INTRODUCTION
The performance of Australian cities in the competition for corporate regional headquarters (RHQs) is, at present, a recurrent theme in the Australian business and popular press. Australian governments, Commonwealth and state, are actively pursuing RHQs. The principal regional competition to Australian cities without doubt comes from Singapore, with Kuala Lumpur an increasingly active and important player.

In this paper I set out findings on a range of issues pertaining to the competition for RHQs. In the next section attention is given to the origin of the regional fascination with RHQ location decisions. Following this, in section three, consideration is given to the economic foundations for government policy action in location promotion. In section four I put the question of whether cities should want to attract RHQs, and if so what, if any, restrictions should apply. Locational influences are briefly considered in section five including the question of taxation concessions. The location promotion schemes by the governments of Australia, Singapore and Malaysia are briefly outlined in section six. In section seven attention is given to the performance of these schemes and; finally, in section eight some policy recommendations and concluding comments are offered.

In this project attention has been confined to five cities: Kuala Lumpur, Melbourne, Perth, Singapore and Sydney. The region under consideration then, is primarily South East Asia which, for the purposes of this study, I take to include Australia, Thailand, Singapore, Indonesia, Malaysia, and the Philippines. While a particular RHQ may have responsibilities that reach well beyond South East Asia, it is the competition within this region for RHQs that is the focus of attention.

For this study I have adopted the definition of an RHQ provided by the Australian Department of Industry, Science and Tourism (DIST) and the National Investment Council: RHQs are intermediaries between corporate headquarters and country branches or subsidiaries themselves located in a number of countries. An RHQ performs coordination, control and business planning functions. The tasks performed can extend to any combination of finance and treasury operations, data management, telecommunications, research and development, accounting, logistics and marketing. In this use of the term there is no prescription that any of these RHQ functions must occur together at one location. Indeed, it may well be that the term RHQ is just a convenient
catch-all tag used by policy advocates, commentators and politicians to cover a very wide range of business services, some of which may have very little to do with the operation of headquarters as normally understood. The term RHQ has certainly provided a hook on which has been hung a range of flexibly applied policy interventions and supporting public attention, none of which has been confined by an overly precise sense of what an RHQ actually might be. I see no need to vary this practice for the purposes of this paper.

THE REGIONAL FASCINATION WITH RHQS
Recent policy and public interest in RHQs in this region is underpinned in part by the rapid growth of the South East Asian economies. Corporations headquartered in Europe, North America and East Asia are either entering the region or expanding their operations in the region and looking to expand across the entire region.3 A clear assumption behind the policy interest in RHQs is that they are locationally flexible in a way that production and distribution functions are not.

An extensive literature search has shown that outside the region there is very little interest in the question of RHQ location decisions.4 Indeed, the questions of where to locate corporate headquarters (HQs) and research and development (R&D) get scarcely any more attention. I take the lack of general interest in RHQ location decisions to be a consequence of three factors. First, South East Asia is the global economic hot spot of the hour and few, if any, new RHQ entries are being made elsewhere in the world. As illustrated in Figure 1, the recent relatively strong growth performance of the economies of the region has translated to an improved position relative to the rest of the world in GDP per capita terms.
Second, as a function of rapidly changing commercial opportunities, corporations restructure their operations in this region much more frequently than elsewhere. It has been observed that in Asia a particular spacial allocation of production, distribution and control functions will, on average, endure five years while elsewhere the average is 10 years.\(^5\)

Third, and not withstanding the point just made, the literature points to the fact that once located, corporate HQs (and I would say RHQs) are not footloose; they are in fact quite the opposite. Indeed, it is claimed that HQs will only move when an existing location becomes absolutely untenable.\(^6\) While the evidence is largely indirect this point can be extended to RHQs: if it were otherwise there would be a huge world-wide literature on HQ and RHQ location decisions. As the pace of change in Asia slows with increasing economic maturity there is every reason to expect a less frantic rate of corporate spacial re-organisation and much the same sort of locational inertia as characterises corporate HQs in the rest of the world.

This in turn implies that the current rash of RHQ locations will not be an endlessly repeated game. Once the surges of economic growth in the region passes, as with economic maturity it must, and the attendant surge of global corporate interest
wains, the regional spacial hierarchy will be relatively set. It is to be expected that once settled a relatively small proportion of RHQs will move, even over considerable periods of time. The question here then becomes: at what point is the region in this surge of global corporate interest? If the surge is already past its peak, current policy efforts to attract RHQs could be in vain.

This question is at least in part an empirical matter. I have, therefore, calculated two series for regional GDP per capita and made a number of simple comparisons. In contrast with what is implied in Figure 1, the evidence points to very little change in the relative position of the region. In constant US dollars, regional GDP per capita was about 8% of Organisation for Economic Cooperation and Development (OECD) GDP per capita in 1974 and had only risen to be 10% of OECD GDP per capita by 1994. If the Philippines and Indonesia are excluded for the moment, on the grounds of relatively low GDPs and relatively rapid population growth for much of this period, there is again little change in the relative position of the region. Joint per capita GDP for the sub-region made up of Australia, Malaysia, Singapore and Thailand was about 22% of the OECD GDP per capita in 1974 and was 25% of the OECD figure twenty years later.

