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Chapter 1

Foreign Investment in New Zealand: The Current Position

Bill Rosenberg

Introduction

This chapter reviews the information available on foreign investment in New Zealand, focussing on Foreign Direct Investment (FDI), but with a brief description of portfolio investment (where no control is intended) and overseas borrowing.

Though new statistical series from Statistics New Zealand (SNZ) have appeared since 1989, there is still a paucity of official data. Other sources will be analysed to fill some of the gaps. Because of the availability of data, the period surveyed will in most cases be 1989 to 1995, but some earlier data will be used as a comparison and updates to 1996 provided where available.

We begin by looking back approximately a decade, then use current data to look at the changing size, sources, sectors, and employment patterns of existing investment. Listings of the top companies in New Zealand are then analysed to investigate other aspects such as profitability and dominance of overseas companies in sectors of the New Zealand economy. International comparisons are made where possible.

Finally we look at new investment. It is compared to capital formation from other sources, its geographical origin (for both general investment and land sales) is described, and we attempt to judge to what extent its purpose is "greenfield" investment, creating new assets, or takeover of existing assets.

The stock of FDI: how dominant is overseas investment?

Arguably the most important facts on the state of foreign investment in New Zealand are those concerning the stock of direct investment. What percentage of industry and commerce is overseas owned? Does it dominate some sectors? Associated with such issues are its rate of profit compared to locally owned enterprises, its use of technology and number of staff employed. All these are important in gauging the effect on competition, productivity, employment and sovereignty. However, as will be seen, official statistics are not very helpful and non-official sources of information can fill only some of the gaps.

The statutory definition of an "overseas company" has been consistent over several decades: one with 25 per cent or more of its shareholding owned by overseas persons, including other overseas companies[1]. This chapter will use this definition. Notwithstanding this definition, the OIC grants exemptions to overseas companies that it considers are either portfolio investors or New Zealand controlled[2]. It should also be noted that SNZ's definition of direct investment adds the criterion that the purpose of the investment should be to gain "an effective voice in the management of the company"[3].

Looking back a decade

The last time SNZ (then the Department of Statistics) published "Companies with Overseas Affiliations" was for the year ended 31 March 1983[4]. This provides a useful reference point: see Table 1.

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[1] See for example the Overseas Investment Act 1973 and the Overseas Investment Regulations 1995. The only change has been that the definition of "overseas person" was narrowed by the Overseas Investment Amendment Act 1995 to exclude New Zealand citizens resident overseas.

[2] "An Overview of the Overseas Investment Exemption Notice 1995", Overseas Investment Commission, 9 February 1996.

[3] "International Investment Position: 1994/95" in "Hot Off the Press", 15 May 1996, SNZ.

[4] Published in the "Monthly Abstract of Statistics", June 1986, pp.137-9.

Table 1

Companies with Overseas Affiliations, 1982-83[4]

Industry group	Returns		Assessable Income		Current Net Loss		Income Tax Assessed		Export Tax credits		Salaries and Wages		Dividends Paid		Paid-up Capital	
Agriculture, Hunting, Forestry and Fishing	40	0.6%	4.7	15.4%	3.1	3.9%	1.1	8.7%	1.4	33.3%	2.4	2.8%	0.6	2.8%	16.4	10.7%
Mining and Quarrying	60	16.2%	130.1	71.2%	9.4	8.9%	58.6	71.5%	0.0	NA	9.5	95.8%	27.2	95.8%	520.3	71.4%
Manufacturing -																
Food, Beverages and Tobacco	40	3.7%	55.8	26.1%	5.3	13.7%	21.6	26.2%	5.8	16.9%	233.3	20.2%	15.1	20.2%	138.2	28.3%
Textile, Wearing Apparel,Leather Goods	30	2.4%	6.6	9.9%	1.6	7.5%	2.8	11.8%	2.1	7.3%	30.3	12.0%	1.9	12.0%	19.2	19.3%
Wood and Wood Products, incl Furniture, Paper and Paper Products, Print and Publ	70	2.7%	28.0	20.5%	1.8	2.8%	11.4	22.6%	3.0	5.0%	54.8	11.6%	8.0	11.6%	29.5	8.6%
Chemicals, Petrol, Coal, Rubber and Plastic	110	15.5%	114.0	79.2%	64.0	51.6%	43.9	78.8%	9.3	62.0%	198.8	72.6%	26.8	72.6%	298.8	67.7%
Non-Metallic Mineral products	10	2.3%	22.8	54.7%	16.7	88.8%	8.3	51.9%	3.1	60.8%	52.6	61.9%	13.8	61.9%	71.1	77.0%
Basic Metal Industries	10	9.1%	2.5	34.7%	42.7	96.0%	1.1	55.0%	0.8	19.0%	46.4	14.3%	1.6	14.3%	33.6	42.1%
Fabricated Metal Prod, Machinery, Equipt	190	4.7%	111.8	46.0%	15.7	26.3%	44.7	50.2%	8.8	20.2%	354.8	56.7%	26.2	56.7%	124.0	46.9%
Other Manufacturing Industries	20	4.3%	2.9	46.8%	0.2	6.9%	1.0	47.6%	0.8	26.7%	8.0	16.0%	0.8	16.0%	1.6	17.0%
Electricity, Gas, Water, Building, Construction	30	0.4%	9.8	10.8%	1.0	6.5%	4.5	12.0%	0.0	0.0%	17.8	5.8%	0.5	5.8%	5.9	4.9%
Wholesale, Retail Trade, Restaurants, Hotels	440	1.8%	126.4	22.8%	93.6	40.7%	55.2	23.3%	5.8	11.1%	310.0	34.9%	56.2	34.9%	246.0	19.3%
Transport, Storage and Communication	40	1.4%	8.2	16.5%	14.4	18.2%	3.5	17.0%	1.1	2.8%	86.6	7.7%	1.3	7.7%	28.3	9.8%
Finance, Insurance, Real Estate, Busn Services	440	1.8%	283.9	41.2%	20.9	13.4%	111.9	42.2%	0.3	5.4%	364.8	29.7%	120.6	29.7%	580.9	15.3%
Community, Social and Personal Services	20	0.4%	9.8	27.3%		0.0%	4.4	27.5%	0.0	0.0%	58.4	23.2%	2.2	23.2%	8.1	8.3%
Total	**1,530**	**1.8%**	**917.3**	**36.8%**	**290.6**	**27.6%**	**374.0**	**37.7%**	**42.0**	**13.9%**	**1,828.5**	**18.0%**	**302.6**	**32.4%**	**2,121.9**	**25.6%**

Notes:

- Returns are numbers rounded to the nearest 10; percentages are overseas companies of all companies; all other columns are $ million.
- Overseas companies whose only New Zealand income was from such sources as investments, patent rights, royalties and copyrights were not included in the sample from which this table was calculated, and neither were companies such as airlines and shipping lines which were exempt from tax under double taxation agreements. Further, locally declared profitability can be reduced by the parents of overseas companies in order to minimise their taxation by transfer pricing, payments such as royalties, and the use of loans from parent companies instead of equity.

Although they give a more complete financial picture than statistics currently available, some caveats are required with these statistics and are noted with the table.

While only a small percentage of all companies (1.8%), overseas companies in that year had a quarter (25.6%) of the paid-up capital, indicating they were significantly larger on average than locally owned companies. They were also more profitable (36.8% of assessable income) and paid higher dividends accordingly (32.4% of dividends paid), but their net losses, at 27.6% of all companies' net losses, were nearly proportional to their paid-up capital. Overseas companies earned only 13.9% of export tax credits paid to companies.

The other notable feature of these companies is the comparatively low amount paid in salaries and wages, which, at 18.0% of all companies, is half what might be expected from their assessable income and significantly lower than what might be expected from their paid-up capital. This suggests that overseas companies were not particularly fruitful sources of employment compared to locally owned companies. This is broadly consistent with international findings which suggest that by the 1990's the world's 37,000 transnational corporations owned about one third of the world's private sector productive assets[5] but employed only "a negligible proportion" - about 3% - of the world's labour force. Inward FDI provided only 4% of U.S. employment in 1990 and 3% in the European Community in 1988. However it accounts for between 10% and 20% of industrial employment in most developed countries. There was also a noticeable trend towards employment increasing much more slowly than investment[6]. Further evidence that these employment trends are occurring in New Zealand will be discussed below.

Table 1 indicates overseas investment in 1983 was concentrated in Mining and Quarrying, Manufacturing, the Wholesale and Retail trade, and Financial and Business services. Overseas companies were most dominant in Mining and Quarrying (71.4% of the paid-up capital), Chemicals, Petrol, Coal, Rubber and Plastic (67.7%), Non-Metallic Mineral products (77.0%), Basic Metal Industries (42.1%), and Fabricated Metal Products, Machinery and Equipment (46.9%). Dominance was lowest in Electricity, Gas, Water, Building, and Construction (4.9%), Community, Social and Personal Services (8.3%), Wood and Wood Products including Furniture, Paper and Paper Products, Print and Publishing (8.6%), and Transport, Storage and Communication (9.8%). Remarkable, looking forward to subsequent takeovers, is the low proportion of foreign investment in the Finance, Insurance, Real Estate and Business Services sector, at 15.3%.

As another reference point, UNCTAD estimates of the FDI in New Zealand at a number of dates appears in Table 2. The 1990 to 1994 figures are of similar magnitude to those given by SNZ (see below) but not identical. Clearly foreign investment has grown rapidly in recent years: for example, the World Trade Organisation states that "Inward direct investment of $6.5 billion in 1989-1991 exceeded the total of $5.4 billion in 1951-88"[7] although this of course takes no account of inflation.

Table 2

Foreign direct investment stock in New Zealand as estimated by UNCTAD[8]

	1980	1985	1990	1993	1994
US$m	2,363	2,043	8,065	15,874	17,659
NZ$m	2,390	4,271	13,751	29,495	29,694

5 "World Investment Report 1993: Transnational Corporations and Integrated International Production", United Nations, New York 1993, p.101.
6 "World Investment Report 1994: Transnational Corporations, Employment and the Workplace", United Nations, New York and Geneva, 1994, pp.163, 174ff,179.
7 "Trade Policy Review: Report by the Secretariat", World Trade Organization, WT/TPR/S/20, 20 September 1996, p.14.
8 US$ figures from "World Investment Report 1995: Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, p.401. NZ$ figures calculated at the appropriate June exchange rates.

Table 3

New Zealand's International Investment Position and Income from Foreign Investment[9]

(Note: Dollar values are NZ$ million.)

