

OVERSEAS INVESTMENT OF AUSTRALIAN COMPANIES

TRADE AND INVESTMENT NOTE

APRIL 2015

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Australian Government
Australian Trade Commission



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EXECUTIVE SUMMARY

Investing overseas can help Australian companies remain competitive in a changing global trade landscape.

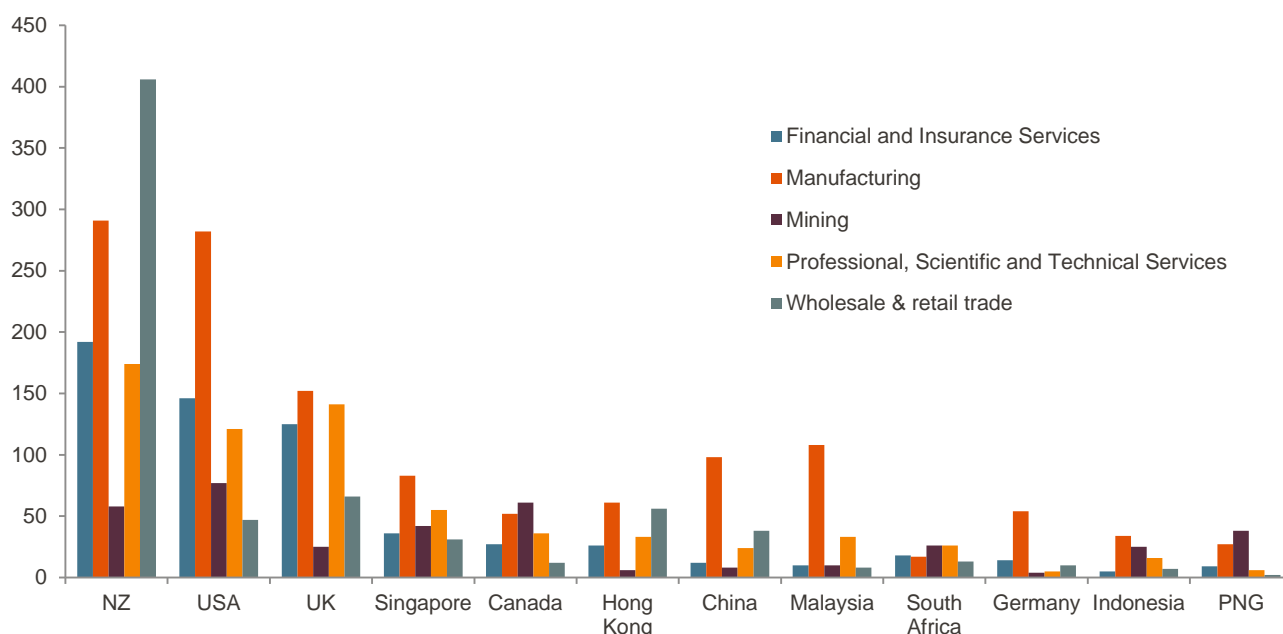
This paper presents new information on the overseas direct investments of Australian companies by market and industry. Findings may be useful to trade and investment service providers and policy makers.

Key findings include:

- One third of Australia’s top 2000 companies hold direct investments (defined as at least a 10 per cent stake) in an offshore market.
- On average, the companies which had invested overseas held investment in 4.5 markets.
- The top five locations of foreign affiliates of Australian companies were New Zealand, the USA, the UK, Singapore and Hong Kong.
- Australian manufacturing companies had invested in the greatest number of foreign companies, followed by professional scientific and technical services companies
- Use of individual company data allows more detailed analysis by industry and market compared to Australian Bureau of Statistics (ABS) FDI data.
 - In a number of top markets including the USA, Malaysia and China and Singapore, Australian manufacturing companies have more investments compared to any other sector.
 - New Zealand, UK and USA are the top three foreign markets for direct investment by Australian professional, scientific and technical services firms.

Direct investments of Australian companies by market and industry

(Number of investee companies)



Foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

UNDERSTANDING AUSTRALIA'S OVERSEAS INVESTMENT

As international trade has globalised, large companies have moved their production models from 'made in country X', to 'made in the world'. 'Factory Asia' and 'Factory Europe' have become hubs for importing simple materials, transforming them to finished goods, and exporting globally.

As companies have spread their supply chains across multiple markets, they have also increased their vertical and horizontal integration across country borders through direct investment.

With this shift, to better understand Australia's international trade flows, it makes sense to analyse Australia's two-way investment flows.

Inbound foreign direct investment into Australia over past decades, for example in the mining and food manufacturing industries has been a key driver of growth for Australia's exports, as well as growth of the domestic economy. Considerable analysis has been conducted to understand Australia's inbound investment profile.

Outbound investment can also benefit Australian companies, contributing to Australia's economic growth.

