Schumpeter showed that 'swarms of entrepreneurs' eventually overcome traditional rigidities and persuade skeptical bankers to bankroll technical and organisational innovations. Marxian crises of capitalism are therefore not terminal. It only takes time and some trauma for new leaders to emerge, who then push the manifold barriers to competitive enterprise out of the way.

The obstacles are real, however. Big Business, Big Government, Big Unions, Big Welfare, and Big Environmentalism are reactionary forces that tend to conserve the old order by political means. In Australia, we were only recently able to sense this during the National Reform Summit in August 2015. The assembled opinion leaders recommended mainly upholding the status quo with more taxes. They revealed little understanding of just how productivity-sapping our regulatory system is. They certainly forgot about the ordinary citizen and the budding entrepreneur (see John Roskam, 'The National Reform Summit that Forgot Menzies' Forgotten People,' *Australian Financial Review*, 4 September 2015).

Yet change and hope always come out of the left corner. If eagerly embraced, it will make ours a great economy and a great place for young entrepreneurs to succeed. Wise leaders will facilitate the new digital world proactively. Clueless, average leaders and self-seeking power elites will try to resist. They will ultimately fail—alas, after having inflicted unnecessary costs on the next generation. Will we again, as at the beginning of the 20th century, be left behind by a dynamic, innovative America? It need not be so.

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Takeover: Foreign Investment and the Australian Psyche

David Uren
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Reviewed by
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The Australian public has a decidedly odd relationship with foreign investment. Many Australians dislike foreigners buying Australian assets — particularly farmland and housing — and would block the investment if given half a chance. But on the other hand, most Australians want investment, and fail to recognise the importance of foreign money in delivering this investment. It seems we want the money from foreigners, just not the obligations that come with the money.

These issues are discussed in detail in *Takeover: Foreign Investment and the Australian Psyche*, written by David Uren, Economics Editor with the Australian. The book is a clear and helpful addition to the economic history of Australia. Uren is clearly pro foreign investment, and usefully draws attention to the most egregious inconsistencies and errors of the anti-investment collective, allowing the purveyors of these views to incriminate themselves and only infrequently being critical himself.

General comments

Takeover is a fairly easy read as Uren doesn't delve too much into technical details. And this probable focus on making the issue accessible to the general reader means the book doesn't examine in detail the economy-wide benefits of foreign investment. There are many studies showing these benefits, for example, research by the Federal Treasury found that reducing yearly gross foreign investment by one tenth would result in wages being 2% lower and GDP being 0.7% lower after 10 years.[1] Stephen Kirchner delved into these benefits in more detail in his paper for the CIS called *Capital Xenophobia II*.[2] Instead, *Takeover* includes numerous quotes from people supporting foreign investment.

The book is organised by issue (eg mining, cars, agriculture and national security) rather than by date, meaning the same time period is discussed in multiple chapters. That said, organising the book chronologically would mean the converse problem: the same issue would be discussed in multiple chapters.

Takeover usefully relates the foreign investment debate to the distinct but related issue of import protection. For example, it is interesting to read in *Takeover* that protectionism co-existed with open stance on foreign investment for about 70 years from federation, and in fact foreign investment in some Australian car plants was dependent on the import protection provided to those manufacturers.

Historical context

Takeover puts current debates in an informative historical context, as concerns over foreign investment are hardly new. Uren informs us that these concerns grew during the 1960s, with a number of ad-hoc decisions made to restrict particular transactions. There were a number of twists and turns in policy, with Prime Minister Gorton taking a more restrictive view than his predecessor (Holt) or successor (McMahon). Despite McMahon's dislike for investment controls, *Takeover* informs us that he was forced to concede defeat in the debate, and he announced the start of a more comprehensive foreign investment review process.

Arguments against foreign investment have been furnished by both the left and (conservative) right. The left complains because it dislikes capital, multinational corporations and tax avoidance; the right complains about the loss of sovereignty and control. The left-right alignment makes for an odd couple. Uren notes that this alliance is pretty unusual, although there are other issues of right-left agreement, such as coal seam gas and immigration.

The common ground between right and left is most evident with the National Party and the Greens somewhat awkwardly agreeing with restrictions on foreign investment in rural land. Cutting overall investment in farming probably seems like a good idea to the Greens, so their stance is understandable; less understandable is the position of the National Party. The Nationals may argue that more scrutiny of foreign investment won't lead to reduced investment: but if that is true, then why do the scrutiny at all? The only reason to regulate more transactions is if there is at least the possibility of investments being knocked back.

