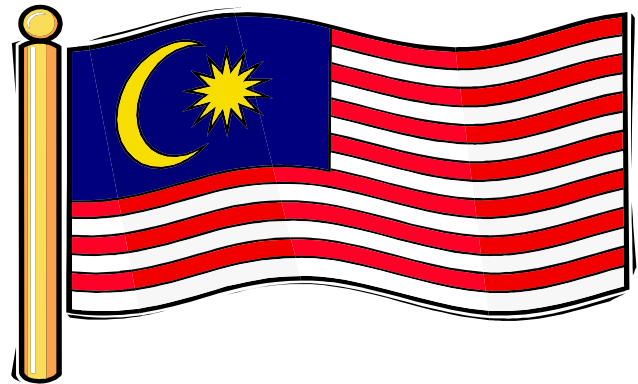
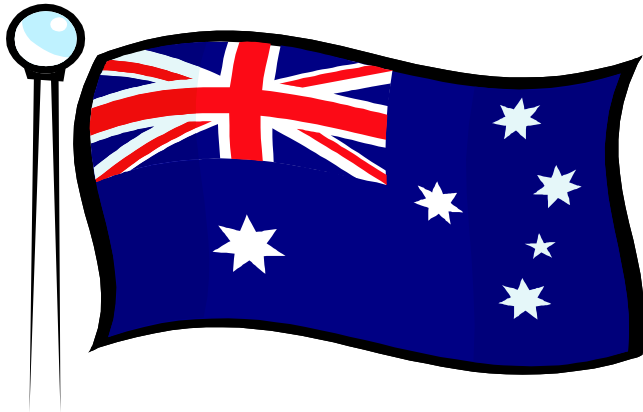


Investment trends in Australia...

...and the implications of an Australia-Malaysia free-trade agreement



Katie Dean
Economist
ANZ Bank

10 March 2005

Economics@ANZ

Investment trends in Australia

1. The macroeconomic environment for investment
2. Foreign investment in Australia
3. Malaysian investment in Australia
 - The implications of an Australia-Malaysia Free Trade Agreement (FTA)

Investment trends in Australia

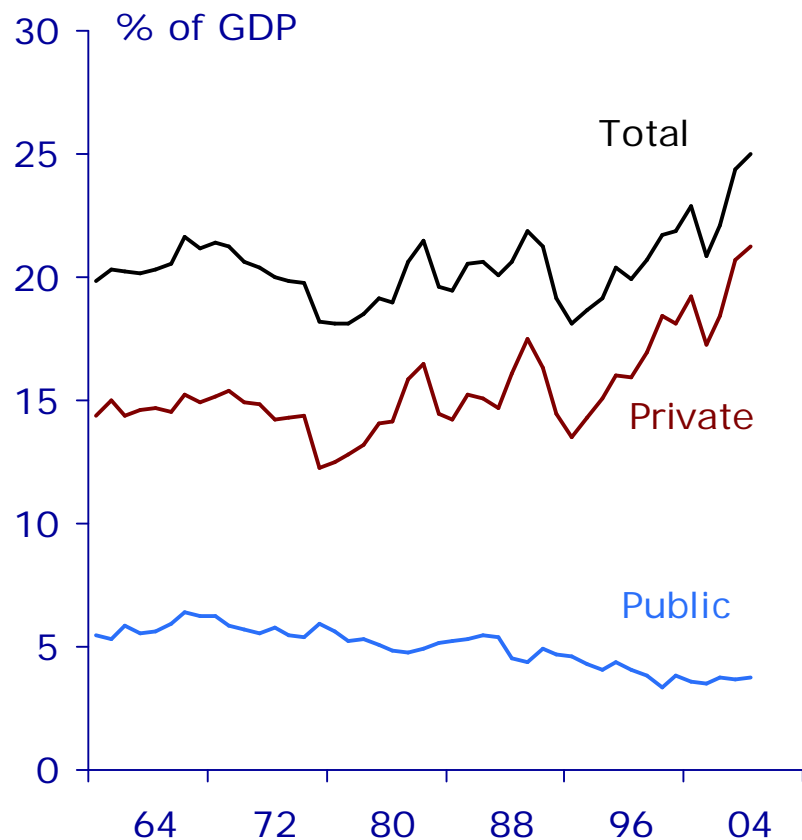
1. The macroeconomic environment for investment
2. Foreign investment in Australia
3. Malaysian investment in Australia
 - The implications of an Australia-Malaysia Free Trade Agreement (FTA)

Why invest?

