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Tony Abbott's China challenge

ROWAN CALLICK, ASIA-PACIFIC EDITOR THE AUSTRALIAN JULY 26, 2012 12:00AM



Tully Sugar in North Queensland was subject to a successful takeover bid last year when the Chinese government-owned Cofco acquired a majority share for \$136m. Picture: Cameron Laird Source: Supplied

TONY Abbott has reignited the long-running debate in Australia about foreign investment.

The country needs it, as it has since its founding, but many resent that fact. And resentment can be channelled into votes, but less often into sound policy.

In his first visit as Opposition Leader to Beijing -- where he was sized up by senior Chinese leaders as prime-minister-in-waiting -- he delivered on Tuesday a speech to the Australian Chamber of Commerce that was well received as a thoughtful, trailblazing reset of Coalition policy towards Australia's top trading partner.

But his remarks about investment in Australia have plunged him into unsought controversy -- especially since the country has become the top destination for Chinese foreign investment, apart from tax havens and Hong Kong.

Liberal supporters in the business world are among those who are puzzling over what Abbott's remarks may mean for investment being sought from highly liquid Chinese corporations.

And Liberal premiers Barry O'Farrell in NSW and Ted Baillieu in Victoria yesterday expressed their special interest in discussing the issue with Abbott. The former is leading a major business delegation to China next week and the latter the same in September, in both cases seeking to lure Chinese investment as well as increased trade.

In his speech, Abbott anticipated that northern Australia "could be a food bowl for Asia. And to this end, we will shortly release a position paper based on over 12 months of consultation".

"The Coalition unambiguously welcomes foreign investment. People often forget how vital it's been for the development of Australia," Abbott told the gathering.

"An incoming Coalition government would welcome Chinese investment in the same basis that we welcome investment from other countries. It would, of course, have to pass a national-interest test and the scrutiny of the Foreign Investment Review Board. Chinese investment is complicated by the prevalence of state-owned enterprises."

All uncontested. But then came his crucial injection of controversy: "It would rarely be in Australia's national interest to allow a foreign government or its agencies to control an Australian business."

He noted that, to date, the FIRB had approved dozens of investments for every one rejected -- such as the Singapore stock exchange's move to take over the ASX, which was knocked back by Wayne Swan.

The Treasurer and the FIRB also frequently impose conditions -- such as board composition -- on the approval of deals, especially those involving state-owned enterprises.

Since the global financial crisis, the weight of investment from cashed-up Asia has increased, while that from Western countries has been sliding.

This triggered an intense debate when, three years ago, Chinese government-owned Chinalco sought -- unsuccessfully -- to double to 19 per cent its stake in Rio Tinto, and as Chinese SOE Minmetals made its ultimately successful bid for OZ Minerals.

Barnaby Joyce, the opposition spokesman for regional development and Nationals leader in the Senate, participated in TV adverts funded by Melbourne optometry businessman Ian Melrose, warning against allowing foreigners to buy "the source of our wealth".

Trade Minister Craig Emerson on Tuesday accused Abbott of running a "two-track strategy" on Chinese companies developing intensive agriculture in northern Australia, "embracing it" while failing to pull Joyce into line after the latter claimed foreign ownership of farm land was increasing exponentially.

The total figure of foreign-owned farmland, says Emerson, is 6 per cent, up from 5.9 per cent in 1984. He also attacked Abbott for "taking the journey to China to tell them investment by their SOEs is unwelcome."

Swan, who has approved scores of investments by Chinese SOEs in the past few years, also lambasted Abbott for allowing foreign investment policy to be "taken over by Barnaby Joyce", in the face of "a pipeline of investment coming our way, creating jobs and wealth in Australia".

Back in Beijing, Abbott on Tuesday expanded on what he meant in his speech: "Foreign investment is very important to Australia's economic development -- always has been and I suspect it always will be -- but it does have to be in accordance with Australia's national interest, and it does have to be in accordance with Australian standards.

"As a general principle we don't support Australian government ownership of businesses. That's why it would be rare for it to be in Australia's national interest to have foreign government ownership of Australian businesses."

He was indicating a general preference for Australian businesses to be owned by private entities and run on a commercial basis -- and believed that to explain this publicly, in China, would be helpful and would diminish increasing concerns in China of sovereign risk.

Investments would still be assessed on a case-by-case basis, and the key determinant would remain Australia's national interest.

But his use of the adverb "rarely" in terms of permitting control by an SOE -- leaving aside the often-disputed question of what comprises "control" -- appears to signal that an Abbott government treasurer would usually turn down SOE bids.

Emerson, naturally pushing this line further, said: "This would create Chinese perceptions of high sovereign risk in Australia, since Mr Abbott has indicated that if he became prime minister he would overrule an FIRB finding for a Chinese SOE, and that his decision on their investment would be no."

What is the reaction among Australians at the coalface of business relations with China?

Jason Chang, president of the Australia China Business Council in Victoria and managing director of EMR Capital, said: "The current framework, where there is proper scrutiny by the FIRB, is the right one. I would be concerned if a government went on to generalise that an SOE investment would seldom be in the national interest.

"Over the next few decades, the biggest influence on Australia's economy, on Australian jobs, is likely to be China." And most core sectors of China's economy were dominated by SOEs, he said. "To work with a country like China, you have to give them some skin in the game, some equity interest. For the sake of our own prosperity, we have to find a way to make this work."

Robin Chambers, whose law firm has been involved in scores of deals involving Chinese corporations in Australia, largely in mining, and who sits on the boards of several Chinese companies, said that "interest in investing in Australia is still extremely high" -- spurred by the latest five-year plan pushing Chinese business to "go out". As the Australian mining boom was winding down faster, he said, than the Treasury or Reserve Bank might realise, "increasing numbers of Australian companies are coming to us for introductions to Chinese firms, looking for capital and for off-take markets for their products".

China, he said, "is serious about using such a situation to expand its investments". At almost every meeting in China with investors, they raised three concerns to temper their positive approach to Australia -- the mining tax, "sometimes described as a China tax", the carbon tax, and the FIRB approval process.

Chambers expressed disappointment with Abbott's concerns about approving SOE investments, saying that "even Labor has made efforts to understand the complexities" of this situation.

He said that "in all my experiences representing Chinese companies" at different levels, including on boards, for decades, he had "never seen anything except commercial interest".

Mostly, he said, they had not wished to run the projects themselves, but had engaged experts, overwhelmingly Australian experts, to run the mines. "If there has been a political involvement, it has come earlier," he said, in the jockeying over which SOE gets to invest in which project.

Saul Eslake, chief economist at the Bank of American Merrill Lynch Australia, said: "I think that Tony Abbott is trying to address two different concerns, while acknowledging the crucial historical significance of foreign investment to our way of life."

One of those concerns emanated, he said, from "what is quite a xenophobic National Party these days." The second, he said, came from US hostility to Chinese investment, on "national security" grounds -- "about which Abbott also is likely to be sensitive".

This, said Eslake, might also have been a factor in the Gillard government's ban on the participation in the NBN rollout of Chinese telecommunications giant Huawei, whose Australian advisory board includes retired politicians John Brumby and Alexander Downer.

This complex tale that emanates from a single sentence in an otherwise cleverly crafted speech illustrates what a tangled web is foreign investment regulation, tempting politicians into troublesome positions from which it's hard to extricate themselves.