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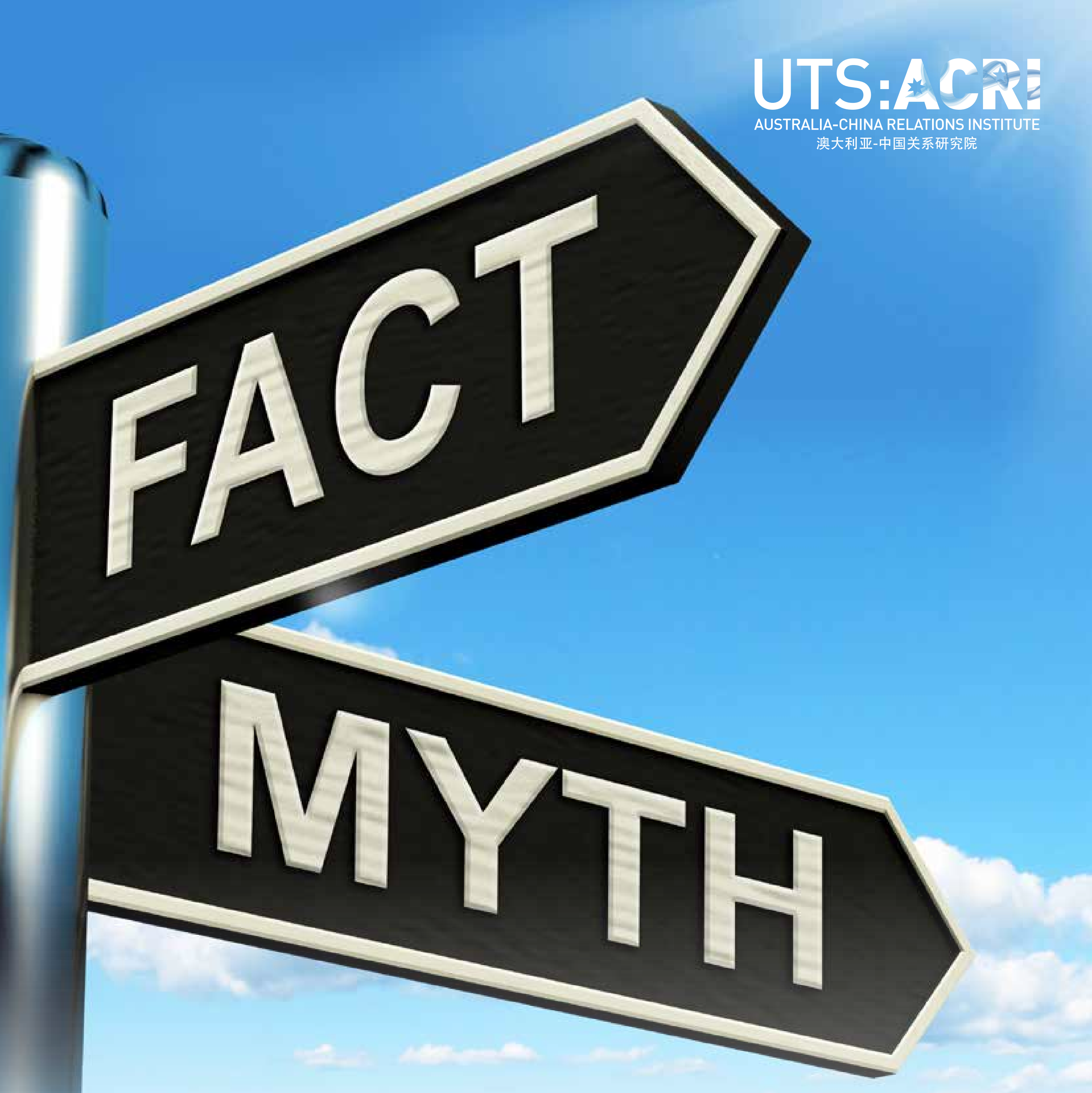

MYTH-BUSTING CHINESE CORPORATIONS IN AUSTRALIA

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EXECUTIVE SUMMARY

Among policymakers, media and the broader public, confusion reigns supreme when it comes to Chinese corporations. State-owned enterprises (SOEs) are assumed to be blindly following Chinese Communist Party (CCP) or security service orders with little concern for their own commercial interests. And private Chinese firms are conflated with SOEs and viewed as pawns in the CCP's regional expansion strategy, despite the enormous growth of the Chinese private sector over the past two decades. Lurking behind these judgments is a biased frame of reference that views Chinese investors primarily as a threat, especially when compared to foreign investors from Australia's traditional allies. This bias exacerbates regional tensions that are already strained due to US-Chinese rivalry.

This paper aims to challenge these myths and biases through case studies of major private and state-controlled Chinese corporations in Australia. Subjects will include infrastructure/ resources firms (Chinalco, Landbridge Group, Fosun Group) real estate firms (Wanda Group) and hi-tech innovators (Huawei Technologies).

The paper concludes that welcoming private Chinese investment into Australia in a controlled way will do more than provide much-needed cash to our state governments. It will also boost the reputation of private enterprises in China, assisting progressive Chinese policymakers to push through further privatization of SOEs and allowing a greater role for the market in the commanding heights of the Chinese economy.

MYTH-BUSTING CHINESE CORPORATIONS IN AUSTRALIA[1]

There is a fierce public debate about Chinese corporations investing in Australia. But to have an informed debate we need an accurate understanding of who controls these Chinese corporations and what their motives are. Unfortunately, much information about Chinese corporations that is published in the media is misleading and inaccurate and this will inevitably influence public attitudes towards Chinese investment. It will also influence politicians when they make decisions about whether to approve the latest application by a Chinese corporation to invest in Australia. And it will have a negative impact on the Australia-China relationship.

This paper provides a more balanced view of the complex Chinese corporate landscape, focusing specifically on Chinese corporations that have recently made (or attempted) large-scale investments in Australia. It challenges five myths about Chinese corporations and the broader Chinese political landscape but in the process raises deeper questions that Australian politicians and media commentators should be addressing, such as the best ways to encourage further reform in China; the benefits (or otherwise) of free trade; and the impact of the global business revolution on work patterns and job opportunities.

For the purposes of this paper, a myth is a 'widely held but false belief or idea' which often involves a 'misrepresentation of the truth' (Oxford English Dictionary, 2016). The following are five commonly presented myths about Chinese corporations and politics:

1. All Chinese corporations are controlled by the Chinese government.

2. China has private corporations but they are actually controlled by the CCP, either directly or indirectly.

1 The author would like to thank Joyce Zhuoxi Teng for her valuable research assistance in the writing of this paper and James Laurenceson of UTS: ACRI for insightful feedback.

3. The CCP and government know what they are doing and act in a unified way.

4. China and its corporations are taking over the world (and taking our jobs).

5. Chinese corporate investment in Australia is a threat to our national security.

These statements may seem crude and simplistic, and that is because they are, but similar kinds of assertions appear regularly in the mainstream media and in policy papers by influential think tanks. I will provide some juicy quotations from these sources under each myth below but just to give a flavour of the current tone of the debate we need go no further than the recent political donations scandal involving Senator Sam Dastyari.

The firm that paid the Senator's A$1,670 travel expenses bill, Top Education Group, was widely reported in the media as having 'close links' with the Chinese government and the CCP through its controlling Principal Minshen Zhu (Hunter, 2016; Conifer, 2016; Loussikian, 2016).

Politicians also joined the fray, with Senator Cory Bernardi fulminating on the ABC's *7.30 Report*:

> A senator...is now being bailed out by a company that is closely linked to the Chinese government...The director of it has very close links to the Chinese government. That is cause for a Senate inquiry. (Conifer, 2016)

Obviously Senator Dastyari should not have allowed any private company to pay off his travel expenses, and it's not clear what he was thinking when he did so. But leaving that issue aside, what was the evidence for these so-called close links to the Chinese government?

Our survey of numerous media reports on this incident found only two pieces of evidence presented: one was that Minshen Zhu has been a delegate representing 'Overseas Chinese' at the Chinese People's

Political Consultative Conference (CPPCC) and the other is that he has 'reportedly been photographed with senior Chinese officials, including Premier Li Keqiang' (Hunter, 2016; Conifer, 2016).