The peculiarities of public concerns don't end there. According to *Takeover*, a 2014 survey by the Lowy Institute[3] found the public thought that foreign investment is a greater threat to Australia than the emergence of China or conflict in Korea. The public is even explicitly contradictory in a 2012 Lowy Poll cited in *Takeover*: 46% thought the government was allowing too much foreign investment; while 60% believed the government should be doing more to foster Asian investment in Australia. At least 6% of those surveyed, and probably more, held these two inconsistent positions at the same time.

More generally, Australians believe that they can oppose particular instances of foreign investment and this won't have any effect on total levels of investment. If foreign investment is blocked, then investment funds will magically appear from somewhere else. Newsflash: it won't. Foreign investment is needed so that businesses can make the most of growth opportunities. *Takeover* mentions several examples, including a study by ANZ showing that $600 billion in investment is needed in agriculture to double exports to Asia over the next 40 years. Uren notes that Australia needs foreigners to invest, not because we don't save enough — instead it is because we have so many good investment opportunities.

It might have been thought in the 1970s that the introduction of the investment review process would reduce the amount of debate on the issue. No such luck. If anything, debate intensified, perhaps because politicians now had the review process, a ready made tool to restrict or prevent unwanted investment. Unsurprisingly, it has created lobbying and calls for the government to 'do something'. *Takeover* charts a few prominent and controversial cases, including the decisions of successive governments to block Shell's takeover of Woodside Petroleum in 2001; block the acquisition of the ASX by the Singapore Exchange in 2011; and block the purchase of Graincorp by Archer Daniels Midland (ADM) in 2013.

Debt vs equity

Takeover charts the various views on whether foreign investment should occur through debt or equity. Uren notes that some think that debt is better: it means that control of assets is maintained by Australians. But others prefer equity: it means that payments only have to be made on profitable investments, reducing the impact of balance of payment crises. *Takeover* notes that, in fact, growing concerns over foreign debt encouraged Paul Keating to free up equity investment in 1984.

Uren's book doesn't discuss Australia's Current Account Deficit (CAD) in detail — the focus is on the investments and assets being financed rather than the obligations that this investment creates. The CAD is seen as a less important issue today than it was in the 1980s, although Australia did face an issue with financing its foreign debt during the Global Financial Crisis, just before the introduction of the government bank guarantee.

Politics

There has been a distinct lack of consistency over time in the views of Australian politicians on foreign investment. Uren doesn't highlight these inconsistencies, but they are clear nonetheless.

The Whitlam government clamped down on foreign investment, but then spruiked for vast investment from the petrodollars that came after the 1970s oil shock (the book might have benefited from more discussion on this issue, particularly the Khemlani loans affair). The ALP's view continued to evolve over time, moving to the major deregulation of foreign investment occurring under the Hawke-Keating Government. Uren notes the importance of the CIS in promulgating an opening up of markets in this period.

The Coalition's views similarly ebbed and flowed. The rapid changes in Coalition policy from Holt to Gorton to McMahon were raised earlier. The apex (or is it nadir?) of Coalition views came with the proposal of John Hewson to fully abolish the investment review process in 1993; needless to say the Coalition no longer holds that view. Another example of fickleness is cited in *Takeover*: as opposition leader in 2012, Tony Abbott adopted a hardline view on investment from China but then stated a much more welcoming line as Prime Minister in 2014.

According to *Takeover*, some ALP figures argue their party is more supportive of foreign investment than any other (major) party. After all, the Coalition blocked the ADM takeover of Graincorp and implemented much lower scrutiny thresholds for investment in agriculture as part of Free Trade Agreements (FTAs) with China, Japan and South Korea. These lower thresholds weren't inserted retrospectively into the FTAs with the US, New Zealand or Chile; *Takeover* tellingly notes that this approach could be interpreted as being anti-Asian.

However, the ALP can't take the foreign investment gold medal so easily. The ALP luminaries trying to win the prize conveniently forget the strident attacks made by the ALP against the Coalition's attempts to free up foreign investment in Qantas. In addition, the ALP has a decidedly unfriendly view on Investor State Dispute Settlement (ISDS) policies, which can assist foreign investment, although *Takeover* notes debate over the benefits of these policies. And the ALP gave tacit approval to unions running a prejudiced campaign against foreign investment in the NSW government's power assets.

