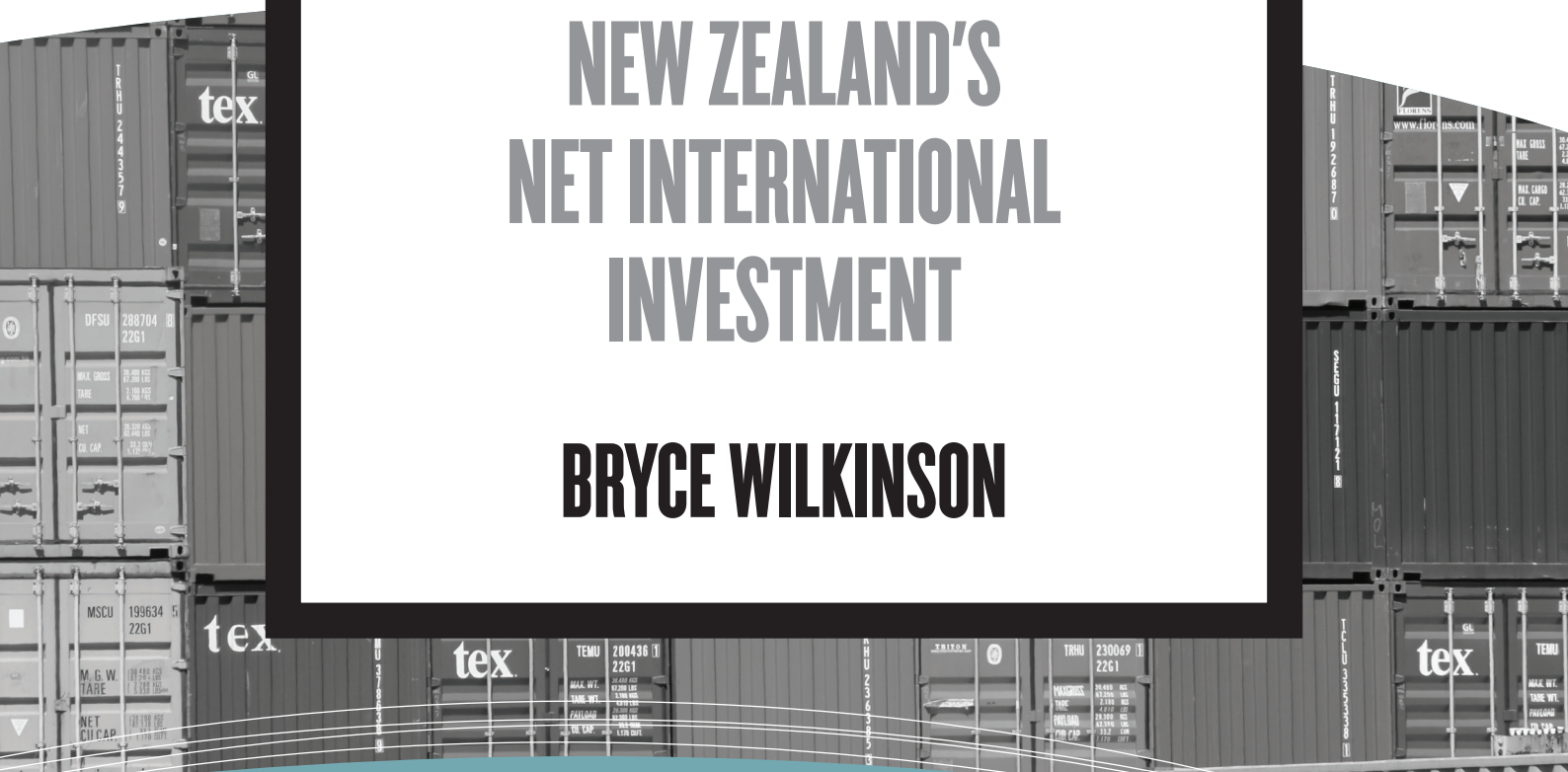
NEW ZEALAND'S GLOBAL LINKS

FOREIGN OWNERSHIP AND THE STATUS OF NEW ZEALAND'S NET INTERNATIONAL INVESTMENT

BRYCE WILKINSON



THE NEW ZEALAND INITIATIVE

Published by
The New Zealand Initiative, PO Box 10147, Wellington 6143, New Zealand
www.nzinitiative.org.nz

ISBN: 978-0-9922565-0-0

Typeset by Aeroshop

Printed by Wickliffe

New Zealand's Global Links

Foreign Ownership and the Status of New Zealand's Net International Investment

Bryce Wilkinson

THE NEW ZEALAND INITIATIVE

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

About the Author

Prior to setting up economics consultancy Capital Economics in 1997, Bryce Wilkinson was a director of Credit Suisse First Boston in New Zealand (now First NZ Capital). Before moving into investment banking in 1985, he worked in the New Zealand Treasury, reaching the position of director.

Bryce has a strong background in public policy analysis, including monetary policy, capital market research and microeconomic advisory work. He was a member of the government's Regulatory Responsibility Taskforce, the 2025 Taskforce and the ACC Stocktake Group and was acting executive director of the New Zealand Business Roundtable for a short period in late 2011 and early 2012.

Bryce holds a PhD in economics from the University of Canterbury and was a Harkness Fellow at Harvard University.

Acknowledgements

This report draws heavily from Statistics New Zealand's extensive documentation of its international debt and foreign direct investment statistics. Much material of a descriptive nature was taken more or less verbatim from this source, particularly for the glossary section of this report.

This blanket acknowledgment is necessary as it was decided that it would be too tedious for readers to attribute the source to SNZ item by item. Staff at SNZ also assisted considerably on technical aspects.

Particular thanks are also due to Oliver Hartwich, Murray Jack, Alan Judge, Bridget Liddell, Luke Malpass, Peter Shirtcliffe, and Andrew Thorburn, who took on the burden of assessing an earlier draft of this report. For many years now, Michael Reddell has generously provided the author with many insights and robust debate about the extent to which external debt is a policy problem. While Mangai Pitchai wielded a thorough editorial pen, all remaining errors are solely the responsibility of the author.

Contents

List of Tables

[Refer to Appendix 3 for a list of tables in the statistical compendium that accompanies this report. Appendix 4 contains six summary tables drawn from the set listed in Appendix 3.]

List of Figures

Foreword

Dr Oliver Hartwich
Executive Director
The New Zealand Initiative

Disagreements among economists are legend. However, the vast majority of the economics profession has agreed on at least one issue for more than two centuries.

Since Adam Smith and David Ricardo demonstrated how free trade benefits countries with different absolute (and even comparative) advantages, economists have been in favour of policies promoting free trade. In opinion polls among economists, the benefits of the free exchange of goods and services between countries is the issue on which there is the most agreement.[1] Economists understand that trade enables countries to specialise in what they are doing best. It allows an international division of labour that enhances prosperity for all participating nations.

Economists typically support not just the free movement of goods and services but also the free flow of capital between jurisdictions. The basic economic reasoning is simple. Capital should be free to go where it will yield the greatest return. The greater the mobility of capital, the more competition there will be in the markets. Capital mobility also allows investors to diversify their portfolios, and enables investment in places that otherwise would not have been able to provide the required capital expenditure upfront.[2]

The outlook of the economics profession can be characterised as internationalist and global. Economists do not hold prejudices for or against any nationality, religion or ethnicity. What matters is the overall effect of interactions on market participants.

Generally speaking, economists believe that whenever people voluntarily agree to trade with one another they should be allowed to do so. That the parties may live in different jurisdictions – say, one in Auckland and the other in Wellington, or one in Christchurch and the other in Sydney, Beijing or New York – does not matter to the economist.

The economics behind this general support for free trade and free capital flows are well researched and established – and have been for centuries.

However, this overwhelming agreement for a liberal international trade and investment framework is not reflected in popular opinion. Quite the contrary, large parts of the public still harbour negative feelings and suspicions about dealing with foreigners in trade and investment.

Non-economist observers do not recognise trade and capital links as a mechanism that creates prosperity for all involved. Instead, it is seen as a zero-sum game, a game of winners and losers.

In his book *The Myth of the Rational Voter*,[3] US economist Bryan Caplan calls this an 'anti-foreign bias' – the schism between how the economics profession and ordinary people consider trade. Despite all research to the contrary, voters tend to view their country's engagement with the rest of the world almost like an engagement in a war.

The public's suspicion and at times hostility towards foreign capital, and indeed any kind of economic engagement, with foreigners is a worldwide phenomenon. It is certainly present in New Zealand.

[1] William Poole, Free Trade: Why Are Economists and Noneconomists So Far Apart?, *Federal Reserve Bank of St. Louis Review*, September October 2004, 86 (5), pp. 1-6

[2] Wolfgang Kasper, *Capital Xenophobia: Australia's Controls of Foreign Investment, Sydney:* The Centre for Independent Studies, 1984.

[3] Bryan Caplan, *The Myth of the Rational Voter,* Princeton University Press, 2007.

Over the past few years, a number of high-profile cases of foreign engagement have caused controversy in New Zealand. The government blocked the attempt of a Canadian pension fund to buy a 40% stake in Auckland airport. NZ-owned banks directed advertising campaigns against their Australian-owned competitors.

There was the public debate over the sale of a number of (Crafar) farms to a Chinese investor.

All these cases show how uneasy New Zealanders feel about their country's links to foreign capital. Fears of "becoming tenants in our country" are widespread and provide the backdrop to populist political campaigns. A recent example is New Zealand First's proposal to ban foreigners from buying residential property in New Zealand.

Despite this high level of anxiety about foreign direct investment and becoming too dependent on foreign capital, there is not much public understanding of the state of New Zealand's integration into the global economy. Sure, there is anecdotal evidence, and there is certainly no shortage of prejudices. However, what is missing is a proper collection of reliable data on these issues.

This lack of evidence prompted The New Zealand Initiative to commission Dr Bryce Wilkinson of Capital Economics with a seemingly straightforward task: compile a one-stop-shop document establishing the place of New Zealand in the world economy covering not just foreign direct investment into New Zealand but all incoming and outgoing investments, with a considerable focus on clarifying key accounting relationships and historical trends. This report is the result of Dr Wilkinson's research.

The task turned out to be more complex and voluminous than we envisaged. Statistics New Zealand is now publishing several hundred time series on the international assets and liabilities of New Zealand resident units. However, the earlier one searches for reliable information prior to 2000, the more difficult the search. Even so, readers will find that the end result is a remarkable compilation.

For the first time anyone with an interest in these issues – journalists, policymakers, academics and the general public – can find a comprehensive overview of New Zealand's economic integration into the world economy in this report. It shows New Zealand as a place that has traditionally been importing capital – which is not untypical for a young, growing nation.

The story of the origins of the net international indebtedness of New Zealand resident units today is quite remarkable in its one right. However, the report also shows how the basic relationship between New Zealand and the rest of the world has not changed dramatically in recent years, which makes all the recent excitement over foreign ownership rather remarkable.

This is the first large report published by The New Zealand Initiative. I trust readers will find it informative and thought-provoking. It has certainly provoked us at the Initiative to think about future projects in this area.

Abbreviations

APEC	Asia-Pacific Economic Cooperation: a forum for 21 Pacific Rim countries.
BoP	Balance of Payments.
BoT	Balance of Trade.
BPM5	The fifth edition (1993) of the IMF's BoP manual.
BS	Balance sheet.
CAFCA	Campaign Against Foreign Control of Aotearoa.
CPI	Consumer Price Index.
FDI	Foreign Direct Investment.
GDP	Gross Domestic Product.
GNI	Gross National Income.
GNP	Gross National Product (archaic, now GNI).
IIP	International Investment Position.
NII	Net Investment Income.
IMF	International Monetary Fund.
NEDPD	Net externally domiciled public debt (a stock statistic).
NIIP	Net international investment position (a stock statistic).
OECD	Organisation for Economic Co-operation and Development.
OIO	Overseas Investment Office.
RBNZ	Reserve Bank of New Zealand.
SND	The latest system of national income accounts (to be distinguished from statistics for the same aggregates prepared under the earlier SNC, SNB or SNA systems).
SNZ	Statistics New Zealand.
UNCTAD	United Nations General Agreement on Tariffs and Trade.

Glossary

Annual Managed Funds Survey (AMFS):
A joint SNZ and RBNZ survey. It captures the value of assets held abroad by smaller-sized fund managers at 31 December each year. The survey has been conducted since 2001.

Assets:
A financial claim held by an entity on another entity (e.g. a NZ bank lending money to an overseas company would hold an asset equal to the value of the loan).

BoP methodology:
The methodology, specified in the IMF's BoP manual, fifth edition (1993), for determining whether a particular transaction should be classified as reducing an asset or increasing a liability (or vice versa). The IMF's methodology tends to favour a 'netting off' approach to a greater degree than what accountants would use when calculating a firm's assets and liabilities. SNZ is required to report using this methodology by virtue of New Zealand' membership of the IMF.

Balance on invisible transactions in the BoP:
The sum of balances on the export and import of services, investment income, and current transfers.

Balance sheet methodology:
The BS methodology 'nets off' to a lesser extent than the BoP methodology, producing larger estimates for gross assets and liabilities but the same overall net position. It is more consistent with current accounting practices in reporting a firm's gross assets and liabilities than the BoP methodology.

Borrowing:
SNZ's term for New Zealand's gross international debt when using its BS methodology. SNZ sometimes also uses the terms 'borrowing' and 'total international financial liabilities' synonymously.

Business Frame (BF):
SNZ's list of private and public sector businesses and organisations ('enterprises') engaged in the production of goods and services in New Zealand. The BF list is comprehensive and continually maintained to reflect real world changes (such as business start-ups and closures). The BF is estimated to cover 99% of the economic activity of the business sector covered by the tax system. About 420,000 live enterprises are recorded on the BF in New Zealand.

Capital account in the BoP:
Records transactions relating to capital transfers and purchases and sales of intangible assets. A transfer occurs when a person or entity provides economic value to another person or entity but does not receive an economic value in return. A capital transfer is a transaction that leads to a change in the stock of assets of one or both parties in the transaction. The capital account is separate from the financial account, which records transactions that exchange economic values.

Capital transfers:
Capital transfers involve the transfer of ownership of fixed assets or the transfer of funds linked to them without any counterpart transaction (e.g. funds brought into the country by migrants).

Current account in the BoP:
Records transactions relating to goods, services, income, and current transfers. It is the sum of the balances on goods and services, investment income, and current transfers. Note that the income generated/paid from holding an asset or liability is recorded in the investment income component of the BoP current account. The current account balance is also, by definition, the difference between savings by NZ resident units (out of national income) and investment in New Zealand (net capital formation plus any change in inventories).

Current transfers:
Offsetting entries to transactions where goods and services are supplied or received without an exchange of equal value in return (e.g. foreign aid, taxes or donations).

Direct investment:
An investment in which a single investor owns 10% or more of the ordinary shares or voting power of an enterprise. This could be equity capital, or 'other' capital, such as loans or bonds. A NZ-based subsidiary of an overseas company would represent direct investment from overseas.

Direct investor:
A direct investor is either an individual or enterprise that owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

Equity capital:
Equity capital is the market value of the foreign investors' holding in the enterprise. Market value can be determined by using the 'net asset value' of an enterprise (total assets less total liabilities), which includes the share capital plus the value of retained earnings. Alternative valuations use the share price of a company listed on the stock exchange, or value it according to its purchase price if it has recently been sold.

External debt:
The IMF's BoP manual (BPM5) (1993) defines external debt as gross international borrowing excluding financial derivative liability positions. Derivative positions are excluded because no principal is required to be repaid and interest is not accrued.

Financial account in the BoP:
The financial account records financial transactions involving NZ resident units' claims on assets and liabilities to non-residents. These are broken down by type of investment (direct investment, portfolio investment, 'other' investment, and reserve assets) and instrument of investment. Financial account inflows reflect either increases in NZ resident unit liabilities or decreases in international financial assets. Correspondingly, outflows reflect increases in NZ resident units' international financial assets or decreases in their international financial liabilities. A deficit in the current account likely means a net inflow of capital in the financial account.

Financial derivatives:
Securities in which the price is dependent on, or derived from, one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates, and market indexes.

Flows:
Transactions that result in an increase or decrease in financial assets or liabilities (e.g. if a NZ company purchases 50% of

an overseas company, the transaction is recorded as a flow in the financial account, and the value of NZ resident units' stock of financial assets overseas increases accordingly).

Foreign affiliate:
An entity in New Zealand that is at least 50% overseas owned.

Foreign Direct Investment (FDI):
FDI reflects the objective by an entity resident in one economy of obtaining a lasting interest in an enterprise resident in another economy. This implies the existence of a long-term relationship between the two parties, and the ability to exercise a significant degree of control by the investor on the management of the enterprise. For statistical purposes, a direct investment relationship exists where an investor holds at least 10% of the ordinary shares or voting power of an incorporated enterprise (or the equivalent for an unincorporated enterprise). (Before June 2000, official statistics required 25% overseas ownership.) Most direct investment enterprises are either wholly or majority-owned subsidiaries or branches. Total direct investment includes equity capital and other capital from those investors.

Gross Domestic Product (GDP):
GDP is a measure of the production of final goods and services in the domestic economy.

Gross international debt position:
Gross international debt is a subset of the IIP statement. It reflects the non-equity borrowing position of NZ resident units. Debt is an actual current contractual obligation that requires payment of principal and/or interest by the debtor at some point(s) in the future. Conversely, equity ownership represents a claim over the residual value of an enterprise. SNZ may refer to gross international debt as 'international borrowing', or just 'borrowing'. Its measure of international debt includes the value of NZ resident units' net asset and liability positions in derivatives. In contrast, the IMF's measure of external debt excludes these derivatives' positions because no principal is required to be repaid and interest is not accrued.

Gross National Income (GNI):
The income received (less income payable) by NZ resident units from the ownership of resources, whether domestic or overseas. Traditionally, this has been described as gross national product (GNP), but as an income concept it is now better described as gross national income.

Gross National Disposable Income (GNDI):
The income received (less income payable) of NZ resident units from both domestic and overseas sources after taking into account income redistribution by way of international transfers, or GNI plus international transfers.

Income:
Earnings from providing capital (e.g. profits received from directly owning a company, dividends received from owning shares, interest received from lending money, or wages/salaries earned from providing labour ('compensation of employees').

International Investment Position (IIP):
IIP is a snapshot of NZ's international financial assets and liabilities. It measures the stock (or level) of the country's financial assets and liabilities with the rest of the world at a particular point in time. The IIP includes NZ resident units' net international debt (lending to non-

resident units less borrowing from non-resident units) and net international equity investment (investment in shares abroad less foreign investment in shares in NZ companies). A net international debtor position means international liabilities exceed international assets.

Lending:
Term used by SNZ, when using the BS methodology, to refer to total international financial assets.

Liabilities:
A financial claim one entity has on another entity (e.g. a NZ company borrowing from overseas would have an overseas liability equal to the value of the loan).

Net errors and omissions (residual):
An item to ensure the BoP statement balances. It is equal and opposite to the sum of all current, capital and financial account, credit flows, less the sum of all debit flows.

Net external equity position:
The value of NZ resident units' equity investments overseas less the value of foreigners' equity positions in New Zealand.

Net external debt:
NZ resident units' net international debt, excluding financial derivatives asset and liability positions.

Net international lending (borrowing):
NZ resident units' overseas lending less their overseas borrowings (or vice versa). This statistic measures debt instruments only, and excludes equity (shares). Financial derivative asset and liability positions are included in lending and borrowing.

Net international investment position (NIIP):
The sum of the net external equity position and net international debt positions.

NZ resident units:
Institutional units defined to be residents of New Zealand. For individuals, NZ residency means usually resident in the economic territory of New Zealand. Other entities are resident in New Zealand if they produce goods and services within the economic territory of New Zealand. Local branches of foreign banks are NZ resident units, as are local wholly owned subsidiaries of overseas banks.

Non-produced, non-financial assets:
These consist of natural resources; contracts, leases and licences; marketing assets; and goodwill (e.g. the sale of a brand name).

Other direct capital:
Other direct capital captures the various instruments that an enterprise may use in its dealings with its direct investors. It includes items such as non-voting redeemable preference shares, bonds and notes, and trade credits with direct investors. The principal instrument in other capital is loan assets and liabilities. For enterprises outside the banking sector (most enterprises), all loans with direct investors are classified as direct investment. The banking sector, however, is a special case.

Other direct capital includes 'permanent debt' liabilities owed by NZ resident banks to non-residents, but does not include other debt to direct investors. This is because permanent debt is considered to be structural as opposed to the more transitory loans that continually pass through the NZ banking system as part of doing business in the banking industry.

Loans that NZ banks take out with their direct investors only for on-lending as a part of their ordinary business are not included in the direct investment category because they do not reflect the objective of obtaining a lasting interest in the enterprise. This non-structural investment in New Zealand through the banking sector is classified as 'other' investment (see below). Investment is classified as direct investment if it comes from any party in the direct investment group, not just investment from the direct investor itself. For example, a loan owed by a NZ enterprise to an Australian 'sibling' company is direct investment if both companies are owned by the same German parent company, even though the Australian company does not own the NZ company.

'Other' investment:
'Other' investment comprises all capital transactions not included in direct investment, portfolio investment, or reserves. It includes the foreign exchange assets and liabilities of NZ residents, and may include trade credits, loans and deposits. An example of other investment in New Zealand would be a NZ resident enterprise borrowing from an Australian resident bank. The 'other investment' category includes non-structural loans and deposits from NZ resident banks, even if the counter-party is in their direct investment group.

Overseas person:
Overseas person is defined by the Overseas Investment Act 2005 to mean an individual who is neither a NZ citizen nor ordinarily resident in New Zealand. It also defines a body corporate to be an overseas person if it is incorporated outside New Zealand, or is a 25% or more subsidiary of a body corporate incorporated outside New Zealand, or is at least 25% owned or controlled by an overseas person(s). The Act spells out in complex detail how 'control' is determined. Similarly, complex details apply to determining whether partnerships, unincorporated joint ventures, other unincorporated bodies, unit trusts and other forms of trusts are at least 25% overseas owned or controlled, and thereby deemed overseas persons.

Portfolio investment:
Portfolio investment is where an investor holds less than 10% of the ordinary shares or voting power of an enterprise. It includes equity securities and debt securities, both of which are usually tradable in financial markets.

Resident:
A unit whose centre of economic interest is in the economic territory of a country. (This concept is not based on nationality or any legal construct.)

Stocks:
The value, at a set point in time, of an outstanding asset or liability.

Securities:
Financing or investment instruments bought and sold in financial markets, such as bonds, notes, options and shares.

Statistical discrepancy:
The measured income from GDP less measured expenditure on GDP.

Units:
Units comprise households (and the individuals who make up the household) and legal and social entities, including all forms of enterprises.

Key Messages

This paper comments on the results of a project that has assembled, in a single document, most of the available official time series on foreign ownership in New Zealand and cross-border flows and stocks of capital. It also puts them into a broad historical and analytical context.

The project's purpose is to facilitate more informed public debate on the contentious issues of external indebtedness and foreign investment in New Zealand.

The stand-alone statistical document comprises 84 tables containing hundreds of time series and encompassing balance of payments flows, the international assets and liabilities of New Zealand resident units and some national income account flows. Appendix 3 lists these tables.

Four results stand out from this extensive statistical investigation:

1. In its colonial days, New Zealand was heavily dependent on international capital for development. It has depended on international capital ever since, although the degree of dependency has varied substantially.

Foreign investment in New Zealand exceeded investments abroad by:

- 72% of GDP in March 2012 (SNZ)
- 64% of GDP in 1989 (SNZ's earliest estimate)
- 4.4% of GDP in 1973 (unofficial IMF research)
- 15% of GDP in 1949 (unofficial estimate by Zyg Frankel)
- 101% of GDP in 1926 (ditto)
- 151% of GDP in 1910 (ditto)
- 273% of GDP in 1886 (ditto)

2. The big rise in net overseas investment in New Zealand relative to GDP occurred between 1973 and the mid-1980s. It was triggered by large trade deficits in the balance of payments, not least due to spiking oil prices, and exacerbated by the largely 'Keynesian' government deficit spending policy response. Government net foreign currency- denominated debt rose from 2.6% of GDP in 1974 to 28.5% in 1986.

3. The chronically large deficits in the current account of the balance of payments during the last 25 years are a legacy of this deficit spending period. By the mid-1980s, the net balance on investment income in the current account in the balance of payments was running at minus 5% of GDP. Since then the large ongoing investment income deficits have single-handedly kept the overall current account balance in deficit, despite the surpluses in the trade balance that prevailed between 1988 and 2004.

4. Reducing the net external liability as a percentage of GDP would require policies aimed at (1) raising international competitiveness in relation to exports and imports and (2) raising the growth rate of GDP relative to the earnings rate paid on the net external indebtedness. Policies that have the effect of discouraging foreign direct investment are likely to be self-defeating in relation to both objectives. Polices aimed at raising the savings rate as an objective in its own right may also produce disappointing results in terms of competitiveness and productivity growth.

Myths about International Debt and FDI[4]

1. New Zealand has a large negative NIIP because domestic investment since 1973 has exceeded national savings.

Response: This is exactly equivalent to asserting that New Zealand has a large negative NIIP because the current account in the BoP has been in deficit since 1973 (see Identity 4 in subsection 2.2.3). Expressed either way, the error lies in assuming what needs to be proved – the direction of causation. Is the gap the result of the large negative NIIP (since this is inexorably the cause of a large deficit on international investment income in the current account of the BoP) or is the gap the cause of the high NIIP?

An answer to this question can be found by splitting the gap into two components: the deficit on international investment income and the remaining components of the current account balance in the BoP. These components are listed in Identity 2 in subsection 2.2.2. Time series for the respective balances are provided in tables AF1-AF4 (Appendix 3). The most important of the remaining components, statistically, is the balance on exports and imports of goods and services (BoT).

The BoT was in deficit for 12 of the 13 years from 1975 to 1987 (Table AF1). From 1974 to 1987, the cumulative annual deficits in the current account of BoT, net investment income, and the total current account balance were 40%, 44% and 81% of GDP respectively (Table AF2). By the mid-1980s, New Zealand's net external liability was estimated to be about 70% of GDP (Table AS2 in Appendix 4).

The reasons for this development are well known. World oil prices quadrupled around 1973-74 and New Zealand's external terms of trade slumped to 1930s levels. This immediately caused an enormous BoT deficit. In a classic Keynesian 'borrow and hope' response, governments resorted to deficit spending. In the early 1980s, the government also underwrote large, ill-fated energy projects. The justification at such times is to keep up aggregate demand to stop production from falling, albeit at the expense of savings and the accumulation of debt. Much of the government borrowing was from overseas, simultaneously funding the deficits in the public accounts and in the current account of the BoP (subsection 4.3.3).

In sharp contrast, surpluses in the BoT occurred in 16 of the 17 years between 1988 and 2004, yet the current account balance in the BoP averaged minus 4.7% of GDP. In accounting terms at least, the gap between investment and savings during this period was entirely due to the average annual deficit on international investment income in the BoP of 5.8% of GDP (Table AF4).

After 2004, a big increase in government spending, both absolutely and relative to GDP, was accompanied by a return to BoT deficits, and before long, structural fiscal deficits. Policy has aimed to reduce any further rise in government spending rather than roll back the total.

The overall conclusion is that the gap between investment and savings since 1973 was initially caused by BoT deficits associated with a four-fold increase in world oil prices and fiscal deficit spending,

[4] All the periods and years in this section refer to years ended March, unless specifically stated otherwise.

which was funded in good part by government overseas borrowing. But as the NIIP became large and negative, the external deficit on investment income became the dominant source of the large gap between investment and savings. This is set to continue for the foreseeable future. Since the ongoing deficit on investment income is caused by the large negative NIIP, this is also the proximate cause today of the ongoing large gap between investment and saving.

Certainly, other things being equal, a much higher savings rate between 1974 and 1984 could have stopped the external debt spiral and avoided this legacy problem. But the chosen economic policies favoured spending rather than saving for short-term aggregate demand/employment reasons. The newly elected government in 2008 reasoned similarly after finding it was facing a serious structural fiscal deficit problem. However, the policy question of how best to 'improve' the BoT to reduce the gap between investments and is beyond the scope of this report.

2. New Zealand has a large negative NIIP because since the mid-1970s, 'we' have been spending more than 'we' have been producing.

Response: The statement is misleading in that the word 'we' invokes notions of nationality or citizenship – spending by New Zealanders. The NIIP reflects instead spending and production by NZ resident units. These include overseas-owned firms operating in New Zealand (subsection 2.1.5). More to the point, the statement is wrong because the BoT was in surplus for 20 of the 25 years between the 1988 and 2012 (Table AF3). By definition, gross domestic spending on goods and services was less than gross domestic production of goods and services in those 20 years. However, the statement is essentially correct for the 13-year 1975-87 period when governments were running large fiscal deficits and the BOT was in deficit for every one of those years except 1979. The statement is also more applicable to the 2005-09 period.

3. New Zealand has a large negative NIIP because New Zealanders are poor savers, generally spending more than 'we' earn.

Response: In fact, NZ resident units overall customarily spend less than they earn. On the latest available estimates, national saving has been positive for 38 of the 41 years between 1972 and 2012, the exceptions being 1992, 1993 and 2009.

4. New Zealand's large negative NIIP is due to the private sector (since government's NIIP is close to zero).

Response: To assert that the private sector is responsible for New Zealand's large negative NIIP is to fail to take into account the sequence of events that produced this outcome. The sharp rise in the NIIP from 1974 to the mid-1980s was associated with heavy government net overseas borrowing. This borrowing also funded the large ongoing fiscal deficits of that period (subsection 4.3.3). From the mid-1980s to the mid-1990s, the government sharply reduced its external liabilities by using asset sales, domestic borrowing, and eventually fiscal surpluses (Section 4 and Figure 8). None of these measures directly affect the current account balance in the BoP. Instead, their direct effect is to increase dollar for dollar the private sector component of the NIIP.

The bottom line is that the high NIIP today is a legacy of the policies and events of the 1974-84 period.

5. New Zealand's level of private indebtedness is a major risk.

Response: New Zealand's level of private indebtedness is a risk, but is it a major risk? It is a risk that borrowers and lenders have been living with for the last 25 years. The global financial crisis of 2008 exposed a debt composition risk – the dependence of the banking system on short-term funding from the global wholesale inter-bank market. But that can be (and is being) reduced by changing the composition of the NIIP.

To argue that the NIIP is a major risk is to imply that the costs of bearing it exceed the benefits, and that reducing the NIIP should be a policy objective in its own right. However, if the risk is excessive in this sense, overall lenders must have been lending unwisely – and borrowers borrowing unwisely – for the last 25 years. Yet, it is clear from SNZ's statistics that international lenders have focused their lending on large overseas-owned companies operating in New Zealand (notably banks) and on investing in NZ government debt. It is relatively easy for them to assess the credit risk associated with such focused lending, and the overseas parent companies who are overseeing their NZ operations are well placed in terms of information and control to assess and manage their risks. NZ banks are the major overseas borrowers and domestic lenders, yet the RBNZ's six-monthly financial stability reports do not present the banks as a major risk.

International direct lending to New Zealanders and NZ-owned entities is very small in comparison. Moreover, the hedging statistics also establish that the currency risk of NZ borrowers is a very small proportion of the total international debt liability.

The conclusion to this point is that while lending and borrowing is always risky to both parties, and disappointments will invariably occur, it is far from obvious that the dominant borrower, the local banks, are borrowing unwisely given the intensity of the scrutiny they face from their offshore parent banks, other banks involved in global bank wholesale market funding, sharemarket investors, and the RBNZ as regulator.

The major counterargument is that the level of risk is nonetheless excessive because private lenders put some weight on the probability that government will bail them out in the event of a crisis. Indeed, this moral hazard concern has become a major global economic threat, and will remain so until the 'too big to fail' problem is resolved. But it is a threat regardless of the size of NZ's NIIP. Moreover, arguably taxpayers will be more willing to bail out domestic lenders or depositors than private foreign lenders or depositors. If so, this risk might be greater if a greater proportion of the borrowing by New Zealanders were from other New Zealanders.

