Chapter 4

International Investment Issues and Australia's International Investment Position

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One of the Government's principal trade objectives is to generate and capture benefits for Australia through international trade and investment liberalisation. This is pursued through a multi-faceted trade policy involving complementary multilateral, regional and bilateral engagements.

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

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

The recent proliferation of bilateral trade and investment agreements world-wide and Australia's commitment to FTAs with Singapore, the United States and Thailand, has invoked heightened public reaction and sensitivities on the issue of globalisation. Within this debate, the argument for bilateralism vis-à-vis multilateralism is a strong point of contention. The Division must therefore balance appropriately its work on bilateral agreements with its continuing involvement in the negotiation of strengthened multilateral arrangements and ensure it has the capacity to respond to these competing pressures.

Australia has traditionally relied on inward FDI to meet the shortfall of domestic savings against domestic investment needs. Utilising foreign capital to supplement local savings ensures higher economic growth, which in turn, has meant more employment and higher standards of living for Australians.

Australia also benefits from its increasing levels of outward FDI. Outward investment enables firms to remain competitive and thus also supports employment at home. Investment abroad stimulates exports of machinery and other capital goods and increases demand for intermediary products, know-how and specialised services. A

1999 study of OECD countries[1] found that each $1.00 of outward foreign direct investment was associated with $2.00 of additional exports and a trade surplus of $1.70. Without FDI those exports would be smaller, sustaining fewer of the more productive, better paying jobs that go with them.

The importance of FDI, both inwards and outwards, to Australia creates great potential for benefits from the negotiation of international investment agreements and maintenance of existing cooperative regimes. In 2001, the value of sales by foreign affiliates was more than twice the value of world exports. Inwards FDI investment is a large and stable source of capital and has the additional benefits of stimulating competition and encouraging innovation. For Australian companies, the opportunity to invest overseas allows improved access to markets and diversification of operations.

Multilateral investment issues

The Division's role in negotiating international investment agreements allows it to contribute to the development of an international rules based system that takes appropriate account of both the interests of foreign investors and the wellbeing of Australians. The Division's work on promoting the Guidelines for Multinational Enterprises supports this by contributing to a culture of good corporate behaviour.

The Executive Member of the Board is the Australian National Contact Point for the Guidelines and is responsible for the administration and promotion of these Guidelines in Australia.

In contrast to its involvement in OECD work, the Division is not directly responsible for the Government's involvement in trade related forums like the WTO and APEC. The Department of Foreign Affairs and Trade (DFAT) has primary responsibility for Australia's involvement in these forums. The Division provides expert advice and briefings on foreign investment matters to DFAT.

OECD matters

Committee on International Investment and Multinational Enterprises (CIME)

CIME is a leading source of investment analysis and policy assistance that contributes to the development of investment rules based systems. Its work program falls into three categories: improving the international investment architecture; mobilising investment for development; and promoting corporate responsibility.

Continuing projects in relation to the first two categories include:[2]

- *Transparency*: Following the release in April 2003 of a general report on the benefits of public sector transparency for foreign investment and beyond,[3] CIME is working

1 Public Affairs Division of the OECD. *Open Markets Matter — The benefits of Trade and Investment Liberalisation*, October 1999.

2 See Recent Work in the OECD Committee on International Investment and Multinational Enterprises, OECD, June 2003.

3 Available at <www.oecd.org>.

on the development of a framework on investment policy transparency practices. This framework is to help OECD and non-OECD governments as they conduct self-evaluation, report on measures and engage in peer reviews. OECD work on transparency would also contribute to assisting WTO members in their discussions in Geneva.

- *Checklist on FDI incentives*: The Checklist[4], released by CIME in April 2003, serves as a tool to assess the costs and benefits of using incentives to attract FDI; to provide operational criteria for avoiding wasteful effects and to identify the potential pitfalls and risks of excessive reliance on incentive-based strategies.
- *Analysis of key obligations in investment agreements*: The proliferation of international investment agreements has led the Committee to engage in discussions on the implications of the 'Most-Favoured-Nation' provisions included in these agreements. The Committee is also considering the interpretation of 'fair and equitable treatment' and 'expropriation' in the investment protection provisions of these agreements. These analyses involve a compilation of factual elements of information based on legal literature, evolving arbitral jurisprudence and state practices.
- *Foreign Direct Investment for Development*: This is the title of a major CIME report released in September 2002.[5] The 2003 OECD Ministerial Meeting provided support for continued work by the Committee to develop, with non-Member partners, a shared strategy to promote investment in developing countries. As part of this strategy, CIME has launched a project aimed at exploring the role of official development assistance supporting developing countries' efforts to attract FDI and maximise its benefits.
- *Africa Initiative*: An initiative to enhance the investment policy of African countries with the involvement of other international organisations and stakeholders. This initiative will begin with the preparation of a discussion paper on OECD's experience with investment and peer reviews.

The Division's participation in the work of CIME is important in keeping it abreast of current research in the field of international investment especially the emergence of new perspectives.

Committee on Capital Movements and Invisible Transactions (CMIT)

OECD Member countries have committed themselves to maintaining and expanding the freedom of international capital movements and current invisible operations under the legally binding OECD Codes of Liberalisation.

During 2002-03, CMIT finalised the User's Guide to Codes of Liberalisation and continued its work in reviewing restrictions on foreign participation in the telecommunications sector.

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4 Available at <www.oecd.org>.
5 Foreign Direct Investment for Development: Maximizing Benefits, Minimizing Costs, OECD, 2002

OECD Guidelines for Multinational Enterprises

The Guidelines represent another significant component of CIME's work. CIME is the custodian of the Guidelines and is the reporting post for national contact points (NCPs) on their activities in relation to the Guidelines. CIME also oversees member countries' adherence to the *Declaration on International Investment and Multinational Enterprises.*

Australia is a signatory to the *Declaration on International Investment and Multinational Enterprises* and to a number of procedural decisions made by the member countries of the OECD in June 1976. The text of the Declaration is at **Appendix G** along with the Guidelines and an annex to the Declaration, the General Considerations and Practical Approaches to Conflicting Requirements Imposed on Multinational Enterprises.