At 31 March:	1989	1990	1991	1992	1993	1994	1995	Change 95/89
New Zealand Investment Abroad								
Direct Investment								
Equity	5,263	7,585	13,108	14,323	14,135	14,881	14,818	282%
Net Lending	-4,396	-1,936	-2,959	-2,817	-6,230	-5,178	-3,273	75%
Total Direct Investment	**867**	**5,649**	**10,149**	**11,506**	**7,905**	**9,703**	**11,545**	**1332%**
Portfolio and Other Investment								
Equity	197	248	461	918	1,129	1,437	1,658	842%
Lending	2,103	3,247	3,680	4,069	3,599	5,510	4,146	197%
Official Reserve Assets	4,033	5,612	6,608	5,789	6,171	6,909	6,095	151%
New Zealand Investment Abroad	**7,200**	**14,756**	**20,897**	**22,283**	**18,804**	**23,558**	**23,443**	**326%**
Foreign Investment in New Zealand								
Direct Investment								
Equity	8,412	12,293	13,294	17,750	21,364	27,891	32,368	385%
Net Borrowing	1,273	1,427	5,055	4,993	6,452	8,071	7,923	622%
Total Direct Investment	**9,685**	**13,720**	**18,349**	**22,743**	**27,816**	**35,962**	**40,291**	**416%**
Portfolio and Other Investment								
Equity	1,378	1,561	1,766	850	2,468	1,581	1,723	125%
Borrowing	40,283	45,202	48,242	50,964	52,382	54,566	54,712	136%
Foreign Investment in New Zealand	**51,346**	**60,484**	**68,357**	**74,558**	**82,665**	**92,109**	**96,726**	**188%**
Net International Investment Position	**-44,146**	**-45,728**	**-47,460**	**-52,274**	**-63,861**	**-68,551**	**-73,283**	**166%**
GDP	67,228	71,406	72,962	73,030	75,220	79,999	86,304	128%
As % of GDP:								
Direct Investment	14.4%	19.2%	25.1%	31.1%	37.0%	45.0%	46.7%	324%
Portfolio Investment	2.0%	2.2%	2.4%	1.2%	3.3%	2.0%	2.0%	97%
Income from Foreign Investment in NZ	**3,935**	**4,071**	**4,037**	**4,369**	**3,788**	**5,162**	**7,313**	**186%**
Exports	13,907	14,893	15,482	16,834	18,604	19,517	20,617	148%
Foreign Inv. Income as % of exports	28.3%	27.3%	26.1%	26.0%	20.4%	26.4%	35.5%	125%
Income from FDI	514	608	182	1,173	1,339	2,960	4,528	881%
Rate of return on stock of FDI	5.3%	4.4%	1.0%	5.2%	4.8%	8.2%	11.2%	212%
Unremitted Earnings	84	-301	-322	494	916	1,309	2,432	2,895%
Unremitted Earnings as % of FDI Income	16.3%	-49.5%	-176.9%	42.1%	68.4%	44.2%	53.7%	329%

Notes:

- Valuations for New Zealand's International Investment Position are as far as possible current market values. SNZ notes that a number of assets and liabilities are omitted: the net assets of branches or sales offices; New Zealand currency held overseas; some international assets and liabilities of individuals; various non-financial intangible assets such as patents and franchising rights; and information collected on portfolio investment and unit trusts is incomplete.
- SNZ defines direct investment as "the investment made to acquire 25% or more of the voting shares of a company. The purpose of the investment being to gain an effective voice in the management of the company"[10]. Loans between related companies (where one has a 25% or more of the voting shares in the other) are also included in the "direct investment" category.
- The above International Investment Position figures are on a "Balance of Payments" basis. Expressing it in terms of international assets and liabilities gives the same net international investment position, but shows, for example, total liabilities in 1995 of $103,220 million compared to total foreign investment in New Zealand (see above) of $96,726 million.

[9] The 1989 and 1990 International Investment data from "International Investment Position: 1992/93"; 1991-1995 figures from "International Investment Position: 1994/95" both from "Hot Off the Press", SNZ. GDP and Exports from PCINFOS, SNZ. Income from foreign investment (International Investment Income) from SNZ (personal communication).

[10] "International Investment Position: 1994/95" in "Hot Off the Press", SNZ.

The current situation: total investment

Moving to the period 1989-1995, the most complete information on total investment stock is contained in "New Zealand's International Investment Position" which attempts to include all New Zealand's assets and liabilities including loans, direct investment and portfolio investment. Unfortunately, this is available only at a highly aggregated level, with no breakdowns available by sector and only recently have breakdowns become available by region of origin of investment.

The aggregate data are summarised in Table 3, which shows both New Zealand investment abroad and foreign investment in New Zealand. These include lending and portfolio investment as well as direct investment. Limitations to the statistics are noted with the table and SNZ call them only an "indicative estimate". The nature of the limitations suggests that they underestimate both assets and liabilities.

The most noticeable feature of Table 3 (other than the steadily deteriorating net International Investment Position which will be discussed under overseas borrowing below) is the spectacular increase in investment over the period for which the series are available, 1989 to 1995. FDI stock in New Zealand multiplied over four times (416%). Total foreign investment in New Zealand, including portfolio investment and overseas borrowing, almost doubled (188%). Even allowing for the increase in size of the New Zealand economy as measured by GDP, FDI stock increased more than three times (324%).

Another important feature of the period was that according to SNZ, the overwhelming majority of the investment other than borrowing was direct investment conferring control over New Zealand assets. While direct investment quadrupled, portfolio equity investment increased only 25%, and actually reduced slightly as a percentage of GDP. Portfolio investment in New Zealand appears largely to have been through borrowing. Though this may be partly an artefact of the method of collection of the data, it is consistent with other findings which indicate an increased incidence of listed companies being controlled by major shareholders as opposed to dispersed, passive, institutional shareholding, and greatly increased overseas ownership of shares[11] (see also Table 8 below). However SNZ's values must be a considerable underestimate: the portfolio investment estimated for 1995 for example is much less than what would be accounted for by the overseas shareholdings in Fletcher Challenge alone, all or most of which would be regarded as portfolio investment.

The ratio of FDI stock to GDP is useful for international comparisons. In 1995 it reached 46.7% for New Zealand. The highest ratios for developed countries in the late 1980s were Australia (22.2%), Canada (20.5%) and the Netherlands (22.2%). Most were less than 10%. The ratios were somewhat higher among some developing countries, but New Zealand's ratios would be high even there (at one extreme, Singapore had 91.7% but the next highest was Zimbabwe at 58.3%, Oman at 45.6% Papua New Guinea at 38.6%, and the remainder ranging from negligible to under 30%)[12]. New Zealand is therefore exceptionally dependent on foreign investment and its economy correspondingly dominated by it.

Income from foreign investment in New Zealand is also tabulated. This includes both income from FDI and income from other sources of investment such as borrowing. It has taken between one fifth and just over a third of New Zealand's export receipts over the period, being a substantial contributor to chronic balance of payments deficits which the governor of the Reserve Bank has described as "unsustainable"[13]. Note that income from FDI alone (including interest on within-company borrowing) gave a rate of return on market value of 11.2% in 1995 and 8.2% in 1994, a rate which had risen steeply since 1989 (5.3%) after a dip in 1990 and 1991.

Comparing income from FDI with unremitted earnings indicates that the rate of retention of profits has varied markedly, with two differing periods. Between 1989 and 1991, retention was negative or very low, with an average negative retention (disinvestment) of 41.3% of earnings, suggesting that intra-

[11] "Evidence on the Corporate Governance New Zealand Listed Companies", by Mark Fox and Gordon Walker, "Otago Law Review" (1995) Vol. 8 No. 3, pp.317-349.

[12] "World Investment Report 1992: Transnational Corporations as Engines of Growth", United Nations, New York, 1992, Annex Table 8, pp.330-332.

[13] "New Zealand Herald", "Concern over level of debt", 22 March 1996.

company loans were an important form of investment in that period, and subsidiaries were paying interest plus dividends in excess of profits to their parents[14]. From 1992 to 1995, retention was much higher, averaging 51.5%. In the year to March 1996 it was 42.5%[15]. Over the whole period to 1995, the average was 40.8%, or in other words almost 60% of profits were paid out to their owners. Note that it is not accurate to equate retention of profits with "reinvestment". A number of companies have announced returns of capital to their shareholders, including Telecom ($1 billion), Tranz Rail ($100 million), and DB ($181.5 million), which will be financed at least in part from retained profits.

While not the primary subject of this chapter, the total stock of New Zealand investment abroad rose even more quickly over this period than foreign investment in New Zealand. In 1995 it was 325% of the 1989 level, whereas foreign investment stock in New Zealand was 188% of its 1989 counterpart. Direct investment abroad rose at an enormous rate, the 1995 total being over 13 times that in 1989. While expected in light of the removal of controls on the export of capital, the huge percentage increase is in part an illusion due to the fact that in 1989 most of the equity investment was negated by net borrowing by New Zealand parent companies from their foreign affiliates, leaving only a small net investment in that year. There has been little change since 1991. Portfolio equity investment abroad rose eight times during the period (842%). Lending and official reserves rose, but more sedately. However the absolute level of New Zealand investment abroad was much lower than foreign investment throughout the period: $23.4 billion in 1995 compared to $96.7 billion foreign investment in New Zealand. It was never more than 30.6% of foreign investment stock in New Zealand, and that peak was reached in 1991.

Table 4

Foreign Investment stock in New Zealand at 31 March 1995, by region of origin (NZ$ million)[15]

	UK	Aust.	USA	Canada	Japan	EU	OECD	AO	LAC	Other	Total
Direct Investment											
Equity	4,768	10,320	8,617	1,059	770	531	387	3,191	10	2,715	32,368
Net Borrowing	428	2,244	2,682	-15	415	1,001	108	884	157	20	7,924
Portfolio and Other Investment											
Equity	30	1,072	44	50	104	5	363	47	3	6	1,723
Borrowing	1,554	4,482	5,784	94	2,592	1,417	320	13,271	150	25,048	54,712
Total	**6,779**	**18,118**	**17,127**	**1,189**	**3,881**	**2,954**	**1,178**	**17,394**	**319**	**27,788**	**96,726**

(EU = Other European Union; OECD = Other OECD nations; AO = Asia-Oceania; LAC = Latin-American-Caribbean)

Table 4 shows the origin of foreign investment stock in New Zealand as at 31 March 1995. Three traditional areas provide almost three-quarters of the direct investment: Australia, U.S.A., and U.K. (in decreasing order of importance). Asia-Oceania follows not far behind the U.K. "Other" includes the large numbers of bonds and other securities, issued domestically to overseas persons whose origin is not known by SNZ.

Sectoral and employment patterns

Further information on numbers of overseas companies and employees is available through "Business Activity Statistics" published by SNZ. This also provides some sectoral information. Table 5 shows, for the years 1989 to 1995, the number of overseas companies as a percentage of all companies in the various industrial classifications and also for "large" companies (defined here as those with more than 100 employees). It shows the same percentage information for the employees of these companies.

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14 The view that intra-company loans were a significant part of FDI in the period is supported by David G. Mayes, Reserve Bank of New Zealand, in "The Role of Foreign Direct Investment in Structural Change: the Lessons from New Zealand's Experience", March 1996, p.16.

15 SNZ.

Table 5

Overseas companies and employees of overseas companies as a percentage of all enterprises for various sectors, and actual numbers for 1995[16] (Years to February)

	1989 (%)		1990 (%)		1991 (%)		1992 (%)		1993 (%)		1994 (%)		1995 (%)		1995 (numbers)		1995/1989 (%)	
	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff	Firms	Staff
Agriculture, hunting, forestry, fishing	0.3	0.5	0.4	1.2	0.4	0.8	1.0	2.6	0.8	2.4	1.2	3.0	0.6	2.8	55	831	261.9	748.6
Mining, quarrying	10.9	8.1	10.8	7.8	9.9	13.5	7.4	10.2	1.4	2.3	13.5	18.5	20.1	35.9	97	1,554	164.4	402.6
Manufacturing	3.6	23.2	3.7	23.1	3.5	24.2	3.5	26.4	2.5	26.4	3.3	26.9	3.0	29.1	595	73,131	95.5	121.6
Electricity, gas and water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	4.9	6	494	N.A.	N.A.
Construction	0.2	3.4	0.2	2.6	0.2	2.8	0.3	3.9	0.1	3.8	0.2	3.8	0.2	5.3	65	4,564	114.0	150.3
Wholesale, retail, res-taurants, hotels	1.9	9.8	2.1	14.1	2.2	16.2	2.4	18.5	1.9	15.0	3.0	17.9	3.0	21.6	1,536	65,285	186.2	243.4
Transport, storage, communication	1.6	4.5	1.8	18.6	2.0	33.1	2.0	32.2	1.5	30.8	2.3	39.7	2.2	36.6	270	31,810	162.7	711.3
Financial and Business Services	3.2	19.5	3.5	17.0	4.0	23.2	3.9	25.4	3.6	27.9	4.0	26.8	3.8	26.0	1,572	40,995	221.4	149.0
Community, social, personal services	0.4	1.6	0.4	0.6	0.4	1.4	0.5	1.5	0.2	1.3	0.5	1.5	0.6	1.9	179	6,344	198.9	129.4
Large (more than 100 employees)	22.8	15.9	23.8	20.1	25.1	25.8	29.8	29.1	28.4	28.9	29.1	31.3	32.9	35.7	392	182,092	151.9	192.6
All firms	**1.7**	**10.5**	**1.9**	**12.0**	**2.0**	**14.6**	**2.0**	**15.8**	**1.7**	**15.0**	**2.4**	**16.4**	**2.3**	**17.8**	**4,375**	**225,003**	**171.5**	**176.6**
% Labour force								**15.1**		**14.2**		**15.9**		**17.6**		**1.6081m**		**109.2**

Notes:

- Employees are defined as full-time-equivalent employees and working proprietors, part-timers counted as half. Full-time is defined as working 30 or more hours per week.
- Only "significant" enterprises are counted: those with greater than $30,000 annual GST expenses. Self-employed insurance, real estate and finance agents, property owning business, non-profit organisations, non-trading and dormant companies, and farms are excluded.
- "1995/1989 (%)" is the ratio between numbers in those two years.
- "% Labour force" shows the number of employees in all overseas companies (part-timers counted full, to be consistent with the Labour Force definition) as a percentage of the employed labour force at March each year (Source: series HLFQ.SJA3FZ, SNZ). Before 1992, numbers of part-timers are not available. There were 57,803 part-timers in overseas enterprises in 1995.

[16] From "Business Activity Statistics", "Enterprises and Full-time Equivalent Persons Engaged by Degree of Overseas Equity and Industrial Classification", various years, SNZ.

Looking first at all overseas companies, a broadly similar pattern emerges in 1995 to 1983 but with an increase in scale. Overseas companies rose from 1.7% to 2.3% of all enterprises between 1989 and 1995 with an increase of 71.5% in number of firms. However, the number of employees was considerably greater than the small number of enterprises would indicate: it rose from 10.5% to 17.8% of all employees during the period, an increase of 76.6% in number employed. The number employed by overseas companies thus increased during the period, but only in proportion to the number of overseas firms.

Recall that in 1983, overseas companies were 1.8% of all companies and employed 18.0% of employees. Salaries and wages probably overestimate the number of employees somewhat[17], so overseas companies have increased their employment as a percentage of the employed workforce at about the same rate as the percentage of overseas companies increased between 1983 and 1995. Their share of the workforce actually fell from 1987 to 1989[18], and probably from 1983 although it difficult to be sure given the different forms of data.

Overseas companies are heavily, and increasingly, represented amongst firms with more than 100 employees. Rising from 22.8% of large enterprises in 1989 to 32.9% in 1995, their number of employees rose even faster: from 15.9% of all employees in large enterprises to 35.7% over the period. The number of large overseas enterprises rose 51.9% during the period and their employees rose 92.6%. As in 1983, overseas companies are considerably larger than local ones if number of employees is an indicator. Indeed 80.9% of all employees of overseas companies are in companies with more than 100 employees.

By sector, foreign companies are strongly represented in mining and quarrying; manufacturing; wholesale, retail, restaurants and hotels; transport, storage and communication; and financial and business services. The last four of these sectors account for 93.9% of the employees in overseas companies and 90.8% of those companies.

The most notable change from 1983 is in transport, storage and communication. Between 1989 and 1995 the number of employees of overseas firms increased over seven times. Changes included the privatisation to overseas owners of Telecom (controlling overseas shareholders Bell Atlantic and Ameritech, U.S.A.), Air New Zealand (Qantas, Australia; and Brierley Investments, Singapore/Malaysia/diverse), New Zealand Rail (Wisconsin Central and others, U.S.A), Wellington City Transport (Stagecoach of the U.K.), and the Shipping Corporation (Blueport ACT, U.K.) as well as the entry of a number of overseas newcomers to the telecommunications industry such as Clear Communications (MCI, U.S.A. and British Telecom, U.K.), BellSouth (U.S.A./Singapore government), and Telstra (Australian government). In news media, Wilson and Horton, one of the two large newspaper publishers, was sold to Independent Newspapers Plc of Ireland, and startups include TV3 (Canwest, Canada and Westpac, Australia) and Sky Network TV (TeleCommunications Inc, Time Warner, Bell Atlantic and Ameritech of the U.S.A.). In 1996, state-owned commercial Radio New Zealand has been privatised to a consortium led by Independent Newspapers Plc (Wilson and Horton Ltd, Australian Provincial Newspapers Holdings Ltd, and Clear Channel Communications Inc), which has also purchased the formerly Brierley owned Prospect Radio from the GWR Group of the U.K. which had bought it earlier in the year.

Significant increases in percentage terms also show in the agriculture, hunting, forestry and fishing sector, and in electricity, gas and water. In the former case, forestry is likely to have been the main con-

[17] There is evidence internationally that employees of transnationals receive higher pay than domestic firms, for reasons including those companies' generally higher productivity and requirement for skills, their greater size encouraging unionisation, and the need to attract employees away from local employers ("World Investment Report 1994: Transnational Corporations, Employment and the Workplace", United Nations, New York and Geneva, 1994, pp.197ff.). Ebashi and James found corroborating evidence in New Zealand showing average employment payments in companies with 50% or more foreign equity being $26,300 in 1987 (17% above the average wage) and $35,300 in 1990 (25% above the average wage), though some of their data was suspect ("Foreign Direct Investment in New Zealand", by Masahiko Ebashi with Douglas James, New Zealand Institute of Economic Research, Working Paper 93/37, p.47).

[18] From "Business Pattern Statistics", "Enterprises and Full-time Equivalent Persons Engaged by Degree of Overseas Equity and Industrial Classification" for those years, SNZ.

tributor with overseas takeovers of major enterprises including Carter Holt Harvey (International Paper, U.S.A.), and the privatisation of Crown forestry cutting rights in most cases to overseas interests mainly from the U.S.A.(Rayonier, RII, MRGC), Japan (C Itoh, Itochu, Juken Sangyo, Nissho Iwai, Oji Sankoku), China (Wenita), Malaysia (the Tiong family's Ernslaw One) and Fletcher Challenge (FCL Forests is 54.2% overseas owned). In 1996 the Forestry Corporation was privatised to a consortium of Fletchers (37.5%), Brierley Investments (25%) and Citifor of China (37.5%). However there are also significant developments in agribusiness: Grocorp (Sanyo General Capital Company, Japan) which has acquired a number of its suppliers, Tasman Agriculture and Cedenco (Brierley Investments), and Dairy Brands (T/A Pacific, U.S.A.). The Tiongs also bought Salmond Smith Biolab and Regal Salmon, taking control of 71% of the country's farmed salmon output. In electricity, gas and water, the overseas element is still small, but was above zero for the first time in 1995, presumably due to the entry of a number of overseas companies including TransAlta Energy Corporation of Canada and Utilicorp United Inc of the U.S.A., taking over former local government owned electricity supply companies. Privatised gas industries sold to overseas companies included the methanol and synthetic petrol plants (onsold by Fletcher Challenge to the Methanex Corporation of Canada and Germany), and the Natural Gas Corporation (33.3% onsold by Fletcher Challenge to Australian Gas Light Company and 33.3% to various individuals and institutions).

Going against the general trend of increased overseas ownership is manufacturing. The number of overseas companies in the sector fell by 4.5%, and although the number of employees in overseas companies rose 21.6%, their number was still 1.8% less than in 1987. Even so, overseas companies' share of manufacturing employment rose from 23.2% to 29.1% in the period, reflecting the economy-wide shrinkage in manufacturing due to deregulation and competition from imports. It is still however the largest employer amongst overseas companies, with 73,131 employees in 1995. Notable developments between 1989 and 1995 included a significant number of takeovers related to processing of foods and agricultural produce, including the following reported by the OIC:

- Advanced Foods of New Zealand Ltd (Waipukurau, meat products, 280 employees, sold to Bernard Matthews Plc, U.K.);
- Allflex Holdings Ltd (innovator in plastic and electronic animal ear tags, Palmerston North, 200 employees, sold first to Goodman Fielder Wattie, Australia, then Societé Française D'Innovations Pour L'Élevage, France, then resold to Goldman Sachs U.S.A.; and Tux and Rover pet foods sold to Nestle, Switzerland);
- Best Corporation Ltd (smallgoods manufacture, Auckland, 500 employees, to Griffins Foods/BSN, France);
- Canterbury Meat Packers (formed to take over the Seafield meat processing plant near Ashburton from bankrupt Fortex, 80% owned by ANZCO, a Japanese syndicate);
- DB Group (the second largest brewer in New Zealand, number 24 on the 1995 "Management" Top 200, 1,487 employees, over 50% owned and controlled by Asia Pacific Breweries/Heineken, Singapore/Netherlands);
- Huttons Kiwi (number 89 on the 1995 "Management" Top 200, 789 employees, stripped of smallgoods products, left with Riverlands group which owns three beef processing plants and renamed Pacific Beef, sold to JANZ, a Japanese-led syndicate);
- Mainzeal/Mair Astley (processor of leather and venison, also major construction and property company, numbers 39 and 87 respectively in the 1995 "Management" Top 200, together 1,075 employees, sold to Richina, China/U.S.A.);
- Wattie's Ltd (New Zealand's leading food processor, 3,551 employees, number 17 on the 1995 "Management" Top 200, including Wattie canned foods, Best Friend Pet Foods, Wattie Frozen Foods, Tip Top Ice cream, and Tegel Foods poultry and animal feed, formerly part of Goodman Fielder Watties, Australia, sold to H.J. Heinz, U.S.A.).

A startup operation in the same area, and in direct competition with Wattie's, was McCain Foods Ltd of Canada, which set up food processing plants at Washdyke near Timaru, and near Christchurch. It had previously taken over New Zealand Alpine Foods Ltd. In December 1996, McCains expanded into Hawkes Bay by taking over Hastings-based food processor Grower Foods Ltd with the intention of expanding it.

In a related area, two of New Zealand's carpet yarn manufacturers were sold. Christchurch Carpet Yarns Ltd, with 84 employees, was sold to a major customer, Brintons Ltd of the U.K. The carpet yarns division of Alliance Textiles (NZ) Ltd, with about 40% percent of New Zealand's carpet yarn and 10%

of its carpet production capacity, including a factory in Oamaru, was sold to Summit Wool Spinners Ltd, a subsidiary of Sumitomo Corporation of Japan.

Another notable takeover was New Zealand Steel Ltd, the sole significant New Zealand steel manufacturer, which had previously been privatised, and was eventually sold to BHP, Australia, which called for at least 300 voluntary redundancies in late 1996.

Since 1995, Skellerup Industries, a large conglomerate (ranked number 25 in the Top 100 by "Management" in 1995) has been sold by Brierley Investments to Goldman Sachs, the U.S. merchant bank. Its manufacturing operations include Levene Paint Manufacturing Ltd (manufacturing assets and business later sold to ICI Australia), Masport (mowers and other steel products), Paykel (engineering supplies), Skellerup Flooring, Cable Price Corporation (later sold to Hitachi of Japan), Viking Footwear, Dominion Salt, New Zealand's only salt producer with 90% of the domestic market (jointly owned with Cerebos Greggs, Skellerup's half share was later sold to Ridley Corporation of Australia), and Dunlop Flow Technology. Lion Nathan, New Zealand's largest brewer became 52% overseas owned by portfolio investors according to its 1996 annual report.

Among the relatively few significant manufacturing greenfield developments were the expansion of the Bluff Aluminium Smelter by its owners, Comalco (Australia/U.K) and Sumitomo (Japan); and a new hydrogen peroxide plant near Morrinsville by U.S. chemical company, Du Pont.

However a close-down trend is also evident. Along with the bankruptcy of Vesteys and the closure of its Weddel New Zealand freezing works, a number of other closures by foreign investors have occurred. Unilever purchased Helene Curtis and closed its Christchurch cosmetics manufacturing operations, leading to the loss of 118 jobs. Allflex's new owners have announced their intention to stop manufacturing animal ear tags in New Zealand at its Palmerston North factory losing 130 jobs. Arnotts (which had earlier taken over Aulsebrooks, and Katies Cookies) have announced the closure of its biscuit factories, and is moving production to existing plants in Australia with the loss in New Zealand of 290 jobs. Cedenco (owned over 25% by Brierley Investments at the time) moved its tomato processing to Australia. Glaxo stopped its pharmaceutical manufacturing in Palmerston North, and Unisys moved its LINC computer software development centre to Australia, despite the software's Christchurch origins. Ford and Mazda have announced the closure in 1997 of their vehicle assembly plants in South Auckland, losing 400 jobs. Australian owned Progressive Enterprises closed its Georgie Pie fast food chain and sold some of the outlets to U.S. owned hamburger chain, McDonalds. Heinz-Wattie bought the assets and brands of Auckland meat processor Shortland Cannery in November 1996 and two months later announced the operation would be moved to New South Wales, losing 47 jobs. S.C. Johnson Wax (losing 45 jobs), Reckitt and Colman (107 jobs), Corfu Jeans (25 jobs), Caroma Industries (15 jobs), and Johnson and Johnson, made other closures, all moving to Australia[19]. The world's biggest methanol producer in April 1997 announced the closure in 1998 of its Waitara Valley methanol plant because of its high cost relative to its Motunui plant and others it owned or planned to build world-wide[20].

Another trend was the takeover of New Zealand innovators. This is interesting in evaluating the degree to which FDI adds to the expertise and skills available to the country. In at least some of these examples, the takeover led to important aspects of an innovative operation being moved overseas, arguably leading to loss of skills, and certainly intellectual property, from New Zealand.

- Allflex, already described above, was the world leader in developing animal ear tags as a method of stock management. With its overseas ownership, its manufacturing operation in New Zealand was closed down in favour of plants elsewhere in the world.
- Dynamic Controls Ltd, a leader in motorised wheelchair controls with 35% of the world market for the controllers in 1992, was taken over in 1993 by its main competitor, Invercare Corporation of Ohio, U.S.A.[21].
- Network Dynamics, a spin-off company from the former Department of Scientific and Industrial Research, marketing and developing computer network routers it had developed, was taken over by

[19] "Formerly made in New Zealand", by Patricia Herbert, "New Zealand Herald, 11 September 1996, p.A15.

[20] "Methanex to buy back 14m shares, continue expansion", "Press", 5 April 1997, p.28.

[21] OIC decision sheet, May 1993; and "Press", "Making a wheelchair come when you call", 6 July 1994, p.31; advertising supplement, 22 July 1994, p.15-17.

Securicor 3net of the U.K. which moved its manufacturing operations and co-founder to Australia[22]. Production engineering decisions are made in the U.K., but research and development remains in Christchurch. The founders said the company was of insufficient size to survive on its own.
- Trigon Industries Ltd, an innovator in plastic packaging with 730 employees internationally, was sold to the Sealed Air Corporation of the U.S.A. in 1994[23]. Its founders and majority shareholders were to be employed as consultants for Trigon for the next five years.
- Unisys (U.S.A.), which bought out the Christchurch developers of the LINC software development system in the early 1980's and then contracted them to develop it further, in 1992 moved the development operation to Australia contributing to the loss of 96 jobs, including many skilled computer professionals[24].

After manufacturing, the next biggest employer is the wholesale, retail, restaurant and hotel sector with 65,285 employees in 1995. Both numbers and percentage of staff working in overseas companies more than doubled during the period, significant contributors being privatisation of the Tourist Hotel Corporation, and overseas takeovers and developments in hotels, Singapore-owned CDL Hotels New Zealand Ltd being New Zealand's largest hotel operator with holdings including the Quality Inns, Millenium and Kingsgate chains. Up to 90% of New Zealand's major hotels are overseas owned[25]. Overseas takeovers and a few new entrants in chain stores, supermarkets and grocery wholesalers also contributed, including Big Fresh (Dairy Farm International/Jardines of Hong Kong), and Deka (formerly Woolworths variety stores), James Smiths, FTC, the Toy Warehouse, Countdown, Rattrays, 3 Guys Ltd, Supervalue, and Foodtown supermarkets (all Foodlands Associated Ltd of Australia). National electronic and consumer goods retailer Noel Leeming was taken over first by Lion City Holdings of Singapore, and then merged with U.K. owned Bond and Bond, changing its name to the Pacific Retail Group. Considerable concentration has occurred in office products sales in 1995 and 1996, with Blue Star and its U.S. owner, U.S. Office Products, taking over more than 25 companies including U-Bix, Wang New Zealand, Whitcoulls (its main competitor), and PC Direct, thus becoming New Zealand's largest supplier of telecommunications equipment, copiers and fax machines and the second largest supplier of office supplies. U.S. owned Corporate Express has taken over Comdec computer supplies, large independent stationer Berrymans, and independent stationer Park Lane.

Financial and Business Services is next with 40,995 employees. Again, takeovers during the period would have been the main contributors to the increase. These included the privatisation of the Bank of New Zealand, and BNZ Finance (National Australia Bank), Rural Bank (National Bank, U.K.), Post Office Bank (ANZ, Australia), and State Insurance (Norwich Union of the U.K.) as well as a number of trust or mutually owned institutions including the Countrywide and United Building Societies (Bank of Scotland), and Auckland Savings Bank (Commonwealth Bank of Australia). Since 1995 the main remaining community trust-owned bank, Trust Bank, has been taken over by Westpac of Australia, which as we will see below, leaves the banking industry almost completely overseas owned.

While the number of jobs in overseas companies has increased significantly, that does not necessarily mean that they are powerful job creators. Much of the increase was due to takeovers of local companies, including privatisation, which was probably a net destroyer of jobs while nevertheless increasing the number of jobs in overseas companies. Further consideration is given to the issue of "greenfield" investment versus takeover below. We can conclude that by international standards, New Zealand has an unusually high proportion of its jobs in overseas companies, even though that is still a small proportion of all jobs: about one in six.

Assets, profits, control, market dominance

It is clear that overseas companies are a powerful force amongst large companies (constituting about one third of them), and similarly in the sectors named above, but insufficient detail is available from official sources to take this any further. To investigate the degree of control exerted by overseas companies would require more information on the sectors, assets, sales and profits of those companies. This

[22] "Press", "British funds save Chch firm", 30 April 1996, p.30; and "Press", "Router research stays in Christchurch", 15 February 1997, p.25.

[23] "Press", "US plastics giant buys Trigon packaging group", 17 December 1994, p.28.

[24] "Press", "Changing trends led Aoraki to staff cuts", 29 June 1995, p.36.

[25] "Press", "Hotels attract overseas investors", 10 August 1996, p.34, quoting Michelle McKellar, managing director of commercial real estate group Richard Ellis New Zealand.

would be available if SNZ's Annual Enterprise Survey asked for overseas ownership, or its Annual Update Survey for its Business Directory asked for financial information. However the two have insufficient commonality to produce reliable financial information for overseas companies[26].

[26] Opinion in verbal personal communication from SNZ, 26 November 1996.

Table 6

Overseas companies in the "Management" Top 200 companies and Top 30 Financial Institutions[27]

	Number	Turnover ($000)	Profit after tax ($000)	Tax paid ($000)	Interest Paid ($000)	EBIT ($000)	Total Assets ($000)	% ROA	Shldrs funds ($000)	% ROSF	Employees
Top 200 Companies											
Total	200	76,409,486	4,934,294	2,174,661	8,817,887	8,871,346	87,914,067	6.1	41,959,080	12.8	185,430
Overseas companies	118	47,763,824	3,724,298	1,596,208	6,491,411	6,490,497	58,867,218	6.3	27,139,115	13.7	124,779
Overseas companies as % of all	59.0%	62.5%	75.5%	73.4%	73.6%	73.2%	67.0%		64.7%		67.3%
Top 30 Financial Institutions											
Total	30	11,660,739	869,393	357,359	4,113,856	5,340,608	105,628,695	0.82	5,124,760	19.2	32,499
Overseas companies	20	9,665,650	848,177	289,119	3,623,988	4,761,284	88,680,768	0.96	4,456,153	19.2	27,709
Overseas companies as % of all	66.7%	82.9%	97.6%	80.9%	88.1%	89.2%	84.0%		87.0%		85.3%
Top 200 plus Top 30											
Total	230	88,070,225	5,803,687	2,102,217	6,288,517	14,158,495	193,542,762	3.1	47,083,840	13.5	217,929
Overseas companies	138	57,429,474	4,572,475	1,517,052	5,220,196	11,252,695	147,547,986	3.1	31,595,268	14.5	152,488
Overseas companies as % of all	60.0%	65.2%	78.8%	72.2%	83.0%	79.5%	76.2%		67.1%		70.0%
National aggregates	192,871			3,967,000		28,900,000					1,237,100
Overseas companies as % of national	0.1%			38.2%		38.9%					12.3%

ROA: Return on Assets (Profit after tax as a percentage of Total Assets).
ROSF: Return on Shareholders' Funds (Profit after tax as a percentage of Shareholders Funds)
Total ROA and total ROSF have been calculated as a percentage of the current year's totals and exclude companies whose profit after tax is not supplied (mainly cooperatives and boards).
EBIT: Earnings before interest and tax. "Management" did not calculate EBIT for the financial institutions; it has been calculated here from their data.
"Management" ranks the top 200 companies by turnover and the top 30 financial institutions by assets.

Note that totals for the Top 200 differ from those published for two reasons. Firstly double-counting due to equity accounted associated companies has been removed. Secondly, the totals for Turnover, Assets, and Employees published by "Management" differ from the actual totals of their tables, but not sufficiently to affect conclusions.

National aggregates: number of companies is from Business Activity Statistics, "Enterprises and Full-time Equivalent Persons Engaged by Degree of Overseas Equity and Industrial Classification", February 1995, SNZ; total tax is the total company tax for the year ended June 1995 (New Zealand Official Year Book, 1996, p.560); total EBIT is the operating surplus component of GDP for year ended March 1995, (op. cit., p.351); total employees is the average employed full-time workforce of the year ended March 1995 (op. cit. p.285).

[27] Ranking is as in "Management", December 1995, p.85ff. Classification of companies as overseas is from "Management" and various other sources as at December 1995.

Such information is available for the "Top 200" companies and "Top 30" financial institutions tabulated annually by "Management" magazine. By classifying the companies in this listing into overseas versus local ownership, an important portion of business activities can be investigated in more detail. The results for the 1995 listings are in Table 6. Some important limitations should be borne in mind. Firstly, to be listed in the Top 200, organisations must operate for a commercially determined profit and pay tax on earnings. These strictly commercial, profit-oriented criteria result in organisations such as the Audit Office, the Automobile Association, and Southern Cross Healthcare being omitted. Secondly, a large number of significant companies within the criteria were omitted because they refused to make their financial results publicly available. Amongst the 113 which "Management" nevertheless believes might have been included in the Top 200 had their audited results been available, were a majority of overseas companies including Ansett New Zealand, Rothmans Holdings, and Woolworths (New Zealand). Thus the Top 200 is incomplete and may be unrepresentative to the extent that the excluded companies, being private companies, may have significantly different practices on profits, debt and the like. Thirdly, profits, taxes and interest paid are not given for cooperatives or producer boards "because they are not readily comparable with profits reported by other trading enterprises". To that extent, since these are all New Zealand owned enterprises, the profit, tax and interest proportions belonging to overseas companies are overstated.

Focussing first on the Top 200, over half (59.0% or 118) are overseas companies. The Top 200 are ranked by turnover, and once again we see that overseas companies are bigger than local companies: they accounted for 62.5% of the total turnover of the 200.

They were about a third more profitable than New Zealand companies (excluding cooperatives and producer boards, whose profits were not published), taking 75.5% of the profit after tax and 73.2% of the earnings before interest and tax (EBIT). After-tax profit per employee was $20,000 for New Zealand companies and $29,800 for overseas companies. Their return on assets was 6.3% compared to 6.1% for all the Top 200 or 5.7% for just the local companies, and return on shareholders' funds 13.7% compared to 12.8%, or 10.6% for just the locals. This is high compared to the average for U.S. transnationals in developed countries (8.7% in 1993[28]). In fact 15 of "Management's" top 20 profit-makers among the Top 230 were overseas companies, the five exceptions all being government or community trust owned, two of which have since been sold to overseas owners. Seventeen of the top 20 returns on shareholders' funds went to overseas companies.

