

Australian government faces “test” over Chinese bid for electricity grid

Mike Head
10 August 2016

A debate has broken out in Australia’s political and media establishment over whether a state-owned Chinese company, State Grid Corp, should be barred from buying a 99-year lease to operate Ausgrid, which is being privatised and provides Sydney’s electricity.

Competing with State Grid, Cheung Kong Infrastructure, the largest publicly-listed infrastructure company in Hong Kong, is also waiting for government clearance to purchase the \$10 billion lease for 50.4 percent of Ausgrid.

A looming decision by Treasurer Scott Morrison on the bids under foreign investment laws is being described in the media as the first major foreign policy test for Prime Minister Malcolm Turnbull’s Liberal-National government since it barely scraped back into office in the July 2 federal election.

“This is not an easy decision,” Morrison said this week. “National security out ranks everything.” His comment, ranking geo-strategic and military-intelligence concerns over economic interests, reflects mounting pressure from the US for the Turnbull government to line up unequivocally behind Washington’s plans for a military confrontation with China.

Former Prime Minister Tony Abbott, whom Turnbull ousted last September, joined the fray yesterday, saying he would not like to see Australia “cede control” of the electricity network to a foreign company. The intervention by Abbott, who publicly aligned himself closely with Washington, underscores the ongoing rifts within Turnbull’s shaky government.

Among the headlines in the Australia media this week have been unsubstantiated allegations by anonymous “senior government officials” that “Chinese spies” have been caught by the intelligence services conducting “brazen” espionage in Australia over the

past year.

This agitation underscores the underlying dilemma for Australia’s ruling elite because China is its largest export market and an increasing source of investment. Moreover, Turnbull’s government has staked its future on delivering “jobs and growth” via “agile” engagement with Chinese and other Asian profit-making opportunities.

Many of the figures calling for State Grid to be blocked are openly framing the issue in the context of a possible conflict with China. One of the most prominent is Peter Jennings, executive director of the Australian Strategic Policy Institute (ASPI), a government-funded think tank.

Jennings said a Chinese-controlled Ausgrid could become vulnerable to being shut down by cyber-attack. “You have to be concerned in a future world where we might find ourselves in a much more hostile relationship with China: Could they do us damage domestically by hacking into our electricity grid in Sydney?” Jennings told the Australian Broadcasting Corporation.

Jennings’ role is significant because he was also conspicuous in last year’s controversy over the leasing of the commercial port of Darwin to the Chinese company Landbridge. That agreement provoked barely concealed hostility from Washington. President Barack Obama reportedly told Turnbull to “let us know next time” during a meeting in Manila last November. Darwin is the focus of a major US military build-up in northern Australia as part of the broader “pivot to Asia” aimed at confronting China.

In an opinion piece published by the *Australian* last weekend, Jennings declared: “Under the increasingly authoritarian Xi Jinping, China is becoming more assertive. By ignoring international law Beijing has

effectively taken over the South China Sea—an area close to the size of the Mediterranean—which is vital to Australian trade.”

In reality, it is the US that has moved aggressively against China, with plans to deploy 60 percent of its navy and air force to Asia by 2020, and line up countries throughout the region against Beijing. As part of this drive, Washington has stoked longstanding territorial disputes in the South China Sea, and orchestrated the recent Philippines challenge to Chinese claims in an international arbitration court whose jurisdiction Beijing did not recognise.

Jennings reported concerns “held at the most senior levels of American government” about cyber attacks on US electricity utilities. He cited a policy statement issued in July by the US Joint Chiefs of Staff, warning that “the vulnerability of cyber enabled systems presents an assailable flank which competitors are likely to probe, infiltrate and potentially attack.”

State Grid already part-owns electricity or gas networks in South Australia, Victoria, Queensland and the Australian Capital Territory. It was also cleared by the federal government’s Foreign Investment Review Board to bid last year for Transgrid, a New South Wales (NSW) electricity distributor. But that offer was ultimately rejected by the NSW state government, which sold the lease to Canadian interests after the Darwin port controversy erupted.

On the other side of the Ausgrid debate are figures, including former Australian Foreign Minister Bob Carr, warning of the risk of economic damage, including possible retaliation by China. Carr, who currently heads the Australia-China Relations Institute at University of Technology, Sydney (UTS), said if the Ausgrid bids were rebuffed, it would be a “colossal blow to the NSW budget, to infrastructure spend, and to the state’s economy.”

In an *Australian Financial Review* opinion piece, James Laurenceson, the deputy director of the UTS institute, said Australia badly needed Chinese investment to “fill domestic funding shortfalls” produced by declining foreign investment. “In 2015 alone, British investors pulled a massive \$70.2 billion more out of Australia than they put in,” he warned.

Chinese investment in Australia remains comparatively small, accounting for \$46.6 billion in 2014–15, or less than 2 percent of incoming foreign

investment, compared to \$860.3 billion, or 28 percent, from the US. But bids by China-based companies have risen sharply in recent years—up by 68 percent in 2014–15.

Any halt to that flow could aggravate concerns on global financial markets, where the credit ratings agencies have threatened to cut the country’s AAA borrowing rating unless severe cuts are made to government spending. A Moody’s spokesman told the *Australian* the ratings agency was considering the effect on NSW’s rating of delaying the Ausgrid transaction.

Chinese government-linked academics have also warned of adverse consequences if Australia “discriminates” against Chinese investment. Han Feng, from the China Academy of Social Sciences, said: “This will have a negative impact on the long-term investment relationship and it’s not good for the China-Australia relationship.”

Washington has already displayed its readiness to intervene in Australian politics. Prime Minister Kevin Rudd was ousted in 2010 by Labor Party and union powerbrokers later identified in WikiLeaks cables as US embassy “protected sources.” Rudd had suggested the US make concessions to accommodate China. Julia Gillard, who replaced Rudd, provided the Australian parliament as a venue for Obama to formally announce the “pivot” in November 2011.

Labor leader Bill Shorten, one of the key players in the Rudd coup, has weighed into the Ausgrid debate on a nationalist and protectionist basis, suggesting that a Chinese purchase could eliminate “Australian jobs” and drive up domestic electricity prices.

Whatever the government decides on the Ausgrid bids, the divisions in ruling circles will only intensify. The tensions reflect the increasingly precarious position of Australian capitalism, caught between its key strategic ally and its largest customer, under conditions of deepening world slump and mounting geo-strategic conflicts.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact