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TITLE	Attracting Multinational Corporate Activity		
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PURPOSE	To provide advice on attracting multinational corporate activities to New Zealand		

Attracting Multinational Corporate Activity

EXECUTIVE SUMMARY

Attracting more Multinational Corporate (MNC) activity to New Zealand is one way to improve economic outcomes and foster the commercialisation of ideas from our science system. Presently, NZ has only a small number of domestic MNCs and limited examples of overseas MNCs establishing a meaningful domestic presence.

The key to unlocking spillover benefits is MNCs being integrated into the local innovation ecosystem. NZ needs to have the “absorptive capacity” to realise these potential benefits and attract investment – in particular the right skills, infrastructure and networks.

Attracting MNCs is challenging and globally competitive. For the MNC, the investment must make commercial sense. Many countries take an active and coordinated approach to attracting MNCs. They deploy regulatory and fiscal incentives into specific areas, and they coordinate actions across government agents.

In general, the weaker the underlying value proposition is for the MNC, the more powerful the incentive structure will need to be to close a deal. The greater the wider benefit to the host country, the greater appetite it will have to provide incentives.

This is how countries like Singapore and Ireland effect their investment attraction strategies. We should not compete on the same projects, but their approach is instructive if we can organise our efforts around a New Zealand value proposition for specific MNCs.

The benefits will only be realised in effective delivery and there is significant execution risk here. Large MNCs need sophisticated/strategic stakeholder engagement. This is not an area of existing public sector capability.

This idea relates to areas of work underway across government:

- Ministers and local development agencies are actively engaging investors, including representatives of MNCs.
- Officials are developing a foreign investment attraction strategy for the Minister for Economic Development.

Question for the Science System Advisory Group: What are the world-class science system assets (people, research, facilities) that would cornerstone a value proposition for attracting MNC activities?

ATTRACTING MULTINATIONAL CORPORATES TO NEW ZEALAND

Multinational corporations (MNCs) are more likely to be at the productivity frontier driving economic growth, paying higher wages, and acting at the cutting edge of innovation and technology adoption. They are internationally connected, promoting cross-border flows of people, goods, services and ideas.

Attracting more MNC activity to New Zealand is one way to improve economic outcomes and foster the commercialisation of ideas from our science system. The rationale for government effort here is that there are positive spillovers: wider economic benefits accrue beyond the MNC. Research and Development (R&D) activity is an important source of positive spillovers, and so might be a specific focus.

Such investment from MNCs in New Zealand could take different forms. Companies could create local operations (greenfield or brownfield development), or could make strategic investment through local intermediaries (e.g. taking stakes in local firms, or investing through domestic VC or PE fund managers).

The key to unlocking spillover benefits is MNCs being integrated into the local innovation ecosystem: partnering with research organisations and regulators; supporting human and physical capital development (skills, infrastructure, etc); and transacting with local businesses as customers and suppliers. *NZ needs to have the absorptive capacity to realise these potential benefits.*

Box 1: Desired benefits from attracting MNCs

- High-value jobs (ideally not at the expense of existing high-ish-value jobs) and the development of human capital (skills uplift, management capability, etc).
- Significant capital investments add capital stock and productive capacity to NZ economy.
- Access to new markets, creating export opportunities.
- Technology adoption to promote productivity growth (in and beyond the firm).
- Improved connections/partnerships across the innovation ecosystem (corporates, PROs, startups, investors) including internationally (where we know which other countries' systems the MNC is integrated into).

WHAT MOTIVATES AN INTERNATIONAL INVESTMENT, AND WHAT NEEDS TO BE TRUE TO ACHIEVE SUCCESS?

Attracting MNCs is challenging and globally competitive. In the textbook model, establishing an overseas presence is motivated by opportunities to access resources, knowledge, markets or generate corporate efficiencies.

Our assessment is that MNCs appear to be highly attuned to market and resource opportunities, evidenced by the stock of foreign direct investment (FDI) into New Zealand and other countries. Large companies are likely to have good information on the nature of an overseas market opportunity or untapped resource endowments. The government can reasonably take a reactive, rather than proactive approach, in such cases.

As well as understanding the commercial opportunity, an MNC needs to overcome the "liability of foreignness". That is, they must be confident that they can efficiently do business locally, and that they will not be penalised (explicitly or implicitly) by virtue of their foreignness. They need to have confidence in fair treatment through the overseas investment regime and in navigating any subsequent disputes, legal issues or stakeholder concerns.

