The Ultimate Sources of Foreign Direct Investment

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Executive summary

The Balance of Payments and International Investment Position statistics provide information about immediate foreign investment into New Zealand. This paper presents a study that investigated where foreign direct investment into New Zealand ultimately came from, in the March 2010 quarter, by identifying the ultimate parents of the companies directly investing in New Zealand. The results were then compared with the last study on the same topic in 2005.

The study considered total foreign direct investment as well as the two types of investment: equity capital and other capital. The investment data was analysed by country then aggregated by continent and various country groupings. The results focus on comparing the levels of immediate investment from countries to levels of ultimate investment allocated to countries. The method used to find the ultimate source was the method proposed by Eurostat in 2005.

The study found that different countries had different ways of moving investments through countries in the March 2010 quarter. There was a large difference between the ultimate and immediate investment from the Netherlands, while countries like Australia and Japan had consistent levels of investment. Tax havens were confirmed to be generally immediate investors of New Zealand rather than ultimate investors.

Introduction

This study aims to find out who the ultimate parents of the companies directly investing in New Zealand are. Many direct investors are partially or wholly owned by other companies; these are called parent companies. After following the chain of ownership the ultimate parent is found. The purpose of the study is to find out whether the country in which the parent companies are incorporated is different to that of the immediate investors, in order to discover which countries influence the New Zealand economy.

This information is not currently readily available. Statistic New Zealand's Quarterly International Investment Survey (QIIS) provides information about direct investment into New Zealand; however, survey information is limited in that it only collects details of the immediate direct investors. So, this study involved the collection and analysis of information for the March 2010 quarter.

Background

Ultimate investment data can show which countries influence the New Zealand economy. It can also show to what extent different company structures, such as subsidiaries in tax havens, have been used in the movement of investments. In recent years, two organisations have realised the value of this information and are beginning to provide suggestions and guidelines for the production of ultimate source information: the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).

Direct investment into New Zealand

A direct investor is an enterprise with a 10 percent or more ownership of the ordinary shares or voting power of an enterprise, as defined by the IMF. Once a direct investment relationship has been established, all financial transactions between the investor and investee are known as direct investments. A direct investor is said to have control over the direct investment enterprise if it holds more than 50 percent of the shares in the direct investment enterprise. If it holds between 10 and 50 percent of shares, then it has a significant degree of influence over the direct investment enterprise.

These rules of control and influence continue up the chains of ownership and investment. An ultimate source has control or influence on the immediate direct investor's funds and activities (through capital investment) and/or management and decision making (through voting power). Hence, ultimate investment data can show which countries influence the New Zealand economy.

There are two other types of investment: portfolio investment, where an investor holds less than 10 percent of the ordinary shares in an enterprise; and other investment, which comprises tradable debt instruments such as loan, deposits, and trade finance.

International movement of investments

Foreign direct investment has a large impact on small open economies like New Zealand and can be a sign of potential economic growth. Complex chains of investment and ownership, crossing many international boundaries, can conceal the ultimate sources of foreign direct investment, which may be different from the immediate sources of funds. It is important to understand these flows and where the investment is coming from.

If an ultimate source is in a different country to the immediate investor it could change our understanding of which countries have the biggest impact on the New Zealand economy. It could also bring to light new countries that were not known to influence our economy.

As well as identifying the countries the ultimate parents reside in, this study examines how investments move through different types of country groupings, to see whether they play a role in the way investments are moved. There are a range of groupings that may affect movements in investment in different ways including tax havens, countries with the closest proximity to New Zealand, and large economies.

One of the country groupings of interest is tax havens. These are countries that alter their tax laws in order to attract investment; tax havens tend to have little or no tax. However, in many of those situations the investment does not stay in that tax haven; this can be seen where the immediate investor is incorporated in a known tax haven but is wholly owned by another company in another country. Often a company incorporated in a tax haven can essentially be a company on paper, there to take advantage of the negligible tax rates.

Company structures can be manipulated in ways that will benefit the company the most – channelling funds through tax havens to take advantage of the negligible tax rates, or placing funds in special purpose entities or holdings companies where the funds flow through the company with little impact on the country they are in. This study allows the removal of immediate investors that may not add value to the investments.

In 2005 a similar study was conducted by Statistics New Zealand to find the ultimate sources and destinations of foreign direct investment. The results of this study will show if, and how, direct investment into New Zealand has changed.

International guidelines for identifying the ultimate source

The OECD produces a 'Benchmark Definition of Foreign Investment' which sets the international standards for direct investment statistics. In the 4th edition (2008) the OECD recommended a new breakdown of direct investment position by ultimate investing country, for inward foreign direct investment (FDI).

The IMF writes a guide for IMF member countries that regularly report balance of payments data. In the 5th edition of the Balance of Payments Manual (BPM5) it was suggested that the ultimate investment country data would be of interest from analytical and policy-making points of view. The 6th edition (BPM6) states that a research agenda has been identified for possible future work in ultimate investing economy and ultimate host economy in direct investment.

In 2004 and 2005, papers were presented to the Direct Investment Technical Expert Group (DITEG). The DITEG was created by the IMF Committee on Balance of Payments Statistics and the OECD Workshop on International Investment Statistics. The papers were about country identification on the topic of ultimate source and destination of direct investment. The papers were presented by a member of the US Bureau of Economic Analysis and members of Eurostat, the statistical office of the European Union. The method outlined in the Issues Paper prepared by Eurostat was used to find the ultimate source in this project; the same method used in the previous study.

Method for investigating ultimate sources

The Quarterly International Investment Survey (QIIS) surveys 500 enterprises. These enterprises make up 95 percent of New Zealand’s financial assets and liabilities held by the corporate and financial sector. The questionnaire is designed to be completed by the ultimate New Zealand holding company on behalf of every enterprise within the New Zealand group.

Of the enterprises surveyed, those that held the top 75 percent of absolute foreign direct investment into New Zealand, as at 31 March 2010, were studied. Foreign direct investment was also further broken down by type of investment, ie equity capital and other capital. For the purposes of this study, investments from individuals or households are not of interest.

Firstly, the immediate foreign direct investor was found from the QIIS. The immediate investing company is a foreign company that has a direct investment in the New Zealand company, ie their investment counts as 10 percent or more of the shares in the New Zealand company. The country in which the immediate investor is incorporated in was known as the immediate country. The New Zealand company could have multiple immediate investors in multiple immediate countries; an ultimate parent was found for each immediate investor.

The immediate investor’s annual report was used to identify a majority shareholder, ie 50 percent or more of the shares in the immediate company were held by a single company. The process of searching for majority shareholders continued until a company was reached that did not have a majority shareholder. The company without a majority shareholder was considered to be the ultimate source company, and the country the company was incorporated in was the ultimate source country. The amount of investment allocated to the ultimate countries was in proportion to the percentage of shares held by companies through the chains of ownership.

