FOREIGN DIRECT INVESTMENT (FDI) IN AUSTRALIA

FDI STOCK IN AUSTRALIA, 2017

$850b ▲ 7% (ON PREVIOUS YEAR)

CHANGE ON 2011

OVER $300b ▲ 50%+

Historically, Australia's supply of national savings has not been large enough to meet all of the economy's investment needs. Foreign direct investment bridges this gap, creating new jobs and supporting business development across the economy. Official statistics show that in 2017, Australia's FDI stock rose to $850 billion, a 7% increase on 2016. The main sources of FDI for Australia were:

- United States – FDI stock of $190 billion
- Japan – $93 billion
- United Kingdom – $83 billion.

In recent years, Australia has seen a solid increase in capital inflows from Asian markets including China, Singapore, Hong Kong and other ASEAN nations. This trend reflects Australia's close ties with these nations in the fast-growing Asian region.

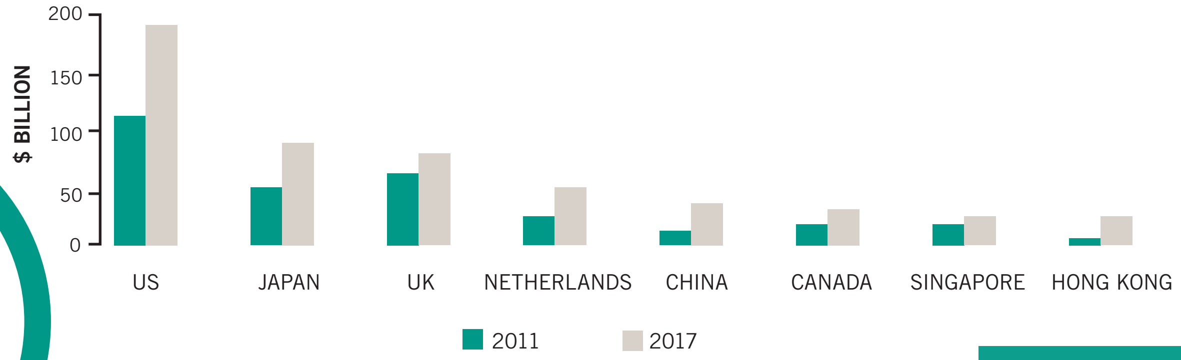
Australia is a much sought-after destination for business investment for a range of reasons. In general terms, these include political stability; a strong regulatory environment; a skilled workforce; low levels of industrial disputes and more than 27 years of uninterrupted economic growth. From a tourism perspective, investors are buoyed by the strong growth in domestic and international demand, with tourism spend increasing 6.9% to 131.4 billion in 2017–18.

The strong growth in demand is contributing to a healthy accommodation sector, with the national occupancy rate increasing 0.8 percentage points to 76.0% in 2017–18. Consumers have a taste for higher end offerings with occupancy rates for luxury and upscale establishments averaging 80.9% nationally, increasing the profitability measure of revenue per available room to $209.

Growth in demand for luxury offerings is largely domestically driven – with a 5.3% increase in domestic visitor nights in luxury establishments in 2017–18. The changing expectations among domestic consumers are contributing to a greater diversity of offerings, with large chains developing separately branded boutique hotels to operate alongside their mainstream establishments. The boutique offerings provide the convenience, reliability and comfort of a well-established chain, but strive to deliver a more personalised experience. Examples include:

- Marriott's Aloft Hotels
- InterContinental Hotel Group's Indigo brand
- Accor's MGallery by Sofitel.

VALUE OF FDI IN AUSTRALIA BY MARKET, 2011 AND 2017



Australia is benefitting from significant investment by overseas companies looking to capitalise on the surge in consumer demand for luxury experiences, with available rooms in 2017–18 rising 3.9%, a growth rate higher than any other accommodation type.

A substantial share of new hotel rooms come from mixed-use developments, reflecting their popularity around the globe, particularly in Asia. These developments typically combine a hotel with additional residential, commercial or entertainment spaces.

This movement aligns with new openings for luxury brand hotel groups such as:

- Toga Far East
- Marriott
- Hilton

Geographically, mixed-use development has been concentrated in Australia's four gateway states, with more than 70 projects under construction in New South Wales, Victoria, Queensland and Western Australia.

FOREIGN DIRECT INVESTMENT – THE GLOBAL STORY

The story for FDI flows overall has been quite mixed at the global level, and more recently has been muddied by the impact of changes in US policy.

Global inward FDI flows slumped by 23% in 2017, falling to US$1.4 trillion from close to US$1.9 trillion the year before. Last year saw a 22% drop in the value of cross-border mergers and acquisitions (M&A) as well as a 14% decline in the value of announced greenfield investments. A sizeable part of the drop in FDI in 2017 was due to the fact that the FDI figures were boosted in 2015 and 2016 via a series of large one-off transactions and corporate restructurings. Even after taking those effects into account, however, the United Nations Conference on Trade and Development (UNCTAD) considers that the underlying drop in FDI in 2017 was both sizeable and part of a longer-term negative cycle, caused by a combination of:

- growth in asset-light forms of foreign investment (reflecting the rising importance of technology and telecommunications companies in the world economy)
- a decline in the global rate of return on FDI.[1]

UNCTAD's official forecast for 2018 was for a marginal increase in global FDI flows to about US$1.5 trillion. However, the first half of 2018 has actually seen a further sharp drop in the value of global FDI, with flows falling by 41% to an estimated US$470 billion. This is down from US$794 billion in the same period in 2017.[2] The decline, though, is largely a consequence of the impact of US tax reforms, which have encouraged large repatriations of foreign earnings from their overseas affiliates by US corporations. UNCTAD notes that in the first half of 2017, US outward FDI was worth US$149 billion, with reinvested earnings accounting for US$147 billion. In contrast, in the first half of this year, US reinvested earnings reversed, delivering a net divestment of US$217 billion. Setting aside these intra-firm flows, the picture looks more positive: global M&A flows were down just 1% in the first half of 2018, while announced greenfield investments were up by a very strong 42%.

Against this global backdrop, Australia's overall inward FDI performance has been robust. In 2017, for example, UNCTAD once again ranked Australia as one of the world's top ten host economies for global FDI. Based on FDI flows over the first half of this year, Australia is currently ranked in fifth spot.

1 Source: UNCTAD World Investment Report 2018, June 2018

2 Source: UNCTAD Investment Trends Monitor, Issue 30, October 2018