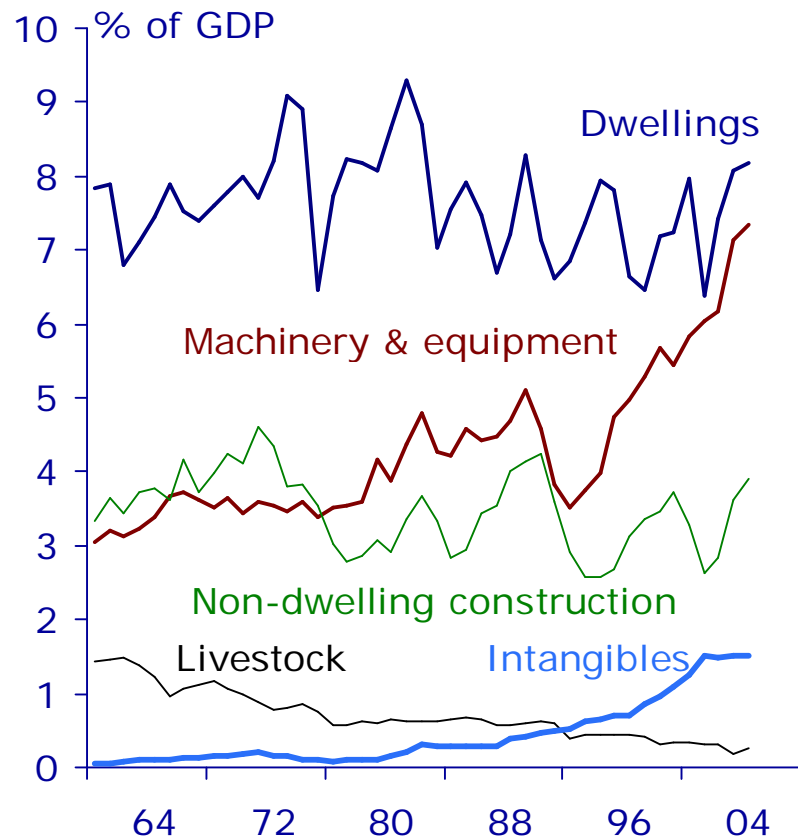
- Investment is the addition to the community's stock of tangible capital goods (eg. equipment, structures or inventories)
- Investment increases the **amount** an economy can produce, and the **efficiency** by which it can produce
- Investment thus increases an economy's potential output and promotes economic growth in the long run

What does investment look like in Australia?

