Chinese investment in Australian critical infrastructure: much ado about not much?[1]

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Abstract

Defence hawks have cited the Northern Territory Government's decision to lease Port of Darwin to Shandong Landbridge Group in 2015 as reason to call for changes in Australia's foreign investment approvals regime that would restrict Chinese investment in critical infrastructure assets on security grounds. They have also claimed the support of public opinion. This paper begins by reviewing the security debate around the Darwin Port sale and highlights that the alleged risks raised by critics of the deal have been downplayed by academic experts and leading defence and intelligence figures. The preferences of the Australian public over foreign investment in such assets are then considered. An analysis of new survey data shows that the most important determinant of preferences is the share of foreign ownership that an investment would bring. Country-of-origin was also significant with investment from China being least preferred. However, there was no significant difference in preferences between investment from China and India, and the preference against investment from China could readily be offset by other investment attributes. In short, claims of security risks and strong public opposition to Chinese investment look to have been a case of much ado about not much. Accordingly, calls for changes in the approvals regime that would restrict Chinese investment appear to fall short.

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1. Introduction

On March 9 2016, *The Australian* newspaper released the results of "secret polling" conducted by the US State Department on a decision by the Northern Territory Government on October 12 2015 to lease the management and operation of Port of Darwin to a Chinese company, Shandong Landbridge Group, for a 99 year period (Aikman, 2016). It was reported that 43 percent of the Australian public thought the deal carried 'a lot of risk' in terms of national security, compared with 46 percent who felt it had 'some risk' and 11 percent who were of the view there was 'no risk' at all. A reported State Department analysis of the poll concluded that the results would:

"…likely force Australians to rethink their choices of when to put national security ahead of economic gain" (Aikman, 2016).

The lead quote in *The Australian* report came from Peter Jennings, Executive Director of the Australian Strategic Policy Institute (ASPI), who has been a vocal critic of the deal since it was announced. On the decision of the US State Department to conduct the poll and on the results, Jennings said:

"They want to test the impact of the NT [Northern Territory] government decision in terms of how the Australian public would react to it…If the numbers are right, clearly people are concerned"(Aikman, 2016).

On the same day *The Australian* ran an opinion piece by Geoff Wade, Visiting Fellow at the Crawford School of Public Policy at the Australian National University, which was critical of Chinese investment in Australia based on security grounds (Wade, 2016). Along with Jennings, Wade has been one of the most outspoken critics of the Darwin Port sale and has said that it should be revoked (Murdoch and Aitkin, 2016). Jennings and Wade have also cited the Darwin Port sale as reason to call for changes in Australia's foreign investment approvals regime that would restrict Chinese investment in critical infrastructure assets on the grounds that it presents security risks and is contrary to the national interest (Barnes and Jennings, 2015; Jennings, et al., 2016; Wade, 2016).

Commenting on the US State Department's decision to conduct the poll and then apparently leak the results, along with coverage of the matter in *The Australian*, James Brown, Adjunct Associate Professor at the United States Studies Centre at the University of Sydney, surmised that:

"The story was choreographed for maximum impact. The question is why?" (Brown, 2016)

Leading Australian officials appeared unphased when responding to the claims. Dennis Richardson, Secretary of the Department of Defence (DoD), remarked that his department's advice on matters relating to the port of Darwin was based on a professional assessment of the issues at hand and not on opinion polling (Aikman, 2016). His department had earlier concluded the deal posed no national security risk (Senate, 2015). Prime Minister Malcolm Turnbull added that:

“The security issues relating to that port sale were thoroughly investigated in Australia’s national interest by the relevant security agencies. That’s how we determine security issues; not, with all due respect, by text message opinion polls” (Murdoch and Aikman, 2016).

Despite these comments, the Port of Darwin episode demonstrated that there are defence hawks who would like to claim public support for their desire to see less Chinese investment in Australian critical infrastructure assets. Why they might claim public support is, in fact, quite simple to understand. In Australia’s foreign investment approvals regime it is the Treasurer, a popularly elected official, who is responsible for weighing up the economic, security and other considerations associated with a given foreign investment proposal and deciding whether it is in the “national interest”, albeit after taking advice from the Foreign Investment Review Board (FIRB). This means that there is a long history in Australia of interest groups lobbying the government, including via the media, on specific foreign investment proposals and on the details of the approvals regime itself (Uren, 2015). The regime has proven amenable to change. In 2009 new rules were introduced that made it mandatory for all foreign, government-owned companies wanting to invest in Australia to gain FIRB approval. In 2015 the dollar threshold for foreign privately-owned companies wanting to invest in the agricultural sector needing FIRB approval was also reduced from $252 million to $15 million in the case of agricultural land and $55 million for an agribusiness.

While the Darwin port lease was not revoked, shortly after some of the more alarmist allegations about the Chinese buyer were aired (e.g., Wade, 2015a) Treasurer Scott Morrison felt compelled to announce on November 13 2015 that:

“The Government is acutely aware of the sensitivities regarding foreign investment in strategic national assets and critical infrastructure. The Government is assessing options to strengthen the Federal Government's ability to protect the national interest in these cases and we will have more to say on this issue in the future” (Wroe, 2015).

On March 18 2016 Morrison subsequently declared that all sales of critical infrastructure assets by state and territory governments, such as the upcoming sale of Port of Melbourne, would now be scrutinised by the FIRB. Previously the FIRB only looked at such sales if they were being bought by a foreign company that was government-owned (Morrison, 2016).