Firstly, companies can potentially be more competitive internationally and domestically when they internationalise their operations. In the manufacturing sector, this could, for example, mean a company chooses a lower cost, offshore location for part of their operations. This type of internationalisation through investment in offshore facilities has sometimes been criticised for shifting operational jobs offshore. This shift, however, may come at the same time as the company targets new international markets and new growth. It may help companies to develop economies of scale or achieve logistics cost reductions through being closer to a new customer base.

So although outbound investment may shift some lower-paid jobs offshore, it can also lead to more relatively highly paid jobs in the home country, which may have a higher skilled workforce to draw on - for example for research and development (R&D), finance and management roles. Even when shifting operations offshore does not coincide with company expansion, it can help to protect existing jobs.

As global trade has liberalised, case studies suggest that a number of Australian manufacturing companies, for example in the steel, chemical and auto industries, may have gone out of business due to foreign competition if they had not internationalised – accepting and making foreign investment, and changing the import and export components of their supply chain.

Secondly, outbound investment can improve access to new markets. For example, many Australian services companies, by their nature, need to be close to their customers in order to deliver their services. Being close to potential customers in foreign markets may mean setting up subsidiaries or entering into joint-ventures with local partners in these markets. These additional operations which target a new

customer base and new revenue may, once profitable, remit profits back to the Australian parent or Australian shareholders, contributing to Australian tax revenue. They may also increase the sales of the Australian operations to the subsidiary, potentially increasing jobs in the Australian head office.

Thirdly, joint ventures, mergers and acquisitions (M&A), investment in foreign R&D facilities, and the hiring of local foreign staff may provide access to new information, new contacts, and new areas of expertise, that help to bring innovation to the parent company including in its domestic operations.

Fourthly, where Australian companies have both cash and know-how, investing in existing or new foreign companies may allow them to take advantage of growth opportunities not available domestically and diversify their investment across a wider geography, allowing for a better return on capital. In this case where there is not a comparable domestic opportunity, it does not displace domestic investment that would otherwise have occurred. When profits are remitted back home, this contributes to Australia's tax revenue.

Despite these potential benefits, there has been little recent analysis of Australia's outbound investment profile as a whole. Moreover, the analysis that exists tends to be top-down, based on ABS balance of payments or international investment position data, which can be cut either by industry or market, but not both, and which shows total value but not the number of companies involved.

ABS data gives a top level view of the value of outbound FDI by market *or* industry of investment, however does not provide details by both market and industry. The data also does not provide a count of how many individual Australian companies invest overseas.

This paper provides this level of detail by analysing Australia's outbound FDI using individual company level data from Australia's top 2,000 public and private companies. The companies have revenues ranging from \$60 million to \$70 billion, meaning the analysis includes companies from medium-sized businesses (less than \$100 million of revenue) through to large multinationals.

Developing a better understanding of the role overseas direct investment plays in the growth of Australian companies doing business in international markets may help to provide a better understanding of the benefits that this investment may have for Australian exports and for domestic economic growth.

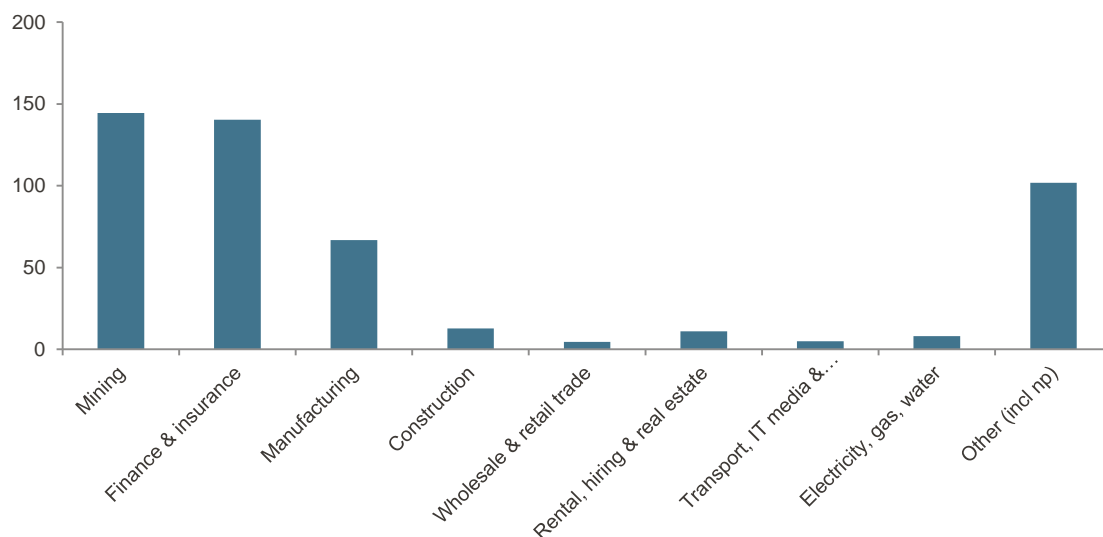
AUSTRALIA'S OUTBOUND FDI PROFILE

Australia's outbound FDI by value

Australia's stock of outbound FDI was \$495 billion in 2013. By total value of investment, the largest industries were mining (29 per cent); finance and insurance (28 per cent); and manufacturing (13 per cent).

