Abstract
The Australian public is lukewarm in its overall support of foreign investment. However, its contribution to local employment is widely regarded positively. This is particularly important at a time when Australia’s labour market is softening and wages are growing at their slowest pace on record. This paper conservatively puts Australian employment currently supported by foreign investment at around 1.9 million, or one in six of all jobs. With the end of the mining investment boom, a challenge for policymakers is to ensure that foreign investment is welcomed in other sectors, particularly those that absorb a lot of labour such as construction, manufacturing and services. According to the Organisation for Economic Co-operation and Development (OECD), Australia has relatively high restrictions in each of these areas. In terms of investment source countries, evidence is also presented that suggests China may have generated the biggest employment benefits in recent years. This is because the scale of Chinese investment has increased and a growing proportion has gone into the highly labour-absorbing construction sector. Despite the employment benefits, survey and liaison evidence points to many Chinese investors feeling less welcomed than those from other countries. Steps the Australian government and other stakeholders in the Australia-China relationship can take to address such concerns are deserving of greater attention.

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1. Introduction

The Australian public is lukewarm in its overall support of foreign investment (Goot, 1990; Uren, 2015). However, its contribution to local employment is widely regarded positively.

One of the clearest ways to see the employment impact of foreign investment is to watch what happens when it leaves. In 2017 the last of the US and Japanese car companies will close their Australian manufacturing operations. Thousands of Australian jobs will be at risk as a result (Ferguson, 2016). Even those politicians sometimes antagonistic towards foreign investment in a general sense have not been shy in lobbying federal and state governments for resources to ensure that this particular group of foreign investors continue to build cars locally. Commenting on the position apparently taken by some critics of foreign investment, former Australian Treasury Secretary Ken Henry remarked (Martin, et al., 2012):

*They don’t want them to come, it appears, but they don’t want them to leave either.*

Foreign investment entering the economy gives rise to a more advantageous set of employment outcomes. The Australian jobs supported by foreign investment are most obvious in the case of ‘greenfield investment’, that is, when foreign investment leads to the creation of new assets: new roads, new ports, new airlines, new apartment buildings and so on. Since 2009, roughly half of the foreign investment in Australia has been of this type (Figure 1). A recent example is the decision by Chinese conglomerate, Wanda, to take $1 billion out of its headquarters in Dalian in China’s northeast and put it into the development of a multipurpose hotel, residential and leisure complex on Queensland’s Gold Coast. In the building phase alone this will create 2700 jobs for local construction workers, welcome news for a state suffering from relatively high unemployment (Houghton and Skene, 2016). Wanda is investing a further $1 billion in a hotel and residential development in Sydney’s Circular Quay (Tan, 2015). Another example is Virgin’s decision to enter the Australian market in 2000. Virgin Australia is almost entirely foreign-owned, including by two cornerstone Chinese investors, and provides ongoing employment to more than 9000 Australians (Virgin, 2016). This direct employment impact is in addition to the benefits that Virgin provides Australian consumers by making domestic air travel more competitive. The jobs supported by ‘brownfield investment’, that is, when a foreign investor acquires an existing Australian asset through a merger or acquisition, are less obvious but no less real.

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**Figure 1. Proportion of greenfield versus brownfield foreign investment in Australia**

![Figure 1. Proportion of greenfield versus brownfield foreign investment in Australia](image.png)

**Source:** The United Nations Conference on Trade and Development (UNCTAD) (2016).

**Note:** Brownfield investment refers to the value of mergers and acquisitions activity.
In 2015 the New South Wales (NSW) government sold the lease to operate electricity transmission business, TransGrid for $10.3 billion to a consortium 65 percent owned by Canadian and Middle Eastern investors. These foreign investment dollars are now supporting Australian jobs in electricity transmission and selling the lease helped free up NSW government dollars to fund a $73.3 billion dollar infrastructure development program (Chang and McCauley, 2016).

