

HD Australia 'open' to more **Chinese** investment

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WC 703 words

PD 20 June 2014

ET 18:24

SN Financial Times (FT.Com)

SC FTCOM

LA English

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Chinese state enterprises will be welcome bidders for electricity networks, ports and other Australian state assets, said finance minister Joe Hockey ahead of a second high-level ministerial visit to Beijing in three months.

The assets form part of the country's planned \$100bn privatisation effort unveiled by the Abbott government in February.

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China has previously complained that Canberra forced all deals involving state owned companies to be referred to Australia's Foreign Investment Review **Board**. But in a sign of deepening economic links, Canberra will reassure Beijing that its companies are welcome.

"We are open for business and that includes state-owned enterprises out of **China**," Joe Hockey, Australia's finance minister, told the Financial Times ahead of his visit to Beijing.

"The approvals I've given over the last nine months illustrate that," he said. "**China** State Grids' biggest investment outside of **China** is in Australia."

In December Mr Hockey approved **China**'s State Grid Corporation **purchases** of a 20 per cent stake in SP AusNet and 60 per cent of SPI Assets - two Australian energy companies.

Chinese investment in Australia has increased tenfold since 2005 and totals A\$57.2bn, which makes the country the second largest destination for **Chinese** investment behind the US. Up until recently the mining sector has been the largest recipient of investment as Beijing prioritised the securing of natural resources such as coal and iron ore to expand its economy.

But with Australia's mining investment boom tapering off, the value of **Chinese** investment into Australia fell by 10 per cent to US\$9.15bn last year even as overall overseas investment from **China** increased by 16 per cent to US\$90.1bn.

"The reality is there is not a lot of **Chinese** investment in Australia outside the mining sector," says Jeffrey Wilson, a fellow at the Asian Research Centre at Murdoch University.

"One of the sticking points for **China** has been the treatment of their state-owned enterprises, which remain subject to regulatory approval."

Under Australian law any investment by a state-owned enterprise is the subject of a regulatory review by Australia's Foreign Investment Review **Board**. Since 2005 the vast majority of investment proposals made by **Chinese** companies have been approved by FIRB. But critics say the regulator's guidelines on **Chinese** investments are ad hoc and may have played a role in the collapse of deals such as **Chinalco**'s bid to create an alliance with Rio Tinto in 2009.

Beijing is pressing for Australia to set a \$1bn minimum threshold before investments by state-owned enterprises and private companies are subject to approval - equivalent to the rules on US companies. At present any private investment from **China** is subject to review when it is above A\$248m.

Mr Hockey said these issues would be dealt with in talks on a free trade deal.

"The **Chinese** are very engaged in the process and after eight years of slow negotiations. We hope to make some further progress," he said.

Chinese investors could play an important role in the A\$100bn **sale** of state assets, which is the cornerstone of Mr Abbott's policy of "recycling" public infrastructure to raise money for investment. Mr Hockey is due to meet Xu Shaoshi, chairman of **China's** powerful National Development and Reform Commission, which oversees foreign investment by **Chinese** companies, to brief him on the strategy.

Attracting public support for relaxing the rules could prove difficult with a recent poll by the Lowy Institute finding 56 per cent of people believe the government allows too much investment from **China**. A parliamentary committee recently began a formal inquiry into foreign investment in **residential** real **estate**, responding to public fears that a rise in **Chinese** investors is pricing Australians out of the housing market.

Andrew Lumsden, a partner in law **firm** Corrs Chambers Westgarth, said streamlining the rules on **Chinese** investment would be helpful to stimulate interest.

"Part of the challenge is to convince the **Chinese** that Australia is more than a quarry and has a lot of expertise to offer in agriculture and biotech sectors," he said. "It is a competitive global market for investment."

CO stgcoc : State Grid Corporation Of China

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AN Document FTCOM00020140620ea6k000rt