Chart 1. Australia's direct investment abroad by industry, 2013

(\$billion)

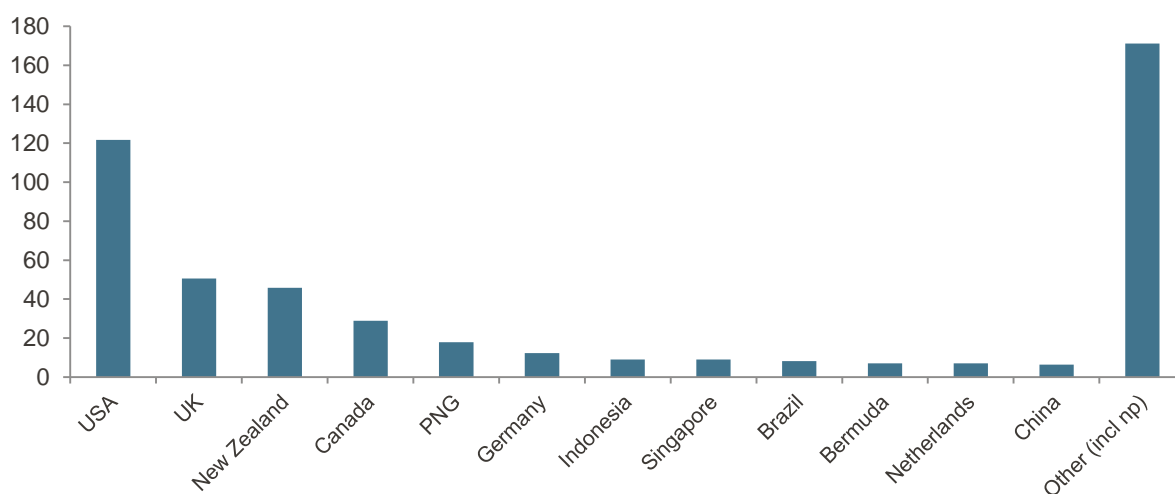


Source: ABS Cat 53520 - International Investment Position, Australia: Supplementary Statistics, 2013. Other include non-published data (20 percent of total), in industries including professional, scientific and technical services.

By overseas market, 50 percent of the total value of Australia's outbound FDI stock was in four countries: the USA (25 per cent), the UK (10 per cent), New Zealand (9 per cent) and Canada (6 per cent).

Chart 2. Australia's direct investment stock abroad, 2013

(A\$ billion)



Source: ABS Cat 53520 - International Investment Position, Australia: Supplementary Statistics, 2013

Australia's outbound FDI by company

Company level data from Australia's top 2,000 public and private companies with revenues ranging from \$60 million to \$70 billion was analysed by their direct foreign investments, defined as at least a 10 per cent ownership stake in a foreign company.

Thirty-three per cent of these companies held direct investment in at least one foreign company. Australian companies in the professional and technical services, administrative services, mining and manufacturing industries were the most likely to hold direct investment overseas.

Table 1. Direct investments of top Australian companies by industry, 2015

Industry	No. companies with o/s investment	No. companies analysed	Share with o/s investment (%)
Manufacturing	146	334	44
Wholesale Trade	64	298	21
Professional, Scientific and Technical Services	68	137	50
Financial and Insurance Services	49	211	23
Mining	58	109	53
Retail Trade	38	140	27
Construction	26	115	23
Information Media and Telecommunications	34	69	49
Rental, Hiring and Real Estate Services	26	64	41
Transport, Postal and Warehousing	34	91	37
Education and Training	27	52	52
Administrative and Support Services	17	35	49
Electricity, Gas, Water and Waste Services	24	73	33
Health Care and Social Assistance	13	70	19
Accommodation and Food Services	7	26	27
Arts and Recreation Services	7	39	18
Agriculture, Forestry and Fishing	8	20	40
Public Administration and Safety	2	97	2
Other Services	5	20	25
Grand Total	653	2000	33