The overseas companies paid 73.4% of the tax, a rate about 5% less than the average rate for the Top 200. Their average tax rate was 24.8% compared to 29.9% for New Zealand companies. They also paid more in interest than New Zealand companies (73.6% of the interest paid), perhaps indicating tax-avoiding arrangements between subsidiaries and parents. Overseas companies employed about two-thirds of the total assets (67.0%), shareholders' funds (64.7%) and people (67.3%).

A measure of labour productivity can also be calculated. For the 210 companies in the Top 230 for which employee numbers were stated, turnover per employee was $392,000. For the overseas companies alone it was $383,000, and for the New Zealand companies alone, $413,000. Overseas companies were therefore 7% less productive per full-time employee than New Zealand companies. When broken down by major New Zealand Standard Industrial Classification (NZSIC) New Zealand companies were more productive for division 1 (Agriculture, Hunting, Forestry and Fishing), 3 (Manufacturing), 4 (Electricity Gas and Water) and 6 (Wholesale and Retail Trade and Restaurants and Hotels). The position was reversed for divisions 7 (Transport, Storage and Communication, although not for the majority subdivision 71, Transport and Storage), and 8 (Business and Financial Services). Divisions 2 (Mining and Quarrying), 5 (Construction) and 9 (Community, Social and Personal Services) were too poorly represented to make such comparisons useful[29].

[28] "World Investment Report 1995: Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, p.94.

[29] The number of companies in the nine major divisions where number of employees was stated were 6, 2, 52, 15, 1, 54, 13, 37, and 4 respectively. A further 26 spanned more than one category. For the remaining 20 the number of employees was not supplied by "Management".

"Management" also ranks the top companies in a number of industry groupings. While these groupings are not identical with standard industry classifications, they are indicative. A summary is reproduced in Table 7.

In all but primary production, research[30], and transport and tourism, overseas companies are dominant, taking 60% to 100% of the top places. It is interesting to note that while overseas companies account for 73 of the 111 companies named, 26 of the remaining 38 are majority central government, local government, or cooperatively owned. Three of the 38 have since been become overseas owned.

Table 7

Overseas companies among top companies in various industry sectors[31]

Industry grouping	Number ranked	Number of overseas companies
Automotive	5	5
Banking, finance	10	8
Chemicals, pharmaceuticals	5	5
Communications, news media	5	3
Computers, office equipment	5	5
Food (processed), beverages	10	8
Industry services	5	4
Insurance	10	8
Manufacturing	10	8
Oil, gas, electricity	10	6
Primary Producers	10	0
Property investment	5	3
Research	1	0
Retail, wholesale, distribution	10	6
Transport, tourism	10	4

There are some areas where overseas companies are even more dominant even than the "Management" categories indicate. Some examples:

- In biscuits, Arnotts (U.S.A.) and Griffins (France) hold 90% of the market[32].
- Flour production is dominated by three Australian-owned companies: Goodman Fielder, Defiance Food Industries Ltd, and Allied Foods who together are estimated to have up to 85% of New Zealand flour milling sales and are the top three bread bakers[33]. In October 1996 Goodman Fielder's and Defiance's bread baking subsidiaries Quality Bakers New Zealand Ltd and Country Fare Bakeries Ltd respectively were each fined $150,000 by the High Court for fixing the price of bread in the

[30] This is consistent with a finding that where transnationals do any research and development (R&D) in New Zealand, it is largely just adaptation of existing products to local conditions. Among firms conducting research and development (R&D) in New Zealand were "multinational firms operating in New Zealand to serve the domestic market, largely with industrial staples (petroleum products, chemicals, telecommunications equipment). Competitive strategy was largely determined by the parent firm. R&D was focused on the adaptation of overseas-developed technology to meet the local market or environmental conditions and to meet government regulations." ("Technology Strategy in New Zealand Industry" by Professor Ron Johnston, Centre for Technology and Social Change, Illawarra Technology Corporation, University of Wollongong, Australia. Ministry of Research, Science and Technology, Report No. 12, November 1991, p.4.) In 1992, only 12% of R&D expenditure by U.S. based transnationals was spent abroad ("World Investment Report 1995: Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, p.151).

[31] "Management", December 1995, pp114-115. They are ranked by after-tax profit except for insurance and primary producer organisations which are ranked by turnover.

[32] "New Zealand Herald", "Biscuit jobs going to Australia", by Roger Fea, 6 September 1996.

[33] "Press", "Defiance Food sold to Goodman's", by Alan Williams, 8 March 1997, p.25.

South Island[34]. In March 1997, Goodman Fielder launched a takeover for Defiance's New Zealand operations.

- In brewing, DB (Singapore/Netherlands) and Lion Nathan (52% overseas owned) hold over 90% of the market[35].
- Circulation of daily newspapers is dominated by Independent Newspapers Ltd (News Ltd, Australia/U.S.A.) and Wilson and Horton (Ireland) which in 1996 together owned 81.2% of daily press circulation of newspapers with under 25,000 circulation (the main provincial newspapers), and 92.3% of the metropolitan readership (those newspapers with more than 25,000 circulation)[36].
- Petroleum supply (including about 20% of petrol stations selling 80% of all petrol) is completely owned by BP, Caltex (Socal/Texaco), Mobil, and Shell, who control the only petroleum refinery. A report by the Institute of Economic Research for the Ministry of Commerce, released in February 1997, concluded that the oil companies had gained from increasing petrol price margins since deregulation of the industry in 1988, which "suggest at least tacit collusion"[37].
- Domestic airlines are dominated by Ansett (Australia/U.S.A.), and Air New Zealand (Australia, Singapore/Malaysia/diverse).
- Rail transport is fully overseas owned (U.S.A.).
- New motor vehicle supply is entirely overseas owned (Ford, General Motors, Toyota, Mazda, Honda, etc).
- New computer hardware and software supply is largely overseas owned; the main national retailers are Brimaur and Renaissance (Singapore), Computerland (Singapore), Software Spectrum (formerly Essentially: U.S.A.), Noel Leemings (Singapore/U.K.), PC Direct (U.S.A.), and Southmark (Japan/U.K.). The only locally owned national chain is PC General.
- Telecommunications, where Telecom (U.S.A.) has a monopoly over domestic telephone connections, and approximately 80% of the tolls market[38], and whose main competitors in other areas are all overseas companies: Clear (U.S.A./U.K.), BellSouth (U.S.A./Singapore), Telstra (Australia), Ericsson (Sweden), and Blue Star (U.S.A.).
- Blue Star also dominates the office supplies and equipment market to the extent that it has attracted Commerce Commission monitoring[39]. Its main competition is U.S. owned Corporate Express Australia, and the Office Products Depot group, an owner-operated chain of 39 shops with a "strategic alliance" with two Australian chains, Office Products Promotions Co-operative and Office Network.
- There is only one significant New Zealand owned pharmaceutical manufacturer.

One sector particularly overseas dominated is the finance sector, where 20 of "Management's" 1995 Top 30 are overseas owned. All but one of the seven major banks, Bank of New Zealand, ANZ, National Bank, Trust Bank New Zealand, Westpac, ASB, and Countrywide, were overseas owned in 1995, and that one (Trust Bank) has since been taken over by Westpac. Of the top ten insurance companies (ranked by assets), AMP, Tower Corporation, National Mutual Life, NZI Life, Norwich Union, Prudential Assurance, Colonial Mutual Life, Guardian Assurance, NZI Insurance, and Sun Alliance Life, only one is a New Zealand company, a mutual: Tower Corporation. Overseas companies dominate not only by number but even more by turnover (82.9% of the Top 30), after-tax profit (97.6%), tax paid (80.9%), interest paid (88.1%), total assets (84.0%), and employees (85.3%). Their profit rates were also higher to a remarkable degree, at 0.96% return on assets compared to 0.82% for all the Top 30, or 0.13% for the locally owned 10. The difference in return on shareholders funds was not as clear (19.2% for overseas companies against 18.9% for local companies) but this data was not available for eight of the 30 companies.

It is useful to compare the few national aggregates available. The overseas companies in the Top 230 constitute 0.1% of all significant enterprises, pay 38.2% of company taxes, take 38.9% of earnings be-

[34] "Press", "Bakeries pay $300,000 for fixing prices", 18 October 1996, p.1.
[35] "Press", "$44m tax change cuts into Lion Nathan profitability", 19 April 1996, p.18; and "DB confident of paying dividend", 14 June 1995, p.25.
[36] "Newspapers - daily, non-daily, weekly, community: Summary of Audited Circulations, Period ended 30 September 1996", New Zealand Audit Bureau of Circulations (Inc), November 1996, tables "Daily Press > 25,000" and "Daily Press < 25,000"; and "Information about newspapers, 1996", Newspaper Publishers Association of New Zealand (Inc), pp. 2-3.
[37] "Press", "Consumers 'paying too much for petrol'", 14 February 1997, p.2; and "Oil company revenue 'too high'", 21 February 1997, p.8.
[38] "Press", "Telecom signals $1b share buy-back plan", 15 November 1996, p.17.
[39] "Press", "Yellow card for Blue Star", 2 August 1996, p.33.

fore interest and tax, and provide jobs for 12.3% of the full-time employed workforce ("Management" gives only full-time employee numbers).

Finally, using the Top 230 and the Business Activity statistics together we can estimate the part the overseas companies play in the total commercially oriented economy. To do so we assume that all overseas companies make profits, owe tax, and have shareholders' funds in approximately the same proportion to their number of full-time employees (196,101) as do the overseas companies in the Top 230 (152,413 employees)[40]. If this assumption holds then overseas companies in total owed company tax of $1,952 million, earned $14,477 million before interest and tax, and had shareholders funds of $40,646 million in 1995. The first two values represent 49.2% of company tax and 50.1% of company operating surplus nationally. The shareholders funds can be compared to the total of Foreign Direct Equity Investment plus Portfolio Equity investment in New Zealand's International Investment Position (NZIIP) for 1995. This came to $34,091 million, so the above estimate exceeds the SNZ's market-value estimate (by 19%). There are a number of reasons that could help explain this. Firstly we are not comparing like with like: market valuations may vary considerably from shareholders' funds. Secondly this is an estimate of the net assets controlled by overseas companies, whereas SNZ estimates the net assets beneficially owned overseas. So for example if a company is 25% overseas owned and thus qualifies as an overseas company, we count 100% of its assets whereas SNZ counts 25% (although from the Business Activities statistics, 89% of overseas companies are 50% to 100% overseas owned). Thirdly, SNZ does not attempt to estimate assets of companies it does not survey or do not respond, and a number of other assets are omitted. As noted above it heavily underestimates portfolio investment.

Given that the overseas companies in the Top 230 alone made almost 40% of company profits, a reasonable estimate is that around 50% of all operating surpluses (profits before interest and tax) made in New Zealand are made by overseas companies. If this is true, then since 1982-83, overseas companies have increased the proportion of the economy they control by about 50%, but their contribution as a proportion of employment has only recently reached 1982-83 levels, after dropping during the 1980's. Of course the dollar value of their ownership of the economy has increased far more dramatically.

Table 8

Overseas ownership of the shares of the NZSE Top 40 (%)[41]

Dec 1989	March 1991	Aug 1991	March 1992	Dec 1992	March 1993	Sep 1993	Nov 1994	May 1995	Aug 1995	March 1996
19	23	42	43	44	44	43	51	54	56	58

Another indication of this increase is shown in Table 8, which documents overseas ownership of shares in the Top 40 of the New Zealand Stock Exchange between 1989 and 1996. Mayes[42] points out that these will underestimate overseas ownership because it assumes all private clients (20% of shareholdings in August 1995) are New Zealand residents.

Foreign debt

Table 9 and Table 3 show foreign debt in two forms. What is labelled as "borrowing" under "portfolio and other investment" in Table 3 does not include debt owed by overseas companies in New Zealand to their parents, nor debt owed by New Zealand companies to their overseas subsidiaries. However it

[40] It could be that some of that profit would be in different forms to the Top 230: for example accruing to other parts of the parent companies' organisations through transfer pricing, or paid in interest on loans from the parent companies. In that case, taxation in New Zealand might be lower. An example of a further form of profit was given by the DB Group which reported that in the year ended 30 September 1996, it paid $732,000 to its controlling shareholder, Asia Pacific Breweries for "management advice", and a further $427,000 to subsidiaries of Asian Pacific's controlling shareholder, Heineken, for "technical and trademark agreements" (reported in the "Press", "DB Group cautions against liquor price-cutting", 21 January 1997, p.17).