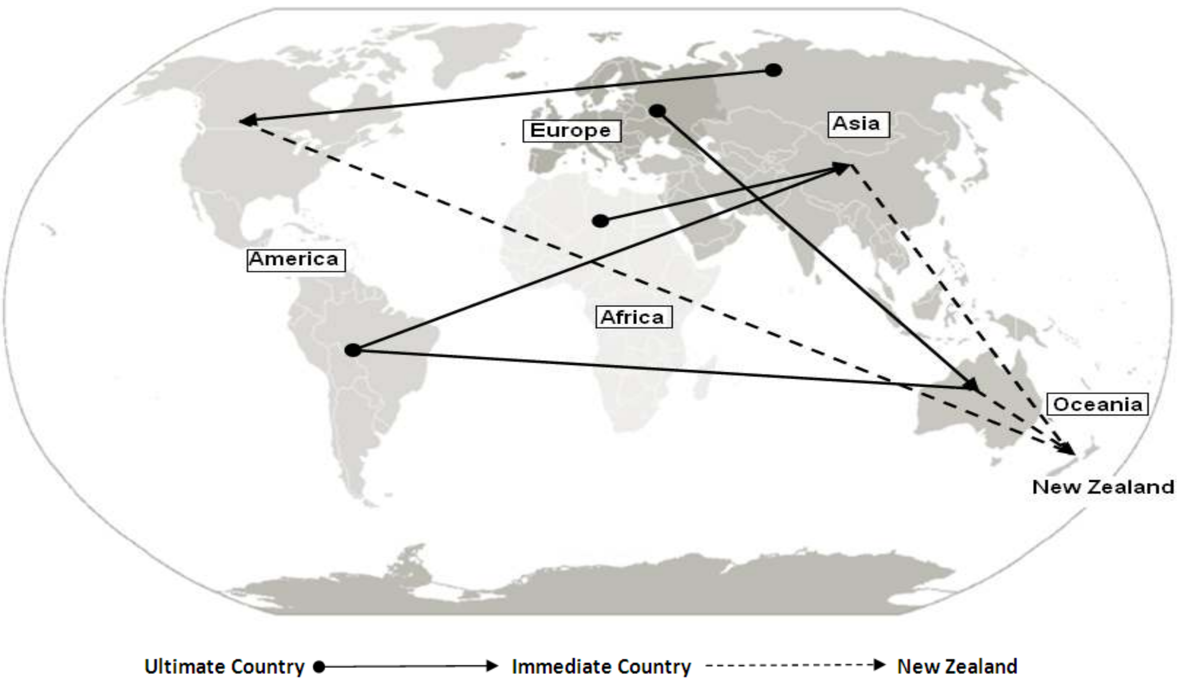
This study found that the ultimate source companies tended to have many minority shareholders instead of a majority shareholder. There were also ultimate companies whose annual reports were not available – such as pension, insurance, or nominees companies – and so the investments could not be further investigated.

Results

Figure 1 shows some of the ultimate/immediate country combinations found in this study. These investment movements show how immediate investments can hide the bigger picture behind them.

Figure 1

Examples of movement of foreign direct investment from ultimate source to New Zealand via the immediate source.



Source: Statistics New Zealand

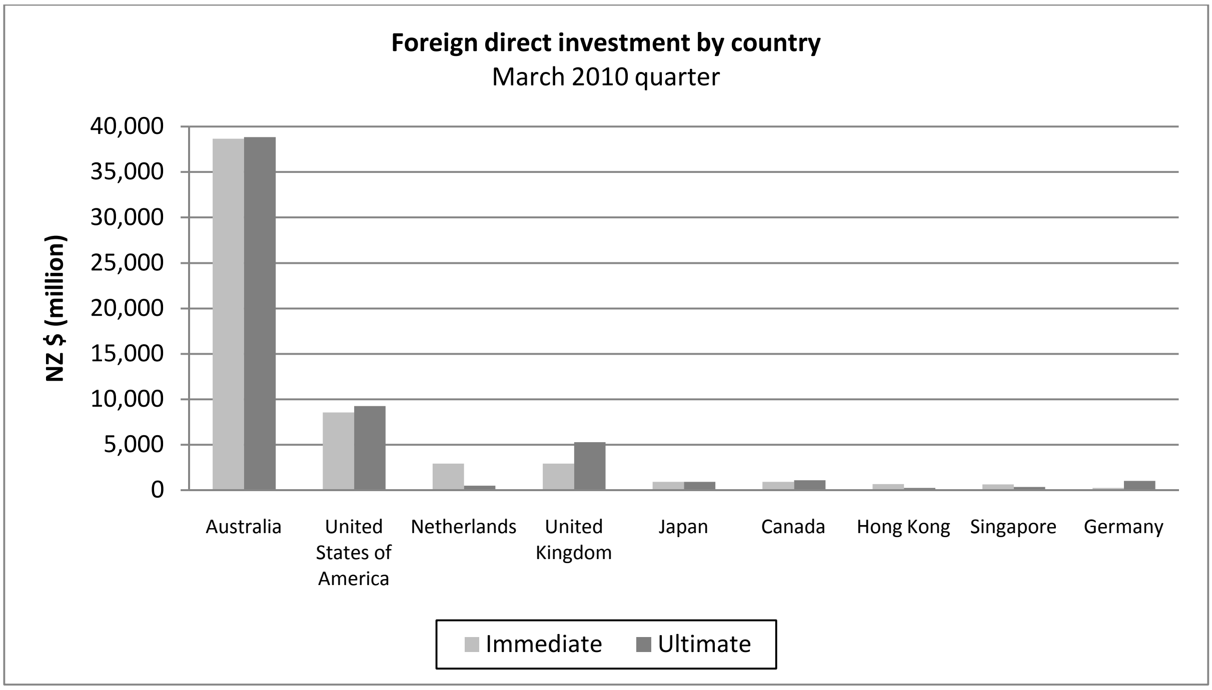
Foreign direct investment

The top 75 percent of surveyed foreign direct investment into New Zealand equated to $61.8 billion at 31 March 2010. When the investments were attributed to the ultimate parents, the amount decreased by 0.4 percent due to changes in the percentage of shares held by the majority shareholders. Of all the immediate investments from foreign companies investigated, approximately 50 percent were from a different ultimate source country. This resulted in the movement of $13.9 billion from immediate countries to different ultimate countries.

A large proportion of the immediate–ultimate source relationships studied were found to be 100 percent ownership, indicating total control over the New Zealand company.

The countries shown in figure 2 are the largest investors into New Zealand. Australia was New Zealand's largest immediate investor at $38.7 billion. Once investments were attributed to their ultimate countries the amount of investment coming from Australia increased by $168.5 million (0.4 percent) to $38.9 billion.

Figure 2
Foreign direct investment by country



Source: Statistics New Zealand

The United States of America was New Zealand's second largest foreign direct investor. Investment attributed to the United States of America increased by $722.3 million (8.4 percent), reaching $9.3 billion on an ultimate investment basis.

The Netherlands and the United Kingdom both invested $2.9 billion in foreign direct investment into New Zealand. Their investment movements, however, were different when the ultimate investors were taken into account. The amount of investment attributed to the Netherlands decreased by $2.4 billion (82.7 percent) to $504.1 million, while investment from the United Kingdom increased by $2.4 billion (80.9 percent) to $5.2 billion.

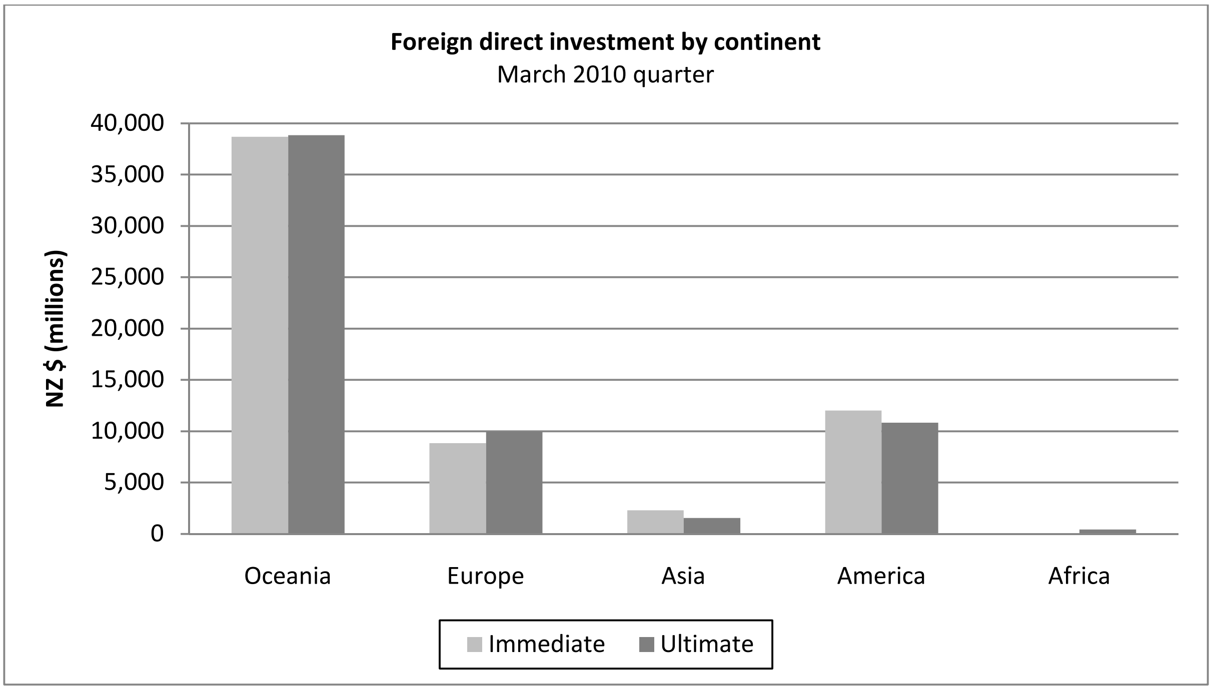
Japanese investment decreased slightly by $18.3 million (1.9 percent) to $921.8 million, when the investments were attributed to their ultimate countries. Foreign direct investment attributed to Canada increased by $151.7 million (16.2 percent) on the ultimate country basis, reaching $1.1 billion. Hong Kong investment decreased by $446.7 million (64.1 percent) to $249.7 million, while investment from Singapore decreased by $292.5 million (44.4 percent) to $366.8 million. Investment from Germany tripled, increasing from $769.4 million to $1.3 billion.

