SUBMISSION TO SENATE ECONOMICS COMMITTEE INQUIRY INTO FOREIGN INVESTMENT BY STATE-OWNED ENTITIES.

Preamble.

I urge the Committee to advise the Government against allowing the Chinalco bid for a larger share in and control of Rio Tinto to proceed. As many correspondents to *The Australian* newspaper have pointed out, acquisitions by Chinese-owned and government-controlled sovereign wealth funds are not simple commercial transactions to find lucrative returns for members' savings.

They are part of a geopolitical strategy to control, secure and exploit the resources of the Pacific region, and to use it to further a not so benevolent hegemony over the governments and peoples of the area. Such mercantilist policies do not exist for the good of the client states, so much as for that of the patron state, and are simply economic imperialism – with a more or less unspoken military dimension – as was the case with European nations and their colonies from 1500 – 1960s.

In the case of Rio Tinto, the structure of the plan gives far more than 18% ownership, and carries board membership and growing input into the managerial structure. It is also naïve to believe that such influence would not affect resource prices in the future, and also not impact on prices received for the same commodities sourced from BHP and other mining concerns.

Owing to opposition among British and institutional shareholders, better prices for both resources and stock in recent months, and a successful recent Rio Tinto share issue, the bid may not be necessary to reduce debt from the ill-advised Comalco acquisition. Nevertheless, Australia's economic sovereignty should never be sacrificed for short term ends, in order to temporarily absolve managers from the consequence of their blunders.

Perhaps the Federal government has the resources to assist Rio from the Infrastructure or Future Fund, or something similar to the so-called "Rudd-bank" project? In any case, the superannuation funds pumping money currently into a depressed stock market would be ripe for a local share issue. There are avenues other than sacrificing the national interest.

Re. the Terms of Reference:-

1. International experience of sovereign wealth funds….

   China is the most active nation in promoting such state-directed investment abroad. There is no clear distinction between its foreign aid, in the form of low interest loans, and the activities of the various investment arms of government. Africa has been the most conspicuous target of Chinese activity, in under-developed but resource-rich countries like the Soudan, Zimbabwe and Zambia. In each of these, China has no difficulty dealing with corrupt rulers and perpetrators of human rights abuses, which makes it a preferable partner compared with more squeamish Western nations. In every case the twin objectives have been to secure resources and lock the nation concerned into China's sphere of influence.

   The same mode of operations characterises China's activities in the Pacific region. Fiji and East Timor are examples. Fiji's anti-democratic coup is financed by Chinese "loans" of $200m and possibly another $300m directly to Bainimarama's regime – while Australia and New Zealand wring their hands over a lost democracy. Taking the form of commercial loans, these funds are provided to buy a stake in an emerging nation in a region where China aims at hegemony. East Timor is not much different. Chinese aid funds are available for the coalition government, as they were for the previous Fretilin one. However, there are strings, such as the “gift” of buildings in Dili and the heavy oil power stations supplied, regardless of environmental factors.

2. Australian experience of foreign investment by sovereign wealth funds and state-owned companies in the context of Australia’s foreign investment arrangements. Until the upsurge of (mainly approved) Chinese applications in the past year, the most obvious example was the Singapore Mutual Provident Fund, with its significant holdings in companies such as Optus. Consistent with relative size, Singapore has no ambitions of regional geopolitical hegemony, and its activities are strictly commercial, seeking a wider scope for members’ savings than is available on the island. China, on the other hand, could invest all of its funds within its largely under-developed provinces. Australia has always depended on foreign investment for development, but the funds have previously been raised on the London, New York and Tokyo markets from private sources – and never before with strategic as well as commercial motives.

Recommendations.

1. That state-controlled foreign investment be restricted from controlling any strategic areas of the economy, such as airlines, communications and fuel.
2. That state-controlled foreign investment should be encouraged in fresh projects, but be prevented from staging hostile takeovers of existing companies.
3. That the details of any acquisitions be scrutinised to ascertain what actual degree of control of a company is achieved, even in the case of a minority share-holding.

Conclusion

The financial downturn should not allow an emerging and not totally benevolent, but indeed totalitarian, power to acquire ownership and control of significant Australian assets at bargain prices. To be drawn into China’s sphere of influence would be to detach Australia from the West, the source hitherto of our identity, our culture and our support. Please advise the government against permitting the Chinalco plan to proceed in its present form.

John J.Morrissey