Inward Direct Foreign Investment in Australia: Policy Controls and Economic Outcomes

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<th>Abbreviation</th>
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<tr>
<td>AIDC</td>
<td>Australian Industry Development Corporation</td>
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<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
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<td>CAD</td>
<td>Current Account Deficit</td>
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<td>FIRB</td>
<td>Foreign Investment Review Board</td>
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<td>IDFI</td>
<td>Inward Direct Foreign Investment</td>
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<td>MCN</td>
<td>Mass Circulation Newspapers</td>
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<td>TFL</td>
<td>Total Foreign Liabilities</td>
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Major Issues

Growth in the level of inward direct foreign investment (IDFI) and the sale of well-known Australia companies to foreign interests have again become prominent economic and political issues. The liberalisation of policy controls on IDFI has contributed substantially to these trends. Some sections of the community seek a return to earlier strict controls while other sections seek further liberalisation so that foreign-owned firms are treated in the same way as Australian-owned firms in their access to investment projects and assets in Australia.

Outward direct foreign investment from Australia has increased even more rapidly than IDFI in the last decade but still remains significantly below the level of IDFI. The level of IDFI is now about 2.5 times the level of outward Australian direct foreign investment.

Controls on IDFI began to be constructed in the early 1970s and were reinforced and extended by the Whitlam and Fraser Governments. From the mid 1980s onwards the Hawke and Keating Governments have progressively liberalised these controls. Earlier concerns about the deleterious effects of IDFI on the economic dynamism, national power and cultural sovereignty of host countries such as Australia gave way, in the eyes of Australian policymakers, to the need to encourage IDFI in order to upgrade our technological base and managerial skills, to increase competitive pressures on Australian-owned firms, to reduce reliance upon foreign debt accumulation to finance the current account deficit and to ease the way for outward Australian direct foreign investment.

However, the public debate on IDFI continues. Those wanting more restrictions on IDFI often seek to impose more extensive sets of conditions on IDFI projects so that Australia can get a greater share of the profits generated. Such conditions might be specified in terms of export, employment and/or research and development targets which must be met by the foreign investor. The role of the Foreign Investment Review Board (FIRB) in monitoring such conditions would be expanded. They also seek to quarantine larger numbers of sensitive sectors/industries from foreign ownership and control through legislated guarantees which exclude or limit foreign ownership.

Those seeking more liberalisation want to place foreign and domestic direct investors on an equal footing so that investment patterns are not distorted by policy interventions. They seek the abolition of the review process for IDFI applications organised through the FIRB. Undesirable IDFI proposals would still be rejected on grounds such as reductions in competition or environmental despoliation but such decisionmaking will be done by specialist regulatory bodies which do not take into account the particular nationality of the investors making the proposal. Similar proposals made by Australian investors would also be rejected.
Introduction

Foreign ownership and control has been a perennial issue of controversy in Australia, as most recently evidenced in the 1996 Federal election campaign. Foreign investment is often perceived as bringing with it substantial costs and benefits, with different sections of the community making diverging judgements about the relative balance of these costs and benefits. Some emphasise the costs and are led to support for substantial controls on foreign investment, while others emphasise the benefits and are led to support free flows of capital into and out of Australia, very largely unhindered by policy controls.

This paper provides a broad overview of this important economic and political issue. It begins with some discussion of definitions, concepts and explanations of direct foreign investment flows and then proceeds to a description of recent trends and outcomes for foreign investment. It goes on to present an historical survey of the evolution of policy controls on foreign investment, looking at in turn the years before 1975, the Fraser Government period and the Hawke/Keating period.

The debate on foreign investment and the explanation of recent policy trends are also addressed and the paper concludes with a discussion of feasible policy reform options for both those uneasy about foreign investment and those generally supportive of it.

Definitions, Concepts and Some Explanations

It is important to place the discussion of IDFI within the broader context of Australia's international transactions. This enhances understanding of the role of IDFI in our international economic relations.

Australia's international transactions are usually divided into two classes: the Current Account and the Capital Account. Current Account transactions are those which impact directly upon current national income. For example, export sales of goods and services add directly to national income and import spending on goods and services directly subtracts from national income; interest payments on foreign debt, dividend remittances overseas on foreign-owned businesses and income transfers from Australians to those overseas (e.g. gifts to family members overseas, official foreign development assistance) also reduce national income, while the relevant reverse transactions increase our national income.

A Current Account Deficit (CAD) occurs when total spending in these transactions exceeds total revenue from these transactions. This deficit can only be financed by selling Australian-owned assets or borrowing from overseas; Australia has resorted to both types of financing for its CAD in recent years.
A CAD necessarily means a Capital Account Surplus (i.e. a net capital inflow) since the Capital Account merely shows the foreign sale of Australia assets and/or the increase in foreign debt generated by the need to finance the CAD. That is, these two accounts are the mirror image of each other. However, when lay-people commonly speak of ‘foreign investment in Australia’ they usually mean Inward Direct Foreign Investment (IDFI) in the ownership and control of businesses, and other forms of foreign asset ownership rather than levels of foreign debt.

According to the Australian Bureau of Statistics (ABS), if 10% or more of the ordinary shares or voting stock (or an equivalent equity interest) of an enterprise operating in Australia is held by a foreign investor then this gives that investor significant influence, potential or actual, over the policies of the enterprise and is thus an instance of IDFI. On the other hand, the Federal Government's regulations on direct foreign investment use 15% of shareholdings as their threshold for identifying instances of IDFI.

The concept of Total Foreign Liabilities (TFL) encompasses foreign debt, IDFI and all other forms of foreign ownership such as in non-controlling shares and physical assets such as personally-owned land. TFL and its debt and non-debt components can be measured in gross or net terms; the latter subtracts the Australian ownership of overseas assets and Australian lending abroad while the former does not.

For the past two centuries Australia has usually had CADs rather than surpluses on the current account. That is, Australia has perennially been an importer of foreign capital since the start of white settlement in 1788. This reflects the fundamental fact that Australia's savings rate, although often quite high by international standards, has not been sufficient to finance the large volumes of investment needed to generate economic development.

In this case, national spending is greater than national output and foreign savings are drawn upon to finance this gap between investment and savings. This means that Australia's foreign liabilities (both foreign debt and IDFI, in both gross and net terms) have been increasing for the last two centuries¹. As well, Australia's CAD has increased substantially in magnitude in the last decade. This larger CAD has generated a more rapid rate of increase in Australia's foreign liabilities.

