>
</tr>
<tr>
<td>4</td>
<td>Hyundai</td>
<td>91.536</td>
<td>97.006</td>
<td>6.0%</td>
</tr>
<tr>
<td>5</td>
<td>Ford</td>
<td>90.408</td>
<td>87.236</td>
<td>-3.5%</td>
</tr>
</tbody>
</table>

Source: Data from Federal Chamber of Automotive Industries (FCAI); Own Production

6.2.1.3.2. Global Market

Australia’s market represents a low competition for the world automobile environment, the market size coupled with other not beneficial factors (currency appreciation, higher labour wages, etc.) reduce Australian car manufacturing competitiveness compared with other countries that counts with much more higher market share.

In the table below we can see a comparison of Australia vehicle sales compare with other regions. Even when Australia counts with a wide range of car manufacturers options, is the country presenting a lower quantity in sales.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
<th>No. of Groups in Market</th>
<th>Vehicle Sales</th>
<th>Market Size per Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>67</td>
<td>1.112.032</td>
<td>16.597</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>51</td>
<td>12.040.632</td>
<td>255.699</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>49</td>
<td>1.620.221</td>
<td>33.066</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>53</td>
<td>2.249.483</td>
<td>42.443</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data from Australian Government; Own Production
The reduction on locally made automobiles demand is causing negative effects on Toyota’s profits, and also influence on the global competitiveness of the industry market.

6.2.1.4. Production Costs

6.2.1.4.1. Resources
To optimize their costs, companies start to look for the opportunity to obtain their supplies from local business. As the automotive plants began to manufacture in Australia, also emerged a development in the local market of automotive components, beneficiating carmakers with the reduction of stocks, transportation and cost of materials; but now things are changing, this situation is becoming negative due to the Australian dollar strengthens, inasmuch as all this complementary components are sold in this currency, AU$, increasing production costs, forcing companies to search supplies from overseas and leading the company to modify the final prices of the outputs, creating a critical impact on demand and restraining export opportunities.

An increase on price makes the car sales decrease because there is a current worldwide competition on this sector; that thanks to the globalization allows enterprises to find better ways of production at a lower costs and in an efficient manner.

6.2.1.4.2. Low economies of scale

If Australian car assembly plants want to succeed in the business and compete in a global markets, they need to reach and maintain a good level of economies of scales, for this, companies need to increase the production of vehicles assembled, one option could be bring more car models to be manufacture in this plants in order to help in the reduction of costs.

6.2.1.4.3. Labour Cost

Labour costs are becoming considerably higher than in other countries as US, China, Thailand, etc.

Manpower is an important factor of production, involving activities and tasks together with infrastructure, machinery, etc., to create quality outputs.

The cost of manpower required by Australian automotive assembly plants for their manufacturing process is increasing; as a consequence of this issue, companies need to seek for a labour cost reduction to gain positive effects on its
business profitability. This issue represents another factor considered by Toyota Motor Co. to decide to shutdown its Australian plant.

As the Australian wage rate is increasing, Toyota Motor Co. is reconsidering the quantity of money that it is investing on its labour force. Next table shows how Australian wages rates have increased over the years, affecting the company operational costs.

**Table 5: Australian Average Weekly Earnings in Manufacturing**

<table>
<thead>
<tr>
<th>Date</th>
<th>AUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-06</td>
<td>952.90</td>
</tr>
<tr>
<td>Nov-06</td>
<td>988.50</td>
</tr>
<tr>
<td>May-07</td>
<td>976.80</td>
</tr>
<tr>
<td>Nov-07</td>
<td>1013.80</td>
</tr>
<tr>
<td>May-08</td>
<td>1014.20</td>
</tr>
<tr>
<td>Nov-08</td>
<td>1050.60</td>
</tr>
<tr>
<td>May-09</td>
<td>1021.20</td>
</tr>
<tr>
<td>Nov-09</td>
<td>1078.70</td>
</tr>
<tr>
<td>May-10</td>
<td>1076.60</td>
</tr>
<tr>
<td>Nov-10</td>
<td>1089.70</td>
</tr>
<tr>
<td>May-11</td>
<td>1129.80</td>
</tr>
<tr>
<td>Nov-11</td>
<td>1144.50</td>
</tr>
<tr>
<td>May-12</td>
<td>1120.40</td>
</tr>
<tr>
<td>Nov-12</td>
<td>1157.50</td>
</tr>
<tr>
<td>May-13</td>
<td>1223.10</td>
</tr>
<tr>
<td>Nov-13</td>
<td>1247.30</td>
</tr>
</tbody>
</table>

Source: Data from ABS; Own Production

This increase on wages, altogether with the Aussie appreciation is wreaking havoc on the cost-effectiveness of automotive companies.