Dealing first with the photographs, none of the media reports actually showed Minshen Zhu with any Chinese leaders. But they did show him photographed with every Australian Prime Minister from Kevin Rudd onwards, plus several current Australian government ministers including Julie Bishop, Christopher Pyne and Scott Morrison (Hunter, 2016). Does this mean that the Australian government 'controls' Mr Zhu or that he has 'close links' with them? Or is it just a typical photo opportunity, one of thousands that leading politicians in all countries give to people who attend their public events? Even if China is not a multiparty democracy, its politicians still see the need to engage in a similar kind of glad-handing with business entrepreneurs, as any Australian on a trade delegation to China would know. It does not mean that they control those entrepreneurs.

As for Mr Zhu's membership of the CPPCC, experts on Chinese politics have often noted that the CPPCC doesn't even reach the level of a rubber stamp legislature like the National People's Congress (NPC). The NPC does at least get to discuss and approve new laws – though it is expected to pass them all – but the CPPCC has no significant role in the law-making or political decision-making process. As Lawrence and Martin point out:

> In practice, the CPPCC system gives select prominent citizens, including non-Communists, an approved platform to make suggestions about aspects of public policy, but does not oblige the Communist Party to act upon those suggestions. The institution... is essentially powerless. (Lawrence and Martin, 2013, 33)

Of course, there are practical reasons why Chinese (including Overseas Chinese) business entrepreneurs may wish to join the CPPCC and take photos with senior Chinese politicians, which we will explain in our discussion of Myth Two below. But to claim, based on such thin evidence, that Top Education Group – an Australian registered corporation – has 'close links' with the Chinese government and the CCP is misleading, especially when Australian media and politicians go on to suggest that the Chinese government is somehow controlling that company and using it to nefariously influence the Australian political system (Anderson and Henderson, 2016).

This kind of speculation, or myth-making, based on shaky evidence and ignorance of the complex Chinese political environment, constantly emerges in recent public debates on Chinese corporate investment in Australia. It has resulted in inconsistent policies and muddled decision-making by Australian politicians and arguably has increased tensions unnecessarily with one of our largest trading partners.

Myth One: All Chinese corporations are controlled by the Chinese government.

> The Australian government…remains silent on the deal to lease Darwin harbour to a 'private' Chinese corporation…The deal…is of enormous strategic significance. …But of even greater significance is the transfer of the management authority of a vital national strategic asset into the hands of an agency of a foreign government. (Behm, 2015)

> As is the case with investment from Chinese state-owned enterprises, I would argue the key question is not whether a private company is controlled by Beijing. This should be assumed at least in some respect in both cases. (Ryan, 2014)

The assumption that the Chinese government controls all Chinese corporations lies at the heart of fears about Chinese investment in Australia. Whenever a large Chinese investment project is proposed, vocal commentators immediately start pointing out actual or potential national security concerns as if the Chinese government and/or military is lurking behind every business deal.

Of course, there are still SOEs in China, including some of the largest corporate groups in key industries like oil production, power generation, telecom services, natural resources and transportation. Many of the biggest foreign investment deals in Australia in recent years have involved Chinese SOEs, such as CITIC Pacific's multibillion dollar investment in the Sino Iron project, and other huge investments in coal mining (Yanzhou Coal) and liquefied natural gas (CNOOC) (KPMG, 2014, 31).

But SOEs today make up a surprisingly small part of the Chinese economy. Massive privatisation has been ongoing in China since the 1980s, involving millions of business enterprises. Currently around 70 percent of Chinese industrial output is now produced by non-state-controlled business firms and over 80 percent of the industrial workforce in China is now employed in the private sector.[2] Private enterprises have been the growth engine of the Chinese economy, providing 95 percent of the growth of the urban workforce in the past three decades, and some of them now compete with the SOE conglomerates for brand recognition and size (Lardy, 2016, 40; Burkitt, 2015; Chen, 2015). It should be no surprise that they would also start expanding overseas to find new markets and diversify their investments.

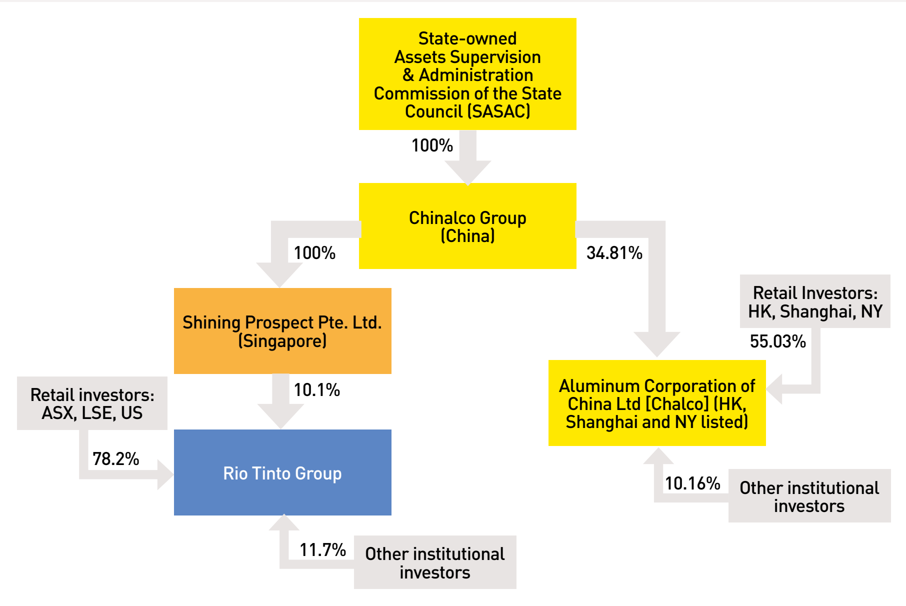
To show that there are indeed drastic differences in the ownership and control of Chinese SOEs and private corporations, compare the following diagrams of the shareholding structures of three large Chinese firms that have ongoing investments or operations in Australia:

2 For historical surveys of privatisation in China see Yusuf, Nabeshima and Perkins (2006); and Jin (2013). For more recent statistics on the size of the private sector see Lardy (2014, ch 3; 2016, 38-40); and Koen, Herd and Hill (2013, 16-18).

1. Chinalco, a state-controlled mining company which holds around 10 percent of Rio Tinto's shares along with mining subsidiaries in Australia. Chinalco holds Rio's shares through a Singapore-registered subsidiary because the shares were originally purchased in a partnership with the US firm Alcoa in 2008. Such a joint deal to buy a foreign company's shares would not have been possible using a Chinese subsidiary due to the complexity of Chinese foreign investment regulations. Alcoa subsequently sold its entire stake in the partnership to Chinalco in 2009 (Chalco, 2008; Oliver, 2009).

Chinalco is controlled by SASAC, a Chinese government body that holds the majority shares in over 130 huge SOEs, and in turn Chinalco is the largest shareholder and effective controller in the listed company Aluminum Corporation of China (Chalco). While there is significant non-state investment in Chalco, it would not be possible for retail investors to outvote the controlling state shareholder because they are spread over three different securities exchanges in Shanghai, Hong Kong and New York (Chalco, 2015, 33-37).