However, the time path of the CAD, and the reliance on foreign funding which it implies, may be very far from a full explanation of the rise of IDFI levels in Australia and in other countries. This argument is essentially a 'macroeconomic' explanation for the evolution of IDFI levels. In addition to the obvious role of the stance of policy controls on IDFI, there are important 'microeconomic' explanations for the evolution of IDFI which focus upon the features and characteristics of investing firms and the nature of the industries in which they operate.
These *microeconomic* forces can revolve around the resort to foreign investment as a means of exploiting, on a transnational scale, some internal commercial/operational advantage which successful firms have developed. Such advantages may involve superior technology, or better managerial/organisational/financial skills. Here, the goal may be to succeed in the domestic market of the host country for IDFI just as the firm has succeeded in its home market. Their home market may have reached a phase of lower growth and overseas expansion may be necessary in order to allow the firm to keep growing strongly.

As well, direct foreign investment patterns will be strongly influenced by other microeconomic forces such as the relative production cost levels of countries in particular industries (which, in more technical parlance, will be determined by their 'comparative advantage' in those sectors). Countries of low-cost production will be sought out by participants, both actual and potential, in those industries, with the aim of using such production facilities to better compete on an international scale. Flows of mineral-related direct foreign investment to countries with abundant and cheap mineral supplies, and flows of direct foreign investment related to light manufactures to countries with abundant sources of cheap and reliable labour are primes examples.

These arguments lead to the important policy conclusion that just eliminating or reducing the CAD may not produce much reduction in, or slowdown in the growth of, IDFI levels. That is, IDFI may be very largely determined by other factors. If reduced foreign ownership and control really is a policy priority then other measures (such as stronger direct restrictions on IDFI) will be called for.

**Recent Trends in Direct Foreign Investment**

In Chart 1 can be seen the recent evolution of foreign direct investment into, and out of Australia since 1985-86. Both are expressed as a percentage of Gross Domestic Product (GDP) in order to show their size and change relative to the overall size of the Australian economy and to abstract from the effects of inflation. Unfortunately, longer time series representations are not possible since the ABS definition of direct foreign investment changed in the mid 1980s and thus, data before and after 1985-86 are not strictly comparable.
CHART 1: LEVELS OF DIRECT FOREIGN INVESTMENT AS % OF GDP

Source: ABS 5305.0 and 5204.0, various issues.

Both inward and outward direct foreign investment increased quite rapidly in relation to GDP in the second half of the 1980s but have shown much slower rates of increase in the 1990s. Outward direct foreign investment grew more rapidly than IDFI, on average, in the second half of the 1980s so that the ratio of inward to outward foreign investment fell. This can be seen in Chart 2. The level of IDFI is now about 2.5 times the level of outward direct foreign investment.

As with the controls on IDFI discussed in the following sections, controls on outward direct investment from Australia were once reasonably strict. Before December 1983 proposals for outward investment required Reserve Bank approval to gain access to foreign exchange. Proposals were generally approved where there was significant Australian managerial participation, or where the promotion of exports or protection of existing investments were involved. Other proposals were considered on their merits. These controls were abolished with the floating of the exchange rate in 1983.
CHART 2: RATIO OF DIRECT FOREIGN INVESTMENT IN AUSTRALIA TO AUSTRALIAN DIRECT FOREIGN INVESTMENT ABROAD

Source: ABS 5305.0, various issues.

Policy Controls on IDFI: The Period up to 1975

Australia traditionally had an 'open door' policy on foreign capital inflow because of its perceived importance in supplementing domestic savings to finance economic development. This began to change in the aftermath to the Great Depression of the 1930s as foreign exchange controls were put in place on all capital flows into, and out of, Australia. In the first couple of decades after World War Two, IDFI continued to be officially encouraged but new foreign investment was excluded from certain sensitive industry sectors such as banking, the mass media and civil aviation. For example, from 1956 the Broadcasting Act contained provisions which limited foreign ownership of the share capital of television licence holders to 20% in aggregate.

Resistance to IDFI began to grow in Australia in the 1960s and this was partially reflected in the conclusions of the Report of the Committee of Economic Inquiry (the Vernon Report) in 1965. It recommended, amongst other things, that all foreign takeover bids for Australian companies should require specific government approval and that foreign
exchange control approval for IDFI be made subject to some satisfactory undertaking from the company concerned that it would not rely unreasonably on funds borrowed in Australia. The Coalition Government immediately adopted this last recommendation (but neglected the first) and, as a means of encouraging the further inflow of foreign equity capital and thus protecting the balance of payments, imposed guidelines (at first voluntary but subsequently made mandatory) designed to discourage foreign companies borrowing in Australia\(^7\). Thus, this was not really the beginning of controls on IDFI that it is sometimes made out to be.

Serious efforts to control IDFI began under the Gorton Government. In 1969 the guidelines of 1965 were strengthened so that the proportion of their funding requirements which subsidiaries of foreign companies were to be allowed to meet through borrowing in Australia would vary directly with the Australian share in their equity capital. For the first time a Code on Foreign Takeovers was instituted and the Government formally claimed the right to restrict foreign participation in firms deemed to be of national importance. This right was implemented in the case of uranium mining where foreign ownership was limited to 15 per cent of the two companies concerned with this activity. In 1970 the Gorton Government also established the Australian Industry Development Corporation (AIDC) which was designed to borrow funds from overseas in order to invest in Australian development projects, thus increasing Australian ownership and furthering the goal of, to use an evocative phrase associated with then Deputy Prime Minister John McEwen, ‘buying back the farm’\(^8\).

The McMahon Government continued on with this policy direction despite initial expectations that it would avoid further action; it took up the, until then neglected, recommendation of the Vernon Report and established the first administrative machinery for vetting foreign takeover bids through the \textit{Companies (Foreign Takeovers) Act 1972}\(^9\). The controls on domestic borrowing by foreign companies in Australia were abolished because they were thought to encourage foreign capital inflows which were, at the time, regarded as too large.

The Whitlam Government made even more vigorous efforts to control and restrain foreign ownership and control. The legislative basis and advisory machinery for vetting foreign takeovers was progressively strengthened and this culminated in the \textit{Foreign Takeovers Act 1975}. The AIDC was expanded (through the provision of more funds) and the four energy industries of oil, natural gas, coal and uranium were closed to new foreign equity investment. Foreign investment in the financial sector was discouraged while it was severely restricted in the case of real estate.

However, it should also be noted that by 1975 the ALP Government had softened its hostility to IDFI somewhat in the face of economic recession and, in this period before the advent of a floating exchange rate, problems with the balance of payments which were
partly caused by a rapid fall in foreign capital inflow\(^{10}\). By the end of its term in power its policy on controlling IDFI could be described as moderately and selectively restrictive.