Investment in Australia

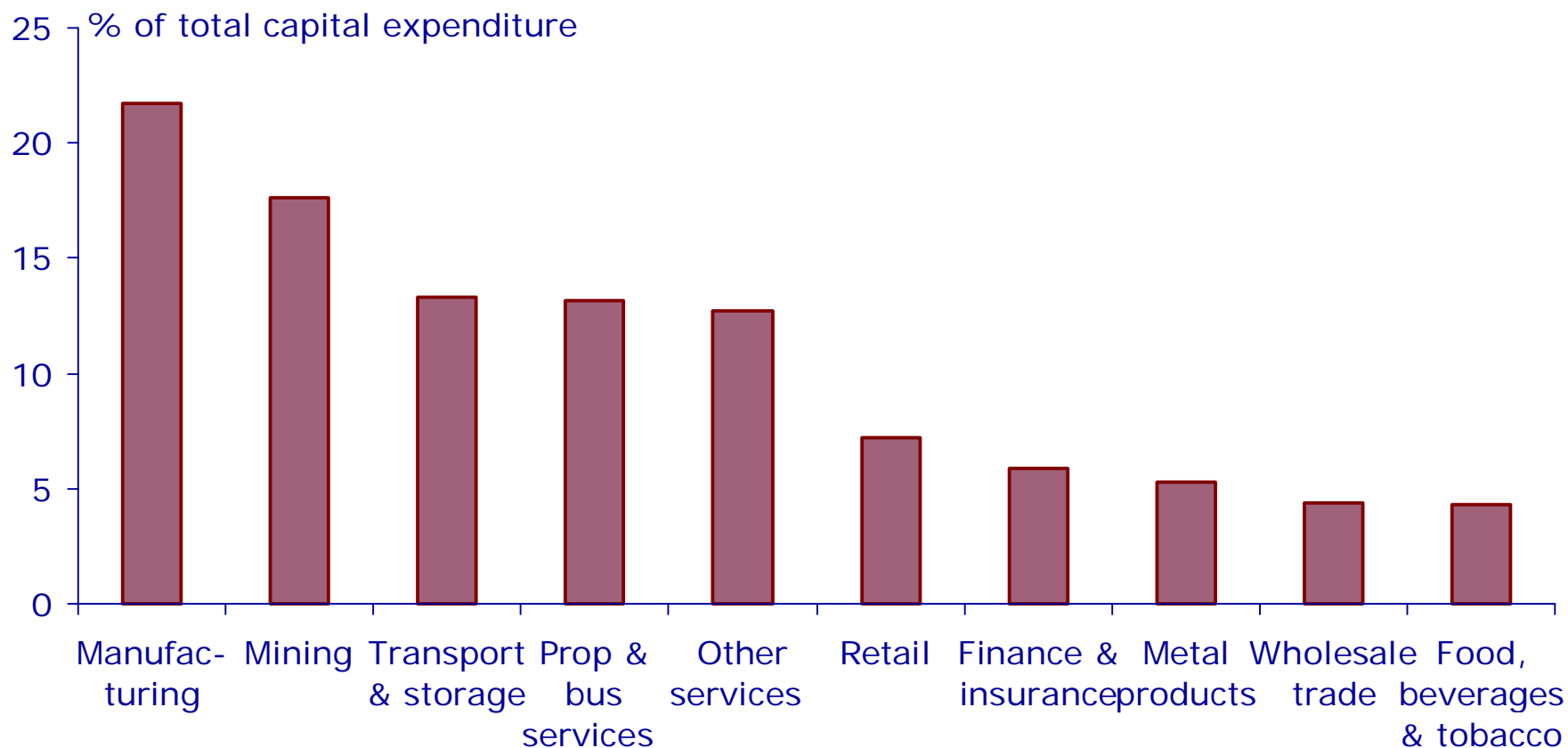


Components of private investment



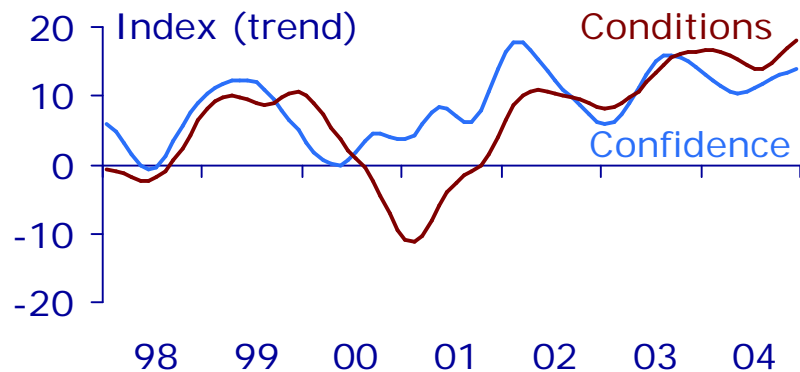
Business investment spending dominated by mining

Capital expenditure by major industry

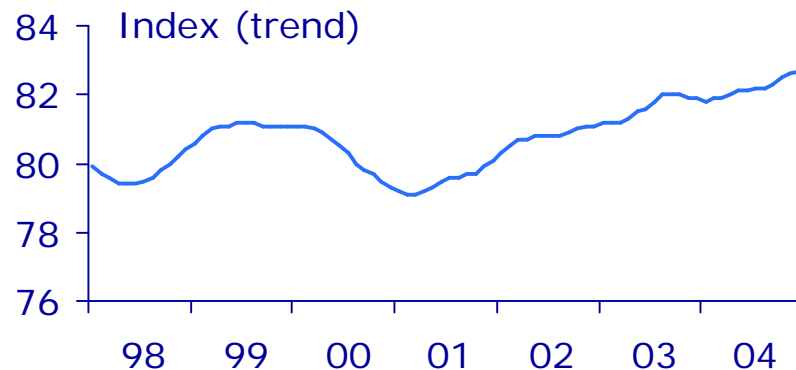


The macroeconomic environment for business investment remains supportive...

