



Chinese investment: Stay calm and ignore the defence hawks

James Laurenceson

July 28 2016

Note: This article appeared on the *Lowy Interpreter*, July 28 2016.

The lights are still on in Manila.

That must come as quite a surprise to defence hawks who like to beat the drum that the sale of New South Wales electricity distributor Ausgrid to a Chinese company could compromise our national security and be contrary to the national interest.

Last week, Peter Jennings, Executive Director of the Australian Strategic Policy Institute (ASPI), [wrote](#) in the Australian Financial Review that we cannot afford to be naïve when it comes to Chinese investment in critical infrastructure assets, particularly when it is from a company that is government-owned. After all, Jennings said, 'China's aggressive behaviour in the South China Sea shows that Beijing operates according to its own strategic priorities' and 'flouts the rules-based global order that is so central to Australian security'.

What better place to test this claim than Manila. China is locked in a bitter territorial dispute with the Philippines in the South China Sea. It is State Grid – the same Chinese government-owned company now bidding for Ausgrid – that is the [single largest owner](#) of National Grid Corporation of the Philippines (NGCP), the company that operates the electricity grid in the Philippines. It has held a 40% stake since 2007.

If there was ever a scenario in which the Chinese government might seek to use a government-owned company holding infrastructure assets abroad to exert a nefarious strategic influence, then the recent South China Sea arbitration case was surely it. Yet the judgement came and went, and despite being unfavourable to China, the lights in Manila haven't flickered.

[Responding](#) to hawks of his own, Philippine Energy Secretary Jericho Petilla made the fairly obvious point that 'The State Grid of China may own 40 percent of NGCP, but what really matters most is who is running the operation.'



Meanwhile there have been no reports of electricity outages in Victoria or South Australia since the Australian government offered a statement of support for the arbitration decision that Crisis Group International [said](#) used stronger and more detailed language than any other country in the region. That's despite State Grid also [holding](#) electricity distribution assets in these states.

Instead, in a repeat of the Darwin wharf deal last year, vague connections are being drawn between how a Chinese company part-owning an infrastructure asset in Australia might facilitate spying and espionage. But recall in the case of Darwin wharf that it was the [unanimous decision](#) of the chiefs of Defence and ASIO that there was no security risk.

The obsession of hawks with painting China as a strategic foe is in stark contrast to the official designation of the relationship, which is that the two countries [enjoy](#) a Comprehensive Strategic Partnership. It is also at odds with the position taken by the Australian public. In this year's Lowy Poll China was the [most popular choice](#) as 'Australia's best friend in Asia'. In polling [released](#) by the US Studies Centre at Sydney University in June, more Australians said our relationship with China should be stronger than those who said the same about the US.

It's true that Australians do not readily embrace foreign investment in infrastructure. The 2014 Lowy Poll [reported](#) that foreign investment in 'ports and airports' held the lowest level of public support of any sector. But this concern is directed at foreign investment generally, not Chinese investment specifically. In April, polling by the Australia-China Relations Institute and the Centre for the Study of Choice at UTS [found](#) that the overwhelming concern of the public with respect to foreign investment in infrastructure is the share of overseas ownership, not which country the investor is from, nor whether the investor is government or privately-owned.

There are economic payoffs from having Chinese companies fiercely bidding for Australian infrastructure assets. The public wins. Last year the NSW government struck gold when it [sold](#) electricity distributor Transgrid for \$10.3 billion to a consortium that included Canadian and Middle East investors. But the price only reached such stratospheric heights because it was pushed all the way by a rival Chinese offer.

Despite some noise from the minor parties, neither the government's trade and investment minister, Steven Ciobo, nor his pre-election Labor counterpart, Penny Wong, have hyped the Ausgrid sale. With a decision on Ausgrid expected next month, cool heads are exactly what are required.