**Policy Controls on IDFI: The Fraser Years**

The Fraser Government generally carried on the broad stance of policy on IDFI which had been established by the end of the Whitlam years. The administrative and advisory machinery for examining IDFI was rationalised and streamlined through the creation of the Foreign Investment Review Board (FIRB) in 1976. FIRB, to have a three-person membership including a senior Treasury official and to be serviced through the Treasury's Foreign Investment Division, was to advise the Government on all ‘examinable’ IDFI proposals, as defined by the Treasurer's statement to the House of Representatives on 1 April 1976\(^{11}\). Essentially, all proposals by foreign interests to:

- acquire, or subsequently sell to other foreign interests (an offshore sale), an individual holding of 15 per cent or more, or an aggregate holding of 40% or more, in an existing Australian company

- establish new non-bank financial institutions and insurance companies

- establish new businesses or mining projects where the foreign investment involved $1 million or more, and

- acquire certain types of real estate

were to be examined through the FIRB process.

Because of the sensitive and private commercial considerations which FIRB would often focus upon in its analysis it was envisaged that **FIRB advice would, in general, be confidential to the Government and not publicly released and that only in cases of clear and significant public interest, and only where approval had been given by the interests concerned, would the Government publicly announce its decisions (and supporting reasons) on IDFI proposals.**

Examinable proposals for IDFI were only to be approved if they generated, either directly or indirectly, **net economic benefits to Australia** in terms of criteria (which were not all to be applicable in each case) such as competition, efficiency, technological change, managerial and workforce skills, exports, use of Australian inputs, research and development, royalty/licensing and patent arrangements, impact on industrial relations and employment opportunities, taxation outcomes, levels of Australian involvement in management and policymaking boards, and conformity with policies on Aborigines, decentralisation and environmental protection. IDFI proposals in industries with already
high levels of foreign ownership would need to demonstrate commensurately higher net economic benefits than other proposals.

The Government continued the existing restrictions on new foreign investment in banking, radio, television, daily newspapers and civil aviation. It also required at least 75 per cent Australian equity and Australian control in new uranium mining projects and, as a general rule that was to be administered with some flexibility, at least 50 per cent Australian equity and 50 per cent Australian representation on the board for new undertakings in the production and development of oil, natural gas and other minerals, as well as in agricultural, pastoral, forestry and fishing projects. Controls on the foreign acquisition of real estate continued to be quite restrictive in practice because it was not perceived to generate any net economic benefit in most cases.

During the first couple of years of operation of the FIRB advisory process the Government's policy stance on exminable IDFI proposals was moderately restrictive. Only sixteen proposals, 0.6 per cent of the total, were rejected out of 2,716 examined in the period from 8 April 1976 to 30 June 1978, while 761 proposals, 28 per cent of the total, were approved subject to certain conditions such as Australian equity involvement, development requirements or eventual resale to Australian interests. These numbers take no account of the cases of IDFI plans not submitted for examination by their initiators because they were expected to be rejected by the Government.

On 8 June 1978 the Treasurer announced to the House of Representatives the first liberalisation of the Fraser Government's controls on IDFI. In response to the large number of IDFI proposals involving small businesses and small assets, the Government decided that:

- Government approval of foreign investment in new projects and businesses, except in the case of uranium mining or the financial sector, would not be necessary unless it involved an investment of $5 million or more

- the Government would not normally intervene in foreign takeovers, except in specially restricted sectors, if the assets of the company being taken over were less than $2 million, and

- individual real estate acquisitions of less than $250,000 would no longer require Government approval.

The Government also announced a partial relaxation of its 50 per cent rule for new projects in mining and primary production. Companies (except in the case of uranium mining) which had at least 25 per cent Australian equity, a majority of Australian citizens on its board, and had publicly announced a Government-approved commitment to achieve 51 per cent Australian ownership, would be deemed 'naturalised' companies and would be
able to proceed with new projects in their own right or in partnership with Australian companies.

On 10 June 1979 the Treasurer announced a relaxation of restrictions on foreign investment in new uranium mining projects\(^{14}\). Because of its desire to see the Yeelirrie uranium mining project go ahead, the Government amended its guidelines so that uranium mining projects which would generate significant net economic benefits to Australia could proceed if Australian equity was at least 50 per cent, but less than 75 per cent, and where Australian interests would have a major role in determining policy on the project, provided it could be satisfactorily demonstrated that 75 per cent Australian equity was unavailable. In such cases the Government stated that, in similarity to its naturalisation policy on other mining and primary production projects, it might require plans from the project operators to increase Australian ownership and participation over time.

Policy guidelines on IDFI remained unchanged for the next couple of years. Then, as part of the Review of Commonwealth Functions conducted after the 1980 election, the Treasurer announced on 30 April 1981 that the IDFI review process would be streamlined through exemption from examination of proposals for the takeover of shell and shelf companies, and for certain corporate reorganisations, while the minimum threshold for examination of real estate acquisitions by foreigners would be raised to $350,000\(^{15}\). On 20 January 1982 the Treasurer announced the results of the Fraser Government's first full review of its foreign investment policy\(^{16}\). Existing policy guidelines were reaffirmed but controls on foreign acquisition of real estate were strengthened in the face of the large volume of foreign capital inflow into that sector then taking place.

As part of its policy response to the Final Report of the Committee of Inquiry into the Australian Financial System, the Treasurer announced on 13 January 1983 that the Fraser Government had decided to allow the entry into Australia of about ten new banks with foreign shareholdings, while no limit would be placed on the number of new bank entrants with solely Australian ownership\(^{17}\). The foreign banks were to be required to operate through subsidiaries incorporated in Australia rather than as branches, would be subject to all the usual prudential and financial standards imposed upon domestic banks, and would be required to provide a wide range of bank services and a reasonable branch network. Foreign banks (and foreign non-bank financial intermediaries in other financial markets) would be allowed entry with less than 50 per cent Australian equity if it could be demonstrated that net economic benefits would flow to Australia from such access.

