

A response to the Senate Inquiry into Foreign Investment by State-Owned Entities

Terms of reference:

1. The international experience of sovereign wealth funds and state-owned companies, their role in acquisitions of significant shareholdings of corporations, and the impact and outcomes of such acquisitions on business growth and competition; and
2. The Australian experience of foreign investment by sovereign wealth funds and state-owned companies in the context of Australia's foreign investment arrangements.

Preamble-

The response is provided for review to the Senate Standing Committee on Economics. The response is divided into two parts: Part A - A general overview from a Financial Perspective and Part B - A general overview from a Regional Strategic Perspective. Part A is for general discussion and presentation. Part B is for confidential discussion because of the political and strategic issues it raises.

To assent to foreign investment and ownership in what is essentially Australia's strategic mineral and land resources is a reversal to colonialism which saw the prevention of the prosperity of Asia and Africa in the later half of the 19th Century¹. Noted and respected historians are keen to point out the cyclic nature of history and we have an obligation to study the past in order to make effective decisions now. Recommending Australia to follow this course is tantamount to empowering international corporations at the expense of our national sovereignty. This is not an intelligent strategic decision.

I have developed the above outline from a risk management perspective and have relied heavily on the concept of physical economy as opposed to the failed Keynesian model.

My background is multi-disciplinary. I operate a consultancy and manpower company as well as an RTO (Registered Training Organisation) providing training and assessment. My profession is in risk management, investigations and security. For the last 38 years I have had strong involvement in oriental cultural arts and the sciences. In this respect I have spent much time in Japan and other Asian regions including China, Taiwan, Singapore, India and others gaining a great insight into their economies, their strengths and weaknesses. I have a sound view of Australia's position in respect to the strategic pressures that are placed upon it. I was a member of the Inaugural Defence Industries Study Course in 1993 where I gained a further appreciation of Australia's strategic needs, its capabilities and the relationship of industry to support our military or other government contingencies.

I have had dealings with state public service organisations, particularly in regard to vocational education and training, the NSW Police service, NSW Health Department, NSW Work Cover etc either on a day to day process of meeting compliance obligation or undertaking investigations/consultancy on their behalf. Thus, I appreciate bureaucratic process that can be involved in administrative, judicial and executive functions of government

The author: Mark Greville

¹ Including Africa, South East Asia, China and the Indian subcontinent

Part A –

A General Overview from an Economic Perspective

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What I wish to make clear to the senate committee is that the tactic being played out is foreign financial ownership at the expense of our sovereign nation's resources. This was in part the mechanism that allowed the wealth of the people of those 19th century nations and regions referred, to be robbed and their propensity depleted. Permitting foreign investment and ownership in what is essentially Australia's strategic mineral and land resources is allowing that tactic to be played out in these contemporary times and allowing Australians to be the unwitting victims.

To allow foreign investment and ownership in Australia's strategic mineral and land resources has a potentially, negative impact on our own export financial position, due to the possibility of sale of mineral resources at heavily discounted prices. This is in favor of overseas owned subsidiaries with specific undeclared relationships. This issue can not be neglected.

Unfortunately, because we follow an economic doctrine that created the initial problem, As the international financial crash worsens we will be in dire straits and look for short term gain, such as selling off Australia's strategic mineral and land resources. The financial and banking system which Australia currently follows ensures that. Our financial management is based on the Keynesian model², and as a Cartesian system, is not suited to plan for, measure and sustain the physical economies of national entities.

In adherence to the Keynesian model, and in the temptation for quick returns on investment, there has been a great attraction to supporting globalization³, and the burrowing of international finance⁴ rather than mutually supporting sovereignties and creating credit based banking via the creating of National Banking system.⁵ Both the sentiment and culture globalization and the financial debt structure share a great responsibility in current collapse of world structure.

With a revision of our banking/financial system Australia would not need to seek foreign corporations to sequest our struggling mineral industries, nor seek foreign finance. However, due to the numerous bailouts that have occurred in accordance with the currently supported opinions of the IMF, the real or physical economies of the world are destined to contract more. Nations like Australia will unwittingly attempt bailouts, depleting our physical or real economy, or alternatively encourage "cashed up" entities to "invest" in our critical infrastructure or critical industries in order to achieve what are extremely short term solutions with potential dangerous consequences. Thus, Nations or National Corporations that are "cashed- up" relative to our own Governments coffers can take strategic advantage of our position and obtain undue benefits that should remain the entitlement of our nation.

Many argue we are far into the shadow years of peak oil production; Australia must look now to a new and revolutionary power/fuel supply. It must be so if we are to progress to a sustainable economic prosperity whilst providing for the pressure population increase over the coming generations if all things remain equal. However selling the resource base or allowing foreign control of that base, before the new paradigm can be established is irresponsible.