In making the point that foreign investment supports Australian jobs it is important to clarify an argument arising from economic general equilibrium theory and a technical assumption embedded in nearly all macroeconomic models, namely, if the supply of labour in the economy as a whole is fixed and labour markets clear, then an increase in labour demand due to rising investment will mostly be felt in terms of higher wages rather than more employment. That foreign investment is likely to lead to higher wages is, of course, also positive for Australian workers, particularly at a time when wages are growing at their slowest pace on record (Figure 2). But in any case, the view that labour markets clear – ‘all those who want a job, can find a job’ – is dubious and the 725,700 Australians classified as unemployed by the Australian Bureau of Statistics (ABS) as of December 2016 are unlikely to agree.

For the employment prospects of some of these people whether the NSW government or Wanda is funding new construction projects likely matters a great deal.

Section 2 of this paper conservatively puts total employment currently supported by foreign direct investment (FDI) at around 1.9 million, or one in six of all jobs. While the level of FDI in Australia tripled over the past decade and a half, the employment it supported increased by far less. This is because 60 percent of new FDI went into the mining sector, which absorbs relatively little labour. With the end of the mining investment boom, a challenge for policymakers is to ensure that foreign investment is welcomed in other sectors, particularly those that absorb a lot of labour such as construction, manufacturing and services. According to the OECD, Australia has relatively high restrictions in each of these areas. Section 3 considers the employment impact of investment from

For the employment prospects of some [Australians] whether the NSW government or Wanda is funding new construction projects likely matters a great deal.
different source countries. Evidence is presented that suggests China may have generated the biggest employment benefits in recent years. This is because the scale of Chinese investment has increased and a growing proportion has gone into the highly labour-absorbing construction sector. Despite these benefits, survey and liaison evidence suggests many Chinese investors in Australia feel less welcomed than those from other countries. The sources of this perceived discrimination are discussed. Section 4 concludes that the steps the Australian government and other stakeholders in the Australia-China relationship can take to address such concerns deserve greater attention.

2. The employment impact of foreign investment

Foreign investment contributes to the capital stock that is distributed across various sectors of the Australian economy. The extent to which domestic and foreign investment supports employment varies significantly across sectors. Figure 3 shows the number of employees supported by the capital stock in each sector of the economy over time. Specifically, the relevant measure of capital is the chain volume estimate of the net capital stock (in millions of constant price dollars) in a given sector in a given year. This is an estimate of the quantity of accumulated investment in a sector that takes into account depreciation and changes in the value of capital due to changes in prices. When presenting net capital stock data, the ABS disaggregates the economy into 19 different sectors, including 15 services sectors. For presentation purposes, Figure 3 groups the 15 services sectors into a single aggregate.

Two points in Figure 3 stand out. First, the employment to capital ratio of each sector is not constant over time. Both manufacturing and construction have experienced a steadily declining ratio over the past three decades, most likely reflecting the long run trend for labour-intensive production activities to move offshore, as well as the rise of automation in local industry. Second, while the ratio of a given sector may not be constant, the rank ordering of sectors in terms of the employment to capital ratio has remained intact. The differences between sectors have been, and continue to be, large. The most labour-absorbing sector of the economy, construction, currently has a ratio more than 60 times greater than the least labour-absorbing sector, mining and quarrying. Accordingly, investment in construction is likely to result in a greater number of Australian jobs being supported compared with mining.

![Figure 3. Employment to capital ratio, 1985-2016](source: Australian Bureau of Statistics; authors’ calculations. Notes: 1. The net capital stock is measured in millions of constant price dollars. 2. Employment figures are as of August each year, while net capital stock figures are as of June.)
To the best of our knowledge, only two previous studies have examined the employment impact of foreign investment in Australia across industry sectors.

The first was a primary data collection exercise by the ABS covering the period 2000-2001. This put the number of employees at majority foreign-owned enterprises in Australia at 783,000. At the time this comprised around 12 percent of jobs in total (ABS, 2004). More recently, the Department of Foreign Affairs and Trade (DFAT) used the IBISWorld database to extract information concerning the top 2000 companies in Australia, each of which had revenues over $63 million in 2014-15. Of these 2000 companies, 743 were found to be majority foreign-owned and collectively they employed 696,700 workers. This compared with the remaining 1257 companies that were majority locally-owned and employed 2,656,600 workers (DFAT, 2016). Thus, majority foreign-owned companies accounted for 21 percent of employment in the sample.

