High time for proper debate on Chinese investment

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It is time Australia had a grown-up debate about what it really wants from Asian, and particularly Chinese, investment.

The recent decision by Thai sugar producer Mitr Phol to withdraw $360 million of planned investment in Queensland is the latest in a string of foreign deals to have fallen over or attracted hostile public scrutiny.

The granting of a lease to Chinese-owned Landbridge to operate the Port of Darwin, the proposed sale of S. Kidman & Co cattle properties, the NSW electricity privatisation and now the proposed sale of dairy producer Van Diemen's Land Company have spurred a slew of poorly informed and inflammatory commentary. According to the Department of Foreign Affairs and Trade, the total stock of foreign direct investment in Australia stands at $688 billion. The top sources of that investment are the US at $163.4bn, Britain at $87.4bn, Japan at $66.1bn and The Netherlands at $38.4bn.

China comes in at fifth on the list, accounting for $30bn or just 4.4 per cent. Chinese investment has grown rapidly from a standing start a decade ago but the total invested amount still needs to be kept in perspective.

The Foreign Investment Review Board is often blamed for unpopular decisions but the fundamental problem does not lie with FIRB. The problem is with our political discourse. This is too often grounded in a fundamental misunderstanding of the Chinese system of business and governance — something we should all be deeply concerned about given the growing influence China has on Australia's economy. There are also serious misconceptions about what ownership of an asset actually means.

A popular line of criticism against Chinese investment is that it is too closely tied to the ruling Communist Party. But the reality is that every senior business person in China is closely connected to the party. Having party connections is integral to the way Chinese society functions.

Saying you don't want Chinese investment if it's connected to the Communist Party is the same as saying you don't want Chinese investment at all.

Yet we do want it. Australia has been a favoured investment destination for China, attracting about 9 per cent of its total outbound investment. But with the mining investment boom over, we cannot expect this level of capital inflow simply to continue without broadening the areas in which we encourage Chinese investment, or if each proposal is accompanied by a public spat.

Capital, ultimately, goes where it is wanted. And despite reassurances behind closed doors, Chinese investors must be wondering how welcome they really are.

Because our savings are not sufficient to fund our investment needs, Australia is a net importer of capital. This inflow of capital supports investment and brings competition that drives innovation and, in turn, productivity, jobs and growth. The alternative is to boost savings by spending less and making difficult choices between funding investment or making money available for welfare, health and education.

For the past century most of our capital has come from Europe and the US because historically that's where the net surplus of savings has been. But this is no longer the case. Australia inevitably will come to rely more and more on Asia for our economic prosperity. This is not new. But we still, as a nation, appear to be struggling with the reality of it.

It's high time we had a proper debate about what we want from Asian, and particularly Chinese, investment, exactly where we want it, and what the rules are that we use to assess proposals. Asian investors, like all providers of capital, desire clarity, consistency and transparency in decision-making.

It is a big ask to expect government ministers, members of parliament, security establishment experts and business leaders to discuss publicly why investment from China should or should not cause anxiety. But the challenge must be met. Even the delicate question of how much is too much should be explored. Of Australia's 70 ports, how many should be permitted to be leased or owned by a Chinese entity?

Importantly, we need to pick apart the notion that owning (or leasing) an asset automatically makes it easier for a government or entity with ill intent to do harm. David Irvine, the former head of ASIO and recently appointed FIRB board member, said publicly that China already had the cyber capability to shut our electricity grid.

Of course there will be asset classes we want to exclude. But let's call a spade a spade and agree what these exclusions are and put the rules in place rather than revisiting the same emotional outcry each time a deal is announced.

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