In this graph below, with data presented in US$, were exchange rate was applied to the Australian Weekly Earnings according to the Reserve Bank of Australia rate achieved on May 11th, 2014; we can see, that Australian wages have surpassed the US labour force cost, considering data from November 2013, we can compare the weekly cost earning of an Australian worker: 1167.72 US$ with the one of an US worker: 1007.78 US$. This comparison suggests that could be beneficial for carmakers to move to places with lower wages rates.
A report from KPMG, Global consulting shows that in the car industry, the higher the dollar has made Australia’s wages the third highest behind Japan and German.

**6.2.1.4.4. Capital investment in the business**

Because manufacturing industry brings great benefits for the host country, governments try to offer financial support either to attract or retain these automotive companies.

Even when the Coalition government is making an effort to strengthening Australia’s Manufacturing sector; Toyota Motor Co. considered that the Australian support offered to continue with their manufacturing activities in the country are not enough compared with other facilities provided by other competitive countries.

**6.2.2. Regional Factors**

In the announcements of Ford, Holden (GM) and Toyota of the retirement of their manufacturing facilities from Australia they all attributed their decision to the strength of the Australian dollar and high production costs.

We have already analyzed the local changes in Australian demographics, economics, policy and other factors. And it is clear Australia gradually became less of a bargain for FDI investors. But to analyze the retreat of this firms we need to place this changes inside a global environment. Compare the situation in Australia with the one in their neighbours.

Australia Toyota’s Motor Co is planning to close on 2017, but Toyota is not reducing production, the plants are most likely being shifted elsewhere. The
retirement of FDI in Australia would most likely represent a redirect to other neighbouring countries. So far news of Toyota Australia Engine Plant Moving to Thailand have already got online. Go Auto\textsuperscript{11} reports that while the company hasn’t officially announced what will happen to the $331 million AU$ engine plant thus far, executives inside Toyota Australia have Thailand in mind as a potential new home for some of the tooling currently in use. Some of the reasons pointed out are that the factory currently exports 16% of its engines to Thailand and Malaysia for fitment in Camry and Camry Hybrid models. Additionally, "while Toyota Australia produces about 100,000 Camry, Camry Hybrid and Aurion vehicles, with about 70 per cent going for export, mainly to the Middle East, Toyota Motor Thailand produces more than 880,000 vehicles, exporting them across the ASEAN region and to countries such as Australia." Furthermore, a free trade agreement between the two countries means vehicles; such from Thailand can enter Australian ports duty-free.

Here we plan to analyze Australia's neighbouring countries to determine if the changes they have gone through make them interesting enough to be a unspoken reason of the retreat from Australia.

6.2.2.1. Demographics

Southeast Asia population has been growing rapidly, especially in the 1960’s and 1970’s, slowing down to a 1.1% currently. In the following figure we can appreciate this.

![Figure 20: Population Growth Rates in Southeast Asia 1970-2030](source: Asian Research Institute Singapore - The Population of Southeast Asia by Gavin W. Jones)

\textsuperscript{11}GoAuto Australia
Additionally the education ratios of the population have been in a continued improvement, showing the continue increase in the availability on more educated workforce. According to Graeme Hugo, Professor of Geography and Director of the National Centre for Social Applications of GIS, The University of Adelaide in his presentation of Demographic Change In East And Southeast Asia And The Implications For The Future, the change in the Youth Bulge "can produce a ‘demographic dividend’ because the workforce grows faster than the total population. Delivered through:

- Increased labour supply
- Increased savings
- Increased capital investment

provided accompanied by appropriate policy."
6.2.2.2. Economics

6.2.2.2.1. GDP per capita

Here we present a graph to show the evolution of the GDP in Southeast Asia and Australia. As we can see 50 years ago every country in the region had a GDP per capita below the US$ 2,000. However today Australia’s GDP per capita is far away from the rest, close to US$ 68,000, while the rest of countries, except for Singapore and Brunei, are all well under or close to US$ 10,000.
All the firms that retreat from Australia blame the exchange rate as a source of diminishing competitiveness. In this part we will see in detail the evolution of Australian exchange rate and compare it with the other countries in the region.

6.2.2.2. Exchange Rate
Figure 23: Exchange Rate comparison (Official exchange Rate LCU per US$, period average)

Source: Data from World Data Bank; Own Production

From this graphs we can appreciate that besides Vietnam, Indonesia and Cambodia, all the currencies in the region and appreciating Vs. the US$. Nevertheless Australian dollars are the only one currently with higher value than the US$.

6.2.2.2.3. Wages

According to the official site of the Australian government, the full-time minimum wage is AU$16.37 per hour or AU$ 622.20 per week. On the following figure we will show legal minimum daily wage of the countries in the region in 2013 and compare them to Australia.

---

The average wages of the automotive industry workers are not related equally to the minimum legal wage in each country, for example in Australia a average manufacturing worker wage is almost twice than the minimum, while for other nations it can three, four, or five times than the minimum. Still it the minimum wage level helps us give a general picture of the labour cost in each country.

6.2.2.3. Competitiveness

According to the World Economic Forum in their Global Competitiveness Report 2013–2014 we have establish the current state of development of each country in the region.
As we can see most of Southeast Asia remains between Stages 1 and 2 of development (Factor-Driven and Efficiency-Driven), where as Australia and Japan are in Stage 3 "Innovation-Driven".

Additionally we present the competitiveness rankings for the last 2 years of the World Economic Forum.

Table 7: The Global Competitiveness Index 2013-2014 rankings and 2012-2013 comparisons

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>2.0</td>
<td>2.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>2.2</td>
<td>9.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>5.4</td>
<td>10.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>13.1</td>
<td>13.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Australia</td>
<td>20.1</td>
<td>20.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25.3</td>
<td>25.3</td>
<td>0.0</td>
</tr>
<tr>
<td>S. Korea</td>
<td>19.3</td>
<td>19.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>28.5</td>
<td>28.5</td>
<td>0.0</td>
</tr>
<tr>
<td>China</td>
<td>29.1</td>
<td>29.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>38.1</td>
<td>38.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>50.1</td>
<td>50.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>65.0</td>
<td>65.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>75.0</td>
<td>75.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>85.3</td>
<td>85.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>85.3</td>
<td>85.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>136.0</td>
<td>136.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Myanmar</td>
<td>139.0</td>
<td>139.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Avg.</td>
<td></td>
<td></td>
<td>1.27</td>
</tr>
</tbody>
</table>

Source: Data from The Global Competitiveness Report 2013-2014; Own Production
At this point is interesting to note that Malaysia, with a GDP per capita close to the world average, and currently in transition between stages 2 and 3 of development, have also the lowest legal minimum daily wage. Additionally it holds a very good place in the Global Competitiveness rankings, only three places down from Australia and it’s exchange rate from being fix at 3.8 from 1999 to 2004 have steadily go down until 3.06 in 2011 and slowly recover to average 3.27 on the last 6 month period.\textsuperscript{13} Making Malaysia without a doubt an interesting destination for relocation FDI in Southeast Asia.

Other examples of interesting destinations could be Thailand and Indonesia. Both of them firmly on Stage 2 of development and holding the 37 and 38 places respectively in the 2013-2014 Global Competitiveness rankings, Indonesia jump up 12 places since the 2012-2013 rankings. And although it’s exchange rate skyrocket on 1999, after that it stayed relatively stable around 9000 Rupiah/US$ until 2013. As for Thailand the exchange rate of Thai Baht to US$ have keep relatively stable at 31 over the last 4 years. And it has very low legal minimum daily wage, comparable to those in Vietnam.