Aside from analysing firm-level statistics as in the two studies above, sectoral-level data can also offer useful insights into the number of local jobs supported by foreign investment. The ABS lists the value of FDI in 18 sectors of the Australian economy as part of the Balance of Payment statistics. According to these statistics, FDI occurs when a foreign entity acquires 10 percent or more of the equity in an Australian company. Thus, an advantage of this data source is that it includes not only those companies operating in Australia featuring majority foreign ownership but also those where the share is less than 50 percent but more than 10 percent. No sectoral breakdown is available for the distribution of foreign investment that takes other forms such as portfolio investment or lending. To reach an approximate foreign share of the capital stock in each sector, the value of FDI can be divided by the current price value of the net capital stock, also available from the ABS. The foreign share of the capital stock can then be multiplied by employment in each sector. Such calculations, presented in Table 2, suggest that in 2016 the total number of Australian jobs supported by FDI was around 1.9 million, or one in six of all jobs. According to the ABS, FDI only accounts for around one quarter of the total stock of foreign investment in Australia. The rest is made up of portfolio and other investment. This means 1.9 million is likely to be a conservative estimate of the number of local jobs supported by foreign investment more broadly defined.

The above exercise can be repeated for other years to develop a picture of how employment supported by FDI has evolved over time. These estimates are presented in Figure 4. Over the past decade and a half, the total number of local jobs supported by FDI has generally fluctuated between 1.5 and 2 million. This is despite the fact that the level of FDI in Australia during this period increased three-fold. The reason for the apparent disconnect is that 60 percent of the increase in FDI went into mining, the least labour-absorbing sector.

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1. **ABS (2004)** cautions that Balance of Payments statistics classify FDI by the industry of the Enterprise Group. This is a data collection unit that covers all the operations in Australia of one or more legal entities under common ownership and/or control. Management units belonging to a given Enterprise Group may use funds in different industries.
Table 2. Australian jobs supported by foreign investment in 2016

<table>
<thead>
<tr>
<th></th>
<th>(1) Net capital stock ($ millions)</th>
<th>(2) Foreign investment ($ millions)</th>
<th>(3) Employment (000s)</th>
<th>(4) Jobs supported by foreign investment: (2)/(1)x(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>142,917</td>
<td>1621</td>
<td>302</td>
<td>3427</td>
</tr>
<tr>
<td>Mining</td>
<td>851,868</td>
<td>295,028</td>
<td>222</td>
<td>76,991</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>177,876</td>
<td>85,929</td>
<td>867</td>
<td>418,763</td>
</tr>
<tr>
<td>Construction</td>
<td>61,722</td>
<td>17,490</td>
<td>1041</td>
<td>295,017</td>
</tr>
<tr>
<td>Services</td>
<td>2,149,509</td>
<td>249,509</td>
<td>9437</td>
<td>1,095,383</td>
</tr>
<tr>
<td>Total</td>
<td>3,383,892</td>
<td>649,577</td>
<td>11,869</td>
<td>1,889,581</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics; authors’ calculations.
Notes: 1. Net capital stock figures are current price estimates as of June 2016. Foreign investment figures are as of December 2015. Employment figures are as of August 2016. 2. The ABS also lists $85 billion of foreign investment as unallocated by sector in 2015. This has been excluded in the above table.

Figure 4. Australian jobs supported by foreign investment, 2000-2016

Source: Australian Bureau of Statistics; authors’ calculations.
A factor to bear in mind when comparing the employment to capital ratio across sectors is that this does not distinguish between the types of jobs that investment supports, including their respective wage rates and other working conditions. Table 1 presents some of these differences. In 2014-2015 the average annual wage in mining and quarrying was $149,532. This compares with $64,211 in manufacturing, $56,829 in construction, $46,179 in services and $15,906 in agriculture. Thus, the highly labour-absorbing construction sector appears to be middle of the pack in terms of remuneration. Table 1 also reveals why the construction sector is able to absorb so much labour while at the same time offering mid-ranking wages: a relatively high proportion of value-added industry is paid out to labour rather than capital owners. Thus, while construction might not rival mining and quarrying in terms of wages, it cannot be dismissed as a sector delivering only low-quality jobs.

