

FEATURE ARTICLE – Foreign Capital Expenditure in Western Australia

INTRODUCTION

There is ongoing demand for more detailed information on foreign investment flows at a State level and for statistics on globalisation in general. To help satisfy this demand, the ABS has investigated the feasibility of producing a measure of private new capital expenditure according to whether the businesses undertaking that expenditure were Australian or foreign owned. Such a measure has the potential to inform debate and assist in policy formulation and evaluation.

Two papers have already been published following the investigation: *Experimental Estimates of Foreign and Domestic Investment in Private New Capital Expenditure, Western Australia, 1998–1999* (Cat. no. 5674.5) — an Information Paper published in September 2000; and "Ownership Characteristics of Businesses undertaking Capital Expenditure in Australia, 1998–99" — a feature article published in the July 2001 issue of *Australian Economic Indicators* (Cat. no. 1350.0).

The Information Paper (Cat. no. 5674.5), provides details of the methodology employed in this study; the derivation of ownership; and the industries and countries included in the broad industry and country categories. Important outcomes of this study have been the construction of statistical links between various ABS datasets, and the development and validation of an appropriate methodology.

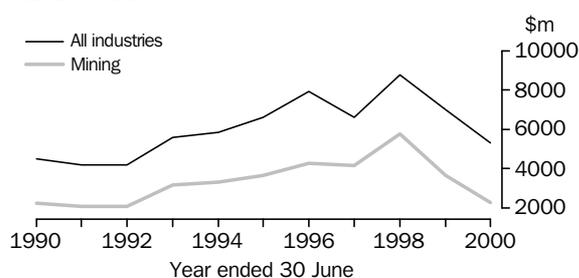
This article provides estimates of Western Australian private new capital expenditure classified by Australian-owned and majority-foreign-owned businesses for the financial years 1997–1998 to 1999–2000. Majority-foreign-owned businesses have been identified on the basis of the proportion of equity held by non-residents at the end of each financial year.

BACKGROUND

Before analysing the results from the study, it is useful to understand the pattern of annual private new capital expenditure in Western Australia in the lead up to, and during, the study period.

The five years prior to the study period were mainly characterised by strong growth in private new capital expenditure. Over the four years to 1995–1996, annual growth averaged 17.5%, driven mainly by investment in a number of major mining related construction projects. After easing in 1996–1997, investment peaked at a record high of \$8,761 million in 1997–1998, the first year of the study period. The following two years saw a marked decline in private new capital expenditure, due in large part to the completion of construction work for significant mining projects. This period coincided with the onset of the Asian financial crisis, which began with the devaluation of the Thai baht in July 1997 and continued through 1998, with recovery beginning in 1999.

PRIVATE NEW CAPITAL EXPENDITURE, Western Australia,
Current Prices



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WHO INVESTS IN WESTERN AUSTRALIA ?

Of the \$21,040 million of private new capital expenditure in Western Australia over the three financial years 1997–1998 to 1999–2000, businesses which were owned 50% or more by Australian residents invested \$14,586 million (69%) while businesses with majority foreign ownership invested \$5,188 million (25%). The study was unable to ascertain the ownership of businesses making 6% of the expenditure, but a substantial proportion of these are expected to be Australian owned.

Total capital investment declined by 20% between 1997–1998 and 1998–1999 and by 24% between 1998–1999 and 1999–2000.

PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Ownership Group

| Ownership Group | 1997–1998.... | | 1998–1999.... | | 1999–2000.... | |
|-----------------|---------------|------------|---------------|------------|---------------|------------|
| | \$m | % | \$m | % | \$m | % |
| Australia | 6 184 | 71 | 4 894 | 70 | 3 508 | 66 |
| Foreign | 1 960 | 22 | 1 740 | 25 | 1 488 | 28 |
| Unknown | * 617 | * 7 | 343 | 5 | 306 | 6 |
| Total | 8 761 | 100 | 6 977 | 100 | 5 302 | 100 |

In each year of the study, most of the capital expenditure was made by Australian owned businesses. However, over the three year period, their contribution fell in both dollar terms (from \$6,184 million to \$3,508 million) and in percentage terms (from 71% to 66%). By comparison, although capital expenditure by majority–foreign–owned businesses also declined in dollar terms, the decline was less pronounced, resulting in their contribution to capital expenditure increasing from 22% in 1997–1998 to 28% in 1999–2000.

INVESTMENT BY INDUSTRY

The value of investment by majority–foreign–owned businesses over the three year study period was highest for businesses in the Mining industry (\$2,784 million), followed by businesses in the Manufacturing industry (\$1,631 million) and Other selected industries (\$772 million). In contrast, the proportion of investment by majority–foreign–owned businesses within each industry over the three year study period was higher for businesses in the Manufacturing industry (47%), compared with businesses in the Mining industry (24%).

PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Broad Industry and Ownership Group, 1997–1998 to 1999–2000

| Ownership Group | MINING..... | | MANUFACTURING | | OTHER SELECTED INDUSTRIES | |
|-----------------|---------------|------------|---------------|------------|---------------------------|------------|
| | \$m | % | \$m | % | \$m | % |
| Australia | 8 761 | 75 | 1 670 | 48 | 4 155 | 71 |
| Foreign | 2 784 | 24 | 1 631 | 47 | 772 | 13 |
| Unknown | 156 | 1 | 183 | 5 | 927 | 16 |
| Total | 11 702 | 100 | 3 484 | 100 | 5 854 | 100 |

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Mining

Total capital expenditure by businesses in the Mining industry decreased by 37% between 1997–1998 and 1998–1999 and another 37% between 1998–1999 and 1999–2000, resulting in a total decrease of 60% over the study period. The contribution of businesses in the Mining industry to State annual capital expenditure fell significantly from 66% in 1997–1998 to 43% in 1999–2000.

Majority–foreign–owned businesses contributed \$2,784 million or 24% of capital expenditure by the Mining industry in Western Australia over the three year period. This expenditure was mainly in oil and gas extraction; and metal ore mining.

MINING—PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Ownership Group

| Ownership Group | 1997–1998.... | | 1998–1999.... | | 1999–2000.... | |
|-----------------|---------------|------------|---------------|------------|---------------|------------|
| | \$m | % | \$m | % | \$m | % |
| Australia | 4 406 | 77 | 2 779 | 76 | 1 576 | 69 |
| Foreign | * 1 264 | * 22 | 846 | 23 | 674 | 29 |
| Unknown | 85 | 2 | 23 | 1 | 48 | 2 |
| Total | 5 756 | 100 | 3 648 | 100 | 2 298 | 100 |

New capital investment by Australian–owned businesses in the Mining industry fell by 64% over the study period compared with a fall of 47% by majority–foreign–owned businesses. The more rapid decline in investment by Australian–owned businesses saw their contribution fall from 77% in 1997–1998 to 69% in 1999–2000, while that made by majority–foreign–owned businesses increased from 22% to 29%.

Mineral exploration expenditure (other than petroleum) declined every quarter from September quarter 1997 until the decline started to flatten out in the March quarter 2000, due to low prices for gold (the main metal sought), nickel and other metals. Another factor contributing to falling investment in mining was the depressed state of the Asian steel sector, which adversely affected development of the iron ore industry.

Manufacturing

Investment by businesses in the Manufacturing industry increased by 22% between 1997–1998 and 1998–1999 but declined by 10% between 1998–1999 and 1999–2000.

Majority–foreign–owned businesses contributed \$1,631 million or 47% of capital expenditure by the Manufacturing industry over the three years to 1999–2000. This was mainly in food, beverage and tobacco manufacturing; petroleum, coal, chemical and associated product manufacturing; and metal product manufacturing.

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MANUFACTURING—PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Ownership Group

| Ownership group | 1997–1998... | | 1998–1999... | | 1999–2000... | |
|-----------------|--------------|------------|--------------|------------|--------------|------------|
| | \$m | % | \$m | % | \$m | % |
| Australia | 542 | 52 | 530 | 41 | * 598 | * 52 |
| Foreign | 410 | 39 | 699 | 54 | 522 | 45 |
| Unknown | 98 | 9 | 55 | 4 | * 30 | * 3 |
| Total | 1 050 | 100 | 1 284 | 100 | 1 150 | 100 |

Other Selected Industries

Investment by businesses belonging to the Other selected industries included in the study increased by 5% between 1997–1998 and 1998–1999 but declined by 9% between 1998–1999 and 1999–2000 resulting in a net decrease of 5%. These industries contributed \$5,854 million (or 28%) of State capital expenditure over the study period.

Comparisons between years and across ownership groups for businesses in Other selected industries are affected by the level of unknown business ownership. Although ownership could not be determined for businesses making \$926 million (16%) of capital expenditure, investigations suggest that the majority of this expenditure would be made by Australian-owned businesses.

Majority-foreign-owned businesses in Other selected industries contributed \$772 million (or 13%) of capital expenditure by those industries over the three years (or a modest 4% of total State capital expenditure).

Australian-owned businesses accounted for seven out of every ten dollars of capital expenditure made by businesses in the Other selected industries. Most of these businesses were in property services, business services, and accommodation, cafes and restaurants.