On November 25 2015 a motion passed the Commonwealth Senate to establish a Senate inquiry into the approvals process of foreign investment in Australian assets of strategic or national significance, and to consider "…whether there ought to be any legislative or regulatory changes to that framework to ensure Australia's national interest is being adequately being protected"(Senate, 2015). The inquiry is due to report on April 8 2016. In announcing the inquiry, Senator Nick Xenophon, who co-sponsored the motion, said:

"There's a real sense of urgency with this inquiry, given concerns that our current foreign investment framework is full of loop holes (particularly in relation to state and territory assets) and a lack of clarity of the national interest test and how it applies. This inquiry will give a timely opportunity to deal with these issues…In particular, the Port of Darwin deal deserves special scrutiny, given concerns expressed by our key strategic think tank, the Australian Strategic Policy Institute (ASPI) over the deal"(Xenophon, 2015).

In short, those who would like to see less Chinese investment have every reason to claim that their views are shared by the Australian public and this makes understanding public preferences all the more crucial. Contrary to the impression given by the story in *The Australian*, polls such as those conducted by the US State Department do not tell us very much. It was already clear from the annual Lowy Poll that only a minority of Australians are 'in favour' of foreign investment in ports and airports (37 percent), compared with a majority in favour in manufacturing (58 percent) and finance (55 percent) (Lowy Poll, 2014). Based on this, one might conjecture that many Australians would see at least "some risk" to national security from *any* foreign investment in a maritime port. In determining how concerned Australians are of the risk posed by Chinese investment, it is necessary to put this investment in a comparative context. To what extent are Australians concerned by Chinese investment compared with investment from other countries? To what extent are Australians concerned by investment from China compared with *other* attributes of investment, such as the share of foreign ownership that an investment would bring, or whether an investment is coming from a foreign company that is government or privately-owned?

Section 2 of this paper begins by reviewing the security debate surrounding the Darwin Port sale. This highlights that the alleged risks raised by critics of the deal have been downplayed by academic experts and leading defence and intelligence figures. Section 3 outlines the methodology and data used in this study to examine preferences of the Australian public over foreign investment in maritime ports. Section 4 presents the findings, noting that of greatest concern to the Australian public is the foreign ownership share that an investment would bring. Country-of-origin is also a significant determinant of preferences with investment from China being the least preferred compared with that from the US, Japan, the United Arab Emirates (UAE) and India. However, there was no statistically significant difference in preferences between investment from China and India, and the preference against investment from China could be readily offset by other investment attributes. Section 5 concludes.

2. Port of Darwin and the Security Debate

Leading the charge against the Darwin Port deal has been the Australian Strategic Policy Institute (ASPI). Executive Director Peter Jennings has been the most prominent ASPI voice with Deputy Director, Anthony Bergin and Senior Analyst, Paul Barnes also featuring in the debate (e.g., Barnes and Jennings, 2015; Jennings, Bergin and Barnes, 2016). Aside from those directly employed by ASPI, other prominent critics include Geoff Wade and Neil James, Executive Director of the Australia Defence Association. Both have had opinion pieces published on the ASPI blog, *The Strategist* (Wade, 2015a; James, 2015), as well as in other outlets (e.g., Wade, 2015b).

The notion that the sale of the lease over Darwin Port to a Chinese company is not merely a straightforward commercial transaction is central to their complaints. Instead these critics view the deal as a calculated move on the part of the Chinese state to advance strategic ambitions in the region, including a desire to undercut the United States' current hegemony. Shortly after the Darwin Port deal was announced Wade (2015b) stated:

"Infrastructural investment and control over that infrastructure are key in extending Chinese power across the region… Australia is the natural extension of this agenda and Darwin is intended to be a crucial link in China's new 21st Century Maritime Silk Road. The Darwin deal will provide Chinese shipping and naval vessels with facilitated access to Australia, the Indian Ocean and the South Pacific, as well as to Indonesia and PNG over the coming century. Chinese control of the port of Darwin marks just the beginning - the so-called "dragonhead" - of PRC economic domination of northern Australia."

Appearing at a public hearing for the Senate inquiry into the foreign investment review framework, Jennings was asked by Senator Stephen Conroy to extrapolate his concerns about the link between Darwin Port and China's greater strategic and military goals. Jennings replied that China:

"…wants to be seen to have significant military and strategic sway in the Asia-Pacific. It is taking all of the steps that would be necessary to implement those objectives" (Senate, 2015).

“I see the Darwin port as being a part of that broader Chinese push to secure infrastructure for itself and, behind the infrastructure, to secure long-term access to vital raw materials for the Chinese economy”(Senate, 2015).

Wade (2015a) added that:

“The Darwin deal is thus, among other things, a key element in the PRC’s efforts to weaken the Australian alliance with the US.”

Jennings posited a similar view telling the Senate inquiry that:

“I think there is a concern that needs to be addressed about the impact on alliance cooperation with the United States”(Senate, 2015).

Jennings argued that as allies Australia and the US should be in close cooperation and that the United States Government should have been notified about a Chinese investor in the Port of Darwin. He further explained that by inviting Chinese ownership of facilities which may also be used by the United States, US cooperation might be deterred or even inhibited by the Chinese presence (Senate, 2015).