Figure 5. FDI to Australia

With the end of the mining investment boom (Department of Industry, Innovation and Science, 2015), a challenge for policymakers is to ensure that foreign investment is welcomed in other sectors, particularly those that require a lot of labour such as construction, manufacturing and services. DFAT (2016) observes that new FDI from all countries fell by 24.7 percent in 2015 compared with a year earlier.

According to data from the United Nations Conference on Trade and Development, Australia’s share of world FDI flows in 2015 fell to 1.3 percent, down from 4.0 percent in 2012. A large proportion of the drop can simply be explained by the end of the mining investment boom. Still, the fact that the share is lower than a decade earlier before the mining investment boom really gained steam is somewhat cause for concern (Figure 5).

While domestic policy settings are only one factor influencing the volume of FDI entering an economy, it remains the case that according to the OECD Australia has a relatively restrictive foreign investment regime. The restrictiveness of the regime has also increased in recent years. The OECD examines the statutory restrictions on FDI across 58 countries and condenses this information into a FDI Regulatory Restrictiveness Index. As depicted in Figure 6, Australia’s overall index value rose in 2015 compared with 2014 and is now double the OECD average. This means Australia is ranked 31st out of 35 OECD member countries in terms of overall openness to FDI.

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The OECD further disaggregates restrictions on FDI by sector. In the most labour-absorbing sector, construction, Australia had an index value of 0.075 in 2015. This compares with 0.000 in the US and Japan, and 0.023 in the UK. The OECD average is 0.019. A similar situation is apparent in manufacturing and services. In manufacturing, Australia’s index value in 2015 was 0.080, compared with an OECD average of 0.020 (31st out of the 35 OECD member countries) while in services it was 0.178, compared with an OECD average of 0.085 (32nd out of 35 OECD member countries).

At the very least a more restrictive regime adds to the costs faced by foreign investors and so, at the margin, may lead to investment being diverted elsewhere. This is a possibility that Australia’s Trade, Tourism and Investment Minister, Steve Ciobo, appears well aware of. In responding to DFAT’s finding (2016) that new FDI had fallen by one quarter last year, Minister Ciobo remarked (Riordan, 2016):

*We can’t be complacent about our attractiveness as a destination for foreign investment. Amidst subdued global growth, there is fierce competition for global investment. So Australia must redouble its efforts if we are to remain internationally competitive, attract new investment, retain and expand existing investment, and thereby safeguard Australian jobs.*

To be sure, Australia still managed to attract US$22.3 billion of FDI in 2015. However, this compared with US$39.5 billion in the UK, US$48.6 billion in Canada and US$379.9 billion in the US (United Nations Conference on Trade and Development (UNCTAD), 2016).

In terms of the restrictions that Australia places on foreign investment in construction, it is important to clarify that in the context of residential real estate the rules differ significantly depending on whether new or established properties being discussed. The regime is deliberately set up to encourage foreign investment in residential real estate construction while discouraging foreign purchases of established properties. Foreign persons are prohibited from buying established properties for anything other than the purpose of using the property as their principal place of residence in Australia and are required to sell the property within three months of when this purpose ceases. An example would be an international student buying a property to live in while studying at an Australian university but then having to sell the property once they return to their home country. The justification for the new versus established distinction is that foreign investment in new residential real estate expands housing supply, and in so doing, creates construction sector jobs and improves housing affordability. While in recent years there have been claims that foreign investors have widely flouted rules that prevent them from buying established properties, an extended period of heightened compliance...
activity by the Australian Tax Office beginning in May 2015 has yet to reveal any substantial evidence in support of these claims [Laurenceson, 2016].

At the end of 2015 the federal government also instituted a fee for foreign investors wanting Foreign Investment Review Board (FIRB) approval to purchase residential real estate. The application fee is currently set at $5000 for properties valued at $1 million or less. The fee rises as the property value increases. State governments have also added to the cost of foreign investment in residential real estate. Foreign investors wanting to buy new properties now face a stamp duty surcharge in Victoria, NSW and Queensland of seven percent (from July 2016) four percent (from June 2016) and three percent (from October 2016) respectively. Further, Victoria and NSW have also introduced a land tax surcharge of 1.5 percent and 0.75 percent respectively. The latest edition (Q4 2016) of National Australia Bank’s Residential Property Survey shows that the share of foreign buyers of new properties was 10.9 percent. This was down from 14.4 percent a year earlier (National Australia Bank, 2017). The extent to which this drop can be attributed to rising costs for foreign investors is not clear.