In the period from 1 July 1978 to 30 June 1983 Government policy on examinable IDFI proposals continued to be moderately restrictive. Only 173 proposals, 2.8 per cent of the total, were rejected out of 6,156 examined, while 1,750 proposals, 28 per cent of the total, were approved subject to conditions\(^{18}\). Again, IDFI plans not proceeded with because of expected Government rejection or those not requiring Government approval are not included.
Policy Controls on IDFI: The Hawke/Keating Years

The Hawke Government continued to implement the IDFI policy guidelines of the Fraser Government while it conducted a review of policy on foreign investment controls. An increase in the rejection rate for IDFI proposals in the first few months of the new Government indicated, despite the arguments of FIRB to the contrary, some initial strengthening of resolve to control foreign investment. On 20 December 1983 the Treasurer announced that the Government would continue the broad thrust of existing foreign investment policy but some necessary policy changes were to be put in place. Greater stress was to be put on expanding opportunities for Australian participation in projects and businesses, with the AIDC playing a greater role in those cases where private Australian equity seemed unavailable; commercial interests for sale would have to be made available for purchase by Australians. Companies proposing to 'naturalise' under existing guidelines were to be tied to agreed timetables for completion of the process, and controls on foreign acquisition of urban real estate were again tightened. Membership of the Board of FIRB increased from three to five persons (but from 1985 it was reduced to four).

On 10 September 1984 the Treasurer announced that foreign and domestic interests would be invited to apply for a number of new banking licences to be issued for Australia. It was decided to implement the Fraser Government's policy of allowing the entry of foreign banks with less than 50 per cent Australian equity if significant net economic benefits to Australia could be generated by such access. New banks would be required to be subsidiaries incorporated locally, and to provide a wide range of services and a substantial geographical spread of activities. Controls on IDFI in merchant banking were also temporarily relaxed. In October proposals for five new foreign-controlled or joint-venture merchant banks were approved. In December 1984 controls on IDFI in stockbroking were liberalised. On 27 February 1985 the Treasurer announced that sixteen proposed foreign-controlled or joint-venture banks had been invited to establish operations in Australia, subject to further discussions and more specific development of their plans.

On 29 October 1985 the Acting Treasurer announced a package of measures to liberalise controls on IDFI. These entailed:

- the abolition of the need for demonstrating the availability of commercial interests to Australians for sale
- the increase in the threshold for the normal approval of takeovers (except in sensitive sectors) from $2 million to $5 million
- the increase in the threshold for Government approval of new foreign businesses and projects from $5 million to $10 million
• the increase in the threshold for Government approval of foreign acquisition of real estate from $250 000 to $600 000

• the easing of controls on the foreign acquisition of land for development and the transfer of Australian interests between foreign owners (in April 1986 the foreign acquisition of rural land was also made easier), while

• the liberalised policy stance on merchant banks was continued and extended to other non-bank financial intermediaries.

On 28 July 1986 the Treasurer announced another package of liberalisation measures. The most important of these was the abolition of the requirements of Australian equity participation and the demonstration of net economic benefits for IDFI proposals in manufacturing, tourism, and parts of the non-bank financial sector; proposals would be automatically approved unless they were judged to be ‘contrary to the national interest’. For these sectors, the onus was now put on only restricting those types of IDFI involving substantial net costs, as compared to the previous policy of putting the onus on only allowing those types of IDFI with substantial net benefits. However, similar existing controls in other sectors were to remain in place. Controls on IDFI in urban and rural properties were also eased.

The trend to liberalisation, which began in 1984, continued with another set of reforms to IDFI controls announced on 30 April 1987. Up to this time all foreign takeovers required formal Government approval, although this was normally forthcoming for those involving businesses with assets of less than $5 million. The Government announced that The Foreign Takeovers Act would be amended so that takeovers below this threshold could proceed automatically without the need for even notifying the Government. As well, the liberalised controls introduced earlier for the manufacturing, tourist and some non-bank financial sectors were now extended to services, primary industries other than mining, resource processing, insurance and stockbroking, while the freedoms given to companies under the ‘naturalisation’ provisions were extended.

On the other hand, in 1987 (after residential housing prices began to increase rapidly) extra restrictions were put in place on the foreign acquisition of developed residential real estate. Extra restrictions were also put in place on ‘in-house’ foreign borrowing by companies operating here from foreign interests owning, or part-owning, those companies. In January 1988 the 50 per cent Australian equity requirement for new oil and gas projects was abolished and replaced with the now widely-used ‘national interest’ test.

In the four years from July 1983 to June 1987 Government policy on examinable IDFI proposals remained only very moderately restrictive. Only 113 proposals, 2.2 per cent of the total, were rejected out of 5210 decided upon, while 2 437 proposals, 46.8 per cent of the total, were approved subject to conditions. Again, data on IDFI plans abandoned
because of expected rejection or those not requiring approval are not included. Most of the substantial increase in the number of proposals conditionally approved related to taxation conditions on ‘in-house’ foreign borrowing noted above; this did not indicate some general upsurge of Government activism in shaping the pattern of IDFI in Australia\textsuperscript{26}.

Policy on IDFI did not change much in the years between 1987 and early 1992. On 1 August 1989 the \textit{Foreign Acquisitions and Takeovers Act} came into force, incorporating many of the policy changes announce in the previous few years and containing strengthened information requirements and higher penalties for violations of its provisions (compared to the previous \textit{Foreign Takeovers Act}). In July 1991 the foreign acquisition of residential real estate within designated integrated tourist resorts was exempted from the need for Government approval. In 1990 and 1991 amendments to the \textit{Broadcasting Act} strengthened the ability of the Federal Government and the courts to monitor and enforce the longstanding 20\% aggregate limit on foreign ownership in free-to-air television broadcasters. This limit was retained in the \textit{Broadcasting Services Act 1992}\textsuperscript{27}.

Then, on 26 February 1992 the Prime Minister announced a further package of substantial liberalisations to IDFI controls\textsuperscript{28}. These entailed:

- issuing additional licences to foreign banks and allowing foreign banks to operate here in wholesale financial markets as branches rather than as locally incorporated subsidiaries, where bank supervision in the home country was sufficiently strong

- increasing the threshold, below which IDFI proposals are not usually subject to the rigour of full examination, to $50 million in all non-sensitive sectors (from $10 million in the case of new projects and businesses, from $5 million in the case of foreign takeovers, and from $3 million in the case of rural properties)\textsuperscript{29}, and

- abolishing the 50 per cent Australian equity requirement for new mines (excluding uranium) and the ‘net economic benefits’ test for foreign takeovers of existing mines (excluding uranium) in favour of the ‘national interest’ test.