The Guidelines, a voluntary code for responsible business conduct, are recommendations by governments to multinational enterprises operating in or from the 30 OECD member countries and 7 non-member adhering countries (Argentina, Brazil, Chile, Estonia, Israel, Lithuania and Slovenia). The Guidelines were reviewed in June 2000.

While the public debate about globalisation appears to have eased over the last few years, increasing international political and economic instability is likely to continue to underpin latent community concerns about foreign investment. The globalisation debate is relevant to the Guidelines with regard to their role in helping to address community concerns about corporate social responsibility.

The role of the Australian National Contact Point (ANCP) is to ensure the effective implementation and promotion of the Guidelines in Australia. The ANCP is required to operate in accordance with the core criteria of visibility, accessibility, transparency and accountability in accordance with the principle of 'functional equivalence' between NCPs.

The ANCP's main activities this year have been on focusing efforts to increase general public awareness of the Guidelines, particularly among the business community, refining procedures for handling specific complaints and strengthening the consultation process with government agencies, business and other social partners. This has involved:

- Bi-annual consultation sessions with social partners in November 2002 and May 2003 in Melbourne, Sydney and Canberra. Representatives from 18 different organisations attended. The aim of these sessions is, among other things, to seek the views of these organisations on the most effective way for the ANCP to promote the Guidelines, and to more effectively involve interested and relevant community groups in that process.
- Interdepartmental meetings on the Guidelines in March and October 2003 chaired by the ANCP. Representatives from 12 government agencies attended.
- Presentations on the Guidelines at various government and community forums.

- Efforts to incorporate the Guidelines into various domestic corporate governance and social responsibility reporting frameworks.
- Establishing links between the ANCP website and other related domestic sites including Invest Australia, Australia's Export Finance and Insurance Corporation, the Australian Stock Exchange, Austrade and AusIndustry.
- The presentation to the OECD in June 2003 of the third annual report of the ANCP's activities. Details are available on the ANCP website at <www.ausncp.gov.au>.

Corporate Social Responsibility (CSR) continues to be a prominent theme of the consultation process. The CSR concept seeks to broaden the focus of corporations, small and medium enterprises, government and others to include not just their contribution to economic wellbeing, but also their potential impact on environmental and social conditions.

The ANCP participated in the annual OECD Roundtable on Corporate Responsibility held in conjunction with the annual meeting of NCPs in June. The 2003 topic was 'enhancing the role of business in the fight against corruption — making the most of the OECD Guidelines'. Held under Chatham House rules to allow for a candid and constructive discussion, the discussion focused on governments' roles in the effort to fight corruption and how the OECD Guidelines can be used in synergy with other anti-corruption instruments.

The Guidelines include provisions encouraging greater corporate disclosure. The importance of this provision has been highlighted by recent high profile Australian and US corporate collapses.

No specific instances regarding the operation of the Guidelines have been raised with the ANCP in the past 12 months.

Recent developments

The ANCP has upgraded its website <www.ausncp.gov.au> in response to comments made at the community consultations to grant participants greater access to OECD documents. This website provides the text of the Guidelines, a secure section for registered social partners to access and comment on 'for official use' CIME and Guidelines related OECD material, the ANCP's service charter, procedures for raising specific instances and the ANCP's procedures for handling them, frequently asked questions about the Guidelines and specific instances, a notice board publicising coming events and additions to the site, links to related sites, and a compilation of related documents.

The ANCP is continuing to develop its work in promoting the Guidelines and, in particular, ensuring that the Australian business sector is actively engaged in this process.

World Trade Organization (WTO)

Australia also pursues its interests in relation to international investment through involvement in the WTO Working Group on the Relationship between Trade and Investment (Working Group). The Working Group was formed following the Uruguay Round at the WTO Ministerial Conference in Singapore in 1996 and its mandate was extended indefinitely in 1998.

At the WTO Ministerial Meeting in Doha in November 2001, Ministers agreed to begin, subject to explicit consensus, negotiations of multilateral rules for trade and investment after the Fifth Ministerial Conference to be held in Cancun, Mexico in September 2003.

The Division provides investment policy advice and briefings to the Department of Foreign Affairs and Trade, which represents Australia at Working Group meetings. The two Working Group meetings held in 2003 built on the four meetings held in 2002 giving further consideration to seven key areas, as identified in the Doha Declaration, viz, scope and definition; transparency; non-discrimination; modalities for pre-establishment commitments; development provisions; balance of payments safeguards; and settlement of disputes between members. Possible negotiating modalities were also discussed in the lead up to the Cancun meeting.

The necessary consensus was not reached at Cancun. The way forward is, for now, uncertain, though the Working Group is likely to be asked to do further work on a range of issues.

Asia-Pacific Economic Cooperation (APEC)

Australia continues to participate actively in the work of APEC, including in relation to foreign investment. Australia's main investment interest in APEC is to encourage APEC members to enhance the environment for investment liberalisation in their economies and to improve transparency. This is done through Individual Action Plans (IAPs), peer reviews and collective action through the work of the Investment Experts Group (IEG).

During 2002-03, the Division updated Australia's entry in the *2003 Guide to the Investment regimes of the APEC Member Economies*. The publication includes background on each member's foreign investment regime; regulatory framework and investment facilitation; investment protection; investment promotion and incentives; summary of international investment agreements or codes to which the member is a party; and an assessment of recent trends in foreign investment. The publication was last updated in 1999.

During the period, the Division also revised and updated the Investment Chapter of Australia's annual IAP. This Chapter describes the investment environment and policies of APEC member economies, and is intended to give a clear view of progress in achieving the announced Bogor goal of free and open trade and investment between APEC member economies. Australia's IAP for 2002-03 included information on liberalisation of Australia's foreign investment policy and investment related measures which have occurred in the past twelve months, as well as those which have been implemented since the base year of 1996. Copies of APEC IAPs are available on the APEC website at <www.apecsec.org.sg>.