For confidentiality and quality reasons, data from all investing countries cannot be presented. So, to encompass the movement of investments from all the investing countries found in this study, the results were aggregated by continent; this can be seen in figure 3.

When investments were allocated on an ultimate investor basis, investment from Oceania increased by $174.0 million (0.4 percent) to $38.9 billion. Investment from Europe also increased when the ultimate country investments were taken into account, increasing by $1.1 billion (12.8 percent) to $10.0 billion.

The amount of investment from Asia decreased by $758.8 million, which was a third of investment from that continent, to $1.5 billion. American investment decreased by $1.2 billion (10.0 percent) to $10.8 billion. Immediate investment from Africa was negligible, but when investments were ultimately attributed to Africa the amount of investment increased to $418.0 million.

Figure 3
Foreign direct investment by continent



Source: Statistics New Zealand

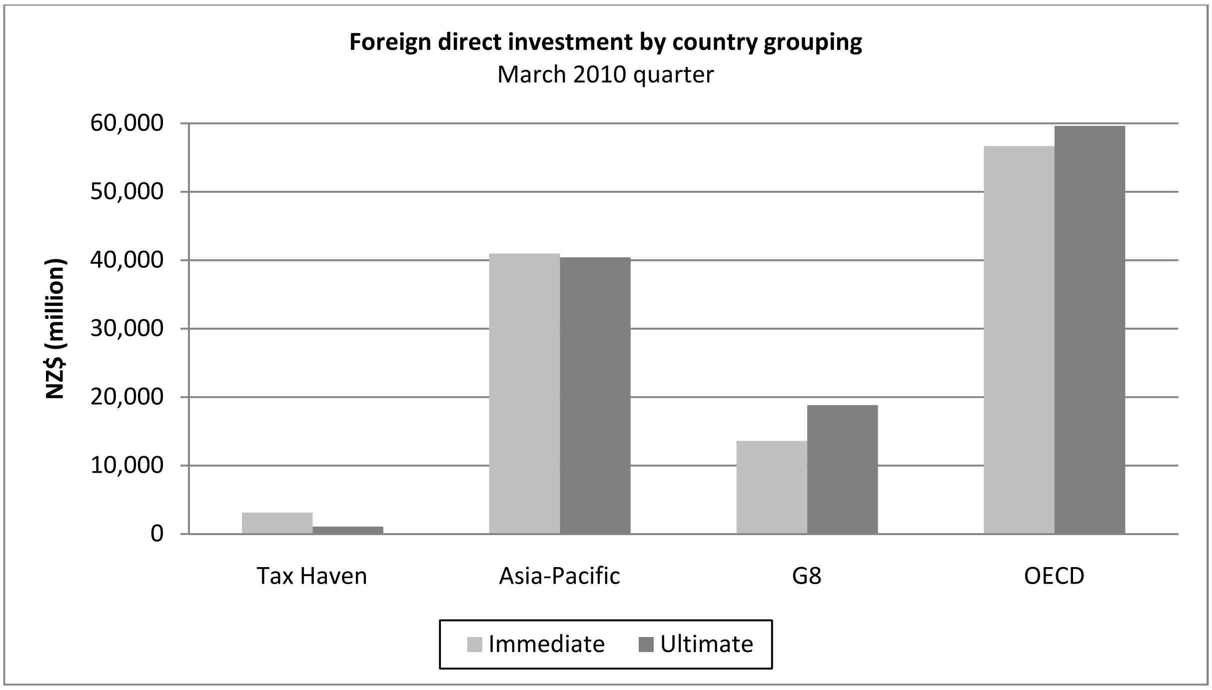
The way countries are grouped could tell a story about how and why investments are moved through specific countries. Figure 4 compares immediate and ultimate levels of investment from tax havens, the Asia-Pacific region, the G8 countries, and the OECD countries. Tax havens are countries with negligible corporate tax rates. The tax haven category is made up of the following countries: the Bahamas, Bermuda, Cayman Islands, Channel Islands, and Liberia. Investments attributed to the tax havens decreased by $2.1 billion (66.1 percent) to $1.1 billion.

Many international corporations have subsidiaries in the Asia-Pacific region, which are more likely to interact with New Zealand due to their proximity. The Asia-Pacific region is made up of Australia, Fiji, New Caledonia, Papua New Guinea, Vanuatu, Japan, Singapore, Malaysia, Hong Kong, and New Zealand (if it was found to be an ultimate investor). The Asia-Pacific region saw a small decrease in the amount of investment attributed to them, decreasing by $584.8 million (1.4 percent) to $40.4 billion.

The Group of Eight (G8) is made up of the eight main industrialised countries in the world, all of which are in the top 10 largest economies in the world. The G8 is made up of Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and the United States of America, seven of which are direct investors into New Zealand. The immediate investment attributed to the G8 countries was $13.6 billion. The amount of investment from the G8 increased by $5.2 billion (38.5 percent) to $18.8 billion, when the investments were allocated on an ultimate country basis.

The OECD sets the international standards for direct investment statistics. Foreign direct investment ultimately attributed to the OECD countries increased by $2.9 billion (5.2 percent) to $59.6 billion.

Figure 4
Foreign direct investment by country grouping



Source: Statistics New Zealand

Equity capital

To see what affect the type of foreign direct investment had on the movements of immediate investment to ultimate investment, the two types of data – equity capital and other capital – were analysed separately as well. Equity capital is evidence of ownership in the issuing enterprise; it bestows on the holder a voice in the management of the issuing enterprise,

The top 75 percent of surveyed equity capital into New Zealand equated to $31.5 billion in the March 2010 quarter. Equity capital increased by $1.5 billion (5.0 percent) when calculated based on ultimate investment rather than immediate. The increase in equity capital was due to a large negative investment, which was partially removed due to decreased percentage of ultimate ownership. Over 20 percent of the immediate investments studied came from a company in a different ultimate parent country to their immediate parent country, which resulted in a movement of negative $698.9 million.

