

## **Technical appendices**

Appendix A – Explanatory notes

## Introduction

The *International Investment Australia* publication provides summary data on Australia's international investment relationships with the world.

Following the key points and summary of main investment trends this publication is divided into five sections.

***Section 1*** – *Australia’s international investment position – definitions and concepts –* contains information boxes which are designed to give the user background information on Australian Bureau of Statistics (ABS) international investment statistical concepts in an easy-to-understand format. These information boxes however do not cover all concepts and should be read in conjunction with these explanatory notes.

***Section 2*** – *Australia’s international investment position – summary tables* – presents information on Foreign Investment in Australia (FIA), and Australian Investment Abroad (AIA), in terms of flows, stocks and related income, rankings tables, as well as selected indicators on the openness of the Australian economy to international investment, including foreign ownership and ratios.

***Section 3*** – *International investment comparisons* – presents information on where Australia ranks in the world economy in terms of direct investment flows and stocks.

***Section 4*** – *Australia’s international investment – detailed tables* – presents information on AIA and FIA for total and direct investment by selected countries, regions and industry.

***Section 5*** – *Technical appendices* – provides explanatory notes surrounding the key concepts and terms used in this publication.

In ***Section 1, 2 and 4***, all values are presented in Australian dollar terms. In ***Section 3,*** all values are presented in US dollars unless otherwise specified.

The terminology used in this publication has been simplified were possible, to make it easier for novice users of international investment data to understand the concepts being covered. In addition, the balance of payments signage applied to ABS investment statistics has been removed.

## Data sources

The international investment statistics used to compile this publication have been obtained from the following sources:

* ABS – *Balance of Payments and International Investment Position*, December quarter 2021 (ABS catalogue 5302.0)
* ABS – *International Investment Position, Australia: Supplementary Statistics,* 2021 (ABS catalogue 5352.0)
* ABS – *Australian National Accounts,* December quarter 2021 (ABS catalogue 5206.0)
* ABS – *Selected Characteristics of Australian Businesses,* 2018-19 (ABS catalogue 8167.0)
* ABS – *Australian National Accounts: Financial Accounts,* December 2021(ABS catalogue 5232.0)
* FIRB – *Annual Report*, 2020-21
* UNCTAD – *World Investment Report, 2022* and *Foreign Direct Investment* database
* WTO – *World Trade Organization*, April 2022 database
* IMF WEO – *International Monetary Fund World Economic Outlook*, April 2022 database.

## Revisions to data

ABS editing procedures frequently lead to revisions of previously published international investment data. Figures in this publication contain all amendments made by the ABS up to May 2022.

## Confidential data

### International investment data

To avoid divulging commercially sensitive details of individual firms, the ABS restricts the release of certain statistics. In international investment statistics the ABS uses a ‘suppression’ methodology. Under this methodology, if a data cell is deemed to be confidential, the ABS would close that cell and flag it as ‘not published (np). As it is possible to calculate this cell by subtracting all other cells in the row from a total (or sub-total) series the ABS is also forced to suppress a non-confidential cell (called sequential confidentiality). As a result, the number of cells suppressed can grow exponentially. Therefore, a significant proportion of international investment data (especially at the partner economy level) is not published by the ABS.

This can make it difficult for users of ABS international investment to analyse trends in ABS international investment data, especially for compiling ranking tables. Therefore, the rankings for FIA and AIA (both total and direct) in ***Tables 5 to 8*** have been compiled by DFAT after carefully analysing not just the current year’s data but also the underlying series for confidentialised countries and previous years’ data. If a ranking has not been supplied, it indicates that it is not possible to accurately determine the ranking for the economy from the data published by the ABS.

## ABS international investment statistics

### Overview

ABS international investment statistics are compiled in accordance with the International Monetary Fund (IMF*) Balance of Payments and International Investment Position Manual*, sixth edition, 2008 (BPM6). Australia’s international investment position statistics measure the level (or stock) of foreign liabilities in Australia and Australian foreign assets abroad at the end of a period. The difference between stock of foreign liabilities and foreign assets is referred to as Australia’s net international investment position.

