Populist alarm skews Chinese investment debate

by **Andrew Parker**

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Our public discourse on foreign investment, particularly Chinese investment, has become a fact-free zone. Commentary on national security in the lead-up to the Treasurer's approval of the sale of energy companies Duet Group and Alinta to two Hong Kong-based investors is a case in point.

Whether it is critical infrastructure, agricultural land or real estate, there is a steady flow of populist alarm and misinformation. The public deserves better — a lot better.

It's time to take a step back and remind ourselves why we have foreign investment and the vital role it plays in ensuring the health of our economy — ultimately we are talking about providing jobs.

The remarkable economic success we enjoy has to a significant degree been driven by Asian demand for our resources and agricultural products. These are capital-ntensive industries, and continued investment is needed to support their growth and productivity.

Australia has been a net importer of capital nearly every year since Federation. Our national savings rate simply isn't enough to finance our capital investment requirements. Over the past 20 years, our national investment and savings gap has been, on average, around 4 per cent of GDP. But we need to get past thinking suggesting this is a bad thing.

Without foreign investment, our national savings would have to fund our investment needs. Higher rates of savings would have a direct impact on consumption, and drag on economic growth.

Foreign investment helped build our earliest export industries in wool and wheat. Japanese investment funded the development of the Pilbara in the 1960s. It's estimated our food industry will need

$1 trillion in additional capital to expand capacity, productivity and competitiveness if we want to feed Asia's rapidly growing middle class. Foreign investors bring competition, technology and access to new markets, which in turn drives productivity, growth and job creation.

We don't have the same worries when it comes to trade — six of Australia's top 10 trading partners are in Asia. Our two-way trade with China alone reached $155 billion in 2015, more than double that with the US, which is our next largest partner at $70bn.

At 44 per cent of GDP, our stock of inward direct investment is not particularly high by global standards.

The US remains by far our largest source of direct investment, with $173bn invested at the end of 2015. China is only our fifth largest supplier of direct investment with $35bn.

Given the vital economic ties between our two countries it is not surprising that we are seeing growing Chinese investment interest in Australia. The growing relevance of Asia reflects how the pools of surplus savings in the world are changing; as a nation we have not yet come to terms with the reality of this shift.

The debate around "critical infrastructure" is evidence of how far we have to go.

Observers of the debate around the lease of the Port of Darwin last year could been forgiven for believing that our defence and security agencies were sitting on their hands while the Chinese government tiptoed into Darwin. It was a debate that was long on rhetoric, light on fact.

There is no doubt that China in particular presents policy challenges for Australia.

But we should exercise a great deal of caution in critiques offered by those who hide behind a veil of defence and security. The security risk posed is often overstated and a considerable way from the consensus position.

As the outgoing Secretary of Defence, Dennis Richardson, said: "The notion that the Chinese can establish a spy base there (Darwin) simply does not stand up to hard-headed scrutiny … these issues when you examine them, melt like butter sitting on a car bonnet on a hot day."

The Chief of the Australian Defence Force, Air Chief Marshal Mark Binskin, told a Senate Estimates hearing that intelligence could be more easily gathered by "sitting on a stool at the fish and chip shop on the wharf".

There are some genuine questions to ask about what we regard as "critical infrastructure", what risks we are seeking to manage and what asset ownership or leasing really means and how this affects the ability to do harm — if indeed harm is intended.

None of this is to suggest that we should play down the priority of security in our national interest. There is nothing wrong with saying no to an investment that doesn't deliver a good outcome for Australia. But this needs to be done in the cold light of day and based on fact, not populist opinion or political agendas.

And it is essential that economic decisions also factor prominently in our strategic deliberations around foreign investment. It's up to all of us, including Australia's business community, to explain these choices to the community.

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