Figure 2: Regional, World and OECD GDP Per Capita

Region: Australia, Thailand, Singapore, Indonesia, Malaysia, and the Philippines.
The relevant data series are presented in Figure 2. This is an expansion of Figure 1 which, so to speak, focuses attention on the bottom right hand corner of Figure 2. Extreme caution needs to be exercised when using these data since there are certain intractable problems in transforming various countries’ national accounts to a single currency unit for the purposes of comparison and aggregation. At best these series provide a crude, hard currency, indication of total market activity in each country or group of countries.

Clearly on the basis of the regional economic activity approaching that of the OECD countries there is no reason to expect a down turn in either overall regional growth or global corporate interest. This finding does not, of course, imply that regional economic growth is immune to other impediments such as infrastructural constraints or the collapse of the political preconditions for labour pliancy. However, the essential point remains: recent GDP gains do not put regional per capita output anywhere near that of the high income economies that have been subject to much publicised, relatively sluggish growth performance over the last five or so years.

THE ECONOMIC FOUNDATION FOR LOCATION PROMOTION SCHEMES

There is no place for government policy aimed at influencing the location of economic activity in the economists standard models of perfect competition. In this setting locational decisions can be left to individual economic agents who, in the pursuit of their own interests, will ensure that all opportunities for mutually advantageous exchange have been exhausted and thereby deliver economic efficiency. The veritable raft of assumptions essential to building this self-organising vision of the economic process helps to clarify where governments’ responsibilities exist and provides some guidance to the execution of these responsibilities. As regards responsibilities there is, among a host of others, a role for government in the definition and enforcement of property rights, the provision of goods and services under-supplied by markets because of exclusion problems, the optimal use of common property resources, and the correction of distortions created by uncompensated effects or externalities. As regards the guidelines for government intervention the efficiency calculus provides an essential discipline in light of the opportunities for rent seeking behaviour.

For location promotion schemes the key issue is whether the market is supplying sufficient and sufficiently accurate information to potential investors. On first
principles there are reasonable grounds to expect there to be market failure in this area. Information is notoriously difficult to turn into a marketable commodity. On the supply side it is costly to produce. Once produced it is difficult and again costly to prevent secondary supply, the problem being to stop those who have not paid from acquiring the information.\textsuperscript{11} These problems are only compounded when the position of those on the demand side is considered. Buyers cannot be sure of the value of information until they are in full possession of same and usually for a considerable period of time. Moreover, sellers are unlikely to fully disclose information to potential buyers prior to sale.

In the presence of difficulties in contracting, property right enforcement and endemic uncertainty, markets are likely to under-provide information of all sorts. Furthermore, potential information users are unlikely to acquire this information for themselves where it is very costly, relative to their private benefit and where those benefits cannot be known in advance.

The success or otherwise of the market in providing information to potential investors can be tested. If it can be shown that agents hold inaccurate perceptions there are grounds for believing there to be market failure in the provision of suitable information to potential investors. Precisely this exercise was undertaken by the Bureau of Industry Economics (BIE) in its recent evaluation of the Commonwealth’s Investment Promotion and Facilitation Program. The BIE had a survey conducted of potential foreign investors in 91 firms (31 in Japan, 30 in the US and 30 in the UK). The finding was that these

\ldots firms generally demonstrated a poor understanding of Australia’s relative costs, industrial relations and market size. Moreover, the surveyed firms had poor perceptions of Australian macroeconomic policy performance (as expressed through the inflation rate) and the government attitude towards foreign investment.\textsuperscript{12}

This informational inadequacy is possibly most striking in the case of Australian inflation; a fundamental figure, regularly calculated by the Australian Bureau of Statistics, placed on the public record and subject to considerable media coverage. Figure 3 summarises the responses to the BIE survey. Only 8% of those surveyed stated the correct figure and 86% either didn’t know or placed Australian inflation at least double the actual average rate.
THE QUESTION OF BENEFITS AND COSTS

Establishing the existence of a market failure is a necessary but not sufficient condition for policy intervention. It must also be established that the failure in question can be corrected and that the benefits of the intervention outweigh the cost. Clarity on the benefits and costs of economic policy settings is essential because this is an area subject to both pressure from interested parties and inordinate swings of fashion.\textsuperscript{13}

In the context of this study it must, therefore, be asked why a country or city should want to attract RHQs and, if so, do any restrictions apply? The real issue in the first part of this question is whether there are any particular benefits that flow from RHQs that warrant the expenditure of extra effort, and the incursion of extra costs, to attract them. Many of the things touted as the benefits of RHQs would follow from other forms of foreign direct investment (FDI) and do not, as such, warrant extra expenditure. These include: employment benefits, demand for local goods and services, the use of advanced telecommunications systems, injection of international best practice, and demand for commercial premises.\textsuperscript{14}
There are, however, other factors, strategic in nature, that can be specifically connected with RHQs that can potentially justify some extra effort in attracting them. For instance, the BIE see that RHQ investments are likely to have more leverage in terms of inducing additional future investment than FDI in general. In short, a firm with its RHQ in Australia is more likely to place further FDI in Australia than when its RHQ is located elsewhere.\(^\text{15}\) Other strategic benefits include: improved and increased flow of business intelligence, enhanced business links with the region, and the development of specialist services. In the context of the latter, research and development (R&D) may be particularly important.\(^\text{16}\) Indeed, the international literature points to a close locational affiliation between HQs and R&D centres. A similar set of factors are said to influence their location decisions, in particular the ability of a particular location to provide and attract suitable personnel.\(^\text{17}\) A key issue then becomes whether a strategic link can be established between RHQ and R&D locational decisions. Does it follow that success in attracting RHQs enhances a location’s chances of obtaining additional R&D activities?