The Division was also involved in reporting Australia's performance against the APEC Options for Investment Liberalization and Business Facilitation, presenting Australia's position in the paper on *Transparency in Trade and Investment Liberalization and Facilitation*, and reviewing and providing questions on the investment regimes of New Zealand, Korea and Hong Kong as part of the IAP Peer Review Process.

The Division provided technical assistance to other areas of Treasury and to DFAT regarding attendance at meetings of the IEG.

Bilateral investment issues

2002-03 was an important year in Australia's trade policy. In addition to marking the twentieth anniversary of Australia's first bilateral trade agreement, which was with New Zealand, negotiations also commenced on an Australia — United States FTA. In addition, the FTA with Singapore was signed, negotiations on an FTA with Thailand continued and significant progress was made in deepening Australia's trade and investment partnerships with China and Japan.

Bilateral agreements have an important role to play in providing FDI benefits to Australia. They can provide greater security, certainty and opportunities for outward FDI as well as ensuring that Australia is a desirable destination for overseas investors. In contrast to multilateral forums, bilateral agreements are less cumbersome to initiate and maintain and may be tailored to meet the needs of unique relationships between nations. They can secure practical results for Australian businesses and establish a high benchmark for the multilateral system.

Bilateral agreements are often complementary to regional and multilateral efforts, providing momentum to our wider multilateral trade objectives. They can provide precedents, examples of best practice and ensure that progress in improving the global environment for FDI continues when multilateral efforts are slowed. Australia's negotiations with Thailand and Singapore for example, complement Australia's relationship with ASEAN. Therefore, although the geographical coverage of bilateral agreements is by definition narrower than that of multilateral agreements, bilateral agreements can make important contributions to investment liberalisation in circumstances where any removal of impediments is extended to all countries as is more often the case.

Investment Promotion and Protection Agreements (IPPAs)

Australia's bilateral IPPAs provide a clear set of obligations relating to the promotion and protection of investments of the signatory parties. By promoting confidence in the regulatory environment relating to foreign investment, IPPAs have the potential to enhance investment flows between Australia and other countries. Australia's IPPAs apply post-establishment, that is Australia's sovereign right to admit investments (either through acquisitions or new businesses) is unaffected by the provisions of such agreements.

Australia uses its model IPPA text to provide the basis on which these agreements are negotiated. The IPPAs provide fair and equitable treatment, 'most favoured nation' commitments relating to the treatment of foreign investment, give undertakings about expropriation/nationalisation (including the nature of compensation for such acts) and establish mechanisms for resolving disputes over investment matters.

To date, Australia has signed IPPAs with Argentina, Chile, the Czech Republic, Hong Kong, Hungary, India, Indonesia, Laos, Lithuania, Pakistan, Papua New Guinea, the People's Republic of China, Peru, the Philippines, Poland, Romania, and Vietnam. Agreements with Egypt, Sri Lanka, the United Arab Emirates and Uruguay have been signed but are not yet in force. Australia recently completed IPPA negotiations with Mexico and Turkey with an intention to sign the agreements in the near future. Australia is currently negotiating IPPAs with a number of countries including Russia and Iran.

Other agreements involving investment

Australia — New Zealand Closer Economic Relations

This year marked the twentieth anniversary of the Closer Economic Relations Agreement between Australia and New Zealand. The objectives of CER are to expand free trade by eliminating barriers to trade and promoting fair competition. The Agreement has assisted in building momentum for trade liberalisation. By 1990, five years ahead of schedule, all tariffs and quantitative restrictions had been removed from trans-Tasman goods trade.

Australia and New Zealand continue to enjoy a close relationship with high levels of investment flowing between the two countries. In 1999 The Joint Prime Ministerial Taskforce on Australia New Zealand Bilateral Economic Relations (ANZBER) was established to address a number of issues including impediments to trans-Tasman investment. The review resulted in significant liberalisations to the investment regimes of Australia and New Zealand.

Australia aims to continue to build on the considerable achievements already made to simplify laws and regulations that affect trans-Tasman business. There are no practical impediments to trans-Tasman investment, ongoing flows of new investment are high, and neither of our respective screening bodies has declined an investment proposal from the other country in the last ten years.

Australia — Singapore Free Trade Agreement

In recognition of our longstanding friendship and growing trade and investment relationship, a free trade agreement between Australia and Singapore was signed during the period, creating greater economic integration and bilateral relations between our countries. The Singapore-Australia FTA (SAFTA) is Australia's first FTA since the conclusion of the Australia-New Zealand Closer Economic Relations Agreement over twenty years ago. SAFTA reflects a trend in recent years towards bilateral negotiations where the key objectives are the further liberalisation of trade in goods, services and investment between two countries.

SAFTA will improve the environment for Australian investment in Singapore. Australian investors will receive national treatment placing them on a par with domestic investors except in areas specifically exempted. In the event that investors from another country are offered more favourable terms by Singapore under another agreement, Singapore has agreed to consider offering Australian investors treatment no less favourable. Australian investors will also enjoy greater transparency in relation to investment restrictions in Singapore's government-linked companies. They will enjoy protection against expropriation and will be entitled to compensation should expropriation or other loss occur.

Under this agreement, Australia agreed to provide a help desk to assist Singaporean **business** investors with applications for direct investment in Australia. This was agreed in response to concerns expressed by Singaporean investors for more certainty and tangible assistance in the foreign investment application process. The help desk's services include the provision of advice regarding:

- foreign investment policy and its administration in Australia;
- any potential national interest concerns that proposals raise;
- how to complete forms and where to submit them; and
- statutory and non-statutory timeframes for assessing proposals.

The desk will also assist Singaporean investors to fulfil requests by the Foreign Investment Review Board for further information.

Australia — Thailand Closer Economic Relations (Free Trade Agreement)

On 30 May 2002, Prime Minister John Howard and his Thai counterpart, Dr Thaksin Shinawatra, announced that Australia and Thailand would begin negotiations towards a Closer Economic Relations-Free Trade Agreement. At the launch of these negotiations, the Prime Ministers indicated that the agreement would be comprehensive in scope, covering liberalisation of trade in goods and services, and provide for greater cooperation in a broad range of areas that would facilitate expanded trade flows and strengthen investment linkages.