6. New Zealand's large negative NIIP is due to banks borrowing overseas to fund New Zealanders into housing.

Response: Borrowing from overseas to fund the housing market is a practical impossibility. The NIIP can be changed only by something that alters the current account balance in the BoP or the valuation of NZ's international assets and liabilities. Changes in the ownership of an asset at market values do not affect either aspect.

The buyer of a house gets approval for a mortgage loan from a bank. When the purchase is finalised, the seller of the house banks the proceeds. The presentation of the cheque for settlement is a deposit that triggers the mortgage loan. For the banking system as a whole, the mortgage loan is instantaneously funded by an increase in domestic bank deposits. There is no net recourse to overseas borrowing for the banks as a whole.

The big increase in the net external funding of the banks as a whole in recent decades reflects instead the large role they have played in attracting the net capital inflow that has funded the ongoing current account deficits in the BoP. This inflow would have been necessary whether house prices were rising or falling.

7. The government's aim to attain a fiscal surplus by 2014-15 will start reducing the current account deficit to a meaningful degree.

Response: Perhaps the government's aim to reach a fiscal surplus by 2014 – 15 will start reducing the current account deficit to a meaningful degree, perhaps not. To the degree that such a move reflects a rebound in economic growth that increases simultaneously the government tax coffers and import demand, it could be associated with an increased current account deficit rather than a reduced one.

The Treasury's May 2012 Budget forecast the current account deficit at 6.3% of GDP in the year ended March 2015. This would be the highest ratio since the 8% figure for the year ended March 2009. A relevant consideration is the degree to which fiscal surpluses are achieved in a manner that increases New Zealand's international competitiveness.

8. Asians are increasingly taking over New Zealand.

Response: Actually, it is the Australians who have been taking over New Zealand at the margin. At 31 March 2001, Australians owned 31.5% of the FDI stock in New Zealand. By 31 March 2012, it was 55.8%. Meanwhile, the share owned by ASEAN countries only rose from 1.9% in 2001 to 3.1% in 2012. One could hardly describe the latter as a takeover bid for New Zealand. Furthermore, as a proportion of GDP, the stock of direct investment in New Zealand peaked in 1998 and 1999 at over 60% of GDP, and was below 50% in 2011 and 2012 (Table AS4).

9. NZ companies have not been increasingly investing offshore; New Zealand is open to takeover, but it is not two-way.

Response: Investment is two-way and New Zealand is far from being open to takeover. On the OECD's measure, New Zealand's regime for screening inwards direct investment is one of the most restrictive in the world.

Figure 3 shows no obvious upwards trend in the stock of inward investment relative to GDP since 2000. It is true that the stock of NZ direct investment abroad has slipped a bit as a percentage of GDP from just above 13% of GDP in 2002 and 2003 to 12% of GDP in 2012, but it has risen markedly in dollar terms since the 1990s (although there are concerns about estimation errors).

10. Greenfield FDI is better than brownfield FDI.

Response: This is a false choice. There is no trade-off between greenfield FDI and brownfield FDI. It is better to have both as long as they are driven by the market rather than government support. The latter unfortunately was too often the case with the greenfield investments, which were induced in the past by import licensing. Brownfield investment can increase access to markets and knowhow, as Joanna Scott-Kennel's PhD thesis demonstrated (see subsection 4.4).

11. Passive foreign portfolio investment in New Zealand is less useful than direct investment.

Response: Again, there is no trade-off between passive foreign investment in New Zealand and direct investment. Foreign portfolio investment helps reduce the cost of capital in New Zealand.

12. New Zealanders are becoming tenants in their own country because of growing foreign ownership.

Response: A ballpark guesstimate is that foreigners own more than 1 million hectares in New Zealand out of a total land area of 28.7 million hectares. The Department of Conservation alone manages 8.5 million hectares.

If New Zealanders are to become tenants in their own country, it is more likely that their landlord will be the government, not foreign investors.

Housing New Zealand is the largest residential landlord in the country, owning nearly 70,000 properties.

Key Points: IIP and External Indebtedness

- At 31 March 2012, foreigners had invested $146 billion more in New Zealand than New Zealand had invested overseas. This negative NIIP represented 72% of GDP for the year ended March 2012.
- On the best available official information, the NIIP was around minus 70% of GDP in 1992, and has ranged between minus 67% of GDP and minus 87% of GDP since 1992.
- Net international debt accounted for $140 billion of the negative $146 billion NIIP position at 31 March 2012. As a ratio of GDP, this net external indebtedness has ranged between minus 58% and minus 83% of GDP since 2002.
- The future path for the ratio of NIIP to GDP will be a function of the earnings rate paid on the NIIP relative to the GDP growth rate and future BoT deficits or surpluses.
- The high levels of net external indebtedness in recent decades have long concerned officials and rating agencies. However, the persistently high negative ratio of NIIP to GDP for more than two decades suggests that borrowers and lenders largely have been comfortable with their respective investment positions.
- The total international debt liability of New Zealand at 31 March 2012 was $251.7 billion on a BS basis, but only 44% of this was denominated in foreign currencies, and 94% of that portion was currency hedged in some manner.
- An estimated $170 billion of that international debt liability was a direct claim on foreign-owned or -controlled firms that counted as NZ residents units. Another $45 billion was a claim on government agencies. These figures might help explain the sustained level of international lending.
- Treasury is forecasting the NIIP to become more negative in the next few years; the analysis in this report indicates that fortuitous one-off factors in the last decade have obscured that trend. The outlook for continuing low economic growth and a return to BoT deficits is not favourable from a debt spiral perspective.
- It is instructive to examine how New Zealand got into this situation. IMF researchers have estimated that New Zealand's net external liability rose from 9% of GDP in 1970 to 71% by 1985. NZ governments borrowed heavily from overseas between 1974 and 1987 to obtain the foreign exchange needed to cover chronic BoT deficits (goods and services) and their own fiscal deficits.

- The cumulative annual BoT deficits, as a percentage of GDP, were 40% of GDP from 1974 to 1987. The cumulative annual current account deficits in the BoP were 81% of GDP during the same period.

- These statistics indicate that today's highly negative NIIP is largely a legacy of the prolonged deficit spending between 1976 and 1987.

- Unofficial estimates show that New Zealand had much more negative ratios of NIIP to GDP between the mid-1880s and 1920s, with heavy government overseas borrowing being a major component. However, the ratio was modest from the 1940s to 1960s.

Key Points: Foreign Direct Investment

- Accurate information on FDI in New Zealand was limited and sporadic until 2000.
- Roderick Deane's PhD thesis in the late 1960s identified 222 foreign-controlled manufacturing businesses operating in New Zealand on the basis of at least 25% foreign ownership. Of these, 179 were UK- or Australian-owned. Of the 222, 146 were either branches of an overseas company or 100% overseas-owned.
- Of the 147 companies that responded to Deane's survey, only 21% were established before the imposition of foreign exchange and import controls in 1938.
- The blanket foreign exchange controls and comprehensive import controls introduced in 1938 as an emergency measure were 'sold' to British manufactures as an opportunity to invest directly in New Zealand. Deane's thesis shows that the manufacturers responded.
- Unofficial estimates by IMF researchers put the stock of inwards FDI at 6% of GDP in 1970 and rising to 10% of GDP in 1984. UNCTAD estimates that the stock of outwards investment was only 2% of GDP in 1984.
- The abolition of foreign exchange controls in late 1984 and the privatisations between 1988 and 1994 greatly stimulated private direct investment inwards and outwards. UNCTAD estimates that the inwards stock rose from 8% of GDP in 1984 to 42% in 1994.
- SNZ estimates that accumulated FDI in New Zealand peaked at 61% of GDP in 1998, before progressively dropping to 48% in March 2012.
- A survey by Joanne Scott-Kennel in late 1999 of overseas-owned companies in New Zealand documents the degree to which FDI during the liberalisation/privatisation period was focused on taking over established businesses rather than the greenfield type that dominated the protectionist era. Her study found evidence of considerable spin-off benefits for New Zealand staff, suppliers and customers.
- SNZ estimates that in 2012, 56% of the inwards stock of investment was sourced from Australia; 80% from all member countries of the OECD; and only 3.1% from ASEAN countries.

- SNZ also estimates that New Zealand's direct investments overseas fell from 15% of GDP in March 1992 to 12% in March 2012.

- In 2012, 53% of the outwards stock of direct investment was invested in Australia; 79% in all member countries of the OECD; and 9.2% in ASEAN countries.

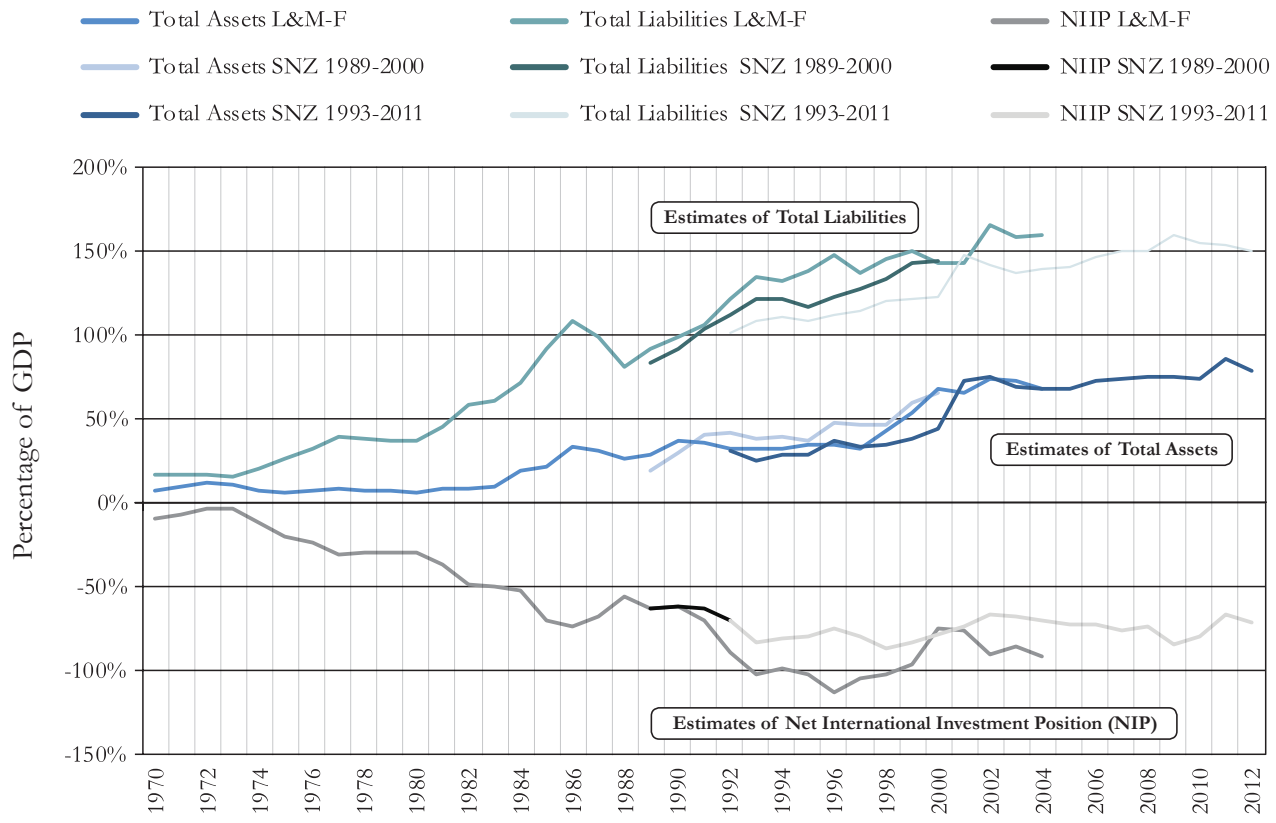
- Policy in the last decade has arguably been much more ambivalent towards FDI; the OECD now considers New Zealand's regime to be one of the most restrictive in the world, at least on paper.

Key Figures

This section contains three charts that summarise movements in some of the major time series discussed in this report:

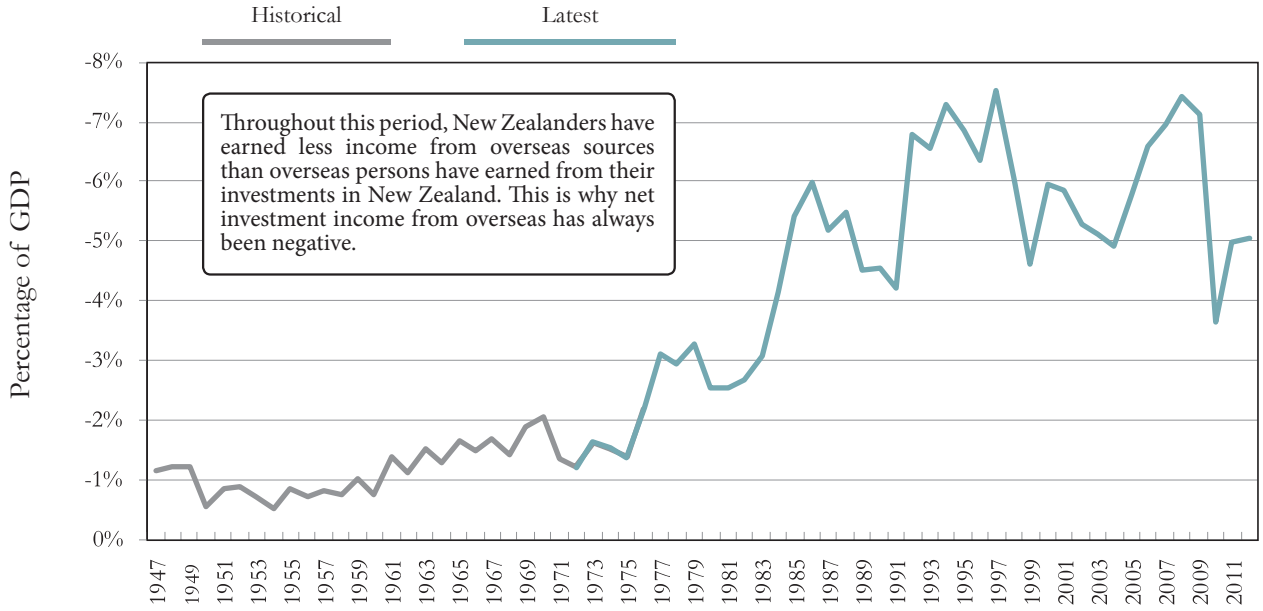
- **Figure 1** shows the best available estimates of the total international assets, liabilities and net position of NZ resident units between 1970 and 2012. Note the marked deterioration in the net position between the mid-1970s and the mid-1980s.
- **Figure 2** shows the gap between income received from overseas by NZ resident units and income paid overseas between 1947 and 2012. The marked widening in the gap between the mid-1970s and the mid-1980s reflects the deterioration in the net position shown in Figure 1.
- **Figure 3** shows UNCTAD's times series for New Zealand's inwards and outwards stocks FDI between 1970 and 2011.

Figure 1: NZ international assets, liabilities and NIIP, 1970-2012



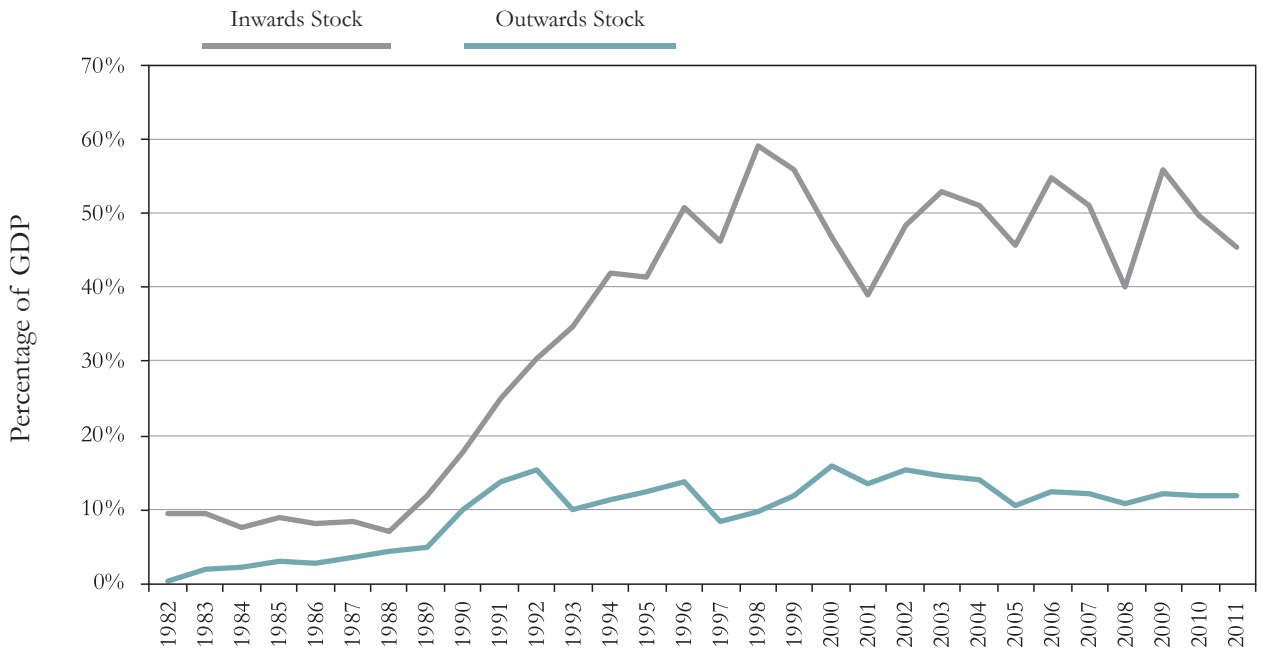
Source: SNZ's (31 March estimates and Lane & Miles-Ferretti estimates, divided by expenditure on GDP for the years ended March.

Figure 2: Net investment income paid overseas, 1947-2012.



Source: Statistics New Zealand, particularly the 1990 Official Yearbook and InfoStats, years ended March. Table AF7. See Appendix 3.

Figure 3: NZ's stock of inward and outwards FDI, 1982-2011



Source: UNCTAD, Table AS44. See Appendix 4.

1.

Introduction

The New Zealand Initiative commissioned Capital Economics to assemble in a single document most of the available official time series on foreign ownership in New Zealand and cross-border flows and stocks of capital with the aim of facilitating informed public debate on these contentious topics.

This report introduces this statistical compendium, explains key statistical inter-relationships in the series, and puts the statistics into a wider historical perspective. It does not provide international comparisons or join the public policy debate to any significant degree. These are matters for further research that The New Zealand Initiative intends to undertake.

The need for a sound statistical basis arises because foreign ownership of land and business enterprises operating in New Zealand will always arouse a degree of fear, suspicion and distrust among locals. Undue fears can be fuelled by a failure to tap into available information. There appears to be no published authoritative official information, for example, on how much land in New Zealand is overseas-owned. Such ignorance could be fuelling the public fear that Prime Minister John Key acknowledged in July 2010 – that New Zealanders might become "tenants in our own country."

Foreign ownership is also equated with loss of sovereign control. The Campaign against Foreign Control of Aotearoa (CAFCA) has represented this concern in New Zealand for more than 25 years. CAFCA takes care to distinguish this concern from xenophobic concerns based on whether foreigners are really 'one of us' or an alien group. However, many would see ownership of NZ firms by Australians or non-resident New Zealanders as raising fewer security or other concerns than the same ownership by a hostile imperial power.

The ongoing importance of foreign ownership concerns is demonstrated by the government's decision to block the sale of shares in Auckland International Airport to the Canada Pension Plan Investment Board in 2008, and by the two-year legal and political wrangling that preceded the sale of 16 (Crafar) dairy farms to Chinese interests in December 2012.

Ownership concerns are specific to equity investments because equity investments are most likely to affect control of the use of assets.

The concern about foreigners having invested more in New Zealand than New Zealanders have invested overseas is more about the sustainability of external debt burdens. The current plight of Greece illustrates this concern.

As is well known, New Zealand's current level of net external indebtedness has long troubled policymakers and rating agencies alike. In its November 2011 *Financial Stability Report,* the Reserve Bank stated:

> *"High levels of external debt were a key factor leading Standard and Poor's, and Fitch, to downgrade New Zealand's*

> *long-term sovereign foreign currency credit rating by one notch to AA from AA+ in September, with outlook stable."*

In June 2012, the IMF said:

> *"New Zealand's large net liabilities present a risk. Despite recent improvements, the current account deficit is projected to increase over the medium term as earthquake reconstruction activity gains pace and global interest rates normalize. To contain this increase and limit a further build-up of foreign liabilities over the longer term, the New Zealand dollar would need to be weaker than its current level."*

Nevertheless, lenders and borrowers are demonstrating through their actions and market prices (including the exchange rate) that they think the risks are commensurate with the expected benefits.

A close study of the available information is a prelude to an informed debate on the reasons – for example, whether the external debt 'problem' is a legacy issue or a savings-investment issue.

Section 2 explains key relationships within the BoP; between the BoP and national income accounts; and between these flows and the NIIP. It also explains the different measures and terminologies used to measure and describe the net external position.

Section 3 comments on a few highlights emerging from the wealth of statistical information that SNZ has produced, particularly in the last decade, with reference to the compendium of tables that accompanies this report.

Section 4 reviews the long record, sketchy as it is, of New Zealand's external debt history.

Section 5 makes some concluding remarks, commenting on what this report has not covered.

Appendix 1 points readers to sources of updated official statistical information.

Appendix 2 expresses the identities in Section 2 in an algebraic form.

Appendix 3 lists the tables in the statistical compendium.

Appendix 4 contains six summary tables drawn from the tables listed in Appendix 3. Its purpose is to make this report more of a stand-alone document.

All the time series referred to in this report and the associated tables have a cut-off date of 30 September 2012. Readers should be aware that subsequent revisions to these time series may make some of these figures obsolete. In particular, revisions to estimates of GDP may change ratios to GDP.

(The compendium of statistical tables accompanying this report aims to reduce the scope for confusion between stock and flow statistics (see Section 2) by using the letters S or F in the numbering of each table. The numbering system also includes the letters Q or A to indicate whether any given table contains a quarterly or annual time series. (All the annual series are on a year ended March basis.) Many of the tables present annual series for greater ease of assessing long-term trends. To reduce the scope for confusion between statistics based on BoP or BS (see Section 2), the annual tables of stock statistics organise them into separate groups of tables.

2.

Key Concepts and Relationships

This section explains:

- some of the terminological nuances used todistinguish measures of the extent of New Zealand's NIIP and net external debt
- the difference between stock and flow statistics
- the crucial identities that relate stocks to flows and explain debt dynamics
- fundamental national income and BoP identities.

All the annual statistics mentioned in Section 2 will be on a year ended March basis, unless stated otherwise. Where a level for an asset or a liability is given for a particular year, that will be its 31 March value, unless otherwise stated. Where that level is expressed as a percentage of GDP, it will be the 31 March level divided by expenditure on GDP for the year ended March in the same year, unless stated otherwise.

2.1 Terminological distinctions and issues

2.1.1 Definitions of foreign ownership – 10% versus 25%

The long-standing definition of a foreign-owned company is one that is 25% or more owned by foreign entities. New Zealand's Overseas Investment Act 2005 retains the 25% definition and the Overseas Investment Office (OIO) administers that Act.

However, since June 2000, SNZ has been applying a threshold of 10% ownership for classifying foreign investment. Foreign holdings of at least 10% of a NZ entity are classified as direct investment; those below 10% are classified as foreign portfolio investment. Before 2000, SNZ used a 25% threshold.

2.1.2 Measuring the IIP – BoP versus BS presentations

SNZ publishes two versions of its IIP statistics. One version uses a BoP presentation to classify New Zealand's international assets and liabilities. This version records lending abroad by NZ enterprises on a net basis. It similarly records overseas borrowing by NZ subsidiaries abroad on a net basis. The IMF recommends this approach.

SNZ calls its two time series for assets and liabilities in its BoP presentation 'Total New Zealand investment abroad' and 'Foreign investment in New Zealand' respectively. Synonymous terms are 'New Zealand's international investment position' and 'New Zealand's international liability position' respectively. The five subcategories are direct, portfolio, 'other', financial derivatives, and reserve assets. The net position is called 'New Zealand's net international investment position'.

Tables AS1 and AS3-AS14 contain times series of statistics on international assets and liabilities that use the BoP presentation. SNZ breaks the totals into five categories – direct, portfolio, other, financial derivatives, and reserve assets – along with a country breakdown of these categories. It publishes a finer breakdown for each category – and, where applicable, into subcategories of equity and of debt. It also uses this breakdown for its BoP financial account flow statistics (Table AF8).

SNZ calls its second version a balance sheet (BS) presentation. All lending in the BS presentation is classified as an asset and all borrowing a liability. Assets and liabilities are not recorded on a net basis. This presentation allows a breakdown of assets and liabilities by institution and sector. The BS presentation is particularly useful for distinguishing between equities and debt.

Tables AS16-AS24 set out SNZ's international lending and borrowing statistics using the BS classification, which permits breakdowns by instrument, currency, sector and industry.

SNZ illustrates the conceptual differences between the two approaches as follows. Suppose a NZ company lends $100 to an overseas subsidiary and borrows $60 from a different overseas subsidiary. This would be recorded:

- in the BoP presentation as $40 of New Zealand direct investment abroad; and
- in the BS presentation as $100 in New Zealand's international assets and $60 in New Zealand's international liabilities.

Note that these differences do not affect estimated net international assets or liabilities; they affect only the gross figures. Note also that the issue does not apply to estimates of equity and reserve asset positions. They are the same in both sets of tables.

As the net position is the same in each case, the terms 'net international investment position' (NIIP) and 'net international asset position' can be used interchangeably.

Variations on this terminology are common. In particular, the adjectives overseas, offshore, foreign, external, international, and inwards or outwards may be used synonymously in public discussion. Usually this does not create any confusion.

Table AS36 compares the two sets of estimates of the stocks of international assets and liabilities between 2001 and 2012. The estimated asset and liability positions are higher for the BS presentation by 9.2% of GDP on average. The range is between 6.5% and 11.6% of GDP.

2.1.3 The IMF's net external debt measure

SNZ's measures of international borrowing and lending differ from the IMF's measure of external debt (see the External Debt Guide (2003)). The IMF's guide excludes financial derivative liability positions because no principal is required to be repaid and interest is not accrued. However, SNZ's measure includes such positions. The External Debt Guide and SNZ treat an overdue obligation to settle a financial derivative contract as a debt liability because payment is required.

SNZ calculated New Zealand's net international debt at $140,426 million in 2012, while the net external debt on the IMF's recommended basis was $140,849 million. The small difference reflected the near balance in the positions of financial derivatives.

2.1.4 RBNZ's measure of external bank debt

SNZ's figures for the banking sector's overseas debt are larger than the RBNZ's figures for the funding abroad of NZ registered banks alone. This is because the SNZ's definition of the banking sector follows the IMF's BPM5 requirement to include banks and other financial institutions. SNZ states that there may "be differences in the classification of some instruments between equity and debt".

2.1.5 To what extent is the external debt a liability of New Zealanders?

NZ resident units' international financial debt liabilities totalled $251.7 billion in 2012 on a BS basis. To what extent was this amount owed by New Zealanders as distinct from the indebtedness of NZ resident foreign-owned entities?

A NZ resident unit for the purposes of the BoP and national account statistics is a person who usually resides within the economic territory of New Zealand or an institutional unit producing goods or services within the economic territory of New Zealand. (This territory includes offshore territories such as islands and embassies controlled by New Zealand). Non-residents are units whose centre of economic interest does not lie within the economic territory of New Zealand.

NZ subsidiaries of overseas enterprises are residents of New Zealand. When such subsidiaries borrow from their overseas parent company, 'New Zealand's' total international liability potentially rises in proportion to the overseas shareholding in the subsidiary, applied to the amount of the additional borrowing. However, when it does so 'New Zealand's' net international liability will be unchanged as the proceeds of the borrowing are of equivalent value and would have increased 'New Zealand's' international assets dollar for dollar. (At the other extreme, if the proceeds were used entirely to repay other overseas borrowing, there would be no change in either the gross or net international liability position.)

An overseas investment in a NZ firm that is greater than 10% of the firm's equity counts as FDI. Investments that are less than 10% count as portfolio investment.

Unfortunately, SNZ does not provide an estimate of how much New Zealanders (defined as NZ citizens resident in New Zealand, plus general government and enterprises in New Zealand that are owned or controlled by NZ citizens) owe to the rest of the world, excluding overseas-owned or controlled companies resident in New Zealand. As a result, we have no estimate of the NIIP of New Zealanders.

SNZ does show that general government and the monetary authorities' international liabilities accounted for $44.7 billion of the $251.7 billion international liability in 2012. The largest portion of the total liability was accounted for by the banks ($136.6 billion), with the remaining $70.4 billion of the $251.7 billion total attributed to 'other' sectors.

The largest banks in New Zealand are overseas-owned, so it is safe to assume that the $136.6 billion banking liability is largely from overseas parent banks or is directly or indirectly supported by those parent banks. It is less clear how much of the $70.4 billion liability of 'other' sectors represent the borrowing of NZ resident units from overseas parent companies directly or borrowing that effectively uses the credit ratings of those overseas parent companies. However, such is the degree to which the dominant firms operating in many NZ industries are foreign-owned that it is likely to be substantial.

SNZ estimates that the stock of inward direct investment in industries other than finance and insurance was $60.3 billion in 2012.[5] It has not published an estimate of how much of that stock was debt-funded. However, in their 2007 report on foreign affiliates operating in New Zealand, SNZ researchers Jason Attewell and Wido van Lijf indicated that in 2003, the equity invested in these foreign affiliates in New Zealand, excluding the finance and insurance sector, averaged 38% of their total assets. On this basis, the debt funding of these entities might have been $37 billion in 2012 ((1-0.38) x 60.3).

Adding that figure to the banking sector's overseas liability of $137 billion gives a ballpark figure that $170 billion out of the $252 billion total international liability in 2012 could be secured against overseas-owned companies operating in New Zealand.

To obtain a ballpark figure for the degree to which private NZ-owned firms and individual New Zealanders might have borrowed internationally, we also have to deduct from the $252 billion the $45 billion of government-related borrowing. On this basis, overseas lenders might be looking directly to NZ firms and New Zealanders to service less than $35 billion of the $252 billion total international debt liability.

If overseas lenders are largely looking to the NZ government, their NZ subsidiaries, or the creditworthiness of their overseas parent companies to service New Zealand's $252 billion liability, the willingness of international lenders to continue to invest so heavily in New Zealand might be more understandable.

A 2011 Treasury working paper identified an additional consideration:

> *"One key feature of New Zealand's net international investment position is that gross offshore debts as a proportion of GDP are not high relative to other countries, reflecting New Zealand banks' domestic focus Countries with financial institutions that have a high degree of international business such as Switzerland, the United Kingdom, and Iceland tend to have high gross offshore debts to fund international lending activities (e.g. for the United Kingdom in 2008 it was over 400% of GDP). As discussed in Section 3, this is one of many important considerations in assessing the overall vulnerability of a country. This is because material losses in overseas assets for a highly leveraged economy could create significant solvency issues for the country as a whole."*[6]

Two significant caveats apply to these observations. First, NZ citizens are substantial net borrowers from foreign-owned resident banks. Second, if the foreign-owned resident banks get into difficulties, the events of 2008 suggest there is a real risk that NZ citizens will suddenly discover that their government has guaranteed the banks' offshore borrowings. The first consideration points to the strong incentive of overseas parent banks to ensure their NZ subsidiaries are lending to New Zealanders prudently. The second consideration weakens this incentive for moral hazard reasons, but at the same time it heightens the incentive of the RBNZ, as the country's banking regulator, to take its prudential monitoring, reporting and regulating role very seriously.

[5] See the Reserve Bank of New Zealand, The Reserve Bank and New Zealand's Economic History.

[6] André (2011).

The conclusion that the willingness of the rest of the world to lend to New Zealand depends heavily on the creditworthiness of the banks and the NZ government is only heightened by consideration of New Zealand's net international debt liability position (the difference between what non-residents have invested in New Zealand and what NZ residents have invested overseas).

The net international debt liability of the banks was $110.6 billion in 2012. This accounts for most of the overall net international debt liability of $140.1 billion. The combined net international debt liability of general government and monetary authorities was $3.5 billion in 2012. That leaves a net international debt liability of around $25 billion to be shared between overseas-owned companies operating in New Zealand, other than the banks, and other entities. There does not appear to be enough published information on the international assets owned by overseas-owned or -controlled companies operating in New Zealand to further split the $25 billion figure. Nevertheless, it is safe to conclude that overseas lenders were relying to a major extent on the creditworthiness of New Zealand's foreign-owned banks for their security in 2012.

2.1.6 The distinction between stock and flow statistics.

A firm's stocktake of its inventory measures how much of each item the firm has in stock at the date of the stocktake. Its subsequent sales of inventory to customers are an outward flow that depletes that stock. The firm can replenish its stock from an inward flow by its own production or by purchasing the production of others. Clearly, there is a relationship between the change in the stock of goods held in inventory and the size of inward and outward flows.

The BoP and national income account statistics measure the flows of goods, services and capital, whereas the IIP statistics measure stocks. For example, in the March quarter 2012, NZ resident units increased their investments abroad by an estimated $1,377 million, while foreigners increased their investments in New Zealand by $1,219 million (tables QS10 and QS11).

SNZ cannot determine the IIP from flow statistics alone, which is why it had to set up the surveys described in Appendix 1.

SNZ's IIP time series measure many aspects of NZ resident units' stock of assets and liabilities at a point in time. For example, the estimated outstanding amount invested in New Zealand in 2012 by foreigners was $304,139 million in the BoP presentation (150.2% of GDP). In contrast, the stock of NZ resident units' investments overseas was estimated as $158,500 billion (78.3% of the same GDP measure).

2.2 Key identities

This section explains key identities between flows and stocks as they relate to the BoP and national income account flow aggregates and IIP stocks.

2.2.1 IIP stock-flow dynamics

The difference in the level of international financial assets and liabilities between two points in time is the sum of:

- BoP financial account transactions (e.g. net investment inflows or outflows)

- other (non-transactional) changes that occurred during the period (e.g. revaluations, changes in market prices, and other changes such as write-offs).

The relevant identity can be stated in two forms. Identity 1A expresses the first form.

Identity 1A: Relationship between investment flows and asset/liability stocks.

Closing stock of investment = Opening stock of investment + Foreign investment flow during the intervening period + Valuation changes during that period.

Table ASF1 provides SNZ's full reconciliation of the relationship between the annual net foreign investment inflow and the change in the stock of New Zealand's net international investments between 2002 and 2012.

Tables QS10-QS12 provide the same reconciliation for the quarterly time series for the stocks of net inwards and outwards investment, respectively, from the June quarter 2000. The calculations at the bottom of each table reconcile the opening June quarter 2000 balance with the closing March quarter 2012 balance.

SNZ breaks the 'valuation change' item into four subcategories: exchange rate changes, financial derivative valuation changes, market price changes, and 'other' valuation changes.

The net investment flow is the amount that results from any deficit or surplus in the BoP during the same period, taking into account capital transfers and measurement errors. If the second and third items have only a small net effect, the net investment flow will closely approximate the current account deficit (or surplus) in the BoP.

Large valuation changes in a given period imply a correspondingly large difference between the investment flow during that period and the change in the level of the stock. For example, in the March quarter 2012, the stock of New Zealanders' investments abroad fell by $627 million despite a positive flow of $1,377 million. In the same quarter, the stock of foreign investment in New Zealand fell by $4,116 million despite a positive flow of $1,219 million.

Table 1 combines the calculations from the bottom of each table. It shows the contribution of net investment flows

Table 1: IIP stock-flow reconciliation identity, March 2000 to March 2012

NZ$ million	Opening Stock	+	Net investment flow	+	Valuation changes	=	Closing stock
	31 Mar 00						**31 Mar 12**
NZ investment abroad	62,698	+	66,453	+	29,349	=	158,500
Foreign investment in New Zealand	154,171	+	141,060	+	8,840	=	304,139
Net NZ investment abroad	-91,541	+	-74,602	+	20,504	=	-145,639

Source: Tables QS10-QS12. See Appendix 3.

and valuation changes in the three stocks between 2000 and 2012. These figures use the BoP presentation.

Table 1 shows that the stock of NZ investment abroad more than doubled between 2000 and 2012. The stock of inward investment did not quite double, rising from $154,171 million to $304,139 million. However, the NIIP rose considerably from minus $91,541 million in 2000 to minus $145,639 million in 2012.

Valuation changes increased the stock of outward investment by $29,349 million. This greatly exceeded the $8,840 million gain attributed to the owners of the stock of inward investment during this period. But in each case, the net investment flow made a much larger cumulative contribution to the change in the stock than did valuation changes.

Between 2000 and 2012, the net investment inflow of $74,602 million (Table 1) was smaller than the net income paid overseas of $112,745 million (Table ASF1) because there was a substantial overall surplus of $38,142 million in other components, namely +$4,744 million in the balance of goods and services, +$4,703 million on current transfers, +$19,428 in the capital account balance, and +$10,267 million in respect of net errors and omissions. The large surplus in the overall capital balance was largely due to the Christchurch earthquakes-related capital account surplus of $16,534 million in 2011. Clearly, the NIIP would have become much more negative between 2000 and 2012 if it were not for the Christchurch earthquakes and a fortuitously large positive figure for net errors and omissions.

For a further insight into debt dynamics, the NIIP can be expressed as a percentage of the flow of GDP during the year or quarter preceding the date at which the stock is valued. Identity 1A could be easily rewritten in this form by dividing every term by the value for GDP during the period between the opening and closing dates.

The component of the net investment flow that represents net overseas income, when divided by the opening stock of the net investment, represents the earnings rate on that opening stock in the subsequent period. Other things being equal, the greater that earnings rate, the faster the stock of debt is likely to grow. Conversely, other things being equal, the faster the increase in GDP, the more likely the closing NIIP will be lower as a percentage of GDP than the opening NIIP was as a percentage of its preceding GDP.

It follows that New Zealand's NIIP will tend to grow faster than GDP if:

- the earnings rate on the debt exceeds the rate of growth in GDP
- an excess of imports of goods and services over exports forces new borrowing.

Countries that experience a debt crisis commonly combine low (real) income growth with high interest rates, the latter reflecting nervousness about future ability to service the debt without recourse to inflation or other forms of wealth confiscation. If the country has significant short-term debt that has to be rolled over at higher interest rates, the gap between the earnings rate and the GDP growth rate can cause the debt/GDP burden to rise rapidly.

Identity 1B expresses the precise relationship without using algebraic expressions. See Appendix 2 for an algebraic derivation.

Identity 1B: Relationship between asset yield, income growth, and debt/income ratios.

Change in stock of investment as a % of GDP = (residual net investment flows plus valuation changes) as a % of GDP during the intervening period plus (opening stock as a % of GDP for the same period times the difference between the earnings rate and the rate of growth in GDP divided by the proportionate growth rate in GDP)

Table ASF2 compares the contribution of the difference between the earnings rate and the growth in income to the annual changes in the NIIP to GDP ratio between 2000 and 2012 to the contributions of the two other factors mentioned in Identity 1B.

Table 2 summarises these calculations. It shows that net income paid overseas in 2000-12 (years ended March) averaged 8.2% per annum of the opening NIIP, whereas the average annual rate of growth in GDP was only 5.1%, giving an adverse gap, from a debt spiral perspective, of 3.1 percent per annum.

The next row in Table 2 calculates that this gap, applied to the high NIIP in 2000 of minus 82.3% of GDP, would, on its own, have made the 2012 NIIP to GDP ratio more negative by 26.2 percentage points (to minus 108.5% of GDP).

The following two rows in Table 2 show that this effect was more than offset by large positive contributions of 22.3 percentage points of GDP for an item 'net remaining foreign investment flow' and favourable valuation changes of 14.3 percentage points of GDP. The first of these represents the contribution of the combined surplus of $38,142 million, referred to above, which largely reflected insurance claims from the Christchurch earthquakes and net errors and omissions.

Table 2: Yield/income growth debt dynamics between March 2000 and March 2012

Income yield vs. GDP growth rate	
Average annual income return	8.20%
Average annual rate of GDP growth	5.10%
Average annual yield/growth gap	**3.10%**

Contributions to the reduced NIIP/GDP ratio	
Contribution of adverse yield/growth gap	-26.20%
Contribution of remaining net investment inflow	22.30%
Contribution of valuation changes	14.30%
Total contributions	**10.40%**

NIIP ratio to GDP	
31 March 2000	-82.30%
31 March 2012	-62.90%
Ratio Reduction	**10.40%**

Source: Table ASF2. See Appendix 3.

The final row in table 2 shows that these three contributions fully account for the 10.4 percentage point reduction in the ratio of NIIP to GDP (from minus 82.3% in 2000 to minus 72.1% in 2012.)

It is clear from Table 2 that New Zealand's ratio of NIIP to GDP is now so high that a material gap between the earnings rate paid on the NIIP and the GDP growth rate could cause the ratio to spiral upwards rapidly. The combination of circumstances that more than offset this tendency between 2000 and 2012 looks fortuitous and unsustainable.

However, for the immediate future, the current (October 2012) yields of 2.5% to 3.5% on NZ government bonds are well below the projected rate of increase in nominal GDP. This is a favourable situation from a yield/income growth debt dynamic perspective, but only for as long as it lasts.

When global yields on high-rated government bonds have returned to more normal levels, the debt dynamic concern is likely to re-emerge unless combined surpluses – in the BoP on goods and services, and transfers in the current and capital accounts – have markedly reduced the NIIP to GDP ratio in the interim.

2.2.2 Two BoP flow identities

This subsection explains the identity between the component balances in the current account in the BoP and the identity between capital and financial flows and current account flows.

The identity between components of the current account balance.

The current account balance in the BoP is the sum of four component balances: the balances of exports and imports of goods and services respectively; the balance between investment income (received and paid); and the balance between current transfers (received and granted). This relationship is expressed below as Identity 2.

Identity 2: BoP current account component balances

Current account balance = Balances on goods and services + Balance on current transfers + Balance on investment income.

Table 3: Current account composition, 1988-2012

	Balances as a percentage of GDP: Years ended March		
	1988	2012	25-year average
Goods and services	1.50%	0.90%	0.80%
Transfers	0.40%	-0.20%	0.30%
Subtotal	1.90%	0.50%	1.10%
Investment income	-5.50%	-5.30%	-5.80%
Current account balance	**-3.50%**	**-4.80%**	**-4.70%**

Source: Table AF4. See appendix 3.

Tables AF1–AF4 present SNZ's annual time series for these balances from 1951 to 2012.

Table 3 illustrates the identity for 1988 and 2012. The third column shows it holding (naturally), on average, during the 25-year period. (Totals do not always add exactly because of rounding errors.)

The deficit on net investment income of 5.5 % of GDP in 1988 shows how large it had become by the mid-1980s. The ratio has not increased much since, averaging minus 5.8% of GDP in the last 25 years.

Imports of goods and services exceed exports when domestic spending on goods and services exceeds domestic production of the same. Contrary to what is sometimes said in public debate, 'New Zealand' has not generally been spending more on goods and services than it has been producing between 1988 and 2012. The third column in Table 3 shows that on average, exports of goods and services exceeded imports by 0.8% of GDP.

It follows that the large ongoing current account deficits from 1988 to 2012 reflect the cost of servicing the large negative NIIP that had accumulated by the mid-1980s. (Table AS2 shows that the net external debt rose from about minus 5% of GDP to aboutminus 70% of GDP by the mid-1980s.)

Subsection 4.3.3 examines what occurred from the mid-1970s to mid-1980s in some depth.

The current account-financial account funding identity.

A current account deficit in the BoP that is not due to measurement errors must be funded by an overall net inflow from the capital and financial accounts in the BoP. (Prior to BPM5 (1993), there was only one account, essentially the financial account, but it was called the capital account.)

The **capital account** records capital transfers (such as migrant transfers) and the acquisition or disposal of non-produced, non-financial assets.

The **financial account** records financial transactions involving NZ claims on overseas assets and New Zealanders' liabilities to non-residents. Financial account inflows reflect either increases in NZ liabilities or reductions in international financial assets. Correspondingly, outflows reflect increases in New Zealand's international financial assets or reductions

Table 4: Current account financing identity

	Years ended March 1993-2012: Percentages of GDP		
	1993	2012	20-year average
Net capital account inflow (+)	0.9%	0.2%	0.8%
Net foreign investment inflow (+)	7.5%	5.0%	4.1%
Net errors and omissions	-4.4%	-0.4%	0.2%
Total funding of current account deficit	3.9%	4.8%	5.1%
Current account deficit (+)	**3.9%**	**4.8%**	**5.1%**
Remaining errors and omissions	0.01%	0.00%	0.03%

Source: Table AF8. See appendix 3.

in its international financial liabilities. It is the balance in this account that affects New Zealand's NIIP.

It is a fact of life for statisticians that the measured net capital flows will generally not exactly equal the measured current account balance in the BoP. Official statistics include an item called **net errors and omissions** that makes up the difference. It is measured as a residual in Identity 3.

Identity 3: Current account balance and capital and financial account balances.

Current account deficit in BoP = Net inflow on capital account + Net inflow on the financial account (i.e. net foreign investment in NZ) + Net errors and omissions.

Tables AF8 and AF9 provide detailed time series for the capital and financial accounts, and net errors and omissions, from 2003 to 2012. New Zealand's outwards financial account flows are disaggregated into four subcategories: direct, portfolio, 'other', and reserve asset flows. Foreign investment flows into New Zealand are disaggregated into direct, portfolio and 'other' subcategories.

Table 4 shows that the cumulative current account deficits from 1993 to2012 averaged 5.1% of GDP. This was funded mainly from the cumulative net foreign investment inflow that averaged 4.1% of GDP. The net inflow on the capital account contributed another 0.8% of GDP on average. The cumulative value for net errors and omissions was significant at 0.03% of GDP on average.

One causal interpretation of the relationship in Table 4 is that the current account deficit has averaged 5.1% of GDP for 20 years because monetary policy has been very tight, inducing an incipient capital inflow that caused the exchange rate to appreciate, thereby penalising exports of goods and services and encouraging imports of goods and services. However, between 1993 and 2004, exports of goods and services markedly exceeded imports of goods and services. Although imports exceeded exports between 2005 and 2009, this reversal was associated with a very large increase in government spending relative to GDP rather than with tighter monetary policy.

Table AF10 disaggregates the direct investment flow category into three subcategories – equity capital, reinvested earnings, and 'other'; the portfolio flow category into equity and debt subcategories; and the 'other' investment flow category into a further four subcategories – trade credits, loans, deposits, and 'other' instruments. It also splits capital flows in reserve assets into four subcategories: special drawing rights, the reserve position at the IMF, foreign exchange reserves, and 'other reserve asset claims'.

Tables AF11–AF14 contain SNZ's country breakdown for total, direct, portfolio and 'other' investment flows for the years ended March 2001-11, respectively.

Tables AF15-AF16 compare long-term time series for inward and outward direct investment flows going back to 1970 provided by SNZ, the OECD, the World Bank, and UNCTAD.

2.2.3 Two identities linking the BoP to the national income accounts

This subsection presents the identity equating any savings-investment gap to the current account surplus or deficit in the BoP and the identity between the deficit on investment income in the BoP and the gap between GDP and GNI (Gross National Income).

The current account balance – savings-investment identity

Table 3 in subsection 2.2 showed how movements in the current account balance of the BoP were related to movements in components of the current account balance. Table 4 showed how its movements were related to movements in errors and omissions and capital and financial account flows. Identity 4 shows that the current account balance in the BoP is the same as the gap in the national income accounts between savings and investment.

More formally, by definition, the current account balance in the BoP is equal to the difference between savings by residents out of income accruing to residents (national saving) and net fixed capital formation (gross fixed capital formation less capital consumption) in New Zealand by residents and non-residents, including any change in stocks.

Identity 4 depicts the identity, and Table 5 establishes the relevant national income aggregates' compliance with it. For an algebraic derivation of this identity, see Appendix 2.

Identity 4: Current account balance and the gap between saving and investment.

Current account balance = National saving - Net fixed capital formation - Change in stocks - Statistical discrepancy.

Expressed differently, domestic capital formation must be financed from some combination of national and international savings.

Table 5 uses SNZ's latest national income account statistics (SNDA basis) for GDP, national savings, capital consumption, stock change, statistical discrepancy, and its BPM5 series to calculate the current account deficit in the BoP. The statistical discrepancy is the difference between GDP measured from the income and expenditure sides. The statistical discrepancy has to be included because capital formation and the change in stocks are measured from the expenditure side whereas national savings is measured from the income side.

Table 5: Current account, savings-investment identity

	Years ended March: Percentages of expenditure on GDP		
Component in the identity	**1988**	**2012**	**25-year average**
National saving	4.5%	0.7%	2.6%
Plus capital consumption	13.7%	14.1%	13.9%
Plus capital formation (-)	-22.3%	-17.9%	-20.5%
Plus increase in stocks (-)	0.6%	-0.9%	-0.7%
Plus statistical discrepancy (-)	-0.1%	-0.2%	0.0%
Equals **BoP current account balance**	-3.5%	-4.4%	-4.7%

Source: Table AF17. See appendix 3.

Table 5 shows that national saving averaged a meagre 2.6% of GDP from 1988 to 2012. This was materially lower than the average ratio of 6.6% of GDP for net capital formation (20.5% of GDP less 13.9% of GDP for capital consumption). Add 0.7% of GDP on average for the change in stocks, factor in the statistical discrepancy, and the 25-year average for the current account deficit in the BoP was high at 4.7% of GDP.

Some would look at Table 5 and argue that the current account deficit in the BoP has been high because savings have been too low relative to investment. If they wish to see investment maintained or increased for economic growth reasons, they might also argue that New Zealanders should be saving more to support economic growth and reduce the NIIP.

Certainly, if NZ resident units saved more and invested the same amount more wisely, they could enjoy higher future consumption than otherwise, other things being equal. But it does not follow that they would regard the forgone consumption initially as a sacrifice worth making. Future consumption can be increased by other means such as achieving higher productivity and reducing wasteful spending.

Another common error is to see the need to service net external debt as a drain on the income of New Zealanders, as distinct from NZ resident units. However, as already explained, net external debt is a claim on GDP, not national income. It is only a claim on the income of NZ households to the extent that they or the central and local governments are obliged to service the debt.

An excess of domestic capital formation over domestic savings is not necessarily a bad thing. If the returns New Zealanders get from domestic capital formation exceeds the cost of any borrowings from foreigners, such domestic investment can lift the income of New Zealanders and non-New Zealanders alike. However, if the investments fail to deliver but foreigners have to be paid regardless, as has occurred with some major energy projects in the early 1980s underwritten by the government of the day, New Zealanders can end up being worse off than if the projects had not gone ahead.

Net overseas income equals the difference between GDP and GNI.

SNZ's National Income and Outlay Accounts provide estimates of GDP and GNI. The former measures the value added in domestic production that accrues to residents and non-residents in proportion to the factors of production provided by each. These factors of production comprise labour services and investment capital. The difference between the two flows is the difference between the income that residents earn overseas and the income non-residents earn in New Zealand. This difference is identical to the sum of the net investment income and net compensation of employees flows in the BoP, when GDP is measured from the production side.

When GDP is measured from expenditure flows, the statistical discrepancy between these two measures of GDP affects the comparison (Identity 5).

Identity 5: Income gap with the rest of the world and the gap between GDP and GNI.

Expenditure on GDP minus GNI = Net compensation of employees paid to the rest of the world + Net investment income paid to the rest of the world - Statistical discrepancy.

The annual time series in Table AF7 illustrate this identity from 1947 to 2011. Note that in the historical series in this table, GNI was called Gross National Product, and there was no statistical discrepancy since the measures of GDP on the expenditure and production sides were identical. This was because savings were measured as a residual, thereby incorporating the effects of other measurement errors.

Table 6 establishes that the rise in net income paid overseas since the 1950s has overwhelmingly dominated the other two factors in contributing to the gap between GDP and GNI. Table AF7 also shows the extent of this domination from 1972 to 2012, the period for which national account statistics are available on an SNDA basis.

GNI has averaged nearly 94% of GDP during the 1990s and 2000s, when the balance on net overseas investment income averaged 6.1% of GDP. Net income paid overseas has been essentially the same thing as the gap between GDP and GNI.

Table 6: Net income paid overseas and the gap between GNI and GDP

	(1)	(2)	(3) = (1) - (2) - 100
Decadal averages years ended March	GNI	Net income paid overseas	Contribution of other factors
Percentages of GDP			
1950s	99.2%	-0.8%	0.0%
1960s	98.6%	-1.4%	0.0%
1970s	98.1%	-1.9%	0.0%
1980s	95.8%	-4.2%	0.0%
1990s	93.9%	-6.1%	0.0%
2000s	93.8%	-6.1%	0.1%
2012	94.9%	-5.1%	0.1%

Source: Table AF7. See appendix 3. Note: The 2012 value is a single observation, not a decadal average.

3.

Overview of the Latest Statistics

This section provides an overview of the more recent statistics contained in the compendium of tables. There is some overlap with the tables used in Section 2 to illustrate key identities and terminological distinctions.

3.1 New Zealand's overall asset and liability position

An unofficial estimate in an IMF working paper put New Zealand's NIIP at minus 9.3% of GDP in 1970. Such a level is too low to give rise to debt-related financial stability concerns, as is illustrated by the AAA rating that NZ governments enjoyed when issuing foreign currency-denominated public debt in the 1970s.

As explained in subsection 2.2.1, a negative NIIP tends to become more negative when imports of goods and services exceed exports, as occurred to an excessive degree from 1975 to 1988. By March 1989, the Government Statistician assessed the net external liability to be 64% of GDP (Table AS2).

As was also explained in subsection 2.2.1, a negative NIIP also tends to become more negative as a percentage of GDP when the cost of servicing it, as a percentage of its value at the start of the period, exceeds the growth rate in GDP during that period. Despite exports of goods and services exceeding imports for 16 of the 17 years between 1988 and 2004, by 31 March 2004, SNZ assessed the NIIP to have reached minus 70.8% of GDP.

Imports of goods and services exceeded exports for four successive years to the year ended March 2009. SNZ estimates that the NIIP hit a low of minus 85% of GDP at 31 March 2009. The subsequent recession restored BoT surpluses, which helped reduce the NIIP to minus 70.9% of GDP in March 2012, excluding amounts that overseas insurers are likely to pay to residents towards the reconstruction after the Christchurch earthquakes. In reports released with Budget 2012, Treasury projected that the NIIP would reach 80.8% of GDP by March 2016.

3.2 Statistics using the BoP methodology

This subsection provides an overview to the SNZ's latest estimates at the time of writing of international assets and liabilities using its BoP methodology.

3.2.1 New Zealand's NIIP (stock) at 31 March 2012 (Table AS1)

The stock of New Zealanders' investments abroad has risen faster than GDP in the last decade but more slowly than the stock of foreign investment in

New Zealand, somewhat increasing the gap between the two.

Foreign investment in New Zealand: At 31 March 2012, total foreign investment in New Zealand was $304.1 billion (150.2% of GDP) – up from 141.8% of GDP at 31 March 2002.

New Zealanders' investments abroad: At 31 March 2012, New Zealanders' investments abroad totalled $158.5 billion (78.3% of GDP) – up from 75% of GDP at 31 March 2002.

Net international investment position: At 31 March 2012, the NIIP was minus $145.6 billion (minus 71.9% of GDP) – up from 66.8% of GDP at 31 March 2002.

3.2.2 Asset composition of the NIIA (stock) at 31 March 2012 (Tables AS5–AS11)

The NIIP is a debt exposure because foreign equity investments in New Zealand are roughly equal to New Zealand's equity investments.

Portfolio equity investments: At 31 March 2012, New Zealand's total portfolio equity investments overseas was $47.1 billion (21.3% of GDP). This exceeded foreigners' portfolio equity investments in New Zealand ($12.5 billion or 6.2% of GDP) by 15.1% of GDP.

Direct Investment in New Zealand: At 31 March 2012, the stock of direct investment in New Zealand totalled $97.3 billion (48.1% of GDP). Direct equity investment, including retained earnings, accounted for $53.6 billion (55.1%) of the $97.3 billion. This made it more significant than direct investment in the form of debt.

Direct investments in equity including retained earnings: At 31 March 2012, New Zealand's direct investments abroad in the form of equity, including retained earnings, were $18.1 billion (8.9% of GDP). This was less than foreigners' direct investments in New Zealand as equity, including retained earnings of $53.5 billion (26.5% of GDP) by 17.6% of GDP.

Investments in portfolio debt and loans: At 31 March 2012, New Zealand's investments abroad in the form of portfolio debt instruments and direct lending totalled $26.5 billion (13.1% of GDP). This was less than overseas investments in New Zealand of the same type, which totalled $149.7 billion (74.1% of GDP), by 61% of GDP.

Other asset components: New Zealand's official overseas reserve assets (11.6% of GDP at 31 March 2012) are somewhat offset by a negative NIIP on deposits of 9.1% of GDP. The remaining material components of the overall NIIP of minus 71.9% of GDP at 31 March 2012 are a negative position of 36.1% of GDP on direct investment; a negative position of 20.8% of GDP on portfolio investment; a negative position of 25% of GDP on loans; and a positive position of 7.9% of GDP on trade credits. New Zealand's net position on financial derivatives was minus 0.1% of GDP at 31 March 2012.

3.2.3 Country composition of inwards investment stock (Tables AS12–AS22)

Australia is the dominant source of inwards investment in New Zealand except in portfolio investment, where US and UK investors are more important. Moreover, Australia's dominance has increased markedly in the last decade, except in portfolio investment.

Total investment by country: Australians owned 34% of the $304 billion invested in New Zealand at 31

March 2012, followed by the United Kingdom with 16% and the United States with 15%. In March 2001, Australia owned only 19% of the total investment in New Zealand compared to the United Kingdom at 18% and the United States at 15%. The combined share of Hong Kong, Singapore and Japan dropped from 17% to 5% in the same decade.

Direct investment by country: Australians owned 55.8% of the $97.3 billion of direct investment in New Zealand at 31 March 2012. The Americans were next, owning 10.9%. APEC countries owned 77.6% but ASEAN countries owned only 3.1%. At 31 March 2001, Australians accounted for 31.5% of the direct investment in New Zealand, the Americans for 13.1%, the Dutch for 12.4%, and the English for 10.7%. In 2012, Dutch investors owned only 3.2% and UK investors owned only 2.6%.

Portfolio investment by country: Australians owned 7.9% of the portfolio investment in New Zealand at 31 March 2012, well behind US investors (23.8%) and UK investors (18.8%).

Other foreign investment by country: Australians owned 39.3% of the stock of other foreign investment in New Zealand at 31 March 2012, followed by UK investors. At 31 March 2001, Australians owned 16.4% of the stock of other foreign investment in New Zealand, compared to 14.8% for UK investors and 17.5% for US investors. Singaporeans owned 16.6% of other foreign investment in New Zealand at 31 March 2002 (SNZ has not published a figure for Singapore for March 2001).

3.2.4 Asset composition of the stock of foreign investment in New Zealand (Table AS8)

Foreign investment in New Zealand is broadly spread between the direct, portfolio and 'other' investment categories. It overwhelmingly takes the form of investing in debt

Major investment classes: At 31 March 2012 foreign investment in New Zealand was 150.2% of GDP; foreign portfolio investment (51.5% of GDP); direct investment (48.1% of GDP); 'other' investment (41.5% of GDP); and financial derivatives (9.1% of GDP).

Equity instruments: Portfolio equity investments and direct investments in the form of equity capital and reinvested earnings, combined, accounted for only 33% of GDP. The remainder of the 150% of GDP that the rest of the world has invested in New Zealand is primarily in the form of debt.

Decadal changes: Compared to the situation in March 2002, the most notable changes were the increase in direct investment and financial derivatives (each rose by more than 4 percentage points in GDP), and a marked change in the composition of the stock of direct investment. (The proportion classified as equity capital and reinvested earnings has fallen sharply.) The situation has not changed very much in other respects since 31 March 2002.

3.2.5 Asset composition of the stock of New Zealand's investments abroad (Table AS6)

Portfolio investments are by far the largest component of New Zealand's investments abroad, albeit accounting for less than half the total at 31 March 2012. Reserve assets are a considerable component.

Major investment classes: At 31 March 2012, New Zealand's portfolio investments abroad totalled 30.7% of GDP, with slightly over two-thirds of this

in equity investments. The next largest was the 'other' investment abroad category (15% of GDP); trade credits were over half of this total. Direct investments abroad (12% of GDP) were only fractionally larger in percentage point terms than the country's reserve assets. The remaining component was 'financial derivatives' at 9% of GDP. Three-quarters of the stock of direct investments overseas were classified as equity or reinvested earnings.

Decadal changes: Major changes since March 2002 have been the near doubling in reserve assets as a percentage of GDP (from 6.1% of GDP to 11.6%) and a fall in loans (from 13.9% of GDP to 3.6%). ('Loans' is a subcategory of the 'other' investment abroad category.)

3.2.6 Country composition of the stock of total investment (Table AS12)

Australia is by far the most attractive destination for New Zealand's offshore investments, and has increased its share markedly in the last decade, particularly at the expense of the United States. New Zealanders' overseas investments are widely spread outside these two countries and the United Kingdom.

At 31 March 2012, 27.8% of New Zealand's offshore investments were in Australia (21.8% of GDP). Investments in the United States and the United Kingdom were 14.2% and 7.9% of GDP, respectively. The remaining investments (35% of GDP) were widely spread as the next most important location, Germany, had attracted only 2.8% of GDP. In March 2001, New Zealand had invested 17% each in Australia and the United States.

3.2.7 Country composition of the stock of total foreign investment (Table AS13)

New Zealand most attracts investors from Australia, the United Kingdom, and the United States, which account for two-thirds of the total foreign investment in New Zealand. The remaining one-third comes from far and wide.

At 31 March 2012, the stock of investment from Australia, the United Kingdom, and the United States constituted 51%, 25% and 22% of New Zealand's GDP, respectively. The remaining overseas investments (53% of GDP) were widely spread: Japan was the next highest major supplier with investments in New Zealand comprising 3.4% of New Zealand's GDP.

3.2.8 New Zealand's NIIP (stock) 31 March 2012 (Table AS1)

The stock of New Zealand's investments abroad has risen faster than the GDP in the last decade but more slowly than the stock of foreign investment in New Zealand, somewhat increasing the gap between the two.

Foreign investment in New Zealand: At 31 March 2012, foreign investment in New Zealand was $304.1 billion (150.2% of GDP) – up from 141.8% of GDP at 31 March 2002.

New Zealand's investments abroad: At 31 March 2012, New Zealand's investments abroad totalled $158.5 billion (78.3% of GDP) – up from 75% of GDP at 31 March 2002.

Net international investment position: At 31 March 2012, the NIIP was minus $145.6 billion (minus 71.9% of GDP) – up from 66.8% of GDP at 31 March 2002

3.3 Statistics based on the BS presentation

As mentioned in subsection 2.1.2, the B presentation does not 'net out' offsetting flows to the same extent as the BoP series when calculating total assets and liabilities. It has the advantage of allowing cross-border investments to be analysed using a BS institutional framework.

3.3.1 New Zealand's net overseas assets by sector (Tables AS24-AS25)

The banks have dominated the intermediation of cross-border capital transactions since 2002, accounting for 78% of the overall net debt position. This suggests a decline in the relative competitiveness New Zealand's non-bank capital markets

Net equity assets: At 31 March 2012, net equity assets were minus $5.2 billion (minus 2.6% of GDP). At 31 March 2002, the net figure was minus $5.7 billion (minus 4.5% of GDP).

Net lending: At 31 March 2012, total international net lending was minus $140.4 billion (minus 69.3% of GDP). This is net overseas debt of all sectors: government and private sectors, bank and non-bank. At 31 March 2002, total international net lending was minus $78.6 billion (minus 62.2% of GDP).

- **Banks:** Registered banks plus other financial sector institutions. Of New Zealand's net overseas debt at 31 March 2012, $110.6 billion (54.6% of GDP and 78.3% of total net overseas debt of $140.4 billion) was attributed to the banking sector. At 31 March 2002, the corresponding net debt figure for the banks was $41.3 billion (32.7% of GDP and 52.5% of total net overseas debt).

- **General government:** This comprises the Treasury plus other central and local government, and government-owned or -controlled agencies.