CHINALCO & RIO TINTO GROUPS: OWNERSHIP STRUCTURE

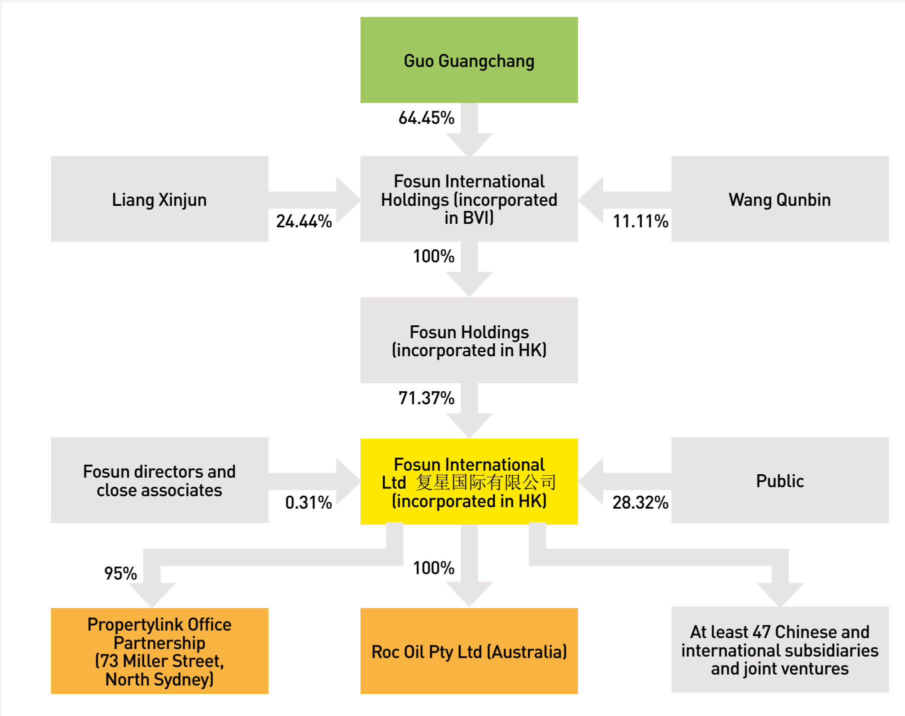


Source:
Chalco, 2015; Rio Tinto, 2015

2. Fosun Group, one of China's largest private conglomerates with a diverse range of interests in health, steel production, resources, property development and finance, which recently purchased Roc Oil Ltd. for A$489 million and jointly purchased a commercial office tower in North Sydney (73 Miller Street) for A$116.5 million. The Group is controlled by its Chair, the business entrepreneur Guo Guangchang, with two business associates (Fosun, 2015). Like many large privately-controlled Chinese firms, an offshore holding company structure is used (in this case a British Virgin Islands company) which provides an extra level of protection from potential Chinese government interference (Vlcek, 2014, 539-40).

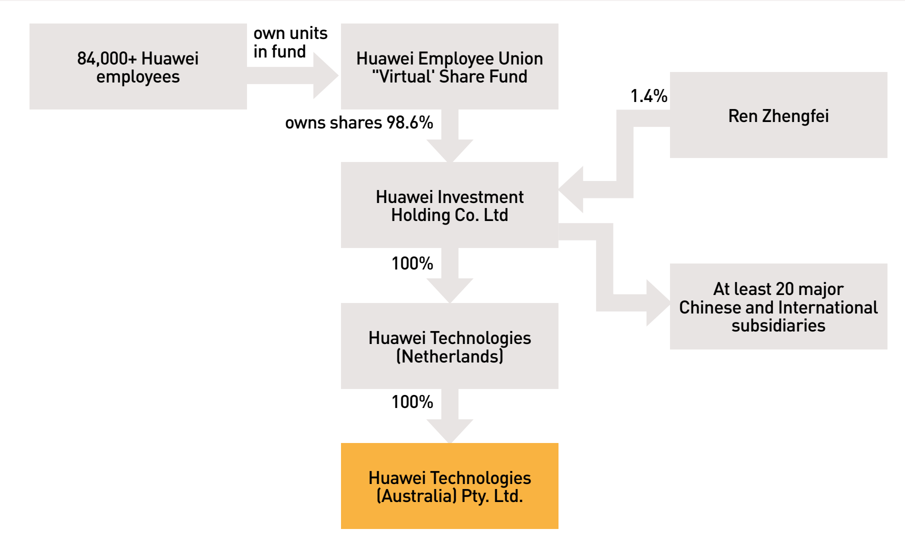
FOSUN GROUP OWNERSHIP STRUCTURE

Source:
SAIC, 2016



3. Huawei Technologies, a world leading manufacturer of internet and telecom hardware and mobile devices which has subsidiaries and operations in over 70 countries, including Australia. It supplies equipment to numerous major telecom firms, including Optus Singtel, and sought to bid on Australia's National Broadband Network but was prevented from doing so on national security grounds. Huawei's parent company is controlled by its employees through an employee union shareholding fund though the management is strongly influenced by its founder Ren Zhengfei (Hawes, 2015). Huawei's Australian subsidiary is held through a Netherlands-registered corporation, an offshore structure common among multinationals that gives Huawei the flexibility to invest in many different countries successively without the need to involve Chinese regulators (Vlcek, 2014, 132).

HUAWEI TECHNOLOGIES OWNERSHIP STRUCTURE



Source:
Hawes and Li, 2016

Management and Board Appointments: SOEs vs Private Firms

When we look at how the senior executives and boards of these three firms are appointed, the contrast between SOEs and private firms is just as stark. In an SOE like Chinalco, it is the Communist Party's Central Organisation Department *(zhongzubu)* that selects suitable candidates for senior management positions in consultation with bureaucrats at SASAC, and while management talent is certainly one factor, the top executives are also political appointees (Yeo, 2009, 1021).

In all centrally-controlled SOEs, the senior executives are given ranks similar to government officials and many of them have extensive past experience in the government ministries related to their industries. SOE executives are frequently promoted to senior government positions if they show themselves to be able administrators. This happened with Chinalco's former CEO, Xiao Yaqing, who in 2009 was appointed Vice-Secretary to the State Council, China's main law-making body, and in early 2016 became head of SASAC, the regulator of all centrally-controlled SOEs (Pennay, 2016).

The involvement of the CCP's Central Organisation Department also explains the apparently absurd practice of shuffling senior SOE executives from one firm to a directly competing SOE in the same industry. This is done not for business reasons but to discourage executives from building up networks of patronage that might lead to corruption – or to replace other SOE chiefs who have been arrested for corruption. SOE executives have little choice but to accept these moves if they wish to retain employment in the public sector.[3]

[3] For example, in the Chinese telecom sector Wang Xiaochu was appointed Chairman and CEO of China Mobile's listed arm and Vice President of China Mobile's parent company before being transferred in 2004 to become President and then Chair/CEO of China Mobile's main competitor China Telecom Corporation. That same year, Wang Jianzhou, Chair and President of China Unicom, was moved to become Chair and President of China Mobile; while Chang Xiaobing, Vice-President of China Telecom, became board chair of China Unicom to complete the circle. Similar round-robins occurred in China's airline, shipping and electricity industries. See Hawes and Li, 2016, 21; Yeo, 2009, 1026; McGregor, 2010, 84-5; Chen, 2015, 123.

By contrast, in a private firm such as Huawei, the employees elect a shareholders' representative assembly and this body appoints the board, which in turn appoints the senior executives. Of course, as in many listed Australian firms, in practice it is Huawei's existing executives who nominate the slate of directors and the shareholders merely approve their decision, but what is very clear is that the Chinese government and its Organisation Department are not involved in the selection process at all and all decisions about promotions and executive hiring are made purely for commercial reasons (Hawes and Li, 2016, 25-31).

At Fosun the process is even more straightforward: directors are appointed or removed by a simple majority of the shareholders (which effectively means Guo Guangchang as majority shareholder) and the board of directors then appoints the senior executives (Fosun, 2008).[4]

It should be very clear from this discussion that the ownership and control structures of private Chinese firms are totally different from those of SOEs and the Chinese government does not play any role in the selection of senior executives in privately-controlled firms. Any evaluation of a Chinese corporation, including a national security evaluation of a major foreign investment proposal such as the recent Ausgrid bid, needs to take these stark differences into account rather than treating a centrally-controlled SOE like State Grid Corporation in the same way as a private corporation like Cheung Kong Holdings (Williams et al, 2016). The distinction is even more stark when the corporation, Cheung Kong Holdings, is majority-owned and controlled by a Hong Kong tycoon who left China in 1940 (Craine, 2016).

Yet distinguishing between SOEs and private firms does not close off the debate about Chinese government involvement in private corporations. As many commentators have pointed out, there are other ways in which the CCP could exert its influence over corporations beyond owning shares and appointing directors or executives. This brings us to Myth Number Two.

4 See Appendix One for a short profile of Guo Guangchang.

Myth Two: China has private corporations, but they are actually controlled by the CCP, either directly or indirectly.