### Type of investment

The type of investment classification used in the international investment position consists of five broad categories:

**Direct investment** is investment, undertaken by an entity resident in one economy, in an enterprise resident in another economy, with the objectives of obtaining or sustaining a lasting interest in the enterprise and exercising a significant degree of influence in its management. A 10% equity investment threshold is applied as evidence of such a direct interest. The entity undertaking the investment is referred to as the direct investor and the enterprise in which the investment takes place is referred to as the direct investment enterprise.

A direct investment enterprise in an economy is an incorporated or unincorporated enterprise in which a foreign direct investor owns 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). Direct investment enterprises comprise branches (i.e. where fully owned by the direct investor but not incorporated in the economy where the branch is located), subsidiaries (where at least 50 per cent is owned by the direct investor) and associates (where between 10 per cent and 50 per cent is owned by the direct investor).

A direct investor may be an individual; an incorporated or unincorporated private or public enterprise; an associated group of individuals or enterprises; a government or a government agency; an estate or trust; or an international organisation which has an investment of 10 per cent or more in a direct investment enterprise in an economy other than the one in which the direct investor resides.

An enterprise that has significant long-term operations in more than one economy is divided into separate entities in each economy. These entities are always in a direct investment relationship: the head office constitutes the direct investor, and its branches constitute the direct investment enterprises.

**Portfolio investment** consists of equity (shares) and debt securities (bonds, bills, money market instruments) not classified to either direct investment, or reserve assets. Debt securities are further subdivided into two categories: bonds and notes; and money market instruments. Portfolio investment indicates investment in an enterprise where the investor has no appreciable say in the operation of the enterprise.

**Financial derivatives**, such as futures, swaps, forward rate agreements and forward foreign exchange agreements, are financial instruments that are linked to a specific financial instrument or indicator (foreign currencies, government bonds, share price indexes, interest rates), or to a particular commodity (gold, sugar, etc.). They provide a hedge for market financial risk in a form that can be traded or otherwise offset in the market.

**Reserve assets** refer to those foreign financial assets available to, and controlled by the Reserve Bank of Australia, for meeting balance of payments needs.

**Other investment** is a residual category that captures transactions not classified to direct investment, portfolio investment, financial derivatives or reserve assets. It covers trade credits, loans, currency and deposits, and a residual category for any other assets and liabilities.

### Assets and Liabilities

A financial asset is generally in the form of a financial claim by Australia on the rest of the world. It is either represented by a contractual obligation (such as a loan) or is evidenced by a security (such as a share certificate). A financial liability on the other hand, represents a financial claim of the rest of the world on Australia.

### International investment position (IIP)

Australia’s IIP is a balance sheet of the stock of foreign financial assets and liabilities at a point in time. The IIP may be viewed more broadly as a reconciliation statement showing the levels of Australia’s international assets and liabilities at two points of time and the components of change, namely flows and other changes (such as price changes, exchange rate movements and other adjustments).

### Direction of investment

The direction of investment refers to whether a transaction or investment position is Australian investment abroad (AIA) or foreign investment in Australia (FIA). Total AIA and FIA are the same as foreign assets and foreign liabilities, respectively, except for an adjustment made to assets and liabilities to net off certain direct investment claims.

**Table: Foreign assets and liabilities vs FIA and AIA
Stock at the end of the period
A$ million**

|  |  |  |  |
| --- | --- | --- | --- |
| Investment type | 2019 | 2020 | 2021 |
| Foreign assets | 3,019,850 | 3,106,687 | 3,388,949 |
| **AIA** | **2,966,459** | **3,051,389** | **3,326,724** |
| Difference | 53,391 | 55,298 | 62,225 |
| Foreign liabilities | 3,977,077 | 4,099,072 | 4,198,345 |
| **FIA** | **3,923,686** | **4,043,774** | **4,136,120** |
| Difference | 53,391 | 55,298 | 62,225 |

 Based on ABS catalogues 5302.0 & 5352.0.

For example, reverse direct investment (where a foreign parent company borrows from its own Australian subsidiary) is treated as a foreign asset, while under the FIA concept the reverse direct investment is treated as negative direct FIA (i.e. a negative liability). When an Australian parent company borrows from its foreign subsidiary it is treated as a foreign liability, while under AIA it is treated as negative direct AIA. The table above shows that the values between the two concepts are marginal in difference.

For simplicity in this publication all tables use the terminology FIA or AIA, regardless of whether it is based on FIA/AIA or foreign liabilities/assets. Footnotes in the tables identify when the foreign liability/asset concepts are being used.