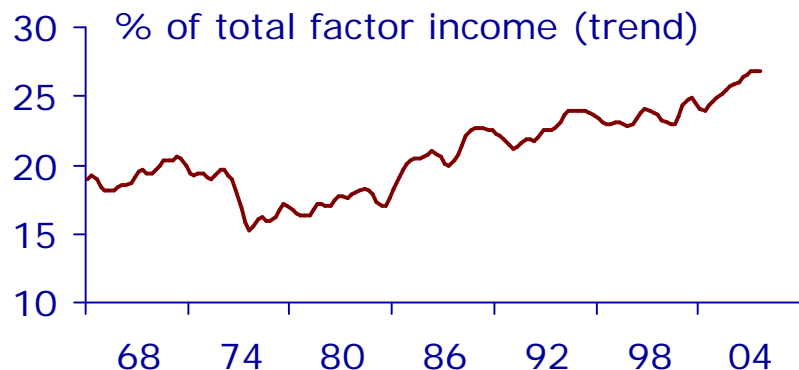
Business confidence*



Capacity utilisation*

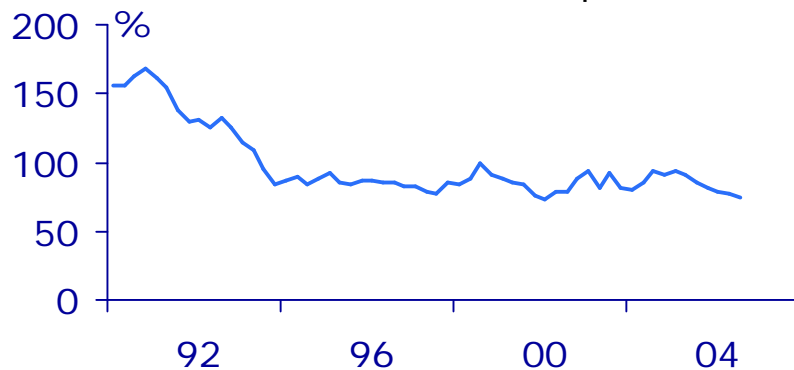


Profits



Debt-to-equity ratio

Private non-financial corporations

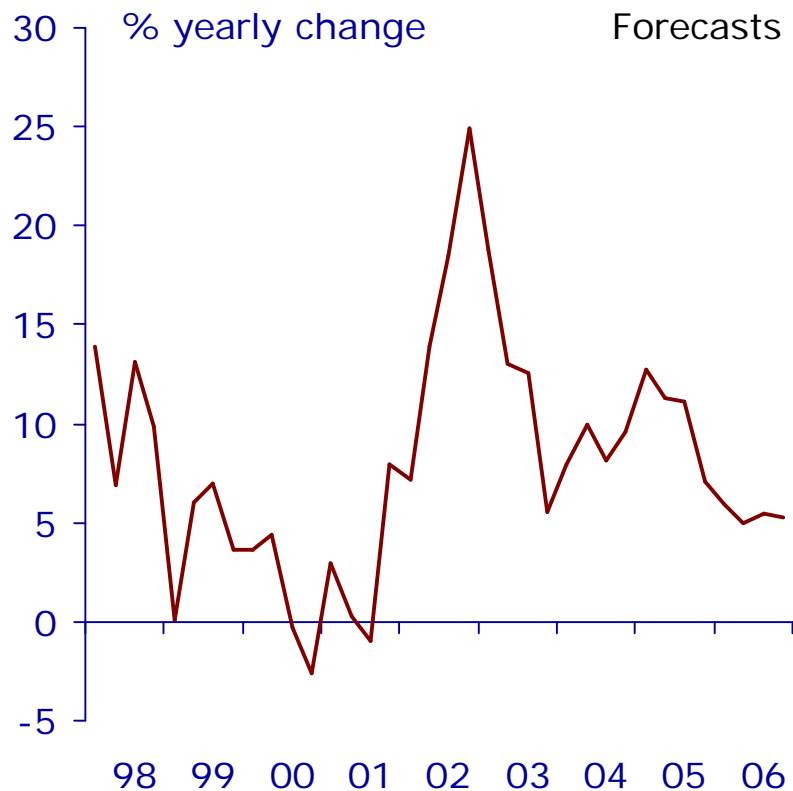


Sources: NAB, ABS

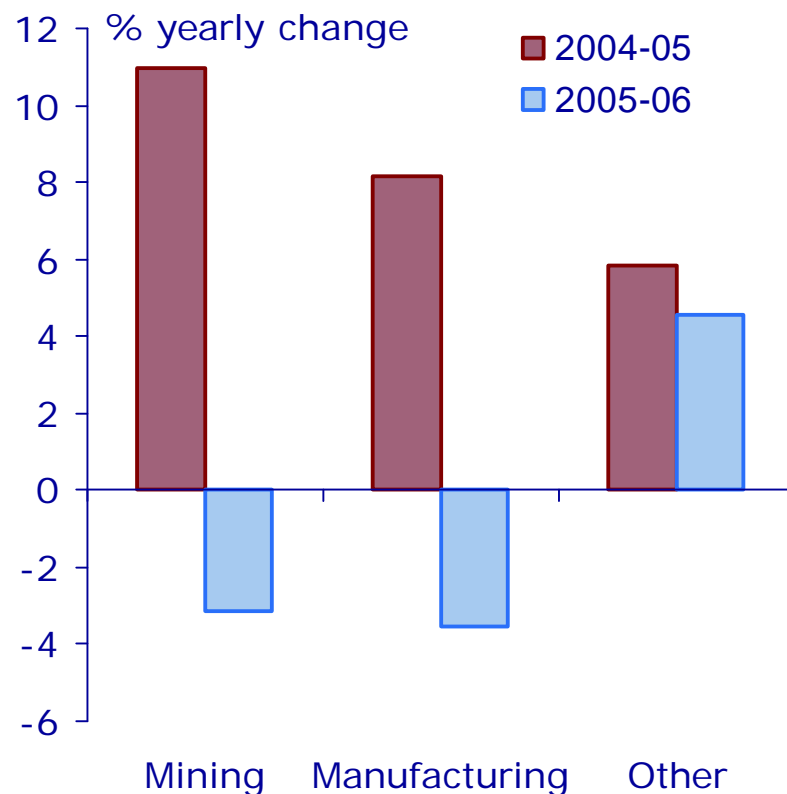
* Trend analysis by Economics@ANZ

...but investment intentions suggest the cycle is entering a downswing

Business investment



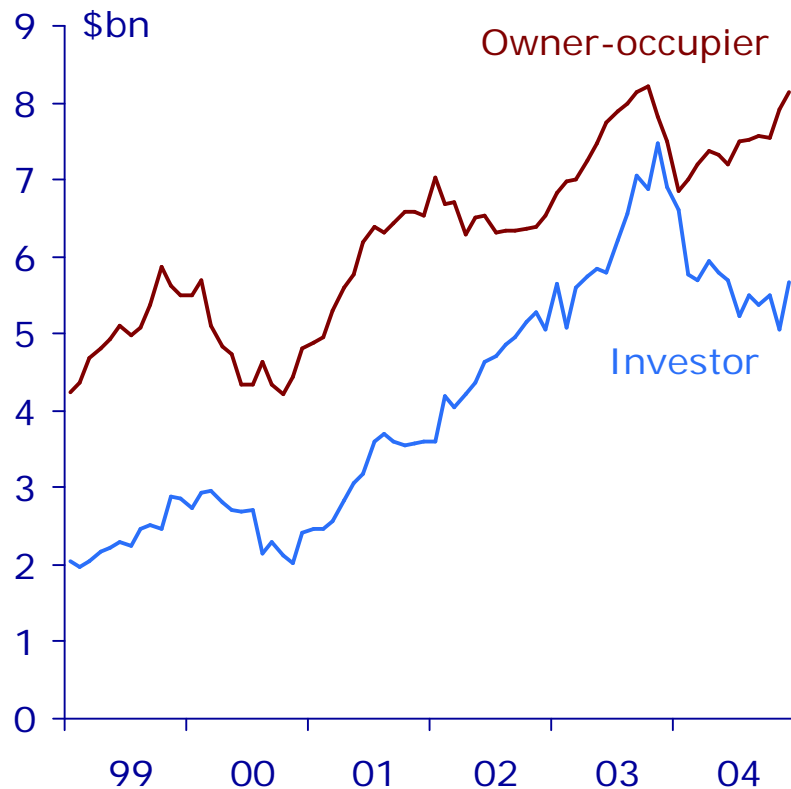
Business investment intentions*



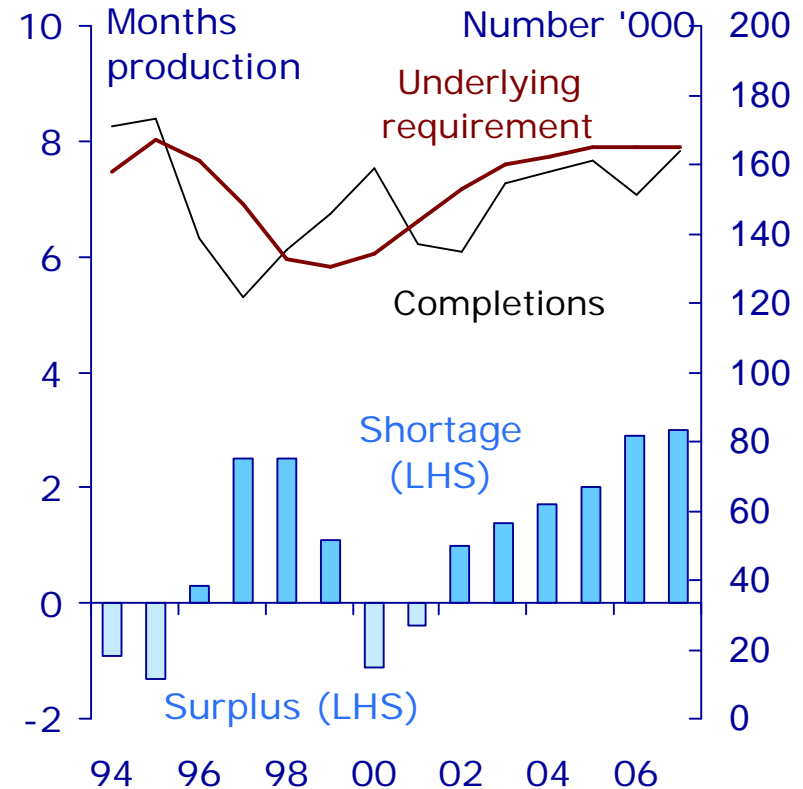
*Investment intentions adjusted using 5-year realisation ratios
Sources: ABS, Economics@ANZ

Prospects for housing investment in Australia remain solid

Housing finance approvals



We're not building enough homes!



Investment trends in Australia

1. The macroeconomic environment for investment
2. Foreign investment in Australia