There are several prerequisite factors for establishing an overseas presence:

- macroeconomic (labour market, exchange rate, etc) and policy/regulatory stability to create confidence in predictable business conditions,
- real estate development capability/capacity, and access to infrastructure/utilities,
- access to finance (unlikely to be a constraint in the context of this note),
- labour market capability/capacity, and/or ability to recruit migrant workers, and
- economic and institutional capacity around the firm (e.g. customers, suppliers, research partners).

Fundamentally, the investment must make commercial sense. The investor needs to be confident of an appropriate risk-adjusted return on investment. This is not strictly a "bottom line" assessment, as there may be other strategic reasons for an overseas investment (e.g. risk diversification, consumer/labour market access, etc).

For New Zealand, this presents a challenge: we are a small and distant/remote market; human capital is relatively high, as are wages (in a global sense, though not compared with other small, advanced economies).

INTERNATIONAL COMPARISONS

New Zealand's inward FDI stock is low by international comparison. New Zealand only has a small number of significant foreign-owned MNC presences, and few domestic companies that have successfully established meaningful and sustainable presences overseas. We can see the effects of this in a variety of statistics.

When compared to other countries, New Zealand's value add from foreign owned firms is reasonably low (approximately 20%), whereas countries like Ireland (around 37%) and Singapore (around 50%) have a much higher value add from foreign firms.

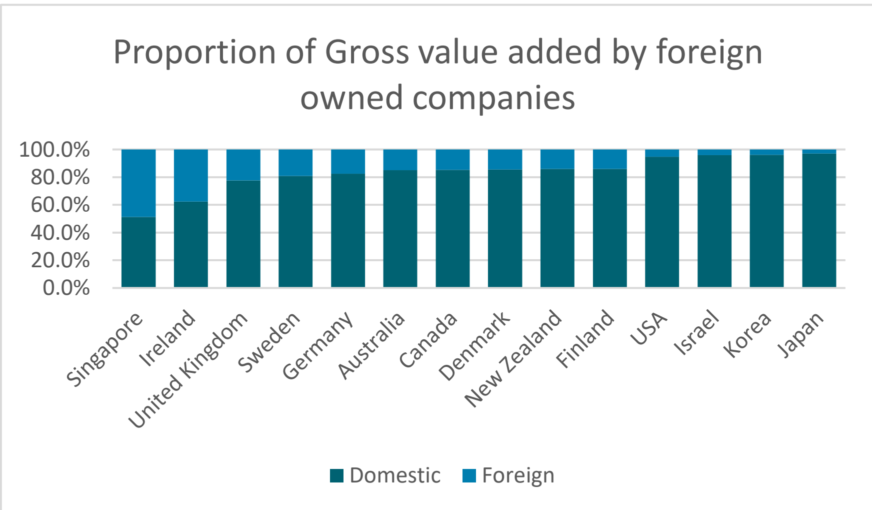
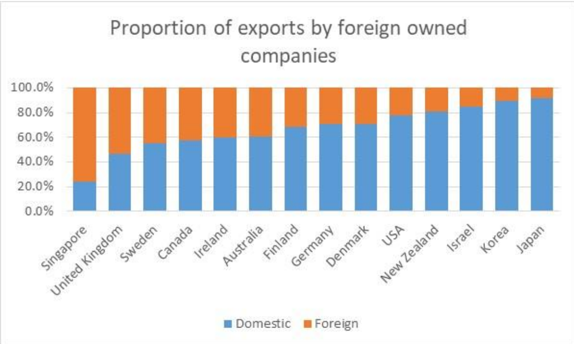


Chart 1: Proportion of gross value add by foreign owned companies. Source: OECD analytical AMNE Database.

Similarly, export and import proportions from foreign firms tend to reflect the overall presence of MNCs, but also the sectors in which they operate (and whether they are serving the domestic market, or export-oriented).



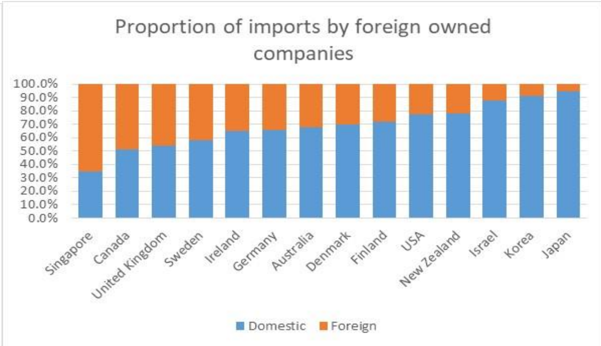


Chart 2: Proportion of exports by foreign owned companies. Source: OECD analytical AMNE Database.