- **Monetary authorities:** The Reserve Bank of New Zealand. The combined net overseas debt of the general government and monetary authority sectors was $3.5 billion at 31 March 2012 (2.5% of New Zealand's total overseas debt). At 31 March 2002, the corresponding figures were $10.1 billion and 12.9%, respectively. In considering this sharp reduction, note that for a given overall position, a transaction that reduces one sector's net position must increase the overall positions of the remaining sectors.

- **Other sectors:** This comprises all other sectors, and is essentially the non-bank corporate sector. At 31 March 2012, this sector's net overseas debt was $26.4 billion (18.8% of the total). At 31 March 2002, the corresponding figure was $27.2 billion (34.6% of the total).

3.3.2 New Zealand's overseas liabilities by sector (Tables AS24–AS25)

Equity liabilities: At 31 March 2012, equity liabilities totalled $66.2 billion (32.7% of GDP).

Borrowing: At 31 March 2012, total international borrowing was $251.7 billion (124.3% of GDP). This is the overseas debt of all sectors: government and private sectors, bank and non-bank.

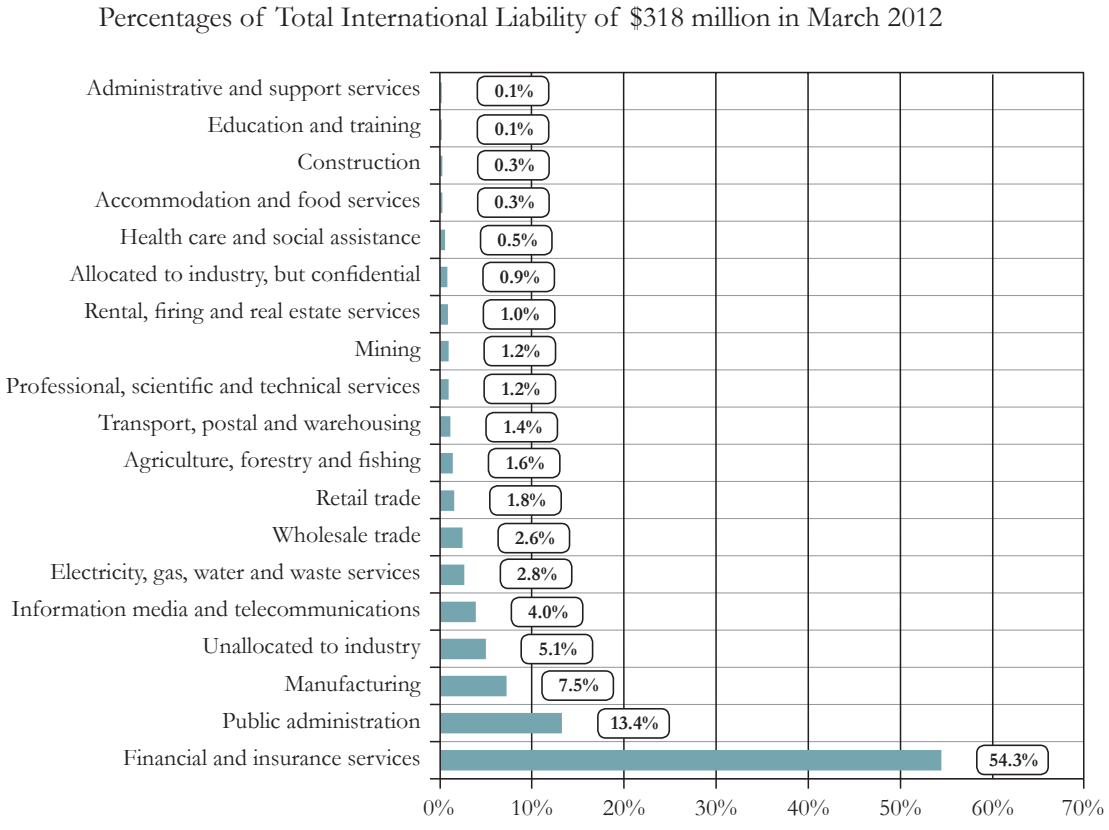
- **Banks:** This sector comprises registered banks plus other financial sector institutions. Of New Zealand's overseas borrowing of $251.7 million at 31 March 2012, $136.6 billion (54.3% of GDP) was attributed to the banking sector. The financial stability of the banking system is closely monitored by the RBNZ.

- **General government:** This sector comprises the Treasury plus central and local government, and government-owned or -controlled agencies.

- **Monetary authorities:** The Reserve Bank of New Zealand. The overseas debt of the general government and monetary authority sectors combined was $44.7 billion at 31 March 2012 (17.7% of New Zealand's total international borrowing).

- **Other sectors:** This comprises all other sectors, and is essentially the non-bank corporate sector. At 31 March 2012, this sector's overseas debt was $70.4 billion (28% of the total).

Figure 4: Stock of international investment in NZ industry, 2012



Source: SNZ, BS basis, Table AS33. See Appendix 3.

3.3.3 Total international investment in each NZ industry (Table AS33)

Figure 4 also demonstrates the degree to which overseas investors have preferred to get their NZ exposures by investing in the banks or government.

- **Financial and insurance services:** International investment in this sector on 31 March 2012 was $172.6 billion (54.3% of the total international liability of $318 billion). Bank borrowing internationally will be the major component.

- **Public administration:** International investment in this sector totalled $42.6 million at 31 March 2012 (11% of the total). This sector includes the externally owned public debt and any external RBNZ liabilities.

- **Manufacturing:** International investment in this sector totalled $23.7 million at 31 March 2012 (7.5% of the total).

3.3.4 Residual maturity of overseas debt (Table AS31)

Residual maturity is the time to run until repayment of the debt is due.

At 31 March 2012, $76.1 billion of New Zealand's overseas debt of $251.7 billion (30.2%) was due for repayment within 90 days.

Because some debt may be intended to be repaid with financial assets (lending), it is pertinent to note that at 31 March 2012, NZ investors had claims over overseas borrowers (i.e. lending abroad) of $111.3 billion. Of this, $53 billion (47.6%) was due for repayment within 90 days.

3.3.5 Currencies in which overseas debt is to be repaid (Table AS28)

Overseas debt can be repayable in domestic currency (NZD) or foreign currency. At 31 March 2012, of New Zealand's $251.7 billion overseas debt, $104.3 billion (41.4%) was repayable in foreign currencies. SNZ converts foreign currency amounts into NZD at exchange rates at the survey date. At 31 March 2012, New Zealand's main foreign currency borrowings, expressed as NZD equivalents, were USD $56.7 billion, AUD $26.4 billion, and Euro $8.3 billion.

3.3.6 Managing exchange rate risk: Statistics about hedging (Table AS35)

Liabilities repayable in foreign currency are subject to exchange rate risk. For example, if the NZD depreciates against the USD, more NZDs are required to settle the USD debt. This exchange rate risk can be managed (hedged) in various ways:

- **Financial derivative contract:** Generally speaking, these are contractual arrangements that enable transacting parties to manage various risks. To manage exchange rate risk, for example, an entity with a USD debt may enter a contract with a third party to supply USDs in exchange for NZDs at an agreed rate of exchange at a specified future date. **Balance sheet assets:** For example, matching USD borrowing and lending.

- **Expected receipts:** For example, an exporter who receives payments for exports in USDs may have USD debt.

Statistics about hedging of New Zealand's overseas debt denominated in foreign currencies are in Table AS35. At 31 March 2012, 93.6% of New Zealand's external debt denominated in foreign currencies was hedged in some way.

3.4 Foreign ownership of land

SNZ's BoP and NIIP statistics do not include information about the degree of foreign investment in land as a distinct category. Indeed, there appear to be no readily accessible official estimates of this statistic.

The CAFCA has said that foreign-owned land covers more than one million hectares, or about 7% of New Zealand's commercially productive land area. Roger Kerr, then executive director of the New Zealand Business Roundtable, estimated it to be about 4% of New Zealand's total land area in an article in the Sunday Star-Times on 2 March 2003. Given that New Zealand's total land area is 28.7 million hectares, 4% accounts for around 1.1 million hectares, which is consistent with the CAFCA's assessment.

Table 7: Cumulative approved 'net' land sales to foreigners

2005-11			
Land category	**National land area (hectares) in this category**	**Investment area applied for under the rules of the Official Information Act 1982**	**Area applied for as a % of total**
Residential	672,053	300	0.0%
Commercial	31,472	600	1.9%
Industrial	32,795	1,600	4.9%
Lifestyle	859,783	4,700	0.5%
Rural	19,451,398	279,400	1.4%
Other	5,754,599	26,000	0.5%
Total	**26,802,100**	**312,600**	**1.2%**
Rural land breakdown			
Dairy	2,084,783	14,900	0.7%
Pastoral	10,943,024	165,200	1.5%
Arable	233,442	800	0.3%
Horticultural	145,456	4,300	3.0%
Specialist livestock	170,105	1,900	1.1%
Forestry	5,848,317	92,000	1.6%
Mining	22,634	300	1.3%
Other	3,637	0	0.0%
Total	**19,451,398**	**279,400**	**1.4%**

Source: *The Sunday Star Times* (8 July 2012), attributed to Terralink.

To put this level of foreign ownership into a conservation perspective, note that the Department of Conservation alone manages about 8.5 million hectares of land, 33 marine reserves (covering almost 1.28 million hectares), and six marine mammal sanctuaries (covering approximately 2.4 million hectares).

Large-scale ownership of land by foreigners is most likely to be associated with large-scale rural land activities such as pastoral farming and forestry. The Overseas Investment Office (OIO) publishes summary statistics of approved land purchase applications. When a foreigner sells title to another foreigner, the OIO, in approving the transaction, will record the area of land involved as zero in reporting 'net' sales of land to foreigners.

Nevertheless, OIO reports may exaggerate the area of land being sold net to foreigners as the OIO does not need to be advised if a New Zealander subsequently repurchases the land.

Statistics published in the Sunday Star Times in July 2012 (reproduced in Table 7) provide a more detailed picture of the approvals between 2005 and 2011. The table indeed shows that forestry and pastoral farming approvals dominate in terms of total land area.

The major transaction in forestry was the overseas purchase of Carter Holt Harvey interests in 2006, yet Table 7 shows the sum of all purchases in forestry was just 1.6% of all forestry land in New Zealand.

On the basis of these figures, it is clear that New Zealanders are not in any foreseeable danger of running out of land that can be bought from other New Zealanders, if that is what they fear. Four million New Zealanders are living in a country with a land area that is greater than that of the United Kingdom, and in which their own government owns a massive portion and has effective control over the rest.

The irrational popular basis for the fear that the prime minister identified in his "becoming tenants in our own land" comment is further illustrated by the fact that the central government is the largest residential landlord in the country. In 2011, Housing New Zealand owned nearly 70,000 properties, housing more than 200,000 people.

Of course, this is not to deny the need for government to protect national security and control crime, and for immigration authorities to establish the desirability of those seeking to become long-term NZ residents or citizens. But there is a real risk that blanket irrational fears about foreign ownership can make New Zealanders worse off by unduly impeding their right to sell their land to the highest bidder, without compensation or adequate reason, and by unduly cutting off New Zealand from the rest of the world.

It is beyond the scope of this report to make international comparisons or dig deeper into policy issues beyond noting that a recent research report by The New Zealand Initiative highlighted OECD evidence that New Zealand's foreign investment regime is one of the most restrictive in the assessed world, at least on paper.[7]

3.5 Degree to which New Zealand's assets are now overseas funded

This subsection assesses the degree to which assets located in New Zealand are now overseas owned or funded. Any such assessment needs to consider the degree to which overseas funding of NZ resident

[7] Malpass and Wilkinson (2012).

units is being used to purchase overseas assets instead of domestic assets. Table 8 summarises the assessments made in this subsection.

SNZ publishes estimates at March each year of the net capital stock in New Zealand. This measures the replacement cost at current prices, less depreciation. The total at 31 March 2011 ($579 billion) excluded the unimproved value of land but included residential buildings. QV New Zealand values all land and improvements.

Quotable Value New Zealand (QVNZ) is the primary source of land values in New Zealand. Table 2 in a 2010 report by Andrew Coleman and Arthur Grimes puts the unimproved value of all land in New Zealand at $486 billion in 2006 based on QVNZ's rateable values. Email correspondence with another government agency in August 2012 established that QVNZ's estimate for 2011 was $516.3 billion. There is some doubt, however, as to whether it includes the value of some improvements. Coleman and Grimes put the value of land and improvements at $924 billion in 2006. With this caveat, we take the unimproved value of all New Zealand land to be $516 billion in 2011 for the purposes of the illustrative calculations in this section. The combined value of the unimproved value of land and the value of the net capital stock is therefore $1,095 billion (Table 8, block 1).

On the BS presentation, NZ resident units' net international liabilities at 31 March 2011 totalled $132 billion, 12% of the $1,095 billion estimate for the value of land and the net capital stock (Table 8, block 2(a)). Equivalently, the net worth of NZ resident units is $963 billion, representing 88% of the value of assets located in New Zealand. (Of course some of the outstanding 12% will be owned by New Zealanders whose primary residence is overseas; also, many NZ resident units are not owned by New Zealanders.)

Another approach would be to represent the overseas claim on assets located in New Zealand by the sum of foreign equity investment in New Zealand and the net international debt of NZ resident units. The sum of these claims at 31 March 2011 was $198 billion, 18% of estimated total assets in New Zealand (Table 8, block 2(b). This is higher than the 12% estimate because it does not take into account the ability of NZ resident units to use overseas equity assets to service or reduce overseas claims on assets located in New Zealand.

A third approach might postulate that NZ resident units' entire international liability was secured against the sum of total assets located in New Zealand and the overseas assets owned by NZ resident units. At 31 March 2011, this total liability was $315.8 billion, 24.7% of the sum of assets located in New Zealand and overseas assets owned by NZ resident units of $1,278.7 billion (Table 8, block 3). This is higher than the 12% estimate because the numerator and the denominator are both higher by $183 billion in block 3 of Table 8 than in block 2(a). This has a greater proportionate effect on the numerator as it is the smaller.

These stock measures can be compared with flow measures. For example, total income paid overseas was $14,938 million in the year ended March 2011 (Table AF5). This represents 17% of the gross operating surplus in the national income accounts of $85,939 million and 26% of the $57,206 million operating surplus net of capital consumption.

What proportion of tangible assets located in New Zealand is deemed under the control of direct foreign investors? Total direct investment in New Zealand at 31 March 2011 was $92,518 million. That comprised 9% of the estimated total tangible assets in New Zealand of $1,095 billion. Direct investors are shut

Table 8: Tangible assets in New Zealand compared to foreign investment

1. Tangible assets in New Zealand at 31 March 2011	$ million
Estimated unimproved value of New Zealand land	516,350
SNZ's net capital stock	578,857
Total assets in New Zealand	**1,095,207**

2. Measures of overseas claims against these assets	$ million
(a) New Zealand's net international liability position (BS presentation)	132,352
as a % of total assets in New Zealand	12.1%
(b) Foreign equity plus net international debt	**$ million**
Foreign equity in New Zealand	62,127
Net international debt of New Zealand	136,240
Equity plus net debt	**198,367**
as a % of total assets in New Zealand	18.1%

3. Tangible assets in New Zealand plus overseas assets at 31 March 2011	$ million
Total assets in New Zealand	1,095,207
Plus NZ international investment assets (BS presentation)	183,448
Equals total assets in New Zealand and offshore investments	**1,278,655**
New Zealand's international liabilities (BS presentation)	**315,800**
as a % of total assets, including offshore investments	24.7%

Source: *The Sunday Star Times* (8 July 2012), attributed to Terralink.

out of many government-dominated industries so it must be expected that they have a bigger ownership role in the sectors in which they can participate than is indicated by an average. In 2003, foreign affiliates alone accounted for 51% of total assets in the finance and insurance industry and 22% of the assets on average in other industries that were not government-dominated and thereby materially open to large-scale private investment (see subsection 4.5). Section 4 examines foreign funding of New Zealand's economic development as a Crown colony. Subsection 4.1.2 shows that it is possible that in 1886, around 50% of tangible assets, including land, was funded from offshore sources (mainly London). Central government overseas funding alone was over 100% of GDP. Offshore funding of local development reduced as the pool of savings in New Zealand increased during the twentieth century. This is reflected in the very low NIIP to GDP ratio estimated for the early 1970s that is shown in Table AS2 (Appendix 4).

3.6 More perspectives on FDI

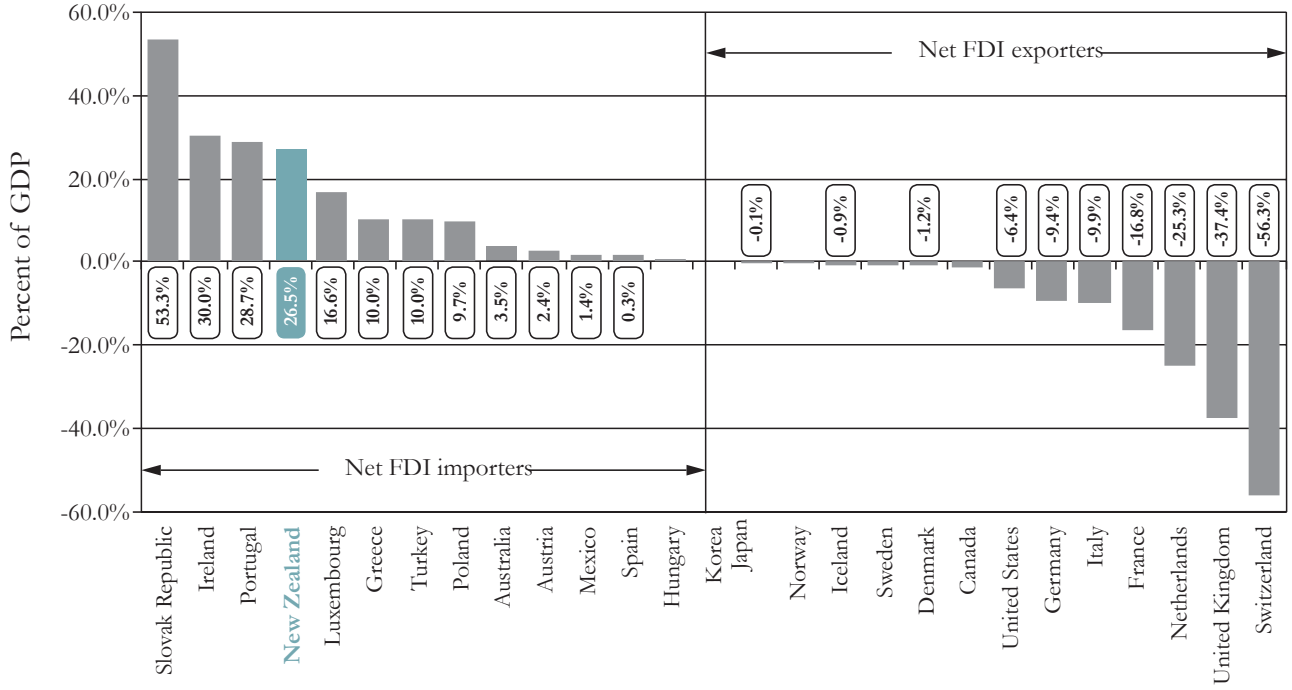
Feedback on an earlier draft of this report identified a fear among the public that New Zealand is naïve about foreign investment – that we allow foreigners to invest here more freely than we are allowed to invest overseas. This is thought to be the reason for the stock of inwards direct investment for New Zealand being so much greater than the stock of outward direct investment.

First, the OECD's measure of the restrictiveness of FDI regimes shows New Zealand as one of the most restrictive in the world. This is primarily because of the restrictiveness of New Zealand's screening regime. Certainly, the OECD's measure is limited, but there seems no doubt that New Zealand's regime is much more restrictive than the very open regime in the United Kingdom.

Nevertheless, Figure 5 illustrates a key fact that is perhaps the basis for the fear. It shows that, as a percentage of GDP, the stock of FDI in New Zealand exceeds the stock of outward investment to a greater degree than for nearly any other OECD member country.

In 2007, of the net FDI importers, only the Slovak Republic, Ireland and Portugal had a greater imbalance between the stocks of inwards and outwards direct investment than New Zealand among OECD countries. Of course, for some countries to be net importers of FDI, other countries have to be net exporters. Figure 5 shows that Switzerland and the United Kingdom had been the largest net exporters of direct investment by 2007,

Figure 5: Stock of inwards FDI minus stock outwards FDI in the OECD region, 2007



Source: OECD, Member countries only.

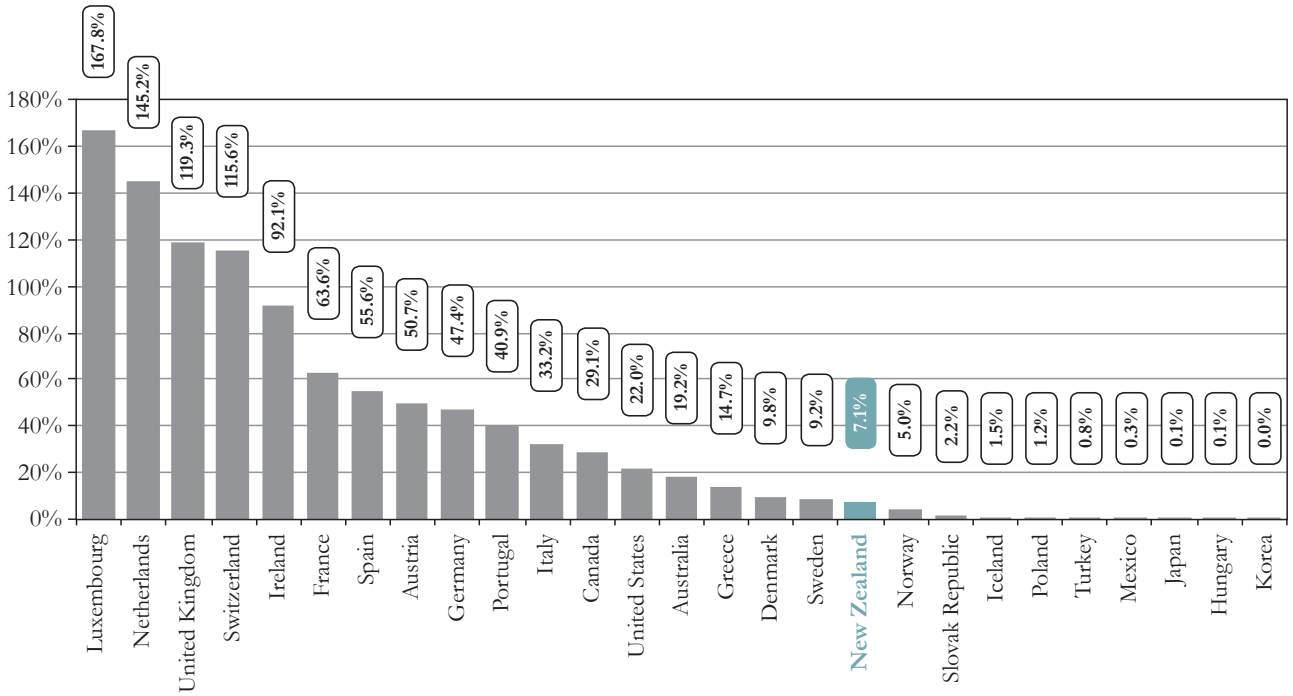
relative to GDP. (The United States was a larger net exporter in dollar terms than Switzerland or the United Kingdom but smaller relative to GDP.)

The notion to be resisted is that an ideal state would be one in which every country was in balance on this measure. There is nothing wrong with some countries being net exporters and others net importers of direct investment.

A similar fear is that NZ firms are poor at investing overseas. The argument is that New Zealanders tend to sell out to foreigners to get economies of scale from global expansion, rather than expanding overseas under their own steam. Figure 6 certainly shows that the stock of outwards direct investment by NZ resident entities (7.1% of GDP in 2007), is relatively low as a percentage of GDP compared to most OECD member countries. But it is not out of line with the three Scandinavian countries. It must be remembered too that New Zealand's long history of foreign exchange controls would have impeded outwards FDI, perhaps creating a legacy effect.

What about the trend in the stock of outwards and inwards investment? Figure 3 shows a sharp increase in both outwards and inwards FDI as a percentage of GDP following the elimination of foreign exchange controls in December 1984. The sharp increase in inwards FDI will also reflect the government's asset sales in the late 1980s. However, since around 2000 there has been, if anything, a slight trend decline in both series.

Figure 6: Outward stocks of direct investment in OECD – percentage of nominal GDP, 2007



Source: OECD: OECD member countries.

4.

Commentary on the Historical Record

This section reviews chronologically the information available on direct investment and net international indebtedness in New Zealand during:

- the nineteenth-century colonial period
- the first half of the twentieth century up to the 1938 foreign exchange crisis
- the subsequent protectionist period up to the mid-1980s
- the fiscal consolidation and liberalisation period up to 1995
- the subsequent return to deficits and low growth.

4.1 Nineteenth-century historical record

Subsection 4.1.1 examines indebtedness and foreign direct investment during the colonial period until 1888. Subsection 4.1.2 focuses on the period from 1888 until around 1900.

4.1.1 Early colonial period

New Zealand was a capital importing country early in its colonial history. It had to be to fund imports of goods for development, while developing export opportunities. But as its net external indebtedness rose, exports of goods and services needed to exceed imports to service the accumulated debt. The 1927 Official Yearbook summed up the first 80-odd years of New Zealand's experience:

> *"The relation between imports and exports is of the greatest importance to a young country like New Zealand. In the very earliest years of occupation by Europeans the exports of phormium, timber, and skins were greatly in excess of the few imports, mainly muskets and gunpowder, a fact which is explained partly by the temporary residence of the traders and more by the weaker bargaining-power of the Maori. With the settlement of the regular colony in 1840 there was evident an inflation of imports, occasioned by the amount of capital the new colonists brought in for the development of the country. From 1853 to 1870 there was an excess of imports, which, however, was tending to decrease.*
>
> *"A temporary excess of*

exports gave place in the early "seventies" to another great increase of imports, due to the borrowing policy inaugurated in that period. Except for a big decrease in 1880, the value of imports continued to be greater than exports until 1886. From that year onward there has been a continued excess of exports, except for the three years 1908, 1911, and 1920. The year 1886 is worthy of note as marking an outstanding period in the history of New Zealand's trade. A more or less fluctuating excess of imports had obtained prior to that time, but from 1886 the exports began to form a preponderating feature of the total trade. The consequent balance of trade in favour of the Dominion has since remained remarkably unbroken …

"The balance of trade is intimately bound up, in later years especially, with the large imports of capital which have been brought in to assist in the development of the country. This has already been made evident in discussing the balance of trade in early years.

"The excess of imports from 1853 to 1870, and again from 1872 to 1886, can definitely be traced to the importation of capital in those periods."

If 1886 was a landmark year for turning around the balance of commodity trade as a contributor to net indebtedness, how heavily indebted to the rest of the world was the colony in 1886?

The New Zealand Debt Management Office (which is part of the Treasury) has published annual statistics on the total and net public debt up to 1860. The series distinguishes externally domiciled public debt from the total public debt, although public debt in the nineteenth century was nearly all domiciled externally, given the limited domestic capital market for portfolio investment. In March 1886, the net public debt was $64.5 million, all of which was externally domiciled. This represented 111% of the Briggs-NZIER estimate of $58 million for nominal GDP for the year ended March 1886.

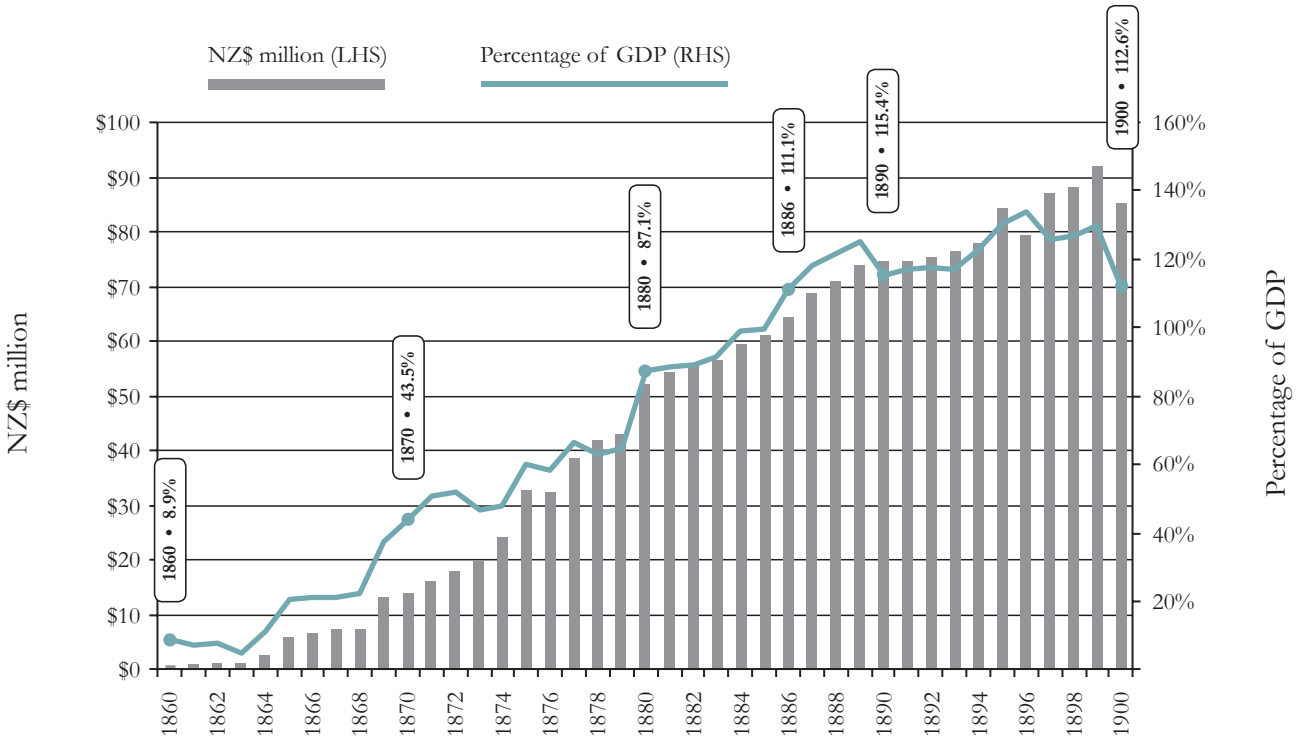
Public debt was very high by the 1880s because governments borrowed heavily on the London market in the 1870s, particularly to fund public works such as railways, roads, ports and the telegraph. These works aimed to open up the country for further immigration and development. Between 1873 and 1877 alone, 1,000 miles of railway lines were laid from scratch and the gross public debt more than doubled. Between 1873 and 1886, the population doubled. Other factors contributing to the high external public debt in the 1880s were the land wars of the 1860s and the need to assume the debts of the provincial governments on their abolition.

Figure 7 shows the effect of this heavy spending and borrowing on net externally domiciled public debt (NEDPD) between 1860 and 1900. The ratio of the NEDPD to the Briggs-NZIER estimate of GDP rose sharply from 8.9% in 1860 to 43.5% in 1870. It reached 87% of GDP in 1880 and broke the 100% 'barrier' in 1885-86. It stayed above 100% of GDP throughout the 1890s.

The 1893 Official Yearbook commented on the heavy debt-funded public works spending:

"Although many of the works undertaken have been directly unremunerative, yet the effect of the policy, as a whole, has been largely to develop the

Figure 7: New Zealand's net externally domiciled public debt, 1860-1900



Source: NZDMO History of the Public Debt, 31 March, NZIER Briggs for GDP.

settlement of the country, and enormously to increase the value of landed property; land, in parts which before the construction of railways was valued at from £1 to £2 per acre, having been subsequently sold at prices varying from £10 to £20 per acre. In addition to the important indirect results of the policy, the railway and telegraph-lines yield a revenue which covers a large proportion of the interest on their cost after paying working-expenses."

It is, of course, entirely proper to count the capital gains from land serviced by the rail system as part of the benefits delivered by rail expenditures. An interesting question for further research is the degree to which those who benefited from those capital gains contributed in due proportion to the costs of laying the rails. A rail company that buys land in advance can thereby hope to internalise the costs and benefits.