It seems as though all parties, left right or centre, will oppose foreign investment when this suits them. No-one can claim to be without fault in this area; they are all following public opinion. Uren argues that the Australian public now supports free trade and no restrictions on outwards investment, but clings on to the controls on inwards foreign investment.

Substance of concerns

There are a number of substantive concerns over investment that receive an airing in *Takeover*.

Loss of sovereignty & xenophobia

Takeover suggests that opposition to foreign investment is frequently due to supposed loss of sovereignty and control. But this reason is just barely disguised xenophobia. Foreign investment means Australian assets will be owned by people who are not 'one of us'. 'We' won't control the asset; 'someone else' will. The proponents of this argument are implying that Australians are better than foreigners.

It is of course a fairly easy step from here to racism. *Takeover* recites some ugly examples of racism related to foreign investment in Australia's early history and more recent examples, particularly relating to Chinese investment in real estate. In addition, it wouldn't be surprising if many of the arguments against foreign investment are actually put to mask discriminatory reasons for opposing the investment.

Returns on investment going offshore

Various commentators worry about the profits or returns on investments in Australia flowing offshore. There really should be no objections to foreigners receiving normal returns on investments – but this doesn't stop ill-informed complaints from those who don't understand gains from trade or how financial markets operate. This is particularly evident in the 'buy Australian owned' campaign.

Uren doesn't focus on these concerns, instead focussing on the more legitimate concerns raised about above normal returns (or rents) going offshore. The obvious solution to the existence of rents is to remove any regulations that generate rents. This will eliminate the rents, so there would be no excess profits to be paid overseas.

However, *Takeover* explores in more detail the alternative way to deal with rents: impose a tax on these rents. In particular, the book documents the sorry history of the Rudd Government's attempt to impose a (very badly designed) rent tax[4] on the mining industry, the attempt to improve the tax, and its eventual abolition. The irony is that the mining industry itself actually supported the concept of a rent tax to replace existing mining royalties[5]. This is a great example of a good policy idea being destroyed by poor design, poor consultation and poor implementation.

Supply chain control

Commentators are also critical of foreign countries using investment to control 'too much' of a supply chain. In particular, concerns have been raised that Chinese could eat food grown at a Chinese-owned farm employing Chinese guest labourers. Interestingly, *Takeover* shows that this is not a new concern – in 1991, concerns were raised that a tourist from Japan could come to Australia on a Japanese airline, stay at a Japanese-owned resort and shop at Japanese retail stores.

In fact, most of these concerns are entirely misplaced, reflecting (again) a lack of understanding of gains from trade. The only legitimate concern is with tax transfer pricing, and that is best dealt with through tax rules. This is one of the areas where Uren avoids criticising misplaced concerns.

Problems with business activities

Some concerns about foreign investment actually relate to the activities to be financed by the investment. For example, *Takeover* notes some of the complaints about the Shenhua Watermark mine near Gunnedah were about dislike of mining rather than the source of the investment funds. But there is no difference between an Australian financed mine and a foreign financed mine. The concern is with the mine, not who is doing the investment. Of course, concerns over land use are best dealt with by planning and environmental laws rather than foreign investment rules.

Particular complaints have been made about farm land being converted to mining and threatening Australian food production. *Takeover* shows that this concern is ill-informed: the area of land used for mining in Australia is about 0.02% the area of improved land used for farming[6]. Furthermore, Uren notes that Australia produces much more food than it uses, and there is no risk to this.

Commentators sometimes argue that foreign owners will 'misuse' an Australian asset in the way an Australian wouldn't, for example by failing to invest in the asset, or by transferring work offshore. Of course, there isn't evidence of this being a real problem, but this doesn't stop people mounting the argument. Some examples raised in *Takeover* include the debate over foreign ownership of Qantas and the ASX. *Takeover* notes that those who mount these arguments can have vested interests, for example unions not wanting jobs to shift overseas. In any case, it isn't clear that a foreigner would 'misuse' an asset more than an Australian. It is just as profitable for an Australian to make full use of an asset as a foreigner. Australian owned businesses can move jobs offshore just as much as foreign owned businesses. If an asset owner can in fact 'misuse' an asset, then the problem should be fixed for all types of owners, whether Australian or non-Australian.

