



Innovation-Led Foreign Direct Investment: A Comparison of Australia and Canada

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Introduction

Australian and Canadian businesses are in constant global competition for attracting foreign direct investments (FDI). FDI is an important avenue for the transfer of knowledge and technology, which can promote international trade and become a driver of business development and economic growth ([OECD 2024](#)). Numerous empirical studies have shown that FDI promotes productivity and, as such, strengthens the labour market ([Blomstrom & Kokko 2002](#); [Boghean & State 2015](#); [Hiep, Trung & Chien 2022](#)). An increase in FDI inflows has also been positively associated with an increase in overall tax revenue ([Camara 2019](#); [Binha 2021](#); [ALshubiri 2024](#)). For high-income countries, innovation is an important attractant for FDI. While all high-income countries offer advanced infrastructure and stable institutions, it is innovation that sets them apart, providing unique values to global investors. Therefore, this article examines the attractiveness of the investment environment from the innovation viewpoint with a specific focus on Australia and Canada.

Innovation-led FDI Inflows to Australia and Canada

Both Australia and Canada are attractive destinations for innovation-led FDI. Australia's consistent growth and Canada's green transition and sustainable projects make them compelling choices for investors seeking innovation-driven opportunities ([Dyer, Watson & Farmer 2023](#); [Invest In Canada 2024](#); [Austrade 2024](#)).

Australia's mining and resources sector continues to be a major draw for FDI and economic growth. In order to diversify FDI attraction and economic growth, the Australian government has shifted its focus to prioritise innovation as a key driver of economic growth. Consequently, several policies to attract FDI in innovative sectors have been implemented, such as the Patent Box Scheme and Research and Development Tax Incentive ([The Treasury 2021](#); [Stuart, Sanjay & Daele 2021](#)). Australia is now known as a global leader in agricultural technology and the country's vast agricultural lands and strong research capabilities have attracted significant foreign investment. This strategic focus has also resulted in increased FDI in sectors such as biotechnology and renewable energy.

Meanwhile, Canada secured its position as a global leader in green energy investments and attracted significant foreign capital, fuelling its green industrial revolution. Canada's FDI has experienced an overall surge in FDI over the past three years. It is estimated that the 2023 FDI inflows are approximately 13.9% higher than the 10-year average. This overall surge is driven by a robust



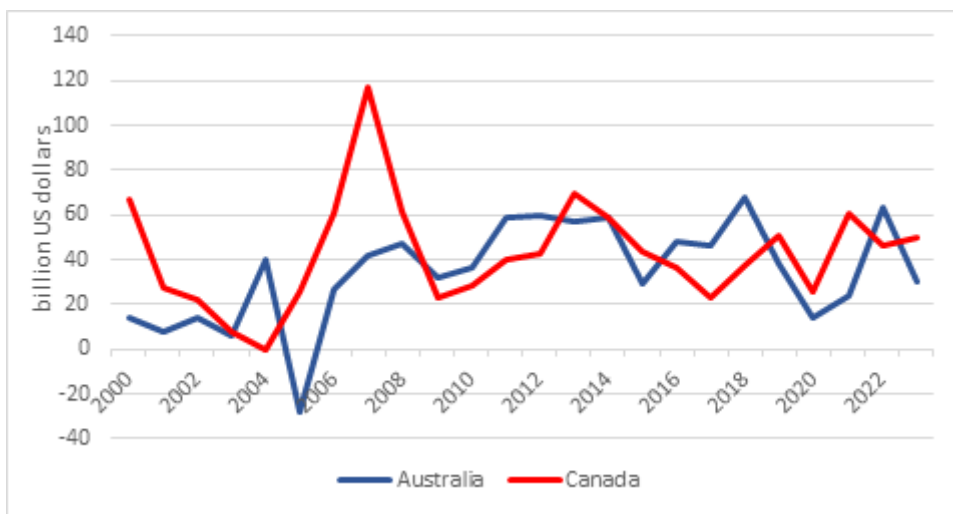
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commitment to sustainability, with 29% of FDI directed towards green projects, totalling CA\$26.7 billion in 2023 ([Invest In Canada 2024](#)).

Figure 1 presents Australia's and Canada's FDI inflows over the years 2000 to 2023. The results show a similar pattern; however, considering Australia's smaller population, the country attracted more FDI per capita.

Figure 1 - FDI inflows of Australia and Canada



Source: Author's derivation based on data from [UNCTAD \(2024\)](#).

A Decade of Global Innovation Performance in Canada and Australia (2013-2023)

The World Intellectual Property Organization (WIPO) has developed the Global Innovation Index (GII) which measures the innovation performance of countries around the world. The GII comprises seven pillars, which are categorised into an input sub-index with traditional inputs (institutions, human capital and research, and infrastructure) and non-traditional inputs (market sophistication and business sophistication), and an output sub-index (knowledge and technology outputs, and creative outputs). As such, the GII provides an opportunity to investigate a country's overall innovation performance and provides details of which pillar drives innovation.

