Foreign Investment — Worksheet

Part A — FDI vs portfolio, the CA link and the IIP

This worksheet consolidates the foreign-investment topic: the FDI/portfolio distinction, the link between capital inflow and the current account, the international investment position, and an evaluation of the benefits and costs for Australia.

> When tracing effects, separate the **flow now** (capital inflow in the financial account) from the **income later** (primary income debit in the current account) and the **stock** (the change in the IIP). Keeping these three apart earns full analytical marks.

Types and concepts

1. Complete the comparison table.

Feature	Foreign direct investment	Portfolio investment
Degree of control		
Typical time horizon		
Volatility / reversibility		
Example		

2. In which account of the balance of payments is an inflow of foreign investment recorded? In which account, and as what kind of entry, do the returns on that investment later appear?

The current account link

3. A foreign company makes a A$3 billion direct investment in an Australian gas project. Trace the effects on (a) the financial account now, (b) the current account in later years, and (c) Australia's international investment position.

4. Explain why sustained net capital inflow over many years has made Australia a net debtor, and define the international investment position.

Evaluation

5. Discuss two benefits and two costs of Australia's reliance on foreign investment, and reach a judgement about whether the benefits outweigh the costs.

6. Explain why a sudden reversal of portfolio investment could be more destabilising than a fall in foreign direct investment.