

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 are based on different criteria from those used by the Foreign Investment Review Board — the Board's figures are an aggregation of the proposals submitted for approval, along with the proposed associated expenditures, while those of the ABS are estimates of actual transactions that have occurred. The limitations of the Foreign Investment Review Board data are explained in Chapter 2.

Foreign Investment Flows

Foreign investment flows involve the creation or extinction of foreign financial assets or the change in ownership of a financial asset. 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, the inflow of foreign investment into Australia, minus the outflow of Australian investment abroad.

International investment statistics are divided into 'direct', 'portfolio' and 'other investment'. Under the ABS framework for 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 financial instruments available to and controlled by the Reserve Bank of Australia.

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.

Table 3.1: Foreign Investment Flows (\$billion)^(a)

	1993-94	1994-95	1995-96	1996-97	1997-98
Foreign Investment in Australia					
Direct investment					
Equity & Reinvested Earnings	5.3	7.4	12.5	11.2	10.2
Other capital	-0.4	0.1	0.5	-0.2	-1.4
Portfolio investment					
Equity	14.6	4.9	6.7	2.6	14.6
Debt	6.3	9.2	20.8	14.3	0.6
Other Investment	1.3	2.5	0.4	7.5	8.4
<i>Total Foreign Investment In Australia</i>	<i>27.1</i>	<i>24.2</i>	<i>40.9</i>	<i>35.4</i>	<i>32.4</i>
Australian Investment Abroad					
Direct investment					
Equity & Reinvested Earnings	-3.4	-3.4	-6.4	-6.3	-3.1
Other capital	-0.5	0.0	-1.5	0.5	-0.1
Portfolio investment					
Equity	-4.6	0.6	-3.0	-4.3	3.1
Debt	2.2	3.7	1.2	0.7	-0.2
Other Investment	-5.3	1.1	-9.5	-3.6	-8.7
Reserve Assets	-1.0	2.0	-0.8	-5.2	-0.6
<i>Total Australian Investment Abroad</i>	<i>-12.8</i>	<i>3.8</i>	<i>-20.0</i>	<i>-18.2</i>	<i>-9.6</i>
Net Foreign Investment (b)	14.3	28.0	20.8	17.2	22.8

Note: Figures may not add due to rounding.

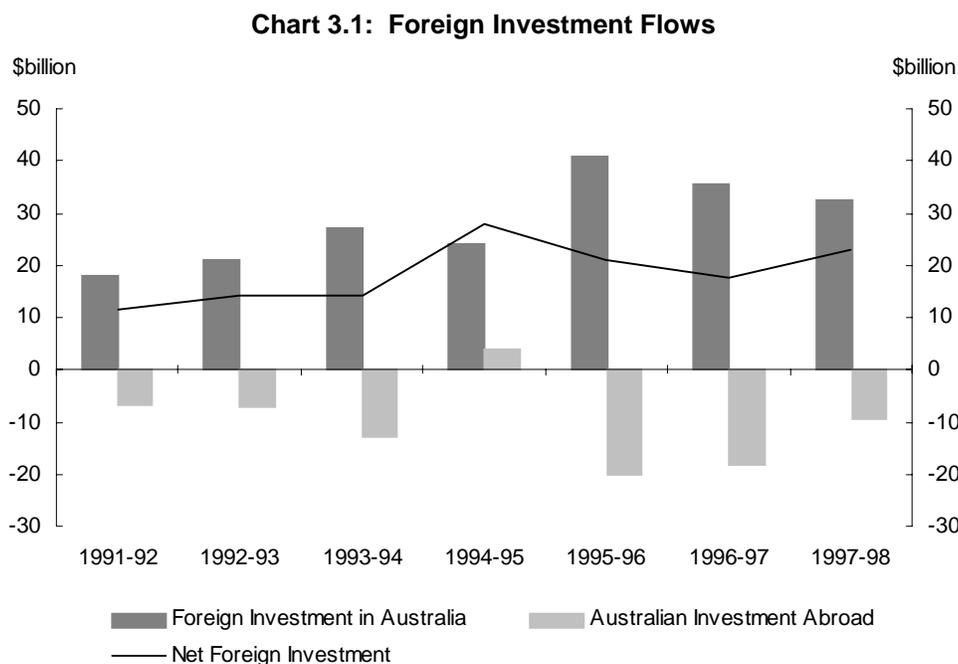
(a) In keeping with balance of payment conventions, credit entries are shown without sign and debit items are shown as negative entries. Thus, investment flows going from Australia to offshore destinations are shown as a negative.