Liberalisation of controls continued in the following year. In April 1993 controls on IDFI in real estate were eased somewhat. Exemptions for foreign investment in residential real estate were slightly widened and proposals by foreign interests to acquire developed commercial real estate were no longer required to have 50 per cent Australian equity. In the same month it was announced that the limit on foreign involvement in mass circulation newspapers (MCN) by a single shareholder would be increased from 15 per cent to 25 per cent of equity, while unrelated foreign interests could hold non-portfolio shareholdings of up to 5 per cent of equity\textsuperscript{30}. This policy on MCN has been reaffirmed on a number of occasions since then. As well, in September 1995 it was announced that the limit on foreign ownership in provincial and suburban newspapers would be increased from 30\% to 50\% for controlling (non-portfolio) shareholdings\textsuperscript{31}.
In contrast, foreign ownership limits were put in place on the privatisation of many government assets. These limits have usually been enshrined in legislation. Purchases by foreign interests in the sale of the first two tranches of shares in the Commonwealth Bank of Australia in 1991 and 1993 were formally restricted, but such restrictions have been relaxed for the sale of the third and final tranche of shares. However, the provisions of the Banks (Shareholdings) Act (which place a normal, prima facie limit on individual ownership of bank share capital of 10% but which can be increased by the Treasurer and the Governor General) will continue to restrict foreign ownership in all banks. As well, the Qantas Sale Act 1992 restricted total foreign ownership to 35% of the issued share capital, and individual foreign ownership was restricted to 25%. In the Qantas Sale Act 1995 the total foreign ownership limit was increased to 49% of share capital.

This policy direction was again seen in provisions of the proposed legislation on the sale of airport leases. The Airports Bill 1995 (which was not passed by Parliament) restricted total foreign ownership in an airport lease to 49%. Again, the Howard Government has proposed that foreign ownership be restricted in the sale of one third of Telstra. The Telstra (Dilution of Public Ownership) Bill 1996 contains provisions to restrict total foreign ownership to 35% of the share capital sold, while individual foreign ownership of the share capital sold would be restricted to 5%.

In the eight years from July 1987 to June 1995 Government policy on examinable IDFI proposals continued to be only moderately restrictive. Only 587 proposals, 2.0 per cent of the total, were rejected out of 28 959 examined, while 17 307 proposals, 59.7 per cent of the total, were approved subject to conditions.

The upward trend in conditional approvals since the mid-1980s indicates that the Government continued to be active and interventionist in areas such as taxation arrangements and in sectors such as real estate. However, by 1994-95 taxation issues were no longer of much interest to FIRB and the vast majority of conditional approvals (98 per cent of them) related to real estate; such conditions specified the time period in which development or redevelopment of the real estate should commence, or required that temporary residents sell their established properties when they ceased to reside in Australia. Again, data on IDFI plans abandoned because of expected rejection or those not requiring approval or notification are not included.

On the other hand, the Government had not completely abandoned the use of conditions in other sectors. For example, in September 1995 it was announced that the sale of certain well-known food operations to foreign investors by Pacific Dunlop would be approved subject to the conditions that:

- the manufacturing operations continue to be based in Australia, and
the new owners actively pursue export opportunities in Asia and elsewhere, either directly or by utilising the expertise of affiliated companies already operating in those markets. The Government promised to monitor the development of such export activity.\textsuperscript{37}

The Current Policy Stance on IDFI

We can now summarise the current policy system on IDFI. The Federal Government examines, and makes decisions, on all IDFI proposals above certain thresholds in non-sensitive sectors, and, generally, on all IDFI proposals in sensitive sectors. It takes these decisions after receiving confidential advice from the FIRB. Decisions on IDFI proposals, and their supporting reasons, are rarely made public by the Government. Only in high profile cases does the Government announce its decision and the supporting case for it.

This level of secrecy, and the occasional announcement of major policy decisions on IDFI by press statements, seems to be comparatively quite unusual in public policymaking in Australia. The Government justifies such secrecy on the grounds that public announcement of its decisions would, in many cases, unfairly discriminate between Australian and foreign investors and cause unnecessary and undesirable market fluctuations in the affected industries.

In non-sensitive sectors the thresholds for full examination are set at proposals by foreign interests to establish new businesses in Australia with a total investment of $50 million or more, or to takeover existing Australian-owned businesses with total assets of $50 million or more. Much less rigorous examination is made of proposals valued at under $50 million but more than the thresholds for compulsory notification. Such thresholds are $20 million for offshore takeovers, $10 million for the establishment of new businesses, $5 million for the takeover of existing businesses, and $3 million for purchases of rural properties. IDFI proposals above these notification thresholds are generally approved unless "contrary to the national interest". In practice, in recent years only a very small proportion of such proposals have been rejected or only approved subject to conditions.

Sensitive sectors in which IDFI proposals are subject to special scrutiny include real estate, civil aviation, television broadcasting, mass circulation newspapers and telecommunications. In many of these sectors restrictions on IDFI have been relaxed in recent years so that actual levels of foreign ownership and control have increased. The imposition of conditions on IDFI has occurred very largely in relation to foreign investments in real estate. It is not clear whether the remaining restrictions are being effectively monitored and enforced in some of the above sectors.
In all of the sectors under the jurisdiction of the *Foreign Acquisitions and Takeovers Act* the Government has the discretionary power to alter at will its existing policy on examination and approval of proposals for foreign takeovers. It has the very same broad discretionary power in relation to the establishment of new businesses which are foreign-controlled. It is only in rare and special cases, such as in television broadcasting and in the cases of Qantas and the proposed sales of airport leases and of Telstra, that the Government’s discretion has been, or will be, restrained by specific limits on foreign ownership and control contained in relevant specific legislation governing commercial conduct in these sectors and businesses. Again, it is not clear whether such limits are being effectively monitored and enforced in some cases.

**Arguments for Restricting IDFI**

We now turn to consider the ongoing debate about IDFI. Many arguments have been presented which assert the dangers to countries hosting IDFI of losing their economic and cultural sovereignty. Such arguments against IDFI have been both narrowly economic and more broadly nationalist (geopolitical, social and cultural) in nature.

The economic arguments against IDFI have centred on the view that IDFI *hinders the overall economic dynamism of the receiving/host country*. IDFI may bring highly visible short-term economic benefits but it often generates longer-term problems which are usually far less obvious. The principal arguments are as follows. First, that IDFI disadvantages the host country by *hinderings its exports*. This can be because of restrictive export efforts of the foreign-owned operation which have been dictated by the global strategies of the transnational investor. Each operating unit in the global network of the transnational corporation may have been given some quite restrictive geographical sphere of trading activity by head office so that competition between the operating units is restricted and global profitability can be maximised. Thus, exports may be less than if the equivalent operation had been owned and operated by residents of the IDFI-host country.