Nevertheless, what was the book value of the assets in 1886 following the incurrence of the NEDPD of $64.5 million? It was somewhat less than this for several reasons. The book value of the loans included the costs of raising them and funding the land wars. In addition, due to the lack of inadequation documentation, it is not clear to what degree some of the provisional councils had used loans to fund operating expenses rather that to create valuable assets.

One indication of the size of the gap is provided by an analysis in the 1900 Official Yearbook, which assessed the degree to which the gross public debt at 31 March 1900 ($95.7 million) reflected financial assets and investment in tangible

physical assets such as rail, roads, bridges, ports, school buildings, and the like. This analysis indicates that 85% of the debt was backed by such investments. Fractionally under 10% of the debt had been spent on the charges and expenses of raising loans and "deficiencies of revenue, besides old provincial liabilities". The remaining 5% was attributed to a "miscellaneous" category.

Comparable quantitative information on the degree to which private commerce was funded from the London or Australian markets during this period is harder to find. But it was surely considerable.

Recourse to the London market for capital to develop New Zealand was a natural event. The adherence to the gold standard reduced currency risk.

In his history of the New Zealand Stock Exchange (NZX), David Grant comments that for the first few decades of New Zealand's colonial period, a local capital market was not even considered a possibility because there was neither the will nor the population to undertake large-scale commercial enterprises.

Of course the absence of a local capital market did not mean the colonists were bereft of financial resources. Grant records that the first capital venture in New Zealand of any size was the formation of the New Zealand Banking Company in 1839. Its initial capital was £50,000, perhaps equivalent to more than $8 million in today's dollars. Of this, £30,000 was raised locally (not necessarily money saved from earnings within New Zealand), and the rest in Australia. But this shows the financial mettle of the wealthier private investors in the country at the time.

Grant also considered the establishment of the locally owned New Zealand Insurance Company in 1859 with a capital of £100,000 as the first major local non-banking commercial venture.

The discovery of gold in Otago in the early 1860s created an enormous demand for credit for private investment, and the population doubled between 1860 and 1868. Mining companies were floated in fledgling stock exchanges.

Banks 'burgeoned' in New Zealand in the 1860s. Most of these were overseas-owned with British or Australian directors. Loan companies floated in London were also set up to meet this demand for finance, with the New Zealand Loan and Mercantile Company being the most notable example.

These loan companies also financed land purchases in the North Island after the land wars, particularly in the 1870s, when Julius Vogel's rampant public spending stimulated land speculation.

Grant reports that 1879-83 was a peak period for company formation in Auckland; buying shares was almost as popular as fixed interest deposits. In an 18-month period from early 1882, 62 companies were floated on the Auckland exchange alone – a figure that would make the NZX envious today.

Large freezing works companies were first floated and built in the 1880s and shipping companies thrived with the beginning of exports of frozen meat.

Zyg Frankel (1968) reports that for many years, New Zealand's largest single industrial enterprise was a Melbourne-owned company, Kauri Timber, that purchased 28 sawmills in New Zealand and a fleet of steamers in 1888 to trade in Kauri timber.

4.1.2 1886 – Private external funding (unofficial estimate)

Frankel has published unofficial estimates of private net external indebtedness for New Zealand for 1886, 1906, 1910 and 1926. He is careful to explain that as a basis for further research,

these figures are only to be regarded as ballpark.

He assessed that total (net) offshore borrowing was probably $170 million in 1886, of which $94 million was private net foreign investment in New Zealand. Those figures were 293% and 162% respectively of the Briggs-NZIER estimate of $58 million for nominal GDP in the year ended March 1886. Using an estimate for March 1886 of 620,565 persons and a consumer price index (CPI) of 15 (base 2006(2) = 1000) converts Frankel's estimates into a per capita net private foreign investment in New Zealand in 1886 of $10,000 in June quarter 2006 dollars and total net overseas funding of $18,500.

Frankel's methodology was based on the need to fund estimated accumulated current account balance deficits of $166 million between 1840 and 1886. This methodology appears to have treated migrants' transfers as a capital inflow, so the proportion of the $94 million that was personal or family money may have been quite large.

As already mentioned, the NEDPD at 31 March 1886 was $65 million, or 111% of GDP. Adding this to Frankel's $94 million for net private capital from overseas gives a combined level of overseas funding of New Zealand's economic development of 273% of GDP.

Frankel could find no quantitative information on the contribution of portfolio investment to the $94 million. But he considered it to be minor, as direct investment needs dominated. Grant reports a group of 'safe' investors, known in Britain as 'rentiers', who sought annuity income from investing in New Zealand. Their numbers grew during this period and these rentiers typically invested in fixed interest shares. But Frankel offered no quantitative information about the extent of such investment.

Frankel's $94 million estimate can be scaled against private non-financial assets in the country at the time. The 1900 Official Yearbook put the average level of total private wealth in New Zealand from 1888 to 1892 at £147 million ($284 million), with the largest items being land, buildings and improvements (£96 million); livestock (£15 million); produce and merchandise (£15 million); and furniture and household goods (£9 million). The Yearbook made no attempt to estimate the degree to which this wealth was offshore-funded. However, putting the $284 million private wealth estimate together with Frankel's $94 million estimate for net private foreign investment in 1886 suggests that a third of the private wealth in 1886 might have been funded by migrants' capital transfers and other sources of private offshore funding. Clearly, excluding the unimproved value of land would potentially give a much larger residual ratio. On the other hand, some of the direct investment would have been in land.

It is also possible to scale Frankel's estimate of total net offshore funding of activity in New Zealand of $170 million in 1886 against the sum of private and public ownership of land and physical assets in 1886. According to the 1900 Official Yearbook, almost 60% of the gross public debt outstanding in March 1900 could be accounted for by spending on infrastructural assets – rail, roads, bridges, ports and lighthouses, and the telegraph – plus spending on land, school buildings, public buildings, coal mines, and gold fields. Applying this 60% ratio to the gross public debt of $68 million in 1886 gives an estimate of $40 million for such tangible public assets in 1886. Adding that to the private tangible wealth of $284 million puts the total private and public tangible assets in New Zealand in 1886 at $320 million, more than five times GDP. Net offshore funding of $170 million would represent fractionally over 50% of the

$320 million figure. That is an enormous ratio by today's standards (see subsection 3.5).

The colonists in the nineteenth century would surely not have seen such high levels of funding of the colony from their 'home' country as 'foreign', and thereby inherently suspect. But they certainly were aware that debts from any source were impoverishing unless they funded investments that proved to be productive enough to service those debts. The 1893 Yearbook sagely and enduringly observed:

> *"The burden of the public debt depends greatly on the measure in which it is expended on reproductive works, and on the degree of prosperity enjoyed by the people."*

4.2 Early twentieth-century historical record

Subsection 4.2.1 examines indebtedness and FDI by 1910. Subsection 4.2.2 traces developments from World War I to the early 1920s. Subsection 4.2.3 assesses debt levels by 1926. Subsection 4.2.4 covers the 1930s up to the 1938 foreign exchange crisis and the blanket imposition of foreign exchange and import controls. Subsection 4.2.5 covers the 1940s, including the World War II period.

4.2.1 1910 – Private external funding (unofficial estimate)

On Frankel's best estimation, net external funding of private activity in New Zealand dropped from $94 million in 1886 to $80 million in 1910. The 1910 figure was 'only' 60% of estimated GDP of $133 million in the year ended March 2010.

In evaluating the likely accuracy of this estimate, Frankel noted a private estimate made in the United Kingdom which implied that the stock of private investment in New Zealand funded from the United Kingdom amounted to $33 million in 1910. He speculated that investments from Australia might be of the same order of magnitude, but was doubtful if the much smaller-known investments from North America were enough to justify the $80 million estimate.

The official yearbooks did not try to estimate the value of privately owned assets in New Zealand at 1910, advising that the earlier methodology was dubious. However, there can be no doubt, given the growth in output and population between 1886 and 1910, that the degree to which privately owned assets in New Zealand were externally funded would have fallen markedly.

Net externally domiciled public debt was $121 million in March 1910, according to the New Zealand Debt Management Office's records. This was 91% of estimated GDP of $133 million for the year ended March 1910. However, the 1910 Yearbook advised that the value of public property in the form of land, buildings, railways, telegraph, lighthouses, ports, water supply, and goldfields was $146 million. This estimate does not include the value of similar local authority investments.

This estimate is sufficiently close to the gross public debt in 1910 ($150 million) to suggest that the Crown net worth might have been roughly zero at the time, rather than negative.

The 1910 Yearbook also assessed that 23% of the gross public debt at 31 March 1910 ($35 million) had funded 'unproductive' spending. Presumably, rising land values explain why the value of Crown property appears to have almost been enough to cover the gross public debt.

Rising domestic incomes and savings increasingly saw local institutions and investors buying government debt. By 1914, around 17% of the public debt was locally issued.

4.2.2 World War I – Debt funding

The 1931 Official Yearbook commented:

> *"Until comparatively recent years the large proportion of the productive power of the Dominion diverted to the construction of railways, roads, etc, and engaged in the preparation of land for farming necessitated the borrowing of capital from abroad; but of late the accumulation of savings, chiefly of small sums deposited in the savings banks, has enabled the Government to raise considerable amounts from time to time locally. This was particularly the case in connection with war loans, some 55 millions of pounds of which were raised in the Dominion [out of 70 million pounds raised for this purpose]. Since the war the tendency has been to go to the London market again."*

At the advent of the 'Great War' in 1914, the gross public debt was 'only' 119% of estimated GDP of $168 million in the year ended March 1914. The NEDPD in March 1914 was 95% of GDP.

NZ government spending on World War I was funded to a remarkable degree by higher explicit taxation, domestic borrowing, and the inflation tax.

The 1936 Yearbook considered the period of wartime spending as of an "unproductive" nature and "fairly regarded" it to have ended by the close of 1919-20. At 31 March 1920, the gross public debt per capita had reached 133% of GDP while the NEDPD had fallen to 61% of GDP. By March 1920, the overseas domiciled public debt was only 49% of the gross public debt.

The NEDPD in March 1914 represented a per capita debt of almost $9,000 in June 2006 dollars, but it was down to $5,500 in the same dollars by March 1920. The per capita gross public debt was around $11,200 in March 1914, and was only $12,407 on this basis in March 1920. Given that the £70 million raised to fund the war comprised more than 100% of the estimated GDP in 1914, the marked fall in the burden of external indebtedness was a remarkable achievement.

What happened between 1914 and 1920 was that while the government had borrowed from overseas in part to finance the war, lifting overseas-domiciled public debt by almost 20%, it had also taken quite drastic measures to force/induce local citizens to invest in government war bonds. The major reduction in the real external debt burden was due to (domestic and UK) inflation. New Zealand's CPI rose by more than 70% between 1914 and 1920.

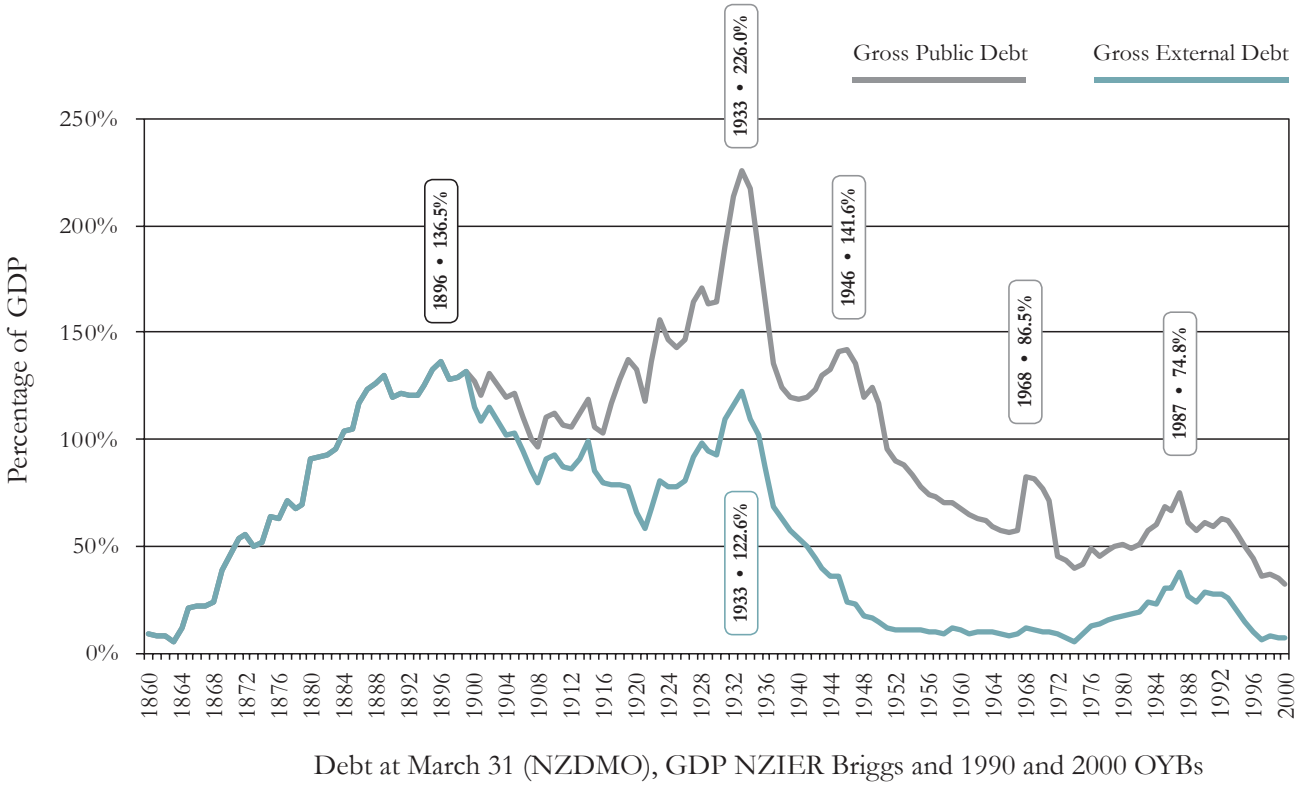
4.2.3 1926 – Private external funding (unofficial estimate)

The NEDPD at 31 March 1926 was $259 million, more than double its level in March 1910, and 79% of the estimated GDP of $326 million for the year ended March 1926.

In contrast, Frankel's estimate of the stock of private overseas funding of NZ investments in 1926 of $70 million is lower in dollar terms than his 1910 estimate and only 21% of GDP.

The 1937 Official Yearbook conveniently estimated the stock of national, private and public wealth at 31

Figure 8: Gross public debt rations to GDP, 1860-2000



Source: NZDMO forecasts after 2002.

March 1926. The NEDPD at 31 March 1926 is less than half of the officially estimated public wealth of $564 million. Crown net worth was likely positive at this point as the gross public debt was 'only' $477 million. Frankel's assessed external private funding of $70 million would represent only 5% of estimated private wealth of $1,276 million in March 1926, excluding private wealth in the form of claims on central and local government debt.

The combined figure of $329 million for net external private funding and the NEDPD was around 100% of GDP, but only 18% of the total national wealth of $1,840 million at 31 March 1926.

Frankel considers the postulated $70 million of external private funding to be mainly direct equity investment in overseas-controlled companies operating in New Zealand in 1926. He reports at least 205 overseas-controlled companies registered in New Zealand in 1926 with a nominal capital of $292 million, some of which would have been used in New Zealand. He notes that $70 million is about 24% of $292 million and considers this a reasonable estimate of the degree to which these companies might have used their nominal capital in their NZ operations.

4.2.4 1930s – Border closed to freedom of exchange in 1938

The NEDPD fell in dollar terms during the Great Depression of the 1930s, but GDP fell much faster. As a result, gross externally domiciled debt rose sharply to peak at 122.6% of GDP in March 1933 (Figure 8).

Frankel did not provide any unofficial estimates of private external indebtedness after 1926, but the sharp worldwide fall in the value of equity investments after 1929 would have curbed any increase in the market value of direct investments in New Zealand as a percentage of GDP.

Concerns about the management of instability in domestic incomes arising from fluctuating export prices were brought to a head by the Great Depression. This concern was at the heart of the formation of the Reserve Bank of New Zealand in 1934.

The RBNZ was nationalised quickly by the first Labour government after taking office in 1935. The government's subsequent expansionary policies led to the 1938 foreign exchange crisis. This was despite much more favourable prices for exports relative to imports.

That crisis saw the imposition of comprehensive foreign exchange and import controls as a 'temporary' measure. For the next 50-odd years, import protection, with an emphasis on encouraging local manufacturing and assembly, was the focus of economic policy.[8]

Nevertheless, the impact of this policy was overshadowed for at least the next decade by the effects of World War II on the economy.

The imposition of foreign exchange controls administered by the Reserve Bank gave government statisticians for the first time in New Zealand's history access to reasonably accurate statistics on private sector foreign exchange transactions of a capital nature that involved the banking system.

By 1950, the first official national income accounts for New Zealand had been published, commencing with estimates for the year ended March 1939. Estimated net (factor) income paid overseas in 1939 was 3.3% of GDP, based on estimates published much later in the 1970 Official Yearbook. The public contribution to this total was significant. Net externally domiciled public debt was $229 million in March 1938 (53.5% of the estimated 1937-38 GDP of $427 million). The 1950 Official Yearbook recorded central government interest paid overseas in the year ended March 1939 as $13.6 million (2.8% of GDP).

These statistics imply that estimated net factor income payable on net overseas funding of local authority and private assets was only 0.5% of GDP in 1938-39. If the rate of return of this residual net factor income in 1938-39 was the same as that implied on the gross externally domiciled public debt, the implied stock of net overseas investment in private assets in New Zealand at March 1938 would have been about 10% of GDP. This would be only half the 21% ballpark ratio calculated for 1926.

Obviously this calculation is merely suggestive.

It is plausible that the claim of overseas-supplied capital on GDP was higher than 3.3% of GDP in the years immediately before 1939 because of the higher external public debt ratio, as shown in Figure 8, and the effect of the economic recovery on the return on equity investments.

[8] See the Reserve Bank of New Zealand, The Reserve Bank and New Zealand's Economic History.

Table 9: Estimates of net overseas investment in New Zealand before 1950

	Private	Net overseas-domiciled public debt	Private plus public	GDP	Private	Net overseas-domiciled public debt	Private plus public
Year	$ Million				% of GDP		
1886	94	65	159	58	162	111	273
1910	80	121	201	133	60	91	151
1926	70	259	329	326	21	79	101
1949	92	58	150	990	9	6	15

Sources: Frankel (1968) for private debt estimates; New Zealand Debt Management Office for external debt estimates; Briggs NZIER for GDP estimates from 1886 to 1948; and 1990 Official Yearbook for 1940.

Note: The 'Private' figure for 1949 appears to estimate direct investment in New Zealand only, whereas up to 1949 it appears to be net private investment in New Zealand.

4.2.5 1940s – World War II and the first official direct investment estimate

The combination of a wartime economy and draconian controls on foreign exchange flows would have prevented any sharp increases in direct overseas private investment in New Zealand in the early 1940s, other than any war-related activity.

The NEDPD hardly changed in dollar terms between 1939 and 1945, while the dollar value of domestic debt more than doubled. The government used conversion loans to reduce net externally domiciled debt from $170 million in March 1945 to a mere $18 million in March 1947. Gross domestic public debt rose by $159 million at the same interval. The NEDPD in March 1948 represented only 6% of GDP, compared to 79% in 1926.

Frankel reports that the first reliable official figures for the book values of direct private overseas investment in New Zealand were published following a 1949 survey. The figure of $92 million represented 9.5% of 1947-48 GDP and 20% of the $453 million of nominal capital of the 268 registered companies in 1949. Frankel was clearly interpreting the $92 million figure as measuring direct equity investment in New Zealand.

Frankel considers this percentage of nominal capital to be broadly in line with his 1926 estimate of $70 million for total overseas investment (including portfolio investment) on the grounds that this was 24% of the assessed nominal capital of registered companies at that time.

The official figure of $92 million for overseas equity investment in New Zealand represents 9.3% of 1948-49 GDP. Adding this to the corresponding 6% figure for the NEDPD gives a total overseas funding figure of only 15% of GDP. Net factor payments overseas were 1.2% of assessed GDP in the national income accounts for 1948-49. This is less than half the 1938-39 ratio referred to above.

Table 9 summarises Frankel's estimates of the stock of private investment in New Zealand between 1886 and 1949, along with the New Zealand Debt Management Office's statistics on New Zealand's net externally domiciled public debt.

4.3 1950-mid-1980s: The protectionist years

Subsection 4.3.1 examines trends in foreign direct investment in the 1950s and early 1960s. Subsection 4.3.2 examines levels of external indebtedness by 1966. Subsection 4.3.3 documents the debt explosion that started in the mid-1970s and resulted in the 1984 external debt crisis.

4.3.1 Import controls increased direct investment in manufacturing

The advent of official national income accounts from 1950 and much improved BoP estimates provide more reliable information about foreign investment flows during the second half of the twentieth century. The comprehensive foreign exchange controls made it very difficult for New Zealanders to diversify their investments globally, and very easy for the Reserve Bank to collect statistics on nearly all transactions involving residents related to foreign exchange.

Deane's PhD thesis, published as a book in 1970, provides a comprehensive and authoritative account of the state of direct investment in manufacturing up to 1965, and a full discussion of public concerns and public policy approaches to that issue.

Deane's research identified 222 manufacturing businesses operating in New Zealand in the late 1960s that were at least 25% overseas owned. Most of these (146) were either branches of an overseas company or 100% overseas-owned. Most (179) were UK- or Australian-owned.

What may not be widely appreciated is that the draconian import barriers introduced in 1938 were an invitation to foreign manufacturers to establish manufacturing operations in New Zealand rather than continue to export to New Zealand over those barriers. It was not important if the costs to NZ consumers were very high because successive governments made sure consumers had little or no choice.

Of the 147 overseas-owned companies that responded to Deane's survey, only 51 (35%) were established before 1940 (Table A.2-1). Import controls were imposed in 1938. Deane demonstrated that a large proportion of the FDI that entered New Zealand after 1938 was greenfield, import-substituting investment.

Indeed, Walter Nash, the finance minister in 1938, while in London trying to arrange finance to deal with the 1938 foreign exchange crisis, used just this argument to defend New Zealand's policy to British manufacturing audiences.[9] Keith Sinclair, Nash's biographer, says:[10]

> *"The [UK] Board of Trade was under strong pressure from businessmen. The New Zealand High Commissioner's office had been suggesting that manufacturers should take advantage of the import regulations by setting up branch factories in New Zealand. This idea, that British industry should export itself rather than its products, was Nash's main idea about how New Zealand could industrialise."*

[9] I am grateful to Hawke for drawing my attention to Nash's position.

[10] Sinclair (1976), 180.

Sinclair also reports a few pages earlier: "[W]hat irritated the British the most was that the New Zealand government appeared to be using a temporary economic crisis to establish permanent industries, contrary to Ottawa". No doubt New Zealand was giving mixed signals about whether the measures were likely to be permanent or temporary, and this uncertainty further raised the cost of supplying capital to New Zealand. Clearly, as the car- and TV-assembly industries later demonstrated, NZ consumers could be persuaded to incur such costs.

Deane reported (p. 24) that foreign capital flowed into New Zealand in the 1950s and accelerated towards the end of the decade and into the 1960s with the tightening of import controls from 1958.

Tables 2-8 and A.2-5 in Deane's book show that 54 of the 139 respondent overseas-owned manufacturing firms operating in New Zealand at the time of his survey gave overcoming import controls as their primary reason for establishing in New Zealand. Of the 54, 37 were UK- or Australian-owned enterprises; in both countries, foreign ownership is defined as ownership of at least 25% of paid-up capital.

4.3.2 1966 – Private external funding (unofficial estimate)

Frankel also reports that economist James Rowe estimated that the stock of overseas direct investment in 1966 could have been $700 million, with another $200 million being a 'reasonable guess' for portfolio investment. Frankel provides further reasons for suggesting that gross overseas investment in New Zealand in privately owned assets might have been $1,000 million-$1,200 million in 1996. The 1990 Official Yearbook put GDP at $4,012 million for the year ended March 1966. These ballpark figures would put private overseas direct investment somewhere between 17% and 25% of GDP, with portfolio investment adding another 5% of GDP. This would represent a doubling or trebling of the ratio to GDP for direct investment since 1949.

There is clear indirect evidence that the direct investment inflow in the 1960s was significant in macroeconomic terms. First, the cumulative annual current account deficits in the BoP, expressed as a percentage of GDP, totalled 24% of GDP between 1951 and 1966. This had to be financed by capital imports. Second, this did not come from additional public external borrowing relative to GDP. On the New Zealand Debt Management Office's figures, the NEDPD in 1966 was 6.4% of GDP, essentially unchanged from 1949. Third, the BoP statistics record an increase relative to GDP in gross and net investment income paid overseas. For example, in the early 1950s, investment income paid overseas was 1.6% of GDP; by the mid-1960s, it was around 2.2% of GDP. In the early 1950s, the net outflow from New Zealand on investment income was 0.9% of GDP; by the mid-1970s, it was around 1.5% of GDP.

However, these increases in the detected income flows from the greater direct investment are not, on the surface, consistent with a doubling or trebling in the stock of direct investment relative to GDP. IMF researchers Gian Maria Milesi-Ferretti and Philip R. Lane have estimated that the stock of direct investment in New Zealand in 1970 was barely 6% of GDP. While this looks too low given the 1949 figure and other evidence above, it does support the view that the bottom end of the Frankel range for 1966 looks more plausible than the upper end.

Britain's entry into the European Union (EU) in the late-1960s was a wakeup call for New Zealand to become more

competitive if its living standards were not to slide relatively, if not absolutely. Yet the aborted 1968 nil General Wage Order presaged a move by New Zealand into double-digit inflation along with extremely rapid increases in government spending in the early 1970s. The competitive effects of these events were obscured at the time by extremely favourable export prices relative to import prices.

4.3.3 1970s-mid-1980s – Big deficits, escalating debt

The high levels today for New Zealand's net external indebtedness are a consequence of the 1973-74 oil price shock and the 'spend, borrow and hope' policy responses until the change in government in 1984.

World oil prices quadrupled in 1973-74, putting the current account balance for goods and services into a massive 12.3% of GDP in 1975. The government's response was to increase deficit spending, borrowing heavily from overseas to fund both its own fiscal deficit and the deficit in the current account of the BoP. The NEDPD rose from 2.6% of GDP in 1974 to 16.3% in 1980. It peaked, as a percentage of GDP, at 28.5% of GDP in 1986. The net public debt rose from 4.4% of GDP to 40.4% during the same period.

During the three-year period from 1974 to 1977, the cumulative annual deficits as a percentage of GDP in the current account balances for goods and services, overseas investment income, and total current account balance were 22.1%, 6.5% and 28.2%, respectively (Table AF2). New Zealand's negative net external position rocketed from around 5% of GDP in 1973 to around 30% by 1977 (Table AS2). It is little wonder that the deficit on overseas investment income doubled from about 1.5% of GDP in 1974 to 3.1% of GDP in 1977 (Table AF2).

Between 1977 and the mid-1980s, the cost of servicing the much increased level of net external indebtedness became more important than the ongoing current account deficits on goods and services in contributing to the continuing rise in net external indebtedness. The cumulative annual deficits in the BoP as a percentage of GDP, for the years 1978-87, were 18.2%, 37.2% and 53.1% respectively for goods and services, net investment income, and the total balance (Table AF2). Net external debt reached an estimated 68% of GDP in 1987 (Table AS2). By 1984, the annual deficit on net investment income from overseas exceeded 5% of GDP (Table AF2).

For the entire period from 1974 to 1987, the cumulative annual deficits in the current account of the balance of payments for goods and services, net investment income, and the total current account balance itself were 40%, 44% and 81% of GDP, respectively (Table AF2). Imports of goods and services exceeded exports for 12 of the 13 years from 1974-75 to 1986-87 (Table AF1).

Milesi-Ferretti and Lane estimate that New Zealand's negative net external liability position rose from 4.5% of GDP in 1973 to 74.5% in 1986, but warn of serious discontinuities in their time series (there is some evidence of this in Table AS40). Nevertheless, based on the cumulative current account deficits in relation to GDP during this period, such a rise might even be an underestimate.

FDI flows continued during this period, but not to a remarkable extent. UNCTAD's time series puts the stock of inward direct investment in New Zealand in 1986 at 8% of GDP, which is more consistent with later official estimates than Milesi-Ferretti and Lane's estimate of 18.5% of GDP (Table AS44 and Figure 3).

4.4 1985-95 – Fiscal consolidation and liberalisation

It took the best part of a decade for successive NZ governments to turn around the debt-ridden and highly distorted economy that could no longer defend the fixed exchange rate regime – at the weekend of the 1984 general election.

Market-determined interest rates were required immediately to stem the outflow of capital. Taxes had to be raised and spending cut to stop the public debt spiral. A way had to be found out of the comprehensive wage and price freeze while leaning against the actual inflation that would follow the suppressed inflation. External competitiveness had to be improved even while removing distortive export subsidies and the highest import barriers to improve productivity and competitive innovation.

The BoT in goods and services in the BoP showed a small surplus in the year ended March 1988, ending the continuing accumulation of deficits. This turnaround from deficit to surplus was largely due to domestic recession, but it was no flash in the pan. Underlying structural reforms, including a clean floating exchange rate; much greater reliance on competitive processes; and much tighter control of the growth in government spending helped keep this balance in surplus every (March) year between 1988 and 2004. However, the large annual deficits in the BoP on net investment income ensured that the current account balances in the BoP remained heavily in deficit throughout this period and up to the present day (Tables 3 and AF3).

Unsurprisingly, it took many years to wring inflation out of the economy. The annual rate of increase in consumer prices did not fall below 2% until the year ended March 2002. It took even longer to turn fiscal deficits into surpluses. Crown accounts were not clearly back in fiscal surplus before the year ended June 1994.

Dealing with the government's accumulated debt position also took many years. Core Crown net debt peaked at 52.6% of GDP in June 1992. But the inherited currency composition of the debt also exposed the Crown's balance sheet to unnecessary risks. The proceeds from the privatisation programme between 1987 and 1995 and the willingness of overseas investors to buy NZ dollar-denominated government stock at market-determined prices allowed authorities to eliminate the NEDPD liability by June 1997. Selling assets such as Air New Zealand and Telecom to overseas investors and using the proceeds to reduce foreign-currency denominated government debt does not alter the net external liability, but it does change its composition. Specifically, it increases the stock of direct overseas investment in New Zealand and reduces the government's net external liability.

Freeing the foreign exchange market through a floating exchange rate, abolishing capital controls in late 1984, and the 1983 free trade agreement with Australia (Closer Economic Relations or CER) stimulated direct outwards and inwards investment more generally. NZ firms were free to strengthen their international connections with more traditional countries like Australia and it was easier to build new relationships in Asia. These effects have been documented in detail by the OECD in its 1993 Survey of Foreign Direct Investment in New Zealand and by the NZIER (2010). UNCTAD estimates that the stock of FDI in New Zealand rose from 7.5% of GDP to 41.5% between 1984 and 1995, while the stock of outwards direct investment rose from 2.1% to 12.4% (Table AS4 in Appendix 4 and Figure 3).

Joanne Scott-Kennel's 1999-2000 survey of the activities of 1,554 NZ-based firms that were at least 25% overseas-owned provides much more detailed information about developments in this period. She found that 63% of the 516 respondents were affiliates (i.e. a branch or subsidiary) of a multinational company. Of these affiliates, 76% had been set up or acquired by their current overseas owners after 1980, and 46% after 1990. FDI since the removal of protectionism has been much less greenfield and much more focused on acquiring existing assets or companies. (The government's privatisation programme surely had a major influence on these numbers.) Most affiliate respondents (70%) indicated they were the dominant firm in their industry. Scott-Kennel's survey found strong evidence that affiliates benefited strongly and broadly from their links to overseas parents, and that the benefits of these links were shared with NZ suppliers and distributors through collaborative agreements and the sharing of expertise and systems.

