

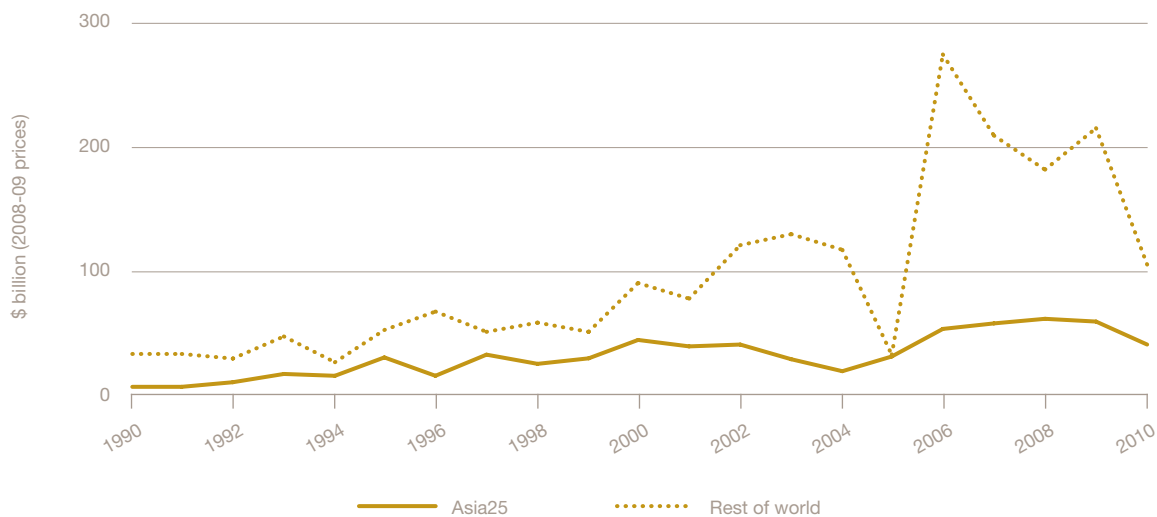
Investment

In contrast to the trade outcome, the Investment component of Australia's engagement with both Asia and the ROW fell in 2010, by 30.0% and 50.7% respectively.

There were sharp falls in the net inflow of investment to Australia from Asia and the ROW in 2010 – of 42.8% and 45.9% respectively. Meanwhile, the net outflow of investment from Australia to Asia rose by 6.4%, but net investment in the ROW fell sharply by almost 57% – this fall likely reflects ongoing negative investment prospects in the wake of the global financial crisis.

While the fall in the net inflow of investment to Australia from the ROW is also consistent with the latter point, this doesn't explain the downturn in the investment inflow from Asia, where economies were more buoyant in 2010. The general downturn in net investment inflows may in part reflect the sharp rise of the Australian dollar, which escalates the cost of investment, as well as general global economic uncertainty related to the fallout from the GFC.⁹ With many Asian currencies loosely tied to the US dollar, investment in Australia will have become significantly more costly.

Figure 5: Investment component¹⁰



⁹ See footnote 4 (Engagement at a glance) for recent Australian dollar exchange rate movements against major currencies.

¹⁰ The significant shift in ROW figures from 2003 to 2005 was the result of News Corporation's shift of incorporation from South Australia to Delaware in the United States. This reorganisation was recorded as a transaction which both reduced Australian investment abroad and reduced overseas direct investment in Australia. See FIRB 2008–09 Annual Report, page 55; ABS Cat. 5352.0 *Investment Position*, Australia: Supplementary Statistics, 2009.

Table 4: Trends for Investment component (inflow and outflow, A\$bn)[†]

	1990	1995	2000	2005	2009	2010	% change 2009–10
Asia25							
Inflow	4.8	19.2	24.0	9.4	44.4	25.4	-42.8
Outflow	3.4	12.3	21.5	22.6	15.6	16.6	6.4
Asia25 Total	8.2	31.5	45.5	32.0	60.0	42.0	-30.0
ROW							
Inflow	26.6	36.9	57.6	42.3	121.8	65.9	-45.9
Outflow	8.4	16.7	33.9	-8.6	93.9	40.5	-56.9
ROW Total	35.0	53.6	91.5	33.7	215.7	106.4	-50.7

Notes: † Values are in constant 2008–09 prices. Investment series comprises transactions only and thus excludes non-transaction changes in a country's asset position due to price changes, exchange rate changes and other adjustments. See ABS Cat. 5331.0 for a more detailed explanation.

Japan has come to dominate Australia's two-way investment engagement with Asia in the past decade, accounting for 41.9% of total investment flows in 2010. This two-way investment is in turn dominated by Japanese investment in Australia, which accounted for 76.7% of total two-way investment in 2010. Much of this investment has been in energy and mineral resource development, consistent with the escalation in resources prices since the early 2000s.

Hong Kong is the second most important investment 'partner', accounting for 13.1% of Australia's total investment flows with Asia. Hong Kong is followed by India, China and Singapore in that order, all with similar shares of the investment 'pie' of around 7% to 8%.

While two-way investment flows between Australia and Japan increased by 23.9% in 2010 from 2009, quite large falls were recorded for all of the other above-mentioned countries with the exception of India.