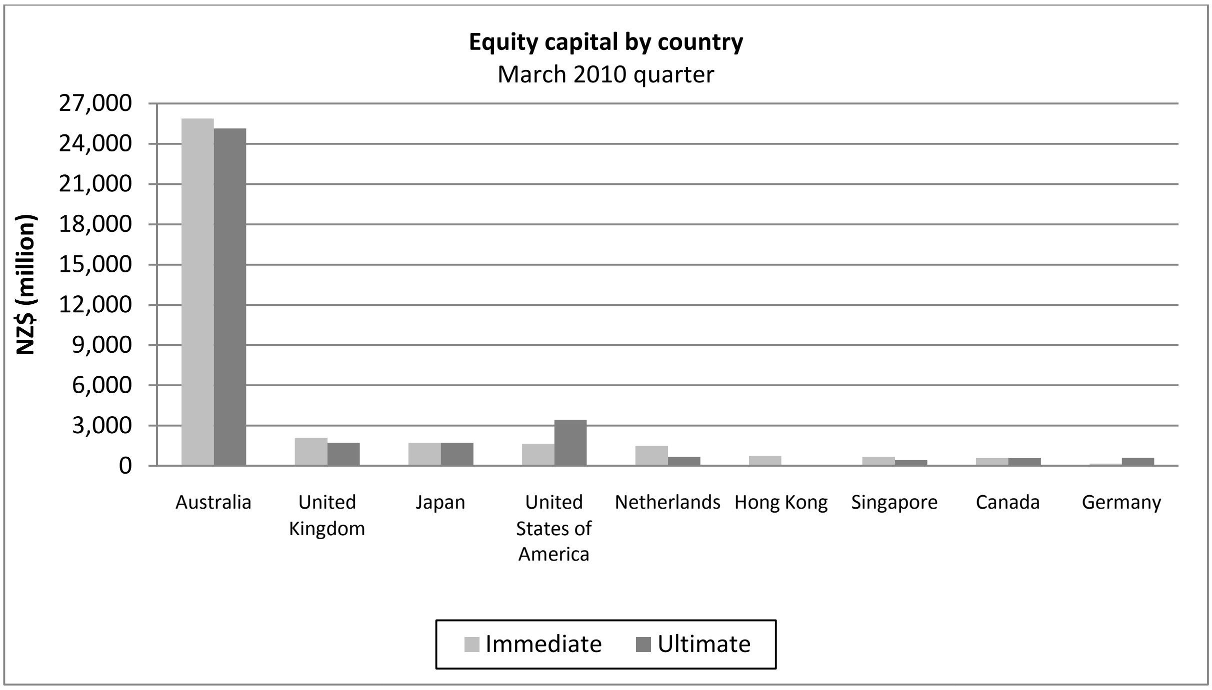
As before, Australia was the dominating immediate and ultimate investor, with an immediate investment of $25.9 billion, as seen in figure 5. When investments were allocated to their ultimate countries, Australia's investment decreased by $727.3 million (2.8 percent) to $25.1 billion.

The United Kingdom, Japan, United States of America, and the Netherlands all had similar amounts of immediate equity capital investment into New Zealand. Investment from the United Kingdom decreased by $346.1 billion (16.7 percent) to $1.7 billion. The United Kingdom was the only country whose movement in equity capital investment was not in the same direction as it was in total foreign direct investment.

Equity capital investment from Japan was $1.7 billion on the immediate and ultimate country basis. The United States of America, which also had an immediate equity capital investment of $1.7 billion into New Zealand, had a large increase in investment attributed to it when based on ultimate country, doubling to $3.4 billion. Investment from the Netherlands decreased by over half, from an immediate investment of $1.5 billion, to an ultimate investment of $668.6 million.

Figure 5

Equity capital investment by country

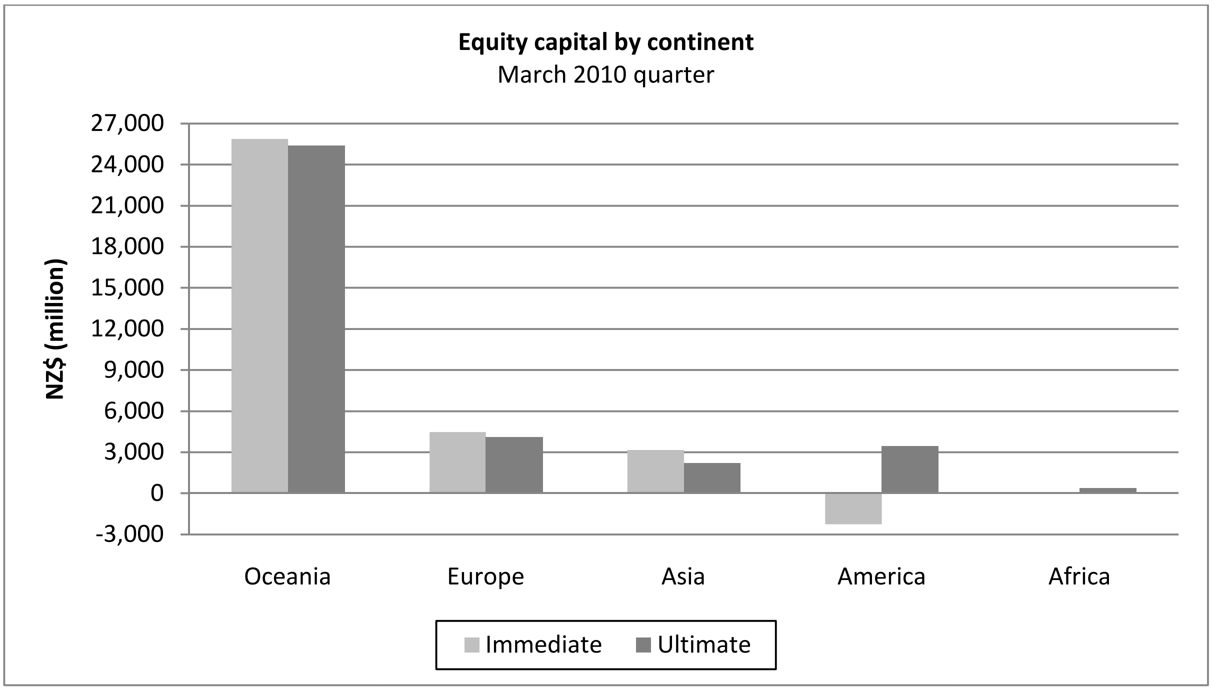


Source: Statistics New Zealand

Investment from Hong Kong was largely removed when investments were attributed to their ultimate country sources. Equity capital from Hong Kong decreased by $691.4 million (93.7 percent) to $46.5 million. Equity capital investment from Canada was constant on the immediate and ultimate country basis at $572.9 million, while investment from Germany almost tripled, increasing by $436.3 million to $604.4 million.