4.5 Post 1995-2012 The MMP era

New Zealand has progressively lost competitiveness on a number of measures following the adoption of Mixed Member Proportional (MMP) voting for parliamentary representation for the 1995 general election. Important measures in the context of this report include:

- the loss of competiveness in the traded goods sector, with the goods and services balance in the BoP tipping into a deficit for five years in succession starting with the year ended March 2005
- the return to fiscal deficits from 2009, associated with large increases in the share of government spending in the economy
- increasingly intrusive government regulation, illustrated by New Zealand's increasingly abysmal OECD ranking for the restrictiveness of FDI regulations
- much-reduced rates of economic growth associated with the lowest trend rate of labour productivity growth in the measured sector for decades and negative multifactor productivity growth in the last growth cycle.

The return to fiscal and BoT deficits during this period is a real threat to the future level of the NIIP. As explained in subsection 2.2.1, the fact that the NIIP did not rise much more than it did between 2000 and 2012 reflects a fortuitous combination of the effects of valuation changes, insurance arrangements in respect of the Christchurch earthquakes and measurement errors.

The much-reduced rates of economic growth are a particular concern as the net external liability has the potential to grow rapidly relative to GDP if the earnings rate on the liability materially exceeds the growth rate in GDP (see Identity 1B in subsection 2.2.1). The effect of a lower GDP growth rate is likely to be masked for some time by abnormally low interest rates worldwide.

A 2007 report by SNZ researchers Jason Attewell and Wido van Lijf reported that 3,779 enterprises out of 419,049 (0.9%) in New Zealand at 31 March 2005 were foreign affiliates of overseas firms, but accounted for 14.5% of total NZ employment.

Reflecting New Zealand's close economic ties with Australia, 44% of

foreign affiliates in New Zealand were Australian-owned in 2005. The next largest was the United States (18%).

Attewell and van Lijf's figures show that the finance and insurance sector is an outlier in the foreign affiliate statistics. In 2003, foreign affiliates in this industry accounted for only 8% of foreign affiliates operating in New Zealand and 3% of their turnover, but owned 50% of the assets and 32% of the equity in all affiliates. Within the finance and insurance sector, foreign affiliates accounted for 5.5% of firms and 66.7% of employees in 2005. In 2003, they accounted for 61% of the turnover, 51% of the total assets, and 52% of the equity in the sector.

Excluding the finance and insurance industry, the electricity, gas and water industries (for which Attewell and van Lijf did not publish statistics) and the industries in which government ownership and control rules out much private sector activity (government administration, defence, education, health and community services, etc), foreign affiliates accounted for 23% of the turnover, 22% of the assets, and 19% of the equity in the remaining industries.

In 2003, foreign affiliates were more highly geared on average than the industries in which they were operating in construction and wholesale trade and cultural, recreational and other community services. However, they were less highly geared than average in agriculture, forestry and fishing, retail trade, accommodation, cafes and restaurants, and transport and storage. In manufacturing, foreign affiliates had the same gearing as the industry average. Overall, foreign affiliates were more highly geared in 2003.

Despite their higher overall gearing, foreign affiliates achieved a return of only 9.4% on equity in 2003, compared to an average return of 18% for all firms across all industries. In finance and insurance, the foreign affiliate return on equity was just 7.5% as against the industry average of 23.6%. Given the property market boom at the time and the subsequent collapse of many finance companies, this comparison may represent an atypical situation.

5.

Concluding Remarks

This project has aimed to assist public debate by compiling statistics relevant to foreign investment and international investment and putting them into a modest historical perspective. It has not made international comparisons or public policy assessments of any issues.

5.1 Direct investment

Direct inwards and outwards investment increased sharply following the elimination of foreign exchange controls in 1984 and related policies to open up the NZ economy to the rest of the world. Privatisation was a factor in increasing inwards investment faster than the increase in outwards investment. But there has been no dynamism in either aggregate since around 2000 (Figure 3); widespread public unease about both privatisation and the country composition of FDI, if not all FDI, will continue to affect the evolution of FDI.

A great deal more of a detailed and specific nature has been written about the role of foreign-owned firms than is contained in this report or the accompanying compendium of time series. It is common knowledge that foreign ownership dominates the banking, insurance, petroleum, aluminium and supermarket industries in New Zealand, to name just a few.

This report has not attempted to analyse the nature of the specific activities of foreign-owned NZ firms. Much has been written about their relative size and productivity, and the evidence of the spill-over benefits that international research commonly finds accompanies FDI in particular, and greater openness in general. It is beyond the scope of this report to review that work here.

Deane (1970) remains a seminal source of statistical information and commentary. In 1999-2000, Scott-Kennel conducted another survey of the activities of locally based, foreign-owned firms with an interesting focus on the nature of any spin-off benefits for customers and suppliers. In a detailed examination of the available information between 1983-84 and 2004-05, Bill Rosenburg included much useful detailed information, sourced partly from the Overseas Investment Commission, about individual FDI transactions during the privatisations of the 1990s.

5.2 NIIP and net external debt

New Zealand's large negative NIIP position today is a direct result of the large BoT deficits that occurred after the four-fold increase in global oil prices in 1973-74. Government 'borrow and hope' deficit spending problems aggravated the growing debt problem from 1975 to 1984. By the mid-1980s, the deficit in the balance

on international investment income in the BoP was the major contributor to the deficits in the current account of the BoP, and thereby, the gap between investment and saving (subsection 4.3.3).

The 1984 foreign exchange crisis triggered a drive to eliminate deficit spending to end the debt spiral. The prolonged, but ultimately unsustained, return to BoT surpluses checked the growth in the NIIP, while the successful drive to eliminate net foreign-currency denominated public debt sharply reduced the measured contribution of the public sector to the NIIP.

The large cost of servicing the NIIP from the mid-1980s to 2012 is largely a legacy of policies and events that occurred between 1973 and 1984, although the origins of those policies go back at least as far as 1938. It is also a consequence of major government-underwritten energy projects failing to produce enough income to service their debts. The future path for the ratio of NIIP to GDP depends on the size of any earnings-interest rate growth rate gap and on the sign and size of the BoT in the current account of the BoP (identity 1B).

Although discussion of the policy options is outside the scope of this report, it would be remiss to fail to acknowledge that others, including the OECD secretariat, the Treasury and the Reserve Bank of New Zealand, have addressed related public policy issues to a considerable extent.

Appendix 1: Sources of Information

A.1 General sources

National statistics offices and official international agencies collect a vast amount of data on levels of foreign ownership and the extent of national external indebtedness. These international agencies include the OECD, the IMF, the World Bank, and UNCTAD.

International and national agencies naturally try to standardise definitions across countries so statistics from different countries can be prepared on a comparable basis. To facilitate such consistency and provide guidelines for its members, the IMF maintains a Balance of Payments Manual. The first edition appeared in 1948.

In 1993, the IMF issued the fifth edition of its BoP manual (BPM5) for the compilation of BoP and IIP statistics. The guidelines were developed in cooperation with various international organisations, including the World Bank and the OECD. The guidelines aimed to better align BoP statistics with developments in international financial markets and meet the requirements of regulatory authorities, credit rating agencies, and policy analysts. The changes also aimed to achieve consistency with other macroeconomic statistics, such as national accounts.

New Zealand's membership of the IMF obliges it to produce BoP and IIP statements in a timely and regular manner and in accordance with the latest statistical standards. The IMF collates and publishes the data in several forms, including its International Financial Statistics series and the World Economic Outlook e-database.

The IMF has also taken a leading role in organising worldwide statistical surveys, such as the Coordinated Portfolio Survey (CPS) and the Coordinated Direct Investment Survey (CDIS). The CDIS is conducted annually but the first observations from this survey are for the end of 2009. Participation in the CDIS is voluntary – 97 economies currently participate. The need to protect respondent confidentiality creates many gaps in the published information.

The World Bank's Global Development database and UNCTAD also provide information on FDI flows. In addition, the Bank for International Settlements (BIS) assembles statistics on assets and liabilities held by reporting banks vis-à-vis bank and non-bank residents of other countries.

Experts in official agencies occasionally publish useful reports providing information in addition to the structured quarterly and annual information that their organisations publish. Private organisations and individual researchers have also collected and published a great deal of information over the years, both in relation to New Zealand and elsewhere. The bibliography to this report is not comprehensive, but it does provide a starting point for readers interested in more specific details.

A.2 Sources of information for Statistics New Zealand

SNZ's current sources include:

- surveys of NZ-resident enterprises
- surveys conducted by other entities
- administrative sources
- financial market information.

SNZ's surveys of NZ-resident enterprises focus on enterprises whose activities are relevant to its BoP and IIP statistics. The main surveys for the purpose of these quarterly accounts are:

- **Quarterly International Investment Survey (QIIS):** A sample survey of approximately 480 enterprises that captures 95% of the total investment values for New Zealand. This is the primary source of SNZ's quarterly financial account and IIP data.

- The QIIS is largely based on a similar survey undertaken by the Australian Bureau of Statistics (ABS). Once in place, it allowed SNZ to rationalise all past data collections on international financial assets and liabilities. This included replacing earlier annual capital investment and total overseas debt surveys and a quarterly international investment income survey.

- **Quarterly Nominees Survey (QNS):** This survey supplies data on foreign portfolio equity investment in New Zealand via resident nominees. SNZ considers the coverage of this survey to be essentially exhaustive.

Quarterly Managed Funds Survey (QMFS): A sample of principal NZ fund managers.

- **International Trade in Services and Royalties Survey (ITSRS):** A quarterly sample survey that is the primary source for commercial services data.

- **Transportation surveys:** Full-coverage surveys that measure transactions relating to transportation services such as passenger airfares and port expenses.

- **Insurance surveys:** Full-coverage surveys that measure premiums and claims from direct overseas insurance, reinsurance, and insurance brokers for life and non-life insurance.

- **Annual Managed Funds Survey (AMFS):** A joint SNZ and RBNZ survey. Each year, the AMFS captures the value of assets held abroad by smaller-sized fund managers, at 31 December. The survey has been operating since 2001.

SNZ also purchases statistics from surveys conducted by other organisations such as:

- **International Visitors Survey (IVS):** Operated by a marketing company for the Ministry of Tourism, this survey supplies quarterly data used in measuring exports of travel services in the current account.

- **Quarterly Managed Funds Survey (QMFS):** A joint RBNZ and SNZ operation that surveys a sample of principal NZ fund managers and supplies data for the current account component of income (credit), and the financial account and IIP

Table 10: Milestones in improving BoP and IIP statistics

Milestone	Period	Published statistics
Annual Capital Investment Survey of 7,000 respondents.	1993-97	Allowed SNZ to publish annual estimates of BoP (direct, portfolio and 'other' investment flows.
Annual Enterprise Survey of 22,500 trading enterprises.	1997-	Allowed SNZ to publish estimates of BoP flows of equity, debt, retained earnings, trade credits, deposits, loans and 'other' capital.
First stage of BPM5 implementation.	Year ended March 1997 and June quarter 1998-	SNZ published the first IIP and BoP financial account statistics.
Second stage of BPM5 implementation.	Year ended March 1997 and June quarter 1998-	First release of BoP information in a BPM5 format that included the new BoP financial account. There were no quarterly IIP estimates.
Final stage of BPM5 implementation.	June 2000 quarter	First SNZ publication comprehensively implementing BPM5
Use of Inland Revenue data for more comprehensiveness	2010	

components of portfolio investment, financial derivatives, and other investment (assets).

Administrative sources of information include Inland Revenue, the New Zealand Customs Service, the Reserve Bank of New Zealand, and the Treasury. The Treasury and the Reserve Bank also report on both their own-account overseas activities and those they undertake on behalf of the NZ government.

It took SNZ about 15 years from the abolition of exchange controls in 1984 to set up the current statistical collection and reporting regime. SNZ's obligation to adopt the IMF's 1993 guideline, BPM5, in collecting and reporting BoP and IIP statistics for New Zealand, was an onerous one. It adopted this guideline in three stages. The timing of these stages naturally affects the length of the available time series.

Table 10 summarises the major milestones in SNZ's 15-year programme. The remainder of this section provides further details.

SNZ naturally had to keep providing the best estimates it could of BoP flows from 1984 onwards, while progressively replacing inferior survey information with superior information.

From 1993 to 1997, much of the financial account data for the BoP and IIP statistics was collected on an annual basis via the Annual Capital Investment Survey. This survey allowed SNZ to start publishing estimates of direct, portfolio and 'other' foreign investment in New Zealand and of NZ investment abroad.

With effect from the June quarter 1996, SNZ started publishing BoP information on flows of equity and debt, retained earnings, trade credits, deposits, loans, and 'other' capital.

SNZ's Annual Enterprise Survey took effect in 1997. The 22,500 trading enterprises surveyed annually were from a population of around 450,000 trading enterprises. The surveyed enterprises produce approximately 90% of New Zealand's GDP. This made this survey New Zealand's most comprehensive source of statistics on the financial performance and position of industry and sector groups operating within New Zealand.

In July 1998, SNZ first published IIP and BoP financial account statistics for the March 1998 quarter and the year ended March 1997 as a developmental series on a BPM5 presentation basis. The changes were limited to renaming categories and reclassifying existing information.

The second stage saw the publication of annual BoP statistics in September 1999 of June 1999 quarter and year ended March 1999. This was the first official release of BoP statistics on the new BPM5 basis. Most of the current and capital account information was sourced from data collected using the BPM5 standard.

The financial account information (available extensively in the March 1999 annual publication) was sourced on the BPM4 basis but presented in the BPM5 format.

The changes at this second stage included:

- redefining the current account to exclude certain items – for example, migrants' capital transfers were shifted to the new capital account construct
- presentation changes to the BoP statement to reflect the redefinition of the current account; BoP statements now comprise current, capital and financial accounts
- an expanded classification of services
- a different compilation of services.

As a result of these developments, SNZ was able to report IIP statistics by type of industry for the first time since 1989.

Even so, before the June 2000 quarter, the quarterly BoP statistics only partially covered the financial account. They recorded the international financial assets and liabilities of the government sector and the financial assets held abroad by NZ fund managers. These transactions were categorised into portfolio investment, 'other' investment, and reserve assets. There were no quarterly statistics on New Zealand's IIP. From the June 1999 quarter to June 2000 quarter, estimates of investment income were still based on BPM4 guidelines.

The third and final stage saw the release of the BoP statistics for the June 2000 quarter. Changes included:

- revising the methodology for insurance services
- calculating interest income on an accrual basis rather than a 'due for payment' basis
- using the creditor accrual approach to estimate interest on government debt securities
- using a 10% or more ownership criterion as the basis for determining direct investment and the associated reinvested earnings, with less than 10% ownership representing portfolio investment (previously, a 25% or more ownership threshold was used for estimating direct investment)
- using the single direct investor approach for both inwards and outwards direct investment (previously, a cumulative approach was used for inwards direct investment and a single direct investor approach for outwards direct investment)

- excluding foreign currency deposits held with resident banks from the reserves component
- recognising transactions in financial derivatives
- collecting stock data for financial derivatives
- recognising short-term securities as portfolio investment.

The quarterly financial account data from the June 2000 quarter comprehensively covers BoP financial account and flow and stock IIP statistics on a quarterly basis. The published tables encompass direct, portfolio and 'other' investment transactions. This series also includes information about the effects of exchange rate changes, market price changes, currency composition of the stocks, debt maturities, and the degree of currency hedging. The components include equity and debt. A country breakdown is also published.

Since March 2002, SNZ has been publishing an annual 23-industry breakdown of its IIP statistics.

Unfortunately, quarterly financial account statistics up to and including the March 2000 quarter are not comparable with the new series, as the previous statistics only partially covered the financial account.

SNZ further improved the coverage of the income component in the BoP statistics in the June 2010 quarter. One improvement was using income data, as reported to Inland Revenue for tax purposes, to estimate investment income flows not previously measured as part of the BoP statistics.

Before this revision, the main measurement gap was the income flow (inflows and outflows) of individuals, smaller-sized companies, and other business type entities (such as partnerships, and trusts and estates). SNZ considers that the Inland Revenue information can usefully help close the gap despite its (under) reporting bias and the lack of detail in the Inland Revenue information (e.g. the retained earnings element of income flows).

SNZ reported that measurement improvements in 2011 reduced the negative NIIP to GDP ratio by an average 6 percentage points. These improvements reflected the inclusion of assets owned overseas by small fund managers, an estimate of New Zealanders' portfolio equity investment in Australian-listed companies, and a change in the treatment of student loans for New Zealanders overseas.

The inevitable result of these necessarily incremental improvements is a database that lacks comparability through time, particularly before the June quarter 2000 when the move to BPM5 was completed.

Other sources of information specific to New Zealand

Gian Milesi-Ferretti and Philip Lane published estimates of the foreign assets and liabilities of New Zealand for 1970-84 in an IMF working paper. These estimates were compiled from all available official sources.

In 2007, two SNZ researchers published an extensive report on the scope and scale of foreign affiliate companies operating in New Zealand.[11] These are companies whose equity is at least 50% foreign-owned, or which are owned at least 50% by a subsidiary of a foreign affiliate company operating in New Zealand. The main data sources were SNZ's Business Frame database and the Annual Enterprise Survey for the 2003 financial year. The statistics established the significant scale of the operations of foreign affiliates in New Zealand in relation to overall economic activity in New Zealand.

[11] Attewell and van Lijf (2007).

Roderick Deane undertook an extensive survey of firms in the late 1960s for his PhD thesis on foreign investment in New Zealand. His 1970 book remains a major source of information for this period. His thesis found that much of the FDI up to 1970 was of a greenfield nature.

Earlier in the 1960s, Don Brash wrote a PhD on the same topic.

A detailed examination of the available information between 1983-84 and 2004-05 by Bill Rosenburg assessed that the ratio of the FDI stock to GDP to be around 47% in 2005. This was exceptionally high in international comparisons – around 10% for most developed countries. In addition, Rosenburg found that much of this was to take over assets sold by New Zealanders, rather than being of a greenfield nature. Rosenburg's report includes much useful information, sourced in part from the Overseas Investment Commission, about individual FDI transactions during the privatisation period of the 1990s.

In the mid-1990s, Michelle Akoorie wrote a PhD thesis on the impact of FDI on the internationalisation of NZ firms.

Joanna Scott-Kennel also conducted for her PhD thesis a survey in 1999-2000 of the activities of locally based, foreign-owned firms. She identified 1,554 NZ-based companies as likely being 25% or more overseas-owned and got a 33% response rate.

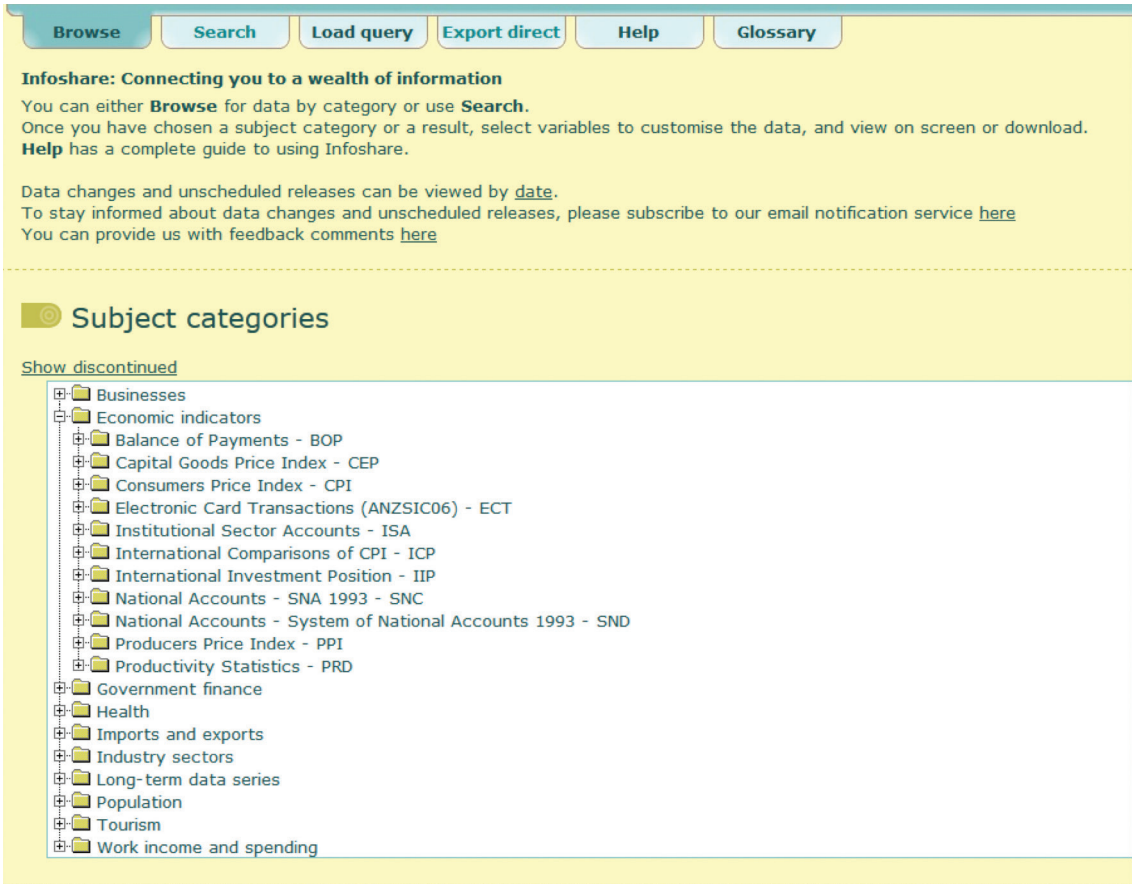
Other NZ economists who have published on the topic include Denis Rose; Peter Enderwich; and economists at the NZIER, the Reserve Bank, and the Treasury. Mention should also be made of the diligence, albeit unashamedly partisan, of the CAFCA in collecting and compiling information provided by the OIO. The bibliography to this report provides further details on New Zealand, but it does not purport to be comprehensive. Apologies are due to those whose contributions to this topic have been overlooked.

The remainder of this appendix shows how to access the publicly accessible databases of the organisations mentioned above. It starts with SNZ, since this agency is obviously the prime source of statistical information about New Zealand.

A.3 Accessing official statistics

A.3.1 Statistics New Zealand

Time series produced by SNZ can be downloaded for free from Infoshare at www.stats.govt.nz/infoshare/. Choose the 'Economic Indicators' category and then either the 'Balance of Payments – BoP' or 'International Investment Position – IIP' sub categories, depending on what you are looking for.



As indicated by the 'Show discontinued' section of the above screenshot, this series includes some of SNZ's scontinued time series.

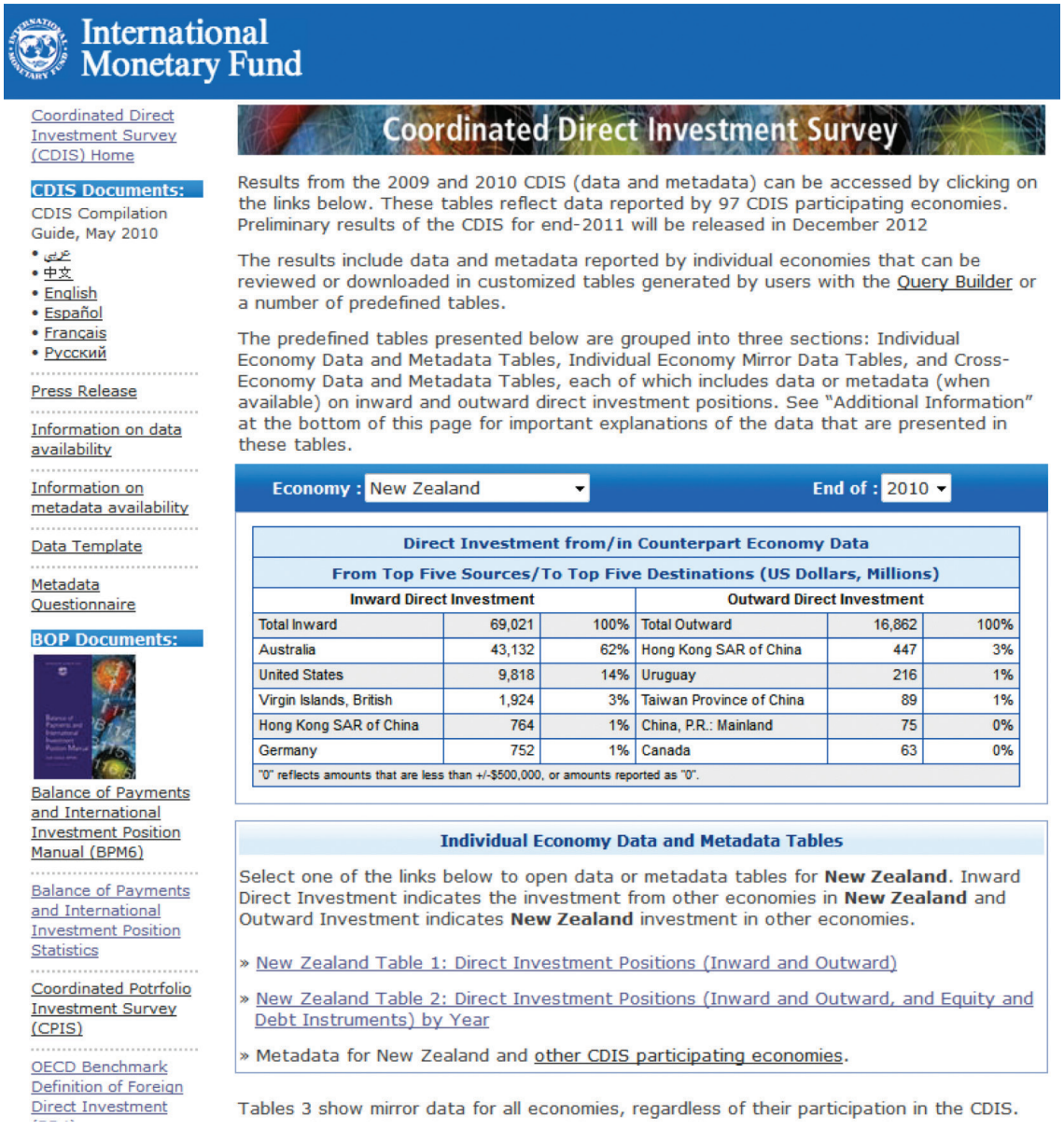
A.3.2 Organisation for Economic Co-operation and Development

The OECD has a website dedicated to news, statistics and analysis on FDI, particularly among member counties, including New Zealand. The site's permanent URL is http://www.oecd.org/investment/statistics.htm.

The OECD's free time series can be accessed from its StatExtracts website using the links provided on the bottom right side of the page displayed by the above link. The following screenshot, taken on 5 July 2012, shows the first two rows of the available time series.

A.3.3 International Monetary Fund

The results of the IMF's survey referred to above can be downloaded from the IMF's website at http://cdis.imf.org/. The following screenshot shows what this website looked like on 5 July 2012 when New Zealand was selected as the country to be displayed.



International Monetary Fund

Coordinated Direct Investment Survey (CDIS) Home

CDIS Documents:

CDIS Compilation Guide, May 2010

- عربي
- 中文
- English
- Español
- Français
- Русский

Press Release

Information on data availability

Information on metadata availability

Data Template

Metadata Questionnaire

BOP Documents:

Balance of Payments and International Investment Position Manual (BPM6)

Balance of Payments and International Investment Position Statistics

Coordinated Potrfolio Investment Survey (CPIS)

OECD Benchmark Definition of Foreign Direct Investment

Coordinated Direct Investment Survey

Results from the 2009 and 2010 CDIS (data and metadata) can be accessed by clicking on the links below. These tables reflect data reported by 97 CDIS participating economies. Preliminary results of the CDIS for end-2011 will be released in December 2012

The results include data and metadata reported by individual economies that can be reviewed or downloaded in customized tables generated by users with the Query Builder or a number of predefined tables.

The predefined tables presented below are grouped into three sections: Individual Economy Data and Metadata Tables, Individual Economy Mirror Data Tables, and Cross-Economy Data and Metadata Tables, each of which includes data or metadata (when available) on inward and outward direct investment positions. See "Additional Information" at the bottom of this page for important explanations of the data that are presented in these tables.

Economy : New Zealand End of : 2010

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

Inward Direct Investment			Outward Direct Investment		
Total Inward	69,021	100%	Total Outward	16,862	100%
Australia	43,132	62%	Hong Kong SAR of China	447	3%
United States	9,818	14%	Uruguay	216	1%
Virgin Islands, British	1,924	3%	Taiwan Province of China	89	1%
Hong Kong SAR of China	764	1%	China, P.R.: Mainland	75	0%
Germany	752	1%	Canada	63	0%

"0" reflects amounts that are less than +/-$500,000, or amounts reported as "0".

Individual Economy Data and Metadata Tables

Select one of the links below to open data or metadata tables for **New Zealand**. Inward Direct Investment indicates the investment from other economies in **New Zealand** and Outward Investment indicates **New Zealand** investment in other economies.

» New Zealand Table 1: Direct Investment Positions (Inward and Outward)

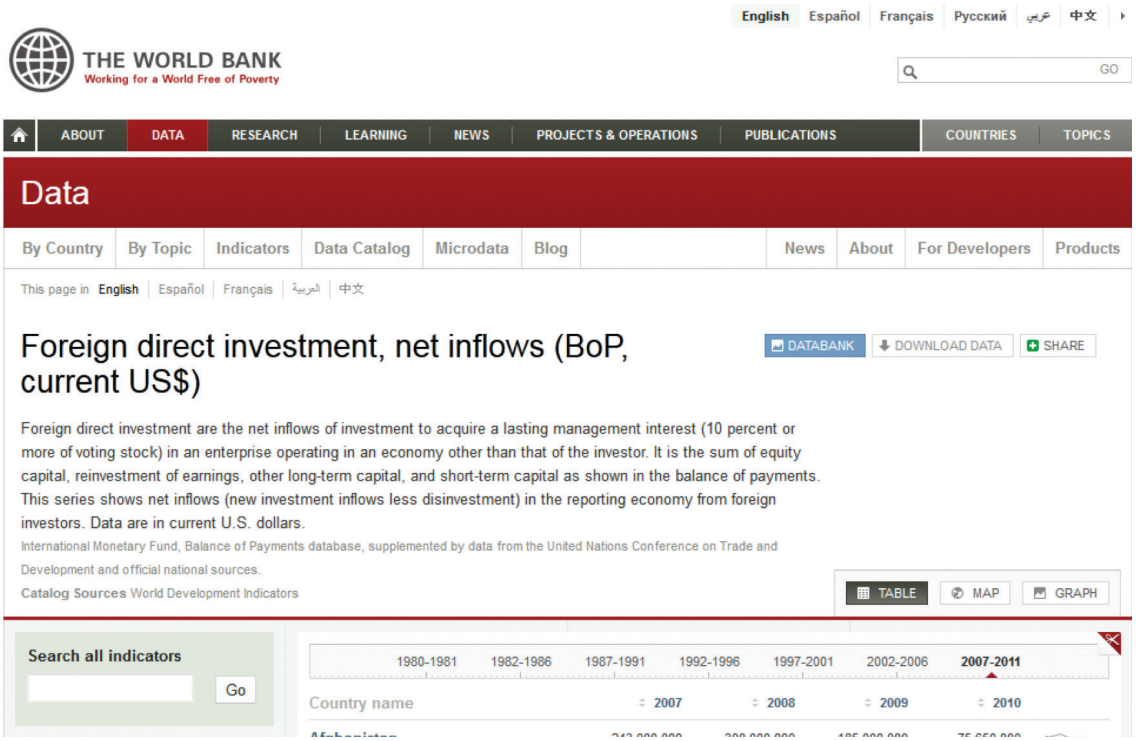
» New Zealand Table 2: Direct Investment Positions (Inward and Outward, and Equity and Debt Instruments) by Year

» Metadata for New Zealand and other CDIS participating economies.

Tables 3 show mirror data for all economies, regardless of their participation in the CDIS.