3. The employment impact of investment from different countries

The ABS [2004] found that in 2000-2001, majority US-owned companies provided 331,000 jobs, accounting for 42 percent of total employment supported by majority foreign-owned companies in Australia. Next was the UK with a 17.9 percent share. Japan’s share was only 5.3 percent, most likely reflecting the importance of the mining sector for Japanese investors. Employment supported by Chinese investment was not separately reported due to its scale being so limited. DFAT [2016] put employment by majority US-owned affiliates in Australia at 309,700 in 2013. Similar data for other countries of interest such as Japan and China were unavailable.

In a bid to shed greater light on the relative importance of different countries and how this might have changed in more recent years, when using sectoral level data it is necessary to find a data source supplementary to the Balance of Payments statistics from the ABS. This is because these ABS data do not disaggregate FDI by sector and country. Therefore, we make use of approvals data from FIRB.

One challenge is that the sectoral classifications used by FIRB do not align precisely with those used by the ABS. In Table 3 we show how the sectoral classifications from these different sources can be matched as closely as possible. Most problematic is the ABS category of construction. The ABS defines the construction sector as consisting of those businesses engaged in the construction of residential and non-residential buildings, engineering structures and related services (ABS, 2010). Meanwhile, FIRB defines the real estate sector to consist of investment proposals in residential and non-residential properties (FIRB, 2016b). Thus, the ABS definition of construction encompasses the FIRB definition of real estate, but also includes other elements such as engineering structures and related services. Nonetheless, real estate remains the most suitable proxy for the construction sector. Note also that FIRB approvals data in real estate includes investment in both ‘developed’ (i.e., existing) and ‘for development’ (i.e., new) projects. In 2014–15, approvals relating to ‘developed’ projects accounted for 44.5 percent of the total. This ranged from 18.9 percent in the case of residential real estate and 87.4 percent for non-residential (FIRB, 2016b).

While FIRB data offers the desired breakdown of foreign investment by country and sector, it also comes with several limitations. First, it refers to the value of approved foreign investment. This may not be the same as actual foreign investment. For example, FIRB may approve a given foreign investor to acquire an asset but the deal could fail to eventuate. Second, not all foreign investment requires FIRB approval. The dollar value threshold for needing FIRB approval depends upon the sector the investment is going into, whether the investor is from a country with which Australia has a free trade agreement, and whether the foreign investor is government or privately-owned (FIRB, 2016a).

Laurenceson [2015] contends that FIRB approvals data is likely to understate the value of investment from the US compared with that from China. This is because a significant proportion of investment from China comes from government-owned companies and / or goes into residential real estate. In both cases, FIRB approval is mandatory. Further, Australia and the US have had a free trade agreement since 2005 which has provided private US investors with a much higher approvals threshold compared with those from China. It was only when Australia and China also enacted a free trade agreement (ChAFTA) at the end of 2015 that most thresholds were equalised, although a large gap remains in some areas such as agricultural land and agribusiness. Finally, FIRB data are in gross rather than net terms and so do not capture the value of foreign investment leaving the country.

With these limitations in mind, we recalculate the employment to capital stock ratios (Figure 3) according to the FIRB sectoral classifications (Table 3). These ratios are then multiplied by the value of approved foreign investment flowing into each sector from each country in each year. Data for four foreign investors are considered – China, the US, Japan and the UK. For presentation purposes the findings in Figure 7 are illustrated in the form of an index with the employment impact of Chinese investment in 2009–10 used as the base.