On this issue the international literature provides little in the way of clear guidance. There is even debate on whether R&D is becoming more or less concentrated as a result of global economic integration.\(^\text{18}\) The traditional view is provided by Vernon who argues that R&D facilities will be located near top management because of a need for

... swift, subtle and continuous communication among marketing specialists, production [staff], cost analysts and development engineers. This is more efficiently done in a single firm and face to face.

And, moreover, since the location of the top executive is relatively fixed by ‘history, inertia and status’ R&D will tend to move to the executives rather than the other way around.\(^\text{19}\) Malecki and Bradbury reflect upon the recent decentralisation of R&D that has taken place in France, the UK and the US and contend that while HQs and R&D centres are locationally influenced by similar factors they need not be, and are not, all located together. They further claim that quality-of-life factors are the most important element in attracting the right sort of personnel for R&D and that the right sort of personnel are the most important ingredient for the success of a firm’s R&D program.\(^\text{20}\) In sum then, it would seem that the potential connection between RHQ locations and R&D depends on both the sort of RHQ concerned and the attributes of the particular location. The more senior the executives located in the RHQ the more powerful will be what can be called the Vernon attraction factor. Similarly, the better the location’s
quality-of-life attributes, more powerful will be the Malecki and Bradbury attraction factor.

There is still another dimension in which the potential value of any connection between RHQ locations and R&D can vary, and this is the capacity of what Mowery and Oxley call national innovation systems to facilitate inward technology transfer. These authors claim that the most important factors in this context are the level of scientific and technical training and the degree of competition between domestic firms. For them only secondary importance can be assigned to the particular channels of technology transfer, public intervention in strategic industries and the nation’s overall level of trade restrictions.\textsuperscript{21} These findings are supported for Australia by BIE research which shows that FDI encourages the transfer and spillover of technology and other know-how to Australian enterprises.\textsuperscript{22}

Notwithstanding the preceding discussion, grounds for extra effort in attracting RHQs might also be found in the earlier observation that RHQs are locationally flexible in a way that the production and distribution functions of corporations are not. If regional headquartering is the part of FDI that can be influenced by policy, or even only more readily so than other investment types, then it is simply sensible to develop policy in this area. There are, as noted by the BIE, also grounds for government action to match or at least address the competitive steps taken by other countries and redress the informational failure of the market.\textsuperscript{23}

Now, given that a city wants to attract RHQs what, if any, restrictions apply? The simple, even glib, efficiency answer to this question is that a city should only pursue RHQs for which the benefits to the city exceed the costs incurred. Or, put another way, policies to attract RHQs should be pursued to the point where the marginal benefit equals the marginal cost, and no further. Such an approach to this issue of course presupposes that all relevant benefits and costs can be both defined and then measured in appropriate units, usually dollars. Up to a point this may well be the case on the costs side where tax expenditures, subsidies, expenditure on additional infrastructure, and so on can be identified and quantified with relative ease. However, in this setting, both identification and quantification are more problematic on the benefit side. This is particularly so when, as already noted, benefits are taken to include such strategic elements as leverage over future FDI, improved and increased flow of business
intelligence, enhanced business links with the region, and the development of specialist services.

Even if, in principle, it was possible to develop an optimal RHQ policy by properly identifying and quantifying all the attendant benefits and costs it may well still be undesirable to do so from an efficiency point of view. A proper application of the efficiency analysis requires that the benefit and cost logic be applied not only to the object of the policy but also to the operation of the policy itself. The information costs associated with the precise quantification of benefits and costs might be so high as to more than offset the net gain obtained in the application of the policy. The upshot of this is that optimal policy formulation might not be possible either because of intrinsic difficulties with the benefits and costs involved, or the impracticability of precisely applying the efficiency criteria.

This rather dismal state of affairs leaves policy practitioners with two options. First, a sort of case-by-case critical value analysis can be applied. This involves the development of a detailed costing for attracting a particular RHQ which is in turn presented to policy makers to determine if, in their judgment, the benefits that will flow from attracting this particular RHQ warrant the costs. Such an approach reflects both the relative ease of obtaining information on costs and the extreme difficulty in identifying the benefits let alone quantifying them. It also has the benefit of confronting decision makers with the cost of their policies. The second option is to apply a crude rule of thumb such as that suggested by Boyle who cautions US cities that it is simply not worth attempting to attract the HQs of corporations with turnovers of less than $100 million per annum or with staffs of less than 1,000.\(^\text{24}\) Note in passing that this rule throws doubt on the popular ‘league table’ approach that ranks a city or nation’s performance in attracting RHQs by the number of RHQs located there.\(^\text{25}\) Such a measure provides no insight into the economic significance of these RHQs and is likely to lead to poor policy formulation if adopted as an indicator by government agencies.