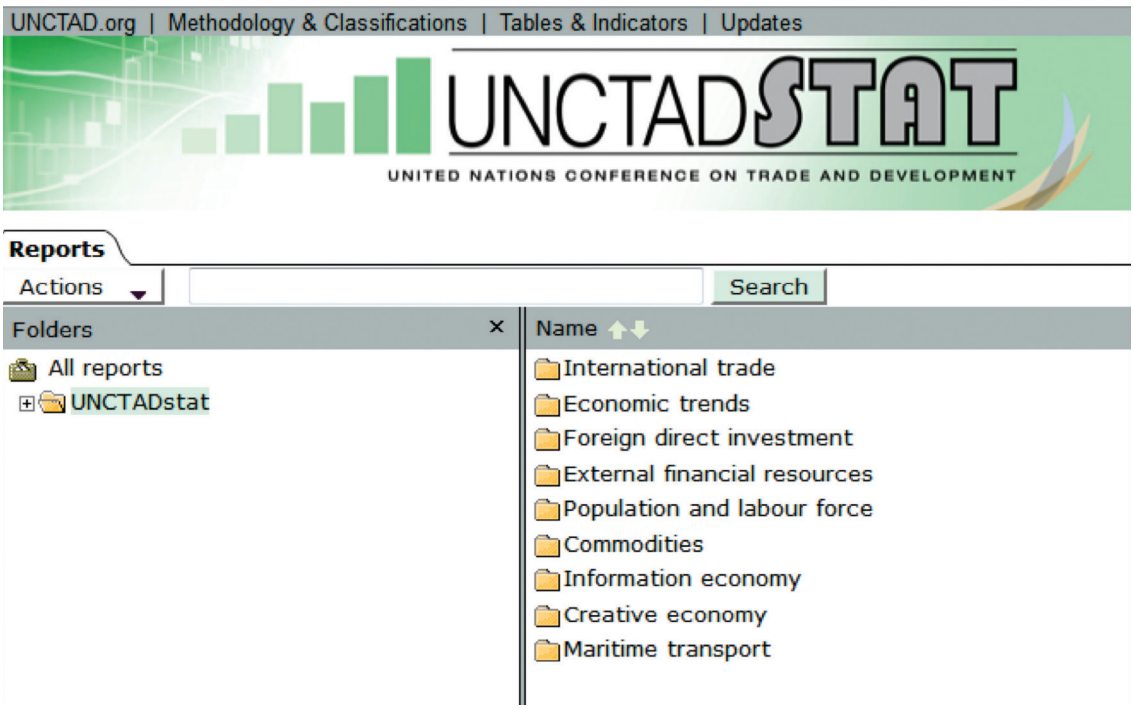
A.3.4 World Bank

The World Bank's statistics on FDI are in its World Development Indicators database: http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD.
The following screenshot of this website was taken on 5 July 2012.



A.3.5 United Nations General Agreement on Tariffs and Trade

The UNCTAD's time series for inward and outward direct investment can be downloaded from the FDI Folder: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.
The following screenshot was taken on 5 July 2012.



Appendix 2: Basic BoP Identities

This appendix puts the basic BoP/national income account identities into algebraic form in a simplified manner, using the usual Keynesian notation. The simplifications involve ignoring valuation changes, the statistical discrepancy and the current account and capital account transfer payments. The identities in Section 2 include the omitted components.

A. Motion equation for the dollar change in the NIIP

This is the essence of Identity 1A.

$NIIP_t - NIIP_{t-1}$ ≡ Net capital outflow (+) in the BoP
≡ Current account surplus (+) in the BoP
≡ S - I
≡ X-M + net investment income received from overseas (+)
≡ X-M + $r.NIIP_{t-1}$

where:

NIIP	≡	net international investment position (which becomes increasingly less negative when the current account balance is in surplus and more negative if it is in deficit).
r	≡	net investment income received (+) from overseas/$NIIP_{t-1}$
S-I	≡	(national saving + capital consumption) - (gross fixed capital formation + stock change)
X-M	≡	exports of goods and services - imports of goods and services

Interpretation:

New Zealand's $r.NIIP_{t-1}$ is markedly negative because $NIIP_{t-1}$ is highly negative – and will tend to become increasingly negative unless the country runs sufficiently large offsetting trade account surpluses (X > M). This would require a very internationally competitive traded goods sector. Yet public sector wage leadership and big increases in government spending on non-traded goods can reduce the competitiveness of export- and import-competing firms. Expressed equivalently, the legacy of high net debt servicing costs will tend to perpetuate deficits in the current account of the BoP (i.e. keep I > S) unless commensurately large trade surpluses can be sustained. Such trade surpluses might be achieved by reducing either or both of private or public sector net capital spending relative to saving. This simplified version of Identity 1A excludes valuation changes and current and capital account transfer payments.

B. Motion equation for NIIP as a percentage of GDP

This is the essence of Identity 1B.

Divide all terms on both sides of the last version of the identity in block A by GDP_t to get:

$$NIIP_t/GDP_t - NIIP_{t-1}/GDPt \equiv (X-M)/GDP_t + r.NIIP_{t-1}/GDP_t$$

Taking the second term on the LHS to the RHS gives:

$$NIIPt/GDP_t \equiv (X-M)/GDP_t + (NIIP_{t-1}/GDP_t).(1+r).(GDP_{t-1}/GDP_{t-1})$$
$$\equiv (X-M)/GDP_t + (NIIP_{t-1}/ GDP_{t-1}).(1+r).(GDP_{t-1}/GDP_t)$$

Subtracting $NIIP_{t-1}/GDP_{t-1}$ from both sides and defining g to be the growth rate in GDP gives:

$$NIIP_t/GDP_t - NIIP_{t-1}/GDP_{t-1} \equiv (X-M)/GDP_t + NIIP_{t-1}/GDP_{t-1}.((1+r)/(1+g)-1)$$
$$\equiv (X-M)/GDP_t + NIIP_{t-1}/GDP_{t-1}.(r-g)/(1+g)$$

Interpretation:

Since New Zealand's $NIIP_{t-1}/GDP_{t-1}$ is highly negative, the NIIP/GDP ratio will become increasingly negative the greater the degree to which $r > g$ and $M > X$. Policies that do not prioritise job and wealth creation, and thereby keep g low, and/or which squeeze the traded goods sector relative to GDP, will tend to make the NIIP increasingly negative as a ratio of GDP.

C. The national income account interpretation of the current account balance in the BoP

The basic national income account identities are:

GDP ≡ GDE + X - M
GDE ≡ C + I
GNI ≡ GDP + net investment income received from overseas (+), and
NDI ≡ GNI - capital consumption ≡ C + NS

Where:
GDP is gross domestic production of goods and services
GDE is gross domestic spending on goods and services
C is consumption of goods and services (government and private)
I is gross fixed capital formation plus the change in stocks
GNI is gross national income
GNDI is national disposable income
NS is national saving

It follows that:

X - M ≡ GDP - GDE
≡ (GNI - net investment income received from overseas (+)) - (C + I)
≡ (NDI + capital consumption - net investment income received from overseas (+)) - (C + I)
≡ (C + NS + capital consumption - net investment income received from overseas (+)) - (C + I)
≡ (S - I) - net investment income received from overseas (+)

Where:
S is gross savings (i.e. NS + capital consumption)

Taking the last term on the RHS to the LHS gives the familiar dual identity for the current account balance in the BoP:

X - M + net investment income received from overseas (+) ≡ (S - I)

Interpretation:

The term on the LHS of the last expression above is the basis of Identity 2 (but it is a simplified version in that the balance on current transfers has been omitted). The term in the RHS is the basis of Identity 4. (It is also a simplified version because it omits the capital account balance and the statistical discrepancy.) Note that the dual identity provides dual interpretations of a current account deficit. For example, it could be attributed to low savings relative to investment, or to poor international competitiveness (M > X), and/or a large negative investment income term due to high external indebtedness. A satisfactory explanation of the cause of a large negative NIIP must make sense from both perspectives.

Appendix 3: List of Statistical Tables

Tables of annual flow (AF) statistics, years ended 31 March

Code	Title
Table AF1	Balances on current account in the BoP, 1951-96 – $ million
Table AF2	Balances on current account in the BoP, 1951-96 – % of GDP
Table AF3	Balances on current account in the BoP, 1988-2012 – $ million
Table AF4	Balances on current account in the BoP, 1988-2012 – % of GDP
Table AF5	Income flows in the current account of the BoP, 1996-2012 – $ million
Table AF6	Income flows in current account by sector and by country, 2010-12
Table AF7	Relationship between NII, GNI and GDP, 1947-2012
Table AF8	Financing of current account deficits in the BoP, 1993-2012 – $ million
Table AF9	Financing of current account deficits in the BoP, 1993-2012 – % of GDP
Table AF10	More detailed flows of capital account items in the BoP, 2006-12 – $ million
Table AF11	Flow of total investment by country, 2001-12 – $ million
Table AF12	Flow of direct investment by country, 2001-12 – $ million
Table AF13	Flow of portfolio investment by country, 2001-12 – $ million
Table AF14	Flow of other investment by country, 2001-12 – $ million
Table AF15	Alternative estimates of direct investment flows, 1970-2012 – NZD$ million and USD$ million
Table AF16	Alternative estimates of direct investment flows, 1970-2012 – % of GDP
Table AF17	National savings and gross fixed capital formation, 1972-2012 – $ million
Table AF18	National savings and gross fixed capital formation, 1972-2012 – % of GDP

Tables of annual stock (AS) statistics, at 31 March

Tables using the BoP classification method

Code	Title
Table AS1	New Zealand's 31 March NIIP, 1992-2012 – $ million
Table AS2	Comparative estimates of New Zealand's stock of net external liabilities, 1970-2012 – % of GDP
Table AS3	Stock of New Zealand's direct investment, 1992-2012 – $ million and % of GDP

Tables using the BS classification method

Table AS28	International financial assets and liabilities by currency, 2001-12 – $ million
Table AS29	International financial assets and liabilities by sector, 2001-12 – $ million
Table AS30	International financial assets and liabilities by sector, 2001-12 – % of GDP
Table AS31	International financial assets and liabilities by residual maturities, 2001-12 – $ million
Table AS32	International assets by industry, 31 March 2001-12 – $ million
Table AS33	International liabilities by industry, 31 March 2001–12 – $ million
Table AS34	International net assets by industry, 31 March 2001–12 – $ million
Table AS35	Hedging statistics, 1998-2011 – $ million

Annual stock table
Comparison between BoP and BS classifications

Code	Title
Table AS36	Comparison of BS and BoP measures of international assets and liabilities

Annual stock tables – Other categories

Table AS37	New Zealand's 31 March international assets and liabilities by instrument (discontinued series), 1989-2000
Table AS38	New Zealand's 31 March international assets and liabilities by category (discontinued series), 1989-2000
Table AS39	Philip R. Lane and Gian Maria Milesi-Ferretti (unofficial stock estimates), 1970-2004 – USD$ million
Table AS41	Philip R. Lane and Gian Maria Milesi-Ferretti (unofficial estimates) – converted to NZD
Table AS42	Top 20 destinations for NZ direct investment overseas, end of 2010 – IMF
Table AS43	Top 20 countries: Direct investment in New Zealand, end of 2010 – IMF
Table AS44	UNCTAD estimates of direct investment stocks (1980-2011) and flows (1970-2011)

Tables reconciling annual changes in stocks (S) with flows (F) through BoP

Table ASF1	Derivation of 31 March stock net international investment position, 2000-12
Table ASF2	Net return-based decomposition of annual changes in the net IIP/GDP, 2000-12

Tables of quarterly stock (QS) statistics, 31 March

Table QS1	New Zealand's NIIP, quarterly from June 2000 – $ million and % of GDP
Table QS2	Total investment abroad by instrument, quarterly from June 2000 – $ million
Table QS3	Total investment abroad by instrument, quarterly from June 2000 – % of GDP
Table QS4	Components of 'other' investment abroad, quarterly from June 2000 – $ million
Table QS5	Components of 'other' investment abroad, quarterly from June 2000 – % of GDP
Table QS6	Total investment in New Zealand by instrument, quarterly from June 2000 – $ million
Table QS7	Total investment in New Zealand by instrument, quarterly from June 2000 – % of GDP
Table QS8	Components of 'other' investment in New Zealand, quarterly from June 2000 – $million
Table QS9	Components of 'other' investment abroad, quarterly from June 2000 – % of GDP
Table QS10	Derivation of end of quarter stock of NZ investment abroad
Table QS11	Derivation of end of quarter stock of foreign investment in New Zealand
Table QS12	Derivation of end of quarter stock of net NZ investment
Table QS13	New Zealand's international assets by ownership sector from June quarter 2000 – $million
Table QS14	New Zealand's international liabilities by sector from June quarter 2000 – $ million
Table QS15	New Zealand's international lending assets by instrument type
Table QS16	New Zealand's international borrowings by instrument type
Table QS17	New Zealand's international lending assets by currency
Table QS18	New Zealand's international borrowings by currency
Table QS19	New Zealand's international lending by maturity
Table QS20	New Zealand's international financial liabilities by maturity

Appendix 4: Summary Tables

This appendix contains five summary tables taken from the compendium of tables listed in Appendix 3. Its purpose is to enable this report to be read independently of the compendium of tables.

The five tables are:

Table AS2: A compilation of NIIP estimates since 1970 from diverse sources.

Table AS36: A comparison of SNZ's estimates of the major IIP aggregates from 2001 to 2012, calculated using both the BS and BoP methodologies described in subsection 2.1.2.

Table AS24: An overview of New Zealand's international equity and debt positions, 2001-12 (BS basis).

Table AS25: The variables in Table AS24 expressed as a percentage of GDP
A summary table of the BS presentation, showing the international debt positions from 2001 to 2012, by maturity, instrument, sector and currency, as $ million and percentages of GDP.

Table AS4: A compilation of estimates of the stock of inwards and outwards direct investment, 1970-12 (BoP basis).

Table AS2: Comparative estimates of New Zealand's stock of net external liabilities, 1970-2012 – % of GDP

	(1)	(2)	(3)	(4)	(5) = Dif Col (1)	(6) = Dif Col (3)	(7) = (5)-(4)	(8)=(6)-(4)
Source	**SNZ**		**Lane & Milesi-Ferretti**	**SNZ**		**Lane & Milesi-Ferretti**	**SNZ**	**Lane & Milesi-Ferretti**
Variable Name	New Zealand Net International Investment Position	Net International Assets	Net External Position	BoP Current Account Deficit	Change in NII Position	Change in Net External Position	Combined Effect on the Change in Net Position of other factors	
Code	IIPA-S5AAB							
Downloaded	19 Sep 2012	1 June 2012						
Valuation Date	31 March	31 March		Mch Yr				
1970			-9.3%	0.2%				
1971			-7.8%	-4.0%		1.5%		5.5%
1972			-4.4%	0.0%		3.4%		3.4%
1973			-4.5%	1.9%		-0.1%		-2.0%
1974			-12.7%	-0.9%		-8.2%		-7.3%
1975			-20.1%	-13.6%		-7.5%		6.1%
1976			-24.6%	-9.0%		-4.5%		4.4%
1977			-31.0%	-5.7%		-6.3%		-0.6%
1978			-30.6%	-4.5%		0.4%		4.9%
1979			-29.8%	-2.7%		0.8%		3.5%
1980			-30.3%	-4.1%		-0.6%		3.5%
1981			-37.2%	-3.5%		-6.8%		-3.3%
1982			-49.6%	-5.7%		-12.4%		-6.7%
1983			-50.8%	-5.8%		-1.2%		4.6%
1984			-52.1%	-5.3%		-1.3%		4.0%
1985			-70.9%	-8.1%		-18.7%		-10.6%
1986			-74.5%	-8.5%		-3.6%		4.8%
1987			-68.0%	-5.0%		6.5%		11.4%
1988			-55.8%	-5.5%		12.3%		17.7%
1989		-63.9	-63.0%	-4.5%		-7.2%		-2.8%
1990		-62.6	-62.4%	-4.5%		0.6%		5.1%
1991		-63.7	-70.3%	-4.2%		-7.9%		-3.7%
1992	-70.3	-70.3	-89.2%	-6.8%		-18.9%		-12.1%
1993	-83.4	-83.4	-102.5%	-6.6%	-13.1%	-13.3%	-6.5%	-6.8%
1994	-81.4	-81.4	-99.6%	-7.3%	2.0%	2.9%	9.3%	10.2%
1995	-80.2	-80.2	-103.3%	-6.9%	1.2%	-3.6%	8.1%	3.2%
1996	-74.9	-74.9	-113.2%	-6.3%	5.2%	-10.0%	11.6%	-3.6%
1997	-80.4	-80.4	-105.1%	-7.5%	-5.5%	8.1%	2.0%	15.7%
1998	-86.7	-86.7	-102.3%	-6.0%	-6.3%	2.8%	-0.2%	8.9%
1999	-83.1	-83.1	-96.5%	-4.6%	3.6%	5.8%	8.3%	10.4%
2000	-78.3	-78.3	-74.8%	-6.0%	4.8%	21.6%	10.8%	27.6%
2001	-74.5		-76.7%	-5.9%	3.8%	-1.9%	9.7%	4.0%
2002	-66.8		-91.3%	-5.3%	7.7%	-14.6%	13.0%	-9.3%
2003	-67.7		-85.9%	-5.1%	-0.9%	5.4%	4.2%	10.5%
2004	-70.8		-91.9%	-4.9%	-3.1%	-6.0%	1.8%	-1.1%
2005	-72.7			-5.8%	-1.9%		3.8%	
2006	-73.3			-6.6%	-0.6%		6.0%	
2007	-76.0			-7.0%	-2.7%		4.3%	
2008	-74.7			-7.5%	1.3%		8.8%	
2009	-85.2			-7.2%	-10.5%		-3.3%	
2010	-80.6			-3.7%	4.6%		8.3%	
2011	-67.6			-5.1%	13.0%		18.1%	
2012	-71.9			-5.2%	-4.4%		0.8%	

Notes on Table AS2 (previous page):

The larger the current account deficit in a year the greater the tendency for the net stock position to become more negative. Other factors are clearly having a significant effect, both in any one year and cumulatively.

They include:

- Any net flows through the capital account in the balance of payments (as distinct from the financial account)
- Changes in the unit values of assets and liabilities during the year.
- Measurement errors and omissions as between the current account deficit and the flows that fund that deficit.

Sources:
Col (1) is from table AS1
Col (2) is from table AS37
Col (3) is from table AS40
Col (4) is from tables AF2 and AF4, with a break between 1987 and 1988

Table AS24: International Assets and Liabilities by Security and Sector, March 2001-2012 (Balance Sheet Basis) – $m

	IIPA Series	At 31 March, NZ$ million											
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
New Zealand's international assets													
Equity Assets	S5AA1A	32,295	43,399	38,559	46,236	48,937	58,437	61,441	61,758	53,698	61,681	66,015	60,984
Lending	S5AA3	61,507	65,225	67,483	64,568	69,209	73,394	76,367	91,913	101,992	92,004	117,433	111,282
Banks	S5AA8C	20,711	28,009	28,308	26,669	29,144	25,805	22,444	26,213	39,611	27,059	29,061	26,056
General government	S5AA8B	5,018	4,728	4,848	5,369	6,747	9,018	9,521	10,466	10,154	15,724	21,506	20,700
Monetary authorities	S5AA8A	4,907	5,195	5,671	6,702	4,348	9,855	15,329	19,737	18,256	17,922	21,069	20,499
Other sectors	S5AA8D	30,870	27,292	28,657	25,828	28,970	28,717	29,072	35,497	33,971	31,299	45,797	44,027
Total international assets	S5AA1	**93,802**	**108,623**	**106,043**	**110,804**	**118,146**	**131,831**	**137,808**	**153,671**	**155,690**	**153,685**	**183,448**	**172,266**
New Zealand's international liabilities													
Equity Assets	S5AL1A	47,773	49,134	51,599	58,459	61,016	62,614	66,533	62,335	57,606	62,139	62,127	66,198
Lending	S5AL3	133,553	143,834	144,324	152,871	167,692	186,905	199,536	227,941	255,093	242,236	253,673	251,707
Banks	S5AL8C	62,334	69,286	72,006	82,645	93,586	105,602	115,874	137,300	156,124	145,170	143,370	136,643
General government	S5AL8B	16,944	19,108	17,335	18,094	16,441	17,203	15,147	17,616	19,227	23,749	35,101	43,258
Monetary authorities	S5AL8A	2	961	8	6	3	988	251	540	1,166	648	1,058	1,409
Other sectors	S5AL8D	54,272	54,479	54,975	52,128	57,663	63,113	68,264	72,486	78,576	72,669	74,143	70,396
Total international liabilities	S5AL1	**181,326**	**192,968**	**195,923**	**211,331**	**228,708**	**249,520**	**266,069**	**290,276**	**312,699**	**304,375**	**315,800**	**317,905**
New Zealand's net international asset position													
Net international equity	S5AA2A	-15,478	-5,736	-13,039	-12,223	-12,079	-4,177	-5,092	-577	-3,908	-459	3,887	-5,214
Net international debt	S5AA2B	-72,045	-78,609	-76,841	-88,303	-98,483	-113,511	-123,169	-136,029	-153,101	-150,232	-136,240	-140,425
Banks		-41,623	-41,277	-43,698	-55,976	-64,442	-79,797	-93,430	-111,087	-116,513	-118,111	-114,309	-110,587
General government		-11,926	-14,380	-12,487	-12,725	-9,694	-8,185	-5,626	-7,150	-9,073	-8,025	-13,595	-22,558
Monetary authorities		4,905	4,234	5,663	6,696	4,345	8,867	15,078	19,197	17,090	17,274	20,011	19,090
Other sectors		-23,402	-27,187	-26,318	-26,300	-28,693	-34,396	-39,192	-36,989	-44,605	-41,370	-28,346	-26,369
Net international asset position	S5AA2	**-87,523**	**-84,345**	**-89,880**	**-100,526**	**-110,562**	**-117,688**	**-128,261**	**-136,606**	**-157,009**	**-150,691**	**-132,353**	**-145,639**

The lending and borrowing stastistics in this table are on a balance sheet basis.

Source: Stasticis New Zealand, 27 September 2012.

Table AS25: International Assets and Liabilities by Security and Sector, March 2001-2012 (Balance Sheet Basis) – % of GDP

	IIPA Series	At 31 March, Percentage of GDP											
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
New Zealand's international assets													
Equity Assets	S5AA1A	27.5%	34.3%	29.0%	32.6%	32.2%	36.4%	36.4%	33.8%	29.1%	33.0%	33.7%	30.1%
Lending	S5AA3	52.3%	51.6%	50.8%	45.5%	45.5%	45.7%	45.2%	50.2%	55.3%	49.2%	59.9%	55.0%
Banks	S5AA8C	17.6%	22.2%	21.3%	18.8%	19.2%	16.1%	13.3%	14.3%	21.5%	14.5%	14.8%	12.9%
General government	S5AA8B	4.3%	3.7%	3.6%	3.8%	4.4%	5.6%	5.6%	5.7%	5.5%	8.4%	11.0%	10.2%
Monetary authorities	S5AA8A	4.2%	4.1%	4.3%	4.7%	2.9%	6.1%	9.1%	10.8%	9.9%	9.6%	10.8%	10.1%
Other sectors	S5AA8D	26.3%	21.6%	21.6%	18.2%	19.0%	17.9%	17.2%	19.4%	18.4%	16.7%	23.4%	21.7%
Total international assets	S5AA1	**79.8%**	**86.0%**	**79.8%**	**78.0%**	**77.7%**	**82.1%**	**81.7%**	**84.0%**	**84.5%**	**82.2%**	**93.6%**	**85.1%**
New Zealand's international liabilities													
Equity Assets	S5AL1A	40.6%	38.9%	38.8%	41.2%	40.1%	39.0%	39.4%	34.1%	31.3%	33.2%	31.7%	32.7%
Lending	S5AL3	113.6%	113.8%	108.6%	107.6%	110.3%	116.4%	118.2%	124.6%	138.4%	129.5%	129.5%	124.3%
Banks	S5AL8C	53.0%	54.8%	54.2%	58.2%	61.5%	65.8%	68.7%	75.0%	84.7%	77.6%	73.2%	67.5%
General government	S5AL8B	14.4%	15.1%	13.0%	12.7%	10.8%	10.7%	9.0%	9.6%	10.4%	12.7%	17.9%	21.4%
Monetary authorities	S5AL8A	0.0%	0.8%	0.0%	0.0%	0.0%	0.6%	0.1%	0.3%	0.6%	0.3%	0.5%	0.7%
Other sectors	S5AL8D	46.2%	43.1%	41.4%	36.7%	37.9%	39.3%	40.4%	39.6%	42.6%	38.8%	37.8%	34.8%
Total international liabilities	S5AL1	**154.3%**	**152.7%**	**147.5%**	**148.8%**	**150.4%**	**155.4%**	**157.7%**	**158.7%**	**169.7%**	**162.7%**	**161.2%**	**157%**
New Zealand's net international asset position													
Net international equity	S5AA2A	-13.2%	-4.5%	-9.8%	-8.6%	-7.9%	-2.6%	-3.0%	-0.3%	-2.1%	-0.2%	2.0%	-2.6%
Net international debt	S5AA2B	-61.3%	-62.2%	-57.8%	-62.2%	-64.8%	-70.7%	-73.0%	-74.3%	-83.1%	-80.3%	-69.5%	-69.3%
Banks		-35.4%	-32.7%	-32.9%	-39.4%	-42.4%	-49.7%	-55.4%	-60.7%	-63.2%	-63.1%	-58.4%	-54.6%
General government		-10.1%	-11.4%	-9.4%	-9.0%	-6.4%	-5.1%	-3.3%	-3.9%	-4.9%	-4.3%	-6.9%	-11.1%
Monetary authorities		4.2%	3.4%	4.3%	4.7%	2.9%	5.5%	8.9%	10.5%	9.3%	9.2%	10.2%	9.4%
Other sectors		-19.9%	-21.5%	-19.8%	-18.5%	-18.9%	-21.4%	-23.2%	-20.2%	-24.2%	-22.1%	-14.5%	-13.0%
Net international asset position	S5AA2	**-74.5%**	**-66.8%**	**-67.7%**	**-70.8%**	**-72.7%**	**-73.3%**	**-76.0%**	**-74.7%**	**-85.2%**	**-80.6%**	**-67.6%**	**-71.9%**

The lending and borrowing stastistics in this table are on a balance sheet basis.

Source: Stasticis New Zealand, 27 September 2012.

Summary BS Table: Stock of International Financial Claims by Maturity, Instrument, Sector and Currency 2001-2012

New Zealand's claims abroad

	At 31 March, NZ$ million											
By Maturity	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
At call	4,033	6,658	7,692	5,344	7,822	14,462	14,806	15,844	16,229	15,186	31,798	29,735
2 days up to and including 90 days	15,272	17,334	16,228	16,900	19,410	22,075	25,820	32,060	21,295	21,916	28,656	23,237
91 days up to and including 6 months	2,612	2,765	4,503	5,014	5,325	2,186	1,165	1,995	5,121	3,911	2,192	3,023
Over 6 months up to and including 9 months	659	..	314	1,011	1,985	1,731	678	741	1,817	792	1,362	1,106
Over 9 months up to and including 1 year	1,251	..	696	648	4,778	468	815	894	1,110	1,959	1,601	1,344
Over 1 year up to and including 2 years	1,551	1,948	2,617	7,123	2,268	5,486	3,173	4,573	5,492	4,878	4,240	4,679
Over 2 years up to and including 5 years	10,367	10,861	17,257	9,636	8,943	5,432	7,126	7,502	5,858	5,251	4,707	4,678
Over 5 years	9,303	12,350	7,115	8,310	8,439	7,917	9,261	9,924	12,292	13,277	13,905	15,510
Unspecified	16,460	11,213	11,061	10,582	10,240	13,637	13,522	18,380	32,778	24,836	28,972	29,971
	61,507	**65,225**	**67,483**	**64,568**	**69,209**	**73,394**	**76,367**	**91,913**	**101,992**	**92,004**	**117,433**	**111,282**
By Instrument												
Loans	20,695	27,032	28,746	29,837	33,321	27,591	25,016	27,322	22,633	17,228	22,134	18,129
Bonds and notes	18,952	20,159	18,534	17,617	17,046	13,523	14,440	17,465	17,799	22,035	22,050	24,158
Deposits	2,427	2,490	3,083	2,577	3,162	7,077	5,298	4,732	7,536	6,823	9,449	7,434
Trade credits	4,358	5,488	5,633	4,414	4,856	5,209	5,910	6,827	7,085	6,809	23,936	21,135
Money market instruments	708	1,057	2,222	..	3,668	9,043	15,633	21,634	16,519	17,525	16,732	14,573
Financial derivatives	12,788	7,235	7,251	6,588	5,796	7,992	7,272	11,063	26,458	15,295	16,685	19,253
Other instruments	1,581	1,764	2,015	..	1,359	2,959	2,797	2,869	3,963	6,289	6,748	6,600
	61,507	**65,225**	**67,483**	**64,568**	**69,209**	**73,394**	**76,367**	**91,913**	**101,922**	**92,004**	**117,433**	**111,282**
By Sector												
Banks	20,711	28,009	28,308	26,669	29,144	25,805	22,444	26,213	39,611	27,059	29,061	26,056
General government	5,018	4,728	4,848	5,369	6,747	9,018	9,521	10,466	10,154	15,724	21,506	20,700
Monetary authorities	4,907	5,195	5,671	6,702	4,348	9,855	15,329	19,737	18,256	17,922	21,069	20,499
Other sectors	30,870	27,292	28,657	25,828	28,970	28,717	29,072	35,497	33,971	31,299	45,797	44,027
	61,506	**65,224**	**67,484**	**64,568**	**69,209**	**73,395**	**76,366**	**91,913**	**101,992**	**92,004**	**117,433**	**111,282**
By Currency												
Australian dollar	5,842	6,577	7,112	5,721	7,704	8,993	9,457	11,098	10,483	10,831	13,443	23,207
European Union euro	3,702	3,564	4,805	5,588	5,768	7,332	5,032	7,479	9,104	7,190	6,625	6,977
United Kingdom pound	1,806	2,104	1,710	1,827	1,449	1,435	1,451	1,334	2,877	2,461	2,971	3,893
Japanese yen	3,884	2,043	1,077	1,088	1,225	1,312	1,466	2,816	2,569	2,090	1,854	1,580
New Zealand dollar	24,030	28,097	31,445	30,047	33,712	24,640	25,458	29,370	37,466	32,155	52,814	52,015
United States dollar	20,274	18,826	17,497	17,484	16,952	27,282	29,918	35,638	34,524	32,639	34,444	29,293
Total	**61,507**	**65,225**	**67,483**	**64,568**	**69,209**	**73,394**	**76,367**	**91,913**	**101,992**	**92,004**	**117,433**	**111,282**

Foreign claims on New Zealand

	At 31 March, NZ$ million											
By Maturity	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
At call	9,187	11,536	11,718	11,430	15,592	22,262	19,898	27,274	26,332	21,530	24,213	27,280
2 days up to and including 90 days	40,579	44,869	41,659	44,146	50,930	48,471	58,430	67,904	61,585	47,411	48,225	48,793
91 days up to and including 6 months	8,836	10,267	7,908	10,735	8,948	15,396	14,805	18,855	15,992	14,482	14,634	14,584
Over 6 months up to and including 9 months	3,744	4,053	2,606	2,712	5,363	5,447	6,700	5,481	5,642	7,692	12,845	6,607
Over 9 months up to and including 1 year	4,340	4,475	4,702	3,645	8,328	3,188	8,153	10,219	3,856	7,607	6,117	2,702
Over 1 year up to and including 2 years	8,599	8,450	11,044	14,516	6,916	9,255	9,718	16,466	15,593	22,953	22,563	21,261
Over 2 years up to and including 5 years	16,950	20,766	21,065	15,756	19,761	23,930	24,625	21,187	42,864	44,605	52,892	46,356
Over 5 years	32,991	32,155	34,414	40,883	45,325	50,027	49,576	50,073	54,307	60,040	55,844	64,294
Unspecified	8,777	7,263	9,209	9,048	6,529	8,829	7,630	10,479	28,924	15,915	16,341	18,829
	133,553	**143,834**	**144,324**	**152,871**	**167,692**	**186,905**	**199,536**	**227,941**	**255,093**	**242,236**	**253,673**	**241,707**
By Instrument												
Loans	51,251	57,444	51,475	54,146	63,575	71,897	83,585	96,177	102,513	98,249	100,015	93,830
Bonds and notes	47,448	47,349	46,643	50,247	57,065	63,375	59,045	61,376	70,042	65,975	77,151	80,062
Deposits	9,716	12,732	13,705	14,191	16,920	19,022	21,672	21,568	23,380	22,467	24,011	22,566
Trade credits	3,804	4,465	5,952	5,491	4,366	4,790	3,950	4,969	5,204	..	4,994	5,187
Money market instruments	11,760	13,908	16,693	19,069	18,520	18,063	22,844	32,775	24,170	32,251	28,243	27,964
Financial derivatives	8,777	7,263	9,209	9,048	6,529	8,829	7,630	10,479	28,924	15,915	16,341	18,829
Other instruments	796	673	647	678	717	930	810	598	861	..	2,918	3,269
	133,553	**143,834**	**144,324**	**152,871**	**167,692**	**186,905**	**199,536**	**227,941**	**255,093**	**242,236**	**253,673**	**251,707**
By Sector												
Banks	62,334	69,286	72,006	82,645	93,586	105,602	115,874	137,300	156,124	145,170	143,370	136,643
General government	16,994	19,108	17,335	18,094	16,441	17,203	15,147	17,616	19,227	23,749	34,101	43,258
Monetary authorities	2	961	8	6	3	988	251	540	1,166	648	1,058	1,409
Other sectors	54,272	54,479	54,975	52,128	57,663	63,113	68,264	72,486	78,576	72,669	74,143	70,396
	133,552	**143,834**	**144,324**	**152,873**	**167,693**	**186,906**	**199,536**	**227,942**	**255,093**	**242,236**	**253,672**	**251,706**
By Currency												
Australian dollar	7,927	9,055	7,148	9,744	11,637	12,179	14,617	17,319	23,238	30,016	30,895	26,757
European Union euro	2,237	2,718	2,977	4,631	12,372	8,161	9,889	14,949	8,193	6,244	7,760	9,043
United Kingdom pound	2,624	3,492	3,250	4,540	5,374	5,976	9,067	12,385	9,366	6,692	6,458	5,522
Japanese yen	9,962	7,419	4,849	2,922	2,466	2,695	2,766	4,140	3,063	2,174	2,550	2,478
New Zealand dollar	56,977	70,037	76,524	78,125	83,843	96,777	107,931	113,734	129,698	120,458	132,377	141,081
United States dollar	50,752	48,148	47,057	49,652	48,580	56,781	50,956	61,086	76,434	71,962	68,331	60,157
Total	**133,553**	**143,834**	**144,324**	**152,871**	**167,692**	**186,905**	**199,536**	**227,941**	**255,093**	**242,236**	**253,673**	**251,707**

Source: Statistics New Zealand, 27 September 2012. See in particular tables AS26, AS28, AS29, AS31.