Figure 6

Equity capital investment by continent



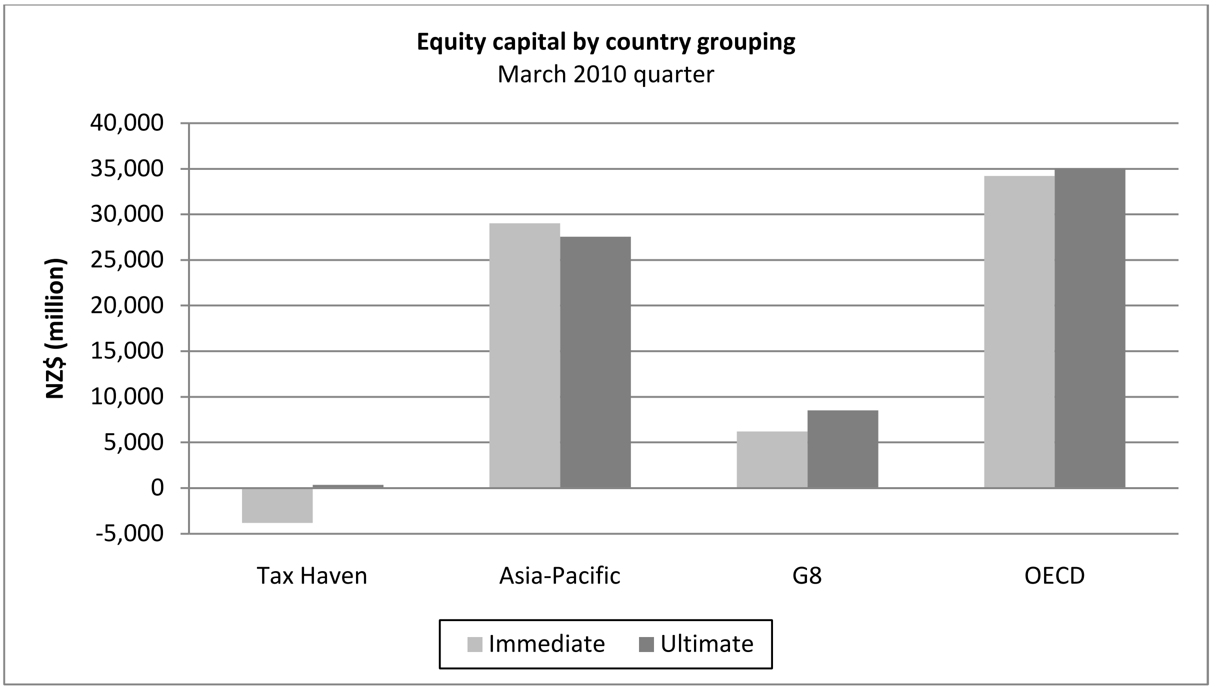
Source: Statistics New Zealand

Equity capital investment was aggregated by continent to give a fuller picture of the international movements as was done for total foreign direct investment. Figure 6 shows that equity capital from Oceania decreased by $516.5 million (2.0 percent) to $25.4 billion when based on the ultimate country of investment. European investment also decreased slightly when the ultimate parent country was taken into account, by $374.1 million (8.4 percent) to $4.1 billion.

Once again investment from Asia decreased by almost a third, from $3.1 billion to $2.2 billion. America saw a change from a negative $2.3 billion immediate investment balance to an ultimate positive investment balance of $3.4 billion. This was due to the movement of a large negative investment from America's immediate investment. There were no immediate investments attributed to Africa, but once the ultimate sources of investment were taken into account Africa's equity capital investment was $371.7 million.

Figure 7

Equity capital investment by country grouping



Source: Statistics New Zealand

Equity capital by country grouping showed similar movements to total foreign direct investment country grouping. Once the investments were allocated to their ultimate parents, equity capital from tax havens increased by $4.2 billion, from negative $3.8 billion, as seen in figure 7. Tax havens had large negative investments that were removed when the ultimate parents were taken into account. The amount of investment attributed to the Asia-Pacific region decreased by $1.5 billion (5.0 percent) to $27.6 billion. Investment ultimately attributed to the G8 countries increased by $2.3 billion (37.5 percent) to $8.5 billion. The OECD countries together saw a small increase of $785.1 million (2.3 percent) to $35.0 billion.

Other capital

Other capital covers borrowing and lending between the direct investor and New Zealand investee. This consists of loans, bonds, and other instruments. The top 75 percent of other capital into New Zealand equated to $31.1 billion in the March 2010 quarter. Total other capital decreased by $306.0 million (1.0 percent) when immediate investments were looked at from the ultimate source basis.

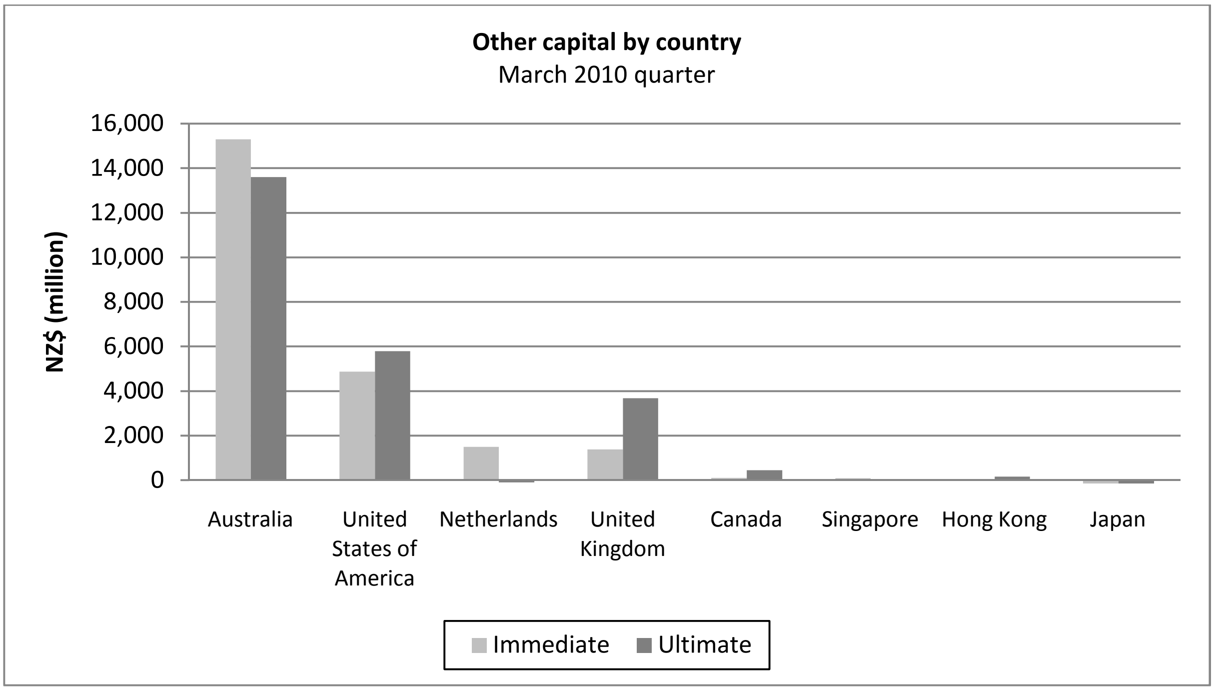
Of the immediate investments studied, almost 50 percent came from a company in a different ultimate parent country to the immediate parent country, which lead to the movement of $11.9 billion.

The movement in investment attributed to Australia changed by the greatest amount for other capital investment, seen in figure 8. Other capital attributed to Australia decreased by $ 1.7 billion (11.0 percent) to $13.6 billion. Investment from the United States of America increased by $920.4 million (18.9 percent) to $5.8 billion.

Due to the removal of positive investments, investment from the Netherlands decreased by $1.6 billion. This made the amount of other capital ultimately attributed to the Netherlands reach negative $96.0 million from $1.5 billion. Other capital investment from the United Kingdom increased by $2.3 billion (167.9 percent) to $3.7 billion.

Figure 8

Other capital investment by country



Source: Statistics New Zealand

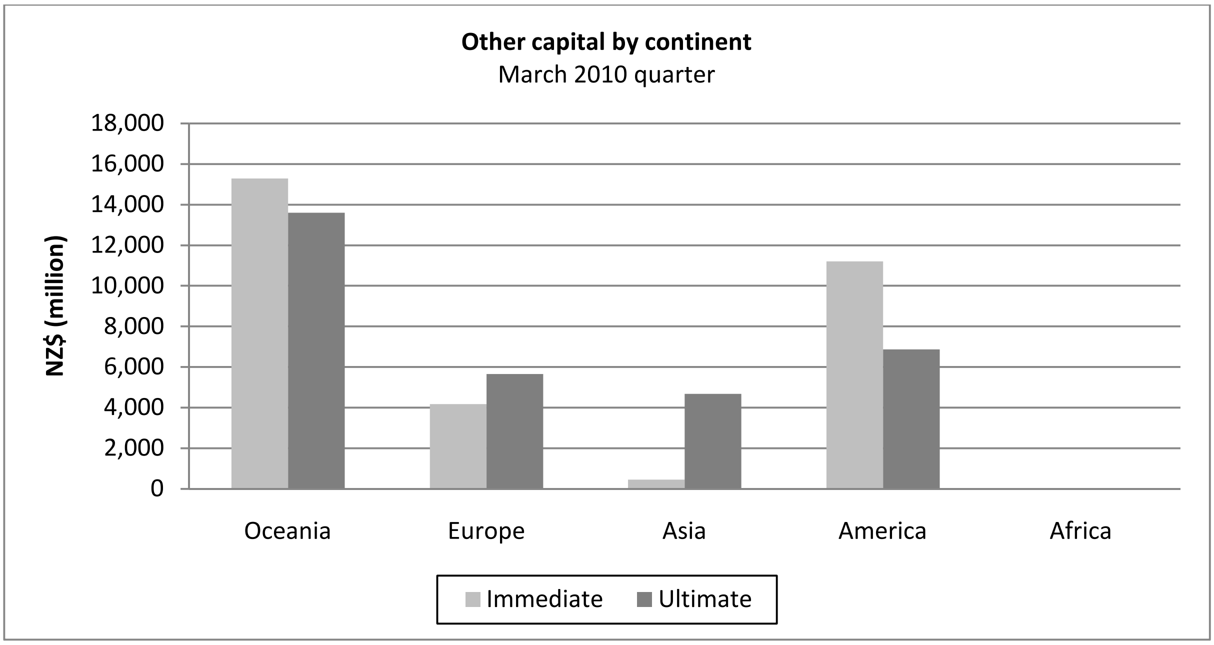
Immediate investments from Canada and Singapore were less than $150.0 million. The Canadian investment tripled increasing by $340.7 million to $447.5 million, while there were no investments ultimately attributed to Singapore. There were no immediate investments from Hong Kong, but ultimately $154.2 million in other capital investments were attributed to it. Immediate and ultimate investment attributed to Japan remained constant at $322.0 million.