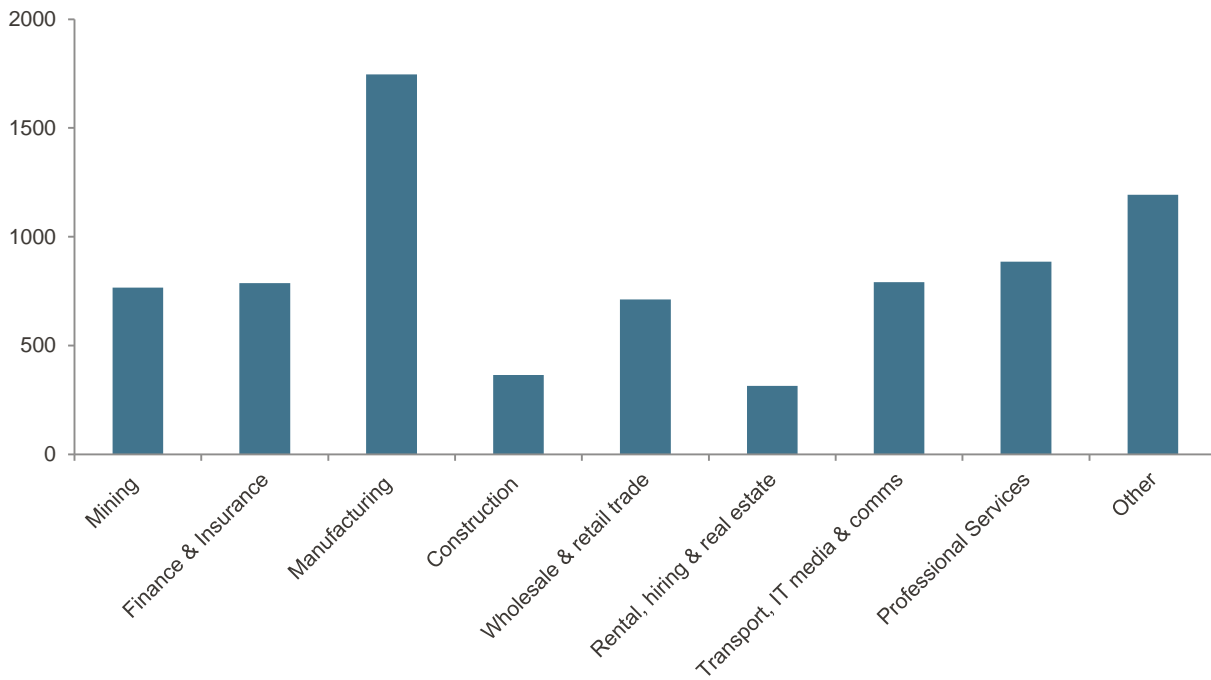
Source: IBISWorld company database February 2015, counts companies where an Australian company has a 10 per cent or greater stake. Industry classification is by parent company, as per ABS FDI data. Where data on a company's subsidiaries was not available, it was assumed that a company had none.

These 653 Australian companies collectively held direct investments (defined by the ABS as a 10 per cent or greater stake) in a total of 7,632 foreign companies. In line with the standard assumption that this 10 per cent or greater stake gives a degree of control over company management, and may also imply an operational connection, then the investee companies can be thought of as foreign affiliates of Australian companies.

By industry, Australian manufacturers and Australian professional service providers had invested in the greatest number of foreign companies.¹

Chart 3. Foreign direct investments of Australian companies by industry of parent, 2015

(Number of investee companies)



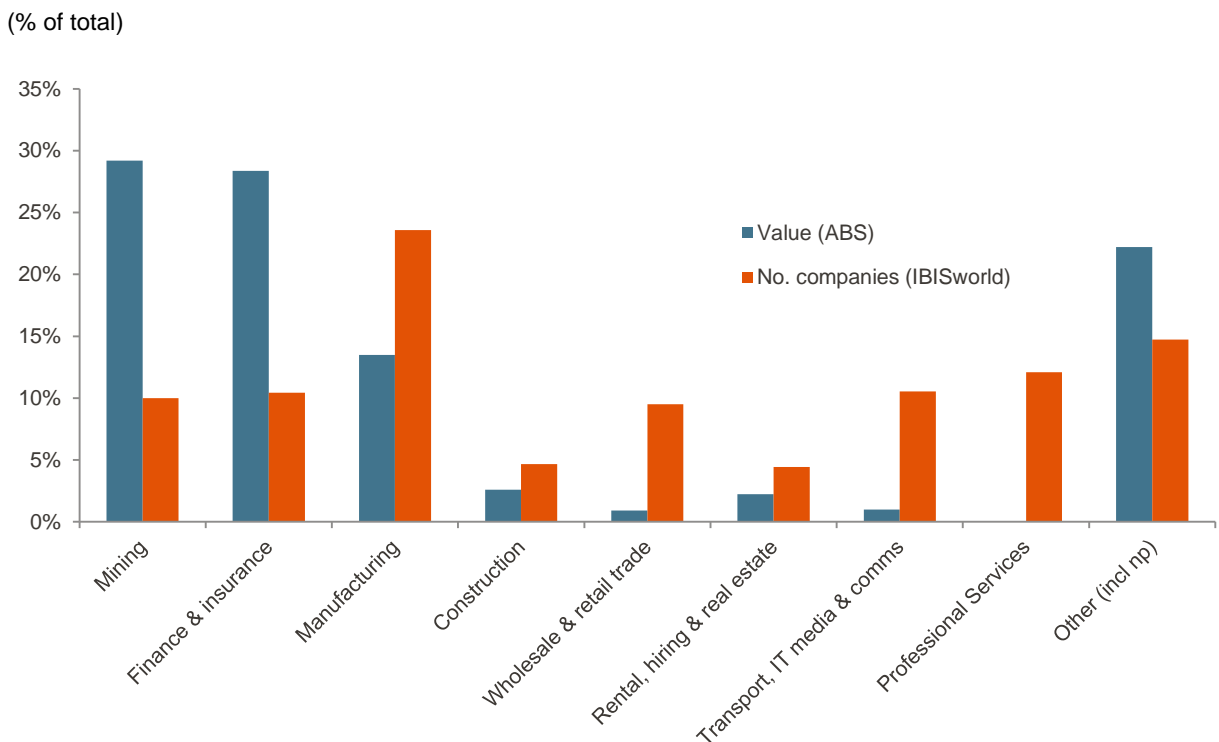
Foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