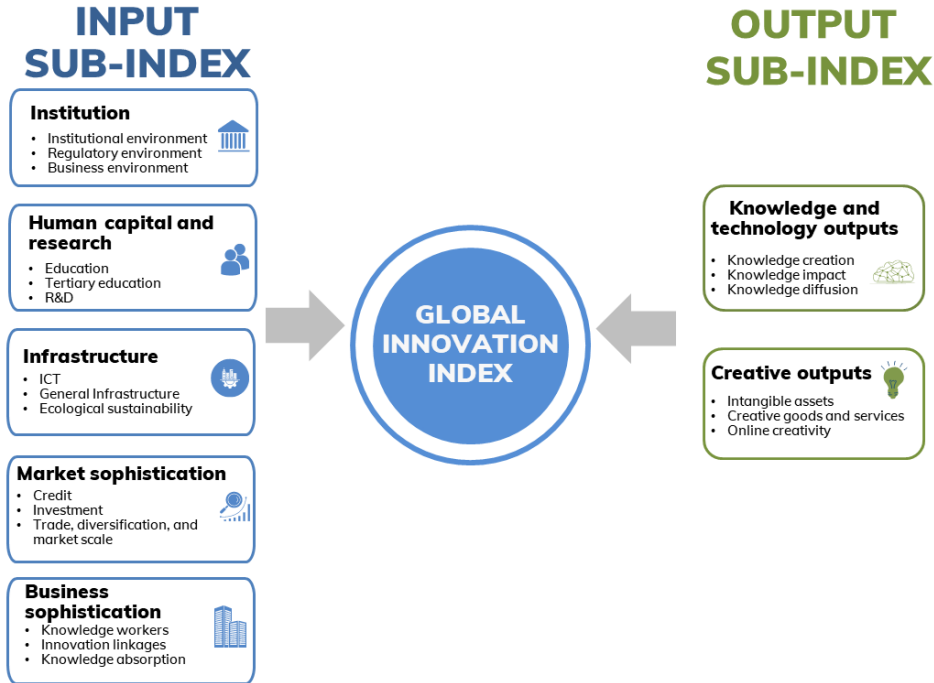
Figure 2 presents the set-up of the GII and provides details on each pillar. Accordingly, the GII is an average of the five input and two output sub-indicators.



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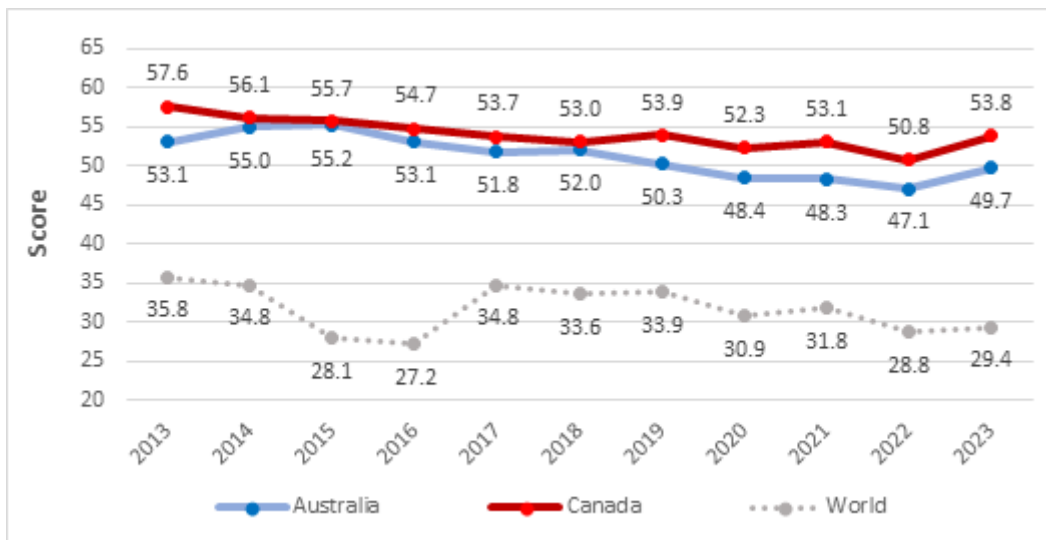
Figure 2 - Global Innovation Index



Source: Author's derivation based on [WIPO \(2023\)](#).

Figure 3 shows the results of GII for Australia, Canada and the average of all economies in the world. The results reveal that both countries have consistently scored higher GII results than the global median, substantiating their advanced innovation status. The data shows that, from a competitive standpoint, Canada has consistently outperformed Australia, with the gap between the two countries widening over the past five years.

Figure 3 - Global Innovation Index Score from 2013 to 2023



Source: Compiled by the authors based on data from the [World Bank \(2023\)](#) for 2013 to 2022 and [WIPO \(2023\)](#) for 2023.



What Drivers are behind Canada’s Innovation Success?

