
Introduction

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Biographical notes: Peter Drysdale is Emeritus Professor of Economics, head of the East Asian Bureau of Economic Research, and Editor-in-Chief of the *East Asia Forum* in the Crawford School of Public Policy at the Australian National University. He is widely recognised as the leading intellectual architect of APEC. He is the author of a number of books and papers on international trade and economic policy in East Asia and the Pacific, including his prize-winning book, *International Economic Pluralism: Economic Policy in East Asia and the Pacific*. He is a recipient of the Asia Pacific Prize, the Weary Dunlop Award, the Japanese Order of the Rising Sun with Gold Rays and Neck Ribbon, the Australian Centenary Medal, and the Order of Australia.

Chinese direct investment abroad has become a major component of global direct capital flows over the past decade. In this time, state-owned enterprises (SOEs) and sovereign wealth funds (SWFs) have been at the forefront of Chinese investors' push into international markets. By definition, SOEs and SWFs have a connection to their home government, which may take a number of forms, including their having government representatives in executive roles and preferential access to state capital.

The connection between SOEs and their home government is sometimes seen to complicate competitive and political economy considerations for privately owned competitors, along with host governments and their citizens.

SOEs, like privately owned enterprises, are in fact heterogeneous. Their management and access to state resources depends on which country they originate from, and how they are administered within that country. Understanding an SOE's connection with their home country's political regime and how that connection could impact on the host economy is a difficult task for host governments attempting to maximise capital flows while ensuring their national interests remain protected.

Managing the tension between maximising productive capital inflows and national interests has created some headaches for host governments around the world.

A large part of the difficulty faced by host governments revolves around the uncertainty associated with Chinese state-owned investments. This uncertainty arises from a lack of data on the scale of the investment; a lack of understanding of the heterogeneity of Chinese SOE administration; and a lack of understanding of the motives behind Chinese SOE investment abroad. This special publication of the *International Journal of Public Policy* provides an important step forward in elucidating each of these issues.

The first paper, by Michael V. Gestrin, provides an introduction to the differences between how SOEs and private enterprises have engaged in investment abroad. Analysing 206,140 deals with a collective value of US\$50 trillion, he finds that on average SOEs engage in much larger deals but take a smaller equity position than private overseas investors.

The second paper builds on Gestrin's findings, looking specifically at the case of Chinese SOEs. Paul Hubbard and Patrick Williams analyse the heterogeneity of China's SOEs and their motives for investing abroad, a subject that is scarcely addressed in the current literature. They note that, 'Not all SOEs have evolved equally'. They conclude that instead of dealing with SOEs as a class, the challenge for policymakers is to deal with the market structures that undermine competition, and to regulate socially harmful behaviour, irrespective of the ultimate owner of the capital involved in investments.

China's outbound direct investment has increased rapidly since China joined the WTO in 2001. In their paper, Mei Wang, Zhen Qi and Jijing Zhang discuss the scale and high level of competition among Chinese SOEs, between each other and with privately owned enterprises, in making overseas investments. The authors examine important new reforms aimed at SOEs and discuss how they impact on the development of a mixed ownership economy, and help improve SOE governance and management system.

Sovereign investment vehicles are an important element of Chinese state-owned investment abroad. In her paper, Angela Cummine shows that despite shared features, the China Investment Corporation and State Administration of Foreign Exchange are fundamentally different types of sovereign investment vehicles with distinct agendas. Her analysis suggests that while each vehicle helps further China's economic strategy in the global economy, they are also fiercely competitive rivals vying for control of China's massive foreign exchange reserves.

Australia has been among the largest single non-tax haven destinations for Chinese investment. In his paper, Christopher Pokarier, outlines the historical development of Australia's foreign investment regime. He describes the historical 'arc' of Australia's investment regime from, and back to, a relatively open policy and the combination of economic, attitudinal, and political conditions that shaped policy outcomes at key inflection points.

Increased levels of Chinese foreign direct investment in Australia have provided benefits to Australia but have also given rise to questions – and community anxieties – relating to the potential for interaction of corporate purposes and political motives. Andrew Lumsden and Lizzie Knight look at inconsistencies in the foreign investment framework's legal underpinning. Lumsden and Knight write that, "In reality, the legislation works despite itself .. it works because it has broad community support, is administered by a clever and sensitive bureaucracy and because much of the more complex parts of the rules are enshrined in policy rather than black letter law". Their analysis supports the need for a fact-based review of the existing regulatory model to ensure Australia is able to maximise international capital flows while protecting the national interests.

Rebecca Mendelsohn and Allan Fels build on the scrutiny of Australia's foreign investment regime by describing its salient features and tensions within the regime and policy. The authors introduce Moore's strategic framework for government organisations to assess the structure and operation of Australia's foreign investment regime in light of that framework. A key finding is that bringing Australia's foreign investment regime into

alignment with core principles of good governance like transparency and independence from government may help attract foreign investors.

Reform of the foreign investment regime is a formidable political task. It will require current policymakers and stakeholders to acknowledge a level of dysfunction in current policymaking and will require altering governing arrangements, which have developed broad civic support over a long period. In their joint policy note, Peter Drysdale, Shiro Armstrong, and Neil Thomas at the East Asian Bureau of Economic Research (EABER) suggest a reform package that would simplify the operation of Australia's investment regime and strengthen the investment environment. The changes suggested seek to maintain Australia's attractiveness as an investment destination for direct investment from all sources and ensure that incoming investment continues to drive productivity and income growth in the nation's interest.

Until 2005, Australia's foreign investment regime treated all investment sources on a non-discriminatory basis, but since then some important preferential exemptions to screening have been introduced. In their paper, Shiro Armstrong, Sam Reinhardt, and Tom Westland look at the impact of bilateral deals with the USA and New Zealand, showing that these deals have more than quadrupled the threshold for investments that must be screened by the Foreign Investment Review Board (FIRB), to more than A\$1 billion. They argue that piecemeal changes to Australia's foreign investment regime through bilateral trade and economic agreements have occurred without a clear strategy set forth. They conclude that further piecemeal changes threaten to impact the operation and function of the regime, which has implications for investor confidence in Australia maintaining an open investment environment.

The final paper by Mark Feldman considers the experience of Chinese companies investing in the USA. The analysis looks at the increasingly important role of the US Congress with respect to national security reviews of US transactions involving foreign acquirers; the paper introduces several recent case studies to support the findings that the reputational challenge for the USA will be to ensure that the clear, but relatively silent, majority of Chinese investments that now go forward in the USA routinely and without controversy receive the attention they deserve.

The research in this publication has been developed as part of a major collaborative international research project on the rise and consequences of Chinese overseas direct investment led by EABER at The Australian National University and funded by an Industry Partner Research Linkage Project under the Australian Research Council.

In 2014, EABER hosted three events in Sydney as part of this project, which explored aspects of Australia's foreign investment regime. These events – including two roundtables, one jointly hosted by the Business Council of Australia and the Australian Financial Review – brought together international academics, policymakers, Australian business and political leaders, and legal practitioners in order to examine the past, present and future shape of Australia's foreign investment regime. Broad international participation in this project has allowed the project to test a wide range of views about the direction of the foreign investment regime, and how it can be made simpler and easier for foreign investors to navigate while retaining its regulatory benefits and the valuable oversight role of FIRB.

While this publication represents a major step towards understanding the scale and heterogeneity of Chinese SOEs and SWFs investing abroad, and the institutional responses of Australia and USA, there is still much to be done. The importance of

Chinese investment and the rapid evolution of the environment, in China and abroad, heighten the importance of making this work accessible, both for researchers as well as the international policy community.

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