¹ Some companies had a large number of investments in one market, e.g. different subsidiaries for different US states, however ranking by industry was the same when counting only one subsidiary per parent for each market.

Chart 4 below, compares the by-industry percentage share of total value of outbound FDI stock, with the by-industry percentage share of number of investee companies. The gap between these suggests that top Australian mining and finance/insurance companies hold relatively fewer direct investments with a relatively larger average investment size. In comparison, top manufacturing companies hold relatively more investments with a smaller average investment size.

For professional and technical services companies, it is likely that these are included in the ‘other’ category in the ABS data, so it is not clear how this sector’s share by number of foreign companies compares to share by value of foreign direct investment. However this sector ranks second by number of companies but is not ranked in the top three by value. So it is likely that top Australian professional and technical services companies invest in relatively more foreign companies with relatively smaller average investment size.

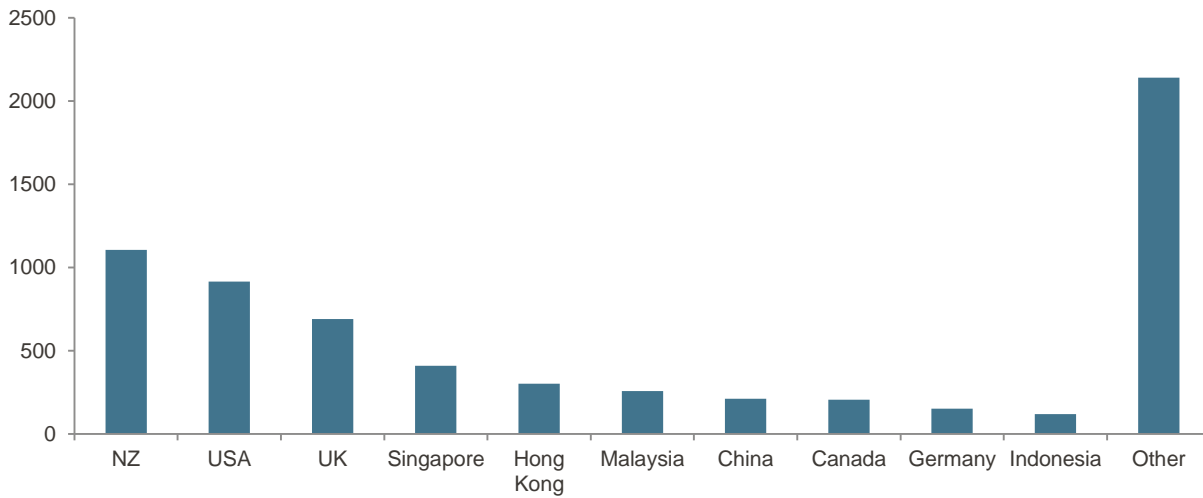
Chart 4. Value of investment stock and number of foreign affiliates of top Australian companies



Foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

The top five destinations for Australian companies to invest, by number of investee companies, are New Zealand, the USA, the UK, Singapore and Hong Kong.

Chart 5. Foreign direct investments of Australian companies by market
(number of investee companies)