> Unlike Australia, unlike the US, the CCP has the capacity, when it needs to, to reach into the operations of Chinese business whenever it suits it to do so. It's just a much closer relationship between business and government, and frankly, that's how China operates. (Om, 2016, quoting Peter Jennings of the Australian Strategic Policy Institute)

This myth stems from the fact that Communist Party branches or committees have been established in many private Chinese corporations which certainly seems to indicate a level of CCP control over those corporations. Rowan Callick, the long-time China correspondent for *The Australian*, states that the CCP has 'ultimate approval over every investment, and branches in all state-owned enterprises and 85 percent of private enterprises' (Callick, 2013, 142-3).

This figure of 85 percent is wildly excessive, based on a highly selective sample of private firms with over 50 employees that already had at least three CCP members among their number (Dickson, 2008, 122-3). Even the CCP's own official statistics from 2014 state that just 53.1 percent of larger private enterprises in China had established CCP branches or committees (Zhang, 2015). Other surveys indicate that the numbers are even lower, ranging from 48.1 percent of private firms with more than 50 workers down to just 13.4 percent if smaller private firms are included (Dickson, 2008, 123; Fan, 2016, 49).

Likewise, having a Party branch in a firm certainly does not mean that the majority of employees will be CCP members. A Chinese government survey from 2013 found that among 112.9 million employees in Chinese private enterprises just 4.57 million were CCP members, which is around four percent (Fan, 2016, 49). This is less than half the proportion of CCP members in the adult population as a whole (8.3 percent) and much lower than the proportion of CCP members in SOEs (17.3 percent) (Dickson, 2008, 124; McGregor, 2010, xiv).

Yet even with these lower figures, we need to delve further into the phenomenon of CCP branches and committees in large Chinese private corporations as it is a totally foreign concept to non-Chinese observers.

When private enterprises were first permitted in China in the 1980s there was no expectation that the CCP would be involved in their businesses as they were generally small-scale with few employees and did not wield much financial or organisational clout (Dickson, 2008, 34-5).

During the 1990s, with the enormous growth of the private economy, private enterprises hired thousands of new employees. This caused fierce debate within the CCP as they saw these newly independent business organisations as a potential challenge to the CCP's political authority. Not surprisingly, many within the CCP were highly suspicious of the capitalist owners of these businesses as the struggle against capitalist exploitation is at the heart of orthodox Marxist theory (ibid., 70-9).

Yet the CCP strongly relied on private businesses to provide the continuing economic growth and employment that the ailing SOEs could no longer guarantee. Under Jiang Zemin's leadership in the 1990s the CCP made the momentous decision to embrace private entrepreneurs and allow them to join the Party if they met the entry qualifications (Fan, 2016, 44-6, 92; Dickson, 2008, 39). Corporations were also required to cooperate with employees who wished to set up CCP branches or committees at work as long as three or more CCP members were employed by the firm.[5]

However, this change in the CCP's attitude did not lead to an enthusiastic response from Chinese private entrepreneurs. One survey from 1999 quoted a factory manager: 'The Party mattered a great deal in China in the 1960s. But this is the 1990s. It really has little meaning today' (Guthrie, 2001, 38). The author concluded: 'While the Party may still have influence over the general policies that define

[5] The requirement to allow Communist Party branches is stated in *PRC Company Law* 1993, Art. 17 (or Art. 19 in the 2014 revision); the three-member minimum is stated in the CCP Charter, Art. 29. See also Fan, 2016, 46.

the reforms, it has little direct influence over whether these reforms are implemented at the firm level' (ibid.).

Over the past 15 years the CCP has made a concerted effort to become more relevant to business entrepreneurs and build its presence in business corporations but the results have been decidedly mixed. In fact, several recent studies suggest that private businesses and individual Party members have benefited from this relationship much more than the CCP itself. In his detailed survey of the CCP's attempts to build relations with private enterprises in China, Bruce Dickson concluded: 'Party building in the private sector has been more successful at promoting the firms' interests than exerting Party leadership' (Dickson, 2008, 111).

Chinese scholars have come to similar conclusions. For example Fan Xia found that if there was a time conflict between an activity scheduled by the firm's Party branch and their regular work duties, 91.8 percent of employees in private firms would not participate in the Party activity unless their CEO gave them permission (Fan, 2016, 78). Chinese media interviews with both business entrepreneurs and CCP officials involved in Party building, while obviously more positive about the CCP's role in private firms, can be surprisingly blunt. The Party Secretary of Yuanfang Group, a large private firm based in Henan Province that provides contract cleaning, housekeeping and nursing services, declared: 'What the boss of a private enterprise cares about most is business results. The boss will only pay attention to Party building and support it if it helps to promote the growth of the business and increases profits' (Zhang, 2015).

This means that the only way the CCP can attract members in private firms is by providing useful services to employees and the CEO, such as resolving employee disputes, weeding out corruption, arranging corporate culture or management training sessions and organizing educational or social events. The CCP also constantly reminds its members to behave as outstanding employees and to take on the most challenging tasks without complaint so that the CEO will see the benefits of continuing to support the CCP's activities within the firm (Fan, 2016, 73-4; Hawes, 2012, 129-31).

Clearly it is inaccurate to say that having a CCP branch in a corporation is evidence of Party or government control over the firm. Even the CCP's own policies make it clear that CCP branches should not get involved in firms' business or production decisions (Fan, 2016, 82). In fact, many scholars have argued that the CCP cannot afford to alienate private entrepreneurs because it relies on them to deliver continuing economic growth and provide employment, without which the Party would lose its legitimacy and power (Dickson, 2008, 99-100).

If this is the case, why is it that many private entrepreneurs welcome the CCP into their firms and even join the Party themselves?[6]

First, corporations have a legal duty to assist with establishing a CCP branch in their firm if more than three Party members request it, so this means that even foreign firms like Walmart and Samsung have had to set up CCP branches in their Chinese subsidiaries (Hawes, 2007, 817-9; Zhang, 2015). It is a condition of doing business in China but it does not necessarily mean those corporations are 'controlled' by the CCP.

Second, private entrepreneurs will often join the CCP so they can build networks that are useful for their business and to keep some control over the CCP organization within their firms. The entrepreneur, or one of their trusted executives, will then become the Party Secretary of the firm to coordinate CCP activities and ensure there are not two power centres within the business (Zhang, 2015).

Third, for private firms seeking to expand beyond their local region, the CCP's national organisation can be invaluable, as can personal links *(guanxi)* that they develop with regional and national CCP leaders. Yuanfang Group's Director of Human Resources and Deputy Party Secretary Li Zhangzhu noted that when the firm first set up its Beijing subsidiary, a senior CCP leader from Zhengzhou City in Henan Province, the firm's home base, held a public ceremony to see off the firm's employees and signal to Party leaders in Beijing that the firm should be given all possible support to establish its business there (Zhang, 2015). The difficulties of expanding to other regions of

6 For some figures on Party membership among private firm CEOs, see Chen and Dickson, 2010, 42-3.

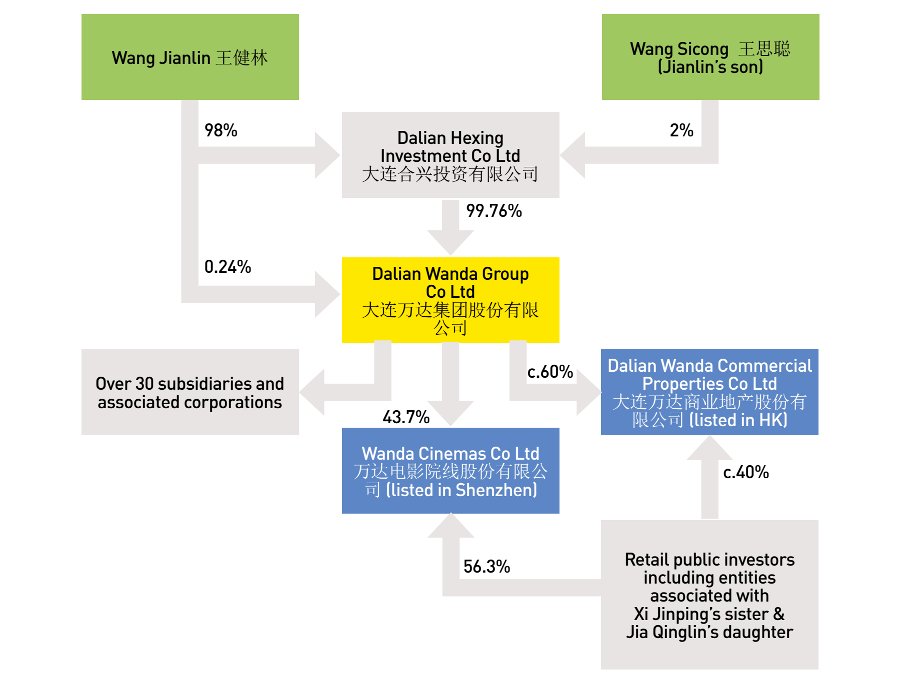
China are well known among Chinese entrepreneurs, so being able to rely on the personal relationship networks within the Party's vast organisation would certainly help the business quickly build links with officials in their new region and obtain the bureaucratic approvals for establishing their business efficiently.