To give plausibility to the notion that Landbridge’s acquisition of the Darwin Port lease is part of the strategic ambitions of the Chinese state, critics like Jennings and Wade have made two connections. The first is that Chinese companies such as Landbridge, which describe themselves as being privately-owned (McDonald, Doran and Greene, 2015), are in fact intimately connected to the Chinese state. The second is that a Chinese company leasing Darwin Port would give the Chinese state access to intelligence and other leverage useful to advancing its strategic ambitions that it could not obtain more easily in other ways.

With respect to the first of these links, Wade (2015a) wrote:

“Landbridge Chairman Ye Cheng is intimately tied to the PRC party-state as a member of the 12th National CPPCC Committee, a PRC united front body, in which he represents the All China Federation of Taiwan Compatriots … [Landbridge] is guided by a powerful branch of the Communist Party of China. This 200-member body takes its orders—through a dendritic structure—from the party central committee and ensures that the company acts in accordance with the party-state’s interests and strategies. The Secretary of Landbridge’s CPC branch committee is He Zhaoqing, an ex-PLA officer, who has been deputy political commissar of the Public Security office at Shijiu Port, and head of the party committee office of Rizhao Port … Landbridge established a people’s armed militia within the company with He Zhaoqing being appointed to lead it.”

Wade (2015b) argued that these sorts of connections in Chinese companies mean that:

"…business decisions are intimately tied to the interests of the party-state and in many cases have immediate or long-term strategic imperatives."

On the purported links between Landbridge and the People's Liberation Army (PLA), Jennings commented:

"Links of this type are utterly typical for large Chinese firms. I think this point just isn't understood here, where people imagine their businesses are like ours. It's these connections that make me worried about the susceptibility of Chinese firms to be pressured to assist the PLA and Chinese intelligence services." (Nicholson, 2015a)

Regarding Chinese investment more generally in Australia an ASPI submission to the Senate inquiry stated:

"We can't afford to be naive about the relationship between business, Party and State in China. It would therefore be appropriate for the new FIRB system to develop a classified paper for Cabinet consideration on how best to manage Chinese foreign direct investment, particularly as it relates to critical infrastructure" (ASPI, 2016).

In an opinion piece advocating for changes in Australia's foreign investment regime due to the alleged security risks posed by Chinese investment, Jennings, Bergin and Barnes (2016) proffered:

"There is no clear policy view on how to deal with Chinese sourced foreign investment, even though it is clear that the Chinese state — in effect the Communist Party — has the deepest connections with state-owned enterprises as well as some so-called private businesses."

With respect to how a Chinese company buying the lease over Darwin Port could be useful for the Chinese state to advance its strategic interests, Barnes and Jennings (2015) contended:

"In a worst case scenario, operational control of the Port of Darwin could facilitate intelligence collection of the tactics, techniques and procedures used by Australian Defence Force and US Marine elements during their North Australian deployments."

Jennings then offered the following to the Senate Inquiry:

"… there is a deep Chinese interest—driving interest—in understanding how Western military forces operate, right down to the fine details associated with how a ship operates, how it is loaded and unloaded, the types of signals a ship will emit through a variety of sensors and systems, and the noise it makes as it moves through the water with its propellers. These are all points of information that are of deep interest to China and something they very actively seek to gather, in a range of means, overt and covert. It is worth noting that even today the Chinese military is remarkably isolated in its connections with other military forces, so it uses every opportunity it can get to look for information that helps it better understand how competent military organisations operate and run. I do see this as an interest China would have—understanding how the Australian Navy operates and how the Marine Corps or any other navy coming to the port of Darwin on visits or for exercises operates"(Senate, 2015).

Yet far from being the consensus position in Australian security circles, all of the above assertions have been downplayed by academic experts and leading defence and intelligence figures. On the notion that a Chinese company acquiring the lease to Darwin Port might be part of a greater Chinese strategy in the region, Secretary Richardson told the Senate inquiry:

"This is alarmist nonsense. It is without foundation in any way. Anyone who knows the ABC knows that it is not in the gift of the operator of a port to invite foreign naval vessels to visit. The visit of foreign naval vessels anywhere around the world requires diplomatic clearance. That power resides within the federal government. Specifically in Australia, it resides with the Department of Defence. It resides with the Minister for Defence or her delegate. So, again, the notion that Landbridge's lease in Darwin somehow or other is part of a broader strategic play by China, and this gives the PLA Navy access to Darwin, is simply absurd. It does not. It is not factually based" (Senate, 2015).

In related commentary, Secretary Richardson added:

"The notion that this is part of what some people refer to as 'the string off pearls' to help fence off a major area of influence in the region is bizarre" (Nicholson, 2015b).

On the matter of the Chinese state having close links to private Chinese firms, the Chinese Communist Party (CCP) had little or no direct representation in the private sector for two and a half decades after the transition to a market economy began in 1978, much to the chagrin of hard-liners within the party. This state of affairs was largely self-inflicted: in 1989 the CCP formally banned the recruitment of private sector entrepreneurs into their ranks. The result proved to be uncomfortable for a party that claimed to represent all elements of Chinese society. It was only in 2002 that the CCP revised its constitution to allow entrepreneurs to join and started to play catch up and extend its reach into private firms (Dickson, 2007).