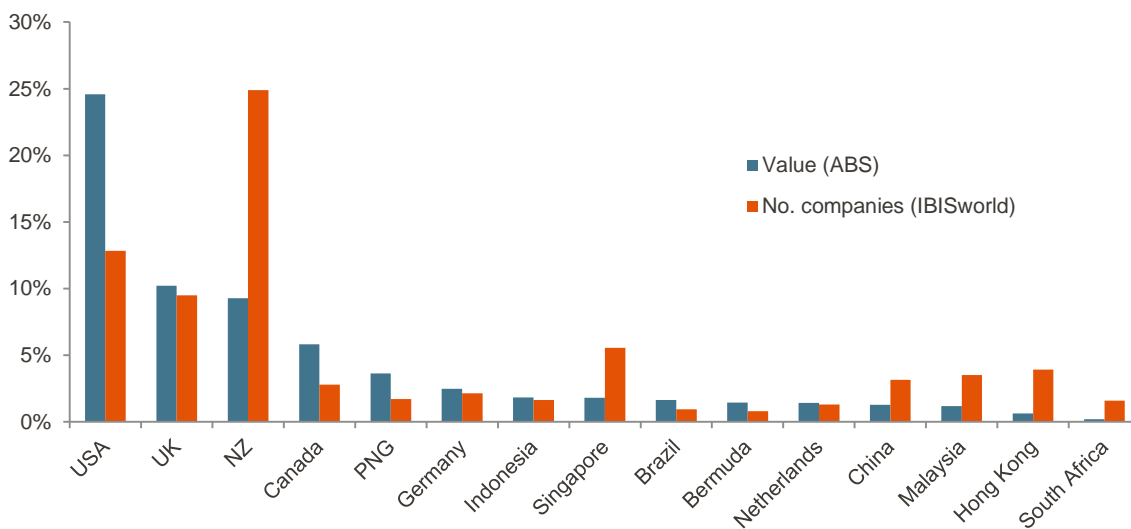


Foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

Chart 6, below, shows that New Zealand, Singapore, China, Malaysia and Hong Kong have a much greater share by number of foreign affiliates of Australian companies, compared to their share by total value of FDI. Singapore and Hong Kong move up to the top five destinations for Australian outbound investment by number of investee companies, compared to ranks of 8th and 14th respectively by value of FDI. South Africa ranks 20th by value of investment but is in the top 12 by number of investee companies. Conversely, the USA, Canada and PNG have a much lower share by number of investee companies compared to value of investment.

Chart 6. Value of investment stock versus number of foreign affiliates of top Australian companies, 2015

(% of total)



Sources: ABS Cat 53520 - International Investment Position, Australia: Supplementary Statistics, 2013; IBISWorld company database February 2015, counts foreign companies with 10 per cent or greater ownership by a top 2000 Australian company.

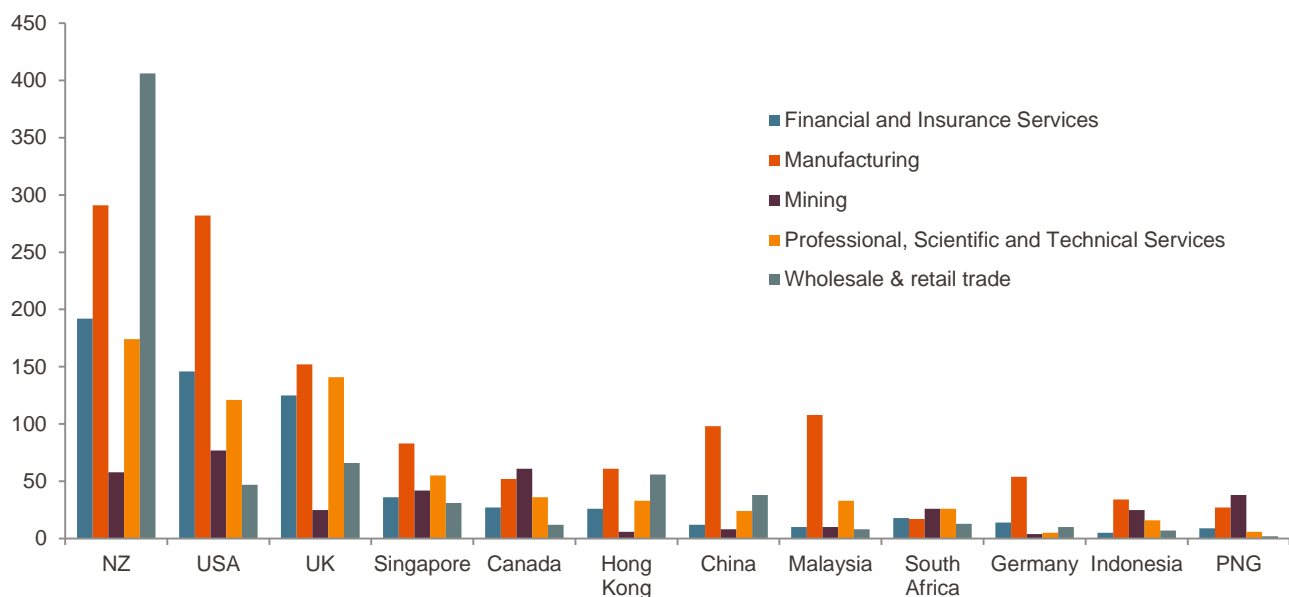
INVESTMENT BY INDUSTRY AND MARKET

This company-level analysis shows direct outbound investments by both industry and market, a level of granularity not available from ABS data.

For Australian manufacturers, New Zealand, the USA, the UK, Malaysia and China were top five destinations. For professional, scientific and technical service providers, the top three markets were New Zealand, the UK and the USA. For mining companies, the USA, Canada and New Zealand were the top three markets.

