FINANCIAL REVIEW

SE News - Opinion

HD **Beware of what we might give away in a China FTA**

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WC 794 words
PD 3 April 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 55
LA English

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Trade talks The US pact created unfortunate precedents for the Chinese deal now being negotiated. Greg Wood

In its rush to conclude free-trade agreements the Abbott government risks compromising Australia's national interests.

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A decade ago Australia's free-trade agreement (FTA) negotiations with the United States concluded prematurely. The Howard government attached more importance to the treaty as an affirmation of our close alliance with the US than to its trade liberalising potential.

It was also worried George W. Bush may not be re-elected. Despite Australia making some far-reaching concessions, the outcome was disappointing, later compromising our approach to our trade negotiations with others. This time it's the Abbott government that's hell bent on a quick outcome in FTA negotiations, most importantly with Japan and China.

Once you conclude a complex FTA you can't go back for your hat. FTAs actually rely on common ground in the political, security and economic viewpoints of the parties. They can require intrusive, behind-the-border adjustments to domestic law and policy and come with hidden costs, the copyright provisions agreed with the US are an example.

With signature, "interested parties" transform into "vested interests" whose commercial equation is bound up in the exchange of concessions that make up the agreement.

In the US FTA, Australia agreed to allow (most) future US investments in Australia, those valued below $1 billion, to be exempt from screening by the Foreign Investment Review Board (FIRB).

That provision has recently been included in the FTA with South Korea, and, reputedly, is being sought by Japan and China. Press reports have it that, with China, the Abbott government is inclined to agree where an investment is made by Chinese "companies", but will continue to have FIRB screen all investments by state-owned-enterprises (SOEs).

The US FTA concession has created an imprudent precedent. Arguably, with the US itself, this was not such a big deal. The US has an open approach to inward foreign investment. Different models

In trade and commerce, as elsewhere, other countries are following different models from the US. That's certainly so with China. Arguably, the most prevalent concept of the "enterprise" is moving away from the profit-driven, US-style, free enterprise we assume prevails to what The Economist labels "state capitalism".

Chinese investment and trade decisions take account of a mix of motives: the Chinese government's sense of China's national interest; that China has regard to its economic security as well as national security in its internal and external trade and investment decisions; through to resource control, technology acquisition, as well as to financial profit.

In China the distinction between a private company and an SOE is murky. China's central and local governments own more than 100,000 companies and favour many more.

Either way, Beijing maintains a long reach. Chinese investments abroad, with a value exceeding $US100 million ($108 million) in some cases, $US300 million in others, are subject to vetting by Beijing.

Traditionally China has inclined to autarky, to pursuing domestic self sufficiency. In certain areas – supplies of iron ore and some other minerals are examples – that's not possible, though overseas resource acquisition can temper that. Chinese subsidisation of agricultural production is now up there with that of the US and Europe. In many areas China fosters the establishment of national champions, particularly in sectors involving new technology: mobile phones, credit cards and others. Inwards foreign investment into China is also carefully scrutinised. Foreign investment in many sectors is constrained, at times blocked.

Clearly Australia stands to benefit from increased inwards Chinese investment. Current FIRB thresholds and guidelines have not constrained Chinese investment into Australia, the stock of which is now put at $93 billion, a figure rapidly reached from a standing start.

What we do need to do is to retain the right and flexibility to scrutinise significant foreign investment from Australia's own broader, possibly changing, national interest viewpoint. Despite the claim for identical arrangements, the US and Chinese approaches to foreign investment are not similar.

Including the $1 billion provision in the US FTA was an unfortunate miscalculation; denying ourselves the possibility of meaningfully reviewing Chinese inflows would be a mistake of historic proportions. When another country sees it as in its interest to retain the right to vet outwards investment from their national interest viewpoint, we would be foolish not to reserve the right to be able to vet inwards investment from our national interest viewpoint,

Slow down Mr Abbott: there's a future at stake.

Greg Wood is a former deputy secretary of the Department of Prime Minister and Cabinet and international trade negotiator.

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AN Document AFNR000020140402ea430001c