

Chapter 4

Australia's international investment position

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Introduction

One of the Government's principal policy objectives is to generate and capture benefits for the Australian community through international trade and investment liberalisation. This is pursued through a multifaceted policy involving complementary multilateral, regional and bilateral engagement.

The Treasury's Foreign Investment and Trade Policy Division (the Division) is responsible for ensuring effective representation of Australia's Foreign Investment Policy (the policy) and negotiating positions on international investment issues. This work includes: multilateral forums, such as the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO); regional forums, such as Asia-Pacific Economic Cooperation (APEC); and bilateral mechanisms, such as free trade agreements (FTAs) and investment protection and promotion agreements (IPPAs).

The Division also supports the Executive Member of the Board in his role as the Australian National Contact Point (the ANCP) for the *OECD Guidelines for Multinational Enterprises* (the OECD Guidelines) and related corporate social responsibility issues. The role of the ANCP is to ensure the effective promotion and implementation of the OECD Guidelines in Australia.

Over the past two decades, growth in worldwide flows of foreign direct investment (FDI) has been particularly strong. This growth in FDI largely reflects the worldwide relaxation of trade and investment controls, together with advancements in information technologies, communications and transport, and the emergence of global production chains. The global financial crisis has impacted adversely on global capital flows. According to OECD data, member countries' outflows of FDI fell by 25 per cent while inflows fell by 26 per cent in 2009-10. This OECD data shows that FDI inflows into Australia fell by 27 per cent while outflows from Australia fell by 40 per cent in 2009-10.

Australia has traditionally relied on inward FDI to meet the shortfall between domestic saving and the level of domestic investment. Foreign investment supplements local savings, thereby supporting higher rates of economic growth and employment levels which in turn improve the wellbeing of the Australian people. Inward FDI also continues to play a significant role in making Australian industry internationally competitive, and thereby contributing to export growth, facilitating access to new technologies, financing new and often risky innovations, and providing opportunities for global integration and networking.

Outward FDI enables Australian firms to expand their business beyond the potential constraints imposed by the limited size of the domestic market. By extending their market presence and access to resources, expertise and technology in other markets, Australian firms are able to become more efficient and competitive in global markets. Outward FDI also has a multiplier effect through stimulating the demand for goods and services provided by component and other input suppliers.

Australia's international investment position

This section summarises trends in foreign investment in Australia and Australian investment abroad using Australian Bureau of Statistics (ABS) data.¹⁴ 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 position is compiled in accordance with the relevant international statistical standards promulgated by the OECD and the International Monetary Fund. This data is a measure of the actual cross-border transactions and the level of foreign investment held at a particular time. By contrast, FIRB statistics relate to proposals submitted for approval, regardless of the source of finance or whether proposals were actually implemented. These differences are explained in Chapter 2.

Foreign investment levels¹⁵

According to ABS statistics¹⁶, the stock of foreign investment in Australia at the end of June 2010 was \$1,960.8 billion. This represents an increase of \$168.4 billion over the level at the end of June 2009.

At the same time, the stock of Australian investment abroad was \$1,193.7 billion. This represents an increase of \$105.0 billion over the stock at the end of June 2009.

Foreign direct investment levels by country

Chart 4.1 depicts recent trends in FDI levels between Australia and five of its most important FDI partners: the US, the United Kingdom (UK), Japan, New Zealand and the European Union (EU) (other than the UK). The latest ABS data on foreign direct investment levels by country is for 2009.

14 As ABS data is subject to periodic revision, data included in the current report may differ from that published for the same period in previous reports.

15 Prior to 2005-06, foreign investment levels were reported on a calendar year basis.

16 Source: ABS cat. no. 5302.0 Balance of Payments and International Investment Position, Australia, June Quarter 2010.

The US is Australia's single largest source of inward FDI and the most important destination for Australian FDI abroad. At the end of 2009, \$99 billion or approximately 23 per cent of the level of FDI in Australia originated from the US. The level of Australian direct investment in the US was \$100 billion at the end of 2009 or 29 per cent of the level of Australian outward direct investment. However, direct investment to the US had fallen significantly from the level at the end of 2008 (\$136 billion).

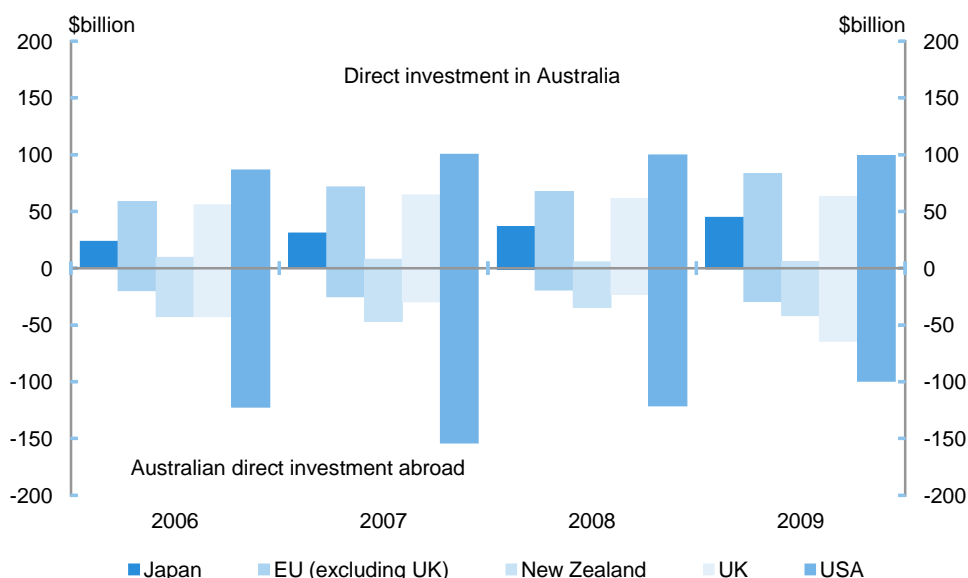
The UK has traditionally been Australia's other major source of FDI. At the end of 2009, \$63 billion, or approximately 14 per cent, of the level of FDI in Australia originated from the UK. The level of Australian direct investment in the UK was \$64 billion at the end of 2009, a significant increase on the \$25 billion at the end of 2008.

