

Aggregate Foreign Investment

This chapter summarises trends in foreign investment in Australia and Australian investment abroad using Australian Bureau of Statistics (ABS) data.

Foreign investment in Australia refers to the stock of financial assets in Australia owned by non-residents and financial transactions that increase or decrease this stock. Conversely, Australian investment abroad refers to the stock of foreign financial assets owned by Australian residents and financial transactions that increase or decrease that stock.

ABS data on Australia's international investment, which are compiled in accordance with the relevant international statistical standards promulgated by the OECD and IMF, are based on different criteria from those used by the Foreign Investment Review Board. ABS data are a measure of the actual cross-border transactions that have occurred and the level of foreign investment held at a particular point in time. The Board's figures are an aggregation of the proposals submitted for approval, regardless of the source of finance used, along with the proposed associated expenditures. The limitations of the Board's data are explained in Chapter 2.

Foreign investment flows

Foreign investment transactions involve changes in the levels of Australian foreign assets and liabilities (including the creation or extinction of foreign assets and liabilities). A current account deficit in Australia's balance of payments is balanced by a surplus on the capital and financial account, after allowing for errors and omissions. The balance on the financial account represents net financial transactions with the rest of the world, that is, the inflow of foreign investment into Australia, minus the outflow of Australian investment abroad.

International investment statistics are divided into 'direct', 'portfolio', 'derivatives', 'other investment' and 'reserve assets'. Under the international standards used to compile ABS foreign investment statistics, *direct investment*

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represents capital invested in an enterprise by an investor in another country which gives the investor a 'significant influence' (either potentially or actually exercised) over the key policies of the enterprise. Ownership of 10 per cent or more of the ordinary shares or voting stock of an enterprise is considered, under the ABS framework, to indicate 'significant influence' by an investor. *Portfolio investment* is the cross-border investment in equity and debt securities (other than direct investment). *Other investment* is a residual group that comprises many different kinds of investment. *Reserve assets* are those external financial assets available to and controlled by the Reserve Bank of Australia or the Commonwealth Treasury for use in financing payment imbalances or intervention in foreign exchange markets.

Table 3.1: Foreign investment flows (\$billion)^(a)

	1995-96	1996-97	1997-98	1998-99	1999-00
Foreign Investment in Australia					
Direct Investment					
Equity & Reinvested Earnings	12.2	11.2	9.1	12.5	8.9
Other Capital	0.3	0.2	1.2	-1.0	3.1
Portfolio Investment					
Equity	4.7	3.6	16.7	15.7	-1.4
Debt	21.4	15.7	2.3	-2.3	19.8
Other Investment(c)	-1.5	6.6	10.0	15.9	13.3
<i>Total Foreign Investment in Australia</i>	37.1	37.2	39.2	40.8	43.7
Australian Investment Abroad					
Direct Investment					
Equity & Reinvested Earnings	-6.0	-5.8	-7.2	-2.4	-5.6
Other Capital	-2.3	-0.4	-0.2	1.3	2.7
Portfolio Investment					
Equity	-3.1	-3.6	0.7	-3.0	-5.2
Debt	-1.6	-0.6	-0.1	-3.1	0.0
Other Investment(c)	-5.4	-4.0	-9.8	-4.1	-1.0
Reserve Assets	-0.8	-5.2	0.5	-0.4	-2.6
<i>Total Australian Investment Abroad</i>	-19.2	-19.7	-16.1	-11.8	-11.8
Net Foreign Investment(b)	17.9	17.5	23.1	29.0	31.9

Note: Figures may not add due to rounding.

(a) In keeping with balance of payment conventions, credit entries are shown without sign and debit items are shown as negative entries. Thus, investment flows going from Australia to offshore destinations are shown as a negative.

(b) The net foreign investment figure has been derived from determining the difference between foreign investment in Australia and Australian investment abroad.