Summary BS Table continued.

New Zealand's claims abroad

	At 31 March, Percentage of Trailing Year GDP (≡)											
By Maturity	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
At call	3.4%	5.3%	5.8%	3.8%	5.1%	9.0%	8.8%	8.7%	8.8%	8.1%	16.2%	14.7%
2 days up to and including 90 days	13.0%	13.7%	12.2%	11.9%	12.8%	13.7%	15.3%	17.5%	11.6%	11.7%	14.6%	11.5%
91 days up to and including 6 months	2.2%	2.2%	3.4%	3.5%	3.5%	1.4%	0.7%	1.1%	2.8%	2.1%	1.1%	1.5%
Over 6 months up to and including 9 months	0.6%	..	0.2%	0.7%	1.3%	1.1%	0.4%	0.4%	1.0%	0.4%	0.7%	0.5%
Over 9 months up to and including 1 year	1.1%	..	0.5%	0.5%	3.1%	0.3%	0.5%	0.5%	0.6%	1.0%	0.8%	0.7%
Over 1 year up to and including 2 years	1.3%	1.5%	2.0%	5.0%	1.5%	3.4%	1.9%	2.5%	3.0%	2.6%	2.2%	1.3%
Over 2 years up to and including 5 years	8.8%	8.6%	13.0%	6.8%	5.9%	3.4%	4.2%	4.1%	3.2%	2.8%	2.4%	2.3%
Over 5 years	7.9%	9.8%	5.4%	5.9%	5.5%	4.9%	5.5%	5.4%	6.7%	7.1%	7.1%	7.7%
Unspecified	14.0%	8.9%	8.3%	7.4%	6.7%	8.5%	8.0%	10.0%	17.8%	13.3%	14.8%	14.8%
	52.3%	**51.6%**	**50.8%**	**45.5%**	**45.5%**	**45.7%**	**45.2%**	**50.2%**	**55.3%**	**49.2%**	**59.9%**	**55.0%**
By Instrument												
Loans	17.6%	21.4%	21.6%	21.0%	21.9%	17.2%	14.8%	14.9%	12.3%	9.2%	11.3%	9.0%
Bonds and notes	16.1%	16.0%	14.0%	12.4%	11.2%	8.4%	8.6%	9.5%	9.7%	11.8%	11.3%	11.9%
Deposits	2.1%	2.0%	2.3%	1.8%	2.1%	4.4%	3.1%	2.6%	4.1%	3.6%	4.8%	3.7%
Trade credits	3.7%	4.3%	4.2%	3.1%	3.2%	3.2%	3.5%	3.7%	3.8%	3.6%	12.1%	10.4%
Money market instruments	0.6%	0.8%	1.7%	..	2.4%	5.6%	9.3%	11.8%	9.0%	9.4%	8.5%	7.2%
Financial derivatives	10.9%	5.7%	5.5%	4.6%	3.8%	5.0%	4.3%	6.0%	14.4%	8.2%	8.5%	9.5%
Other instruments	1.3%	1.4%	1.5%	..	0.9%	1.8%	1.7%	1.6%	2.2%	3.4%	3.4%	3.3%
	52.3%	**51.6%**	**50.8%**	**45.5%**	**45.5%**	**45.7%**	**45.2%**	**50.2%**	**55.3%**	**49.2%**	**59.9%**	**55.0%**
By Sector												
Banks	17.6%	22.2%	21.3%	18.8%	19.2%	16.1%	13.3%	14.3%	21.5%	14.5%	14.8%	12.9%
General government	4.3%	3.7%	3.6%	3.8%	4.4%	5.6%	5.6%	5.7%	5.5%	8.4%	11.0%	10.2%
Monetary authorities	4.2%	4.1%	4.3%	4.7%	2.9%	6.1%	9.1%	10.8%	9.9%	9.6%	10.8%	10.1%
Other sectors	26.3%	21.6%	21.6%	18.2%	19.0%	17.9%	17.2%	19.4%	18.4%	16.7%	23.4%	21.7%
	52.3%	**51.6%**	**50.8%**	**45.5%**	**45.5%**	**45.7%**	**45.2%**	**50.2%**	**55.3%**	**49.2%**	**59.9%**	**55.0%**
By Currency												
Australian dollar	5.0%	5.2%	5.4%	4.0%	5.1%	5.6%	5.6%	6.1%	5.7%	5.8%	6.9%	6.0%
European Union euro	3.1%	2.8%	3.6%	3.9%	3.8%	4.6%	3.0%	4.1%	4.9%	3.8%	3.4%	3.4%
United Kingdom pound	1.5%	1.7%	1.3%	1.3%	1.0%	0.9%	0.9%	0.7%	1.6%	1.3%	1.5%	1.9%
Japanese yen	3.3%	1.6%	0.8%	0.8%	0.8%	0.8%	0.9%	1.5%	1.4%	1.1%	0.9%	0.8%
New Zealand dollar	20.4%	22.2%	23.7%	21.2%	22.2%	15.3%	15.1%	16.1%	20.3%	17.2%	27.0%	25.7%
United States dollar	17.2%	14.9%	13.2%	12.3%	11.1%	17.0%	17.7%	19.5%	18.7%	17.4%	17.6%	14.5%
Total	**52.3%**	**51.6%**	**50.8%**	**45.5%**	**45.5%**	**45.7%**	**45.2%**	**50.2%**	**55.3%**	**49.2%**	**59.9%**	**55.0%**

Foreign claims on New Zealand

	At 31 March, Percentage of Trailing Year GDP (E)											
By Maturity	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
At call	7.8%	9.1%	8.8%	8.0%	10.3%	13.9%	11.8%	14.9%	14.3%	11.5%	12.4%	13.5%
2 days up to and including 90 days	34.5%	35.5%	31.4%	31.1%	33.5%	30.2%	34.6%	37.1%	33.4%	25.3%	24.6%	24.1%
91 days up to and including 6 months	7.1%	8.1%	6.0%	7.6%	5.9%	9.6%	8.8%	10.3%	8.7%	7.7%	7.5%	7.2%
Over 6 months up to and including 9 months	3.2%	3.2%	2.0%	1.9%	3.5%	3.4%	4.0%	3.0%	3.1%	4.1%	6.6%	3.3%
Over 9 months up to and including 1 year	3.7%	3.5%	3.5%	2.6%	5.5%	2.0%	4.8%	5.6%	2.1%	4.1%	3.1%	1.3%
Over 1 year up to and including 2 years	7.3%	6.7%	8.3%	10.2%	4.5%	5.8%	5.8%	9.0%	8.5%	12.3%	11.5%	10.5%
Over 2 years up to and including 5 years	14.4%	16.4%	15.9%	11.1%	13.0%	14.9%	14.6%	11.6%	23.3%	23.8%	27.0%	22.9%
Over 5 years	28.1%	25.4%	25.9%	28.8%	29.8%	31.2%	29.4%	27.4%	29.5%	32.1%	28.5%	32.2%
Unspecified	7.5%	5.7%	6.9%	6.4%	4.3%	5.5%	4.5%	5.7%	15.7%	8.5%	8.3%	9.3%
	113.6%	**113.8%**	**108.6%**	**107.6%**	**110.3%**	**116.4%**	**118.2%**	**124.6%**	**138.4%**	**129.5%**	**129.5%**	**124.3%**
By Instrument												
Loans	43.6%	45.5%	38.7%	38.1%	41.8%	44.8%	49.5%	52.6%	55.6%	52.5%	51.1%	46.3%
Bonds and notes	40.4%	37.5%	35.1%	35.4%	37.5%	39.5%	35.0%	33.5%	38.0%	35.3%	39.4%	39.5%
Deposits	8.3%	10.1%	10.3%	10.0%	11.1%	11.8%	12.8%	11.8%	12.7%	12.0%	12.3%	11.1%
Trade credits	3.2%	3.5%	4.5%	3.9%	2.9%	3.0%	2.3%	2.7%	2.8%	..	2.5%	2.6%
Money market instruments	10.0%	11.0%	12.6%	13.4%	12.2%	11.2%	13.5%	17.9%	13.1%	17.2%	14.4%	13.8%
Financial derivatives	7.5%	5.7%	6.9%	6.4%	4.3%	5.5%	4.5%	5.7%	15.7%	8.5%	8.3%	9.3%
Other instruments	0.7%	0.5%	0.5%	0.5%	0.5%	0.6%	0.5%	0.3%	0.5%	..	1.5%	1.6%
	113.6%	**113.8%**	**108.6%**	**107.6%**	**110.3%**	**116.4%**	**118.2%**	**124.6%**	**138.4%**	**129.5%**	**129.5%**	**124.3%**
By Sector												
Banks	53.0%	54.8%	54.2%	58.2%	61.5%	65.8%	68.7%	75.0%	84.7%	77.6%	73.2%	67.5%
General government	14.4%	15.1%	13.0%	12.7%	10.8%	10.7%	9.0%	9.6%	10.4%	12.7%	17.9%	21.4%
Monetary authorities	0.0%	0.8%	0.0%	0.0%	0.0%	0.6%	0.1%	0.3%	0.6%	0.3%	0.5%	0.7%
Other sectors	46.2%	43.1%	41.4%	36.7%	37.9%	39.3%	40.4%	39.6%	42.6%	38.8%	37.8%	34.8%
	113.6%	**113.8%**	**108.6%**	**107.6%**	**110.3%**	**116.4%**	**118.2%**	**124.6%**	**138.4%**	**129.5%**	**129.5%**	**124.3%**
By Currency												
Australian dollar	6.7%	7.2%	5.4%	6.9%	7.7%	7.6%	8.7%	9.5%	12.6%	16.0%	15.8%	13.2%
European Union euro	1.9%	2.2%	2.2%	3.3%	8.1%	5.1%	5.9%	8.2%	4.4%	3.3%	4.0%	4.5%
United Kingdom pound	2.2%	2.8%	2.4%	3.2%	3.5%	3.7%	5.4%	6.8%	5.1%	3.6%	3.3%	2.7%
Japanese yen	8.5%	5.9%	3.7%	2.1%	1.6%	1.7%	1.6%	2.3%	1.7%	1.2%	1.3%	1.2%
New Zealand dollar	48.5%	55.4%	57.6%	55.0%	55.1%	60.3%	64.0%	62.2%	70.4%	64.4%	67.6%	69.7%
United States dollar	43.2%	38.1%	35.4%	35.0%	31.9%	35.4%	30.2%	33.4%	41.5%	38.5%	34.9%	29.7%
Total	**113.6%**	**113.8%**	**108.6%**	**107.6%**	**110.3%**	**116.4%**	**118.2%**	**124.6%**	**138.4%**	**129.5%**	**129.5%**	**124.3%**

Source: Statistics New Zealand, 27 September 2012. See in particular tables AS27, AS28, AS30, AS31.

Table AS4: Comparison of Estimates of Stock of Inwards and Outwards Direct Investment 1970-2012 (BoP Basis)

	US$m							
	Lane & Milesi-Ferretti		UNCTAD		OECD (Year End)		SNZ (31 March)	
	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward
1970	33	373						
1971	46	489						
1972	50	590						
1973	75	845						
1974	92	945						
1975	105	899						
1976	139	1,081						
1977	182	1,328						
1978	241	1,614						
1979	291	1,734						
1980	380	1,860		2,363				
1981	432	1,868		2,353				
1982	463	2,038	56	2,308				
1983	498	1,929	459	2,250				
1984	807	2,308	490	1,740				
1985	1,088	3,469	662	2,043				
1986	1,805	5,037	749	2,365				
1987	2,408	7,451	1,309	3,159				
1988	2,709	8,225	1,924	3,168				
1989	4,234	9,745	2,059	5,180				
1990	5,783	13,620	4,422	7,938	3,320	8,065		
1991	6,996	16,488	5,891	10,761	5,492	9,929		
1992	5,275	19,443	6,282	12,545	5,899	11,780	11,470	22,904
1993	5,546	24,701	4,431	15,539	4,431	15,539	7,929	27,808
1994	7,812	28,828	5,896	22,062	5,896	22,062	9,177	34,338
1995	9,691	38,104	7,676	25,728	7,676	25,728	11,749	39,381
1996	8,170	45,791	9,293	34,744	9,293	34,744	13,163	49,212
1997	6,778	40,310	5,647	31,507	5,646	31,365	9,706	53,920
1998	7,655	31,029	5,491	33,191	5,791	33,170	10,421	62,953
1999	9,183	35,589	7,006	32,875	7,006	32,861	13,458	63,121
2000	8,491	24,815	8,491	24,957	6,065	28,070	13,778	63,766
2001	7,125	21,729	7,175	20,778	7,175	20,781	21,194	57,173
2002	9,268	31,195	9,425	29,799	9,425	29,800	17,402	55,474
2003	11,346	46,311	11,883	43,659	11,966	44,047	17,747	57,516
2004	12,895	54,703	13,957	51,438	13,975	51,629	18,389	67,842
2005			11,807	51,614	11,584	51,486	20,380	72,113
2006			13,415	59,994	13,181	58,992	19,638	76,595
2007			16,094	68,544	15,836	67,775	20,884	87,160
2008			14,121	52,267	13,397	51,979	23,052	89,678
2009			14,076	65,849	14,737	64,801	25,205	92,611
2010			16,768	70,508	16,101	67,706	20,514	93,831
2011			19,007	73,917	19,007	73,917	22,902	93,893
2012							24,197	97,185

Table continued over.

Table AS4 continued.

	Percentages of GDP							
	Lane & Milesi-Ferretti		UNCTAD		OECD (Year End)		SNZ (31 March)	
	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward
1970	0.5%	5.8%						
1971	0.6%	6.4%						
1972	0.5%	6.3%						
1973	0.6%	6.9%						
1974	0.7%	6.9%						
1975	0.8%	6.5%						
1976	1.0%	7.9%						
1977	1.3%	9.4%						
1978	1.4%	9.5%						
1979	1.5%	8.8%						
1980	1.7%	8.3%		10.2%				
1981	1.9%	8.0%		9.4%				
1982	2.0%	8.8%	0.2%	9.5%				
1983	2.2%	8.6%	1.9%	9.3%				
1984	3.6%	10.4%	2.1%	7.5%				
1985	4.9%	15.5%	2.8%	8.7%				
1986	6.6%	18.5%	2.5%	8.0%				
1987	6.7%	20.8%	3.5%	8.4%				
1988	6.2%	18.7%	4.3%	7.0%				
1989	10.0%	22.9%	4.7%	11.9%				
1990	13.2%	31.1%	10.0%	17.9%	7.5	18.2		
1991	16.7%	39.3%	13.7%	25.1%	12.8	23.2		
1992	13.2%	48.8%	15.3%	30.5%	14.3	28.6	**15.4**	**30.8**
1993	12.8%	57.2%	9.9%	34.7%	9.9	34.7	**10.3**	**36.3**
1994	15.4%	56.7%	11.2%	41.9%	11.2	41.9	**11.1**	**41.5**
1995	16.2%	63.6%	12.4%	41.5%	12.4	41.5	**13.3**	**44.4**
1996	12.3%	68.9%	13.6%	50.9%	13.6	50.9	**13.9**	**52.0**
1997	10.2%	60.2%	8.3%	46.3%	8.3	46.1	**9.8**	**54.3**
1998	14.1%	57.2%	9.8%	59.1%	9.8	59.1	**10.1**	**61.1**
1999	16.4%	63.6%	11.9%	55.7%	11.9	55.9	**12.8**	**60.2**
2000	16.5%	48.3%	15.9%	46.7%	11.4	52.6	**12.4**	**57.3**
2001	14.2%	42.9%	13.5%	39.1%	13.5	39.1	**18.0**	**48.6**
2002	15.8%	53.2%	15.3%	48.5%	15.3	48.5	**13.8**	**43.9**
2003	14.7%	59.9%	14.4%	52.9%	14.5	53.4	**13.4**	**43.3**
2004	13.3%	56.4%	13.8%	51.0%	13.9	51.2	**12.9**	**47.8**
2005			10.4%	45.7%	10.2	45.5	**13.4**	**47.4**
2006			12.3%	54.9%	12.1	53.9	**12.2**	**47.7**
2007			12.0%	51.2%	11.8	50.6	**12.4**	**51.6**
2008			10.8%	40.1%	10.3	39.9	**12.6**	**49.0**
2009			12.0%	56.1%	12.6	55.2	**13.7**	**50.3**
2010			11.9%	49.9%	11.3	47.6	**11.0**	**50.2**
2011			11.7%	45.5%			**11.7**	**47.9**
2012							**11.9**	**48.0**

"Inwards" means foreigners' holdings in New Zealand.

UNCTAD: Downloaded from UNCTAD *Stats* on 6 June 2012.
OECD: Downloaded from OECD.Stat.Export on 28 June 2012.
IMF: Data extracted from IMF Data Warehouse on 18 June 2012.
SNZ: Previous table.

Bibliography

Akoorie, Michelle (1995), The impact of foreign direct investment and government policy on the internationalisation process of the New Zealand firm, Hamilton: University of Waikato.

Akoorie, Michelle (1996), 'New Zealand: The economic development of a resource-rich economy', in Dunning, John and Rajneesh Narula (eds), Foreign direct investment and governments: Catalysts for economic restructuring, London and New York: Routledge.

André, Jean-Pierre (2011), 'Economic imbalances: New Zealand's structural challenge', New Zealand Treasury Working Paper 11/03.

Attewell, Jason and Wido van Lijf (2007), Investigation of New Zealand's inward foreign affiliate trade statistics using existing data sources, Official Statistics Research Series Vol. 1, Wellington: Statistics New Zealand.

Bertram, Geoffrey (2009), 'New Zealand's overseas debt, the banks, and the crisis', Foreign Control Watchdog 120, pp. 25–39 (www.converge.org.nz/watchdog/20/04.htm).

Bertram, Geoffrey (2009), 'The New Zealand economy 1900–2000', in Byrnes, Giselle (ed.), New Oxford history of New Zealand, Chapter 22, pp. 537–572, Oxford University Press.

Boston Consulting Group (2001), Building the future: Using foreign direct investment to help fuel New Zealand's economic prosperity, Wellington.

Brash, Don (1995), Foreign Investment in New Zealand: Does it threaten our prosperity or sovereignty? speech to the Wellington Rotary Club, Reserve Bank Bulletin 58:4.

Campaign Against Foreign Control of Aotearoa (CAFCA) (2004), Foreign control – Key facts (http://canterbury.cyberplace.org.nz/community/CAFCA/keyfacts.html).

Capital Market Development Taskforce Report (2009), Capital Markets Matter, Wellington.

Coleman, Andrew and Arthur Grimes (2010), 'Fiscal, distributional and efficiency impacts of land and property taxes', New Zealand Economic Papers 44:2, pp. 179–200.

Chung, Richard (1994), Foreign investment in New Zealand commercial property, Wellington: Ernst & Young.

Cremer, Rolf and **Bala Ramasamy** (1996), Tigers in New Zealand? The role of Asian investment in the economy, Wellington: Institute of Policy Studies.

Deane, Roderick (1970), Foreign investment in New Zealand manufacturing, Wellington: Sweet & Maxwell.

Dillman, Don (1978), Mail and telephone surveys: The total design method, New York: John Wiley & Sons.

Duncan, Ian and James Douglas (1994), Tourism investment in New Zealand: Opportunities and constraints, Wellington: NZ Institute of Economic Research.

Duncan, Ian, John Yeabsley, Michelle Akoorie and Peter Enderwick. (1997), Foreign investment review, commissioned by Ministry of Foreign Affairs and Trade, Foreign Direct Investment Advisory Group, and KPMG Peat Marwick, Wellington: NZ Institute of Economic Research.

Enderwick, Peter (1995), The contribution of foreign direct investment to the New Zealand economy, Auckland: American Chamber of Commerce in New Zealand.

Enderwick, Peter (1998), Foreign direct investment: The New Zealand experience, Palmerston North: Dunmore Press.

Enderwick, Peter (2003), 'Inward FDI and economic performance: The New Zealand paradox', working paper presented to the New Zealand Treasury.

Enderwick, Peter, Michelle Akoorie and Ian Duncan (1995), New Zealand and foreign direct investment: Scoping report, Wellington: NZ Institute of Economic Research.

Frankel, Zyg (1968), 'New Zealand Overseas Borrowing', Research Paper No. 11, Wellington: NZ Institute of Economic Research Inc.

Harper, David (1994), Teaming up: A study of Japanese-affiliated firms in New Zealand, Research Monograph No. 62, Wellington: NZ Institute of Economic Research.

Heatley, David and Bronwyn Howell (2010), Overseas investment: Is New Zealand open for business? Wellington: New Zealand Institute for the Study of Competition and Regulation Inc.

Horn, Murray (2001), 'Economic questions: Choices for New Zealand', in Brown, Bruce (ed.), New Zealand and Australia: Where are we going? paper presented at seminar arranged by the New Zealand Institute of International Affairs, Wellington: Victoria University.

Horton, Murray, A Beginners Guide to Foreign Control (www.converge.org.nz/watchdog/93/12begin.htm).

International Monetary Fund (2012), 'IMF executive board concludes 2012 Article IV consultation with New Zealand', Public Information Notice No. 12/55.

Jaray, Elizabeth (1998), 'Japanese foreign investment in the New Zealand forestry industry', in Enderwick, Peter (ed.), Foreign direct investment: The New Zealand experience, Palmerston North: Dunmore Press, pp. 95-111.

Kawa, Izabela and Mark Fox (1996), 'Further evidence on the consequences of foreign direct investment for the New Zealand economy', Lincoln University, Department of Economics and Marketing Discussion Paper No. 26.

Kelkar, Mallika (2011), 'The ultimate sources of foreign direct investment', paper presented at the New Zealand Association of Economists (NZAE) Conference, Wellington.

Kogut, Bruce (1983), 'Foreign direct investment as a sequential process', in Kindleberger, Charles and David Audretsch (eds), The Multinational Corporation in the 1980s, Cambridge, MA: MIT Press.

Macfie, Rebecca (2010), 'Lie of the Land', NZ Listener.

Malpass, Luke and Bryce Wilkinson (2012), Verboten! Kiwi hostility to foreign investment, Research Note No. 1, Wellington: The New Zealand Initiative.

Martin, F. (2002), 'Bloody (good) foreigners', Unlimited Magazine.

Mayes, David (1996), The role of foreign direct investment in structural change: The lessons from the New Zealand experience, Reserve Bank of New Zealand.

Milesi-Ferretti, Gian Maria and Philip R. Lane (2006), 'The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970–2004', Working Paper 06/69, International Monetary Fund.

NZIER (2008), Asia investment in New Zealand: New Zealand inwards foreign direct investment from Asian Nations, report to the Asia New Zealand Foundation.

NZIER (2009), Outward direct investment by New Zealand land-based firms: Motives, strategies and consequences, report to the New Zealand Ministry of Agriculture and Forestry.

NZIER (2011), Foreign direct investment: A focus on the evidence.

OECD (2003), Checklist for foreign investment incentive policies.

Reserve Bank of New Zealand, The Reserve Bank and New Zealand's Economic History.

Rose, Dennis (2009), 'The influence of foreign assets and liabilities on real interest rates', Working Paper 10/09, Wellington: Institute of Policy Studies.

Rosenburg, Bill (1998), The economic crisis: The problem is not savings but investment.

Rosenburg, Bill (1998), 'Foreign investment in New Zealand: The current position', in Enderwick, Peter (ed.), Foreign direct investment: The New Zealand experience, Palmerston North: Dunmore Press, pp. 23–66.

Rosenberg, Bill (2001), 'Foreign investment and the innovation strategy' (www.converge.org.nz/watchdog/99/01.htm).

Rosenburg, Bill (2008), 'News media ownership in New Zealand'.

Rosenburg, Bill (undated), 'Ownership of farmland far above PM's claim'.

Rosenberg, Wolfgang (1961), 'Capital imports and growth – the case of New Zealand: Foreign investment in New Zealand 1840-1958', The Economic Journal 71, pp. 93-113.

Scott-Kennel, Joanna (1998), 'Foreign investment and privatisation in New Zealand', in Enderwick, Peter (ed.) Foreign direct investment: The New Zealand experience, Palmerston North: Dunmore Press.

Scott-Kennel, Joanna (2001), 'The impact of foreign direct investment on New Zealand industry', unpublished PhD thesis, Hamilton: University of Waikato.

Scott-Kennel, Joanna (2004), 'Foreign direct investment to New Zealand', University of Auckland Business Review 6:2, pp. 41-49.

Scott-Kennel, Joanna (2010), 'United Nations Conference on Trade and Development World investment report 2010: Transnational corporations, agriculture production and development'.

Sinclair, Keith (1976), Walter Nash, Auckland University Press.

Sinn, Stefan (1990), 'Net external asset positions of 145 countries', Kieler Studien No. 224, Institut für Weltwirtschaft an der Universität.

Statistics New Zealand (2011), Improvements to New Zealand's international investment position statistics.

Statistics New Zealand (1999), New international standards for balance of payments statistics.

Statistics New Zealand, Looking past the 20th century: Facets of wealth in New Zealand – Investment and savings in New Zealand.

Steenkamp, Daan (2010), New Zealand's imbalances in a cross-country context, Reserve Bank Bulletin 73, pp. 37-49.

Sutch, William (1972), Takeover New Zealand, Wellington: A.H. & A.W. Reed.

Treasury, The (2008), Official documents resulting from the official review of the overseas investment screening regime in 2003–04 (www.treasury.govt.nz/publications/informationreleases/overseasinvestment/review).

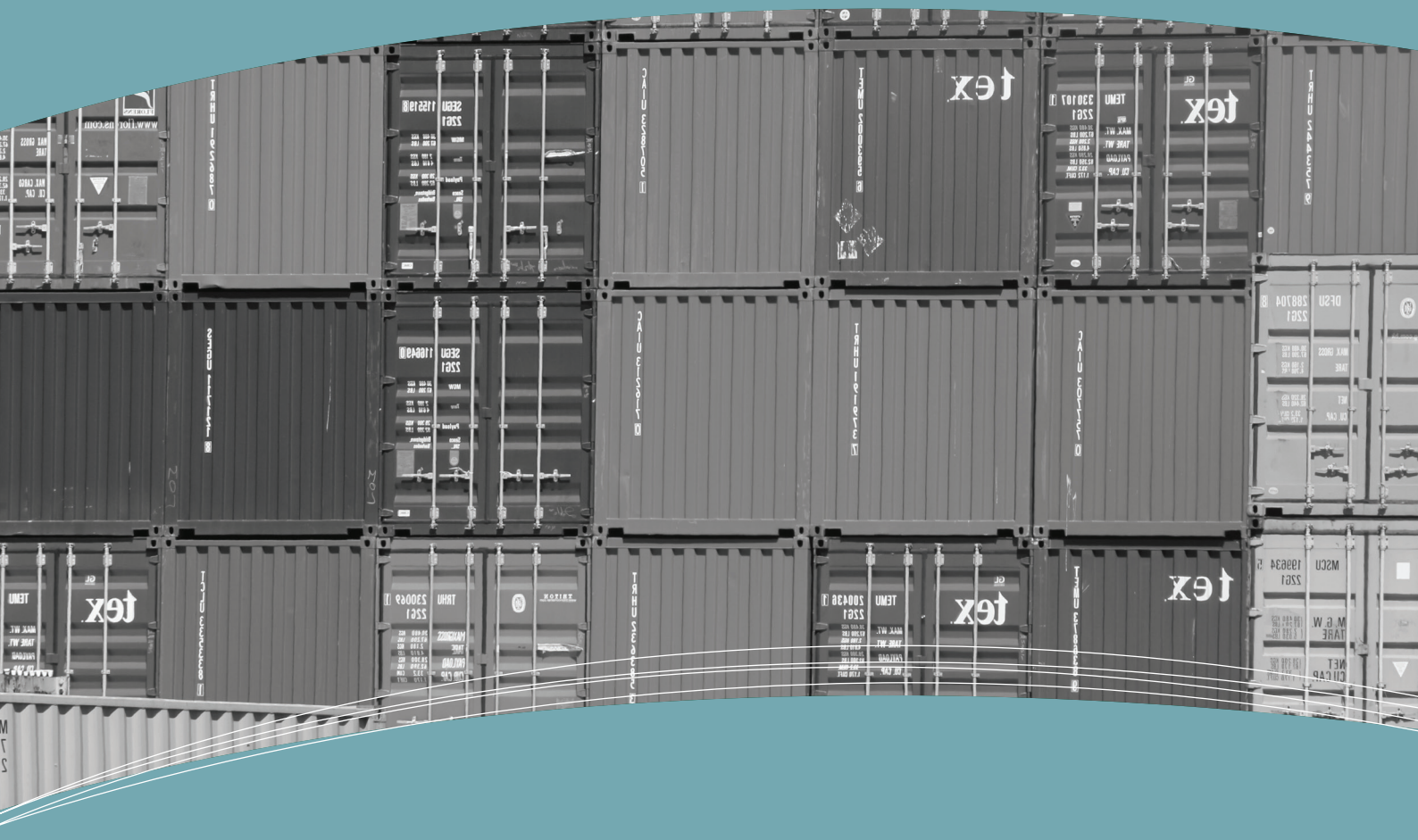
Treasury, The (2010), Official documents resulting from the official review of the overseas investment screening regime in 2009–10 (www.treasury.govt.nz/publications/informationreleases/overseasinvestment/review2009).

Van Biesebroeck, Johannes (2008), 'Governments at the bidding table', New Zealand Economic Papers, Taylor and Francis Journals 42:2, pp. 213-232.

Yee, Amy (28 February 2004), 'New Zealand minister hits the trail to woo US investors', Financial Times, London, p. 2.

THE NEW ZEALAND INITIATIVE

www.nzinitiative.org.nz



$25.00
ISBN 10: 978-0-9922565-0-0

The New Zealand Initiative
PO BOX 10147
Wellington 6143