3. Malaysian investment in Australia
 - The implications of an Australia-Malaysia Free Trade Agreement (FTA)

Foreign investment promotes economic growth

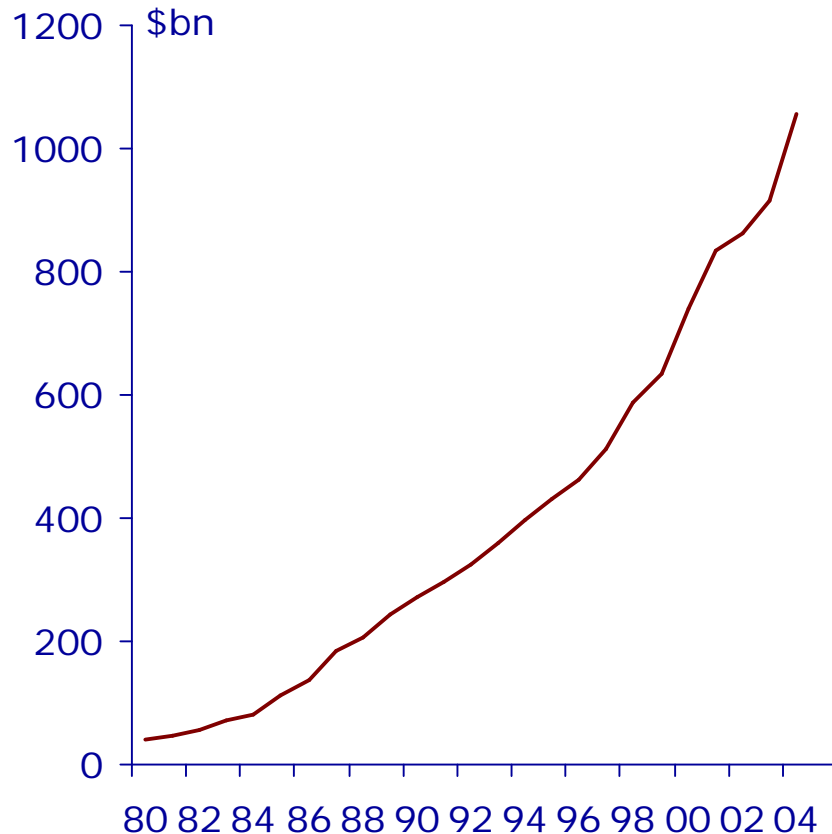
- Foreign investment stimulates economic growth and development, creates jobs, generates exports, provides additional access to finance and enhances industry access to an improved technology and knowledge base.
 - Direct investment
 - Portfolio investment (debt and equity securities)
 - Financial derivatives and other
- Businesses undertake foreign investment to boost profits
 - Market seeking
 - ❖ FDI designed to replace export to the host country by local production
 - Efficiency seeking
 - ❖ FDI designed to reap benefits from differences in production costs across countries
 - Resource seeking
 - ❖ FDI driven by the resource endowment of the host country