**LOCATIONAL INFLUENCES**

Now let us turn to consider what factors affect RHQ location decisions. The only developed scholarly literature that pertains at all to this issue seems to largely come from the US and is concerned with the relocation of corporate HQs.\(^\text{26}\) Given that the locational requirements of HQs and RHQs are, up to a point, similar this US literature
provides a valuable guide to the key factors involved. For US corporations looking to relocate their HQs (in order of importance) the factors most often mentioned are:

1. Quality of life
2. Quality of air passenger transportation services
3. Operating costs
4. Quality of telecommunications and mail service
5. Government attitude to business

Here it should be noted that quality of life is much more a state of mind than a measurable characteristic. Quality of life can be taken to be made up of a whole range of other factors including high quality and reasonably priced middle and upper income housing, good secondary schools, moderate cost of living, minimal commuting times, safe environment, pleasant climate, easy access to a mix of recreational and cultural activities and access to well regarded colleges and universities. According to Boyle executives claim the ultimate test of quality of life is the difficulty in getting existing HQ employees to move to the new location.\(^{27}\)

Also according to Boyle the procedure for the selection of a new HQ location is more a process of elimination rather than anything else. Boyle specifies a two stage process. First, no firm will find a single ideal location. Indeed, in the first instance the absence of any serious defect is more important than the presence of a few outstanding attributes. Average to good in all categories is most likely to keep a location in contention until the choice set is narrowed to a few potential locations. At this second stage, it is claimed, new elements are added to the firm’s selection calculus: for example, the presence of an appropriate facility, the reaction of key corporate executives to the reception they get at each location, and undefined and often unmentioned personal preferences of these executives.\(^{28}\)

In my view this treatment of HQ locational decisions can be extended to RHQs with the obvious addition of political stability as a decision variable in the international context under consideration here. A survey conducted by DIST indicated that RHQs locating in Australia had ranked political stability as a significant factor in their decision.\(^{29}\) While there is an obvious selection bias in this result its significance cannot be overlooked in our region.
The issue of taxation concessions is possibly the most contentious issue in the competition for any form of foreign direct investment, of which RHQs constitute a relatively small part. Most studies place taxes as a low priority when firms make locational decisions. For instance, firms in Singapore granted operational headquarters (OHQ) status are reported to be grateful for the tax concession involved but do not cite it as crucial to their location decision. Indeed, Keith Evens points out that tax concessions such as those offered under the OHQ scheme can create taxation complications for the firms concerned. These difficulties can arise both in the country granting the concession and in other jurisdictions within which the company subsidiaries and parent operate, devaluing the net effect of the concession. Further to this, governments in the business of giving tax concessions to attract FDI like that represented by RHQs need to be aware that they will find themselves under pressure from domestic operations performing the same functions to receive similar concessions. This is precisely what has happened in Singapore with the OHQ scheme.

In sum then the benefit of taxation concessions to the originally targeted firms may be less than the value of the original tax expenditure and the latter itself can become greater than originally intended under pressure from domestic interests. In general, therefore, there seems to be grounds for caution in the use of taxation concessions as locational inducements. They may not represent value for money since governments may, in a sense, have to pay double for the targeted firms to obtain a partial benefit.

Rather than make tax expenditures to attract RHQs governments seem to have open to them at least two more effective courses of action. First, governments can enhance the informational services they provide and thereby underscore the return to firms from their taxation contributions. Second, as emphasised by the BIE, governments must give constant attention to economic fundamentals such as productivity improvement and inflation. Among other things this means infrastructure investment and improving the performance of the education and training sector, and labour, capital and foreign exchange markets. Improved productivity will be much more effective in making a location attractive as an RHQ location than small variations of tax rates at the margin.
RHQ LOCATION SCHEMES: AUSTRALIA, MALAYSIA AND SINGAPORE

In September 1993 the Australian Commonwealth government launched its RHQ initiative. The essential features of the scheme have evolved since 1993 and at present are:

- sales tax exemptions on imported used computer and related equipment;
- tax deductions on some RHQ set-up costs;
- an exemption from dividend withholding tax for certain foreign sourced dividends passed through a resident company to non-resident shareholders, and
- access to a streamlined immigration procedure for expatriate employees.

More important than these particular incentives has been the RHQ campaign strategy. In outline this was to (1) establish a database of some 700 foreign owned companies operating in Australia and with additional interests elsewhere in the Asia-Pacific, (2) develop suitable informational materials, and then (3) contact Australian subsidiaries and, where appropriate, international head offices. As explained by Ross James director of the DIST RHQ group, the basic idea was to turn the Australian executives of these companies into champions of Australia within their own organisations. Indeed, the staff contacting these executives indicate that the latter were largely unaware of Australia’s cost advantages in office rentals, skilled labour, telecommunications and expatriate packages in spite of living and working in Australia.

In addition to Commonwealth measures Queensland and New South Wales have legislated state tax exemptions for RHQs. In September 1995 New South Wales announced its intention to replace its tax exemption with a tax rebate capped at AUS$300,000. Other states and territories may negotiate concessions on a case-by-case basis.

In October 1995 the Malaysian Ministry of International Trade and Industry (MITI) and the Malaysian International Chamber of Commerce and Industry (MICCI) jointly published guidelines for the attainment of Operational Headquarters (OHQ) status. The incentives on offer are:

- a concessionary tax rate of 10% for royalty, business and interest income;
- access to a streamlined immigration procedure for expatriate employees, and
- relaxed access rules for domestic and international sources of credit and foreign currency accounts.
It would seem that MITI has no particular strategy for disseminating either general information about the Malaysian economy or the details of the Malaysian OHQ scheme. The basic materials are distributed by the MICCI and during international promotional visits by the Minister of International Trade and Industry and other delegations. Aside from this MITI’s role seems to be one of responding to inquiries.