² The Keynesian model addresses issues of monetary aggregates and does not address true issues of areal or physical economy

³ Globalisation as an international phenomena has eroded the ability of developing nations and under developed nations to attain economic sovereignty and thus contribute effectively to a less than robust international economic system, further is has all but destroyed the propensity for diversity in economic models which dangerous repercussions when the current economic model fails

⁴ Burrowing occurs for what is essentially the IMF and World Bank – or other nations in credit to nations that are heavily indebted to these organizations – fundamentally the current system sustains it's integrity the virtually insolvent US Federal Reserve

⁵ A National Banking system is not the current Reserve Bank mechanism and should not be confused with this mechanism

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Our monthly trade surplus narrowed to \$417 million in December 2008 (current prices) — this follows a (revised) trade surplus of \$778 million in November. The trade surplus, with all things being equal will continue the narrow - would it be wise to sell off components of our commodities industry simply because in the current economic climate they not providing the expected surplus that they have in the past? Is there a more substantial need to retain control over our strategic mineral and land resources?

Japan is Australia's largest export market, accounting for \$50.6 billion in 2008 (free on board value terms). This is followed by China (\$32.5 billion), Republic of Korea (\$18.5 billion) and India (\$13.5 billion). Mining exports accounted for 39.2 per cent of total exports in 2008, well above the 18.8 per cent in 1998. Should such a strategic sector be permitted to be influenced by overseas cooperation's or nations?

If an international corporation's business structure is demonstrated to support a preferred sovereign national interest other than ours, is this the desired relationship for ownership of Australian commodity resources?

Recently in Madagascar, large tracts of rural land 1.3 million hectares of land have been purchased by Daewoo – a South Korean firm. China has announced its desire the buy vast tracts of land in various regions. What contribution did this acquisition contribute effect on the physical economy of Madagascar and indirectly influenced Coup in Madagascar of March of this year? Does “the Madagascar factor” have any implications for Australia?

From the media it was reported a British hedge fund Dexion Capital, plans to invest \$270 million in 1.2 million hectares in Australia, Russia and South America. Pressure is mounting for penetration into our strategic mineral and land resources. The implications to Australia must be considered immediately, policy changes adopted and or legislation should be put in place at the earliest opportunity.

We must consider both the corporation strategy and culture of any international corporation that our regulators allow to operate within Australia. Using China, as an example, the relationship to national government goals and corporation goals cannot be discounted.

For those who are familiar with various national business characteristics; Corporate businesses in Japan tend to have tiered approach where business relationships have classically been maintained within organizations; thus business leverage can be obtained from within the organization. Corporate businesses in China have been created by the previous Communist Party leaders or Military leaders where the strong relationship between The Peoples Republic of China is extant - here business and government goals (and strategic interests) are shared. Each international corporation has a distinct cultural aspect that influences how it will perceive and manage its business objectives.

Thus relevant international issues should be deeply investigated prior to considering any significant acquisitions. Ultimately, however, who the International Corporation is, is a side issue, the fact that national sovereignty is eroded on a fallacious model is the relevant issue and should not be permitted.

Who owns the *infrastructure and strategic industry* is important. The Australia Government must have a substantial control and ownership of any strategic piece of infrastructure, strategic industry or infrastructure networks, but this does not preclude private industry to have some involvement. However the funding for the infrastructure must be derived from Australian credit creation rather than foreign loans. Rather than encouraging foreign investors to have substantial financial control, the Australian Government should have co-operative agreements to assist in the development of neighbouring sovereign nations in the Pacific rim and South East Asia in their infrastructure projects. The following arrangement could be put in place

- The sharing on technology on specific infrastructure projects

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- The reciprocal training and education of skills sets to engineers, planners, tradespersons and others involved in infrastructure projects from one sovereign nation to another
- The undertaking of joint projects with adjacent nations where each nation provides part of the infrastructure component to the reciprocal partner nation. Numerous partner relationships being established for multiple infrastructure projects simultaneously
- The utilization initially of any unemployed to manpower the projects – with massive involvement form industry training advisory boards- under stringent guidelines

This takes our infrastructure future away from the whims of market forces and focuses on our own development and mutual development of our neighbours; providing a powerful moral, economic and diplomatic strategy for co-prosperity Pacific rim and South East Asia.

Delaying our infrastructure develop or attacking the infrastructure plans piecemeal or not involving other national sovereignties would have a deleterious effect of our recovery and the recovery of our Pacific rim and South East Asia with which we have our immediate responsibility.

Conclusion from an Economic Perspective

- The acquiescence of allowing financial aggregates to be traded for significant aspects of our nation sovereignty is damaging to the physical economy of our nation
- The acquiescence of such an investment/ownership creates the ability the influence the trading terms via ownership of the strategic resources, and thus can have serious consequence both directly and indirectly on our economy
- The reliance on foreign borrowing as a lever to permit foreign ownership of resources may be conflict of interests – in the current financial atmosphere of burrowing extensively from China and incurring enormous debt is adversely burdens our economy. This is especially so when other financial models are available. Allowing nation's corporations to have interests in our strategic resources does benefit our nation's economy in the medium to long term