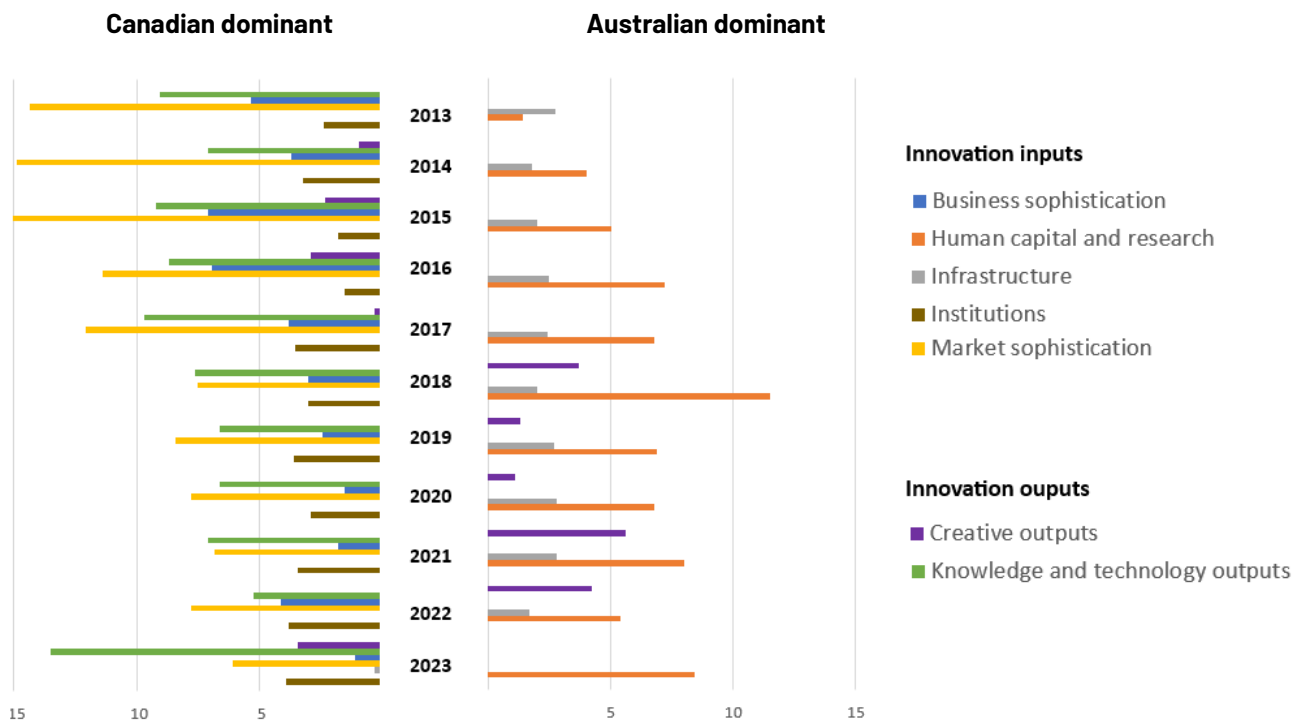
A deeper look into the seven different pillars of innovation within the GII report allows us to draw conclusions about the drivers behind Canada’s innovation success. The following section looks into the innovation input and output gaps between Australia and Canada.

Figure 4 summarises the results of the comparison of Australia and Canada’s seven innovation pillars over the past decade. According to Figure 4, Canada has dominated most of the innovation pillars. For innovation inputs, Canada has been consistently stronger in its business and market sophistication and its institutional pillars. Canada has also dominated in the knowledge and technology outputs pillar.

In comparison, Australia, has dominated the human capital and research inputs pillar throughout the decade, and for most of the past decade, the infrastructure input pillar. From 2017 to 2021, Australia also dominated the creative outputs pillar. However, over the past years, Australia has lost its competitive edge for both its infrastructure inputs and creative outputs to that of Canada.

Overall, while both countries have improved their business environments, Canada’s regulatory frameworks, combined with better access to credit and more competitive markets, likely due to its proximity to the United States, offers an overall more conducive business environment with better conditions for business operations, including stronger innovation linkages and a more skilled workforce, as compared to that of Australia.

Figure 4 - Innovation pillar gaps between Australia and Canada



Source: Compiled by the authors based on data from [World Bank \(2023\)](#) and [WIPO \(2023\)](#).



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Conclusions

The comparative analysis of Australia and Canada's performance in the Global Innovation Index (GII) over the past decade reveals distinct strengths and weaknesses of each country. Australia and Canada rank among the top 30 nations globally in the GI, reflecting their strong innovation ecosystems. However, a closer look at the sub-indices reveals notable differences in their innovation profiles. Australia excels in human capital and research, institutions and creative output, while Canada leads in market sophistication, business sophistication, and knowledge and technology outputs. Between 2014 and 2018, Australia outperformed Canada in creative outputs, helping to narrow the overall innovation gap. However, since 2018, Canada has regained its lead in this area. Given that the GI is calculated based on five input pillars and two output pillars, changes in creative output, in particular, have a significant impact on the final GI score. Australia's earlier success in this area was crucial in closing the innovation gap with Canada.



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