

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 the change in ownership of foreign financial assets (including the creation or extinction of foreign financial assets). 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’, ‘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.

Based on the same ABS statistics, Chart 3.1 provides a summary of major trends in foreign investment flows while Table 3.1 provides a breakdown of those flows.

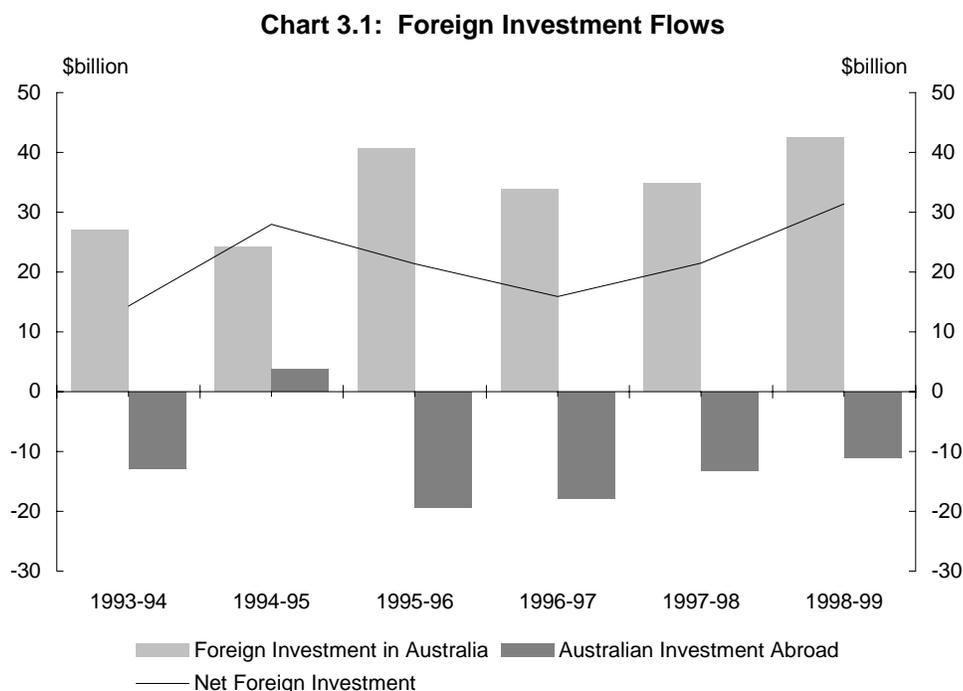


Table 3.1: Foreign Investment Flows (\$ billion)^(a)

| | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 |
|--|-------------|-------------|-------------|-------------|-------------|
| Foreign Investment in Australia | | | | | |
| Direct Investment | | | | | |
| Equity & Reinvested Earnings | 7.4 | 12.4 | 11.0 | 9.4 | 13.0 |
| Other Capital | 0.1 | 0.4 | -0.3 | -1.9 | 0.7 |
| Portfolio Investment | | | | | |
| Equity | 4.9 | 6.7 | 1.8 | 15.6 | 15.2 |
| Debt | 9.2 | 20.8 | 16.6 | -0.6 | 0.4 |
| Other Investment | 2.5 | 0.3 | 4.7 | 12.3 | 13.2 |
| <i>Total Foreign Investment in Australia</i> | 24.2 | 40.6 | 33.8 | 34.8 | 42.5 |
| Australian Investment Abroad | | | | | |
| Direct Investment | | | | | |
| Equity & Reinvested Earnings | -3.4 | -6.4 | -6.2 | -6.5 | -3.0 |
| Other Capital | 0.0 | -1.5 | 0.4 | 0.1 | 2.1 |
| Portfolio Investment | | | | | |
| Equity | 0.6 | -2.9 | -3.6 | 1.4 | -2.9 |
| Debt | 3.7 | 1.4 | 1.2 | -0.5 | -2.8 |
| Other Investment | 1.1 | -9.0 | -4.5 | -7.2 | -3.9 |
| Reserve Assets | 2.0 | -0.8 | -5.2 | -0.6 | -0.6 |
| <i>Total Australian Investment Abroad</i> | 3.8 | -19.2 | -17.9 | -13.3 | -11.1 |
| Net Foreign Investment (b) | 28.0 | 21.4 | 15.9 | 21.5 | 31.4 |

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 1999.