1 As shown in Table 3, the ABS also includes a separate sector labelled ‘Real estate activities’. This includes businesses engaged in renting, buying, managing and appraising real estate (ABS, 2006) and hence in our view this sector is most accurately considered as part of services in terms of the classifications used by FIRB.
Table 3. Sectors of the Australian economy: ABS versus FIRB

<table>
<thead>
<tr>
<th>ABS</th>
<th>FIRB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>Agriculture, Forestry and Fishing</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>Mineral Exploration and Development, Resources Processing</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Construction</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Financial and Insurance Activities</td>
<td>Finance and Insurance</td>
</tr>
<tr>
<td>Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste Management and Remediation Activities</td>
<td>Services, Tourism</td>
</tr>
<tr>
<td>Wholesale and Retail Trade; Repair of Motor Vehicles and Motor Cycles</td>
<td></td>
</tr>
<tr>
<td>Accommodation and Food Service Activities</td>
<td></td>
</tr>
<tr>
<td>Transportation and Storage</td>
<td></td>
</tr>
<tr>
<td>Information and Communication</td>
<td></td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td></td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
<td></td>
</tr>
<tr>
<td>Administrative and Support Service Activities</td>
<td></td>
</tr>
<tr>
<td>Public Administration; Activities Of Households and of Extraterritorial Organisations</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Human Health and Social Work Activities</td>
<td></td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td></td>
</tr>
<tr>
<td>Other Service Activities</td>
<td></td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics; Foreign Investment Review Board.

Note: When presenting FDI data, the ABS lists 14 services sector categories. This compares with 15 for net capital stock data. The difference is that FDI data does not separate the wholesale and retail sectors.

Figure 7. Employment impact of foreign investment by country (China in 2009-10 = 100)

Source: Organisation for Economic Cooperation and Development.
The results indicate that in 2009 investment from the US had the largest impact on Australian employment. This was followed by the UK, China, and finally, Japan. This ordering was sustained through to 2011-2012. More recently however, a huge shift has occurred with respect to China. In 2014-15, the employment impact of Chinese investment was around two and a half times greater than that of the US and around nine times that of Japan and the UK.

To be clear, ABS data puts the stock of US FDI in Australia at around one quarter of the total foreign FDI stock in 2015, compared with just five percent for China. This means US investment almost certainly still supports a greater number of Australian jobs in total. However, in terms of additional Australian jobs supported by foreign investment in recent years, the evidence suggests that Chinese investment may have brought the biggest benefits.

The reason Chinese investment initially had only a modest impact was because its overall scale was limited and the overwhelming majority went into mining and quarrying, the least labour-absorbing sector (Table 4). Both of these considerations have changed in more recent years. In 2014-15 approved Chinese investment was $46.6 billion, up from $26.6 billion in 2008-09, and nearly double the $25.1 billion from the US. Further, 52 percent of the Chinese total went into real estate, the most labour-absorbing sector. In terms of looking to the future, a recent modelling exercise by Auster and Foo (2016) found that a relatively modest 10 percent increase in Chinese investment could create an additional 17,219 new jobs in Australia’s construction sector by 2026.

Table 4. Value of approved FDI by country and sector ($ million) (% country total in brackets)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>US</th>
<th>Japan</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>31 [0.1]</td>
<td>2854 [3.2]</td>
<td>1197 [1.2]</td>
<td>2469 [3.9]</td>
</tr>
</tbody>
</table>

Source: Foreign Investment Review Board; authors’ calculations.
Nonetheless, readers are again reminded that these results should be interpreted with caution given the limitations of FIRB approvals data outlined above. In particular, while FIRB data suggest that approved investment from China over 2012-2015 was 1.4 times that of approved investment from the US (Table 4), ABS data contend that over same period US net FDI was 2.7 times that of China (Table 5). Still, to the extent that Chinese investment has been directed more towards the highly labour-absorbing real estate sector, its employment impact may have been greater than US investment, even if its overall scale was in fact more modest.

Table 5. Net FDI inflows by country, by year ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>US</th>
<th>UK</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>4861</td>
<td>3708</td>
<td>-3645</td>
<td>9745</td>
</tr>
<tr>
<td>2010</td>
<td>2626</td>
<td>16,104</td>
<td>-4353</td>
<td>6196</td>
</tr>
<tr>
<td>2011</td>
<td>3265</td>
<td>10,939</td>
<td>18,632</td>
<td>13,153</td>
</tr>
<tr>
<td>2012</td>
<td>3442</td>
<td>13,716</td>
<td>10,295</td>
<td>11,729</td>
</tr>
<tr>
<td>2013</td>
<td>6154</td>
<td>25,440</td>
<td>10,337</td>
<td>6966</td>
</tr>
<tr>
<td>2014</td>
<td>9855</td>
<td>10,672</td>
<td>-958</td>
<td>5759</td>
</tr>
<tr>
<td>2015</td>
<td>2762</td>
<td>9723</td>
<td>-3497</td>
<td>14,087</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics.