### Instruments of investment

In the international investment position, all assets and liabilities can be classified to particular instruments of investment. The primary classification of instrument is by equity or by debt. All instruments can be classified under one of these headings.

For more information concerning the definitions and classifications used by the ABS in the compilation of balance of payments and IIP statistics, please refer to

* ABS publication Balance of Payments and International Investment Position, Australia, Concepts Sources and Methods 1998 and 2011 (ABS [catalogue 5331.0](http://www.abs.gov.au/AUSSTATS/abs%40.nsf/Lookup/5331.0Main%2BFeatures12011?OpenDocument))
* A Guide to Australian Balance of Payments and International Investment Position Statistics, 2004 (ABS [catalogue 5362.0.55.001](http://www.abs.gov.au/ausstats/abs%40.nsf/mf/5362.0.55.001))
* IMF Balance of Payments and International Investment Position Manual, sixth edition, 2008 (BPM6).

## Gross direct investment flows

Net inflows and net outflows of Australian direct investment have been split into their gross components (refer to ***Tables 3 and 4*** in this publication) based on a special data service from the ABS. Data is shown for injections of direct investment (new investment), reinvested earnings (profits that are retained in Australia rather than repatriated abroad) and withdrawals of existing direct investment.

It is possible to have negative injections if the parent company borrows funds from the direct investment enterprise (i.e. its affiliate in Australia - branch, subsidiaries etc). When the parent company repays the funds it will be treated as a negative withdrawal (i.e. analogous to an injection).

Negative reinvested earnings may also occur in some cases, for example, if losses are recorded by the direct investment enterprise or where dividends payable in a period is larger than net earnings in that period. Just as positive reinvested earnings are treated as being an injection of equity into the direct investment enterprise by the direct investor, negative reinvested earnings are treated as a withdrawal of equity.

### Quantum of new investment

The quantum of new direct investment in Australia (refer to ***Box A*** in this publication) is the sum of the gross inflows (injections) of foreign direct investment into Australia over the year plus any reinvested earnings for the same period. Reinvested earnings in Australia are treated as new direct investment as the foreign investor in Australia has made a decision to increase the amount of its foreign investment in Australia rather than repatriate the profits to its parent company abroad.

Note that some of the new gross inflows of foreign direct investment may be replacing existing foreign investment in Australia, for example if a foreign investor takes over a company in Australia that is already foreign owned. These transactions could not be separated by the ABS in its international investment statistics.

## Economy

The ABS can usually only identify the economy of the immediate source for foreign investment in Australia, or the first destination for Australian investment abroad.

Therefore, care should be exercised in interpreting ABS partner economy or UNCTAD world investment data as the investment data reflects the economy of the immediate investor, rather than the economy of the ultimate owner or investor. Many international investments are made through financial intermediaries, holding companies or investment managers which are often incorporated in third-party economies.

There are a number of economies which have become hubs as financial intermediaries and investment centres for global clientele. Examples include the British Virgin Islands and the Cayman Islands in the Caribbean, Hong Kong (SAR of China) and Singapore in Asia, and Belgium, Switzerland and Luxembourg in Europe. In some cases, these centres are the result of preferential tax arrangements.

## Two-way investment

Two-way (or mutual investment) is the sum of the stock of FIA and AIA. This is a useful measurement of the overall investment relationship between Australia and its investment partners. Two-way investment is useful in ranking Australia’s major investment partners, without a bias towards ranking only the larger foreign investment sources or the larger destinations for Australian investment abroad.

## Net international investment position to GDP ratio

The net international investment position to GDP ratio is derived from net foreign liabilities at the end of the period and GDP for the year ended with that period. The ratio is split at its two broad components: net foreign equity; and net foreign debt, as percentages of annual GDP as well as on a gross FIA and AIA basis.

## Openness: total trade and total FDI to GDP ratios

The total trade to GDP ratio, constructed as ((total exports + total imports)/GDP) is one of the most widely used measures of trade openness. The higher the ratio, the more ‘open’ the economy is with respect to international trade. Similarly, the ratio of two-way FDI (Foreign Direct Investment) to GDP provides an indication of openness with respect to foreign direct investment (both in terms of willingness to accept investment from abroad and to make investments abroad).