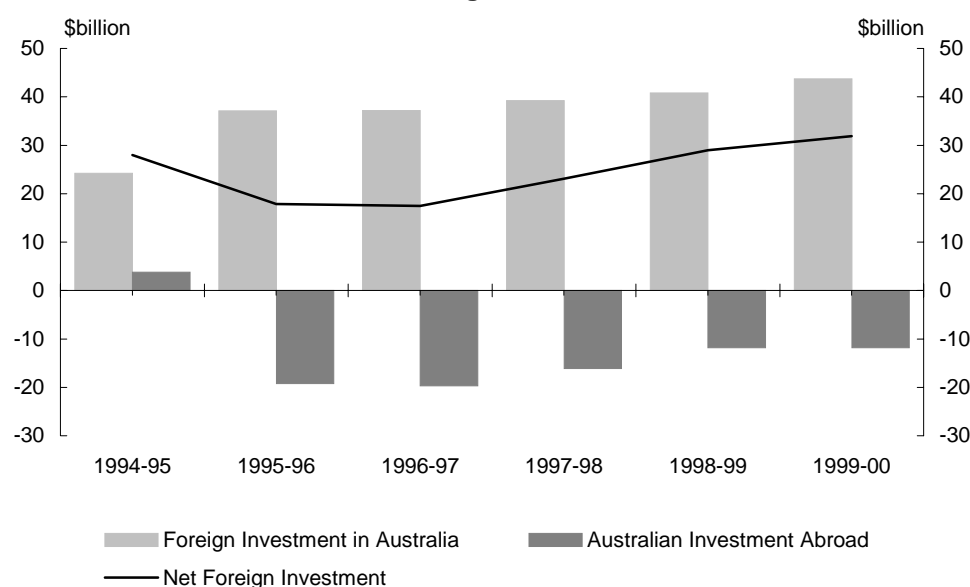
(c) Other Investment includes financial derivatives.

Source: ABS 5302.0 Balance of Payments and International Investment Position, Australia, September Qtr 2000.

Table 3.1 provides, for the last five years, a breakdown of the flow of foreign investment measured by ABS statistics, while Chart 3.1 provides, from the same data, a summary of major trends in foreign investment flows.

Chart 3.1 highlights the annual fluctuations of foreign investment flows into and out of Australia over the past six financial years. Since 1996-97 there has been an upward trend in net foreign investment flows.

Chart 3.1: Foreign investment flows



Foreign investment levels

The ABS estimated level, or stock, of foreign investment in Australia as at 30 June 2000 was \$714 billion. This represented an increase of \$91 billion, or 14.6 per cent, over the level at 30 June 1999.

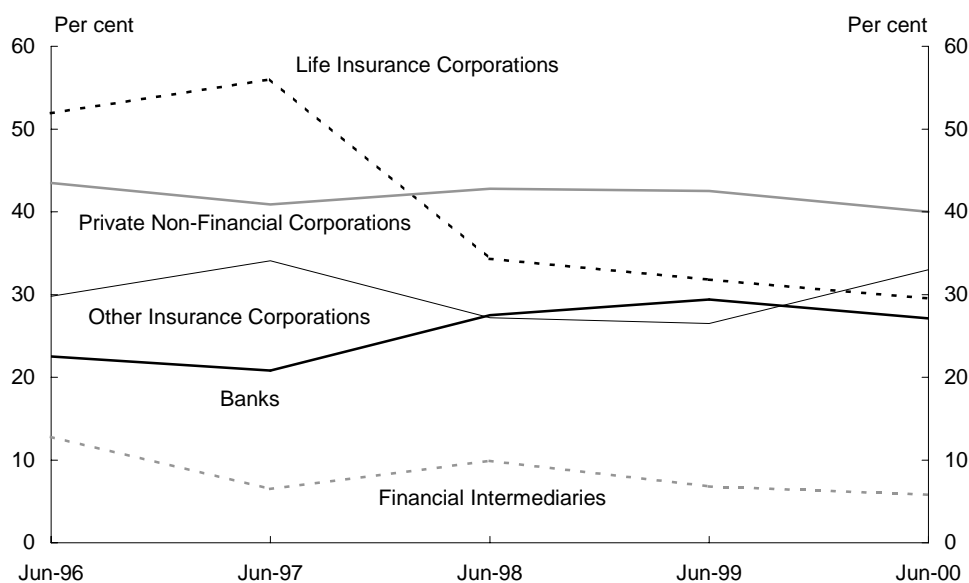
In comparison, the level of Australian investment abroad as at 30 June 2000 was \$318 billion. This represented an increase of \$49 billion or 18.0 per cent, over the level at 30 June 1999.

Chart 3.2 shows over the period 30 June 1999 to 30 June 2000, the percentage of foreign ownership of Australian equity decreased for all sectors except other insurance corporations.

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Foreign ownership of other insurance corporations increased from 26.5 per cent at 30 June 1999 to 33.0 per cent at 30 June 2000, while private non-financial corporations, banks, life insurance corporations and financial intermediaries decreased 2.5 per cent, 2.3 per cent, 2.3 per cent and 1.0 per cent respectively over the same period.

Chart 3.2: Foreign ownership of Australian equity by sector^(a)



Source: ABS 5232.0 Financial Accounts, Australia, June Qtr 2000.

Of the total equity on issue at 30 June 2000, non-residents held equity valued at \$326 billion (29 per cent) while residents held equity valued at \$806 billion (71 per cent). Although the proportion of equity held by non-residents has remained stable at around 29 per cent over the period 30 June 1999 to 30 June 2000, the total value of equity on issue has increased by 14.3 per cent from \$991 billion to \$1,133 billion.