Finally, even within their home regions, having personal links with local government officials will help to smooth any problems that arise running their businesses in China's cutthroat commercial environment, especially when dealing with SOEs. Being appointed a member of the local or national CPPCC or People's Congress is one of the best ways of building such personal links and warning predatory and corrupt local officials that the CEO is protected by the government and should not be extorted. Entrepreneurs who are People's Congress delegates may also be able to influence law-making in ways that benefit businesses (Dickson, 2008, 171-2).

Of course, the trade-off is that these business entrepreneurs must publicly acknowledge their support of the CCP and its policies and make efforts to ensure their employees do not challenge the Party. They must attend regular tedious Party meetings and allow their employees to organise Party activities within the firm, such as meetings to study the latest speeches of Xi Jinping and entertainment shows to celebrate the Party's latest anniversary.

They may also face pressure from family members of powerful government officials to provide employment in their firms or shares in their profitable subsidiaries. For example, one of China's richest men, Wang Jianlin, CEO of the real estate and entertainment conglomerate Wanda Group, allegedly caused Wanda's subsidiaries to sell shares to entities associated with the sister of Xi Jinping and the daughter of Jia Qinglin, a former Politburo Standing Committee member. These carefully selected investors made huge gains when Wanda's subsidiaries were floated on the Hong Kong Stock Market (Forsythe, 2015a). The Wanda Group's shares are wholly owned by Wang Jianlin and his son Wang Sicong, as the following diagram makes clear, but some of these carefully selected investors may still own small but valuable stakes in the two listed subsidiaries:

WANDA GROUP CORPORATE STRUCTURE



Source: SAIC, 2016

Sometimes it is difficult to avoid corruption when dealing with government officials. Wanda Group recently sacked a senior executive when it emerged he had paid bribes of around US$50,000 to the former Party Secretary of Xigang District in Dalian, Wanda's home base. The details emerged in the corruption trial of the official, Jin Cheng, who was sentenced to 13 years in jail in September 2016 for taking millions of dollars of bribes from a range of different corporations and individuals. The bribery occurred in 2007-9 as a reward for the official helping Wanda obtain government approval to buy back minority shares held by the district government and become a wholly private business (Zheng, 2016).[7]

From this analysis, it is clear that the relationship between private entrepreneurs and the CCP is a complex one. In most private Chinese corporations, the CCP does not control or strongly influence the management or running of the business, beyond the CEO paying lip service to the Party's legitimacy. In fact, the influence seems to be more in the other direction, with successful CEOs given a place on government advisory bodies and receiving access to funding from

[7] See Appendix Two for a short profile of Wang Jianlin.

state-owned banks. True, private enterprises may also be called upon to provide jobs or investment opportunities to the family members of local or national CCP officials. But this exemplifies what scholars have called 'crony communism' (Dickson, 2008, 22-7, 242) – a kind of personal quid pro quo that sometimes descends to the level of blatant corruption. It is a very different kettle of fish from helping to promote the CCP's strategic priorities.

Even China's state-owned enterprises are not necessarily under the control of the central government or national CCP, despite the involvement of the CCP's Organisation Department in selecting their senior executives. Many SOEs are owned by provincial or municipal governments and have become part of the virtually independent local power bases of provincial Party leaders who do not necessarily follow orders from the central CCP (Lawrence and Martin, 2013, 9-10).

Other centrally-controlled SOEs have been co-opted by factions within the Party leadership for their own personal and political benefit, something that has become very clear during the current anti-corruption campaign. For example, former Chinese security czar and Politburo Standing Committee member Zhou Yongkang originally rose through the ranks at the massive SOE China National Petroleum Corporation (CNPC) and treated the firm as his personal patronage network and source of illicit funds even after he became a Central CCP leader. Only after he retired was he prosecuted and sentenced to life imprisonment, and the extent of corruption at CNPC was publicly revealed (Forsythe, 2015b; Staff Reporter, 2015).

The Chinese government has repeatedly called for SOEs to undertake further ownership reforms to introduce more outside investors, improve their performance and make them less reliant on state-owned banks but many SOEs have resisted as it would reduce the power and independence of the factions who currently control them (Zhang and Freestone, 2013).

These complexities of SOE governance lead us naturally onto the third myth.

Myth Three: The CCP and government know what they are doing and act in a unified way.

Most media reports and even some expert commentators give the impression that there is a single CCP with well-defined aims and the ability to achieve those aims, either openly or covertly. Richard McGregor, for example, argues that all Chinese business enterprises work to mobilise the population collectively towards CCP-designated goals, a system he calls 'China Inc.' (McGregor, 2010, 34, 197-9) The obvious assumption here is that the CCP *has* clear goals.

Likewise, after the sale of Darwin Port to the Landbridge Group, a private Chinese corporation, Peter Jennings of the Australian Strategic Policy Institute (ASPI) declared: 'It's all part of a broader Chinese strategy of strengthening their influence throughout the Asia-Pacific and really can't just be seen simply as a commercial investment. There's more to the strategy than that' (Om, 2016).

The central problem with all these claims about a unified Chinese government strategy with clear shared goals is that they are simply not realistic given the sheer scale and diversity of China, the size of its population and government and the logistical difficulties of coordinating such a complex society. Commentators outside China find it hard to comprehend this reality either because they are used to living in a country with a small population like Australia or because they adopt the all-too-human tendency of treating the 'other' – in this case China – as if it is somehow more simple than the 'self' – Australia.

But we should be able to extrapolate from the internal contradictions within the two major Australian political parties, which have led to several policy shifts and leadership coups over the past five years. The Labor and Liberal parties still cannot overcome their paralyzing internal divisions, despite the fact that each Party only has around 50,000 rank and file members (Bramston, 2015). With over 88 million members in the CCP (Xinhua, 2016a) how could anyone realistically expect the CCP to avoid much more serious factional in-fighting and organisational chaos?

There is plenty of evidence of massive internal Party disorder, policy divisions and corruption that cast doubt on whether the CCP can even control itself, let alone create a unified strategy to control commercial businesses or exert a coherent covert influence through those businesses overseas.

The extensive anti-corruption campaign in China, ongoing for over a decade but ramped up in the past five years, clearly demonstrates that money has overtaken political principle among large swathes of the Party apparatus. Over 447,000 Party officials have already been investigated since 2012, with over 230,000 of these criminally prosecuted in the courts, ranging from the lowest level apparatchiks right up to Politburo members and Supreme People's Court justices.[8]

Some of the most senior CCP officials prosecuted in the anti-corruption campaign have allegedly accepted bribes totaling tens of millions of dollars (Meng, 2015).

What the CCP seems particularly worried about is how many of the cases have involved bribes being paid in return for promotions within the Party hierarchy or government bodies, which suggests that the Party has lost control over its own personnel system and cannot guarantee that its officials are competent or honest (Lu and Lorentzen, 2016, 29).

To give just one example, 45 representatives were expelled from the National People's Congress in September 2016 after evidence emerged that they had used bribery to obtain their nominations from the Liaoning Provincial People's Congress (PPC). Of the 612 members of the Liaoning PPC itself, 454 were also expelled for bribing their way into the PPC, including 38 of the 62 standing committee members who had organised the vote rigging. The *South China Morning Post* reported that:

8 Total figures cover the period from 2012 to the end of 2015, combining the results up to the end of 2014 from Shi (2015) and results for 2015 from Wang (2016). For useful profiles of the major people prosecuted in the campaign, see also Jakes (2016). The campaign continues in 2016, so these numbers are certainly underestimates.