Landbridge itself has vigorously denied links between its Chairman and the People's Liberation Army (PLA). In a statement to the Senate inquiry, Michael Hughes, Director of Landbridge Infrastructure Australia wrote:

"Mr Ye is not a member of the PLA; he has never been a member of the PLA. It is a private company. He is not a member of the Communist Party. He is a member of the CPPCC … [The CPPCC] is an advisory body to the parliament. I believe it has something over 2,000 delegates. They are drawn from all walks of life. He is there as a representative from Shandong province and one of the small number of representatives from private business. He is there to be, if you like, the voice of private business. That committee is an advisory committee to parliament. I would say it is not unlike committees that exist in Australia and other countries round the world with senior business leaders on it to advise government" (Senate, 2015).

On the alleged links between Landbridge and the Chinese state, including the PLA, Duncan Lewis, Director General of the Australian Security Intelligence Organisation (ASIO), told the Senate inquiry:

"The fact that Landbridge or in fact any other Chinese commercial entity may have connections with the Chinese government or may have individuals on their boards or in their management structures who have been part of the Chinese government is hardly remarkable, and I suspect if you had a look at many Australian firms you would find very much the same kind of thing" (Senate, 2015).

Colin Hawes, Senior Lecturer in the Law Faculty at University of Technology Sydney cautions that the current role played by CCP organisations in private firms operating in China can only be understood against the relevant historical and cultural background. He emphasises that CCP organisations exist in foreign-owned firms operating in China, as well as those that are locally-owned. Yet few are claiming that Shanghai Volkswagen or Wal-Mart China might also be serving as agents of the Chinese state.

"Thus, rather than viewing the ubiquitous presence of the CCP and its affiliated organisations within companies simplistically as a sinister sign of continuing totalitarian government control over business, we should instead realise that a complex symbiosis is occurring involving the inner transformation of both corporations and the CCP into new kinds of organisations" (Hawes, 2007, p.820).

In interpreting what the 2002 changes to the Party Constitution imply about the role of CCP organisations within private firms, Hawes (2007, p.819) explains that:

"…on the one hand, this highly influential Party document appears to advocate the usual kind of Party propaganda work that has been a feature of Chinese State-owned Enterprises ('SOEs') for decades, and to extend this to privately-managed and foreign-invested enterprises. This may be quite disturbing to foreign investors in China. Yet, on the other hand, it strongly emphasises that even in the case of privately-owned enterprises, the role of the CCP is to assist in developing the business, not to stand in antagonistic opposition to the capitalist owner classes. This business-friendly role of the CCP is brought out even more clearly in a Chinese report on the establishment of CCP branches within Wal-Mart China. A Party member in the toy department of one of Wal-Mart's Shenyang stores is quoted as saying: '[o]ur Branch Party Secretary told me that one of the criteria for evaluating Party members' progress is *whether we have helped to increase sales* at the Wal-Mart stores where we work.' We can therefore discern that the Chinese Government is attempting to create a new role for the CCP and its affiliated organisations within business corporations in China, including privately-managed corporations and foreign-invested enterprises… Indeed, in recent years the CCP appears to be consolidating its presence in the non-State-owned sector of the economy. This means that Chinese company CEOs must be prepared to deal with the CCP on a daily basis and loudly trumpet their company's support of Chinese government policies – whether or not this distracts them from running their business. The situation is roughly equivalent to the kind of political lobbying and campaign contributions that large national and international corporations feel obliged to engage in elsewhere in the world. But the difference in China is that the party in power has its branches right inside the company and is directly involved in corporate decision-making. Nevertheless…the CCP of today contrasts greatly with the revolutionary, hard-line Party of the same name controlled by Chairman Mao until 1976."

Given that many private firms operating in China, locally and foreign-owned, will have a CCP organisation within their structure, Linda Jakobson, Visiting Professor at the United States Studies Centre at the University of Sydney, and Andrew Parker, Asia Practice Leader at PwC Australia, remarked in an opinion piece calling for a 'grown up' debate on Chinese investment in Australia that:

"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" (Jakobson and Parker, 2016).

In relation to the description of Landbridge's armed militia by Wade (2015a), Hans Hendrischke, Professor of Chinese Business and Management at the University of Sydney, told the Senate inquiry:

"I was interviewed on the question of the Chinese company Landbridge having links to local militias in their own ports … It was presented as if that was linked to the Chinese military, whereas local militias in port cities and other big infrastructure projects are something that dates back to the civil war, and normally these are elderly people running around with sticks, which does not really constitute a security risk" (Senate, 2016).

Linda Jakobson echoed Professor Hendrischke's sentiment about the benign nature of local militias:

"The Landbridge Group does indeed have a militia unit. So does every large enterprise, university, hospital — virtually every sizeable organisation in China, numbering in the hundreds of thousands … the mission of the armed militia is to provide basic security for the enterprise's facilities in China" (Jakobson, 2015).

Commenting on Jennings' claim that Landbridge's operation of Darwin Port might facilitate spying by the Chinese Government, Secretary Richardson began by telling the Senate inquiry that:

"…we take our responsibilities in respect of foreign investment and our own input into that seriously. We are paid to look at proposals hard-headedly and we are paid to look at them unemotionally and to provide rational advice. In respect of the port of Darwin…any claim that we did not exercise due diligence is based upon ignorance not on fact. This is an issue we looked at very, very carefully" (Senate, 2015).