This are some examples of economies that have change significantly from the 1960’s and 1970’s when few would have consider them as destinations for FDI and now became strong contenders in their region.

\textbf{6.3. SUMMARY OF AUSTRALIAN FACTORS INVOLVE IN TOYOTA’S SHUTDOWN AND THEIR RELEVANCE}

To conclude this chapter, in the table 8 we can see there are several factors pulling out the automotive industry FDI from Australia. However, not all have the same importance. In today’s economy we need to analyze these factors and try to rank them in order of relevance to make the decision of increase, maintain or eliminate FDI from this country.

We believe that the major factor influencing to stop doing FDI in the automotive industry is the Market. The reduce size of internal market and it’s need to export, dramatically diminish the necessity to keep a plant in Australia. This issue is strengthening by the Logistics, since the market is small and exporting is required and Australia’s location is certainly a disadvantage for it. Also internal distribution in Australia proves to be costly, and imported vehicles can arrive to different ports, reducing the ground movement. Furthermore Australia’s FTA allow foreign vehicles to enter free from tax. Currency appreciation is the 3rd factor we consider to influence the decision to leave. Follow by labour cost and economies of scale. Finally we consider Population growth and education.

\textsuperscript{13}http://www.exchangerates.org.uk/US$-MYR-exchange-rate-history.html
Table 8: Relevance of Australian factors involve in Toyota’s shutdown

<table>
<thead>
<tr>
<th>Factors</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency appreciation</td>
<td>The appreciation of the Aussie over the year has caused that relative production costs in international currency increase. Meaning if it cost 10 Aussies to produce a part, and that was equivalent to 8 dollars, with the appreciation of the currency the same 10 Aussies are now equivalent to 12 dollars. The cost of the part increase by 50%. This appreciation impact Toyota as production costs. Now the components and resources required for the manufacturing are more expensive due to the majority are paid in AUD.</td>
</tr>
<tr>
<td>Economies of Scale</td>
<td>Economies of Scale aims to reduce the cost of production in order to make the business more profitable. The lower the cost of production, more attractive to do FDI. In Toyota Australia case, their plant capacity if big at one time, is consider medium or small, producing a fraction of what they manufacture in other countries.</td>
</tr>
<tr>
<td>Labor Cost</td>
<td>Is one of the main characteristics affecting the flow of FDI, especially in labour-intensive industries. In case of the automotive industry in Australia labour requirements became significant when compared to there sister plants in neighboring countries. As we can appreciate in figure 24.</td>
</tr>
<tr>
<td>Market Local</td>
<td>As we known, Australia is territory with relatively low quantity of population compared with another territories, which results in a low national demand, limiting variety and scale of production.</td>
</tr>
<tr>
<td>Market Global</td>
<td>Over 70% of Australian car production is exported being their main destination the Middle East and NAFTA countries.</td>
</tr>
<tr>
<td>Population Growth</td>
<td>The population growth of Australia has been constant during the past years, and it counts with a high percentage of elderly people, facts that leads to a lack of labor force and a lower rate of car change.</td>
</tr>
<tr>
<td>Education</td>
<td>Has an influence on labour force. Good quality of education contributes to a more productive performance, while lack of education can generate a shortage of qualified workers. On this aspect Australia has a good educational infrastructure, capable of providing highly qualified employees.</td>
</tr>
<tr>
<td>Internal</td>
<td>Australia is a large country, roughly the size of the USA with only 1/10 of its population. And even though their transportation infrastructure is quite develop, distances remain high. With the automotive industry mainly located in Victoria at the far south east, distances can stretch over 4,500 km to the other side of the country. This significally affects local distributions costs.</td>
</tr>
<tr>
<td>Logistics Global</td>
<td>Located at the south edge of the pacific ocean Australia is one of the more isolated countries in the world. To give you a better idea of how isolated it is, we used Google Earth to measure the straight-line distances from Victoria in Australia to Middle East (12,000km), South East Asia (7,000km), Japan (8,000km), Central Asia (11,000km), USA (13,000km), and Europe (16,000km). Frankly the only place that is relatively close is the south pole at 3200km. This would impact dramatically the logistics cost to export from Australia to the rest of the world.</td>
</tr>
</tbody>
</table>
7. CONCLUSION