Foreign Investment Levels

The ABS estimated level, or stock, of foreign investment in Australia as at 30 June 1999 was \$612 billion. This represented an increase of \$42 billion, or 7.4 per cent, over the level at 30 June 1998.

In comparison, the level of Australian investment abroad as at 30 June 1999 was \$258 billion. This represented an increase of \$9 billion or 3.7 per cent, over the level at 30 June 1998.

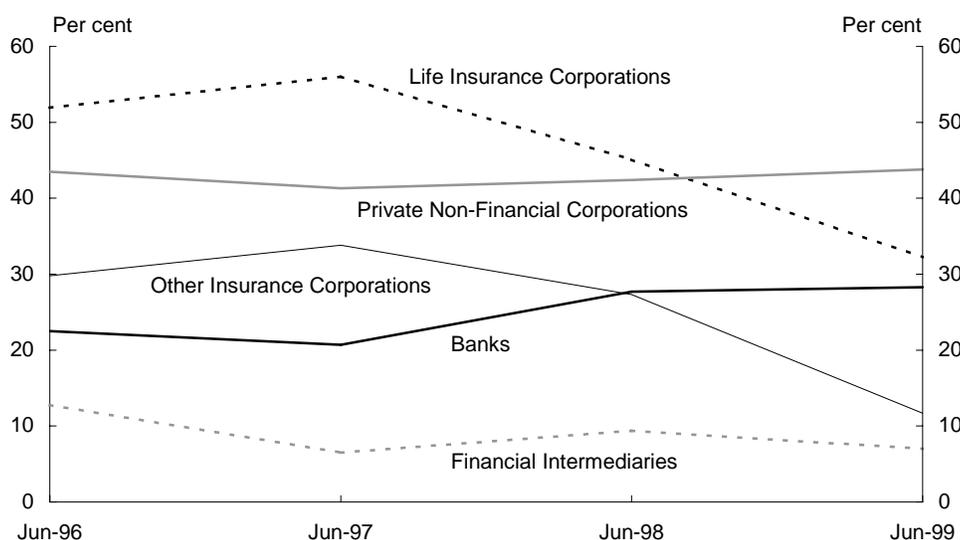
While foreign investment in Australian equities has grown solidly over the past three years the proportion of total foreign ownership of Australian enterprises has remained relatively stable.

Chart 3.2 shows foreign ownership of shares of private non-financial corporations increased from 41.3 per cent at the end of June 1997 to 43.7 per cent at the end of June 1999. One of the influences of this increase was the full privatisation of State government owned business enterprises.

The increases in foreign ownership percentages of shares of private non-financial corporations were offset somewhat by decreases in foreign ownership percentages in financial corporations, influenced by demutualisation of life insurance companies, which converted policyholder surpluses into shares. Foreign ownership of life insurance company shares was 56.0 per cent at the end of June 1997 and 32.2 per cent at the end of June 1999.

Of the total equity on issue at 30 June 1999, non-residents held equity valued at \$278 billion (28 per cent) while residents held equity valued at \$709 billion (72 per cent).

Chart 3.2: Foreign Ownership of Australian Enterprise Groups^(a)



(a) During the September quarter 1998, the ABS announced a change in the basis of compilation and presentation of financial accounts in accordance with new upgraded international standards (for more information see ABS Information Paper 5254.0). For this reason the data presented in Chart 3.2 is not comparable with previous annual reports.

Source: ABS 5232.0 Financial Accounts, Australia, June Qtr 1999.