Supplementary Submission to the Senate Economics Committee Inquiry into Foreign Investment Proposals.

Clinton Fernandes, UNSW Canberra, 1 August 2020.

This supplementary submission updates the original submission for the Covid-19 pandemic period.

The pandemic is accelerating and making visible three trends that had gotten underway beforehand:

1. A greater role for governments.

The Global Financial Crisis resulted in negative public attitudes towards the direction of economic policy. In 2018, a decade after the GFC, there was pessimism about the future even in some countries where economic conditions were rated positively, with people doubtful about the next generation's financial well-being. In Australia, for example, 66 per cent of the population believed the current economic situation was good but only 29 per cent believed their children would be better off financially - a negative differential of 37 per cent.[1] There were calls for a larger role for government in fighting inequality and economic insecurity even before the pandemic.

The pandemic throws into sharp relief the inadequacy of private economic empires - also known as "markets" - to respond to public crises and protect people. That was never their role, after all; they were designed to maximise private wealth and power, not deliver public services. The COVID-19 crisis has called the 40-year neoliberal project into question. This project involved fiscal austerity, inflation-targeting monetary policy, investor-rights treaties (also called "free trade agreements), and globally connected financial capital markets with few barriers to capital mobility.

The pandemic has led to greater calls to protect and increase the resilience of supply chains for critical supplies such as medical equipment. All this calls for a greater role for governments - a matter of direct relevance to this inquiry into foreign ownership proposals. A new policy framework will be needed to strengthen supply chains, reduce dependence on foreign supplies and support domestic production and finance.

In the decade before the pandemic, at least 110 countries issued formal industrial policies aimed at stimulating economic development, creating jobs and rebuilding their manufacturing base to better position themselves in advanced technology areas. These measures included incentives, subsidies and public investment in advanced manufacturing - all measures Australia could also consider to improve our economic complexity.[2]

2. A geopolitical reset that divides the world into U.S. and Chinese technological zones.

Tensions between the US and China are creating a new "digital iron curtain" that runs through Australia, which has banned Chinese telco giant Huawei from supplying equipment to Australia's 5G NR network. According to an estimate by Deutsche Bank, a full-fledged tech cold war could cost the global information and communications technology sector around US$3.5 trillion over the next five years due to a $400 billion per year decline in domestic demand from China, $100 billion

[1] Pew Research Center, September, 2018, "A Decade After the Financial Crisis, Economic Confidence Rebounds in Many Countries," p. 6. https://www.pewresearch.org/global/2018/09/18/a-decade-after-the-financial-crisis-economic-confidence-rebounds-in-many-countries/

[2] UN Conference on Trade and Development, World Investment Report 2020: International Production Beyond the Pandemic. https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf

per year costs for companies dealing with rival internet platforms, operating systems, and communications and payment networks, and $1 trillion in costs of shifting global supply chains.[3]

Although given great prominence by the current US President, this trend was visible during the presidency of Barack Obama, who imposed export restrictions on Chinese technology firm ZTE in March 2016 and blocked China's Fujian Grand Chip Investment Fund's takeover bid for chip equipment maker Aixtron in December 2016.[4] Competition with China is now the organising principle of U.S. economic, foreign and security policies. The 20th century Cold War was between two opposing and mutually incompatible economic systems with military postures that provided continually escalating threats. By contrast, Cold War 2.0 is a technology cold war between two state-capitalist economies linked by global value chains and technological standards. The contest will play out across the global semiconductor industry, 5G networks, artificial intelligence, robotics, gene editing, data flows, autonomous vehicles and rare earths. The US aim appears to be to slow down China's technological progress by targeting key Chinese players like Huawei. Foreign ownership policies in Australia cannot be indifferent to this geopolitical reset.

3. A reduction in economic growth.

The drop in aggregate demand caused by the Great Lockdown accentuates a pre-existing trend: the growth momentum of international production had stalled after the GFC, and especially after 2010. Worldwide exports of goods and services slowed down significantly relative to economic growth. A key driver of this deceleration was the stagnation in cross-border investment in productive capacity.[5] What the virus does is only one side of the problem. The other is the policy response. The result could be a world caught in escalating trade wars and growing ethno-nationalism. But it could also be a world of greater international cooperation in global public health, the elimination of tax havens and stronger environmental agreements.

A nationally owned company for strategically important minerals

With the above trends in mind, Australia can and should assert greater policy autonomy on foreign ownership. In 2013, Geoscience Australia conducted a study of "Critical commodities for a high-tech world."[6] It found that Australia was rich in antimony, beryllium, bismuth, chromium, cobalt, copper, graphite, helium, indium, lithium, manganese, molybdenum, nickel, niobium, platinum-group elements (PGE), rare-earth elements (REE), tantalum, thorium, tin, titanium, tungsten and zirconium. Some of these commodities are considered most critical by the EU, Japan, South Korea, UK and US. Australia should establish a nationally owned company that exercises ownership and control of strategically important minerals. It will then be in a position to increase domestic innovation and support higher value-added sectors, such as high technology research and development, advanced manufacturing, and energy efficiency. The aim here would be to increase Australia's economic complexity by diversifying our exports into higher value-added sectors.

Technology transfer

With the added heft that comes from a nationally owned company, foreign investment proposals in strategically important minerals should be welcomed if they allow technology transfer from foreign

[3] Chris Nuttall, "Tech faces $3.5tn cold war costs, *Financial Times*, July 16, 2020.
[4] Note that Trump lifted the restrictions on ZTE after it agreed to pay a US$1.3 billion fine, change its management and board and provide security guarantees. "China's ZTE to Pay $1.3 Billion Fine to Re-Open, Trump Says," *Fortune*, May 27, 2018.
[5] UNCTAD, World Investment Report 2020, p. 124 https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf
[6] Roger G. Skirrow, David L. Huston, Terrence P. Mernagh, Jane P. Thorne, Helen Dulfer and Anthony B. Senior, *Critical commodities for a high-tech world: Australia's potential to supply global demand*. Geoscience Australia,

firms to Australia, local equity participation and training. Technology transfer methods have been discussed internationally since the mid-1980s:

1. The assignment, sale and licensing of industrial property.
2. The provision of know-how and technical expertise in the form of feasibility studies, plans, diagrams, models, instructions, guides, formulae, basic or detailed engineering designs, specifications and equipment for training, services involving technical advisory and managerial personnel, and personnel training.
3. The provision of technological knowledge necessary for the installation, operation and functioning of plant and equipment, and turnkey projects.
4. The provision of technological knowledge necessary to acquire, install and use machinery, equipment, intermediate goods and/or raw materials which have been acquired by purchase, lease or other means;
5. The provision of technological contents of industrial and technical cooperation arrangements.[7]

Technology transfer policies require boldness, imagination and resolute economic nationalism. We should reject calls to go back to the way things were before the pandemic, when Australia encouraged economic growth without economic development, resulting in the lowest economic complexity of all the OECD countries.

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[7] UNCTAD, *Draft International Code of Conduct on the Transfer of Technology.* Draft as at the close of the sixth session of Conference on 5 June 1985, TD/CODE TOT/47. See also UNCTAD, *Transfer of technology and knowledge-sharing for development*, 2014.