Prime Minister Malcolm Turnbull recently said :

“China has more freedom to invest in Australia, indeed all foreigners have more freedom to invest in Australia, than almost any other country.”

But is this true? We asked two experts to discuss the evidence for and against this statement.

Gennadi Kazakevitch argues Turnbull is right given Australia’s ranking as a free and open market, while Jeffrey Wilson presents evidence to show Australia’s foreign investment regime has become much more closed in recent years.

Gennadi Kazakevitch:

I think Mr Turnbull is right.

One measure to support this is the well-established inter-country comparison of economic freedom regularly published by the Heritage Foundation and Wall Street Journal. This measure also looks specifically at foreign investment freedom.

The economic freedom measure ranks countries according to rule of law, government size, regulatory efficiency and – of most relevance to this discussion – market openness. This includes trade freedom, investment freedom, and financial freedom.

In terms of general economic freedom, Australia ranked fifth behind Hong Kong, Singapore, New Zealand, and Switzerland in 2016. Within the “Open Market” component of the index, Australia scores 80 out 100 for investment freedom, putting us among the most free of the 200 countries ranked.

To score a perfect 100, according to the index, a country would have to have no constraints on the flow of investment capital. Individuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country's borders, without restriction.

Points are deducted for different sorts of freedom "imperfections". For Australia, one "imperfection" is the regime of foreign investment review which requires government approval of investment amounts above a particular level. But Australia's current review regime does not discriminate against China or indeed any other country.

Jeffrey Wilson:

Australia's foreign investment regime is more open than many other countries. However, it also remains the case that it has become much more closed in recent years.

Since taking office in September 2013, the Liberal-National Coalition government has imposed several new barriers to foreign investment coming into Australia. These policies include:

- The introduction of fees for FIRB applications, and an expansion of the range of sanctions and fines applied to breaches.

- Instituting new and very low FIRB screening thresholds for investment in the rural sector, including A$15 million for agricultural land and A$55 million for agribusinesses. The threshold had previously been A$255 million.

- The establishment of a register of ownership of agricultural land . While this is ostensibly designed to “increase transparency”, Deputy Prime Minister Barnaby Joyce explained the intention was to produce a map that would allow people to “ see who owns what ”.

- The appointment of two new FIRB Members – David Irvine and David Peever – in order to add further “national security expertise” to the board.

- Extending the application of the Foreign Acquisitions and Takeovers Act (Cth, as amended) to infrastructure sales made by state governments .

The LNP Coalition government has also rejected a number of foreign investment applications on controversial grounds:

- Archer Daniels Midland (US) takeover bid for GrainCorp, 2013. The former head of the FIRB has claimed the deal was killed for political reasons .

- Dakang Holdings and Pengxin Group (China) bids for Kidman cattle properties, 2016. The bidders appear to have been rejected simply because no Australian buyer made a competitive offer .

- China State Grid bid for Ausgrid in NSW privatisation program, 2016. Treasurer Scott Morrison refused to explain the full reasons for the rejection

, citing national security and confidentiality concerns.

Tellingly, in its entire six-year term in office, the Rudd/Gillard ALP governments rejected only a single large foreign investment application: A bid by the Shanghai Stock Exchange to acquire the ASX in 2011.

As a result of these policy changes and investment decisions, the Australian foreign investment regime is now less open than it has been for over 20 years.

The prime minister's claim was about the freedom of Chinese companies to make foreign investments into Australia. Unfortunately, there is no quantifiable metric that measures the openness of a country's foreign investment regime specifically. The Economic Freedom statistics Gennadi cites are instead a broader measure of economic openness and transparency. Thus, they cannot be used to evaluate the prime minister's claim.

Gennadi Kazakevitch:

The investment freedom component of the economic freedom index is not a perfect measure, but it is sophisticated. It allows for comparing "apples with apples" based on eight qualitative characteristics
: national treatment of foreign investments; transparency; policy implementation; restrictions on land ownership; sectoral restrictions; expropriation of investments without fair compensation; foreign exchange controls; and capital controls. For each of those characteristics, there is a breakdown into several levels of restrictions, rules or practices.

It is true that in the most resent years (2012-2016) the investment freedom score for Australia has decreased from 83.7 to 80. But it is also true that Australia remains within a cluster of free economies.

It would be easy to attribute the decline in Australia's score to the recent changes to regulation rules and practices. However, those changes have not critically affected the investment freedom index for Australia, nor are they discriminatory against a particular country. Therefore, Mr Turnbull's statement is quite justified.

The six years of Rudd/Gillard ALP governments Jeffrey is referring to was business as usual as far as foreign investment was concerned. However, it is not business as usual any anymore. The most recent cases, such as the Port of Darwin, the Kidman station, and the Ausgrid power transmission business in NSW, have alerted the government and public to national security issues, and rightfully so.

As I proposed in my submission to the Senate inquiry on the foreign investment review framework, the world has changed dramatically since the current regulation was established in 1975.

Until the late 1980s, Australia's investing partners were mostly persons and companies from developed market economies with similar values and similar foreign investment perceptions of independent entrepreneurship. Economic transition in communist countries, market reforms in one-party controlled countries, and emerging developing market economies have created a variety of economic systems with very different sovereign involvement in running economies and companies. Therefore a "foreign interest independence test" and security risk assessment should be done that takes into account which country the foreign investor is from.

If Australia eventually goes down this path, freedom of investment might be further compromised. If so it will arguably be for a good reason.

Jeffrey Wilson:

It is certainly true Australia's foreign investment partners have changed many times through history. Prior to the 1950s the main foreign investor was Great Britain, which remains a major investor to this date. But progressive waves of new investors have also arrived: America during the 1960s; Japan in the 1970s; Singapore and Hong Kong in the 1990s; and more recently Chinese investors since 2005.

The arrival of each of these groups has presented Australia with distinct political tension. American investors faced accusations of “neo-imperialism” and threats to Australia’s independence in the world. Japanese investors faced considerable xenophobia, particularly as a result of “war memories”. And today, we are dealing with the fact that many Chinese investors are state-owned corporations, which pose their own unique political and regulatory challenges.

However, these are arguably issues to be managed rather than reasons to reject foreign investment. Australia is a small open economy, which depends on foreign investment to bring in the capital, technology, skills and marketing channels critical for 21st century industries.

In each previous wave, Australian governments have had to devise novel solutions for how to remain open to foreign investment, while managing their distinct political sensitivities. This has been successful in previous years, and there is no reason it should not be possible with Chinese investors today.

Jeffrey Wilson receives funding from the Australian Research Council (DP150100217) to research the politics of China-Australian economic relations; and is currently a Research Fellow of the Perth USAsia Centre.

Gennadi Kazakevitch does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

Authors: Jeffrey Wilson, Fellow of the Asia Research Centre, Murdoch University

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