Chart 7. Direct investments of Australian companies by market and industry, 2015

(Number of investee companies)



Foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

Table 2. Direct investments of Australian companies by industry and market, 2015

Rank	Manufacturing		Wholesale & retail trade		Professional, Scientific and Technical Services		Financial and Insurance Services		Mining	
	Country	Companies	Country	Companies	Country	Companies	Country	Companies	Country	Companies
1	NZ	291	NZ	406	NZ	174	NZ	192	USA	77
2	USA	282	UK	66	UK	141	USA	146	Canada	61
3	UK	152	Hong Kong	56	USA	121	UK	125	NZ	58
4	Malaysia	108	USA	47	Singapore	55	Singapore	36	Singapore	42
5	China	98	China	38	Canada	36	Luxembourg	28	PNG	38
6	Singapore	83	Singapore	31	Hong Kong	33	Canada	27	Chile	35
7	Hong Kong	61	Ireland	25	Malaysia	33	Hong Kong	26	Philippines	31
8	Germany	54	South Africa	13	South Africa	26	Jersey	22	South Africa	26
9	Canada	52	Uruguay	13	China	24	South Africa	18	Indonesia	25
10	Mexico	36	Canada	12	Chile	21	Germany	14	UK	25

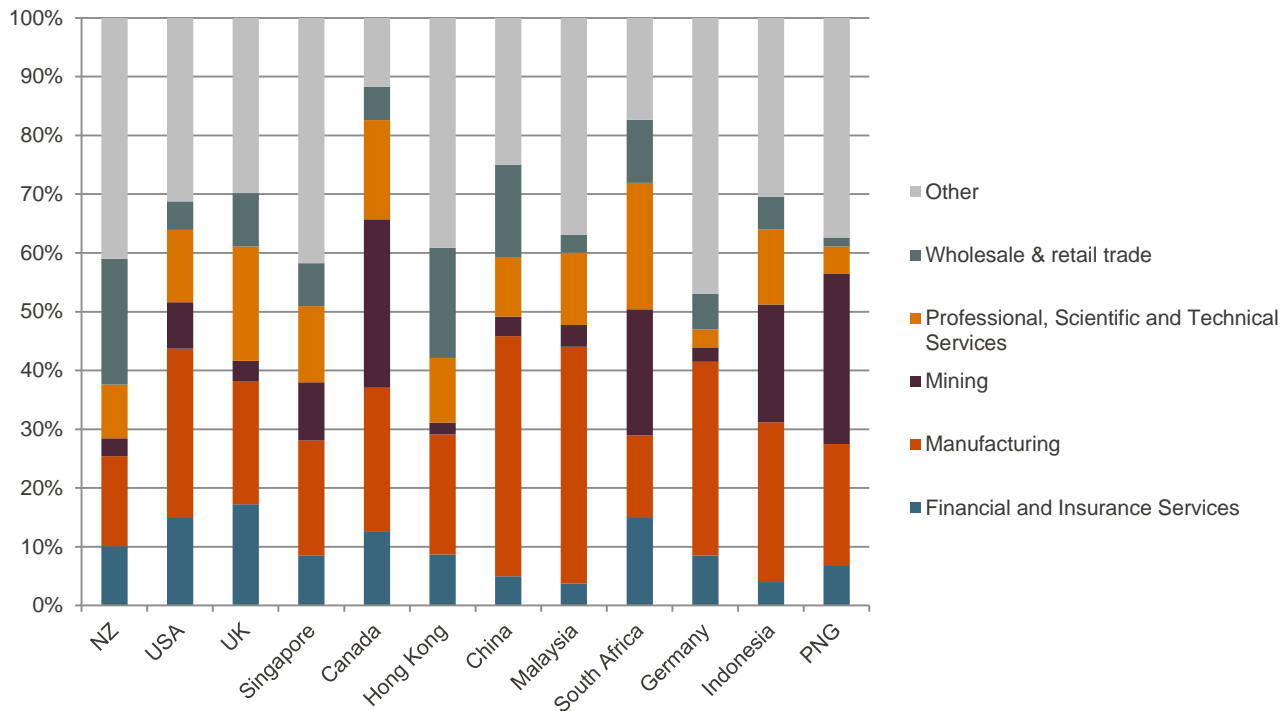
Source: IBISWorld company database February 2015.

A percentage-based comparison of all foreign affiliates of Australian companies in selected top markets shows that in a large number of markets including the USA, UK, Malaysia, China, Singapore, Germany and Indonesia, Australian manufacturing companies have made more investments than any other sector.

In Canada, South Africa, Indonesia and PNG, a large share have parent companies in the Australian mining sector.

Chart 8. Investments of Australian companies by market and industry

(percentage share by industry of all investee companies in each market)



Count of foreign companies with 10 per cent or greater ownership by a top 2000 Australian company; Source: IBISWorld company database February 2015.

Investment by number of markets

The number of markets in which companies invest is another measure of the degree of their internationalisation. This differs by sector. Table 3 shows that professional and technical services and admin services parent companies had invested in an average of more than six markets. Mining, manufacturing and construction companies had invested in an average of around five markets. In comparison, retail and wholesale trading companies had invested in an average of three markets.