Figure 9 shows other capital investment aggregated by continent. Oceania had a decrease of $1.7 billion (11.0 percent) in the amount of other capital attributed to it, reaching $13.6 billion. European investment increased by $1.5 billion (35.5 percent) to $5.7 billion. There was a large increase in the amount of other capital investment attributed to Asia. Asia's ultimate investment was $4.7 billion, increasing by $4.2 billion. Investment from America decreased by $4.3 billion (38.7 percent) to $6.9 billion.

Europe, Asia, and America have similar amounts of other capital attributed to them despite having very different amounts of immediate other capital in New Zealand. This shows that they have similar levels of control over the New Zealand economy based on other capital investment.

Figure 9

Other capital investment by continent

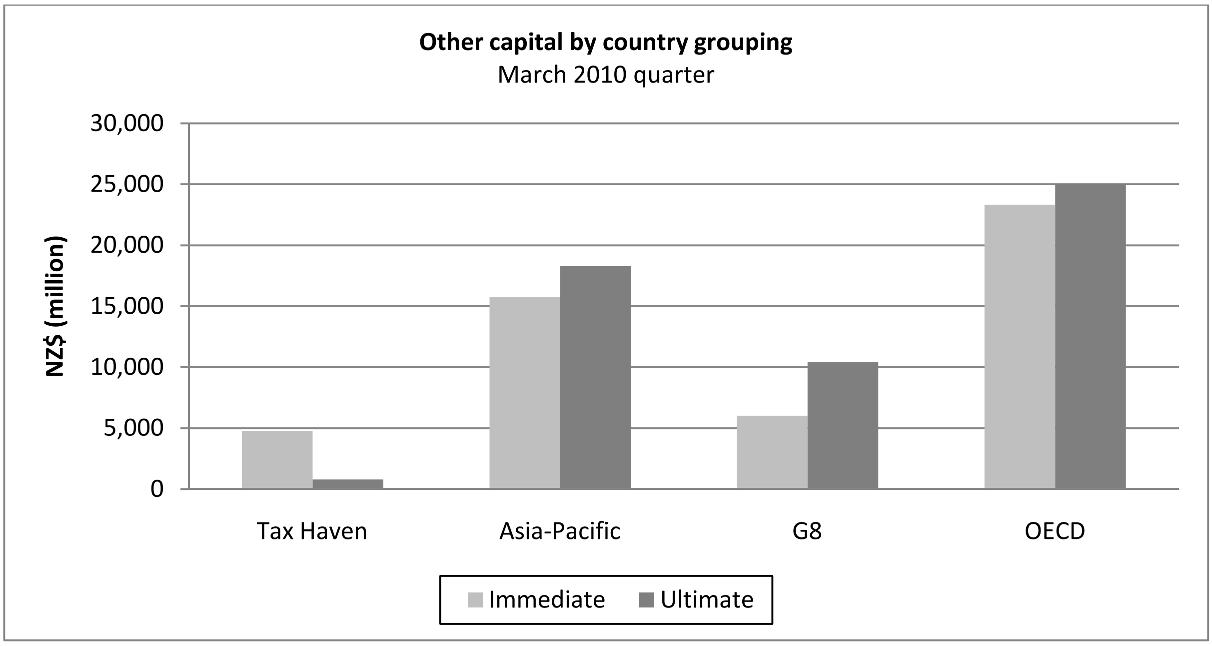


Source: Statistics New Zealand

When other capital investment was aggregated by country grouping only the movement of investments from the Asia-Pacific region went in a different direction to that of total foreign direct investment and equity capital. There was a large decrease of $4.0 billion (83.6 percent) in other capital investment ultimately attributed to tax havens, reaching $786.1 million, as seen in figure 10. Asia-Pacific and the G8 both had increases in investments attributed to them. The Asia-Pacific region's investment increased by $2.5 billion (16.2 percent) to $18.3 billion, while the G8's other capital investment increased by $4.4 billion (72.7 percent) to $10.4 billion. Other capital investment by OECD countries increased by $1.7 billion (7.3 percent) to $25.0 billion.

Figure 10

Other capital investment by country grouping



Source: Statistics New Zealand

Study comparison

This study was completed by comparing data from the March 2010 quarter with a study on the same topic from 2005. The 2005 study was done using foreign direct investment data from 30 September 2004. This study was done using 31 March 2010 data. There were no major differences in method of study so the results of both studies are comparable.

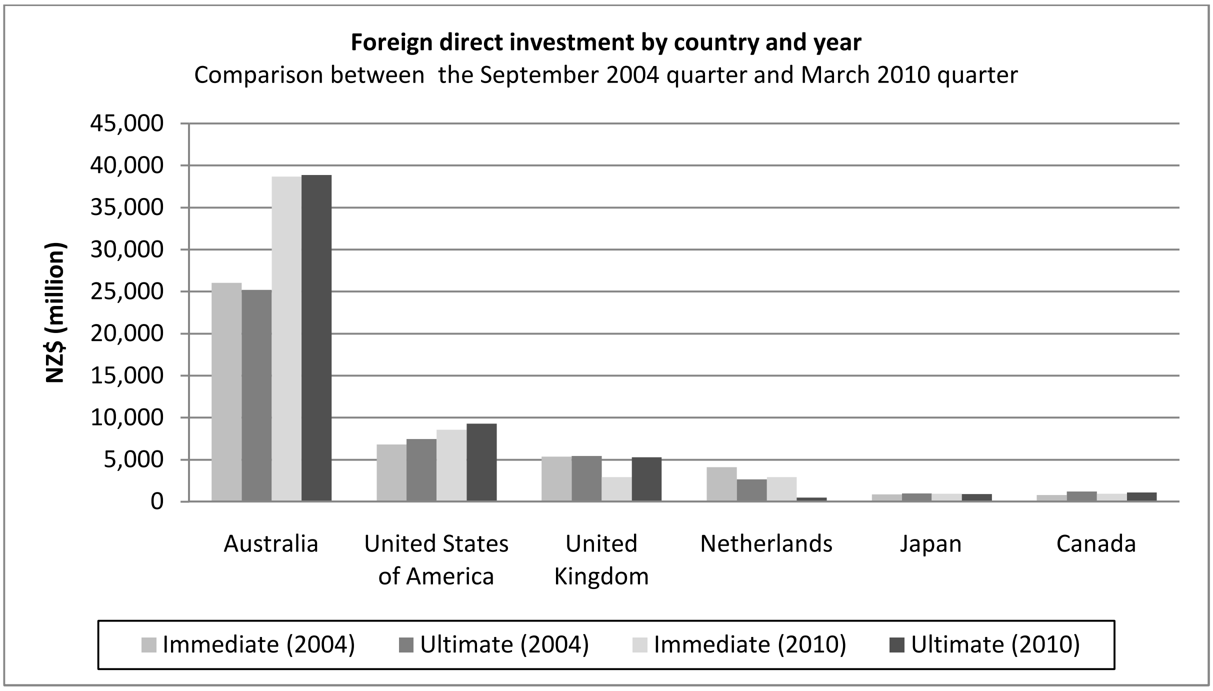
The percentage of immediate equity capital investments with a different ultimate parent country in this study was 21 percent, compared with 29 percent in the previous study. The percentage of immediate other capital investment with a different ultimate parent country was 50 percent, compared with 38 percent in the previous study.