> At least 40 of the 45 deputies from Liaoning expelled by the NPC Standing Committee were prominent businesspeople in the province. A mid-ranking official in the provincial capital, Shenyang, said billionaires in Liaoning had been more than willing to spend up big to secure NPC positions, which, in addition to making it more difficult to launch investigations into their affairs, also enabled them to initiate legislative proposals and gain direct access to local officials who were able to further their business interests. (Choi, 2016)

Even the Chinese military is wracked by internal turmoil and corruption, with at least 35 officers above the rank of major general having been prosecuted in the past three years for accepting millions of dollars in bribes, including the two highest ranking generals in the PLA and the most senior CCP political officer of the Air Force (Fan, 2015; Jun, 2016; Chan and Choi, 2016).

It should be no surprise then that the recent Sixth Plenum communique of the CCP talks in urgent tones of weathering 'the storm of challenges' and addressing 'dangers…including the slacking of officials, incompetence, isolation from the people and corruption' (Xinhua, 2016b).

Corruption obviously reduces government and CCP control over its officials and hampers implementation of policies. Yet leaving this issue aside, the central government also allows provincial and municipal governments a great deal of autonomy in deciding how to enforce laws and experimenting with new policy approaches at the local level. Contrary to the popular misconception that China is a highly centralised state, very few laws and policies are enforced in a uniform way throughout the country (Lubman, 2006, 36-8). This should be no surprise since many of China's provinces, and even some of its cities, have populations the size of countries.

A typical example involves local governments failing to enforce the laws relating to housing construction. In Shenzhen, a Southern Chinese city with over 10 million people, half of the buildings within the city have no legal titles and have been rented or sold to millions of people illegally (Qiao, 2013, 1). These are not slums or shanty towns, but generally well-built apartment blocks constructed by reputable real estate developers with tacit local government approval and local banks and law firms assisting with the conveyancing. The Shenzhen government has chosen to ignore central government restrictions on developing rural land around cities because relying on the illegal housing market was the only way to provide sufficient housing for the millions of migrants arriving in Shenzhen from other parts of China over the past three decades (ibid., 6).

There have been numerous other examples of 'illegal' local experiments that became highly successful and were later legalised by the Chinese government as it bowed to the inevitable. For instance, private corporations were not legalised in China until 1988 but they had been unofficially established by Chinese entrepreneurs since the late 1970s, often as so-called Red Hat enterprises – private businesses illegally paying a fee to use the business licenses of local SOEs (Dickson, 2008, 37).

Likewise, to solve the financing problems of small and medium-sized enterprises who could not obtain loans from state-owned banks, a huge illegal shadow banking system has developed over the past decade. The Chinese government tried unsuccessfully to stamp it out by jailing unauthorised lenders, but it has recently acknowledged that private lending is necessary for economic development and has started legalizing and regulating the industry (Elliott et al, 2015).

And in the area of investment, it is still prohibited for foreigners to invest in Chinese internet service providers, as the government does not want to lose control over the flow of online information behind the Great Firewall.[9] Yet virtually all the major Chinese internet firms and search engines, including heavyweights like Baidu, Alibaba, Tencent and Sina.com, are listed in the United States and have significant foreign investment. They get around the law by using a 'variable interest entity' (VIE) structure where the investors don't actually own shares in the corporations but merely contract with the Chinese

[9] See the Catalogue for the Guidance of Foreign Investment Industries (2015) Prohibited Foreign Investment Sectors 11.31: 'News websites, online publishing services, online audiovisual program services, internet service provider businesses, internet cultural businesses (apart from music).'

shareholders to receive the rights and profits that those shareholders are entitled to (Man, 2015).

Nobody is fooled by this creative lawyering, and the recent draft PRC Foreign Investment Law makes it clear that any kind of indirect foreign control over a Chinese corporation, including a VIE structure, is still foreign investment. But the Chinese government has turned a blind eye for the last 15 years as over one hundred private Chinese corporations made use of this VIE structure to list overseas and get around restrictions on foreign investment in their industries (ibid., 217, 219-20).

Obviously there are pragmatic reasons for allowing foreign investment in private Chinese internet firms, such as the need to expand China's internet without opening the market to foreign competitors like Google, Facebook, Twitter and YouTube, and the lack of bank loans or other capital-raising venues for private firms within China until very recently. But if that is the case, why not legalise the practice from the start, rather than forcing it to happen in a legal gray area?

Like the other 'illegal' yet permitted practices above, it is because competing interests within the CCP and government ministries make it too difficult for such free market capitalist practices to be openly embraced until they have become 'too big to fail'. It is a kind of reform by stealth that is steadily transforming the Chinese system from socialism to capitalism without officially acknowledging that it is happening.

The contradictions and competing interests within Chinese society and government are reflected in the most fundamental document of the ruling Party: the CCP Charter. It starts out with a declaration of faith in Marxism-Leninism: 'So long as the Chinese Communists uphold the basic tenets of Marxism-Leninism...the socialist cause in China will be crowned with final victory' (CCP Charter, General Program). But a few paragraphs later we find that these 'basic tenets of Marxism-Leninism' have been overlaid with so many revisions and extra accretions that one loses sight of them: there is Mao Zedong Thought, Deng Xiaoping Theory and the 'important thought of Three

Represents' (introduced by Jiang Zemin) and most recently the Scientific Outlook on Development (brainchild of Hu Jintao).

Many of the later accretions directly contradict the earlier ones. The diehard revolutionary Mao Zedong would have been horrified to find himself associated with Deng Xiaoping's economic pragmatism and Jiang Zemin's embrace of the private sector. But it would be politically traumatic for the CCP to remove references to Mao from the Charter because of Mao's continuing popular appeal among the masses. And despite the Charter's claim that the CCP upholds 'the rule of law' (ibid.) some of the behaviour of China's security forces is still strongly influenced by Leninist practices with their roots in the Soviet Union. So we are left with a contradictory document reflecting a Party and government full of internal contradictions.[10]

What this means in practice is that there is no unified 'Chinese' or even CCP policy on most issues of significance. There is only a constant battle of competing interests and a tentative attempt to 'cross the river by feeling for stones' (as Deng Xiaoping put it) yet without any clear sense of what is on the other side of the river.

Myth Four: China and its corporations are taking over the world (and taking our jobs).

> Our president has allowed China to continue its economic assault on American jobs and wealth...By letting them take advantage of us economically, we have lost all of their respect. (Trump 2016)

Returning to Chinese business corporations, there is a common fear among Western politicians and the broader population that Chinese firms are taking our jobs, that almost every industrial product is 'made in China' and now they want to take over our country as well.

There are two separate issues here: the so-called economic threat and the security threat. We will focus on the economic issues here and deal with national security under Myth Five below.

[10] China is certainly not unique in this respect: numerous political parties throughout the world are riven by internal contradictions, not least those in Australia and the United States.

The idea that jobs are being lost to China is expressed with particular vehemence by American politicians. During the 2016 US presidential election, both Hillary Clinton and Donald Trump claimed they would stem this perceived tide of lost American jobs. Trump's website declared: 'Our president has allowed China to continue its economic assault on American jobs and wealth' (Trump, 2016). On this point, Clinton seemed to share Trump's views: '[I will] prevent countries like China from abusing global trade rules…[and] crack down on companies that ship jobs and earnings overseas' (Hillary for America, 2016).

This is not a new issue. In the previous US election Barack Obama accused Mitt Romney of promoting outsourcing of jobs to China through his company Bain Capital. Romney in turn attacked Obama for being too soft on China's 'cheating': manipulating its currency to unfairly boost its exports to other countries (Haft, 2015, xi).

These kinds of claims have been systematically demolished in a recent book by Jeremy R. Haft, *Unmade in China* (Haft, 2015). Drawing on work by Derek Scissors (2011) he shows that there has never been a correlation between the value of China's currency and rising or falling unemployment rates in countries like the US. It's true that manufacturing jobs have been lost in developed Western economies but that is the result of a worldwide trend of increased automation in factories since the late 1970s, which now require fewer low-skilled labourers to churn out mass produced goods. The number of jobs that have actually been outsourced to China is minuscule compared with total US employment figures and, except during the global financial crisis, it has generally been outweighed by new American jobs created at higher levels of the value chain (Haft, 2015, 30-3, 36-40).