An issue surrounding Chinese investment, particularly in the construction sector, is whether the jobs being supported by this investment are being filled by Australian workers. In the lead up to the ratification of ChAFTA some labour unions such as the Construction, Forestry, Mining and Energy Union (CFMEU) campaigned aggressively against the deal on the basis of its labour mobility provisions. The CFMEU claimed (CFMEU, 2016):

The number of visa workers is set to increase with the China Free Trade Agreement negotiated by the Government allowing Chinese investors to bring in their own workers.

Sufficient time has now passed for a preliminary assessment of the CFMEU’s claims to be made. The primary channel through which foreign workers can temporarily enter Australia is the 457 visa scheme. Figure 8 shows the number of primary 457 visas granted to Chinese workers across all sectors, and in the construction sector specifically. Given ChAFTA was only enacted in December 2015, the data covers the first three quarters of 2016 and compares the number of visas granted during this period with the same three quarters in previous years. Contrary to the CFMEU’s claims, comparing 2016 with the previous year when ChAFTA was not in effect shows the number of primary 457 visas granted to Chinese workers across all sectors fell by 22 percent, compared with a fall from all countries of nine percent.

In the construction sector the drop was 12 percent, compared with a fall of 19 percent from all countries. The absolute number of primary 457 visas granted to Chinese workers in construction in the first three quarters of 2016 was 149, seven percent of the total granted to all foreign workers. In fact, even this overstates CFMEU claims that Australian construction workers would be hard hit by ChAFTA because the 149 includes not only labourers, semi-skilled workers and those with trade qualifications, but also those in management and professional roles. Further analysis of Department of Immigration and Border Protection (DIBP) data shows that in the first three quarters of this year 62 percent (92 out of 149) of the 457 visas granted to Chinese workers entering the construction sector were in management and professional roles. DIBP data also show (not presented) that the cumulative number of Chinese 457 visa holders in the construction sector as at September 30 2016 was 438, of which 57 percent (249 out of 438) were managers and professionals. To put that in perspective, ABS data show that total employment in the construction sector at the time was 1.1 million.
...half [of Chinese investors with operations in Australia] were of the view that their activities were less welcomed than investors from other countries.

With Chinese investment now potentially supporting more additional local jobs each year compared with other source countries, and no evidence that these jobs are being filled by anyone other than Australian workers, survey findings in 2016 that Chinese business leaders have an overwhelmingly favourable impression of doing business with Australia is welcome news (Australia-China Relations Institute, 2016). However, a different 2014 survey found that of those Chinese investors with operations in Australia, half were of the view that their activities were less welcomed than investors from other countries (KPMG/University of Sydney, 2014). The authors’ own liaison evidence suggests this impression remains a problem. The case in 2016 of two Chinese investors – State Grid from the mainland and Cheung Kong Infrastructure from Hong Kong – having first been invited and then shortlisted to bid for Ausgrid, the NSW electricity distributor, but then subsequently being blocked from acquiring the asset on national security grounds has reinforced these perceptions. The recent federal government announcement to establish a Critical Infrastructure Centre aims to clarify which infrastructure assets will attract national security scrutiny, and in so doing will improve an approvals process that had come to be regarded as embodying considerable uncertainty.