Charts 3: Proportion of imports by foreign owned companies. Source: OECD analytical AMNE Database.

Box 2: Examples of MNC activity in NZ

- The **banking sector** is largely foreign-owned. This is predominantly "market-seeking" investment.
- **Professional services** firms (accounting, advisory and consulting)
- **Large technology companies** will have NZ-based activities. For example, Microsoft has sales and consulting, and cloud infrastructure operations activities in New Zealand. Apple has some links into the New Zealand research community.
- **Forestry & Fibre companies** like Oji Holdings Corporation (Japan), which owns domestic company Oji Fibre Solutions, the fourth largest pulp and paper company in the world.
- **Mining and resources:** Rio Tinto; NZ Steel.

These are largely examples of firms which are market or resource seeking. New Zealand has representation, via subsidiaries, of 133 of the top 500 MNCs in the world – but it has no headquarters (HQs) and very few regional HQ. We don't have good data on regional HQs, but countries like Singapore and Ireland are well known for having regional HQs of top companies for South East Asia and European regions respectively.

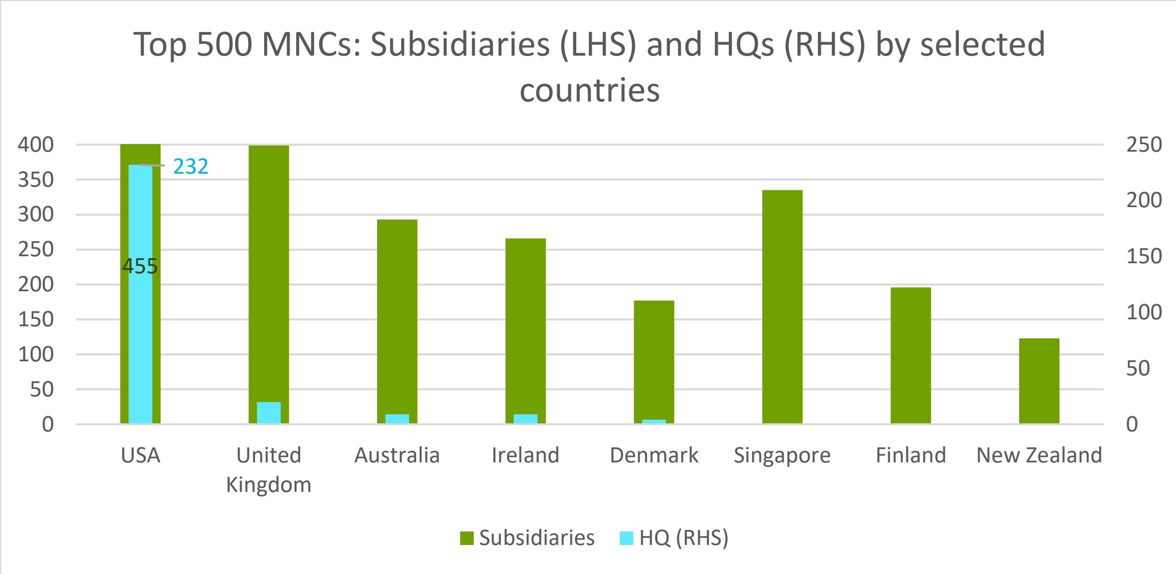


Chart 4: Top 500 MNCs: Subsidiaries (LHS) and HQs (RHS) by selected countries. Source: OECD ADINA Database.

Market seeking FDI or MNCs (or subsidiaries that are effectively sales offices) tend to bring in less R&D spillovers than other types of MNC investment. The Singaporean model, for example, has A*STAR performing many joint research initiatives with large MNCs (GSK, Roche, Novartis, Abbott, Procter & Gamble, Danone, Nestle, Rolls-Royce, Boeing, Airbus, Embrauer, and Applied Materials). Alongside are a number of large corporate research labs at their Biomedical cluster Biopolis, or at their physical science and engineering cluster Fusionopolis.