As in Australia, there is scope for supplementary action by individual Malaysian states to attract RHQs. However, MITI officials note that given Kuala Lumpur’s overwhelming pre-eminence among Malaysian cities there is unlikely to be much competition between Malaysian states for RHQs.\(^\text{40}\)

Singapore’s Economic Development Board (EDB) was by far the first into the RHQ location game launching its OHQ scheme in 1986\(^\text{41}\). The current incentives under this scheme are:

- tax exemption for dividend income distributed through Singapore to an overseas parent company;
- a concessionary corporate tax rate (10% as opposed to 27%) on income arising on the provision of services to related overseas companies, and
- a similar concession on income from interest and R&D royalty payments.\(^\text{42}\)

The stated EDB strategy for the implementation of its OHQ scheme is to target the leading firm in each industry in the region. The company is then approached directly with a view to establishing its RHQ in Singapore.\(^\text{43}\) Of course, as Singapore is a city state there is no scope for the provision of additional incentives by other jurisdictions within that country. Indeed, the EDB prides itself on being able to provided a one-stop-shop for firms looking to locate in Singapore.\(^\text{44}\)

The prevalence of tax concessions in all these schemes deserves comment in light of the observation made towards the end of the preceding section that taxation concessions have little influence in location decisions.\(^\text{45}\) Three comments are warranted: first, taxation concessions are a policy lever at the disposal of government and familiar to policy practitioners. It is therefore quite natural for them to exploit this lever, even where its impacts are uncertain or weak. Second, I am certain that the pattern of concessions offered reflects competition between governments for FDI. Once the Singaporean government began offering taxation concessions to attract RHQs it became highly likely that its competitors would have to cover this move. Third, and probably most importantly, while the nominal value of taxation concessions to potential
RHQs is low, their value as a sign of government attitude to business is probably very high. This will apply even to firms that do not take up the concessions involved.

**PERFORMANCE, PROSPECTS AND THE ‘CRINGE’ FACTOR**

*Singapore*

Singapore has been very successfully promoted as a location for RHQs and business in general. The data on the number of RHQs in Singapore and the number of firms granted OHQ status is very poor. As regards the latter the EDB will guarantee secrecy if required by firms. A best current guess is to put these numbers at around 300 RHQs and perhaps 70 OHQs.  

This success is based on many factors, perhaps the most obvious among them being an excellent geographic location in close proximity to Indonesia, Malaysia and Thailand. Singapore also has a host of advantages that follow from having a relatively well-developed economy. These include sophisticated telecommunications and excellent air transportation facilities and connections. The fact that the EDB provides a one-stop-shop for firms looking to set up in Singapore affords real advantages in response time for approvals, the provision of visas and the like. Singapore also has enjoyed real ‘first-mover’ advantages in having a package of incentives and a promotion program in place in since 1986, six years before a similar scheme was developed in Australia and eight years before the Malaysians. This astute promotional activity, responsiveness to business, low rates of company tax and the OHQ and similar concessions has led foreign investors to regard the Singapore government as displaying an excellent attitude towards business.

Indeed, the astute promotion of Singapore by the EDB continues. In 1994 the EDB launched its Business Headquarters (BHQ) Programme which, narrowly viewed, amounts to little more than a repackaging of existing incentives but, in fact, provides another serviceable promotional tool. The regular release of ‘new’ programs, new incentive packages and the like is a very sensible device in an environment in which there are serious informational failures and where, as already noted, corporations restructure their operations at twice the rate seen in the rest of the world.

Its very success as a business location, both for RHQs and in general, has created difficulties for Singapore and will continue to do so. In my view these difficulties reflect two factors, first a severe space constraint and second a relatively small
population with high proportional rates of educational attainment but necessarily small absolute numbers, particularly in the skilled labour markets. The former causes spiralling costs for all space-dependent goods like office accommodation, housing, manufacturing sites and even recreational activities. The latter creates shallow labour markets which, in combination with increasing demand, leads to rising skilled workforce costs, high turnover rates and a greater reliance on an expatriate workforce for international corporations—all of which increase costs for businesses operating in Singapore.

Moreover, these space and population constraints will interact in a setting of rapid economic growth. The alleviation of the population and labour market constraints by importing a skilled workforce (either temporary or permanent) will only see space-dependent costs rise further because of increased living costs and compensatory wage adjustments. The consequences of this process can been seen in the data set out in Figure 4 which shows office rents at present in Singapore significantly higher than those in Sydney, Kuala Lumpur, Melbourne and Perth. Moreover, the rate of increase in this class of costs is high, running at around 8% in 1996.

In Singapore the absolutely crucial and fundamentally intangible 'state of mind' factors relating to quality of life are no doubt affected by the same process that is increasing space-dependent costs. There are, and will continue to be, increases in the cost of, and the cost of compensating employees for the loss of, access to high-quality middle and upper income housing, good secondary schools, minimal commuting times, a mix of recreational and cultural activities, and well-regarded colleges and universities.
I am also concerned that the EDB’s willingness to be a friend of business could backfire. In the preceding section it was noted that the EDB is prepared to negotiate individually with corporations and guarantee secrecy if required by the firm. This is certainly a double-edged sword. The firm doing the deal with the EDB might be quite happy with the outcome, but its competitors might be extremely uncomfortable. Ultimately the best microeconomic conditions require government to be even-handed in its dealings with all economic agents and be seen to be doing so. In this context there is simply no substitute for open and accountable government in both the formulation and operation of policy.