The two Governments agreed to aim to complete the negotiations in time for the two Prime Ministers to make an announcement in the margins of the 2003 APEC Leaders' meeting scheduled for 20-21 October in Bangkok.

The completion of a comprehensive and liberalising agreement with the second largest economy in South East Asia, positions Australian exporters to take advantage of a rapidly growing Thai economy and improve the environment for two-way investment. The completion of this Agreement also demonstrates Australia's close economic integration within the South East Asian region and is expected to strengthen the linkages between Australia and the ASEAN Free Trade Area (AFTA).

This is Thailand's first comprehensive free trade agreement and its first free trade agreement with an OECD country. It is the third free trade agreement to be negotiated by Australia.

The Division was involved in negotiations relating to investment matters and attended four of the five full rounds of negotiations and a separate round on investment promotion and protection issues.

On investment, Australia sought to include investment promotion and protection provisions and liberalisation of Thailand's Foreign Business Act in the Agreement. Australia also sought to include a provision for further negotiations on market access in services and investment to be undertaken three years after the FTA enters into force.

The protection provisions of the Investment Chapter will guarantee that both countries' investors and their investments enjoy fair and equitable treatment, full protection and security and will be granted compensation for any losses incurred through expropriation and strife at fair market value.

Australia — US Free Trade Agreement

The Prime Minister, Mr John Howard, the Minister for Trade, Mr Mark Vaile, and the US Trade Representative, Mr Robert Zoellick, announced on 14 November 2002 that Australia and the United States would commence negotiations to conclude a free trade agreement. The Prime Minister and the US President have agreed to end-2003 as the target date for concluding the Agreement.

Both sides also indicated they are prepared to work hard to achieve a comprehensive and liberalising agreement that includes agriculture, manufacturing and services, and sets a high standard both for other FTAs and for the Doha round of WTO negotiations. It was acknowledged that the negotiation of a satisfactory outcome for both parties would be a difficult and challenging process.

Overall responsibility for the negotiations rests with DFAT. However, the Division has provided considerable input and participated in the investment and services negotiations.

During 2002-03, investment issues were discussed at two full rounds of negotiations and during some inter-sessional discussions. Discussions comprised:

- detailed information exchange on key areas of each others' regulatory regimes;
- substantive discussions on key obligations to be included in the Investment Chapter (including national treatment, most favoured nation treatment, fair and equitable treatment, full protection and security, expropriation and compensation for loss, transfers, exceptions and dispute settlement); and
- substantive discussions on market access offers tabled by both sides in the third round.

While both sides are seeking a broad-ranging agreement, which will provide a 'win-win' outcome for both Australia and the US, the successful conclusion of negotiations is dependent on reaching a balanced package of commitments in terms of each country's specific market access objectives. To Australia, many of its most important market access objectives are in agriculture.

Australia — Japan Trade and Economic Framework

On 1 May 2002, Prime Minister John Howard and Japanese Prime Minister Junichiro Koizumi announced jointly that the two Governments would commence consultations to explore all options for deeper economic linkages between Australia and Japan. In recognition of the strong trade and investment flows between Australia and Japan, the two Governments committed to undertake three working-level meetings to discuss options to further strengthen the bilateral economic relationship and build on the two other formal agreements between Australia and Japan (the Agreement on commerce between the Commonwealth of Australia and Japan, 1957 and the Basic Treaty of Friendship and Co-operation between Australia and Japan, 1976).

The first round of consultations was held in Tokyo on 2-3 September 2002, the second in Canberra on 28-29 November 2002 and the third, and final, working group session was held in Tokyo on 26-28 March this year. Australia registered its support for a comprehensive bilateral FTA. However, the significant differences between the views of Australia and Japan on agricultural trade issues will likely result in a more incremental approach to deepening bilateral linkages. On investment, the consultations focussed on an exchange of information and views on specific aspects of the investment regimes in both countries.

Department Secretary level officials met in Canberra on 26-27 June to agree on the outline of a report to both Prime Ministers on the next steps. The main objective of the report was the preparation of a Trade and Economic Framework Agreement to be signed by the two Prime Ministers during Mr Howard's visit to Tokyo in July 2003. Australia sought Japan's agreement to the following measures prior to the Prime Minister's visit to Japan in July:

- An "aspirational statement" on the long-term goal of trade and investment liberalisation between Australia and Japan.
- A package of trade and investment facilitation and cooperative measures in areas of commercial and policy priority.
- A forward work programme to examine the merits of bilateral liberalisation.
- An undertaking to hold bilateral consultations regarding the possible impact of both countries' FTAs with third countries on the Australia-Japan trade and investment relationship.
- Institutional provisions to oversee progress and implementation.
- Preserve the option of a comprehensive bilateral FTA in the future.

DFAT has primary responsibility for pursuing a trade and economic agreement with Japan. However, the Division is involved in the working group meetings and has provided analysis of Japan's foreign investment regime and conducted preparatory work for consultations.

Australia — China Trade and Economic Framework

Preliminary work toward an Australia-China Trade and Economic Framework Agreement, to examine the feasibility and benefits of an FTA between our countries, was undertaken during the period.

Recent Developments

For details of more recent developments regarding Australia's bilateral and multilateral relationships, refer to the international section of the FIRB website (see www.firb.gov.au/content/international.asp).

International investment position

This section 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 the International Monetary Fund, are based on different criteria from those used by the Board.

There are substantial differences between the Board's statistics and ABS statistics. These include differences in coverage, concepts and timing. 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 levels

Foreign investment has made a significant contribution to the development of Australia. It provides scope for higher rates of economic activity and employment than could be achieved from domestic levels of savings. FDI also provides access to the latest technology, production techniques and management skills. It also brings added value though commercial links that offer access to new markets.

The ABS estimated level, or stock, of foreign investment in Australia as at 30 June 2003, was $904 billion. This represented an increase of $47 billion, or 5.5 per cent, over the level at 30 June 2002. FDI accounted for $233 billion of this.