Foreign direct investment

Generally the movements in investment from both studies are comparable. Investment attributed to the Netherlands decreased in both studies when it was calculated on an ultimate parent country basis, while the United Kingdom and United States of America both increased. In this study investments from Australia and Japan remained relatively constant when the ultimate parent countries were taken into account. These movements were consistent with findings from the previous study. The main differences seen in the results were the magnitudes of the investments from the countries. The similarities and differences in movements between the two studies can be seen in figure 11.

Figure 11

Foreign direct investment by country and year of study



Source: Statistics New Zealand

In the last study, Australia's investment decreased slightly, by 3 percent, while in 2010 it increased slightly, by 0.4 percent. The change in magnitude of the immediate investments from Australia reflects the increase in the amount of investment seen over the last few years from that country. Ultimate investment from the United States of America increased, as it did in the 2004 study. Investment from the Netherlands decreased in both studies; in 2010 it decreased by 83 percent while in 2004 it decreased by 35 percent.

Previously, investment from the United Kingdom remained relatively constant; in this study the amount of immediate investment was around half what it was in 2004. This indicates that although the value of the immediate investments has decreased, the control over the New Zealand companies has remained relatively constant over time.

Investment from Japan remained relatively constant when ultimate parent countries were considered, through both studies. The structure of investment from Japan hasn't changed over the years. It may be that Japan prefers to invest directly into New Zealand without going through intermediate countries.

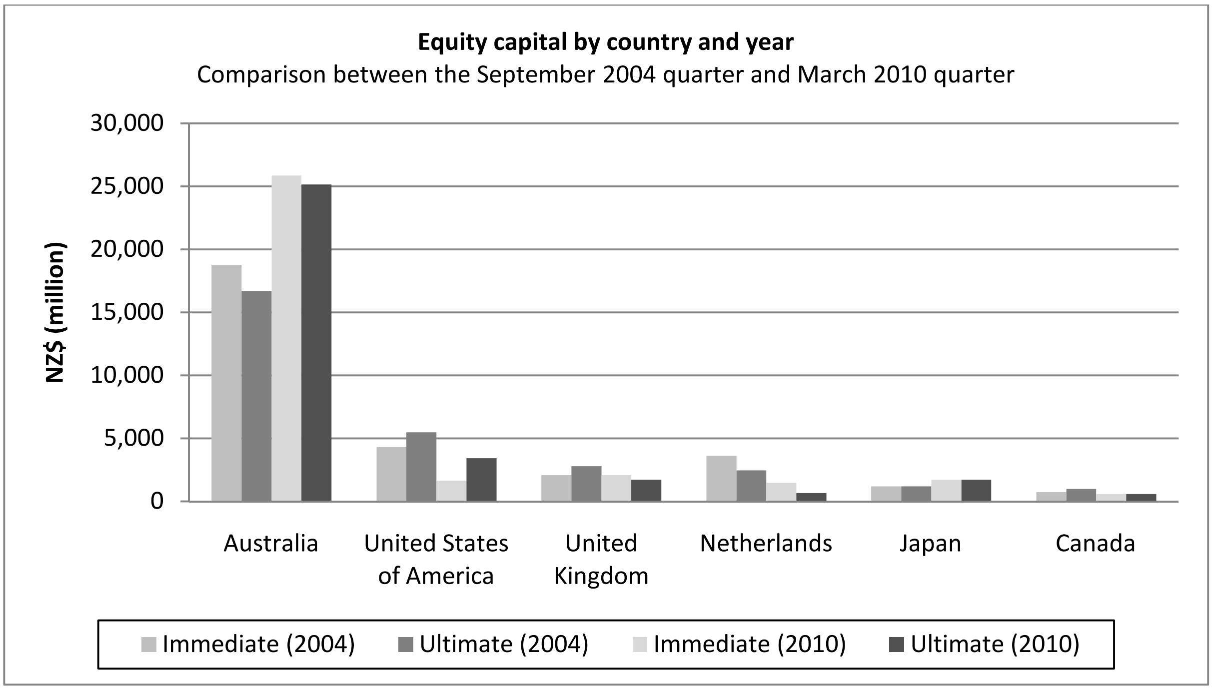
Equity capital

The percentage of immediate parent companies that have an ultimate parent in a different country has decreased since the last study. For foreign direct investment data at March 2010 the percentage of immediate companies analysed with a different ultimate country was approximately 21 percent. However, the previous study found that around 29 percent of immediate companies had a different ultimate country.

Once again the movements were the same for most of the countries, except for the United Kingdom, which decreased slightly, as seen in figure 12. Changes in magnitude of investment were also seen from Australia, the Netherlands, and this time the United States of America.

Figure 12

Equity capital investment by country and year of study



Source: Statistics New Zealand

Both studies showed a decrease in equity capital investment attributed to Australia when the ultimate source country was taken into account. The United States of America has decreased the amount of equity capital investment they make into New Zealand with the 2010 ultimate investment level lower than the 2004 immediate investment level.

In the previous study the amount of investment attributed to the United Kingdom increased, but in this study it decreased. Figure 12 shows that their control over the New Zealand companies has decreased since 2004.

Equity capital from the Netherlands decreased in both studies, when allocated by ultimate country. In the study done in 2004 the values of investment were greater than found in this study. Not only has the value of the equity capital investments almost halved, but the number of ultimate investments, and therefore control, has also halved.

Investment from Japan has remained almost constant when investments were reallocated by ultimate parent country as well as over time.

Other capital

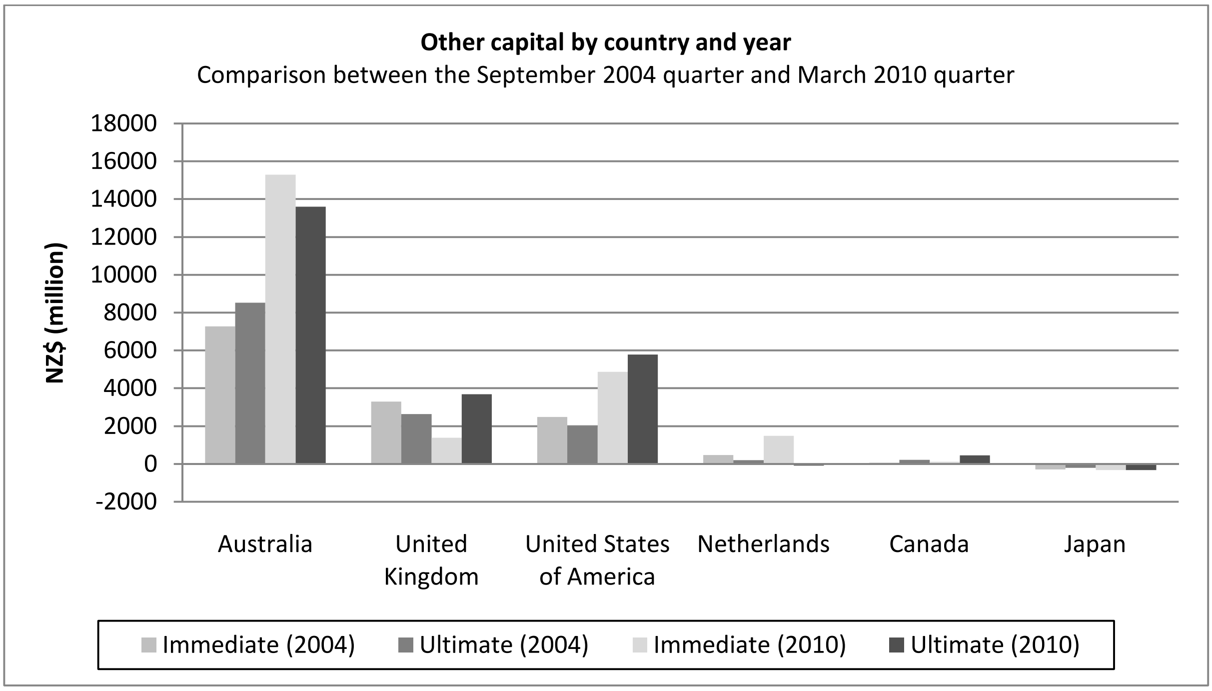
The number of immediate investors of other capital with ultimate parents in a differing country increased from the previous study. Previously the percentage of immediate companies with different ultimate countries was around 38 percent, but in this study it was found to be almost 50 percent. This shows that more companies are channelling borrowing and lending through intermediate countries before investing in New Zealand.