Second, the host country can be disadvantaged by the transfer overseas of excessive profits from the foreign-owned operation. Transnational corporation operations will often be very profitable (compared to other activities and industries in the host country) because of the superior skills of its managers in discovering such opportunities and negotiating advantageous deals with domestic players and interests. This generates great scope for the repatriation of profits back to head office and can often be assisted by *transfer pricing practices* which undermine the taxation base of the host country. Here, the pricing of transactions between the various parts of the transnational corporation’s global network are designed to transfer profits from high-taxed countries to lower-taxed countries in order to maximise global after-tax income for the corporation. Thus, host country attempts to collect tax from the foreign investor through relatively high tax rates will be frustrated,
especially if the tax administration of the host is poorly developed (and cannot detect and/or stop such activity) or open to corruption.

Third, IDFI can discourage the longer term development of indigenous managerial and technical talent (because of the domination of foreign 'head office' personnel), and also discourage domestic efforts in research, development and innovation (because of reliance upon already-developed technology which may be unsuited to local conditions). The foreign operation may begin with the fanfare of new managers and technology but, the argument runs, such short-term benefits hide the longer-term dependence upon such external stimuli and the retarded expansion of domestic resources and activity in these areas. Domestic ownership and control of the equivalent operation would, it is argued, much better serve such economic goals of the host country. Learning to "do it yourself" might be difficult and unproductive in the short term but can become effective in the long term if persevered with.

Overall, on this view, countries selectively restricting IDFI and encouraging domestic firms to take its place will, other things being equal, enjoy stronger and more durable economic growth and development over the long run than those countries not restricting IDFI. Domestic firms can still gain the benefits of both foreign technology, through licensing and royalty agreements, and foreign skilled labour, through short term contracts for visiting foreign personnel. In this way the package of economic benefits offered by IDFI can be "unbundled" by the host country and its own economic dynamism strengthened.

But such restrictions on IDFI need not necessarily involve outright bans or non-negotiable limits on foreign ownership and control. Instead, they could take the form of specific performance conditions which can be placed upon direct foreign investors so that the economic problems associated with IDFI are avoided or minimised. If exports or repatriation of profits are seen as the main problem with IDFI then minimum export targets or maximum levels of profit repatriation can be imposed. If transfer pricing is seen as the problem then conditions on extra access to pricing and accounting information of the foreign investor by host tax authorities might be imposed. Similarly, if employment of citizens of the host country or research and development are seen as the problem then such conditions can be imposed. Of course, such use of conditionality regimes should be designed so that the administrative burden on both the host country government and the direct foreign investor are not excessive.

However, even in the absence of the above problems associated with IDFI, the imposition of conditions can be justified in cases of the existence of excess, "super-normal" profits generated by foreign-owned and controlled operations and the consequent use of conditionality to redistribute such excess profits away from the foreign investor and to the host country. This is further discussed in the next section.
The broader nationalist argument against IDFI has essentially been that Australia needs to better control its own destiny by limiting the degree to which power over Australian assets are ceded to foreign economic interests. It is argued that substantial levels of foreign ownership and control of such assets undermine Australia's national independence and geopolitical power. It does this by increasing foreign leverage over the domestic economy and society and, by implication, the political system. Key decisions are made in the head office boardrooms of foreign countries rather than in the host country. Transnational corporations form alliances with their home country governments and their coordinated actions and strategies limit the room for manoeuvre of host countries. The host country effectively becomes, in a broad and penetrating sense, a "dependent country".

As well, it is argued that IDFI weakens valued indigenous socio-cultural norms, patterns and traditions by imposing the norms and modes of behaviour of the source country of the investor (where its headquarters is located). Unique cultural traditions are lost as the culture of the home country of the investor takes over and conquers the host country. "Cultural imperialism" results in which the new values and behaviour implanted by the presence of the transnational corporation create a cringing and destructive social allegiance in the host country to the home country of the investor. The "periphery" country imitates the "centre" country.

Forces for Policy Liberalisation

There has been a clear pattern of the liberalisation of Australian IDFI controls since the mid-1980s. Many industry sectors once regarded as too sensitive and important to be allowed to slip into foreign hands have been opened up to foreign participation. This has added to the momentum created by the liberalisation of general controls on IDFI applicable to all other sectors of the economy, as most clearly seen in the progressive abolition of the 'net economic benefits' test in decisions on IDFI proposals. In its place has been established a 'national interest' test which puts the burden of evidence on those opposing the IDFI proposal, whereas the test for net economic benefits put the burden of evidence on those supporting the IDFI proposal. In effect, IDFI is now judged as 'innocent until proven guilty' rather than the previous situation of 'guilty until proven innocent'.

The broad thrust of liberalisation of IDFI controls seems to have been generated by the influence of a number of economic and international considerations on policymakers. These considerations have been powerful enough to over-ride previously influential concerns, noted above, about the dangers of unrestricted IDFI.

The first economic consideration underlying recent policy change has been the perceived need to upgrade Australia's technological base and managerial skills through enhanced access to world "best practice" benchmarks to be found in the successful transnational
corporations. Reduced barriers to IDFI would encourage a stronger presence in Australia of such corporations. Such intensified IDFI activity would generate direct benefits to Australia in terms of higher productivity growth (an emerging preoccupation of policymakers), better product quality and range and increased international competitiveness and capacity for exports (a central concern of policymakers) and, indirectly through the normal processes of market competition, would help ensure that their technological and managerial advantages would diffuse out to Australian-owned firms as imitation took place. IDFI has come to be seen by Australian policymakers as a strongly beneficial force for productivity growth and exports rather than a hindrance to them.

The second consideration supporting policy change has been the related issue of the extension of the Government's microeconomic reform program to the case of IDFI controls. Microeconomic reform has sought to increase competition in a vast range of markets and industries in Australia, particularly through the internationalisation of the economy and heightened exposure to global economic forces and trends. This has been based on the expectation that enhanced integration into global competition would reap substantial gains for Australia in terms of greater economic efficiency, productivity, exports and real income growth.

On this view, IDFI controls have been liberalised in order to increase the threat to domestic firms of new foreign-owned competitors or foreign takeovers if cost efficiencies, technical innovation and profitability are not pursued to the maximum. A freer inflow of foreign direct investment increases the competitive pressures on domestic firms and thus forces them into more disciplined and better economic performance. Liberalisation of IDFI controls is an important concomitant to other types of microeconomic reform.

At the same time, those cases of IDFI which might diminish competitive pressures have continued to be the subject of investigation, and prohibition where appropriate, by the Trade Practices Commission/Australian Competition and Consumer Commission through its general oversight function for mergers and takeovers in Australia. Prime examples of such cases would be proposals by major overseas producers/suppliers to merge with or acquire significant Australian producers/suppliers in the same industry with the intent of reducing competition either within Australia or in Australian export markets.