[41] "Ownership structure of the New Zealand Stockmarket" (March 1996; September 1993, March 1991), Doyle Paterson Brown Ltd, quoted in "Further evidence on the ownership of New Zealand Stock Exchange Top 40 companies", by Mark Fox, Lincoln University, and Gordon Walker, Canterbury University School of Law, written for inclusion in the New Zealand Section of 1996 C&SLJ.

[42] Mayes, op. cit., p.15, 17.

shows a similar pattern to the full debt picture given in Table 9. Between March 1984 and March 1996, foreign debt rose from $16,360 million, or 46.7% of GDP, to $70,762 million or 79.1% of GDP.

Table 9

New Zealand's foreign debt 1983-1996[43]

March years	Private Sector $m	Official Govt $m	Other Govt $m	All Govt $m	Total $m	GDP $m	Private Sector % GDP	All Govt % GDP	Total % GDP
1983	3079	9178	2469	11,647	14725	31561	9.8	36.9	46.7
1984	3885	9336	3138	12,474	16360	35049	11.1	35.6	46.7
1985	5449	13916	5249	19,165	24614	39677	13.7	48.3	62.0
1986	5228	15595	5601	21,196	26424	45777	11.4	46.3	57.7
1987	7204	21822	7211	29,033	36237	55024	13.1	52.8	65.9
1988	7920	19269	6088	25,357	33276	62536	12.7	40.5	53.2
1989	7113	16777	6011	22,788	29902	67228	10.6	33.9	44.5
1990	22826	20041	10193	30,234	53059	71406	32.0	42.3	74.3
1991	32704	20198	8539	28,737	61441	72962	44.8	39.4	84.2
1992	35478	20036	7047	27,083	62561	73030	48.6	37.1	85.7
1993	41397	23523	3378	26,901	68299	75220	55.0	35.8	90.8
1994	43514	26289	3437	29,726	73240	79999	54.4	37.2	91.6
1995	44099	23418	2527	25,945	70044	86304	51.1	30.1	81.2
1996	48866	21896	0	21,896	70762	89470	54.6	24.5	79.1

Note: as from June 1995, the "Private Sector" category includes "Other Government".

The total is made up of government (public) debt and private debt. Government debt peaked as a percentage of GDP in 1987, but in dollar terms in 1990, and has been falling since (partly due to a change in definition in June 1995). However private sector debt has continued to rise inexorably in dollar terms, although it has levelled out at as a percentage of GDP at about 55%. Total debt appears to have levelled out largely due to government debt repayments but remains at very high levels by international standards and, as we have seen, its servicing is a matter of concern. It is the single most important contributor to the steadily deteriorating net International Investment Position seen in Table 3. The need to continue to attract such investment is a major factor in current high real interest rates.

The scale of all three forms of foreign investment, but particularly portfolio investment and lending, leads to high turnover on the foreign exchange market, described as follows by the governor of the Reserve Bank:

> "Daily turnover in the foreign exchange market is estimated to have been on average the equivalent of some NZ$12 billion in April 1995, roughly half of that involving the New Zealand dollar. Put another way, turnover involving the New Zealand dollar in one week exceeded the value of our total exports last year. In the course of a month, turnover was substantially greater than our entire annual GDP."[44]

Foreign investment thus becomes the principal factor setting New Zealand's exchange rate, currently too high from the viewpoint of exporters.

Flows of investment: new overseas investment in New Zealand

There are two main sources of official data on new overseas investment in New Zealand. Firstly, SNZ compiles Balance of Payments statistics, of which foreign investment capital flows are a component. SNZ breaks these down regionally and by type of investment. Secondly, the Overseas Investment Commission (OIC), which has statutory powers to regulate overseas investment, supplies both statistical

[43] SNZ, PCInfos, except that the 1996 GDP figure is an NZIER estimate quoted by SNZ.
[44] "New Zealand and international financial markets: have we lost control of our own destiny?", an address to the 31st Foreign Policy School, University of Otago, Dunedin, by Don Brash, governor, Reserve Bank Of New Zealand, 29 June 1996.

information on its decisions approving foreign investment applications, and information on individual applications.

SNZ's information has the advantage that it is measuring actual financial movements, whereas the OIC simply approves proposals without (until the Overseas Investment Amendment Act 1995 came into effect in 1996) checking whether they proceed, or proceed as approved. The OIC information is however more detailed. The Campaign Against Foreign Control of Aotearoa (CAFCA) has been collecting and analysing these decisions since December 1989[45]. These are useful and reasonably complete sources of information on individual examples of investment (though see below), but the data are not in a form from which stock of investment can be simply deduced. A computer database, "Gameplan: Strategic Decision Support" held by the Marketing International Management Department of the University of Waikato also has information on individual investments, but it has substantial inadequacies including missing data items and significant numbers of investments not recorded.[46] It is of more use in individual cases than for aggregate data.

The Balance of Payments data for 1990 to 1995 are summarised by country of origin in Table 10. For the just over $20 billion FDI over the period, the four principal sources have been (in decreasing order of importance) the U.S.A., Australia, Asia-Oceania region (excluding Japan), and the U.K. For the period 1989 to 1995, almost half (49.2%) of the investment was in equity capital, and almost equal amounts in other long-term capital (20.5%) and unremitted earnings (21.1%). Other long-term capital and short-term capital in total provided almost 30% of the investment, indicating that intra-company loans may be an important source of finance. However, "other long-term capital", which provided $4,476 million over the period, is heavily dominated by a single year, 1991, when $4,452 million came from the U.S.A. in this category.

[45] Published monthly or through the periodical "Foreign Control Watchdog", CAFCA, P.O. Box 2258, Christchurch, New Zealand.
[46] "Inward Foreign Direct Investment in New Zealand by Region and Sector", Helen Carter, University of Waikato, 1996.

Table 10

Foreign Direct Investment flows into New Zealand ($NZ million) [47]

Total 1990-1995

	Asia-Oceania	Australia	Canada	Japan	LAC	Other	Other EU	Other OECD	UK	USA	Total
Equity Capital	1,471	2,357	796	609	14	4	89	80	1,957	2,871	**10,249**
Other long-term capital	339	1,183	-1	-76	153	-1	996	19	245	1,654	**4,507**
Short-term capital	344	739	-78	62	32	3	158	-2	129	484	**1,873**
Unremitted earnings	602	1,649	32	-14	-16	-2	46	185	212	1,021	**3,717**
Total	**2,756**	**5,928**	**748**	**580**	**181**	**7**	**1,287**	**281**	**2,542**	**6,028**	**20,343**

(Other EU = Other European Union; LAC = Latin-American-Caribbean)

Summary, 1989-1995

	1989	1990	1991	1992	1993	1994	1995	Total	% Total
Equity Capital	505	2970	-249	1795	1953	1891	1889	10,754	**49.2%**
Other long-term capital	-31	63	4452	-1199	924	860	-593	4,476	**20.5%**
Short-term capital	167	92	-948	937	613	646	533	2,040	**9.3%**
Unremitted earnings	84	-301	-322	494	916	1309	2432	4,612	**21.1%**
Total	725	2824	2932	2026	4405	4706	4261	21,879	**100.0%**
									95/89
Gross Fixed Capital Formation[48]	12,893	14,303	13,796	11,541	12,366	14,712	17,260	96,871	**134%**
FDI as % of GFCF	5.6%	19.7%	21.3%	17.6%	35.6%	32.0%	24.7%	22.6%	**439%**
GDP	67,228	71,406	72,962	73,030	75,220	79,999	86,304	526,149	**128%**
GFCF as % of GDP	19.2%	20.0%	18.9%	15.8%	16.4%	18.4%	20.0%	18.4%	**104%**
Private GFCF	9,735	10,956	10,303	9,131	10,111	12,742	15,063	78,041	**1545%**
Private GFCF as % GDP	14.5%	15.3%	14.1%	12.5%	13.4%	15.9%	17.5%	14.8%	**121%**
Govt GFCF	3,158	3,347	3,493	2,410	2,255	1,970	2,197	18,830	**70%**
Govt GFCF as % GDP	4.7%	4.7%	4.8%	3.3%	3.0%	2.5%	2.5%	3.6%	**54%**

[47] Regional and summary statistics for all years were supplied by SNZ. The summary table uses global totals which come from quarterly surveys, as compared to the annual surveys used for the regional data. The two tables therefore differ, the Summary being more reliable.
[48] Gross Fixed Capital Formation is the total of private, central government and local government GFCF. PCINFOS, SNZ.

It is noteworthy in light of debates as to New Zealanders' saving rates, that unremitted earnings (that is, profits made in New Zealand but not paid out to the overseas owners) are providing a steadily increasing proportion of the total FDI into New Zealand. In 1990 and 1991 there was a disinvestment of unremitted earnings; in 1992, 24.4% of the investment came from this source, and by 1995 over half (57.1%) of the invested funds were in fact raised in New Zealand.

A useful indicator as to the importance of FDI in relation to New Zealand's total capital requirements is the proportion of FDI flows to Gross Fixed Capital Formation (GFCF). This is calculated in Table 10 for the years 1989 to 1995. FDI averages just under one quarter (22.6%) of GFCF over that period but varies between 5.6% and 35.6%. UNCTAD has compared this ratio for a large number of countries. For all economies for 1993 it averaged 4.3%, for developed economies 3.5% and for developing economies 7.1%. New Zealand is easily the most dependent developed economy on FDI by this measure, the closest being Belgium and Luxembourg with a ratio of 25.4% in 1993. Hungary and a few developing countries, including Argentina, Malaysia, Namibia, Nigeria, Papua New Guinea and Singapore, are of similar dependence, but it is exceptional internationally[49].

Also tabulated is the ratio of GFCF to GDP for those years. It averages 18.4% over that period, varying from 15.8% to 20.0%. That range is a little lower than that internationally for developed economies (20.2% in 1993 for example) and developing economies (19.7% in 1993, although it had been 24.5% for the five years 1986-1990)[49]. The high rate of FDI does not appear to have boosted the total rate of investment in New Zealand compared to other countries. GFCF is also shown split into private versus government GFCF. Government GFCF has fallen substantially in both dollar terms (by 30%) and as a percentage of GDP (from 4.7% to 2.5%) from 1989 to 1995. This reinforces the view that FDI inflows have been heavily influenced by privatisation of government assets during the period. Government investment has effectively been replaced by overseas investment without increasing the overall level of investment in proportion to GDP.

More detail can be seen in the statistics of the OIC. Some important caveats must be borne in mind. The statistics record the applications to the Commission. The OIC notes that they include transactions which do not proceed; are "just in case", to allow a security on a financing arrangement to be claimed in case of default; are the transfer of assets from one overseas owner to another or a corporate restructuring from one subsidiary of an overseas owned company to another; are joint venture arrangements with up to 75% New Zealand share, but the OIC records the full value of the transaction as being overseas owned; or involve overseas people who subsequently become residents of New Zealand. These tend to overstate total levels of investment. The OIC states that when they removed "some but not all" of the above types of transactions from the 444 transactions in 1995 involving \$4.9 billion, 332 were left, involving \$2.9 billion. On the other hand, these statistics do not include overseas investment transactions that result in the investor owning less than a 25% interest, or are less than \$10 million (unless they involved land). Hence most smaller investments are not recorded, but neither are some larger ones such as a 20% holding in Brierley Investments purchased in March 1996 costing over \$800 million[50]. In addition, the OIC has given exemptions to 80 institutional portfolio overseas investors, and (as of April 1996) to eleven overseas companies it considers are controlled in New Zealand[51], including Fletcher Challenge Ltd[52] and a wholly owned subsidiary of Brierley Investments Ltd, Brierley NZ Assets Ltd[53].

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[49] "World Investment Report 1995: Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, Annex table 5, pp.411-419.