This is also illustrated by which sectors different countries have multinational presence in. In New Zealand only 12.5% of the value add from manufacturing is from foreign owned companies, compared to 60% in Ireland, and 81% in Singapore. In part, this relates to the nature of the manufacturing sectors in these different countries; for example, food manufacturing makes up 37% of New Zealand's manufacturing value, but has a low share of foreign multinationals and is comprised mostly of locally owned companies such as Fonterra and Zespri.

Chart 5: Percentage value add by foreign owned companies by sector. Source: OECD analytical AMNE Database.

On the flip side, these represent some of the sectors with more domestically owned companies with international operations and presence.

Box 3: Examples of NZ firms with international operations

- Fonterra
- Zespri
- Mainfreight
- AirNZ
- Some brand and consumer companies (eg Icebreaker)
- (Increasingly) various technology startups (eg RocketLab, LanzaTech, Xero, Mint Innovation, etc etc)

Despite these examples, other countries tend to have much larger shares from domestically owned MNCs in value added, exports and imports. The statistics show that the New Zealand business community is relatively unconnected internationally.

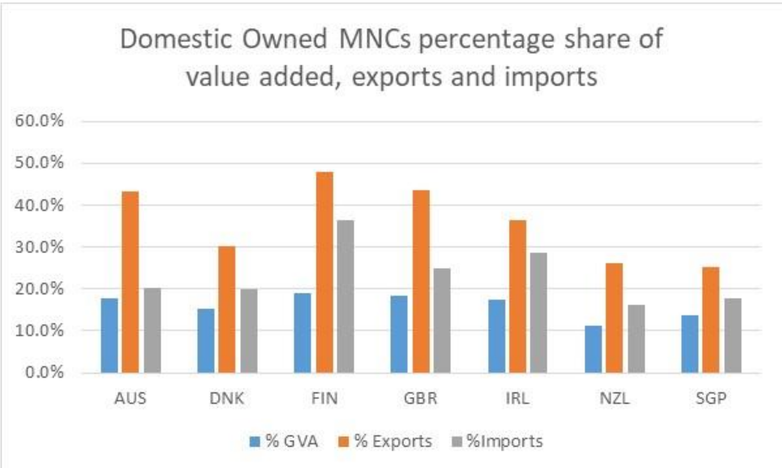


Chart 6: Domestic Owned MNCs percentage chare of value added, exports and imports. Source: OECD analytical AMNE Database.

WHAT DO OTHER COUNTRIES DO?

Context matters

To begin with, countries like Ireland and Singapore have greater 'natural' value propositions that entices MNCs to explore what they have to offer.

- **Ireland's value proposition –** they are an English-speaking gateway to the EU, with historic expatriate ties to the USA. They also have high skills, and a reputation for attracting FDI.
- **Singapore's value proposition** – they are a gateway to Southeast Asia. They are also well known for getting things done, having aggressive policy, backing technology, and economic transformation.

Many countries take a highly activist and coordinated approach to attracting MNCs. They will deploy a range of economy-wide, or sector-or firm-specific measures to "activate" investment. These include strong incentives and other benefits to attract MNCs. They benefit from high-level political leadership and cross-party alignment on what can be a contentious topic. They typically align their effort across multiple economic and policy levers:

- Internationally competitive tax regimes (rates, rebates, credits, etc)
- Deregulation / regulatory accommodation (which could include access to skills: labour market flexibility and visa provision)
- Offtake agreements, price support
- Other fiscal incentives including co-funding.

For example:

Ireland's range of incentives and efforts:

Ireland has a 12% corporate tax, various other IP tax concessions (and the knowledge box), the investment promotion agency IDA Ireland is sophisticated and employs 350 FTE, they have targeted investment from the Strategic Investment Fund, access to the European Strategic Investment Fund, and access to other EU science finds, and the EU innovation council.

Singapore's incentives and efforts:

Singapore has a focused economic and centrally driven R&D strategy and various programmes run through A*STAR, the Economic Development Board (like an IP registration grant, Regional HQ grant, Tech Visas, TechSkills Accelerator etc) and Enterprise Singapore (incubators etc). The also have access to capital via Temasek which seeds VC funds, can co-invest alongside MNCs, or provides mid-market private equity that helps companies to scale). They also have various skill development subsidies and attraction programmes.

In general, the weaker the underlying value proposition/economic fundamentals for the MNC, the more powerful the incentive structure will need to be to close a deal.