Many large automotive firms like Nissan and Mazda have already left Australia, and lately the three main manufactures, Ford, GMC and Toyota have announced their intentions to withdraw as well, virtually ending Australia’s Automotive Industry. The Toyota case cannot only be generalizes to all other mayor car manufacturers, but to other industries. As the reasons for their retreat is not limited to that industry, but to all of Australia. Especially in the manufacturing sector, where the automotive industry was categorize as the biggest one. Furthermore Australia’s government should take measures to prevent this from occurring in other sectors that like the automotive cannot simply rely internal market, but on exports, and are not protected by a strategic advantage unique to Australia’s soil.

So far we have analyzed the reasons for doing FDI in Australia, especially the benefits to a Japanese firm like Toyota; the main ones were that Australia counted with abundant resources, a stable political and economical environment, comparatively lower labour cost, good business relations with the USA and other western countries, a good communication and transport infrastructure and close proximity to headquarters (Japan), that allow better control and communication.

Additionally other possible recipients of FDI in the area, such as Southeast Asian countries were involve in internal struggles, social revolutions and lacked political and economical stabilities. Making Australia at the time, not only a strong, good option for FDI, but probably, the best one in that region.

Over 50 years later, Toyota Australia faced the end of all its manufacturing operations. Following the announcements of Ford and GMC, they announce that by 2017 they would end operations. This news heralds the end of Australia’s automotive industry and the loss of more than forty thousand jobs, direct and indirect, focus mainly in the state of Victoria.

We have analyzed the reasons given by the firms and dig deeper to try and find the reasons untold. The different MNCs claim that the Australian market is decreasing, proven by the negative growth rate in car sales over the reason years, and it is important to remember that Australia has only 23 million people, that's nearly one third that the UK. And over the last ten years their population growth rate has been negative. So not only is that sales are dropping, but that the total market is not big to start with, and is shirking.

Under this conditions firms relay on exporting vehicles from Australia, but the exchange rate complicate this situation. The Aussie dollar has appreciated vs. the US dollar from 1.93 AU$/US$ average 2001, to 1.07 AU$/US$ average April 2014.

Another claim of the withdrawing FDI firms was that production costs have increase. As we have appreciated in Table 5, the labour cost has increase in
more than 30% since 2006 to 2013. Also in Figure 22 we can see how much higher are wages in Australia than in other Asian and Southeast Asian countries.

Furthermore, according to The Sydney Morning Herald, Business Day section, Australia has become "the most expensive country in the G20", and that their "annual minimum wage is the highest in the developed world". Additionally Australia counts today with seven FTA’s, and vehicles can be imported, for example from Thailand or other countries, without import taxes, making the local market much more competitive.

So far the claims by the automotive firms about the reasons why they pull out of Australia are true, but there are additional reasons not mentioned in their original statements. Unlike the 1960’s and 1970’s when the countries neighbouring Australia were deeply underdeveloped, suffering of social conflict, without political guarantees or economic stability and therefore no destination for FDI; Now ASEAN countries are in a firm track for development. Furthermore, countries like Thailand, Indonesia, Malaysia, Singapore and Brunei Darussalam are consider case studies examples to follow. Most automotive firms posses manufacturing facilities in them, including Toyota, whose Thailand plant produces roughly eight times more vehicles than the Australian one, and they do it at a lower cost, not only for economy of scale factors, but specific country related factors like labour, services and production costs. Additionally this vehicle can be imported to Australia free of import taxes because of the FTA’s.

So it is clear why automotive firms like Toyota would exit from a country, even with such a long and close relation to their own. Toyota Australia was the first FDI of Toyota outside of Japan and lasted over 60 years, but lately it lost its unique strategic value and became less profitable than its production units elsewhere. There are already rumours online of the transfer of the engine plant to Thailand and probably soon we will hear the destinations of the other manufacturing lines, that very probably would also be relocated in Southeast Asia maintaining their regional production balance.

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8. BIBLIOGRAPHY