A similar phenomenon is evident in Australia (Carmignani and Lewis, 2013). Indeed China has itself shed tens of millions of workers, especially during the restructuring of its SOEs in the late 1990s, and many of these older 'displaced workers' could not find employment in the private firms that provided most of the new jobs since the early 2000s (Haft, 2015, 40). So our job losses are not necessarily China's job gains.

Turning to the other popular conception, that most products are now made in China, this is a fundamental misunderstanding of the globalised nature of supply chains and production. Drawing on research by Xing and Detert (2010) Haft gives the example of the iPhone, which many people think is manufactured in China. In fact, only US$6.50 of the US$179 cost of producing an iPhone is contributed in China, which is mainly just the cost of assembling hi-tech parts that are designed and produced elsewhere, in countries like Germany, Japan, South Korea and the US (Haft, 2015, 17-21).

Apart from some simple low-tech consumer products and household goods, most sophisticated products with high profit margins involve design and manufacturing inputs from many different countries and much of the profit goes to the richer developed countries rather than to China. According to figures from China's Customs Administration, around 43 percent of China's 'exports' are actually products manufactured by foreign invested enterprises in China. And even the most advanced Chinese corporations, such as Huawei Technologies, rely heavily on global supply chains. A typical Huawei internet switch, for example, contains advanced technological components designed and assembled in over 20 different countries, which obviously creates jobs in all those countries (Rossi, 2014).

Though Australia is not involved in the iPhone production chain it has benefited in other ways from China's economic growth and huge demand for natural resources, agricultural products, education services and tourism. An Australian politician would be hard-pressed to make a convincing argument that there has been a net loss of Australian jobs to China (Carmignani and Lewis, 2013).

Chinese demand will keep increasing for agricultural and other Australian consumer products because, as Haft points out, the corruption and corresponding safety issues that have plagued food, medicines and other consumer goods in China for the past decade mean that Chinese consumers are now willing to pay a premium for safe foreign goods produced in countries like Australia (Haft, 2015, 52-66).

What about the idea that Chinese corporations are starting to take over the world with their foreign acquisitions of mines, ports, agricultural land, commercial and residential real estate, and takeovers of big name foreign industrial firms? Focusing on Australia, it's true that there was a 32.9 percent increase in Chinese investment to around A$15 billion in 2015 although this followed three years of declines from 2012. Most of this investment was in commercial real estate (45 percent) with energy (including renewable energy) at 23 percent, healthcare (a new growth area) at 17 percent and mining/infrastructure at 12 percent. The highly emotive agricultural sector makes up only around three percent of Chinese investment in Australia (KPMG, 2016, 10-11).

All of this investment will presumably lead to more jobs for Australians, such as the 2700 Australian construction jobs created by Wanda Ridong Group's recent investment in the Jewel Residences development on the Gold Coast (Remeikis, 2016).

Yet despite the recent growth and the sheer size of the Chinese economy, Chinese investment in Australia is still relatively small: it is dwarfed by that from the United States and does not even reach the level of investment from much smaller countries like Belgium (Laurenceson, 2016).

As for Chinese corporations overtaking advanced international firms, either through direct competition or acquisitions, Peter Nolan of Cambridge University has demonstrated that this is largely an illusion (Nolan, 2012). He explains that the global business revolution of the past three decades has led to a massive concentration of wealth, power, brands and technologies in the hands of a small group of multinational firms – what he calls 'systems integrators'. In every advanced industrial sector, 50 percent or more of global market share is controlled by a tiny handful of these firms. Almost all these firms have their headquarters in high income countries yet they have managed to deeply penetrate the Chinese market and markets in other developing nations as well. Among the world's largest 1400 corporations, 'one hundred giant firms, all from the high income countries, account for over three-fifths of the total R&D expenditure', which means that they are constantly innovating to stay ahead of later arrivals (Nolan, 2012, 133-5). Faced with this formidable global opposition, it will be almost impossible for more than a small handful of Chinese corporations to catch up and surpass the competition.

If Australians are generally benefiting from Chinese corporate investment and the growing economic strength of China, why is there so much popular distrust whenever a Chinese corporation seeks to acquire a major Australian asset? This brings us to the final myth: that selling significant Australian assets to Chinese corporate buyers will threaten our national security.

Myth Five: Chinese corporate investment in Australia is a threat to our national security.

National security is the concern that is raised most often in relation to Chinese corporate investment in Australia. The 99-year lease of the Port of Darwin to a private Chinese corporation, Landbridge Group, in 2015 provided a typical example. The various analysts of the ASPI published a whole series of articles and took to the airwaves to strongly criticise the sale (Barnes et al, 2015).

The standard argument is set out very clearly in Geoff Wade's article 'Landbridge, Darwin and the PRC' (Wade, 2015). He is referring specifically to Landbridge Group, yet similar 'national security' arguments have been repeated about many other private Chinese corporations:[11]

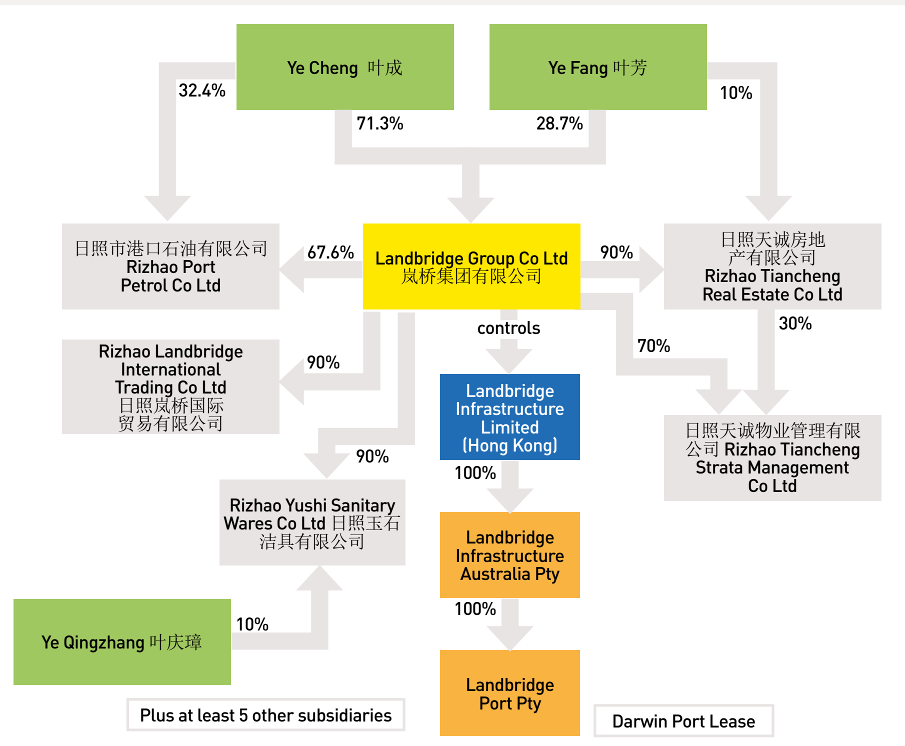
> What then is the nature of Landbridge?...The company itself asserts that it is a 'private' enterprise. Landbridge Chairman Ye Cheng is, however, intimately tied to the PRC party-state as a member of the 12th National CPPCC Committee...More importantly, the company—like any organisation of influence in China—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 [CCP] branch committee is He Zhaoqing, an ex-PLA officer, who...[is] now also the general manager, a director and party committee

[11] See Hawes, 2015 for a critical analysis of similar fears expressed about Huawei Technologies, another private Chinese corporation in the telecom equipment sector.

> member of the Rizhao Port Group. It's thus He Zhaoqing and the [CCP] who control the port development activities of Landbridge... In short, Landbridge is a commercial front intimately tied to state-owned operations, the party and the PLA.

We already addressed some typical misconceptions about the CCP's role in private firms and business entrepreneurs' membership of the toothless CPPCC above. And it is important to emphasise that the owner and controller of Landbridge Group is the business entrepreneur Ye Cheng not He Zhaoqing as the following diagram makes clear. The other main shareholder is Ye Cheng's younger sister, Ye Fang; and his younger brother Ye Qingzhang owns shares in a subsidiary and is a deputy general manager of the Landbridge Group. It is clearly a family business.