Specifically on Jennings' spying claims, Secretary Richardson said:

"Mr Jennings mentioned intelligence risks in respect of naval vessels and what they emit. I would like to put on the record that no Australian or American naval vessel that I am aware of enters a commercial port, whether it be New York, Sydney, Shanghai, London or Darwin, without turning off key emitters. The notion that you would enter a commercial port regardless of the operator and leave yourself exposed to possible collection is absurd. When you enter a commercial port, you do not know what other shipping is there. You must assume that there may be people seeking to collect things, and you take the appropriate steps. So I am surprised that that would be given as an example of one of the intelligence risks" (Senate, 2015).

In associated commentary Secretary Richardson stated:

"We and ASIO [Australia Security Intelligence Organisation] have looked very carefully at it from the point of view of espionage and issues of a security nature. We are at one in agreeing that this was not an investment that should be opposed on defence or security grounds" (Nicholson, 2015b).

“The notion that the Chinese can establish a spy base there 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” (Nicholson, 2015b).

This was corroborated by the Chief of the Australian Defence Force, Mark Binskin who said that intelligence could be more easily gathered on the Darwin Port by:

“…sitting on a stool at the fish and chip shop on the wharf” (Nicholson, 2015b).

This assessment has been supported by Professor Hugh White of the Australian National University who was of the view that:

“…operating the port would give China few chances to collect intelligence that they could not collect in other ways” (Clark, 2015).

On the claims that a Chinese company investing in Darwin might facilitate spying and undermine the Australia-US alliance relationship, James Brown said:

“I can’t rule out that this is a possibility, though paying $500 million would seem an expensive option to take out for intelligence collection and local sabotage. And it’s hard to see how Landbridge might succeed in coercing the Maritime Union of Australia when neither the Australian or American governments have ever been able to. I have probed various American interlocutors on their concerns about Landbridge and am yet to see anything substantial that would back up these suspicions” (Brown, 2016).

In summary, the view that Chinese investment in Port of Darwin poses a security risk that represents a threat to the national interest is far from the consensus position in Australian security circles. Given that the Port of Darwin sale has been cited by defence hawks as reason to call for changes in Australia’s foreign investment approvals regime that would restrict Chinese investment in critical infrastructure assets, the above review suggests that their calls ought to be treated with considerable caution.

3. Methodology

We now turn to the question of whether the Australian public are particularly concerned by Chinese investment in Australian critical infrastructure assets. To understand the views of the public this paper takes a discrete choice experiment (DCE) approach. Traditional polling techniques ask respondents to consider one attribute of an issue without referring to, or trading these off against, other attributes. For example, the polling conducted by the US State Department asked respondents to nominate the perceived level of national security risk they associated with Chinese investment in Port of Darwin. But this does not tell us whether the Australian public have *particular* concerns about investment from China. A more informative question to ask would be whether the perceived level of risk associated with investment from China is greater or less than investment from another country such as the US or India. Moreover, aside from investor country-of-origin, whether other attributes of the investment are of even more concern to the public needs to be considered, such as the share of foreign ownership that would result, or whether the investment came from a foreign company that is government or privately-owned. A DCE experiment provides a way to disentangle the complex impact that different attributes have on preferences.

Laurenceson, Burke and Wei (2015) used a DCE experiment to shed light on Australian public opinion over foreign investment in agriculture. This paper extends that work to cover critical infrastructure. To provide context for survey respondents, a DCE was designed that explicitly referred to foreign investment in maritime ports. That said, it might reasonably be expected that similar results would hold for public preferences over foreign investment in other critical infrastructure assets such as airports, electricity grids or telecommunications networks.

A DCE works by presenting survey respondents with a hypothetical scenario called a choice set. Each choice set presents several alternatives: say, investment profile A, investment profile B and investment profile C. Respondents are then asked to nominate which option they believe best matches a given criteria; in this instance which investment profile option they most and least prefer. By asking respondents to select the most preferred and the least preferred profiles, a full ranking of the three investment profiles in each choice set can be collected.

The investment alternatives are described by various attributes. In turn, each attribute has two or more levels. For example, one attribute of foreign investment could be country-of-origin. The levels for this attribute could be China, India, Japan, the United Arab Emirates (UAE) and the US.

In this study, we considered eight attributes of foreign investment that might have an impact on public preferences. These attributes and the levels assigned to them were selected based on previous instances of foreign investment in Australian maritime ports (Table 1), as well as media discussion of upcoming sales such as Port of Melbourne and Port of Freemantle.

Attribute 1: Lease length. Four levels were assigned to this attribute: a) 25-year lease; b) 50-year lease; c) 75-year lease and; d) 99-year lease.

Attribute 2: Investment size. Foreign investment alternatives feature a randomly selected lease sale price of between $250 million to $6 billion.

Attribute 3: Country-of-origin. Five levels were chosen for this attribute: a) China; b) India; c) Japan; d) UAE; and e) US.

Attribute 4: Ownership type. Two levels were nominated. The foreign company investing is: a) government-owned; or b) privately-owned.

Attribute 5: Foreign ownership share. Foreign investment alternatives feature a randomly selected foreign ownership share of a lease of between 25 percent and 100 percent.

Attribute 6: **Management control**. Two levels were nominated. After the foreign investment, the port will be managed with Australian citizens in a: a) majority of senior management positions; or b) minority of senior management positions.

