



# Speech

## For Immediate Release

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**Venue** Sydney

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## Address to the ANU–BCA Forum on Chinese State-owned Enterprises and Global Investment

Distinguished guests, Treasurer Joe Hockey, Senator Penny Wong, and colleagues.

Welcome on behalf of the Australian National University and the Business Council of Australia.

Thank you for coming.

Today's forum is very timely.

Recent public debate on Chinese state-owned enterprise (or SOE) investment has been politically charged, and possibly very unhelpful.

It has not advanced the national discussion on what is an important issue for Australia's economic future.

And it has added to – rather than allaying – community concerns about overseas investment and particularly investment by state-owned enterprises in Australia.

There are of course legitimate community concerns and real risks with SOE investment.

But debate must be honest, informed, devoid of ideology and plain prejudice.

The purpose of today's forum is to have a broad, open discussion. We at the Business Council and the ANU hope we can properly canvass the benefits and risks of SOE investment in Australia.

And through the involvement of *The Australian Financial Review*, today's forum will provide an opportunity to convey key issues through to the broader Australian community.

I hope all participants will be able to engage actively in this very important debate.

### Chatham House rules

At this point, may I remind everyone that while some of the papers have been provided to the media for reporting, the discussion at this morning's sessions of the forum are subject to Chatham House rules.

This is understood and respected by our colleagues from the media who are present in the room.

We need to observe these rules if we are to have the frank and open discussion we all came here to have.

## **Context**

### **Reform**

We are focusing on Chinese SOE investment today because it has enormous opportunities.

Australia is at a crossroads in charting new pathways to maintain its economic prosperity.

Our remarkable run of growth will require businesses, and governments, to take more deliberate and purposeful steps in responding to global forces of change.

Central to the purpose of this forum is discussing the right balance between attracting investment and addressing concerns over the conduct of SOEs in Australia.

I believe that the vast majority of Australians are open to having a mature debate about the economic relationship Australia has with China, including on SOE investment.

### **Australia's reform**

Australia's economic prosperity has been fundamentally founded on structural reforms undertaken through the '80s, '90s and 2000s.

The Business Council of Australia has been at the vanguard of many of the economic reform debates that encouraged these reforms.

From tariff liberalisation in the '80s to our recent *Building Australia's Comparative Advantages* report, which calls for a greater understanding of our economy and how we plan for growth.

It highlights the importance of investment as a key plank in improving our overall competitiveness.

Past reforms have delivered extraordinary results.

Australia remains the only OECD country to have maintained two decades of uninterrupted growth.

But maintaining growth in the next decade will be a much harder task than it was in the previous two decades.

Australia needs new ways to unlock its potential as a nation.

Part of this must be to become a world leader in attracting foreign investment.

### **BCA discussion paper**

Today, the Business Council has released a discussion paper on SOE investment titled *Managing the Risks to Maximise the Benefits*.

We hope the paper will stimulate community discussion on Australia's investment policy, particularly on SOEs.

Our report argues that Australia has always relied on foreign investment to build our economy.

In the second half of the 1800s, around 35 per cent of Australian new capital investment was financed from abroad. In the 1880s this share reached as high as 50 per cent.

Currently, the stock of foreign investment in Australia stands at \$2.46 trillion.

This accounts for just over 50 per cent of Australia's total capital stock of \$4.82 trillion.

### **SOE investment is increasing**

Global sources of foreign direct investment are changing, and SOEs are an increasing proportion of the available pool of global capital.

In 2013, SOEs invested US\$160 billion internationally.

This represented 11 per cent of global foreign direct investment flows.

The Chinese Government has committed publicly to transfer abroad between \$500 billion and \$750 billion of investment over the next five years.

The majority of this investment will come from SOEs.

Currently 90 per cent of China's total \$20.8 billion investment in Australia comes from SOEs.

### **KPMG study**

A report commissioned by the Business Council and prepared by KPMG and the University of Sydney has provided some important insights on SOE investment.

They found that in the view of some SOEs, current Foreign Investment Review Board investment screening rules for SOEs were overly restrictive, compared to investors from other countries.

Australia will need to continue to attract investment, including from SOEs, if we are to underpin national living standards into the future.

The report also found that major Chinese SOEs active in Australia were learning from past experience and adapting their approach to suit the Australian market.

Consistent with this, Chinese SOEs were found to be increasingly commercially motivated and are subject to competition.

### **Challenges of reforming the investment regime**

In light of these findings, the Business Council identifies three overarching challenges in reforming Australia's investment policy:

- The need to ensure that we are a destination for foreign capital and do not have a gap with competitor countries when it comes to attracting SOE investment.
- The desire for Australian companies to engage and compete against foreign companies and SOEs on similar commercial terms.
- And the need to manage the perceived and real risks associated with SOE investment.

The Business Council argues that failure to manage these three overarching challenges appropriately will be detrimental to Australia, and affect our ability to deliver infrastructure, jobs and future prosperity.

### **Options for reform**

The paper outlines seven potential measures to promote public discussion of investment policy reform.

These options provide for varying degrees of liberalisation.

They should not be viewed as mutually exclusive. Some could be packaged together to raise community confidence.

At one end of the spectrum is the option to liberalise investment approval requirements either by removing the requirement for FIRB screening at all.

Or by raising the FIRB screening threshold for SOEs to \$1.078 billion.

At the other end of the spectrum is the option of retaining the current policy settings.

Between these two extremes, Australia has the option to:

- set different investment value thresholds
- or pursue other approaches which reward or incentivise good commercial and corporate governance behaviour.

These middle options could involve dispensing with FIRB screening where an SOE has a proven track record.

Alternatively, FIRB screening could be dispensed with if the SOE satisfies an accreditation process.

In some of these more liberal options it may be important, indeed essential, to exclude some very sensitive sectors.

Stuart Fuller, Chief Executive Partner of King & Wood Mallesons and member of the BCA's Global Engagement Task Force, will present the BCA's paper in more detail later in the morning.

And I hope people will find it useful in stimulating thought and discussion.

I guess the bottom line is doing nothing is probably not an option.

**Welcome keynote: The Honourable Joe Hockey**

But before we get to the discussion part of the morning, it is my great pleasure to introduce our keynote speaker, Treasurer Joe Hockey.

Mr Hockey is the minister responsible for Australia's investment policy, and we are most grateful to him for taking the time to be with us this morning.

The Treasurer I know is a champion of a competitive Australia and understands the importance of investment.

Please join me in welcoming Treasurer Joe Hockey.

**For further information contact:**

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The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole.

Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.