In comparison, the level of Australian investment abroad, as at 30 June 2003, was $461 billion. This represented an increase of $1.2 billion, over the level at 30 June 2002. FDI accounted for $152 billion of this.

FDI in the OECD area has decreased considerably since the investment boom of the late 1990s-2000. Table 4.1 highlights that expected FDI inflows and outflows in 2002 for all OECD countries are less than half that of 2000 and are significantly less than that in 1998 and 1999. Inflows are expected to be USD$490.6 billion in 2002 compared with USD$1,272.6 billion in 2000. FDI outflows were USD$1,276.5 billion in 2000 while they are expected to be only USD$606.4 billion in 2002.

Australia has proven to be remarkably resilient to the sluggishness of the global economy and other adverse shocks such as the drought. For example, both 2001 (USD$6.8 billion) and 2002 (USD$11 billion preliminary figure only) outflows of FDI respectively are greater than that reported for each year between 1997 and 2000. While our inflows have been relatively volatile over recent years, they tell a similar story with USD$14 billion expected in 2002, the highest level since the early 1990s, compared with only USD$2.9 billion in 1999 and USD$13 billion in 2000.

The countries accounting for the largest falls in FDI inflows over recent years are the United States and the United Kingdom. These countries are expected to receive 90 per cent and 79 per cent less FDI respectively in 2002 than that received during their peaks in 1999 and 2000. By contrast, FDI outflows from the United States have held up rather well. In 2002, total preliminary expected outflows are USD$123.5 billion compared with USD$30.1 billion inflows. This highlights a shift from the United States' previous role as a net importer of FDI to a net exporter.

New Zealand saw the largest relative decline in FDI inflows among OECD countries in 2002 with a 93 per cent decline.

Table 4.2 demonstrates that, while Australia's stock of inward FDI has remained relatively steady over the past five years (albeit still increasing), Australia's stock of outward FDI has increased at a rapid rate over the same period. As at 30 June 2001, among OECD countries, Australia had the twelfth largest stock of inward and outward FDI with USD$105.5 billion (4 per cent increase from 1997), and USD$91.4 billion (27 per cent increase from 1997) respectively.

Table 4.1: International Direct Investment Flows in OECD Countries (billion $USD)

Country	Inflows						Outflows					
	1997	1998	1999	2000	2001 p	2002 e	1997	1998	1999	2000	2001 p	2002 e
Australia	7.6	6.0	2.9	13.0	4.0	14.0	6.4	3.3	0.7	0.6	11.0	6.8
Austria	2.7	4.5	3.0	8.8	6.1	1.7	2.0	2.7	3.3	5.7	3.5	5.4
Belgium/Luxembourg	16.5	30.1	142.5	221.0	84.7	..	7.9	29.1	132.3	218.4	100.6	..
Belgium	..	..	..	..	..	18.3	..	..	..	..	..	13.3
Luxembourg	..	..	..	..	..	125.7	..	..	..	..	..	154.1
Canada	11.5	22.8	24.4	66.6	27.5	21.4	23.1	34.3	15.6	47.5	35.5	27.9
Czech Republic	1.3	3.7	6.3	5.0	5.6	8.4	..	0.1	0.1	..	0.2	0.2
Denmark	2.8	7.7	16.7	32.8	11.5	6.0	4.4	4.5	16.9	25.0	13.0	4.9
Finland	2.1	12.1	4.6	8.8	3.7	9.2	5.3	18.6	6.6	24.0	8.4	9.8
France	23.2	31.0	46.5	43.3	52.6	48.2	35.6	48.6	126.9	177.5	93.	62.6
Germany	12.2	24.6	55.8	203.1	33.9	38.1	41.8	88.8	109.6	56.9	42.1	24.6
Greece	1.1	0.1	0.6	1.1	1.6	..	..	-0.3	0.6	2.1	0.6	0.7
Hungary	2.2	2.1	2.0	1.7	2.6	0.9	0.5	0.5	0.3	0.6	0.3	0.3
Iceland	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.4	0.3	0.2
Ireland	2.7	8.9	18.5	26.5	15.7	19.0	1.0	3.9	6.1	4.6	5.9	2.7
Italy	5.0	4.3	6.9	13.4	14.9	14.6	12.2	16.1	6.7	12.3	21.5	17.1
Japan	3.2	3.2	12.7	8.3	6.2	9.3	26.0	24.2	22.8	31.5	38.4	32.3
Korea	2.8	5.4	9.3	9.3	3.5	2.0	4.4	4.7	4.2	5.0	2.4	2.7
Mexico	14.2	12.2	12.9	15.5	25.3	13.6	..	..	..	..	4.4	1.0
Netherlands	11.1	36.9	41.2	60.3	51.2	29.2	24.5	36.5	57.6	73.5	48.5	26.3
New Zealand	1.9	1.8	0.9	1.3	4.0	0.3	-1.6	0.4	1.1	0.6	0.7	0.3
Norway	3.9	4.4	8.3	5.9	2.1	0.8	5.0	3.2	6.3	8.3	-0.7	4.8
Poland	4.9	6.4	7.3	9.3	5.7	4.1	..	0.3	..	..	-0.1	0.3
Portugal	2.5	3.1	1.2	6.8	5.9	4.3	1.9	3.8	3.2	7.5	7.6	3.5
Slovak Republic	0.2	0.5	0.4	2.2	1.3	4.0	0.1	0.1	-0.4	..	0.1	..
Spain	6.4	11.8	15.8	37.5	28.0	21.2	12.5	18.9	42.1	54.7	33.1	18.5
Sweden	11.0	19.8	60.9	23.2	11.8	11.1	12.6	24.4	21.9	40.6	6.6	10.9
Switzerland	6.6	8.9	11.7	19.3	8.9	9.3	17.7	18.8	33.3	44.7	17.3	11.8
Turkey	0.8	0.9	0.8	1.0	3.3	1.0	0.3	0.4	0.6	0.9	0.5	0.2
United Kingdom	37.4	74.6	89.3	119.7	62.0	25.0	62.7	121.5	202.3	255.2	68.1	39.7
United States	105.6	179.0	289.5	307.7	130.8	30.1	104.8	142.6	188.9	178.3	127.8	123.5
Total OECD	**303.7**	**527.2**	**893.0**	**1272.6**	**614.5**	**490.6**	**411.3**	**650.4**	**1009.7**	**1276.5**	**690.4**	**606.4**