The third consideration concerns the rapid escalation of foreign debt which has occurred since the mid-1980s. CADs have continued to be substantial and have been funded largely through ongoing foreign borrowing by the Australian private sector, although state and local governments have also increased their foreign debt exposure. The Federal Government has regarded this foreign debt escalation as a matter of concern and has attempted, through various policy measures, to reduce CADs which underlie the foreign debt buildup. But it has also sought to reduce the reliance upon foreign borrowing as the principal means by which the deficits are funded.
Specifically, the Federal Government has attempted to encourage greater IDFI through liberalisation of IDFI controls. Capital inflow in the form of IDFI was to be substituted, in part, for capital inflow in the form of foreign borrowing. Foreign investment in portfolio, non-controlling, equities was also encouraged as a way of reducing reliance upon foreign borrowing. This strategy to rebalance the debt and equity components of capital inflow seems to have achieved some degree of success.

The fourth consideration concerns the growth of Australia’s outward direct foreign investment; this has developed rapidly in the last decade upon the back of the abolition of Australian restrictions on such investment. This outward investment is now applauded as a way of raising the international competitiveness and sophistication of Australian companies. In order both to protect existing access to other economies and to promote expanded access for Australian outward direct investment, the Australian Government has recognised that it needed to show good faith towards other nations by, in turn, increasing access to Australia for foreign investors, especially in the form of IDFI.

On the other hand, Australia has not generally imposed any direct reciprocity conditions on our liberalisation of IDFI controls. That is, it has not demanded direct access as a condition of extending access to direct investment in Australia. As with trade policy, it has pursued the option of unilateral liberalisation rather than the option of negotiated bilateral liberalisation to help open up other nations to direct investment by Australian firms.

The Ongoing Debate on IDFI and Further Reform Options

The increasing openness of the Australian economy to foreign ownership and control, and the higher actual levels of such ownership and control, remain the subject of considerable conflict and controversy. Many sections of public opinion remain quite hostile to IDFI and this provides the political basis for recurrent calls to strengthen controls on IDFI and, eventually, reverse the process of ‘selling off the farm’. On the other hand, those supporting the free play of markets argue that Australia needs to go much further and ensure that Australian and foreign investors are placed on a completely equal footing in their competition for assets and investment projects within Australia.

This debate has been further fuelled by the relative lack of conclusive empirical evidence on many of the arguments used by both opponents and proponents of IDFI. Much of the crucial empirical research still awaits to be done in this area.
Option 1: Strengthening Restrictions on IDFI

Many sections of the community condemn the economic outcomes and policy trends described above and argue for a return to an earlier era of much stricter controls on IDFI. There seem to be a number of strands to their arguments and policy prescriptions.

Their most prominent argument has been that the aggregate social and economic costs of foreign ownership and control have been drastically underestimated in recent economic and policy discussions and that policy should seek to ensure that only those IDFI projects with some genuine net economic and social benefit to Australia actually go ahead. This entails a retreat from the wholesale policy liberalisation of recent years.

One form of policy intervention often mentioned is the greater use of conditionality in approving IDFI proposals. Foreign direct investors will have in mind some minimum real rate of return on their investments in Australia which they must expect to receive, over some substantial planning horizon, before they will be willing to invest here. Policy controls which diminish expected returns below these minimum levels will thus prevent some cases of IDFI from going ahead. However, prospective rates of return on many IDFI projects will be far above these required rates of return and thus one longstanding nationalist argument has been that Australia should bargain with individual foreign investors to ensure that a substantial share of these "above normal" profits are appropriated by Australia rather than the foreign owners.

This can be done by imposing various conditions on IDFI which must be satisfied when the IDFI project is in operation. These can involve higher tax or royalty payments to federal or state governments, export performance targets, investment and employment targets (especially for managers and technically demanding positions), or research and development effort. Careful evaluation and negotiations are required to ensure that the conditions generate extra benefits for Australia but are not so onerous that they deter IDFI projects which will actually generate net economic and social benefits to Australia.

Under this option the role of FIRB would be expanded to impose much stricter sets of conditions on a much larger set of IDFI proposals. The use of conditionality would become much more extensive in those sectors of the economy where there were not mandatory legislative limits on IDFI in operation. The staff resources of FIRB, already seemingly too small to allow effective monitoring of the existing use of conditions in IDFI approvals, would need to be increased. In this context, some have also argued that FIRB (or a successor organisation) needs to become an independent, statutory body in order to distance itself from control by the Treasurer, and Government, of the day in regard to such decisions.

Of course, the greater use of conditionality for IDFI by Australia might provoke other countries to themselves make greater use of conditionality to extract extra benefits from
Australian (and other) direct investments in their economies. This would increase international economic frictions and reduce the net benefits to Australia from pursuing such a policy course. However, other countries may not retaliate in this way. As well, given that our outward direct investment levels are still substantially below our levels of IDFI, the net benefits could still be substantial if Australia's use of conditionality was carefully managed.

It should also be noted here that the greater use of conditionality in IDFI approvals would probably pose substantial problems for those seeking much greater openness and transparency in the decisionmaking process on applications for IDFI. A case-by-case use of conditionality would generate a wide variation in the nature and stringency of the conditions imposed and would need to be based upon detailed specific information about each potential direct investor; such information might need to be kept confidential in order not to undermine the Government's bargaining position in future negotiations with foreign firms. General rules for policymaking would not be followed (exploiting specific opportunities would be the order of the day) and much information underlying particular decisions would be withheld from public scrutiny.

Another nationalist argument which is commonly used against IDFI is that many sectors and industries remain so important, in terms of national identity and power, that high levels of foreign ownership and control must not be tolerated. They argue for imposing divestiture of foreign ownership in these sectors so as to return to earlier conditions of predominant Australian ownership and, subsequently, the enshrining of such Australian ownership in legislative guarantees against future foreign encroachment. More use of **specific legislative limits on foreign ownership and control** would help ensure Australian ownership by taking discretionary power over such issues out of the hands of the Treasurer, and Government, of the day and placing it into majority control in both houses of the Federal Parliament.\(^5\)

Overall, the nationalist position seems to be one of stricter controls to reduce the total level of IDFI and foreign ownership and control, and better bargaining and the use of imposed conditions to ensure that Australia gets more benefits from the IDFI projects which do go ahead. Industries and sectors to be quarantined from IDFI should be given legislative protection and removed from being the subject of the discretionary power of the Government of the day.

