Session II Discussion Paper

Should Australia welcome PRC investment in new growth sectors, such as agriculture?

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Australia should welcome investment from the People's Republic of China (PRC) in agribusiness, telecommunications, energy and advanced manufacturing – growth sectors that are of interest to PRC investors. PRC investment provides much needed capital to execute new opportunities and scale up existing operations. It also brings technological know-how, insights to improve business practices, and customer and supply chain connections. This all serves to strengthen Australian capabilities, boost innovation and broaden access to PRC and other international markets. The result is a more productive economy that is competitive in international trade and investment.

Australia has benefited immensely from its economic relationship with the PRC. While the US, Japan and UK continue to dominate the share of foreign investment in Australia, PRC investment is growing. At the end of 2016, the PRC was the fifth largest source of foreign investment. However, public support for PRC investment has declined over recent years. The 2018 Lowy Institute Poll indicated that 72 per cent of the participants believe the Australian government allows too much PRC investment. This is up from the average of 57 per cent in the previous five polls. In light of recent heated discussions about PRC government influence in Australia's political processes, there are deepening concerns that PRC investment in critical infrastructure and relevant sectors does not align with the national interest.

National security is particularly sensitive in telecommunications and the energy sector. In agriculture, the public is generally uncomfortable about foreign land ownership. But PRC investment raises additional concerns about production quality and food security given the PRC's poor reputation for health and safety at home, which has created a high demand for foreign goods. Adding further layers of complexity are non-sector specific concerns such as environmental protection, ongoing Australian participation in the enterprise, and business ethics if the PRC government is involved.

Addressing these concerns requires the government to explore potential mitigation options with PRC investors. If national security is a concern in telecommunications, can inspections under the supervision of the government be performed during commissioning and regular audits be conducted post-commissioning to ensure the integrity of the system? Will issues concerning energy infrastructure, food security, and land ownership be addressed if PRC investors are part of a consortium and Australian management is maintained in the day-to-day running of the business?

Whilst working with the government is critical to secure approvals, it is equally important for PRC investors to earn the acceptance of the local community. This goes beyond running a profitable enterprise. PRC investors must engage with the locals, learn about the significance of any cultural and environmental heritage sites, understand local needs, share the enterprise's vision and show how it will contribute to the community's development. Investors should not underestimate the influence of local communities who can become powerful advocates if successfully won over. The challenge for PRC investors and their Australian partners is how to facilitate better engagement. Will more strategic engagement lead to further allegations of undue influence?

As new growth sectors, and to a greater extent, telecommunications and energy underpin Australia's society and economy, there are legitimate grounds for Australians to be concerned about the national interest. Likewise, there are reasons for the government to carefully balance this against potential economic benefits. As shown by the small number of rejected proposals, there may well be circumstances where foreign investment is not viable. Foreign investment restrictions are not unfamiliar to PRC investors. The PRC economy is still gradually opening and the government is tightening capital controls. What PRC investors struggle to understand, however, is why the Australian public and government have become less welcoming. Why are PRC investors excluded from certain opportunities from the outset despite the compelling economic case?

Australia is enjoying its 27^{th} year of uninterrupted economic growth. Australia's openness, willingness to engage and timely take up of new opportunities has underscored its success. These characteristics will set us apart in the current geopolitical environment where nationalism and protectionism are on the rise, and make us a partner of choice in trade and investment. A drawn-out foreign interference debate coupled with polarising media coverage has caused tension in Australia-China relations. Australia must move forward to have an honest conversation on how we can make things work, and in the circumstances where PRC investment is viable, be clear in our reasons why.

Questions

- What would be an instance of investment from the PRC where risk would outweigh potential benefit?
- Should Australia apply more stringent conditions for investment in new growth sectors? If so, what should these look like?
- Should there be scope for other stakeholders to be involved in these investment decisions?
- Do differences in investor type (SOE vs private, active vs passive) matter?

Australian Government

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