Attribute 7: **Capacity**. Two levels were nominated. After the foreign investment the port will be able to: a) expand its capacity to process goods; or b) maintain its current capacity to process goods.

Attribute 8: Fund use. Two levels were nominated. After the foreign investment, the State Government will use the funds raised to: a) build new infrastructure; or b) repay outstanding government debts.

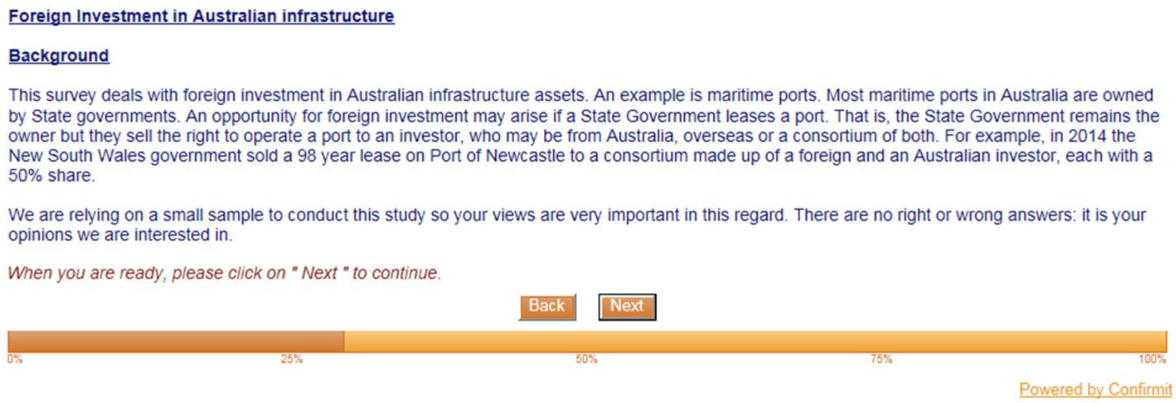
Table 1. Foreign investment in Australian maritime ports

Port Name	Foreign investor	Australian partner(s)	Details of lease
Port of Darwin	Landbridge Group (China) (80%)	Northern Territory Government (20%)	2015, 99 years, $506 million
Port of Newcastle	China Merchants Group (China) (50%)	Gardior's The Infrastructure Fund / Hastings (50%)	2014, 98 years, $1.75 billion
Port Botany, Port Kembla	Tawreed Investments (United Arab Emirates) (20%)	IFM Investors, Australian Super, Q Super (80%)	2013, 99 years, Botany: $4.31 billion, Kembla: $760 million
Abbot Point Port	Mundra Port Pty Ltd (India) (100%)		2011, 99 years, $1.8 billion
Port of Brisbane	Tawreed Investments (United Arab Emirates) (19%), Caisse de dépôt et placement du Québec (Canada) (27%)	IFM Investors Queensland Investment Corporation (54%)	2010, 99 years, $2.3 billion

Source – news sources

Survey respondents were presented with the background information shown in Figure 1 prior to completing the DCE task. A screenshot of the DCE task is presented in Figure 2.

Figure 1. DCE background



Foreign Investment in Australian infrastructure

Background

This survey deals with foreign investment in Australian infrastructure assets. An example is maritime ports. Most maritime ports in Australia are owned by State governments. An opportunity for foreign investment may arise if a State Government leases a port. That is, the State Government remains the owner but they sell the right to operate a port to an investor, who may be from Australia, overseas or a consortium of both. For example, in 2014 the New South Wales government sold a 98 year lease on Port of Newcastle to a consortium made up of a foreign and an Australian investor, each with a 50% share.

We are relying on a small sample to conduct this study so your views are very important in this regard. There are no right or wrong answers: it is your opinions we are interested in.

When you are ready, please click on " Next " to continue.

Back Next

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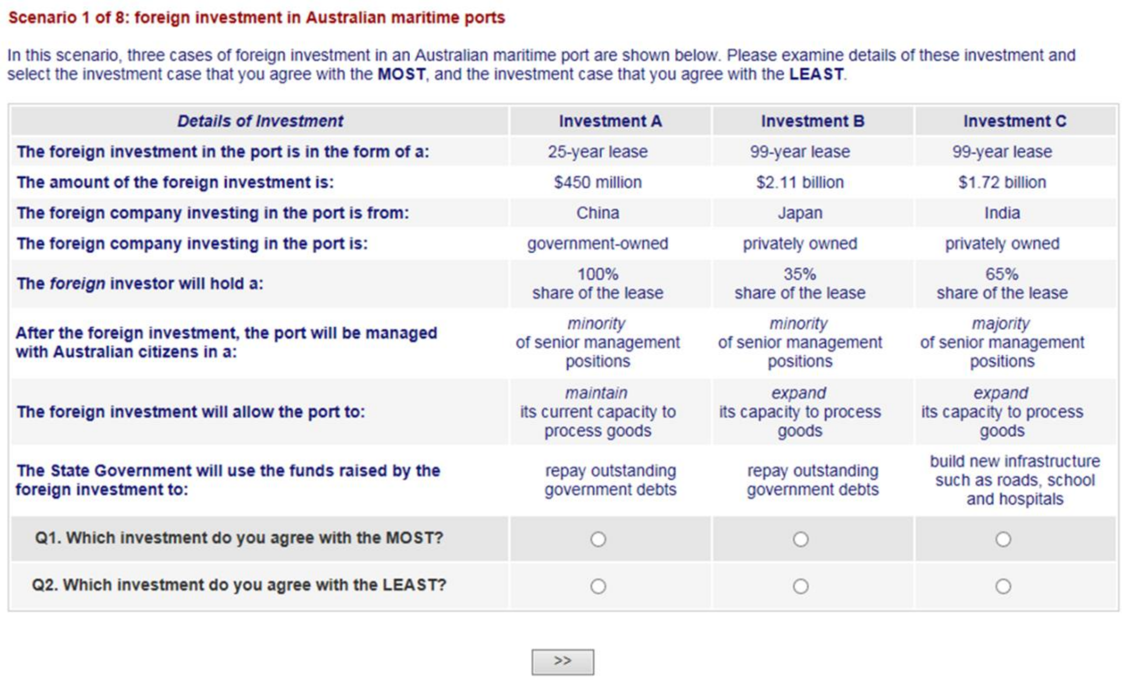
Figure 2. Screenshot of the DCE experiment



