

11 May 2009

**Inquiry into Foreign Investment by State-owned Entities**

**Committee Secretary**

Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
Australia

**Dear Committee:**

Thank you for the opportunity to provide a written submission to the 'Inquiry into Foreign Investment by State-owned Entities'. The inquiry comes at an important time for the global economy and for Australia's economic relations with some of the newer state-owned sources of investment capital, both sovereign wealth funds and state-owned enterprises.

Over the past few years, the Lowy Institute has focussed on the subject of the Inquiry with a particular focus on the present and future of China-Australia economic relations and on the future suitability of the existing Foreign Investment Review Board process. There has been a series of recent posts to the Lowy Institute's weblog, *The Interpreter*, (<http://www.lowyinterpreter.org/>) on the subject of foreign investment.

Accompanying this letter are the two most relevant publications by Lowy Institute staff; an outcomes report for a 2008 conference the Institute co-hosted with the Melbourne branch of the Australia-China Business Council co-written by Mark Thirlwell and Malcolm Cook (<http://www.lowyinstitute.org/Publication.asp?pid=855>) and a conference paper written by Mark Thirlwell and Andrew Shearer for the Institute of Public Affairs (<http://www.lowyinstitute.org/Publication.asp?pid=953>). We hope these longer reports are useful for your deliberations and add depth to the brief summary comments below.

***Growing trend***

Government-controlled investment has long been a feature of the global economy. In the past few years, however, there has been an upsurge in the volume of these flows globally and into Australia. This development has occurred at the same time as, and is largely a consequence of, a growth in international investment from new geographical sources including petro-states in the Middle East like the UAE and export-oriented emerging market economies in East Asia such as China and Singapore. Some of these investors have sought significant stakes in major Australian firms in strategic sectors. A substantial proportion of these flows, as witnessed by Temasek's purchase of a significant share in ABC Learning, are sourced through sovereign wealth funds. So the location of state-owned entities seeking

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permission to buy into Australian firms is changing, as are the institutional nature of these entities and the size and ownership implications of their investments.

Australia, as a resource-rich, political stable and institutionally sound investment market can expect this foreign investment trend to grow and to gain more local and international attention, especially for investment applications coming from the People's Republic of China.

Taken overall, we view the emergence of a new source of foreign capital, as a positive trend for an economy like Australia, dependent as it is on tapping foreign savings to finance the gap between domestic savings and investment. We also believe, however, that a greater degree of regulatory oversight in the case of foreign investment by government-controlled entities compared to that applied to private foreign investment is warranted.

### ***Suitable regulatory framework***

In our judgment, the present regulatory and policy framework for foreign investment applications is robust enough to manage this growing trend and provides a reasonable balance between Australia's openness to foreign investment and the responsibility of the government to ensure that economic and commercial change in Australia is in line with community interests and concerns. This framework's long-standing distinction between private sector foreign investment and investment originating from state-owned entities is both justifiable and of growing importance due to the changes discussed above. This judgment is also in line with the concerns of the Australian public: In the 2008 Lowy Institute Poll (<http://www.lowyinstitute.org/Publication.asp?pid=895>), 85 per cent of those polled agreed that the government should regulate foreign state-owned investment more stringently than foreign private sector investment.

We hope that you find this submission of value to your deliberations.

Sincerely,

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