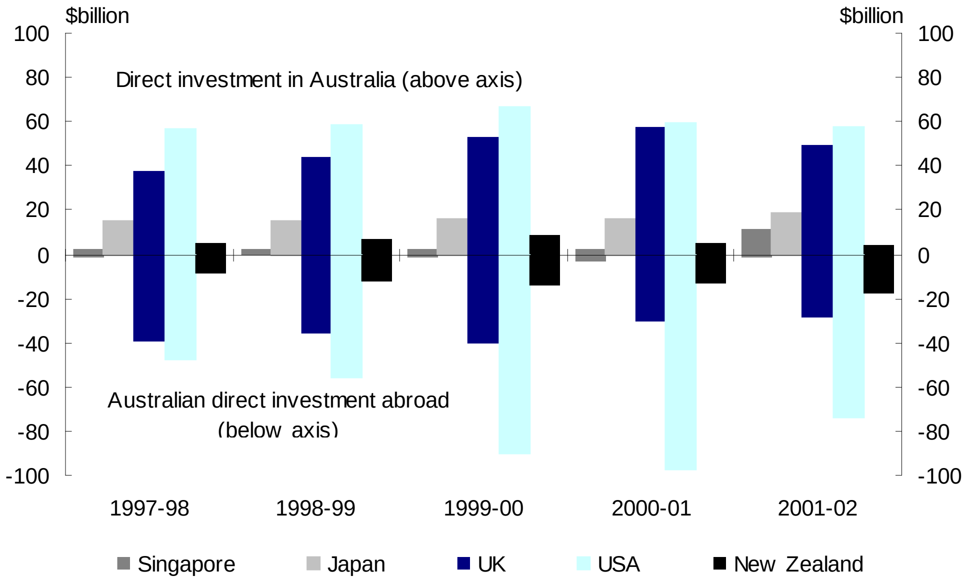
Source is IMF for: Japan 1990-95, Denmark 1992, 1993, 1995 and 1997
Source is OECD International direct investment database for all other data.
p Provision data.
e Expected outcomes
.. Statistics unavailable

Table 4.2: International direct investment position in OECD countries (billion $USD)

Country	Inward						Outward					
	1997	1998	1999	2000	2001 p	2002 e	1997	1998	1999	2000	2001 p	2002 e
Australia	101.1	106.0	121.7	109.3	105.5	128.7	72.0	78.6	89.6	83.2	91.4	91.2
Austria	19.5	23.6	23.5	30.4	34.8	43.3	14.0	17.5	19.1	24.8	27.0	38.1
Belgium	..	..	..	..	..	..	..	..	..	..	..	..
Canada	135.9	143.3	175.0	205.0	209.5	221.2	153.0	171.8	201.4	235.4	244.7	273.4
Czech Republic	9.2	14.4	17.5	21.6	27.1	38.5	0.5	0.8	0.7	0.7	1.1	1.5
Denmark	22.3	31.2	41.3	66.5	65.8	..	28.1	34.9	44.9	65.9	69.8	..
Finland	9.5	16.5	18.3	24.3	24.1	35.5	20.3	29.4	33.9	52.1	52.2	69.5
France	195.9	246.2	244.7	259.8	289.0	401.3	237.2	288.0	334.1	445.1	489.4	652.1
Germany	188.9	250.3	288.6	439.6	453.0	..	296.3	365.2	411.9	478.3	505.3	..
Greece	..	13.1	15.5	12.5	13.5	..	..	2.8	3.2	5.9	6.5	..
Hungary	16.3	18.8	19.5	20.0	23.1	28.7	0.9	1.3	1.5	2.0	2.3	2.7
Iceland	0.3	0.5	0.6	0.8	0.7	..	0.3	0.4	0.5	0.7	0.8	1.1
Ireland	..	62.5	72.8	118.5	138.3	..	..	20.3	25.2	27.9	33.7	..
Italy	85.4	108.8	108.6	113.0	107.9	126.5	139.4	177.0	181.9	180.3	182.4	194.5
Japan	27.1	26.1	46.1	50.3	50.3	78.1	271.9	270.0	248.8	278.4	300.1	304.2
Korea	..	..	..	..	..	..	..	..	..	..	20.0	..
Luxembourg	17.3	20.8	20.4	23.1	..	..	5.0	8.0	8.1	..	..	..
Mexico	55.8	63.6	78.1	97.2	140.4	..	..	..	..	..	..	11.9
Netherlands	127.4	168.9	192.6	246.6	285.4	..	209.6	230.8	263.8	307.8	329.4	..
New Zealand	31.4	33.2	32.9	28.1	20.6	25.4	5.6	5.5	7.0	6.1	7.0	8.5
Norway	20.7	26.1	29.4	30.3	32.6	..	27.5	31.6	31.9	33.7	.	..
Poland	14.6	22.5	26.1	34.2	41.0	..	0.7	1.2	1.0	1.0	1.1	..
Portugal	19.3	24.5	23.5	28.5	32.9	44.0	5.4	9.6	10.3	17.2	23.5	32.0
Slovak Republic	1.7	2.1	2.3	3.7	4.8	7.5	0.2	0.4	0.3	0.3	0.4	0.4
Spain	100.0	118.2	116.3	144.8	164.8	217.8	50.3	70.1	112.8	164.8	189.4	216.0
Sweden	41.5	51.0	73.3	94.0	92.2	..	78.2	93.5	106.3	123.2	122.	145.4
Switzerland	59.5	72.0	76.0	86.8	89.3	..	165.4	184.2	194.6	233.4	247.8	..
Turkey	..	..	..	19.2	17.5	..	..	..	..	3.7	3.8	..
United Kingdom	253.0	337.4	385.1	438.6	531.6	638.5	360.8	488.4	686.4	897.8	899.2	1033.0
United States	824.1	920.0	1101.7	1418.5	1514.4	1504.4	1879.3	2279.6	2839.6	2694.0	2301.9	
Total OECD	**2377.8**	**2921.0**	**3351.4**	**3668.2**	**4261.2**	**..**	**4021.9**	**4860.9**	**5858.8**	**6363.7**	**5822.8**	..