Box 4: Examples of the interaction of government levers with MNC investment activity

- Small local example: Mint Innovation's Australian subsidiary *Mint Biomining* received a AU$4.2m grant to create their first e-waste biorefinery in NSW, drawn from the federal government's AU$1.3bn Modern Manufacturing Initiative fund.

Top 10 FDI projects 2023:

Company	Capex USD	Home country	Host country	Reported government incentive	Sector
TSMC	$11bn	Taiwan	Germany	German government covering 50% of the investment	Adv. Mfg.
Equinor	$9bn	Norway	Brazil	None reported	Offshore gas
BP	$7bn	British	Germany	Govt awarded the rights	Renewable energy
Amazon	$6bn	US	Malaysia	Reported as "agreed with Malaysia govt" - but no figures or incentives disclosed	Cloud infrastructure
ProLogium	$6bn	Taiwan	France	None reported	Adv. Mfg.
Volkswagen	$5bn	Germany	Canada	None reported	Adv. Mfg.
Tata	$5bn	India	UK	UK govt subsidising worth total of $500m	Adv. Mfg.
Northvolt	$5bn	Sweden	Canada	Govt investment (undisclosed amount)	Adv. Mfg.
Intel	$5bn	US	Poland	None reported	Adv. Mfg.
BHP	$5bn	Australia	Canada	None reported	Mining

OUR CONTEXT AND POLICY CONSIDERATIONS: WHAT COULD WE DO? WHAT HAVE WE DONE BEFORE? WHAT ARE OUR CONSTRAINTS?

New Zealand has previously sought to attract MNCs to undertake R&D. This was a feature of the 2015 Investment Attraction Strategy (Overview in **Annex 1**). This did not achieve the stated goal of attracting ten companies per year.

More generally, NZTE has been involved with a number of overseas companies developing project proposals in New Zealand. For instance, in the premium pet food category there are examples where projects have come to fruition, or stalled at other barriers (such as certainty in the ability to bring in skilled engineers to run operations).

In 2018 the Innovative Partnerships programme was established. In general, a key lesson from the previous investment attraction strategy was that we would battle to (or there was no appetite to) compete with the likes of Singapore and Ireland in terms of providing the scale of incentives to attract large MNCs.

However, there might be an opportunity to attract earlier stage research and businesses early in their development, looking for a relatively small, contained market/system in which to trial things, and where New Zealand might be able to offer benefits or natural advantages that other countries were unable to.

The value proposition was less likely to be "the gateway to somewhere" (other than the Antarctic), but it might include New Zealand having a smaller more connected government with regulatory flexibility, or other unique attributes (eg Southern Skies for rockets and satellite observation). The other key lesson was that we needed to be more joined up in our strategy – hence the taskforce concept.

If we revive efforts to attract MNC activity, we should learn from other countries and from our own prior experiences:

- We should be clear on which MNCs and what activity we are target.
- We should be clear on what the value proposition is for prospective MNC investment, and the extent to which we can influence the value proposition through using the tools above.
- Major MNCs should be strategically engaged. There should be senior responsible Ministers and Officials for each target MNC and project. This supports sophisticated engagement and strengthens the NZ negotiating position (if/when relevant).
- MNCs have significant economic power and reach. They can dominate a local economy, and the interests of their shareholders may not align with local community interests (or that of New Zealand as a whole). Trade-offs and risks of large projects should be carefully considered (where government is proactively seeking to "activate" the project).

There is significant delivery/execution risk here, as it is not something that New Zealand has historically excelled in. In many ways, we would be establishing a new function, rather than scaling up something that already exists and is well executed. Where other countries have sustained attraction efforts over many years, they have built their delivery capacity and developed an international reputation, which we do not have.

How does this relate to MBIE's wider work?

This idea relates to areas of work underway across government:

- Ministers and local development agencies are actively engaging investors, including representatives of MNCs. Examples include a proposed Auckland Investor Summit (Green/Brownfield development opportunities), a proposed Business Summit later this year and a significant ministerial travel programme with investment attraction being seen as a key objective. Minister Collins has a particular focus on public-private partnership as a model for delivery.
- Officials are developing a foreign investment attraction strategy. MNC activity attraction could be a feature of a refreshed strategy: it would be likely to score highly for prioritisation in a contested space.