(b) The net foreign investment figure has been derived from determining the difference between foreign investment in Australia and Australian investment abroad. No adjustment has been made to this figure to account for price changes, exchange rate changes and other adjustments.

Source: ABS 5302.0 Balance of Payments and International Investment Position, Australia, September Qtr 1998.

On 29 September 1997, the ABS announced a change in the basis of compilation and presentation of balance of payments and international investment position statistics in accordance with new upgraded international standards (for more information see ABS Information Paper 5365.0). For this reason the data and presentation of foreign investment flows and levels are not comparable with previous annual reports.

Chart 3.1 highlights the annual fluctuations of foreign investment flowing into Australia, and Australian investment abroad over the past seven years, with recent flows of net investment being above those earlier in the decade.



An important trend affecting foreign investment flows has been the significant reduction in public sector debt, particularly as a proportion of net foreign debt. As at 30 June 1998, the public sector was responsible for 23 per cent of net foreign debt. This compares to 31 per cent at 30 June 1997 and 35 per cent at 30 June 1996.

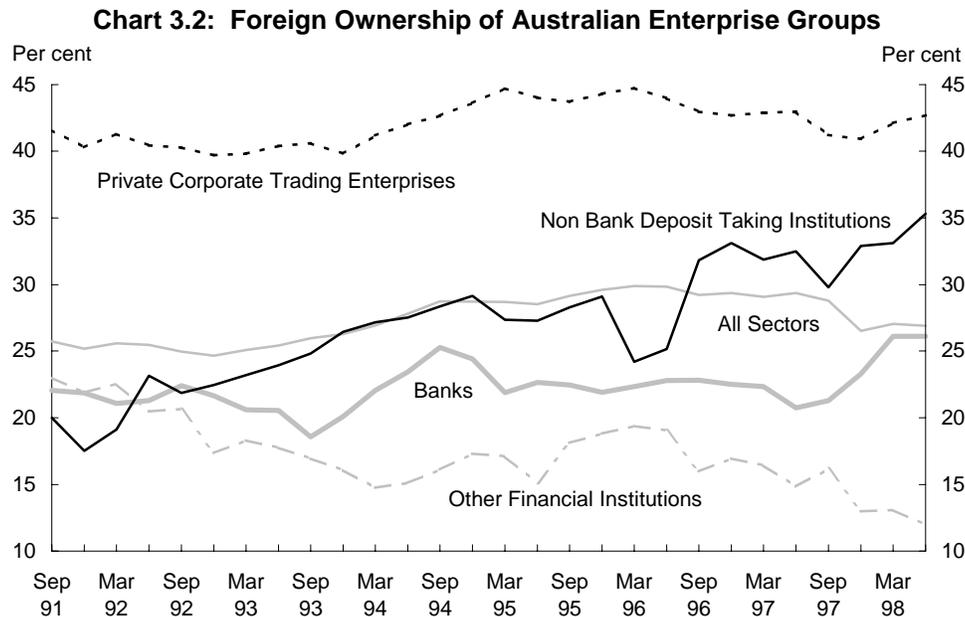
Foreign Investment Levels

The ABS estimated level, or stock, of foreign investment in Australia as at 30 June 1998 was \$563 billion. This represented an increase of \$53 billion, or 10 per cent, over the level at 30 June 1997.

In comparison, the level of Australian investment abroad as at 30 June 1998 was \$237 billion. This represented an increase of \$39 billion or 19 per cent, over the level at 30 June 1997.

As can be seen in **Chart 3.2** foreign ownership of Australian enterprises in the equity market has declined in 1997-98 from 29 per cent to around 27 per cent as at 30 June 1998. This decline is principally a function of the significant increases in equity ownership caused by the full or partial privatisation of Commonwealth public trading enterprises; the demutualisation of life offices and superannuation funds; and by other institutions, which have been strongly supported by Australian investors and in some instances involved limitations on investment by non-resident shareholders.

Of the total equity issued in the market at 30 June 1998, non-residents held equity valued at \$241 billion while residents held equity valued at \$654 billion.



Source: ABS 5232.0 Financial Accounts, Australia, June Qtr 1998