

## ***Aggregate Foreign Investment***

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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 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 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', 'financial derivatives', 'other investment' and 'reserve assets'. Under the international standards used to compile ABS foreign investment statistics, *direct investment* 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, including financial derivatives. *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)<sup>(a)</sup>**

	1996-97	1997-98	1998-99	1999-00	2000-01
<b>Foreign Investment in Australia</b>					
Direct Investment					
Equity & Reinvested Earnings	11.2	9.1	12.5	9.0	7.0
Other Capital	0.1	1.2	-1.1	2.7	3.6
Portfolio Investment					
Equity	3.6	17.2	16.0	-1.5	13.9
Debt	16.1	3.5	-1.5	21.8	23.9
Other Investment(c)	6.5	10.4	18.2	13.2	7.3
<i>Total Foreign Investment in Australia</i>	37.5	41.4	44.1	45.2	55.7
<b>Australian Investment Abroad</b>					
Direct Investment					
Equity & Reinvested Earnings	-6.0	-7.4	-3.7	-4.3	-14.0
Other Capital	-0.4	0.0	1.3	2.3	1.5
Portfolio Investment					
Equity	-3.8	0.7	-4.8	-6.5	-9.6
Debt	-0.6	-0.2	-3.2	0.0	-4.3
Other Investment(c)	-3.9	-10.2	-3.9	-0.6	-3.5
Reserve Assets	-5.2	0.5	-0.4	-2.6	-8.9
<i>Total Australian Investment Abroad</i>	-19.9	-16.6	-14.7	-11.7	-38.8
<b>Net Foreign Investment(b)</b>	<b>17.6</b>	<b>24.8</b>	<b>29.4</b>	<b>33.5</b>	<b>16.9</b>

Note: Figures may not add due to rounding.

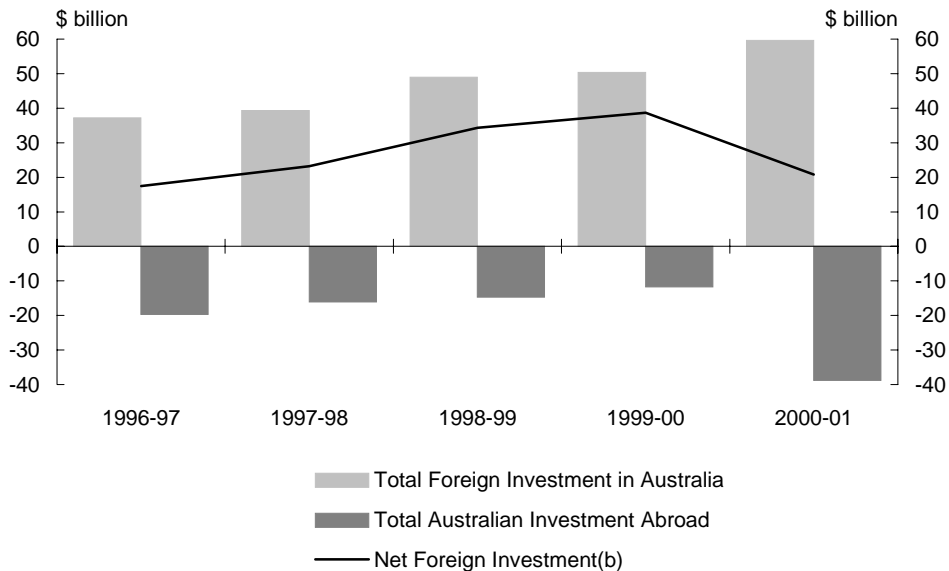
- (a) In keeping with balance of payment conventions, credit entries are shown without sign and debit items are shown as negative entries. Thus, investment flows going from Australia to offshore destinations are shown as a negative.
- (b) The net foreign investment figure has been derived from determining 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 2001.

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

Chart 3.1 highlights the annual fluctuations of foreign investment flows into and out of Australia over the past five financial years. There was an upward trend in net foreign investment flows from 1996-97 to 1999-2000. However, the trend was reversed in 2000-01 due to a substantial increase in Australian investment abroad.

**Chart 3.1: Foreign investment flows**



## Foreign investment levels

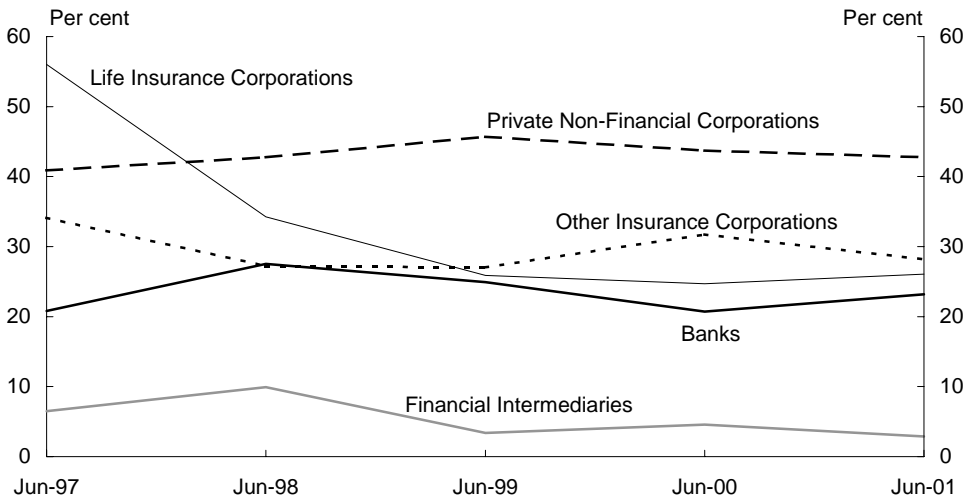
The ABS estimated level, or stock, of foreign investment in Australia as at 30 June 2001 was \$809 billion. This represented an increase of \$87 billion, or 12.1 per cent, over the level at 30 June 2000.

In comparison, the level of Australian investment abroad as at 30 June 2001 was \$417 billion. This represented an increase of \$37 billion or 9.7 per cent, over the level at 30 June 2000.

Chart 3.2 shows over the period 30 June 2000 to 30 June 2001, the percentage of foreign ownership of Australian equity increased for banks and life insurance corporations but decreased for all other sectors.

Foreign ownership of banks increased from 20.7 per cent to 23.2 per cent and life insurance corporations increased from 24.7 per cent to 26.1 per cent. Other insurance corporations, financial intermediaries and private non-financial corporations decreased by 3.6 percentage points, 1.7 percentage points and 0.9 percentage points respectively.

**Chart 3.2: Foreign ownership of Australian equity by sector<sup>(a)</sup>**



Source: ABS 5232.0 Financial Accounts, Australia, June Qtr 2001.

Of the total equity on issue at 30 June 2001, non-residents held equity valued at \$354 billion (28 per cent) while residents held equity valued at \$870 billion (72 per cent). Although the proportion of equity held by non-residents has decreased from 29 per cent to around 28 per cent over the period 30 June 2000 to 30 June 2001, the total value of equity on issue has increased by 7 per cent from \$1,141 billion to \$1,223 billion.