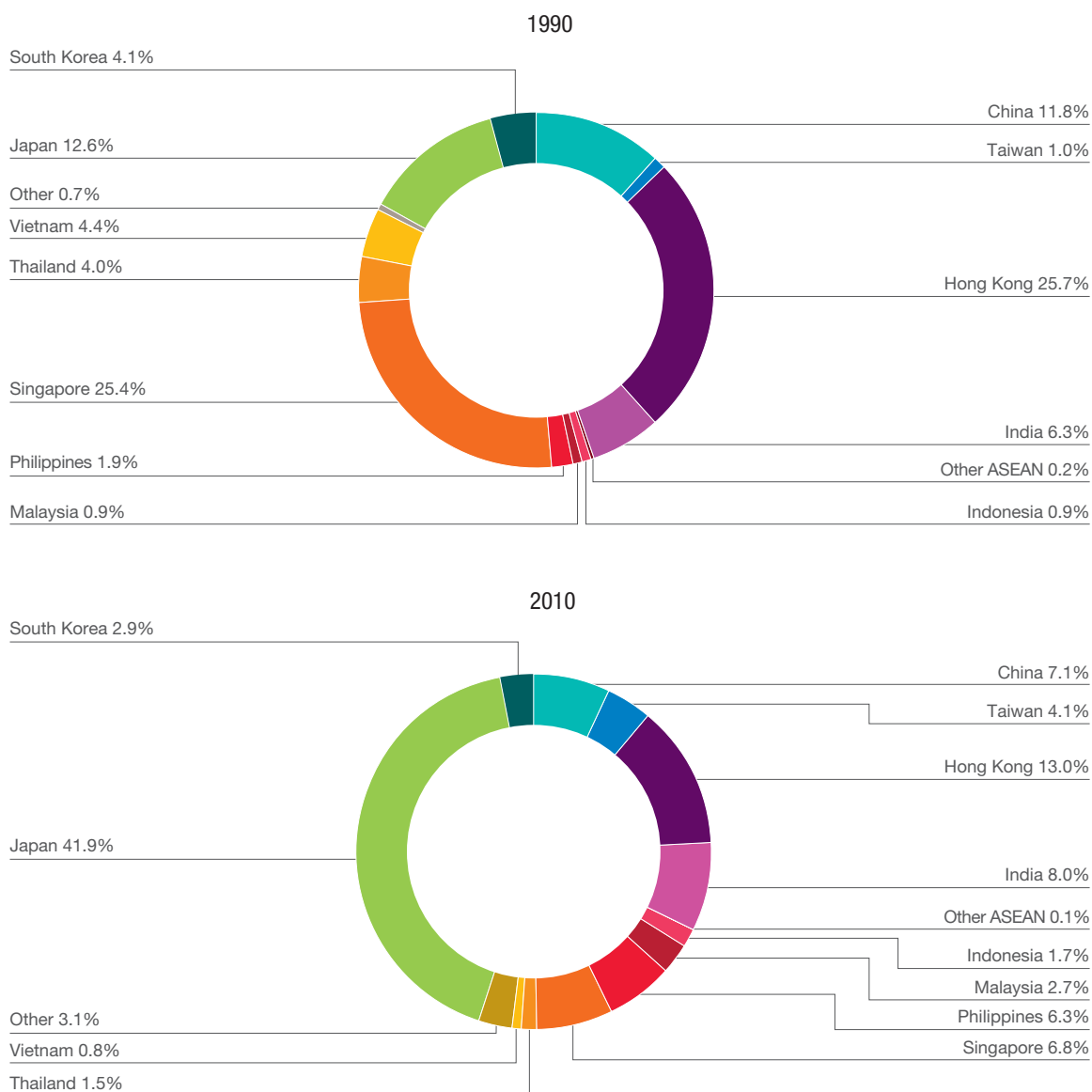
Historically Australia's top four investment partners have been the United States, the United Kingdom, Japan and New Zealand. An examination of inward investment from the United States and the United Kingdom shows that almost all is portfolio investment (investment in equity and debt securities), rather than direct investment (acquiring a significant or controlling interest in a company).

Inward investment into Australia from Japan, China and Singapore is largely direct investment (FDI), which arguably represents a higher level of engagement than more easily withdrawn portfolio investment.

Japan, China and India are big investors in energy and resources development in Australia – Japan for many decades. The increasing importance of Indian investment is evidenced by the recent announcement that energy company Adani Enterprises will become the biggest Indian investor in Australia, with a A\$10 billion investment project in Queensland coal.

Two-way investment engagement shares by country are shown in Figure 6.

Figure 6: Investment shares by economy¹¹



What 'Investment' measures

This component comprises the following investment data in constant price terms (deflated by the GDP price deflator):

- the absolute value of net foreign investment (direct, portfolio investment and other investment) into Australia from Asia, by country
- the absolute value of net foreign investment (direct, portfolio investment and other investment) from Australia into Asia, by country.

The Investment component comprises transactions only and thus excludes non-transactional changes in a country's asset position due to price changes, exchange rate changes and other adjustments.

The Investment component reveals patterns in the flow of investment to and from Australia; it does not reflect the stock of investment – the total amount of foreign assets in a country.

¹¹ 'Other ASEAN' includes Burma, Laos, Cambodia and Brunei Darussalam. 'Other' includes Sri Lanka, Maldives, East Timor, Macau, Bhutan, Nepal, Mongolia, Bangladesh and Pakistan.