A relatively open environment for foreign investors

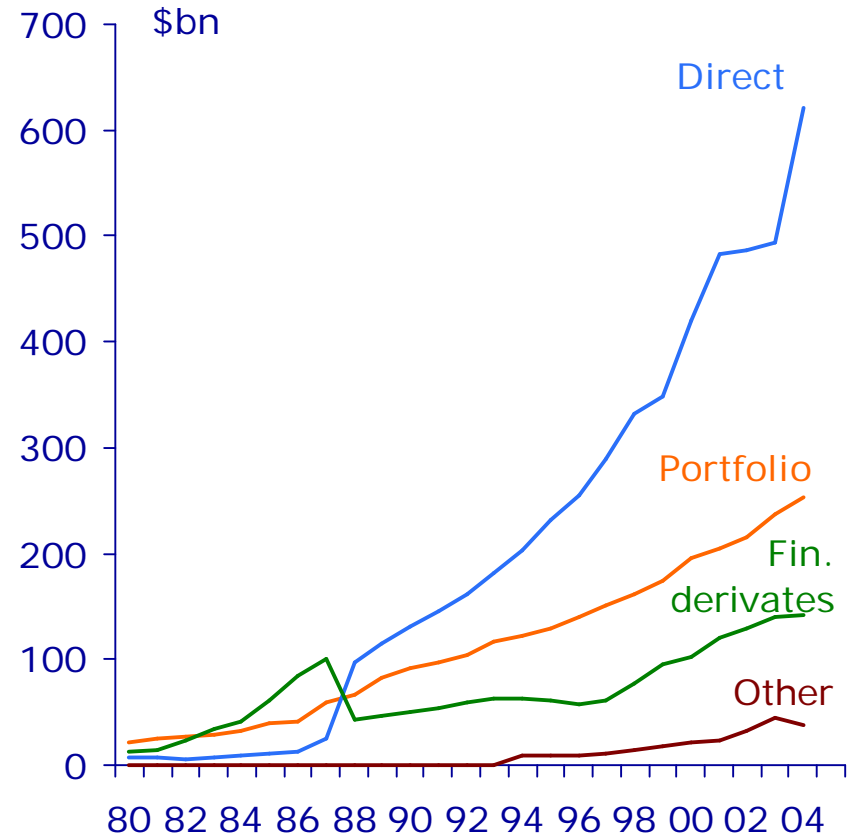
- Australia has an open, transparent and liberal foreign investment regime
 - Pre-establishment screening process whereby the Treasurer may reject a proposal for foreign investments in Australia that are deemed contrary to the national interest
 - Sector-or-company-specific legislation (eg. media, residential real estate. Telstra, Qantas)
 - Ranked 7 (out of 123 countries) for economic freedom by the Economic Freedom Network
 - Ranked 13 out of 103 for business competitiveness by the World Economic Forum

Market liberalisation and a strong and stable economy has seen foreign investment in Australia soar since the 1980s

Foreign investment in Australia

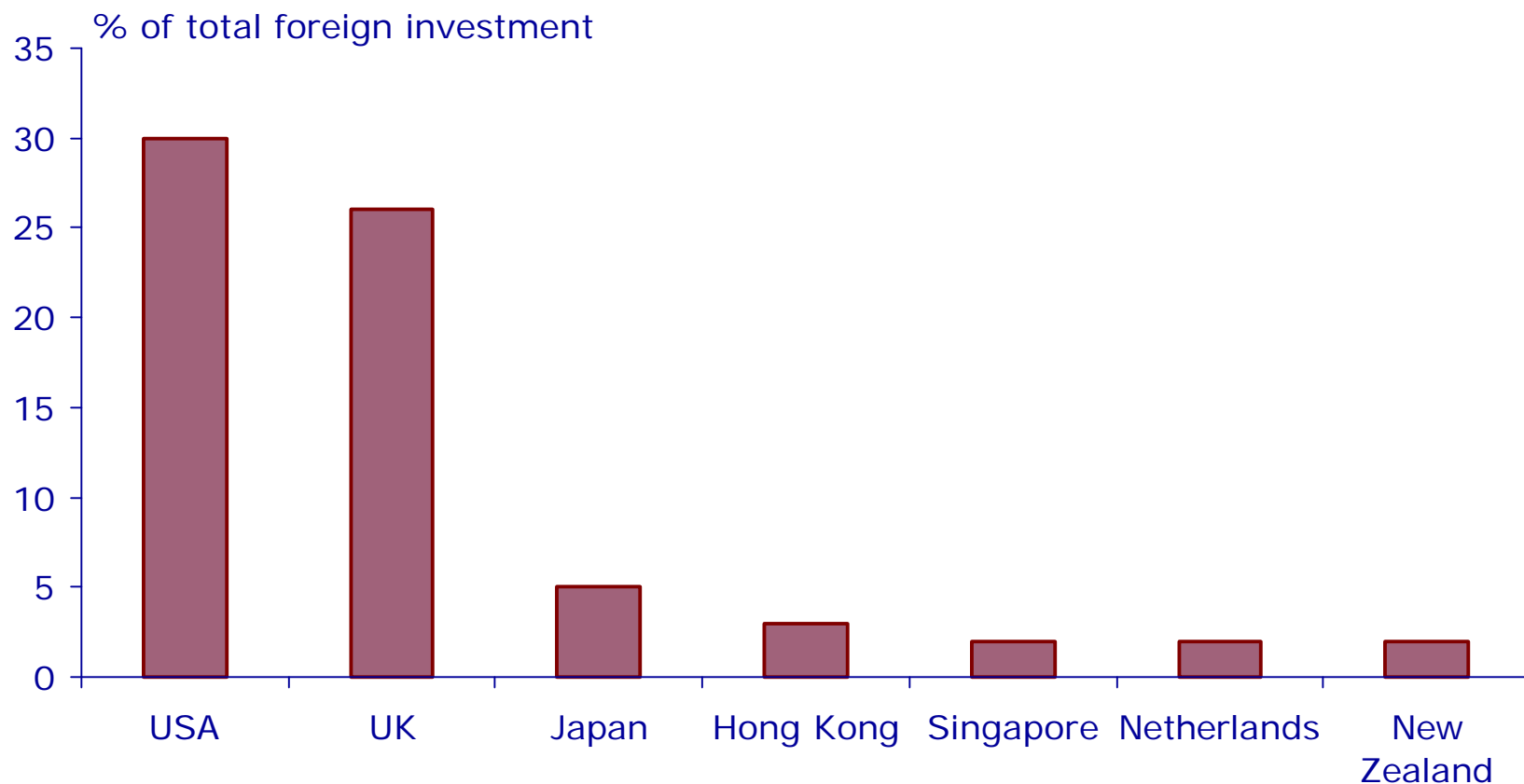


Type of foreign investment in Australia



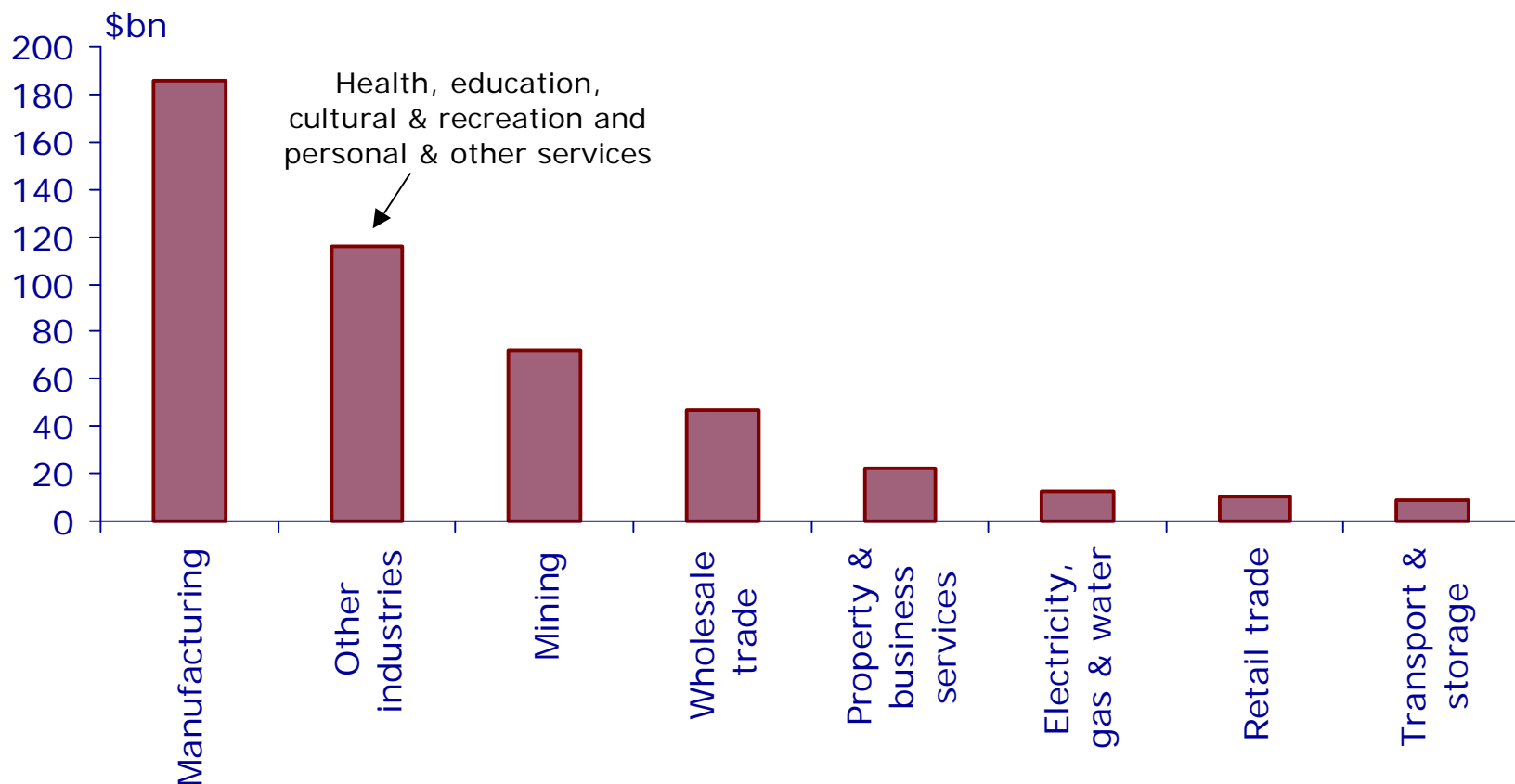
Which countries are investing in Australia?