OTHER SELECTED INDUSTRIES—PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Ownership Group

| Ownership group | 1997–1998.... | | 1998–1999.... | | 1999–2000... | |
|-----------------|---------------|------------|---------------|------------|--------------|------------|
| | \$m | % | \$m | % | \$m | % |
| Australia | 1 236 | 63 | 1 585 | 78 | 1 334 | 72 |
| Foreign | 285 | 15 | 195 | 10 | * 292 | *16 |
| Unknown | * 433 | * 22 | 265 | 13 | 228 | 12 |
| Total | 1 955 | 100 | 2 046 | 100 | 1 854 | 100 |

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REGIONAL GROUPS

Of the \$5,188 million of capital expenditure by majority–foreign–owned businesses over the three years to 1999–2000, 48% was made by businesses owned from the United States of America, 35% from the European Union, and 16% from Other countries. Within the European Union group, capital expenditure was dominated by UK–owned companies, while Japanese–owned businesses made the most significant contribution to expenditure by Other countries. Details of capital expenditure by UK– and Japanese–owned businesses have been suppressed for confidentiality reasons.

The US–owned businesses were the only group to record increases in capital expenditure in both dollar terms (from \$690 million in 1997–1998 to \$814 million in 1999–2000 after peaking at \$1,009 million in the intervening year) and percentage terms (8% to 15%) over the study period. Investment by European Union–owned businesses fell in dollar terms by a significant 61%, their contribution to total annual expenditure declining from 11% to 7%. While investment from Other countries fluctuated, their contribution increased marginally from 4% to 6%.

PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Regional Group

| <i>Regional group</i> | 1997–1998... | | 1998–1999... | | 1999–2000... | |
|-----------------------|--------------|-----|--------------|----|--------------|----|
| | \$m | % | \$m | % | \$m | % |
| Australia | 6 184 | 71 | 4 894 | 70 | 3 508 | 66 |
| European Union | 952 | 11 | 499 | 7 | 376 | 7 |
| USA | 690 | 8 | 1 009 | 15 | 814 | 15 |
| Other | 318 | 4 | 232 | 3 | 298 | 6 |
| Unknown | * 617 | * 7 | 343 | 5 | 306 | 6 |

TYPE OF ASSET

Total capital expenditure on Equipment, plant and machinery declined by 28% between 1997–1998 and 1998–1999 and by 22% between 1998–1999 and 1999–2000 (a net decrease of 43%). In comparison, investment in Buildings and structures declined by 2% between 1997–1998 and 1998–1999 and by 28% between 1998–1999 and 1999–2000 (a net decrease of almost 30%).

Of the \$21,040 million invested in Western Australia over the three years to 1999–2000, \$14,490 million (69%) was spent on Equipment, plant and machinery and \$6,552 million (31%) on Buildings and structures. Majority–foreign–owned businesses made 27% of the total investment on Equipment, plant and machinery and 20% of the total investment in Building and structures. Their contribution to investment in each type of asset also increased over this period, rising from 24% of Equipment, plant and machinery in 1997–1998 to 29% in 1999–2000 and, for Buildings and structures, from 17% to 25%.

Over the three year period, majority–foreign–owned businesses invested a higher proportion of their capital on Equipment, plant and machinery than Australian–owned businesses. Foreign–owned businesses invested a total of \$5,187 million, 75% of which was spent on Equipment, plant and machinery, whereas Australian–owned businesses invested a total \$14,587 million, of which 66% was spent on Equipment, plant and machinery.

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PRIVATE NEW CAPITAL EXPENDITURE IN WESTERN AUSTRALIA, By Type Of Asset

| Ownership group | 1997–1998... | | 1998–1999... | | 1999–2000... | |
|--------------------------------|--------------|------------|--------------|------------|--------------|------------|
| | \$m | % | \$m | % | \$m | % |
| BUILDINGS AND STRUCTURES | | | | | | |
| Australia | 1 857 | 76 | 1 904 | 79 | 1 231 | 72 |
| Foreign | 413 | 17 | 453 | 19 | 432 | 25 |
| Unknown | 166 | 7 | 41 | 2 | * 54 | * 3 |
| Total | 2 436 | 100 | 2 399 | 100 | 1 717 | 100 |
| EQUIPMENT, PLANT AND MACHINERY | | | | | | |
| Australia | 4 327 | 68 | 2 990 | 65 | 2 278 | 64 |
| Foreign | 1 546 | 24 | 1 287 | 28 | 1 056 | 29 |
| Unknown | * 451 | * 7 | 302 | 7 | 252 | 7 |
| Total | 6 325 | 100 | 4 579 | 100 | 3 586 | 100 |

BUSINESSES WITH UNKNOWN OWNERSHIP

The study was unable to ascertain the ownership of businesses making \$1,266 million (6%) of capital expenditure in Western Australia. This group was dominated by small to medium businesses (i.e. businesses with less than 50 employees), primarily in the Property and Business Services and Construction industries. It is therefore expected that a substantial proportion of these businesses would be Australian owned.

REFERENCES

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