**Kuala Lumpur**

Kuala Lumpur is clearly very new to the RHQ location game, the Malaysian government only beginning its OHQ program in 1995. At this early stage its promotional strategy is unclear and underdeveloped. Kuala Lumpur does have a geographic location very like Singapore’s and distinct cost advantages over its near neighbour. Kuala Lumpur is also free of the space and population constraints that beset Singapore (see above).

Before Kuala Lumpur can exploit these advantages, however, there are a number of quite serious impediments to the operation of RHQs that need to be addressed. Most
of these follow from the relatively underdeveloped state of the Malaysian economy and two are infrastructural in foundation. First, the telecommunications system is operating near capacity, making it both difficult and expensive to obtain lines in Kuala Lumpur.\textsuperscript{51} Second, the existing air transportation facilities in Kuala Lumpur are sub-standard, although this is being address in the construction of a new international airport south of the city.

Another impediment is a relatively low level of educational attainment in Malaysia, implying shallow skilled labour markets with the potential for rapid cost increases, high turnover and a high level of reliance on expatriate staff.\textsuperscript{52} Exchange controls on the international flow of funds will also hamper the operations of RHQs in Kuala Lumpur.\textsuperscript{53} This is partly addressed in the Malaysian OHQ scheme which, as noted above, includes relaxed access rules for domestic and international sources of credit and foreign currency accounts. But this is still some way from free access and is likely to be a very serious impediment to many potential RHQ functions.

The absence of the space limitations that bedevil Singapore enhance the prospects for Kuala Lumpur on the slippery but important quality-of-life locational factors. However, like Singapore, Kuala Lumpur RHQs will have a relatively heavy reliance on an expatriate workforce which both increases costs and places even more importance on quality-of-life factors. To borrow heavily from Boyle: perhaps the ultimate test of the quality of life for a new RHQ location is the difficulty (cost) in getting the required expatriate workforce to locate there. And this in turn will be a function of both the intrinsic properties of the location in question and the number of expatriate employees required.

\textit{Australia}

In Australia the DIST RHQ project has been very successful, certainly as measured by the 121 RHQs established in Australia since the commencement of its campaign in September 1993 to June 1996.\textsuperscript{54} This is all the more remarkable since prior to the DIST initiative the total number of RHQs in Australia was put at about 65.\textsuperscript{55} Indeed, the DIST project won the ‘Best Campaign Award for Excellence 1994’ at the fifth annual meeting of investment promotion agencies in Amsterdam in October 1994.\textsuperscript{56} As regards the distribution of these new RHQ locations: Sydney attracted 62\%, Melbourne 21\% and Perth just 5\%.\textsuperscript{57}
The overall success of the Australian program reflects a whole host of factors and much more than a well-thought-out and executed promotional strategy. The cost advantages of Australian cities, in particular in comparison with Singapore, by and large follow the pattern seen in Figure 4 above. For instance, in comparison with Singapore, Australian salaries are significantly less for project managers, researches, R&D managers, financial controllers and office managers, while being marginally more (about 2%) for technicians and substantially more for receptionists (about 20%). What is more, on-costs are 70% higher in Singapore. Australia would also seem to enjoy a cost advantage in the following areas: construction costs, gas, water, telecommunications, postal services, accountancy services, motor fuel, business air travel and the general cost of living. Singapore, on the other hand, enjoyed a cost advantage in commercial electricity rates, legal services costs (about 1%) and airfreight services.58

Figure 5: 1994 Regional Country GDP Data


Another major factor in the success of DIST RHQ project has been a progressive dismantling of what has been a sort of implicit Australian locational cringe. Australian cities have been seen to be at such a locational disadvantage that they should concentrate on ‘distance independent’ activities that involve relatively little face-to-face
contact. This view misses the point that Australia is itself a significant part of the region and should be an important target for global corporations looking for a Southeast Asian presence. As can be seen in Figure 5, Australia is by far the biggest economy in the region as measured by GDP in US dollars and calculated employing standard World Bank exchange rate adjustment methods. Indeed, by this measure in 1994 Australian GDP was more than twice Indonesian GDP (the next largest in the region) and about five times the Malaysian and Philippines GDPs, which were roughly equal. Taking into consideration the fact that Australia and Indonesia are the two largest economies of the region it is clear that the economic mass of the region, so to speak, is heavily slanted towards its south.

In this context it might be contended that the relative predominance of the Australia economy in regional activity is something of an historical artefact and is only temporary in light of rapid growth in the rest of the region. This proposition can be tested in a simple simulation exercise. At present the Australian economy makes up about 42% of regional GDP. If it is assumed that the Australian economy grows at only half the rate of the rest of the region and that the latter grows at 6% per annum: then, with these diverse growth rates, Australian GDP must fall as a proportion of total regional GDP. However, under these assumptions Australia alone will continue to make up more than a quarter of total regional GDP until the year 2020 or so and more than 20% until around 2030. At about the same time, under the rather heroic assumptions of this simulation, the economies of Indonesia and Australia will become about the same size. In other words, the second largest economy of the region will match the size of the Australian economy only after having grown at twice the rate for nearly 30 years.

In GDP per capita terms a similar simulation yields even more doleful results. To the above assumed GDP growth rates let us add the assumption that the Australian population grows at the same average annual rate as it has for the last 20 years (1.5%) and that the rest of the region’s population also grows at 1.5% per annum (significantly less than the 2.5% it has averaged over the last 20 years). In this setting, by 2030 GDP per capita in the rest of the region reaches just 20% of Australian GDP per capita. In 1994 GDP per capita in the rest of the region was 7% of the Australian figure. The time path for the ratio of non-Australian to Australian GDP per capita is set out in Figure 6,
as is the perhaps counter intuitive result that the absolute difference between Australian and non-Australia GDP per capita actually rises under this simulation.

