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Introduction

Good morning.

It is a pleasure to be able to join you here today at the inaugural China Overseas Investment Fair to discuss foreign investment into Australia.

I would like to express my thanks to the China Industrial Overseas Development and Planning Association and the China Development Bank for inviting me to speak today. Events like this are important for facilitating the exchange of knowledge and new ideas and the focus on Chinese overseas investment demonstrates how far the Chinese economy has progressed over the past few decades.

I would also like to acknowledge the involvement of the National Development and Reform Commission. In October last year, the Australian Treasury and the NDRC signed a Memorandum of Understanding to exchange information on economic policy challenges, and the evolution of regional architecture. This exemplifies the growing relationship between Australia and China across all levels of government and my colleagues and I look forward to continuing to work cooperatively with the NDRC and other Chinese institutions in the coming years.

Bilateral economic relationship

Since 1972, when diplomatic relations were formally established, the relationship between Australia and China has continued to flourish.

On Friday, the Chinese Vice Premier Li Keqiang and Australian Prime Minister met and had an in-depth exchange of views on a range of issues important to the China-Australia relationship.

They affirmed that cooperation between China and Australia has great potential.

And they identified important common interests and opportunities to work together through the G20, APEC, the East Asian Summit and the Pacific Islands Forum, and in relation to Australia's Asia-Pacific Community initiative.

Australia and China enjoy strong economic complementarity, and it serves the common interests of both sides to advance economic, trade and investment cooperation.

The rapid expansion of the Chinese economy has had profound implications for Australia's economy. In the last twenty years, the total value of trade between our two countries has grown from around \$2 billion to over \$76 billion. China has become Australia's largest merchandise trade partner with total two-way trade making up around 17 per cent of our total trade with the rest of the world.

China is a competitive supplier of goods to Australia, while Australia is a long-term stable supplier of mineral and energy resources to China.

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

We are committed to achieving a high quality, comprehensive and mutually beneficial free trade agreement between our two countries to serve the long-term interests of both countries.

This all highlights just how important we view the bilateral economic relationship with China to be. As remarkable as the trade story has been though, it is the investment relationship – particularly China’s investment in our resources sector – that has attracted even more attention and the topic that I would like to focus on this morning. I would like to use this opportunity to outline Australia’s foreign investment procedures and address some 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 the Australian economy.

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 public about this matter – some supportive, some less so.

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 controversy.

But we have long been and will continue to be a capital importer. Foreign investment not only provides additional capital for Australian growth, it creates new job opportunities and supports existing jobs. It also facilitates access to new technologies, encourages innovation and skills development, provides opportunities for global integration and networking, and promotes competition amongst our industries. Foreign investment has helped build the competitiveness of our economy and it will continue to do so into the future.

Since the Rudd Government came to office in November 2007, it has approved some 110 Chinese investment applications (including Chinese investment in business and non-business sectors) with a total value of over \$39 billion.

Not one business application has been formally rejected by FIRB. Five have been approved subject to undertakings, amendments or conditions designed to protect the national interest.

Australia's investment regime

The Australian Government has demonstrated a consistent approach to foreign investment. We welcome foreign investment.

But we will review foreign investment applications against Australia's national interest.

It is important to stress that our consideration of foreign investment proposals is on a case-by-case basis.

In February 2008, the Treasurer released a set of guidelines that we consider when screening proposed foreign government related investments. The guidelines are non-discriminatory and intended to promote transparency, ensuring that investors understand the factors evaluated when the Government considers Australia's national interest. They were released in response to a trend over time of increasing investment by sovereign institutions – sovereign wealth funds and government-related investors from all countries, including from China.

Naturally, these principles apply more frequently to countries with a larger number of state-owned investors, but the guidelines apply 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.

The guidelines emphasise the importance of independence and commerciality. Some of the issues that we consider include:

- the independence from Government;

- adherence to the law and common standards of business behaviour – whether the investor has clear commercial objectives and is subject to adequate and transparent regulation in other jurisdictions;
- competition or undue concentration or control in the industry or sectors concerned;
- the impact the investment will have on revenue;
- national security and the extent to which investments might affect Australia's ability to protect its interests.
- We also consider what impact the acquisition will have on the operations and directions of other Australian businesses, its contribution to 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 were released to ensure that investors are aware of the factors evaluated when the Government considers Australia's national interest.

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 – to do so.

The Government welcomes Chinese investment because it 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.

In July last year, the Treasurer further articulated the Government's approach to the national interest, in relation to foreign investment in the 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 cases where a proposed investor in a resource is also a buyer of the resource, and where the proposed ownership by that consumer increases to the point of potential control over pricing and production.

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

We have also consistently emphasised to all foreign investors that Australia must remain a reliable supplier in the future to all current and potential trading partners.

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 review each proposal on a case-by-case basis. The Foreign Investment Review Board can provide more information on the screening process to potential investors.

Conclusion

China and Australia enjoy strong economic complementarity, and it serves the common interests of both sides to advance economic, trade and investment cooperation on the basis of mutual benefit. I trust that I have cleared up some of the misconceptions about our foreign investment regime and our attitude towards Chinese investment. Historically, Australia has been an importer of capital and our future growth relies on continued openness to foreign investment, including increasingly investment from China.

Thank you.