

Playing the China card may win votes, but it’s bad for Australia

March 27 2015

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In the final days of the New South Wales election campaign, Labor and the unions have decided to play the China card. Kudos to Fairfax journalist Joe Aston: he predicted this more than a month ago, noting that with two potential Chinese bidders for NSW power assets, there were “two juicy avenues for a foreign investment scare campaign”.

The issue of whether foreign investors – and particularly state-owned Chinese interests – should be allowed to bid for privatised power assets has been bubbling along throughout this election campaign.

But things have become more heated in these last few days. Unfortunately, it has happened against a recent backdrop of state and federal politicians from both major parties pandering to populist prejudices against Chinese investors, on everything from high-end real estate to “buying up” our farms.

Doing that ignores the facts, including that according to our very own Australian Bureau of Statistics, Australia has invested nearly as much in China as China has invested in Australia. (You can download the ABS tables here: Table 2 shows the level of Chinese investment in Australia, which was A$31.9 billion at the end of 2013, while Table 5 shows Australian investment in China had reached A$29.6 billion in the same period.)

And for all the headlines that it attracts, the Chinese share of the total stock of foreign investment in Australia was a minuscule 1.3% at the end of 2013, far behind other countries including the United States, United Kingdom, Japan and Singapore.

On Thursday, the second last full day of the NSW campaign, Premier Mike Baird was urged by voters across Sydney – first a market vegetable seller, then a woman at the Royal Easter Show – not “to go China’s way”. Those voters were responding to Baird’s plan to privatise state-owned power networks, which may attract interest from foreign bidders, including – but not only – from mainland China and Hong Kong.

In response, Labor and a union representing mining and energy workers have been ramping up their warnings against the risks of foreign ownership, such as this ad from NSW Labor, featuring a front page story about Hong Kong billionaire Li Ka-shing.

But the debate about Chinese ownership has stepped up a notch in this final week in response to this Construction, Forestry, Mining and Energy Union television and online ad. The ad ends with the line: “Selling the electricity network is wrong; selling it to another country is just not on.”

The ads have been widely criticised for “dog-whistling”. Race discrimination commissioner Tim Soutphommasane – who has previously worked for Labor governments under Prime Minister Kevin Rudd and NSW Premier Bob Carr – tweeted his disappointment.

But when asked on Radio National about whether his union supporters were resorting to “dog-whistling”, Labor leader Luke Foley said it was “entirely legitimate for there to be scrutiny of what Mr Baird and his coalition parties are up to with respect to the sale of the state’s electricity network”.

As a last-ditch ploy to win some votes on Saturday, it’s not hard to see why the opposition is trying this line of attack. The Lowy Poll has been saying for years that a majority of Australians think the government is “allowing too much investment from China”.

But many of the dark warnings about the risk posed by State Grid don’t stand up to scrutiny. For instance, this week the Labor leader said “perhaps ASIO might want to be asked their views” about a State Grid bid for the NSW networks.

Yet as Foley presumably knows, as a state-owned company, State Grid cannot invest a single dollar in Australia without first being scrutinised and approved – with conditions attached where appropriate - by the Foreign Investment Review Board (FIRB). The FIRB approval process involves checks with government agencies including ASIO. And as the Grattan Institute’s Tony Wood has noted, there has been Chinese, Hong Kong Chinese and Singaporean Chinese investment in Australia’s power industry for almost 20 years – State Grid among them.

However, what’s less easily dismissed is that this latest political campaign is not an isolated event. Instead, it’s part of a wider trend, where both sides of politics have been once again been tapping into deep-rooted fears of China for political gain.

The federal government’s recent crackdown on foreign investment in the real estate sector has been widely seen as singling out Chinese investors, with some even calling it “racist”.

And it was in no small part a response to growing Chinese interest in Australia’s agricultural sector that since the start of this month, the FIRB screening threshold for foreign purchases of rural land was slashed from A$252 million to A$15 million. The government also plans to reduce the threshold for foreign investment in agribusinesses from A$252 million to A$55 million.

Australia is sending very mixed messages to potential investors – because it's one set of rules for some, and another for others.

These tighter new foreign investment rules apply to investors from countries that have recently signed Free Trade Agreements (FTAs) with Australia, such as Japan, Korea and China. But they don't apply to countries with older FTAs such as the US, New Zealand and Chile. Investors from the latter countries only need to seek approval if their purchases of Australian rural land or agribusinesses exceed A$1.09 billion. That's 73 times the threshold facing Chinese investors for rural land and 20 times that for agribusinesses.

Here are some messages that Australian politicians of all stripes should be delivering to a wary public.

Chinese investors can't buy any assets that Australians don't want to sell.

But if Australians do want to sell, then the benefits of having Chinese bidders is overwhelming. In the case of the NSW electricity grid, if you arbitrarily exclude some buyers, you risk getting a lower price for these taxpayer-owned assets.

Australia has a strong regulatory framework. That goes beyond the Foreign Investment Review Board; we also have tax laws, labour laws and environmental laws that apply to domestic and foreign firms alike.

China brings more dollars and more jobs to the Australian economy than any other country.

And as noted earlier, while Chinese investment is growing, it has a long way to go to catch up with other nations such as the US.

Earlier this week, the National Australia Bank and the Australia-China Business Council released research showing that in 2011, direct trade with China contributed 5.5% of Australia's Gross Domestic Product. Since then, trade with China has jumped a further 25%.

China currently buys more than double the value of our goods and services than does our second largest customer, Japan.

China also buys A$55 billion more than we buy from them.

Polling just released by the Australia-China Relations Institute shows that Chinese business leaders still regard Australia extremely highly as a country in which to invest. We would be wise not to take that for granted.

Note: This article appeared in *The Conversation*, March 27 2015