In some cases the source of discrimination perceived by Chinese investors is readily apparent such as when they face lower approvals thresholds than other countries. For example, while ChAFTA raised the general threshold for needing FIRB approval from $252 million to $1.094 billion for privately-owned Chinese investors, thus bringing them into line with those from the US, Japan and several other countries, in the case of the agricultural sector different thresholds still apply. Private US investors (and those from New Zealand and Chile) can buy Australian agricultural land and agribusiness assets worth up to $1.094 billion without needing FIRB approval. Moreover, this threshold is non-cumulative, meaning that a private US investor could buy agricultural land worth $1 billion today and another parcel for $1 billion tomorrow without ever needing FIRB approval. Meanwhile, the thresholds for investors from China and many other countries are set at a cumulative $15 million for agricultural land, and $55 million for agribusiness assets (FIRB, 2016a). The unfortunate reality is that the government most likely does not have the option of reducing the threshold for investors from the US, New Zealand and Chile due to commitments contained in earlier FTAs signed with these countries. It could, of course, raise the threshold for other countries, including China, although may struggle politically to do so given public support for foreign investment in Australia’s agricultural sector is particularly low (Lowy Institute, 2014).
In other cases the thresholds are the same for all countries but the burden nonetheless falls more on investors from China. As noted earlier, it is mandatory that all investment by foreign government-owned companies seek and receive approval, irrespective of value. Annual reports on Chinese investment in Australia by KPMG and the University of Sydney show that between 2007-2015 government-owned companies accounted for 75 percent of Chinese investment by value. The justification for government-owned companies needing mandatory approval has not always been clear. In the case of the resources sector, an increase in investments by Chinese government-owned companies prompted then-Treasurer Wayne Swan to issue new guidelines in 2008 that outlined further considerations that the government would take into account when assessing investment applications from such entities. Drysdale and Findlay (2009) argued that such guidelines were unnecessary because there were no issues associated with investment by Chinese government-owned companies that could not be dealt with under the established ‘national interest’ test that has underpinned Australia’s foreign investment regime since 1976. Business Council of Australia (BCA) (2014) also observed that the requirement for mandatory approval irrespective of value placed Australia at odds with other usually like-minded countries including the UK, Singapore, the US, Canada and New Zealand. Further, recent detailed research into Australian public opinion towards foreign investment in two sensitive sectors, agriculture and infrastructure, found the Australian public showed no preference in favour of foreign investment from a company that was privately-owned rather than government-owned (Laurenceson, et al. 2015; Laurenceson, et al., 2016).

Chinese investors themselves are firmly of the view that their activity should be decided on commercial merits not on ownership (KPMG/University of Sydney, 2014). In terms of Australian employment outcomes there is no reason to think that a dollar of investment from a Chinese government-owned company would support fewer jobs than if it had come from a private Chinese company or one from the US. BCA (2014) outlines several options for dealing with investment by foreign government-owned companies apart from mandatory scrutiny. One is a historical accreditation model in which foreign, government-owned investors with a proven track-record are given the same threshold as private investors. Alternatively, the threshold required for approval could be increased from its current value of zero to some other level.

Sometimes the discrimination perceived by Chinese investors does not come from government policies. KPMG/University of Sydney (2014) reported that 42 percent of the Chinese investors in their survey regarded the Australian media as not being supportive of their activities, compared with just 16 percent who said the media were supportive. How the broader narrative around Chinese investment can be better steered in a direction where facts rather than unsubstantiated fears receive greater emphasis is a matter deserving of creative policy attention.

4. Conclusion

This paper conservatively puts total Australian employment currently supported by FDI at around 1.9 million, or one in six of all jobs. With Australia’s labour market weakening and wages growing at their slowest pace on record, the employment impact of FDI takes on greater significance. The end of the mining investment boom also raises the challenge for policymakers of ensuring that FDI is welcomed in other sectors of the economy, particularly those that absorb a lot of labour such as construction, manufacturing and services. At present restrictions on FDI in these sectors are high compared with other OECD countries.

The employment impact of foreign investment may also differ considerably across source countries. Estimates suggest that in 2009-10 the contribution of US investment stood out in relative terms. However, by 2013-14 the growing scale of Chinese investment and the fact that an increasing proportion was directed to the highly labour-absorbing construction sector saw it take on greater importance. Despite this employment contribution, many Chinese investors perceived that their investments are welcomed less than those from other countries. During the mining investment boom Australia could live with a foreign investment approvals regime that lacked a certain degree of coherence and a broader attitude towards foreign investment that was not always grounded in facts. Today, the cost of this status quo, particularly for Australian workers, is rising.
References


For the first time in its history, Australia’s most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia’s dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China.

China contributes now more to world economic growth than any other country. China absorbs 34 percent of Australian goods exports. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that’s 850 million more middle class Chinese than today.

In 2014 the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: ‘We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.’ This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.
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