[50] "Singapore Business Times", "Capital Group cuts stake in Brierley", 20 March 1996.

[51] Overseas Investment Exemption Notice 1995, and Overseas Investment Exemption Notice 1995, Amendment No. 3.

[52] FCL Paper is 47.7% overseas owned; FCL Energy 40.5%, FCL Building 42.1%, and FCL Forests 54.2%, according to FCL's 1996 Financial and Operating Report, p.61.

[53] BIL's Chief Executive, Paul Collins, was quoted in the "New Zealand Herald" ("Swoop on Brierley causes no surprise", 16 March 1996) as estimating overseas ownership of the company at "around 50%". This includes over 25% owned by two related major shareholders from Singapore and Malaysia. Until December 1996, BIL also had an exemption, but that month the Overseas Investment Commission decided that BIL was overseas controlled, but allowed an exemption for BIL NZ Assets Ltd on the basis that it was to appoint directors, three out of four of whom were New Zealand residents (letter to CAFCA, 20 December 1996). This was apparently to enable BIL to avoid having to sell its "A" shares in Air New Zealand (those which may be owned only by New Zealand residents or companies). It also

provided BIL an avenue to avoid reducing its 50% shareholding in Sealords, which will be subject to the limitations on overseas ownership in the Fisheries Act 1996 when it is brought into force.

Table 11

Overseas Investment Commission approvals and values by activity 1991-1995[54]

	1991		1992		1993		1994		1995		1991-1995			
Activity	No.	$	No.	$	No.	$	No.	$	No.	$	No.	%	$	%
Accommodation	**17**	**286,597,057**	**10**	**80,827,308**	**22**	**133,709,417**	**18**	**259,555,545**	**18**	**278,262,903**	**85**	**4.6%**	**1,038,952,230**	**3.2%**
Agriculture	**53**	**28,427,391**	**61**	**33,691,134**	**58**	**39,782,796**	**56**	**180,366,480**	**53**	**71,106,562**	**281**	**15.1%**	**353,374,363**	**1.1%**
Beef Farming	5	5,090,000	2	1,920,000	3	2,260,000	2	12,237,500	3	3,392,600	15	0.8%	24,900,100	0.1%
Dairy Farming	3	2,112,000	9	6,105,000	5	1,050,000	12	65,226,000	3	3,585,000	32	1.7%	78,078,000	0.2%
Orchard	4	3,332,940	5	1,026,983	3	1,140,000	4	1,840,000	13	32,031,236	29	1.6%	39,371,159	0.1%
Sheep Farming	16	11,670,936	13	9,099,041	12	17,905,635	16	74,561,500	16	16,781,000	73	3.9%	130,018,112	0.4%
Vineyard	8	1,910,190	12	2,027,955	8	10,683,250	12	22,385,400	7	11,024,800	47	2.5%	48,031,595	0.1%
Other agriculture	17	4,311,325	20	13,512,155	27	6,743,911	10	4,116,080	11	4,291,926	85	4.6%	32,975,397	0.1%
Entertainment	**11**	**4,647,125**	**12**	**47,336,700**	**7**	**40,115,460**	**6**	**86,885,000**	**10**	**37,284,020**	**46**	**2.5%**	**216,268,305**	**0.7%**
Communications and Telecommunications	**8**	**250,056,500**	**10**	**61,440,587**	**15**	**1,884,977,439**	**16**	**126,124,922**	**23**	**228,188,399**	**72**	**3.9%**	**2,550,787,847**	**7.8%**
Finance	**23**	**554,726,595**	**11**	**2,874,951,181**	**9**	**361,151,883**	**6**	**329,052,333**	**8**	**114,680,132**	**57**	**3.1%**	**4,234,562,124**	**13.0%**
Banks	11	166,425,000	10	2,860,791,927	3	327,000,000	1	198,333,333	1	53,680,132	26	1.4%	3,606,230,392	11.1%
Insurance	12	388,301,595	1	14,159,254	6	34,151,883	5	130,719,000	7	61,000,000	31	1.7%	628,331,732	1.9%
Fishing	**3**	**200,000**	**1**	**910,000**	**3**	**24,400,100**	**0**	**0**	**3**	**19,578,537**	**10**	**0.5%**	**45,088,637**	**0.1%**
Forestry	**13**	**396,358,200**	**22**	**627,500,324**	**58**	**184,362,517**	**84**	**512,166,981**	**130**	**258,209,130**	**307**	**16.5%**	**1,978,597,152**	**6.1%**
Manufacturing	**49**	**1,632,470,721**	**41**	**607,575,446**	**50**	**3,034,539,990**	**38**	**384,333,556**	**38**	**492,739,151**	**216**	**11.6%**	**6,151,658,864**	**18.9%**
Media	**7**	**34,681,543**	**5**	**75,000,000**	**2**	**48,440,000**	**0**	**0**	**7**	**417,356,938**	**21**	**1.1%**	**575,478,481**	**1.8%**
Print Media	0	0	5	75,000,000	2	48,440,000	0	0	6	332,741,554	13	0.7%	456,181,554	1.4%
TV Broadcasting	7	34,681,543	0	0	0	0	0	0	1	84,615,384	8	0.4%	119,296,927	0.4%
Mining	**26**	**113,975,351**	**10**	**41,652,000**	**16**	**251,665,895**	**12**	**73,239,000**	**25**	**212,994,388**	**89**	**4.8%**	**693,526,634**	**2.1%**
Property	**41**	**1,205,583,571**	**30**	**263,911,874**	**80**	**1,824,043,847**	**71**	**1,592,528,589**	**50**	**441,359,763**	**272**	**14.6%**	**5,327,427,644**	**16.4%**
Services	**36**	**948,312,537**	**61**	**755,850,154**	**35**	**923,416,347**	**34**	**894,697,223**	**42**	**1,173,589,092**	**208**	**11.1%**	**4,695,865,353**	**14.4%**
Business	6	44,286,288	13	265,958,414	9	36,386,569	5	94,241,236	5	112,590,000	38	2.0%	553,462,507	1.7%
Environmental									11	185,030,020	11	0.6%	185,030,020	0.6%
Financial	13	402,597,748	36	440,714,361	9	138,759,678	15	687,452,662	10	483,544,871	83	4.4%	2,153,069,320	6.6%
Transport	15	500,950,001	7	47,875,891	17	748,270,100	6	20,242,455	7	351,705,217	52	2.8%	1,669,043,664	5.1%
Other Services	2	478,500	5	1,301,488	0	0	8	92,760,870	9	40,718,984	24	1.3%	135,259,842	0.4%
Thoroughbred Stud	**4**	**4,120,000**	**1**	**6,000,000**	**5**	**2,425,076**	**0**	**0**	**6**	**4,623,237**	**16**	**0.9%**	**17,168,313**	**0.1%**
Utilities	**1**	**0**	**2**	**94,640,000**	**1**	**74,640,000**	**7**	**447,062,394**	**6**	**765,504,433**	**17**	**0.9%**	**1,381,846,827**	**4.2%**
Electricity Supply	1	0	2	94,640,000	1	74,640,000	5	295,803,020	6	765,504,433	15	0.8%	1,230,587,453	3.8%
Gas Supply	0	0	0	0	0	0	2	151,259,374			2	0.1%	151,259,374	0.5%
Wholesale/Retail	**30**	**813,168,250**	**40**	**790,038,615**	**21**	**581,184,358**	**14**	**340,027,848**	**25**	**361,739,424**	**130**	**7.0%**	**2,886,158,495**	**8.9%**
Holding Companies	**13**	**27,014,293**	**26**	**378,481,691**	*	*	*	*	*	*	**39**	**2.1%**	**405,495,984**	**1.2%**
Total	**335**	**6,300,339,134**	**343**	**6,739,807,014**	**382**	**9,408,855,125**	**362**	**5,226,039,871**	**444**	**4,877,216,109**	**1,866**	**100.0%**	**32,552,257,253**	**100.0%**

* In 1993 the classification for holding companies was deleted and the applications recorded under the activity they directly relate to.

[54] Overseas Investment Commission, 5 August 1996, attachment 4.

Table 12

Overseas Investment Commission approvals involving land, by country of origin of investment 1991-1995[55]

Country	Approvals	%	Area (ha.)	%	$	%
Australia	69	9.8%	13,794	5.7%	79,758,536	6.1%
Canada	13	1.9%	2,176	0.9%	395,955,900	30.5%
China	4	0.6%	1,127	0.5%	11,875,000	0.9%
Fiji	1	0.1%	4	0.0%	76	0.0%
France	2	0.3%	81	0.0%	1,085,000	0.1%
Germany	17	2.4%	2,154	0.9%	14,383,637	1.1%
Hong Kong	39	5.6%	22,563	9.4%	33,617,887	2.6%
Indonesia	6	0.9%	17,745	7.4%	6,749,244	0.5%
Ireland	1	0.1%	262	0.1%	1,500,000	0.1%
Italy	2	0.3%	1,199	0.5%	1,755,000	0.1%
Japan	82	11.7%	28,290	11.7%	144,122,776	11.1%
Korea	5	0.7%	261	0.1%	1,937,080	0.1%
Malaysia	43	6.1%	33,873	14.0%	79,030,248	6.1%
Netherlands	13	1.9%	1,909	0.8%	6,753,500	0.5%
New Caledonia	6	0.9%	291	0.1%	3,975,000	0.3%
New Zealand	10	1.4%	8,745	3.6%	29,989,000	2.3%
Paraguay	1	0.1%	357	0.1%	300,000	0.0%
Qatar	3	0.4%	2,378	1.0%	5,700,000	0.4%
Scandinavia	2	0.3%	876	0.4%	1,065,576	0.1%
Saudi Arabia	1	0.1%	393	0.2%	2,050,000	0.2%
Singapore	37	5.3%	3,553	1.5%	38,198,960	2.9%
South Africa	1	0.1%	282	0.1%	1,225,000	0.1%
Switzerland	21	3.0%	1,008	0.4%	8,269,750	0.6%
Tahiti	5	0.7%	1,600	0.7%	2,340,000	0.2%
Taiwan	80	11.4%	7,778	3.2%	40,458,941	3.1%
Thailand	2	0.3%	9	0.0%	657,500	0.1%
United Arab Emirates	1	0.1%	98	0.0%	292,500	0.0%
United Kingdom	68	9.7%	11,964	5.0%	145,913,715	11.2%
United States	165	23.5%	76,432	31.7%	240,237,312	18.5%
Vanuatu	1	0.1%	4	0.0%	850,000	0.1%
Total	**701**	**100.0%**	**241,206**	**100.0%**	**1,300,047,138**	**100.0%**

55 Overseas Investment Commission, released under Official Information Act to CAFCA, 23 September 1996.

Table 11 shows numbers and values of OIC approvals for the period 1991-1995, by activity. Looking at the full period, where a total of $32,552 million is recorded, the principal areas of investment were Accommodation (3.2% or $1,039 million, mainly in hotels), Communications and Telecommunications (7.8% or $2,551 million), Banks (11.1% or $3,606 million, a large part being the 1992 takeover of the Bank of New Zealand by the National Australia Bank); Manufacturing (18.9% or $6,152 million), Property (16.4% or $5,327 million, mainly in purchases for Commercial Leasing), Services (14.4% or $4,696 million, principally in Financial Services and Transport); Electricity Supply (3.8% or $1,231 million, more than half of which was in 1995), and the Wholesale and Retail Trade (8.9% or $2,886 million). Thus further investment appears to be going into most of the important existing areas indicated in 1982-83 and in the Business Activities statistics, but there is growth in three less traditional areas which have been widely commented on: accommodation, electricity supply, and property. The investment reinforces the trend of manufacturing falling as a proportion of overseas investment stock, to the benefit of services.