Scenario 1 of 8: foreign investment in Australian maritime ports

In this scenario, three cases of foreign investment in an Australian maritime port are shown below. Please examine details of these investment and select the investment case that you agree with the **MOST**, and the investment case that you agree with the **LEAST**.

Details of Investment	Investment A	Investment B	Investment C
The foreign investment in the port is in the form of a:	25-year lease	99-year lease	99-year lease
The amount of the foreign investment is:	$450 million	$2.11 billion	$1.72 billion
The foreign company investing in the port is from:	China	Japan	India
The foreign company investing in the port is:	government-owned	privately owned	privately owned
The *foreign* investor will hold a:	100% share of the lease	35% share of the lease	65% share of the lease
After the foreign investment, the port will be managed with Australian citizens in a:	*minority* of senior management positions	*minority* of senior management positions	*majority* of senior management positions
The foreign investment will allow the port to:	*maintain* its current capacity to process goods	*expand* its capacity to process goods	*expand* its capacity to process goods
The State Government will use the funds raised by the foreign investment to:	repay outstanding government debts	repay outstanding government debts	build new infrastructure such as roads, school and hospitals
Q1. Which investment do you agree with the MOST?	○	○	○
Q2. Which investment do you agree with the LEAST?	○	○	○

>>

The levels for attributes in each choice set presented to respondents were determined using a randomised design in order to detect potential higher order effects. For example, in addition to main effects, one higher order interaction that might be of interest is China country-of-origin and government-owned ownership type. That is, the Australian public may display a particular sensitivity to a foreign investment proposal if it is from a Chinese, government-owned company. However, this interaction term proved statistically insignificant, as did most other interactions. Three models were estimated based on the most preferred investment profile, the least preferred investment profile and an aggregation of the two sets of responses (i.e., a combined model). Differences between the model results were minimal and hence for brevity and parsimony, what follows is a presentation of the combined, main effects model.

4. Data

The respondent sample was drawn from the Australian panel of a global online data panel company proportional to key demographic statistics in census data from the Australian Bureau of Statistics (ABS) (Table 2). All respondents were eligible to vote in the next Federal election. In total, data were collected from 1002 respondents and each respondent was presented with eight DCE tasks. This means that model estimation was conducted on the basis of preferences displayed with respect to 1002 × 8 = 8016 foreign investment choice sets.

Table 2. Sample descriptive statistics

Gender		**Metro/Rural**	
Male	48.9%	Capital city	55.0%
Female	51.1%	Large coastal city/town	15.2%
		Large country city/town	8.0%
Age		Small coastal city/town	6.8%
up to 24	11.9%	Small country city/town	12.4%
25-29	9.6%	Other	2.7%
30-34	7.3%		
35-39	10.5%	**Work status**	
40-44	13.5%	Full-time	39.6%
45-49	11.3%	Part-time	22.6%
50-54	11.4%	Unemployed	7.7%
55-59	9.9%	Not in labour force (i.e. students, retired)	30.1%
60-64	6.7%		
65-69	3.2%	**Education**	
70+	4.9%	Bachelor or higher	33.0%
		University/TAFE diploma or certificate	41.0%
Location		High school or lower	25.9%
NSW	36.9%		
VIC	24.2%	**Birthplace**	
QLD	19.4%	Australia	84.5%
SA	6.3%	Other	15.5%
WA	9.9%		
ACT	1.2%	**Language at home**	
TAS	1.4%	English only	86.5%
NT	0.8%	Other languages	13.0%

5. Results

The model estimates are presented in Table 3. In terms of statistical significance, the most important attribute of foreign investment determining public preferences is the **foreign ownership share**. The coefficient is negative. This implies that, everything else held constant (i.e., the lease length is the same, the investment is from the same country-of-origin, and so on), as the foreign ownership share increases, the public prefers the investment less. This finding aligns with earlier traditional polling such as that performed by the Lowy Institute, which suggests that the public are lukewarm in their attitudes towards foreign investment, particularly in ports. It is also notable that Laurenceson, Burke and Wei (2015) found that the foreign ownership share was the most important determinant of public preferences over foreign investment in agriculture. Moreover, the estimated coefficient to the foreign investment ownership share in Table 3 is almost exactly the same as the corresponding coefficient reported in Laurenceson, Burke and Wei (2015). Thus, the finding appears robust across different respondent samples and economic sectors.

