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Introduction

Good morning.

It is a pleasure to be able to join you here today to discuss China and Australia's growing investment links.

I would like to express my thanks to the China Industrial Overseas Development and Planning Association and the China Development Bank for hosting the Overseas Investment Fair. The interest in China's overseas investment activities demonstrates how far the Chinese economy has progressed over the past few decades.

Bilateral economic relationship

Since 1972, when diplomatic relations were formally established, the relationship between Australian and China has continued to flourish. China and Australia share important common interests and continue to work together in regional and global forums, such as the G20, APEC, the East Asian Summit and the Pacific Islands Forum. The Australian Government also looks forward to hosting the senior Chinese delegation to the international conference on the Asia-Pacific community concept.

Australia and China enjoy strong economic complementarity, and it serves the common interests of both sides to advance economic, trade and investment cooperation. We attach considerable importance to a free trade agreement with China. The conclusion of a comprehensive, balanced and mutually beneficial bilateral free

trade agreement through negotiations serves the long-term interests of both countries.

The rapid expansion of the Chinese economy has had profound implications for Australia's economy and we now share an increasingly strong and mutually beneficial economic relationship. In the last twenty years, the value of trade between our two countries has grown from around \$2 billion to over \$76 billion, making China now Australia's largest and most important merchandise trade partner. In 2008, China was Australia's second largest export destination, and Australia's largest source of imports, overtaking the United States. This is evidence of our complementarity - Australia being a long term stable supplier of mineral and energy resources to China, and China a competitive supplier of goods to Australia. Trade with China now represents around 17 per cent of our total trade with the rest of the world.

This is a truly impressive achievement and it highlights just how important we view the bilateral economic relationship with China to be. However, as remarkable as the trade story has been, it is the investment relationship – particularly China's investment in our resources sector – that has attracted even more attention.

Before I discuss the investment environment in Australia, let me share some statistics with you. The two-way investment link between Australia and China is becoming an increasingly prominent part of our bilateral economic relationship. At the end of 2008,

China was ranked 15th among our largest investors. However, Chinese investment is increasing rapidly. Since the Rudd Government came to office in November 2007, it has approved Chinese investment (including Chinese investment in business and non-business sectors) worth over \$39 billion. This is a significant and welcome increase on the \$14.5 billion that was approved over the previous decade.

I'll talk more about Australian investment later, but first, I would like to use this opportunity today to outline Australia's foreign investment procedures and respond to some recent concerns that have been raised in public debate about Chinese investment.

Chinese foreign investment

Australia welcomes and encourages foreign direct investment, including from China because of the benefits that it provides our economy. Australia has historically relied on some international finance to open new investment opportunities and to develop our natural endowments. Foreign investment not only provides additional capital for Australian growth, it creates new job opportunities and supports existing jobs, it encourages innovation and skills development, introduces new technologies and promotes healthy competition amongst our industries. Foreign investment has helped build the competitiveness of our economy and will continue to do so into the future.

There has been much written recently about Chinese investment proposals in Australia's resources sector and our openness towards Chinese investment.

There is a wide range of views in the Australian community – some supportive, some less so.

This is not unusual. Australia has experienced successive waves of foreign investment – firstly from the UK and the US, then in the 1970's and 80's with Japan we saw the same pattern as we are seeing now from China, with success in trade leading to success in investment. All of these periods generated public interest and sometimes debate.

But the fact is that the Australian Government remains welcoming of foreign investment. Since coming to office in November 2007, the Rudd Government has approved some 110 Chinese investment proposals, five of which had undertakings or conditions in the national interest.

Most investment proposals do not raise national interest concerns.

And foreign investors – beyond FIRB approval – generally receive identical treatment under Australian law as any Australian business.

Australia maintains an open attitude towards investment in our resources sector.

Australia's foreign investment regime

The Government has applied a consistent approach to foreign investment matters.

We welcome foreign investment but like many other countries including China, we maintain the ability to review foreign investment applications to ensure that the investment is consistent with Australia's national interest.

Our foreign investment policy provides for government scrutiny of proposed foreign purchases of Australian businesses and property. When considering foreign investment proposals, the Treasurer is advised by the independent Foreign Investment Review Board. And foreign investment proposals are examined on a case-by-case basis with all information that may bear upon the national interest being taken into account.

The overwhelming majority of foreign investment proposals are approved without condition. But the foreign investment framework does permit the Treasurer to reject or approve with conditions a proposal if it is contrary to Australia's national interest.

The types of proposals which should be notified to the Foreign Investment Review Board include acquisitions of a substantial interest in Australian businesses valued above \$219 million and all direct investments by foreign governments and their agencies, irrespective of the size of the proposed investment.

Our procedures are streamlined, well established and well known to foreign investors. The legislation provides a 30 day statutory period for a decision to be made on foreign investment proposals. The legislation also provides for the issue of an Interim Order, which extends the available examination period for up to 90 additional days. Interim Orders are normally used for large complex foreign investment proposals. Most proposals are considered within the 30 day statutory deadline.

Where consideration will take longer than 30 days and where the applicant prefers to keep confidentiality, it is common practice to allow the applicant to withdraw and resubmit the application, re-starting the 30 day period.

I have only provided a brief overview of Australia's foreign investment screening procedures but if you are considering investing in Australia, the Foreign Investment Review Board can be contacted directly for more information on the screening process.

The national interest test

As I highlighted before, Australia welcomes and encourages foreign investment but we also want to ensure that the investment is consistent with our national interest.

In February 2008, the Treasurer released a set of guidelines containing six criteria that we consider when screening proposed foreign government related investments. The guidelines emphasise

the importance of independence and commerciality. They are non-discriminatory and intended to promote transparency, ensuring that investors are aware of the factors evaluated when the Government considers Australia's national interest.

They were released in response to the growth worldwide of investments by sovereign institutions – including Chinese state-owned enterprises, but also sovereign wealth funds and government-related investors from all countries.

The first national interest principles we consider is independence from government. What we are looking for is evidence of a true commercially-focused investment.

The other five criteria look at the way the foreign government investor operates – do they adhere to the law, do they abide by common standards of business behaviour? We look at competition issues, the impacts of that investment on the revenue base, national security concerns and the potential impact on the Australian economy and the broader community.

I should emphasise that these guidelines were not new policy, nor did they represent a tightening of Australia's investment regime. They set out for investors the factors that are evaluated when the Government considers Australia's national interest.

Naturally, the principles apply more frequently to countries with a higher number of state-owned investors, but the guidelines are blind

to the country of origin – we apply them equally to all investments by foreign governments and related entities. We have been working closely with foreign government investors to explain the application and purpose of the guidelines and to improve understanding about their role in Australia’s investment screening regime.

Investing in Australian resources

Coming back to the specific issue of investment in resources, we recognise that China has an interest in ensuring that we are able to supply the resources that it requires to fuel its continued economic growth. Australia has a complementary interest in expanding its capacity to supply these resources. So we will continue to welcome foreign investment – from China and others.

In this context, Chinese investment delivers benefits for both countries.

Chinese investment plays a key role in the development of our resources sector. China’s increased investment interest is a positive development that will further consolidate the Australia-China economic relationship.

Likewise, we welcome the indication last week that China also sees great scope for increased Australian investment in China.

In July last year, the Treasurer articulated the Government's approach to foreign government-related investment in Australia's resources sector. Australia's aim is to maintain a market-based system where investment and sales decisions are driven by market forces. When considering a proposed investment, we are particularly attentive to, and consider carefully, any case in which a proposed investor in a resource is also a buyer of the resource.

These principles provide some guidance on why certain investments are more closely examined than others.

We have consistently emphasised to all foreign investors that Australia must remain a reliable supplier in the future to all current and potential trading partners. Again, as the Treasurer has noted, where the proposed ownership by a resources consumer increases to the point of potential control over pricing and production we will look more carefully at whether the proposal is consistent with Australia's national interest.

I have outlined some of the factors that we consider when assessing whether a proposal is consistent with the national interest. However, as I stressed earlier, it is important to remember that we look at each proposal on a case-by-case basis. If you are considering investing in Australia, Foreign Investment Review Board can be contacted directly to provide more information on the screening process.

Australian investment in China

I would now like to spend a few moments discussing the other aspect of our bilateral investment relationship – Australian investment into China.

As I noted earlier, this is also growing strongly and we consider that there is a range of potential benefits to both countries from further Australian investment in China. This would be facilitated by further liberalisation in China's services sector and an easing of remaining investment barriers.

China is a large recipient of foreign direct investment. Investment from advanced countries has helped China gain access to new technology and information, which has improved productivity and enabled China to compete in international markets. The manufacturing sector – the key driver behind China's rapid economic growth – has been the largest recipient of foreign direct investment to date but there are other opportunities in other sectors for increased technical cooperation and investment from overseas investors.

Australian firms are well placed in this regard. In mining and resources, our companies have the technology and know-how to improve the efficiency of exploration and mining in China. Our companies also have a strong track record on environment and safety, to support China's own efforts in this area.

Agriculture is also an important area for both countries. Australia is a leading country in developing new technologies in plant breeding, livestock breeding and production and pasture improvements. In addition, Australia has advanced technology in grape planting and wine production.

Australia and China also have much to gain through increased opportunities for trade and investment in financial services – an area within my responsibility at the Australian Treasury. Australia has a highly diversified and internationally competitive financial market with high-level supply capacities in every aspect of financial services. There are a number of opportunities for Australia and China to increase trade and investment in financial services.

Conclusion

Australia has much to gain from our growing economic relationship with China. Historically, we have been an importer of capital, including from China. We welcome and encourage foreign direct investment and as an open, modern economy, Australia offers diverse business opportunities across a broad range of industry sectors.

Thank you again for the opportunity to discuss these issues and I look forward to your questions.

