

Opinion

The view from the East has a very different hue



PETER
COSTELLO

In February I raised concerns about the proposal by Rio Tinto to sell a 30 per cent stake in its Pilbara iron ore mines to the Chinese state-owned company Chinalco. I urged the Treasurer, Wayne Swan, to look at it carefully under the foreign investment law that I used to assess Shell's proposal to take over the gas producer Woodside in 2001.

At that time most of the business and economic writers supported the Chinalco deal on the grounds that Rio needed money and Australia needed Chinese foreign investment. One Asia specialist, Professor Peter Drysdale of the Australian National University, who supported Chinalco's bid, described my criticism as "grubby".

It's OK – whether it is true or not – to describe an Australian politician as grubby. But when the manager of Rio's iron ore negotiations, the Australian Stern Hu, was arrested in Shanghai no one was suggesting the Chinese leadership was "grubby". You don't talk like that in China. Different rules apply. Even here, Chinese specialists will be careful not to talk like that.

And this is the nub of the issue. Business in China is not conducted like it is in a Western democracy.

Hu has been arrested and held since July 5 for allegedly stealing state secrets. We don't know the details of the charges or the evidence against him.

If this had happened in Australia, by now there would have been a bail hearing. At that hearing, before an independent magistrate, the charges would have been presented and an outline of the case given. If Hu was thought to be a flight risk, his passport would have been surrendered and he would now be out on bail.

In China he continues to sit in the

State Security Detention Centre.

Stealing state secrets is not a common crime in Australia, and it is certainly not a crime to obtain information about your customers and how they might approach a commercial negotiation. If you do obtain such information, it cannot be a state secret because companies are privately owned.

In China, where the state owns so many companies, commercial information becomes a state secret, which tells you that these are not corporations in the way we understand them.

Supporters of the Chinalco proposal argued Chinalco was just like any other corporation. However, Chinalco was even more intertwined with the Chinese Government than other companies, as its chairman was an alternate member of the Central Committee of the Communist Party.

We should remember that the Australian Government did not rule that the Chinalco bid was contrary to our national interest. It never expressed a view about the application.

Rio pulled out of the proposal under pressure from its shareholders. As it turns out it could raise money elsewhere, and it recognised there was more benefit from an association with the Australian producer BHP than Chinalco – an association it had previously spurned.

The Government was relieved of a hard decision and no doubt breathed a sigh of relief. In my view the outcome was in Australia's national interest.

But it is fair to say the Chinese Government was not happy with Rio.

I can say that when Shell's application for Woodside was ruled out, the company was not happy either. It may have taken some countervailing action in foreign exchange markets. But there was never any risk that the British or

Dutch government would take countervailing action against Woodside or its employees.

Has the Chinese Government decided to respond because the company it owns – Chinalco – was spurned by Rio Tinto?

We do not know. And there is not much prospect we ever will. In our country a minister would be grilled in an open press conference over this, with hostile journalists looking for any skerrick of a connection. That does not happen in China – another aspect that shows that the Chinese system is quite different to our own.

Since Hu is now in detention, someone else will have to lead Rio's negotiations with the Chinese steel mills. My guess is that they will not push negotiations as strenuously as Hu.

In China you do business with state-owned enterprises subject to political control in a country that does not tolerate political opposition, or a critical press. The Chinese legal system is not independent from government.

China has made great strides in the direction of liberalising its economy but the process is still in transition. It is in the global community's interest to encourage the process to continue.

But it is also incumbent on our own leaders to remember the differences when considering Australia's national interest.

In sensitive foreign investment decisions, it's worth remembering that Chinese state-owned enterprises do not operate in the same way as our private corporations. It's a factor to take into account.

Peter Costello, a former federal treasurer, is the Liberal member for Higgins.