Following the foreign ownership share in terms of statistical significance is the attribute of **lease length**. The coefficient is again negative, suggesting that as the lease period held by a foreign investor lengthens, the public prefers the investment less.

Next is the investor **country-of-origin**. The estimated coefficients suggest that investment from the US is most preferred, followed by that from Japan, the UAE and India, while the least preferred is investment from China. There is a statistically significant difference between the coefficient to China and those to US, Japan and the UAE, but not India. In other words, there is no statistical basis to conclude that the public prefers investment from India more than they do from China. What investment from China and India have in common is not that they originate from countries with similar political systems, values or strategic ambitions. Rather, they are both large countries in terms of population and economic size and are newcomers to Australia as sources of foreign investment. It is notable that while investment from the US and Japan may now be preferred, there was sharp resistance in Australia to investment from the US in the 1950s and 1960s and Japanese investment in the 1970s and 1980s (Uren, 2015).

In gauging the strength of the preference against Chinese and Indian investment, it is also useful to read the coefficient to country-of-origin in conjunction with those of other investment attributes. This facilitates an interpretation of how differences in one attribute might be offset by another. For example, the model results suggest that, all other factors constant, the public would equally prefer an investment from China that resulted in 65 percent foreign ownership, compared with one from the US that resulted in 100 percent foreign ownership.[3] Alternatively, it can be said that compared with an investment from Japan that resulted in 100 percent foreign ownership, the public would equally prefer an investment from China that resulted in 76 percent foreign ownership.

Differences in preferences with respect to country-of-origin can also be offset by other attributes such as lease length. In this case, it can be said that the public would be indifferent between an investment from the US that involved a length lease of 99 years and one from China with a lease length of 45 years. Alternatively, the public would be indifferent between an investment from Japan that involved a 99 year lease and one from China with a lease length of 62 years.

Further, differences in preferences with respect to country-of-origin can be offset by multiple attributes. For example, it can also be said that the public would be indifferent to an investment from the US that resulted in 100 percent foreign ownership and involved a lease length of 99 years to one from China that resulted in a foreign ownership share of 80 percent and a lease length of 75 years. What all of these comparisons show is that to the extent that there is a significant preference against investment from China, it can readily be offset by other investment attributes.

All other investment attributes are also statistically significant, although of a lesser order than those discussed above. In summary, the coefficient to:

- **investment size** is positive, suggesting that the public prefers an investment more as its dollar value increases.
- **fund uses** is positive, suggesting that the public prefers an investment more if the funds raised by the State Government from foreign investment are used to build new infrastructure rather than repay outstanding government debt.
- **management control** is positive, suggesting that the public prefers an investment more if Australian citizens occupy a major rather than a minority of senior management positions.
- **capacity** is positive, suggesting that the public prefer an investment more if it expands the capacity of the port to process goods rather than maintains existing capacity.
- **ownership type** is positive, suggesting that the public prefers an investment more if it is from a foreign company that is government-owned rather than privately-owned.

[3] The relevant calculation is $e^{100\times-0.017+0.369} = e^{65\times-0.017-0.229}$

Table 3. DCE results

	Coefficients	Std. Err.	t-stats	
Foreign ownership share (in %)	-0.017	0.000	-36.87	***
Lease length (in years)	-0.011	0.000	-28.68	***
Country-of-origin				
USA	0.369	0.021	17.72	***
India	-0.188	0.020	-9.22	***
China	-0.229	0.020	-11.21	***
UAE	-0.135	0.020	-6.61	***
Japan	0.183	0.020	8.96	***
Investment size (in billion)	0.099	0.006	16.05	***
Fund use				
Build new infrastructure	0.266	0.021	12.94	***
Repay debt	0.000			
Management Control				
Majority Australian	0.220	0.020	10.76	***
Minority Australian	0.000			
Capacity				
Expand capacity	0.139	0.020	6.81	***
Maintain capacity	0.000			
Ownership type				
Government-owned	0.074	0.020	3.64	***
Privately-owned	0.000			
* significant at 10%, ** significant at 5%, and *** significant at 1%				

6. Conclusion

Defence hawks have cited the Northern Territory Government's decision to lease Port of Darwin to Shandong Landbridge Group in 2015 as reason to call for changes in Australia's foreign investment approvals regime that would restrict Chinese investment in critical infrastructure assets on security grounds. They have also been keen to claim the support of public opinion. However, a review of the security debate shows that the alleged risks raised by critics of the Darwin Port deal have been downplayed by academic experts and leading defence and intelligence figures and are far from representing the consensus position in Australian security circles. In terms of the public's preferences over foreign investment in critical infrastructure assets, the empirical analysis conducted in this paper found that the main concern is the share of foreign ownership that an investment would bring. This was followed by concerns around lease length. Country-of-origin was the third most significant determinant of preferences with investment from China found to be the least preferred. That said, there was no statistically significant difference in preferences between investment from China and India, and the preference against investment from China and India could readily be offset by other investment attributes. To sum up, claims of security risks and strong public opposition to Chinese investment in critical infrastructure assets such as the Port of Darwin look to have been a case of much ado about not much. Accordingly, unless new and relevant information is presented, calls for changes in the foreign investment approvals regime that would restrict Chinese investment in such assets appear to fall short.

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