Source is IMF for: Japan 1990-95, Denmark 1992, 1993, 1995 and 1997 and OECD International direct investment database for all other data.
p Provision data.
e Expected outcomes.
.. Statistics unavailable

Chart 4.1: Level of foreign direct investment by country at 30 June 2002 ($billion)



Source: ABS 5352.0 International Investment Position, Australia, Supplementary Country Statistics, 2001 02.

Foreign investment levels by country

Chart 4.1 shows the level of FDI between Australia and other major sources of FDI, namely, the US, the UK, Japan, New Zealand and Singapore for the period 30 June 1998 to 30 June 2002.

The stock of FDI in Australia from the US, the UK, Japan and New Zealand fell from 30 June 2001 to 2002. Interestingly, the stock of FDI from Singapore increased by 363 percent, from $2.5 billion in 2001 to $11.5 billion in 2002.

The US is the single largest source of FDI in Australia and the largest destination for Australian FDI abroad. The stock of Australian direct investment in the US at 30 June 2002 was $74 billion, some $16 billion greater than the stock of US direct investment in Australia on the same date. In comparison, Australian direct investment in the US on 30 June 1998 was $9 billion less than the stock of US direct investment in Australia.

The UK was the other major source of direct investment in Australia increasing by 31 per cent over the five year period from $38 billion to $49 billion. Australian FDI into the UK has decreased over the period, from $40 billion in 1998 to $28 billion in 2002.

Investment in Australia by Japan has steadily increased over the five year period from $15 billion to $19 billion (26 per cent). The level of direct investment from New Zealand fell from $5.4 billion at 30 June 1998 to $4.4 billion at 30 June 2002.

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. 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.

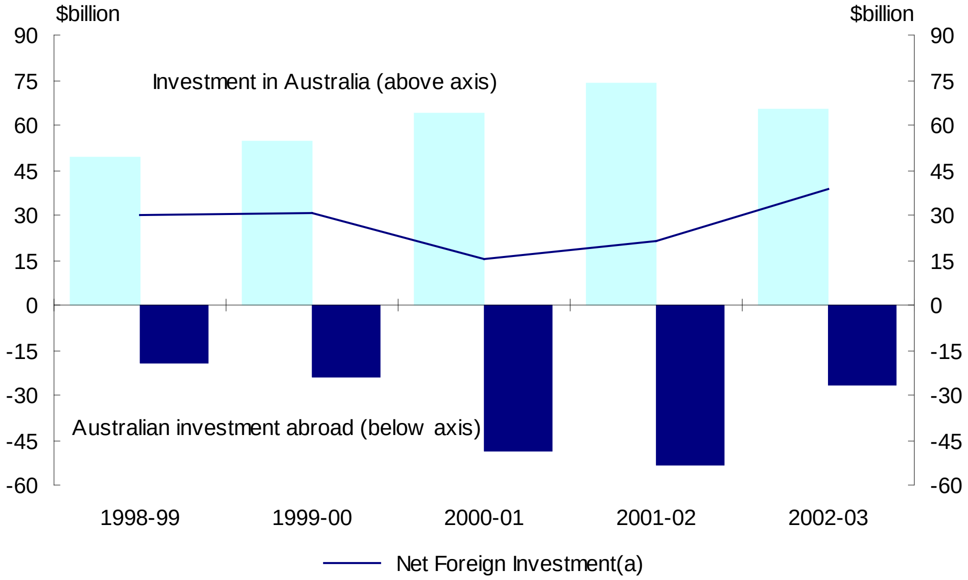
Table 4.3: Foreign investment flows ($billion)(a)

	1998-99	1999-00	2000-01	2001-02	2002-03
Australian investment abroad					
Direct investment					
Equity & reinvested earnings	-4.6	-5.2	-2.8	-25.7	-8.7
Other capital	1.3	1.8	-6.9	5.5	-2.6
Portfolio investment					
Equity	-6.5	-14.8	-17.2	-21.6	-13.7
Debt	-4.5	-2.8	-7.9	-5.8	-0.6
Derivatives(b)		-0.9	0.9	-0.7	5.4
Other investment(c)	-5.0	0.0	-6.1	-5.5	-0.6
Reserve assets	-0.4	-2.6	-8.9	0.8	-5.6
Total Australian investment abroad	-19.7	-24.5	-48.9	-53.0	-26.4
Foreign investment in Australia					
Direct investment					
Equity & reinvested earnings	9.1	8.7	7.1	18.1	15.3
Other capital	-1.1	4.5	5.1	6.1	6.1
Portfolio investment					
Equity	18.4	4.5	18.7	9.4	2.0
Debt	-1.0	26.1	24.2	26.8	31.5
Derivatives(b)		1.3	-1.4	1.0	-5.5
Other investment(c)	21.5	10.1	10.4	12.7	15.9
Total Foreign investment in Australia	46.9	55.2	64.2	74.1	65.2
Net Foreign Investment(b)	**27.2**	**30.7**	**15.3**	**21.1**	**38.8**

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) Derivatives were included in other investments prior to 2000.
(c) Other investment includes all other investment.
Source: ABS 5302.0 Balance of Payments and International Investment Position, Australia, September Qtr 2003.

Chart 4.2: Foreign investment flows



(a) The net foreign investment figure has been derived from determining the difference between foreign investment in Australia and Australian investment abroad.
Source: ABS 5302.0 Balance of Payments and International Investment Position, Australia, September Qtr 2003.

Table 4.3 provides a breakdown of the flow of foreign investment over the past five years measured by ABS statistics. Chart 4.2 provides a summary of the major trends in foreign investment flows from the same data.

These highlight the annual fluctuations of foreign investment flows into and out of Australia over the past five financial years.