Table 3. Number of markets where Australian companies with foreign direct investment have invested, by industry of parent company

Industry	Average no. markets	Max no. markets
Professional, Scientific and Technical Services	6.5	30.0
Mining	5.6	46.0
Manufacturing	5.2	66.0
Construction	4.8	27.0
Administrative and Support Services	4.8	17.0
Financial and Insurance Services	4.7	35.0
Transport, Postal and Warehousing	4.4	37.0
Information Media and Telecommunications	4.1	21.0
Arts and Recreation Services	3.8	6.0
Electricity, Gas, Water and Waste Services	3.3	18.0
Rental, Hiring and Real Estate Services	3.2	15.0
Retail Trade	3.0	10.0
Wholesale Trade	2.9	20.0
Education and Training	2.9	26.0
Health Care and Social Assistance	2.7	9.0
Agriculture, Forestry and Fishing	2.1	5.0
Accommodation and Food Services	2.0	6.0
Other Services	2.0	3.0
Public Administration and Safety	2.0	4.0
All Industries	4.5	66.0

Based on a count of foreign companies with 10 per cent or greater ownership by an Australian parent company; Source: IBISWorld company database Feb 2015.

This by-industry finding can be explored further by analysing the relationship between company size and the number of markets in which they invest. Table 4 below shows the correlation between company size and number of markets. It is based on a simple least squares analysis of the number of markets a company has invested in and the log of revenue of the Australian company. The correlation is not high, but shows that there is a weak relationship between company size and number of markets in which foreign investments are held, particularly for the mining and manufacturing sectors. So while larger companies tend to have investments in more markets than smaller companies, there are factors other than size that account for differences in terms of the number of markets invested in. The relationship also differs by industry.

Table 4. Correlation between Australian company annual revenue and number of foreign markets with direct investments, by industry of parent company

Industry	Correlation
All	0.35
Manufacturing	0.42
Professional and technical services	0.26
Mining	0.40
Wholesale	0.26

Based on a simple least squares analysis of the number of markets a company hold direct investment in and the log of revenue of the Australian company. Source: Based on IBIS world company database.

CONCLUSION

This company-level analysis of Australia's outbound investment profile develops a more detailed profile of the markets and industries in which Australian companies invest than is currently available from ABS data alone.

Overall, Australia's top 2000 companies seem to be relatively active in investing offshore. One third of the sample held direct investment in a foreign company and the average number of markets that they had invested in was 4.5.

The analysis also provides insight into which destinations are important by greatest number of foreign affiliates of Australian companies, as well relative investment size by company and market. A by market comparison by share of foreign affiliates companies versus share of outbound FDI value showed that Australian companies on average may make relatively larger individual investments in the USA compared to many other destinations. Notably, Singapore, Hong Kong and China were more important by number of companies compared to their rank by value of outbound FDI.

For Australian manufacturers, New Zealand, the USA, the UK, Malaysia and China were top five destinations for outbound investments. For professional, scientific and technical service providers, the top three markets were New Zealand, the UK and the USA. For mining companies, the USA, Canada and New Zealand were the top three destinations.

The analysis also looked at the relationship between outbound foreign investment and company size. While larger companies tended to have investments in more markets than smaller companies, this did not account for all of the difference, including at an industry level. This is consistent with the idea that there are factors other than size that account for differences in terms of the number of markets invested in.

AREAS FOR FURTHER RESEARCH

As the analysis is based on individual company data, the dataset can be matched with other information to build a richer source of comparative data. It can complement existing top-down approaches, such as those using ABS and UNCTAD data.

For example, where data is available on the value of investment (to measure investment size), or year of establishment (to measure how long a company has been in market), this can be added, and included in future analysis.

Analysis of company ownership - including Australian parent and subsidiaries as well as inward foreign investment into Australian companies - may also help to understand how Australian companies integrate into global supply chains.

Further work could examine the top two industries by number of foreign affiliates of Australian companies, the manufacturing sector and the professional services sector.

The manufacturing sector, which has the largest number of investments by count of investee companies, may be particularly relevant to analyse further. Understanding where Australian manufacturing companies invest may improve our understanding of Australia's integration into global manufacturing sector value chains. It may also provide a wider context to complement individual case studies, for example of Australian manufacturing companies which have successfully internationalised and for which outbound investment has been a core part of their operations and growth strategy.

Further analysis of the investments of professional and technical services companies may give better insight into the estimated \$90 billion to \$120 billion of services sold through foreign affiliates of Australian companies (foreign affiliate's trade in services, FATS)². These sales are not captured in the export data from the balance of payments and while the ABS conducted studies into FATS in 2009 on finance and insurance services only, and in 2003 across all industries, more recent analysis is not available. A more detailed understanding may be a useful input into informing services-related trade policy.

² Austrade estimate, 2014