Sources of foreign investment in Australia, levels,
31 December 2003



Where is foreign investment directed?

Foreign investment in Australia, levels, 31 December 2004*



* Excludes Finance and Insurance sector

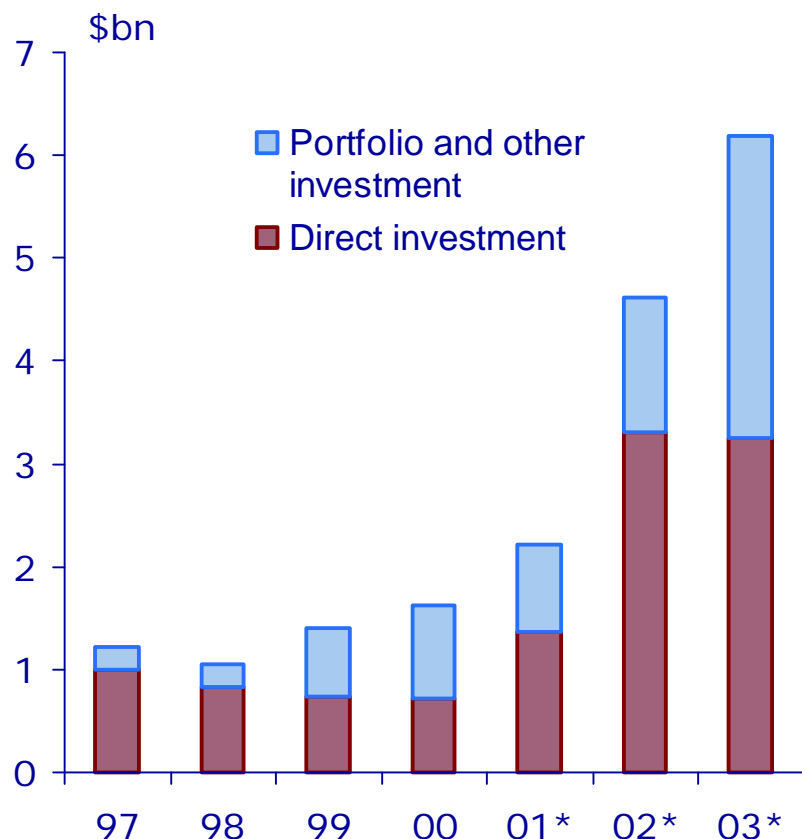
Sources: ABS

Investment trends in Australia

1. The macroeconomic environment for investment
2. Foreign investment in Australia
3. Malaysian investment in Australia
 - The implications of an Australia-Malaysia Free Trade Agreement (FTA)

Malaysian investment in Australia has risen sharply in recent years

Malaysian investment in Australia, levels



- The level of Malaysian investment in Australia was valued at \$6.2bn at Dec-03

- Equal to 0.6% of total foreign investment in Australia

- Malaysian foreign direct investment was \$3.2bn at Dec-03

- Equal to 1.3% of total foreign direct investment stocks in Australia

- Major Malaysian investments in energy, agribusiness, manufacturing, real estate, restaurants, travel agents and gaming

Will an FTA change existing conditions for Malaysian investment in Australia?

- Any changes to investment policy in Australia is unlikely
- The Australian government will not be prepared to concede any erosion of the principle of a broad national interest test or of a pre-establishment screening of all significant foreign acquisitions of existing Australian companies or assets
- The Australian government *could*, but is *unlikely*, to be prepared to *increase* screening thresholds for Malaysian investment in Australia
- The Australian-United States FTA
 - The screening threshold was raised from \$50mn to \$800mn for US investment in non-sensitive sectors (including non-residential developed commercial property)
- The Australian-Thailand FTA
 - No additional concessions for Thai investments in Australia
- The Australian-Singapore FTA
 - No additional concessions for Singapore investments in Australia

So what could an Australian-Malaysian FTA mean for investment trends in Australia?

- Probably not much (esp. if investment concessions aren't provided!)
- Malaysian investment in Australia is likely to increase regardless as the Malaysian economy continues to grow, develop and transform
- In the unlikely event that the screening threshold for Malaysian investments into Australia is increased, Malaysian investment into Australia could increase at a slightly faster pace
 - Although the relatively small size of Malaysian investment in Australia means that this will not likely make a significant difference to overall Australian investment, at least in the short-run
 - Malaysian investment into Australia will most likely be 'resource-seeking', rather than 'market- or efficiency-seeking'
- An FTA will further cement the political relationship between Australia and Malaysia, which will help facilitate increased investment flows
- The greater benefits from an FTA could be as a result of any increased opportunities for Australian businesses to invest in Malaysia
 - eg. infrastructure, building, manufacturing, finance, education

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522
10th Floor 100 Queen Street, Melbourne 3000, Australia
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited
ABN 11 005 357 522
Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)
6th Floor 1177 Avenue of the Americas
New York, NY 10036, United States of America
Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited
Level 7, 1-9 Victoria Street, Wellington, New Zealand
Telephone +64 4 802 2000

In Australia and the UK, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZ Bank"), which holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NZ").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZ Bank for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ Bank is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer which ANZ Bank may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ Bank, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ Bank, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ Bank, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation. Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.