Figure 6: Simulated GDP Per Capita Growth

Ratio: Non-Australian divided by Australian GDP per capita
Absolute Difference: Australian minus non-Australian GDP per capita

Australia: GDP growth 3%, population growth 1.5%. Non-Australian (Indonesia, Malay-sia, Philippines, Singapore and Thailand): GDP growth 6%, population growth 1.5%

Thus, even in a setting where the Australian economy grows more slowly than others in the region it remains a sizeable part of regional activity for a considerable period. Moreover, in per capita terms, persistent, spectacular growth differentials would be required for GDP per capita in the rest of region to get even close to Australian levels by the end of the next century. And even more spectacular growth differentials would be required to stop the absolute difference in per capita income rising in favour of Australians!

For the time being firms that for whatever reason must locate their RHQs geographically close to centres like Jakarta, Manilla, and Bangkok will continue to select Singapore as their first preference. In time, if the infrastructural, exchange control and labour market problems that currently beset Kuala Lumpur can be eased without a significant increase in costs, this location will become a serious competitor to
Singapore for these RHQs. Time, however, is a critical factor, for three pressing reasons. First, the surge of new RHQ locations into the region must pass as economic growth slows and those corporations intending a presence in the region actually become established. Second, the relatively rapid rate of corporate spacial reorganisation seen in Asia at present can also be expected to tend towards the global standard. Third, most importantly and least appreciated, once located, HQ-style operations display a remarkable degree of spacial inertia, and the evidence from RHQs in this region only serves to bears this out.  

Australian cities, particularly Sydney, are already providing serious competition to Singapore for the RHQs of those firms that are locationally more flexible or have adopted an ‘Australia first’ strategy in their push into Asia. Sydney’s success will, however, engender a process of rising costs somewhat like that seen in Singapore. The similarity is only partial because firms choosing to locate in Sydney operate in an Australian national labour market that is not subject to the absolute size limitations of its Singaporean counterpart. Where the similarity will come, and already has to some extent, is in the physical limitations of the city itself. Continued increases in demand for space-dependent goods like office accommodation will see these costs rise along with simple crowding costs as seen in increased commuting times and the like. This will only make Melbourne a more attractive alternative to both Singapore and Sydney. Indeed, Melbourne already enjoys some success in attracting RHQs as well as a range of cost advantages over Sydney with considerable scope for expanded activity before itself facing rapidly rising costs.

Perth is the cheapest of the five cities considered here and enjoys all of the advantages of Melbourne and Sydney in terms of Australia’s relatively developed economy, quality of life and access to the national labour market. Perth is also the smallest in terms of population. While it is well above the minimum critical size cited in the international literature to be able to attract and retain highly qualified technical and professional personnel its small size does mean relatively shallow markets for professional services and hampered access to national capital markets and the like. Given that time is important and the already superior positions of Singapore, Sydney and Melbourne; Perth, like Kuala Lumpur, might never become a primary target for the location of RHQs.
POLICY RECOMMENDATIONS AND DISCUSSION
Overall the Australian cities are in a strong position not just in the competition for RHQs but in the whole area of provision of services to the region. The relative size and development of the Australian economy means that much of the infrastructure and skilled workforce is in place. The variety of possible locations and the considerable scope for growth, without large cost increases, offers potential investors real choice and an opportunity to exploit comparative advantages between Australian locations. In light of this study I have six policy recommendations.

*Keep all aspects of the current DIST RHQ incentives package*

The value of these incentives should not be underestimated both as a signal of government attitude to business and a competitive response to Singaporean and Malaysian incentive schemes. The BIE review of the Investment Promotion and Facilitation Program, of which the RHQ scheme forms a part, targets the RHQ sales tax exemption on imported second-hand equipment as an area for concern. However, I find the BIE case unconvincing. The BIE claims that such a policy can have a revenue cost where this equipment is used to displace the activity of domestic firms. However, in the case of traded goods this competition to the domestic firms would have existed anyway and, further, this equipment can be expected to be primarily used in the production of services for export, not domestic consumption. In general, the BIE rightly takes a very conservative view of its benefits. But I think a rather long bow is drawn in assuming complete long-run crowding out in an economy with persistent unemployment in the order of 8 or 9%. 63

*Regularly relaunch the RHQ program or similar programs, or both*

I see several grounds for this. First, the alarmingly poor state of information overseas about the Australian economy must be countered. Moreover, there is every reason to expect this to be a persistent problem. Second, the current rapid rate of corporate locational restructuring in Asia will, up to a point, continually afford opportunities for attracting RHQs and other regional service activities to Australia. Third, Singapore’s EDB seems to be employing this strategy and this move should be covered. As part of this recommendation note that the ‘champions’ approach should be retained and extended where possible. Selling the locational, cost and other advantages of Australia to the Australian executives of international corporations has been very successful in the
first round of the RHQ scheme and there are grounds to expect it will continue to work and work just as well in other areas.