ANNEX 1: OVERVIEW OF 2015 INVESTMENT ATTRACTION STRATEGY

Overview	Lifting New Zealand's inward investment performance requires a more concerted and better integrated NZ-wide effort that targets the attraction of high quality investment to New Zealand. This Strategy outlines a set of priorities, goals and key actions to support a step change in New Zealand's investment attraction efforts. Execution of the Strategy will be underpinned by changes to the way agencies work together, including the adoption of shared objectives, joint priority setting, and seamless facilitation of investment opportunities. Development of the Strategy delivers on a key priority of the Business Growth Agenda and complements other actions aimed at strengthening New Zealand's investment environment.		
Goal	To attract to New Zealand higher levels of business investment to accelerate growth throughout the whole of New Zealand.		
Themes	1. Attract high-value foreign direct investment in areas of competitiveness for New Zealand	2. Attract overseas investment in R&D, especially multi-national corporations' R&D activity	3. Expand NZ's pool of smart capital by attracting individual investors and entrepreneurs to reside in NZ
Targets	Facilitate investments with a potential direct economic impact of $5 billion over three years.	Attract at least 10 new international companies to undertake R&D activity in New Zealand over the next five years.	Double the amount of capital investor and entrepreneur migrants have brought to New Zealand from $3.5 billion to $7 billion over three years.
Sector Priorities	Primary Industries, Premium Food & Beverage, Specialised Manufacturing, Infrastructure, Oil, gas and mining, ICT / Digital, Shared Services	Premium Food & Beverage, Agritech, ICTs, Electronics, Health-tech/Therapeutics, High value wood products	Cross-sector attraction of business and entrepreneurial talent
Market Priorities	US, Australia, Singapore, Japan, China, Hong Kong, GCC, UK	US, Australia, China, Japan, UK/Europe	USA, UK and Europe, Japan, China and ASEAN
Criteria	Priority will be given to attracting investment that: • Enhances NZ's access to export markets and domestic firms' integration with global value chains • Brings new value-adding technologies, processes and know-how to NZ firms and industries • Creates more highly-skilled jobs and increases investment in human capital • Increases the economic returns from natural resources • Improves economic infrastructure that underpins growth and productivity in key industries	Priority will be given to attracting investment that: • Strengthens New Zealand's capabilities in research, development and innovation • Improves connections between NZ firms and research institutions and international knowledge networks • Increases opportunities for employment in fields of science and technology • Leverages complementary public investments in New Zealand's science and tertiary education infrastructure	Priority will be given to attracting migrants who: • Enhance NZ's access to export markets and provide access to global value chains • Bring new technologies, processes, governance skills and know-how to NZ firms and industries • Create highly-skilled jobs through establishing new enterprises and investing in existing businesses • Invest into managed funds that provide capital to earlier stage NZ companies and infrastructure
Thematic Actions	• Deliver a programme of Investment Showcases to promote investment opportunities in priority sectors • Update NZTE's sector investment prospectuses and promotional collateral • Market specific investment opportunities to prospective investors in priority markets • Deliver a comprehensive package of investor facilitation services • Deliver tailored aftercare programme to monitor past investments and encourage follow on investment	• Identify and articulate New Zealand's value proposition as an R&D location • Develop a comprehensive package of R&D support available for investors • Engage with the research community to develop the pipeline of R&D investment opportunities • Engage with strategically targeted companies to meet their R&D needs • Deliver an investor liaison programme to encourage existing investors to expand into R&D activity	• Review relevant migrant visa categories to enhance their attractiveness to high-quality applicants • Deliver a series of tailored promotional events in key offshore markets • Strengthen INZ's capacity to provide a responsive, personalised service for high value applicants • Develop a programme to introduce migrant investors into local business and investor networks • Continue to undertake research into the economic contribution of investor and entrepreneur migrants
Cross-cutting Actions	**More visible investment opportunities**	• Maintain a national pipeline of investment opportunities to underpin coordination of investment attraction activity • Leverage the international networks of MFAT, NZTE, INZ and KEA to generate new investment leads • Conduct research to underpin the identification of areas of competitiveness and opportunities for investment attraction	
	Ensuring all of New Zealand benefits from investment	• Support the development of regional and Māori investment opportunities to an investment-ready stage • Build investment attraction capability in the regions through NZTE's Regional Investment Attraction Programme	
	Better integrated investment attraction effort	• Establish an NZ Investment Attraction Taskforce to oversee and report to Ministers on implementation of the Strategy • Enhance the performance framework, including reviewing the potential direct economic impact methodology	