These measures of openness are influenced by a broad range of factors, including policy settings, geographic location, economy size and specialisation within economies. Users should be careful when using the ratios for comparison against one dimension (e.g. policy settings) when other factors may have a bigger influence. For instance when analysing Singapore and Hong Kong (SAR of China) trade data users should be aware they are trade entrepôts which has the impact of inflating the total trade to GDP ratio. Similar cautions apply to the investment ratios where, for example, an economy is used as an international investment hub.

## Foreign ownership of Australian business by industry

The ABS’s Business Characteristics Survey (BCS) is an annual survey based on a random sample of approximately 6,500 businesses using a mail-out questionnaire. The sample was stratified by industry and an employment based size indicator. All businesses on the ABS Business Register that identified as having 300 or more employees were included in the sample. The BCS included a question on whether the Australian business was foreign owned.

## Australian investment flows – domestic vs foreign

Australian investment flows sourced from domestic or foreign sources has been sourced from the National Capital Account in the ABS publication Australia’s National Accounts (catalogue number 5206.0). The *Net lending to non-resident* series has been used to calculate the foreign sources while the domestic sources have been calculated as the differences between the *Total capital accumulation* minus *Net lending to non-residents*. *Net lending to non-residents* is the sum of the following two balance of payments items – *Financial account balance* plus *Net errors and omissions*.

## Foreign Investment Review Board statistics

Foreign Investment Review Board (FIRB) approvals statistics presented in ***Box B*** of this publication provide information about proposed applications considered and approved by the FIRB. Depending on the type of investment, they will be made up of intended acquisition costs, establishment costs and development costs.

These ‘proposed’ investments differ markedly from the ‘actual’ investments reported by the Australian Bureau of Statistics (ABS). Users need to be aware that the FIRB data are not comprehensive in measuring transactions between Australian residents and non-residents and nor do they measure changes in net foreign ownership levels. FIRB only measures proposed investments falling within prescribed thresholds. Foreign investments by Australian residents are not in the scope of FIRB.

For more information on FIRB and FIRB statistics, and the differences between them and ABS statistics, refer to the information in *Box B* of this publication.

## UNCTAD international investment statistics

### Overview

United Nations Conference on Trade and Development (UNCTAD) international investment statistics are compiled in accordance with the International Monetary Fund (IMF*) Balance of Payments and International Investment Position Manual*, fifth edition, 1993 (BPM5).

### Methodology for compiling economy-level stocks data

For the international investment stocks information presented in ***Tables 13 to 17*** of this publication UNCTAD has used a variety of sources and methods to compile stocks for individual economies. Where available the stocks data have been sourced directly from economies’ national bodies, which is the ideal outcome. However, many economies’ datasets for international investment data are either not complete, not compiled in line with international standards or simply not available.

Datasets that are not complete might, for example, have stocks information available for some years but not others. Datasets not compiled in line with international standards might have the stocks valued on the basis of historical cost rather than (the recommended) market value.

To overcome missing or incomplete datasets UNCTAD has employed different strategies, including:

* partner economy information
* information obtained from international organisations, such as the IMF and the World Bank
* flows information, either summed to estimate stocks or used in conjunction with stocks data that is available only intermittently.

Because of this, users need to be careful when making inter-economy comparisons within the tables. The treatment applied to each economy by UNCTAD can be accessed via the UNCTAD [World Investment Report](https://unctad.org/topic/investment/world-investment-report) [Methodological note.](https://unctad.org/system/files/official-document/wir2022_chMethodNote_en.pdf)

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If you want to know more about these statistics or about other trade and economic products produced by DFAT, please email statssection@dfat.gov.au.

# Appendix B – Composition of regions and groups

**APEC Asia Pacific Economic Cooperation**Australia; Brunei; Canada; Chile; China; Hong Kong China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Republic of Korea; Russian Federation; Singapore; Chinese Taipei; Thailand; United States (incl Puerto Rico and the US Virgin Is.); Vietnam.

**ASEAN Association of South East Asian Nations**
Brunei; Cambodia; Indonesia; Laos; Malaysia; Myanmar, Philippines; Singapore; Thailand; Vietnam.

**Asia** ***Major Asian economies only***Brunei; Cambodia; China; Hong Kong (SAR of China); India; Indonesia; Japan; Laos; Malaysia; Myanmar, Philippines; Republic of Korea; Singapore; Taiwan; Thailand; Vietnam.