A more complex issue is the potential security problems with foreign governments influencing or misusing Australian assets. *Takeover* notes this was a consideration in the resistance to Huawei, a Chinese communications company, being a tenderer for the National Broadband Network. Several other examples are considered in *Takeover*, including the sales of Optus and the rare-earth miner Lynas. This would appear to be one of the few areas where investment review processes are beneficial.

Effect on housing affordability

Foreign investment obviously drives up the price of Australian assets. This should largely be seen as a good thing. However, *Takeover* notes that foreign investment in housing is actually seen as having adverse effects by decreasing affordability. Here, Uren approvingly cites arguments by CIS researcher Stephen Kirchner that housing affordability is much more a supply than demand issue. *Takeover* also notes that foreign purchases of Australian assets cause capital gains that Australians can use to create new assets or spend on consumption.

Policy response

Australia's investment review process allows politicians to 'deal' with the community concerns over this issue, whether good or bad. Given the inconsistent and opaque policy decisions documented in *Takeover*, it is unsurprising that the book doesn't give the review process a ringing endorsement. Uren particularly has a dim view of the lack of clarity over the rule that investment can be blocked if it is 'not in the national interest'. What does 'national interest' mean? Successive governments have found it appealing to leave this as vague as possible. In one of the strongest statements in *Takeover*, Uren argues the investment review process lacks transparency, predictability and accountability; he argues that the policy is a "travesty" by OECD standards. However, supporters of the existing process might argue that the current unwritten process makes the system more agile and makes it harder for prospective investors to game the system.

Takeover also argues the costs of the investment vetting process are not known and it is not good enough to argue that almost everything is approved. The process could have a significant deterrence effect, and it always gives politicians options to tighten restrictions – for example the recent changes related to investment in farmland (discussed above). We don't know the costs; but then again we don't know what would be gained if the review processes were relaxed.

However, *Takeover* makes a telling observation, suggesting the benefits of Australia's review process might be small: the United Kingdom manages to operate its economy with minimal requirements on foreign investment. It has preserved its position as centre of global finance, while maintaining a 'vibrant' manufacturing industry.

The future of foreign investment review

Takeover discusses the difficulties that new technologies cause the foreign investment review system. Trade and investment barriers are becoming less relevant with the ease of cross-border transactions. Most global IT businesses can operate quite effectively in Australia with minimal domestic investment. In addition, the ability for Governments to regulate in a whole range of areas is diminishing — Uber is discussed in Uren's book, along with several other examples. More and more services can be delivered from offshore. *Takeover* suggests that if foreign businesses can't establish in Australia due to foreign investment rules, they will deliver services from offshore direct to consumers instead, with Australia foregoing tax revenue and employment.

Conclusion

Takeover is a timely book, dealing with an important policy issue in an undemanding way. Not an easy feat for an issue that could easily become dry. David Uren shines a clear light on the many flaws of our investment review system, particularly relating to process, transparency and consistency. It is a useful addition to the economic history of Australia.

Endnotes

1 Jyothi Gali and Bruce Taplin (2012) The macroeconomic effects of lower capital inflow, Economic Roundup, Issue 3.

2 Stephen Kirchner (2008) *Capital Xenophobia II: Foreign Direct Investment in Australia, Sovereign Wealth Funds, and the Rise of State Capitalism*, CIS Policy Monograph 88.

3 The Lowy Institute surveys are available from: http://www.lowyinstitute.org/programs-and-projects/programs/polling

4 The main problem with the Rudd version of the rent tax (the Resource Super Profits Tax) was that it expropriated large amounts of investment that had been made before date of announcement. This is what third world dictatorships do. An overview of problems with the rent tax is in Henry Ergas, Jonathon Pincus and Mark Harrison (2010) Some economics of mining taxation, *Economic Papers*, 29(4), p369-389.

5 "There is a strong argument to reform the basis of determining royalty payments to a profits based criteria from a revenue one": Minerals Council of Australia (2008) Submission to the Review of Australia's Future Tax System, page 9.

6 And an even smaller proportion of all land used for agriculture, improved or not. Note however this calculations doesn't include land affected by coal seam gas.

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