The level of Japanese FDI in Australia at the end of 2009 was \$45 billion, up from \$37 billion at the end of 2008. However, Australian FDI in Japan remains at a very low level.

The level of Australian direct investment in New Zealand at the end of 2009 was \$42 billion. New Zealand direct investment in Australia was \$6 billion at the end of 2009.

The level of EU (excluding the UK) direct investment in the Australian economy grew to \$83 billion by the end of 2009. Australian direct investment in the EU (excluding the UK) was \$29 billion at the end of 2009.

Chart 4.1: Level of foreign direct investment by country



Source: ABS cat. no. 5352.0 International Investment Position, Australia: Supplementary Statistics, Calendar year 2009.

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 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 flows and stocks 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 cross-border investment in equity and debt securities other than direct investment. Financial derivatives are linked to a specific financial instrument or indicator, or to a particular commodity. 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 Treasury for use in financing payment imbalances or intervention in foreign exchange markets.

Table 4.1 provides a breakdown of the flow of foreign investment over the past five years measured by ABS statistics. In 2009-10, the inflow of foreign investment into Australia was \$141.9 billion. The outflow of Australian investment abroad was \$87.4 billion.

Table 4.1: Foreign investment flows 2005-06 to 2009-10

	2005-06	2006-07	2007-08	2008-09	2009-10
	\$b	\$b	\$b	\$b	\$b
Australian investment abroad(a)					
Direct investment					
Equity and reinvested earnings	-27.4	-19.6	-20.9	-21.7	-10.8
Other capital	-2.3	-14.8	-6.4	-8.8	-6.1
Portfolio investment					
Equity	-26.5	-37.6	-41.3	4.2	-45.5
Debt	-33.5	-39.0	-24.1	-0.1	-47.2
Derivatives	13.0	12.7	-4.4	30.7	37.7
Other investment(b)	-18.2	-21.1	-31.8	-51.4	-21.5
Reserve assets	-5.6	-20.1	44.3	-11.9	5.9
Total Australian investment abroad	-100.5	-139.6	-84.6	-59.1	-87.4
Foreign investment in Australia(a)					
Direct investment					
Equity and reinvested earnings	16.8	24.4	35.7	39.6	33.7
Other capital	7.3	21.5	20.7	8.5	0.6
Portfolio investment					
Equity	18.4	32.8	3.6	45.6	13.4
Debt	106.6	110.2	57.8	-0.4	145.7
Derivatives	-16.5	-10.7	-2.7	-34.4	-43.6
Other investment(b)	22.7	22.2	42.3	40.6	-7.9
Total foreign investment in Australia	155.1	200.4	157.4	99.6	141.9
Net foreign investment	54.6	60.9	72.8	40.5	54.5

(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.

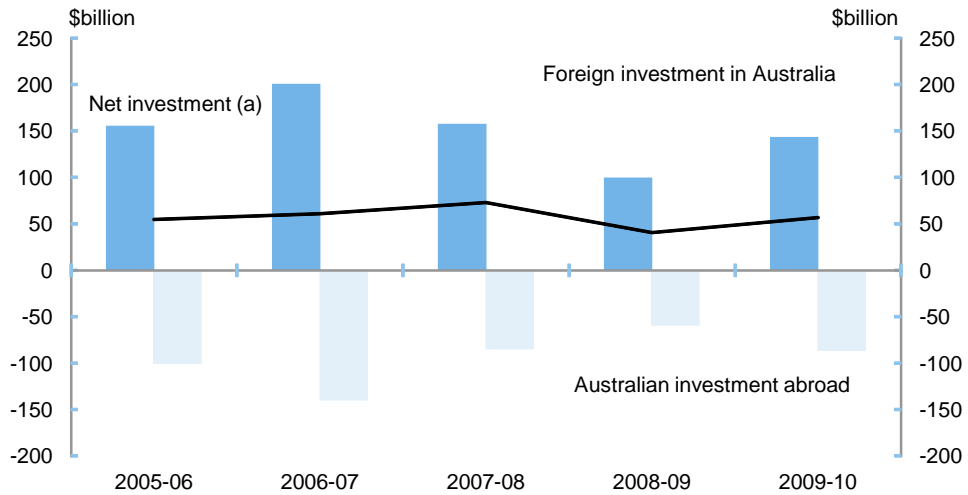
(b) Other investment includes all other investment.

Note: Figures may not add due to rounding.

Source: ABS cat. no. 5302.0 Balance of Payments and International Investment Position, Australia, June Quarter 2010.

Chart 4.2 summarises major trends in foreign investment flows using the data in Table 4.1. It indicates that Australia remains a net importer of capital.

Chart 4.2: Foreign investment flows 2005-06 to 2009-10



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

Source: ABS cat. no. 5302.0 Balance of Payments and International Investment Position, Australia, June Quarter 2010.