One area in which information is unavailable other than from the OIC is in land sales, for which special criteria apply because of the public concern regarding such sales[56], although the OIC has rejected only one application since new legislation came into force at the beginning of 1996. Table 12 shows total land sales for the period 1991-1995 by origin of investor. Of most significance is the area sold, because the value is that of the total investment, of which land may be only a small part (such as the approval of the Stratford power station in 1995, which involved 12.6 hectares of land but whose construction was valued at $380 million). Area sold during those years has risen rapidly, being 41,896, 29,991, 48,997, 58,650, and 61,672 hectares respectively in those five years[57], a total of 241,206 hectares. The Overseas Investment Commission estimates these as 3.8% of total farm sales and 1.13% of forested and farm land. However it should be remembered that many land sales escaped Overseas Investment Commission oversight prior to new legislation passed in 1995, in particular land sold as part of the sale of a company to an overseas person. For example, over 937,000 hectares of forest land was owned or managed by overseas companies in 1996[58], bringing total overseas controlled land to around 5% of forested and farm land. In dollar terms, land is a very small part of overseas investment in New Zealand, though highly significant to many New Zealanders.

The origin of overseas land purchasers shows a different pattern to that for overseas investment in general. The top countries for the five year period are (in decreasing order of hectares purchased) the U.S.A. (31.7%, 76,432 hectares), Malaysia (14.0%, 33,873 hectares), Japan (11.7%, 28,290 hectares), Hong Kong (9.4%, 22,563 hectares), Indonesia (7.4%, 17,745 hectares), Australia (5.7%, 13,794 hectares) and the U.K. (5.0%, 11,964 hectares). Forestry was the purpose of 56.3% of those hectares and 33.7% of the approvals, the only other large usage being sheep farming (18.4%, 44,311 hectares) which was dominated by a single transaction in 1991.

Greenfield development or takeover?

Information from the OIC also gives some impression of the degree to which FDI is "greenfield" or takeover of existing resources. It is not so useful for judging what proportion of investment is passive or active because so much passive investment is not subject to its oversight or is exempted by it. In the past, the OIC has divided its applications into "takeovers" and "business commencements". This is not as useful as it appears, and the OIC has discontinued the practice. It cites as an example of the confusion possible, the frequent case of a overseas company starting up a New Zealand subsidiary solely for the purpose of acquiring the assets of a New Zealand company. The single effective investment would then be classified as both a business commencement and a takeover. For what it is worth, Table 13 shows numbers of each type of application for the years 1987 to 1995, with dollar values for 1992 and 1993. Business commencements and takeovers were reasonably equally distributed in 1993 but the dollar value of takeovers heavily outweighed commencements in 1992 – by a ratio of 2.5 to 1.

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[56] For example an NBR-Consultus poll in May 1995 showed 47% of the public did not support the sale of land to foreigners while 51% wanted it outlawed, with results similar across the political spectrum (e.g. "Press", "Poll shows Chch strongly against foreign ownership", 27 May 1996, p.4). A One Network News/Colmar Brunton poll in June 1995 showed 72% of New Zealanders opposed making it easier for foreigners to buy land in New Zealand ("Dominion", "Kiwis oppose investment, poll finds", 21 June 1995).

[57] Information from the Overseas Investment Commission, 5 August 1996, Attachment 6.

[58] "Quick Forest Facts", October 1996, Ministry of Forestry. The areas are as at 1 April 1995, reallocated by ownership as at 1 October 1996. .

Table 13

Overseas Investment approvals 1987-1995[59]

						1992		1993		1994		1995	
	1987	1988	1989	1990	1991	No.	$	No.	$	No.	$	No.	$
Applications													
Takeovers													
Registered	849	1060	862	219	156	140	4,924,939,997	163	4,786,188,619				
Declined	0	0	1	1	0	0	0	0	0				
Business commencements													
Registered	891	919	677	201	179	203	1,934,867,017	219	4,622,666,506				
Declined	1	0	0	1	0	0	0	0	0				
Total registered	**1740**	**1979**	**1539**	**420**	**335**	**343**	**6,859,807,014**	**382**	**9,408,855,125**	**362**	**5,226,039,871**	**444**	**4,877,216,109**
Total declined	**1**	**0**	**1**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total approved	**1739**	**1979**	**1538**	**418**	**335**	**343**	**6,859,807,014**	**382**	**9,408,855,125**	**362**	**5,226,039,871**	**444**	**4,877,216,109**
Final Ownership													
U.K.	234	237	164	65	47	55	1,546,384,129	44	489,283,982	37	266,228,604	56	1,120,725,896
U.S.	146	192	162	43	49	53	554,038,519	85	3,728,830,614	83	803,858,013	126	719,306,814
Australia	960	1006	817	166	74	124	3,599,336,322	79	2,250,232,004	52	1,535,480,288	58	1,428,356,058
Japan	52	96	100	57	43	42	439,526,531	27	172,064,707	20	89,619,475	29	165,345,740
Hong Kong	57	42	39	22	12	1	150,000,000	29	516,905,100	41	928,382,125	28	117,080,138
Singapore	3	25	21	14	19	21	161,002,507	45	534,819,201	28	415,522,771	33	304,463,084
Canada	*	*	*	*	5	5	*	7	1,462,509,035	16	435,213,272	8	593,282,381
Others*	287	381	235	51	86	42	409,519,006	66	254,210,482	85	751,735,323	106	428,655,998
Total	**1739**	**1979**	**1538**	**418**	**335**	**343**	**6,859,807,014**	**382**	**9,408,855,125**	**362**	**5,226,039,871**	**444**	**4,877,216,109**
% Overseas Ownership													
Up to 49.9%	96	90	66	10	33	20		13					
50%	66	82	53	16	7	13		18					
50.1 to 74.9%	87	61	86	10	22	13		32					
75 to 100%	1490	1746	1333	382	273	297		319					
Total	**1739**	**1979**	**1538**	**418**	**335**	**343**	**6,859,807,014**	**382**	**9,408,855,125**	**362**	**5,226,039,871**	**444**	**4,877,216,109**

* Included in "others"

[59] Overseas Investment Commission, various years. The total for 1992 varies from Table 11 presumably because of later revisions. Note that the fall in applications between 1987-89 and 1990-1995 is due to a change in the Overseas Investment Regulations. Until 1989, investments of $2 million or over had to have OIC approval; the cut-off was then raised to $10 million.

An analysis of the 1995 decisions released by the OIC gave the results in Table 14. Some data are missing (affecting 45 decisions), most (39) being suppressed by the OIC under the Official Information Act. These include some significant takeovers. The decisions are categorised using information supplied with the decisions and any public information available. Because of the requirements of the criteria for purchase of land by overseas persons, all applications claim further development will occur, implying some element of greenfield activity. A judgement was made based on the description, the applicant's prior activities and record, and on the amount of money being invested, as to whether a significant element of greenfield development was credible at the time of investment. Where multiple approvals related to a single investment, only one was counted.

Just half (50%) of the investments appeared to be greenfield activity, but these were worth only a quarter (24%) of the value, largely because the great majority of them are afforestation developments of blocks of land from five hectares up to a few thousand hectares and of relatively small dollar value. The \$777 million of greenfield development was dominated by two projects: \$380 million for the Stratford power station (Fletcher Challenge, TransAlta Energy of Canada, and Mercury Energy), and \$150 million for Anglian Water PLC of the U.K. to build Wellington City Council wastewater treatment plants. The remaining 76% by value were takeovers or acquisitions of existing assets. Of this, 17% of the total value was internal restructuring among subsidiaries of one group of companies and 8% was sales from one overseas owner to another, often because of an international merger or takeover. The great majority (79% of decisions and 90% by value) appeared to be active investment in the sense that the new owner intended to take an active role in the management or direction of the enterprise. A large number of the remainder were small blocks of land being sold for forestry development under the management of a local company. The pattern of the period, of takeovers dominating direct investment in New Zealand, appears to be continuing.

Table 14

Types of investment among Overseas Investment Commission decisions, 1995

	Investments	Active	Greenfield	Internal restructuring	Between two O/S owners
Number	387	307	194	52	32
% of total number	100%	79%	50%	13%	8%
Value (\$million)	3,278	2,963	777	573	249
% of total \$ value	100%	90%	24%	17%	8%

Conclusions

Available data gives a reasonably consistent picture. By international standards, New Zealand is exceptionally dependent on FDI both for new investment and for existing investment stock. Important sectors of the economy are completely or largely dominated by FDI, the main exceptions being in areas related to primary production, although that too is changing. In some important sectors, the only New Zealand owned enterprises remaining are cooperatives, mutuals, or government owned. FDI appears to have replaced government investment rather than increasing New Zealand's total gross fixed capital formation.

Rates of profit of overseas companies are significantly higher than locally owned companies and are high by international standards, partially explaining the spectacular increase in foreign investment stock, at least since statistics have been available in 1989. An increasing proportion of new FDI is through reinvestment of profits made in New Zealand rather than funds provided from overseas, but this has varied greatly and on average about 60% of profits are still remitted overseas. It appears that loans between related companies has been a major method of providing FDI, so the interest on these loans must also be taken into account. Amongst the Top 200 companies in 1995, overseas companies paid a significantly lower rate of tax on their profits than New Zealand companies.

However this investment has not been a very potent job creator. While overseas companies are estimated to take half of the operating surpluses made in New Zealand, they provide only 18% of employment. At the beginning of the decade, wages paid by overseas companies were higher than the average, but the move away from manufacturing to service industries since then means the balance may have changed, although data is not available to test this.

The evidence presented here does not support the view that foreign direct investment tends to improve productivity. Amongst the Top 230 companies in 1995, New Zealand companies were more productive than overseas companies. In the economy as a whole, the rate of growth of labour productivity has fallen over the period since 1989, at a time of large increases in foreign direct investment[60].

New investment appears to have been predominantly takeovers (privatisation being a principal driver) rather than greenfield asset creation, and has been largely active investment seeking control of the enterprise rather than solely seeking a financial return.

In important areas such as exporting and importing behaviour (intra-firm trading), taxation avoidance, technology transfer and management methods, reliable data are still lacking, and analysis hardly exists. There is little data on which to base conclusions on the value to New Zealand of this investment on the usual criteria such as improved technology, new expertise, or opening of markets. Much such evidence remains anecdotal or relies on claims made by the investor, or sheer assertion. However the evidence presented above indicates that transfer of skills and technology is by no means one way. Further, where skills or technology are required from overseas, a case must be made that they cannot be acquired through direct importing of technology or skilled personnel (as Telecom did before privatisation) rather than reliance on FDI with the other problems it brings. There is evidence that FDI has a deadening effect on research within New Zealand.

In addition, New Zealand still has a heavy and rising burden of foreign debt despite the radical changes to public services and the economy since 1984. Much of the foreign debt has been privatised. While not as large as either foreign debt or FDI, portfolio foreign investment is important, if difficult to estimate. The scale of all three forms of foreign investment leads to high turnover on the foreign exchange market. This mobility of capital makes it the principal driver of our exchange rate, having had a direct effect recently in reducing the competitiveness of exports. In recent years, high real interest rates resulting from monetary policies and the high level of foreign indebtedness have attracted foreign lenders, driving up the exchange rate and making exporting increasingly difficult. Marketing advantages that FDI in New Zealand may bring to exports are undermined by these other effects.

New Zealand's high dependence on foreign investment also places serious limits on policy options available to New Zealand governments, or national sovereignty. As Gavin Walker, chief executive of (U.S. owned) Bankers Trust, and head of the government's Foreign Direct Investment Advisory Group put it,

> "The indirect effects of any significant action to limit foreign investment would go further. If we were to backtrack, there would be a loss of confidence in the country's direction, an increased country risk premium (meaning higher interest rates), and a fall in the value of the New Zealand sharemarket. Investors – foreign and domestic – would conclude if New Zealand was foolish enough to take such a step, worse would inevitably follow…
>
> "A liberal policy on foreign investment has much to commend it, both for traditional reasons and for the greater constraints it places on government today to follow sound policies."[61]

"Sound policies" from the viewpoint of overseas investors, which focus on security of investment, and internationally attractive profit and interest rates, are unlikely to coincide with New Zealanders' needs for social welfare, health, education and employment.

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[60] See for example, "The New Zealand Macroeconomy: a briefing on the reforms", by Paul Dalziel and Ralph Lattimore, Oxford University Press, Auckland, 1996, p.69.
[61] "Evening Post", "Foreigners can't take our land away", 31 July 95.