Structure competition between states
There is a real advantage in encouraging competition between states in terms of the quality and cost of goods and services from state and local governments, the level of state taxes and charges, application response procedure, compliance costs, and so on. However, this competition should not spill over into spiralling, competitive, secret, individual incentives and deals. The BIE identifies this as a matter of serious concern and deserving review in its own right. Indeed, even the BIE was unable to identify the amount of total state expenditure on RHQ location incentives. As argued above in the context of Singapore’s EDB’s willingness to negotiate individually to guarantee secrecy, the best microeconomic conditions require government to be both even handed in its dealings with all economic agents and be seen to be doing so. There is simply no substitute for open and accountable government in both the formulation and operation of policy.

Develop a national potential investor information Internet site
In the interests of both properly focussed international marketing and correcting informational failure, there is a need for Australian states and the Commonwealth to cooperate in the preparation and delivery of promotional material. In many respects this objective has been met. To enhance these developments I recommend that the Commonwealth initiate and coordinate the development and operation of an Internet information system targeted at the needs of potential international investors. Such a system would be relatively cheap to set up and maintain, help transparency between states and the Commonwealth, and be readily updated. Indeed, this site could become the primary publishing medium. One possible model would be for the Commonwealth to structure the site and provide general information with states providing additional more specific information on linked pages. All the materials currently supplied in hard copy could be available from one home page in a coordinated, searchable system. The system could also include information request forms, e-mail links to key officials and agencies, and discussion lists. Done well, and properly maintained, such a site would itself become a message about Australia.
Promote Australia as an investment site to the Australian public

As the RHQ champions strategy showed, poor information about the Australian economy is not just the preserve of potential investors from overseas. If executives living and working in Australia are unaware of Australia’s competitive advantages it is little wonder that ‘cringes’ form about our location, the consequences of the economic growth of our neighbours and any number of other matters. Indeed, the culture of economic crisis that pervades economic policy debate should and needs to be addressed if Australia’s potential is to be adequately projected overseas.

Maintain pressure on the economic fundamentals

This means much more than continued pressure to keep inflation low or even a need to fight inflation first. Australia’s cost advantages are by and large not some contemporary manifestation of the lucky country legacy. In fact, Australia’s cost advantages follow from hard won and costly infrastructural and other types of investments made in the past. To keep and enhance our advantages, state and Commonwealth governments will have to be continually involved in supporting and directing appropriate investments in roads, ports, the rail freight system, airports, water, gas, sewerage, public transportation, electricity generation and supply, and telecommunications. The list goes on: education and public research have to be properly supported as do the legal, health and law enforcement systems; environmental amenity has to be maintained and common property resources properly managed. All these measures can compliment private investment, indeed are required for private investment to be worth pursuing at all. Moreover microeconomic reform needs to be pursued. But not willy nilly where no reliable estimates of the costs and benefits exist, as in the labour market, rather in areas where these are known, such as our outdated and groaning taxation system which has among the highest compliance costs in the world.
NOTES

1 Until 1996 the Department of Industry Science and Technology.


3 See Lasserre (1996) for an analysis of the roles being played by RHQs in providing Western corporations with a ‘spearhead’ into the Asia Pacific. Also see Schutte (1995) for a discussion of the role played by an RHQ in putting Asia on the ‘mind map’ of a complex multi-divisional company traditionally focused on Europe and North America.

4 Databases searched included: EconLit, ABI Inform and BPO.

5 Reported in an interview at The Economist Intelligence Unit, Sydney, 20 June 1996.


11 Avenell and Thompson (1994).


13 See, for example, Pitchford (1990) and Krugman (1994a).


16 See, for example, Allen Consulting Group (1994), pp. 28 - 38.


18 See, for example, Phillimore (1995).


25 See, for example, Allen Consulting Group (1994), p.54.


30This certainly the case for the Commonwealth Department of Industry, Science and Technology survey already mentioned above. See Allen Consulting Group (1994), p.45.


32Keith Evans (1990)


34BIE(1996) p. 16.


36Interview 17 June 1996.


40Interviews 8, 9 August 1996.


42EDB (1993).

43Interview EDB 12 March 1996.

44ibid.

45Indeed, many companies that locate RHQs in these countries do not take the administrative trouble to gain the necessary status to obtain these concessions. See, for example, Perry (1995), p.193.

46Allen Consulting Group (1994) puts RHQs in Singapore at 250+ and also in 1994 the Australian High Commission in Singapore reported recent official reports had the number of OHQs at almost 50.

47Reported by the Australian High Commision, Singapore, March 1994.

48As an instance of the latter consider the annual number of first degree graduates in natural sciences and engineering. In Australia this number is about 18,000 while in Singapore it is about 3,500. See SIRF (1995), p.52.

49Straits Times, 5 August 1996, p. 38.

50For what it is worth a 1995 survey of business managers asked to rank quality of life on a scale of 1 to 10 rated Australia 9 out of 10, Singapore 8 and Malaysia 7.5. Reported in Department of State and Regional Development NSW Competitiveness Report.

51Reported in an interview with the Australian High Commission, Kuala Lumpur, 9 August 1996.

52Using the number of first degree graduates in natural sciences and engineering as an example, Malaysia produces about 2,000 a year in total, a rate of less than one tenth that in Australia.

53Stated in an interview with Dr R. Thillainathan, Director of Finance of Genting Berhad, Kuala Lumpur, 8 August 1996.
DIST RHQ Project Data Base 17 June 1996. The RHQ Project team claimed to have had high or medium involvement with about 50% of these location decisions.


This is of course as captured on the DIST RHQ Project Data Base.


See, for example, Sutton-Brady and Davis (1994).


See BIE (1996).

ibid pp. 94-97.
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