Nationalists on IDFI seem to be equally repelled by other forms of foreign investment such as foreign debt accumulation and thus, in response to critics who argue that restrictions on IDFI would merely generate higher foreign debt escalation, they usually argue that national saving levels must be increased so as to reduce the CAD which capital inflow, in all its forms, must finance. In this way, both IDFI and foreign debt escalation can be restrained and Australia's "economic independence can be regained".
Option 2: Further Liberalisation of Controls on IDFI

There is a completely different reform agenda which argues that liberalisation of policy controls has not gone far enough and that further effort in this direction is necessary. This view argues that the entire FIRB process of review and examination might be abolished so that IDFI policy places foreign and Australian firms on exactly the same footing (in the technical parlance this is called giving foreign investors "national treatment" in their access to assets within Australia) so that there is the maximum amount of competitive pressure on the performance of firms within Australia. While no country seems to have yet reached full national treatment of direct foreign investors, some (such as the United States) are much closer to this ideal than others.

Here, both Australian and foreign firms are subject to exactly the same array of regulatory controls and requirements. For example, both would be subject to the requirements of the ACCC in regard to predatory pricing activities and to proposed takeovers. Both would be subject to the existing array of environmental and safety requirements. However, no extra impositions would be made on foreign firms, potential or actually operating in Australia, so as to achieve complete 'competitive neutrality' in their treatment by public policy. Foreign firms would be treated in exactly the same fashion as Australian firms by the array of operating policy and regulatory systems in place.

The FIRB system of regulation would become redundant and thus could be abolished. This would be a major step towards making Australia's policy on IDFI clear and transparent to prospective foreign investors. FIRB deliberations have always been shrouded in secrecy and the criteria for decisionmaking on IDFI proposals often seems to have been mysteriously changeable from case to case.

In order to achieve complete equality of treatment of Australian-owned and foreign-owned firms, specific foreign investment limits in sensitive sectors and industries would need to be abolished. In practical terms, this reform approach would recommend at least a substantial further scaling back of such limits. They could even be completely replaced by more economically efficient instruments of supporting Australian ownership such as subsidies to Australian-owned firms in targeted sectors or government procurement preferences for Australian-owned firms over foreign ones.

It is important to note that this competitive neutrality policy system would stop instances of IDFI where these reduced competition (such as in some foreign takeovers) or threatened environmental despoliation, but it would do this on the grounds of the inherent nature of the proposal rather than the particular nationality of the owners of the firms involved. That is, whether these owners held Australian or overseas passports, or resided here or overseas, would finally be made irrelevant to their treatment by policymakers.
Advocates of this policy reform approach are also keen to see non-discrimination in access to IDFI amongst source countries. They argue that countries should not offer bilateral concessions to other countries (as in reciprocity-of-access agreements for example) since these will distort the flows of direct foreign investment by artificially encouraging some investors over others. This will reduce the economic efficiency, and benefit to the host country, of such investment. Barriers to IDFI, if they are to exist, should not favour some countries (or their investors) over others. Australia has generally not undertaken such a policy course on IDFI. Of course, the achievement of full 'national treatment' for foreign investors itself implies full non-discrimination on IDFI and the former is thus the dominant concept in this policy approach.

These policy recommendations for national treatment of, and non-discrimination towards, foreign direct investing firms are motivated essentially from concerns for maximising economic efficiency on an international and world-wide scale by removing national barriers against more competitive international investment markets. They neglect the possibilities of individual host countries increasing their benefits from IDFI (and thus reducing the benefits accruing to source countries from such direct investments) through selective interventions such as the use of greater conditionality. The failure to consider such opportunities seems to be based upon fears that these interventions will be so mismanaged by the national authorities that they will make all countries (host and source) worse off as a result.

Endnotes

1 Although it can be argued in the case of IDFI going into new "greenfields" investments, where there is no strong domestic competition in the host country, that such capital inflow directly adds to the CAD by increasing the level of national investment in the host country.

2 The relative merits of these rival explanations for IDFI flows are concisely reviewed in Graham, Edward and Krugman, Paul. Foreign Direct Investment in the United States. Washington D.C.: Institute for International Studies, 1989: chapter 2. They conclude that the microeconomic explanations for IDFI are the more powerful in the case of the USA.

3 This point does not seem to have been appreciated by recent commentators such as Reserve Bank Governor Bernie Fraser, "Australia in Hock?", Reserve Bank of Australia Bulletin, December 1995:8, Ian Henderson, "Foreign Investment, the new reality: foreign affairs", The Australian, 29 January 1996:37, and Paul Cleary, "What Will We do when it's all been Sold?", Sydney Morning Herald, 18 May 1996:38.


12 Data from Table 1 of FIRB's 1977 Annual Report and Table 1.1 of its 1978 Annual Report.


18 Data from Table 1.1 of FIRB's 1983 Annual Report.


Data from Tables 1.1 and 1.7 in FIRB's 1986-87 Annual Report.


However, the thresholds on requirements to notify the Federal Government about direct foreign investment proposals remained at the three different levels set out in this dotpoint. It should also be noted here that the *One Nation* statement was misleading in the sense that it asserted that "the Government will cease to examine" proposals below $50 million (page 87) whereas, in practice, such proposals continue to be examined but at a much reduced level of rigour and detail.


Australia. Treasurer (Ralph Willis). "Government Response to the Reports by the Senate Select Committee on Certain Aspects of Foreign Ownership Decisions in Relation to the Print Media". *Press Release*, no.82, 26 September 1995.


Data from Tables A.1 and 2.1 in FIRB's annual reports of 1989-90 and 1994-95 respectively.


This seems to have originally been a Coalition argument which was subsequently taken up by the Labor Government. See Australia. House of Representatives. *Parliamentary Debates*. John Howard. 17 February 1987: 149.

See the interesting but small trend in the relative stocks of foreign debt and foreign equity since the mid 1980s in Chart 3.1 in Foreign Investment Review Board. *Annual Report 1994-95*. Canberra: AGPS 1996:35.


In the case of foreign banks, for example, the 1991 Martin Report on Banking and Deregulation recommended that Australia only admit those foreign banks from countries which provide Australian banks with similar access. This recommendation was rejected by the Government in favour of a unilateral liberalisation approach. See Australia. House of Representatives. Standing Committee on Finance and Public Administration. *A Pocket Full of Change*, November 1991: chapter 10.

This option has often been raised by some Federal Parliamentarians in discussions with the author.


For example, a Senate Select Committee has recommended that FIRB be replaced with a new body, the Foreign Investment Commission (FIC), which would be, amongst other increased responsibilities, much more involved in the monitoring and policing of all conditions placed upon IDFI approvals. See: Australia. Senate. Select Committee on Certain Aspects of Foreign Ownership Decisions in Relation to the Print Media. *Percentage Players*. June 1994: chapter 10.
50 Ibid: Recommendation 10.8

51 This option has often been raised by some Federal Parliamentarians in discussions with the author.