Continued structural change within a maturing Australian economy over the past two decades has significantly changed the pattern and direction of investment flows, including direct investment. The trend over the five years to 30 June 2003 shows the flows of Australian direct investment abroad have increased by 245 per cent, from $3.3 billion in 1998-99 to $11.4 billion in 2002-03. Flows of FDI into Australia increased by 168 per cent, from $8 billion to $21.4 billion over the same period.

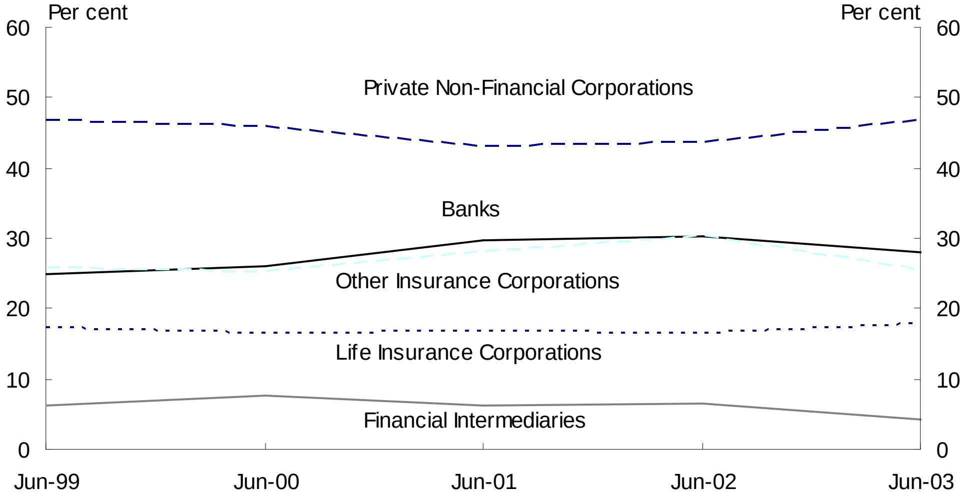
Flows of total investment abroad increased by 34 per cent over the five year period, from $19.7 billion to $26.4 billion at 30 June 2003. Flows of total investment in to Australia increased by approximately 39 per cent, from $46.9 billion to $65.2 billion.

Foreign investment by sector

Over the period 30 June 2002 to 30 June 2003, the percentage of foreign ownership of Australian equity increased for private non-financial corporations and life insurance corporations but decreased for all other sectors (Chart 4.3).

Foreign ownership of private non-financial corporations and life insurance corporations increased by 3 per cent and 1.5 per cent respectively, from 43.5 per cent in 2001-02 to 46.5 per cent in 2002-03 and 16.4 per cent to 17.9 per cent. Foreign ownership of banks and financial intermediaries decreased by around 2 per cent each, while other insurance corporations decreased by 4.7 per cent. Of the total equity on issue at 30 June 2003, non-residents held equity valued at $359 billion (30 per cent), while residents held equity valued at $824 billion (70 per cent). This represents a 1 per cent increase in equity held by non-residents from 29 per cent in both 2001 and 2002. The total value of equity on issue has remained relatively steady at $1,181 billion in 2003 ($1,083 billion in 2002).

Chart 4.3: Foreign ownership of Australian equity by sector



Source: ABS 5232.0 Financial Accounts, Australia, June Qtr 2003.

Useful references on international investment issues

Websites

Organisation	Address
Asia-Pacific Economic Cooperation (APEC)	<www.apec.org.sg>
Attorney-General's Department	<www.ag.gov.au>
Australian Bureau of Statistics	<www.abs.gov.au>
Australian Competition and Consumer Commission	<www.accc.gov.au>
Australian National Contact Point for the OECD Guidelines for Multinational Enterprises	<www.ausncp.gov.au>
Australian Prudential Regulatory Authority	<www.apra.gov.au>
Australian Securities and Investment Commission	<www.asic.gov.au>
Business and Industry Advisory Committee to the OECD	<www.biac.org>
Commonwealth Treasurer	<www.treasurer.gov.au>
Department of Foreign Affairs and Trade	<www.dfat.gov.au>
Department of Immigration and Multicultural and Indigenous Affairs	<www.immi.gov.au>
Department of Treasury	<www.treasury.gov.au>
Foreign Investment Review Board	<www.firb.gov.au>
International Monetary Fund	<www.imf.org>
Invest Australia	<www.investaustralia.gov.au>
OECD Guidelines for Multinational Enterprises	<www.oecd.org>
Organisation for Economic Co-operation and Development (OECD)	<www.oecd.org>
Scale Plus (Australian law online)	<www.scaleplus.law.gov.au>
United Nations	<www.un.org>
World Trade Organization (WTO)	<www.wto.org>

Specific documents

Document title	**Available at:**
Code of Liberalisation of Capital Movements	<www.oecd.org>
Economic Round Up (Treasury series)	<www.treasury.gov.au>
General Agreement on Tariffs in Trade (GATT)	<www.wto.org>
General Agreement on Trade in Services (GATS)	<www.wto.org>
Guide to the Investment Regimes of the APEC Member Economies	<www.apec.org.sg>
International Direct Investment Statistics Yearbook	<www.oecd.org>
International Investment Agreements (UNCTAD series)	<www.un.org>
OECD Code of Liberalisation of Current Invisible Operations	<www.oecd.org>
OCED Declaration on International Investment and Multinational Enterprises	<www.ausncp.gov.au>
OECD Guidelines for Multinational Enterprises	<www.ausncp.gov.au>
Policies and International Integration: Influences on Trade and Foreign Direct Investment (OECD Study)	<www.oecd.org>
The Trade and Investment Effects of Preferential Trading Arrangements — Old and New Evidence (Australian Productivity Commission — Staff Working Paper)	<www.pc.gov.au>
Treasury Annual Report	<www.treasury.gov.au>
UNCTAD Series on Issues in International Investment Agreements	<www.un.org>
UNCTAD World Investment Directory	<www.un.org>
UNCTAD World Investment Report	<www.un.org>