There are a few differences between results from this study of other capital investment and the study done previously. The movements from immediate investment to ultimate investment for Australia, United Kingdom, and United States of America have reversed.

Figure 13 shows that investment movement for the largest three immediate other capital investors has changed direction since the last study was conducted. Australian other capital investment decreased this time, whereas in the last study they increased. Other capital investment from the United Kingdom and the United States of America both increased in this study, whereas last time they both decreased.

Figure 13

Other capital investment by country and year of study



Source: Statistics New Zealand

In 2010, investment from the Netherlands decreased by a greater amount than in the previous study. Although immediate investment from the Netherlands increased since the last study, the control over New Zealand companies currently held by this country was even lower than it was at the last study.

Other capital investment from Canada increased more this time than it did previously. Between the two studies, other capital investment from Japan has consistently remained in the negatives.

Discussion

Table 1 is a summary of the characteristics of the investments investigated. The value of total foreign direct investments moved was small compared with the percentage of the investments that were moved. This was because many of the investments that were moved were small and/or negative balance investment. They were small as they tended to be made by subsidiaries of larger firms that were located in another country.

Table 1

Investment statistics by type of investment

	Total FDI	Equity Capital	Other Capital
Immediate investment (NZD $, millions)	61,800	31,500	31,100
Amount of investment moved to a different ultimate source country (NZD$, millions)	13,900	-698.9	11,900
Number of companies	80	80	40
Number of investments	165	85	75
Percentage of investments with a different ultimate source country (2010)	50	20	50
Percentage of investments with a different ultimate source country (2004)	Unknown	29	38

Source: Statistics New Zealand

By country

The Netherlands was one of New Zealand's largest immediate investors, but a large proportion of their investments were removed and allocated to different ultimate countries. This suggests that the Netherlands is a country that is commonly used to channel funds to New Zealand. Hence, the Netherlands may not have as much of an influence on our economy as previously thought.

The high amount of immediate investment from the Netherlands may be due to its favourable tax climate. The corporate tax rate in the Netherlands currently sits at one of the lowest in the world, at around 25 percent. So, companies may choose to have subsidiaries or branches in the Netherlands when their head office is in another country.

Investment from Australia and Japan remained constant whether the country was an immediate investor or an ultimate investor. This indicates that these countries prefer to invest directly into New Zealand. So, their immediate investment positions in New Zealand are representative of their real control over enterprises in New Zealand. For Japan this was especially true for equity capital investment.

The United Kingdom shows different movements in investments between equity and other capital investments. When looking at equity capital, the amount of investment attributed to the United Kingdom decreases, whereas for other capital investments the amount of investment ultimately attributed to them increases.

Since the last study immediate foreign direct investment from the United Kingdom has decreased, but ultimate foreign direct investment has remained constant. So, even though the value of immediate investments has decreased, the influence of the United Kingdom on companies in New Zealand has not decreased.

It is not surprising that Australia is by far New Zealand's largest investor. The results show that most of the investment that came from Australia could be ultimately attributed to it. It is most probably because of its geographical location; Australia could be more likely to make investments into a neighbouring country with which they are familiar and have a close relationship. As New Zealand's most significant investor, we can see how important the health of the Australian economy is to New Zealand, especially regarding their banking system. Through the recent recession the health of the Australian economy meant that New Zealand also got through it relatively unscathed.

As an ultimate source country the level of investment from Germany increased to amounts similar to Hong Kong and Singapore. This shows that Germany has more influence on the New Zealand economy than the immediate investment amounts illustrate.

By continent

Oceania was the only continent where the movement in investment was the same for both types of investment, ie equity capital and other capital. In both types of investment, the immediate investment from Oceania was higher than the ultimate investment. For Europe, Asia, and America the movement in investment changed directions between equity capital and other capital.

New Zealand does almost three times the amount of lending and borrowing with our immediate American investors than with our immediate European investors. However, the ultimate amounts of other capital investments from the two continents are comparable. Europe invests similar amounts of equity capital and other capital into New Zealand. Overall, levels of foreign direct investment from Europe and America are similar.

By country grouping

As expected, investment immediately attributed to tax havens was higher than when the investments were allocated to their ultimate source country. Investment from the Asia-Pacific region remained relatively constant. This showed that the immediate investments from that area were not necessarily a result of their proximity to New Zealand, or the fact that many large companies have subsidiaries in the area.

Investment from the Group of Eight (G8) was around 20 percent of the total foreign direct investment studied. The immediate investment attributed to the G8 was generally about two-thirds of its ultimate investment into New Zealand. This increased their share of total foreign direct investment to around 30 percent, hence increasing their influence on the activities of companies in New Zealand.

Limitations and future work

The Quarterly International Investment Survey (QIIS) is a sample of 95 percent of New Zealand's corporate and banking sector, and this study is a sample of 75 percent of the enterprises with the largest absolute foreign direct investments. This was done in order to incorporate the enterprises with the largest influence and impact on New Zealand's small economy. The top 75 percent of total foreign direct investment, equity capital, and other capital, led to 110 enterprises being researched. The non-sampled population consists of almost 300 enterprises. The characteristics of the 25 percent that were not sampled are unknown. There may be countries in the non-sampled population that were not picked up in the sampled population.

One method of investigation would be to look at other known data about the non-sampled enterprises, such as industry. The current data about immediate investment by industry is known, and can be compared with the details of the enterprises that have been studied. Currently, out of the 60 New Zealand industries that have foreign direct investment in them, 38 have been covered by this study. Within the 38 industries covered, there were 318 possible enterprises that could have investigated, which equalled $77.0 billion in foreign direct investment. This study looked at 107 of them, totalling $65.1 billion. In the remaining 22 industries, which were not covered, there were 76 enterprises with foreign direct investments equalling $4.2 billion.

Conclusions

Different countries make and channel investments through different countries in different ways. Some countries prefer to invest directly into New Zealand, while some choose to route their investments through other countries.

The top 75 percent of absolute foreign direct investment for the March 2010 quarter equated to $61.8 billion. Of all the investments investigated, over 50 percent had an ultimate source from a different country to that of their immediate source. This meant that $13.9 billion in investments were transferred from an immediate country to a different ultimate country, the majority of which occurred in other capital.

Investments from Australia and Japan were generally ultimately attributed to those countries, while investments from the Netherlands and tax havens were usually controlled by other countries. Greater amounts of investments were attributed to the G8 countries when they were allocated to the ultimate countries.

The directions of movements in investment from immediate to ultimate investors haven't changed much since the last study was done in 2005. Magnitudes of the data have changed, but generally those changes are a reflection of changes seen in foreign direct investment from countries over the last five years.

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