**CPTPP** **Comprehensive & Progressive Agreement for Trans-Pacific Partnership**Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam.

**EU European Union (excl the UK)**
Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovak Republic; Slovenia; Spain; Sweden.

**G20** **Group of Twenty**
Argentina; Australia; Brazil; Canada; China; European Union; France; Germany; India; Indonesia; Italy; Japan; Republic of Korea; Mexico; Russian Federation; Saudi Arabia; South Africa; Turkiye; United Kingdom; United States.

**OECD Organisation for Economic Cooperation and Development**
Australia; Austria; Belgium; Canada; Chile; Colombia; Costa Rica; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Iceland; Ireland; Israel; Italy; Japan; Latvia; Lithuania; Luxembourg; Mexico; Netherlands; New Zealand; Norway; Poland; Portugal; Republic of Korea; Slovak Republic; Slovenia; Spain; Sweden; Switzerland; Turkiye; United Kingdom; United States.

# Appendix C – Abbreviations and symbols used in all DFAT trade statistical publications

.. not meaningful

$b $ billion

$m $ million

ABARES Australian Bureau of Agricultural & Resource Economics & Sciences

ABS Australian Bureau of Statistics

adp automatic data processing

agric agricultural

AHECC Australian Harmonized Export Commodity Classification

alum aluminium

ANZSIC06 Australia and New Zealand Standard Industry Classification 2006

APEC Asia Pacific Economic Cooperation

bev beverage

BOP Balance of Payments

BPM5 IMF Balance of Payments and International Investment Position Manual 5th Edition

BPM6 IMF Balance of Payments and International Investment Position Manual 6th Edition

chem chemical

c.i.f. cost, insurance and freight

comp compounds

conc concentrates

confid confidential

constr construction

consump consumption

cont. continued

cool cooling

Curr Acc Current Account

CVM chain volume measure

Dem Democratic

DET Department of Education & Training

DFAT Department of Foreign Affairs and Trade

HA Home Affairs

DIIS Department of Industry, Innovation & Science

distrib distributing

EBOP The ABS Extended Balance of Payments services classification

elec electric, electrical

elem elements

ELICOS English Language Intensive Courses for Overseas Students

eng engineering

equip equipment

etc etcetera

ETM Elaborately transformed manufactures

EU European Union

excl excluding

f.c.f. fresh, chilled or frozen

Fed Federation

ferr ferrous

FISIM Financial Intermediation Services Indirectly Measured

f.o.b. free on board

GDP Gross Domestic Product

hand handling

HTISC Harmonized Tariff Item Statistical Code

HS Harmonized Commodity Description and Coding System

ICT Information, Communication and Technology

IIP International Investment Position

IIS (ABS) international Investment Survey

IMF International Monetary Fund

IMF IFS International Monetary Fund, International Financial Statistics

IMF WEO International Monetary Fund, World Economic Outlook

incl including

Ind Independent

IP Intellectual property

Is Island/s

instr instruments

insul insulated

interm intermediate

Int’l Waters International Waters

IPD implicit price deflator

IVS International Visitors Survey

mach machinery, machines

manuf manufactured, manufactures

medic medicaments

misc miscellaneous

mmf man-made fibres

MSITS Manual on Statistics of International Trade in Services

na not available

ncd no country details

nec not elsewhere classified

nei not elsewhere indicated

nfd not further defined

nie not indicated elsewhere

nes not elsewhere specified

np not published

Nth North

nya not yet available

OECD Organisation for Economic Cooperation and Development

pharm pharmaceutical

photo photographic

PPP Purchasing Power Parity

prec precious

prep preparations, prepared

pres preserved

proc processing

prod products

Rep Republic

SAR of China Special Administrative Region of China

SITC Standard International Trade Classification

SITS Survey of International Trade in Services

spec specifically

Sth South

STM Simply transformed manufactures

struct structures

synth synthetic

TCI Telecommunications, computer & information

telecom telecommunications

TRA Tourism Research Australia

TREC Trade Export Classification

TRIEC Trade Import and Export Classification

transport transportation

TSA Tourism Satellite Account

TWI Trade Weighted Index

UN United Nations

UNCTAD United Nations Conference on Trade and Development

unmanuf unmanufactured

USDA United States Department of Agriculture

veg vegetables

WTO World Trade Organization

yoy year on year