LANDBRIDGE GROUP: BASIC CORPORATE STRUCTURE



Source: SAIC, 2016

Like Huawei and Fosun, Landbridge's Australian investment in Darwin Port is owned through a chain of Australian and offshore subsidiaries (in this case Hong Kong) which may be done both for tax reasons and to distance the assets from any risk of expropriation by the Chinese government.

The information in Wade's article about He Zhaoqing is also misleading. Mr He was in the People's Liberation Army but he was discharged back in 1984 so it is highly unlikely that he would have maintained his military role clandestinely for three decades while working in civilian factories and then as a civil servant in the Rizhao Municipal Port Authority. When the Port Authority was commercialised into the Rizhao Port Group in 2003 it is true that He Zhaoqing did become a *deputy* general manager and director of the Group and a member of its CCP branch committee. But the Rizhao Port Group is a totally different corporate family from the Landbridge Group. There are two major ports in the Rizhao municipality: one is the Rizhao Port, which is a municipally-owned SOE and the other is Landbridge Port in the Lanshan District of Rizhao City, which is owned by the private Landbridge Group. They are competing businesses. He Zhaoqing retired from all his positions in Rizhao Port Group back in July 2010 and he was then hired by Landbridge Group to serve as its CCP Branch Secretary (Rizhao Port Corporation, 2010, 10-14; Rizhao Port Group, 2016).

Certainly as a private entrepreneur Ye Cheng must have built close links with the local government in Rizhao as he would have needed the local government's approval to develop and operate Landbridge Port back in 2004. Hiring an experienced retired local official and SOE manager from the same industry to be his firm's CCP Secretary makes a lot of business sense, just as large Australian firms commonly appoint former government ministers to their boards.

But to conclude that Ye's business is therefore controlled by the central government through a 'powerful branch' of the CCP under He Zhaoqing is pure speculation based on inaccurate information.

Wade goes on to assert that the Darwin Port lease is part of a much broader unified Chinese government strategy to weaken Australia's alliance with the United States:

> Darwin is intended to be a key link in China's new 21st Century Maritime Silk Road, providing Chinese access to both the Indian Ocean and the South Pacific, as well as to Indonesia and PNG. China's 'sister port' tie ups with Kuantan, Melaka, Kedah and

> Port Klang in Malaysia and with Townsville Port in Queensland are readying further nodes in the network...The Maritime Silk Road, along with associated Chinese initiatives such as the $100 billion Asian Infrastructure Investment Bank, the $40 billion Silk Road fund, as well as offshore infrastructure projects such as ports, dams, farms and industrial zones are intended, through realising regional economic domination and subsequent client dependency, to achieve [a] Chinese renaissance, the 'China dream'. This in turn will facilitate contention for regional and then global primacy with the United States...The Darwin deal is thus, among other things, a key element in the PRC's efforts to weaken the Australian alliance with the US. For these reasons there must be great security concerns about the Darwin deal. (Wade, 2015)

The broader national security concern about China is expressed succinctly in another article by Peter Jennings:

> Let's not be naive here. We face an increasingly tough strategic competition between China and the US and its friends and allies. No one could confidently claim this competition wouldn't give rise to open hostility. (Barnes et al, 2015, 3)

In other words, those who doubt that the lease of Darwin Port is a threat to Australian national security are 'naïve', ignoring the possibility of 'open hostility' between China and the US (and its friends and allies like Australia) and this lease is one more step on China's road to attempted 'global primacy'.

But what is actually naïve is to over-simplify the diverse and complex contemporary Chinese economic and political reality and to assume that everything a Chinese corporation does must be primarily for the benefit of the Chinese government's strategic and military expansion. It ignores the strength of individual self-interest and entrepreneurial ambition that has allowed private businesses to flourish in China despite decades of discrimination against them by the Chinese government. It also ignores the complexities and tensions of the relationship between private entrepreneurs and the Communist Party, the internal weaknesses and corruption of the CCP, the growing political influence of private entrepreneurs in China and the CCP's admitted inability to control the management decisions of CEOs in many private Chinese corporations. We discussed all these complicating factors above.

Putting aside the misconceptions about so-called Chinese government control of Landbridge, there are obvious commercial reasons why a successful Chinese private enterprise would want to bid on the Darwin Port. As traders interviewed in Landbridge Group's home town of Rizhao, Shandong Province, explained: 'Darwin is the closest port to China. I think he will use it to ship iron ore and oil and increase the business of his port in Rizhao' (Grigg, 2015).

When contrasted with the sophisticated conspiracy theories of the ASPI this explanation seems laughably straightforward. Yet if a private Australian or American corporation purchased a major industrial asset in China, we would immediately assume it was done for just these kinds of business reasons, not to assist some kind of vaguely defined national security strategy.

Of course, the lease and subsequent expansion of Darwin Port is good for China in the sense that it will help to promote increased trade between Australia and China and stronger economic ties between these two countries that depend so heavily on each other. The Chinese government needs to maintain economic growth, otherwise it will likely descend into the kind of social and political chaos that reigned in the 1960s Cultural Revolution. In today's interlinked world a failed Chinese state would be a much more serious threat to the world than a successful, prosperous China that depends on international trade and investment for its prosperity. But many commentators in the ASPI mould seem to assume that any benefit for China is a threat to Australia, or any 'China Dream' is an Australian nightmare, which is a false logic.

At the heart of this assumption is a deeper negative bias or 'framing' that emerges in much of the public discourse about China (Hawes, 2015, 35-9). Australia and the US are commonly referred to as 'rule-abiding' and reasonable, whereas China 'steals' intellectual property, engages in 'carpet-bagging and coercion' of vulnerable nations, and displays 'aggression' in the South China Sea. 'We' can criticise China using these kinds of loaded terms, as 'we' are merely 'concerned about the defence of multi-cultural, pluralist and rule-abiding Australia', but when a Chinese newspaper criticises Australia, it is just being 'nasty' (Jennings, 2015).

The problem with this simplistic black and white view of the world – especially when given regular media exposure – is that it builds tension and exacerbates misunderstandings rather than reducing them. It is true that there is a growing 'strategic competition between China and the US' (Jennings, 2015) as China seeks to exercise more influence in the Asian region in keeping with its economic power. This has conflicted with the 'rebalancing' of US forces into Asia, clearly summarised by Lord and Erickson (2014, 1-2):

> [It involves] a new determination on the part of the Obama administration to reassert the United States' traditional interests in the Asia-Pacific region...to send an unmistakable signal to the People's Republic of China that the United States is and intends to remain a 'Pacific power' fully prepared to meet the challenge of China's rise and its regional ambitions...American bases abroad are one of the clearest manifestations of the United States' own brand of imperialism.

Anyone with common sense should agree that military conflict between the US and China would be an unmitigated disaster for all parties involved. As a recent report by the RAND Corporation put it, 'it could be that neither country is able to control, win, or afford a future war' (Gompert et al, 2016, 6). Initiating such a conflict on either side would be an act of monumental stupidity.

Yet by presenting a misleading picture of a highly complex Chinese reality, 'hawkish' commentators on China feed a popular suspicion and fear of the foreign and unknown – a fear that influences people in China as much as in Australia. They foster a paranoid atmosphere in which it is much more likely that well-intentioned actions will be viewed as provocations, and harmless incidents may escalate into conflicts.

This is the true danger of attempts to lump together all Chinese corporate investment as a unified Chinese government strategy to undermine Australia and its allies. And this is why it is crucial to gain a more sophisticated understanding of the diversity of corporate structures and ownership in China today, the competing interests vying for influence within the Chinese political economy, and the internal fragmentation of the Chinese government and Communist Party.

By allowing private Chinese corporations to invest in Australia's infrastructure in a controlled way – as we would allow other foreign investors to do – it will not only raise billions of dollars for our state governments but will also enable us to evaluate and monitor Chinese corporations much better than if we summarily reject them for 'national security' reasons.

Australia already has a sophisticated legal and corporate compliance system and any Chinese corporation investing here must register with the Australian Securities and Investments Commission (ASIC) and supply detailed information about its controllers and business activities. Any evidence of illegal behaviour by a Chinese firm through its Australian subsidiaries will result in prosecution of its principals and potentially de-registration and liquidation of the corporation (ASIC, 2016). A well-publicised instance occurred in March 2016, when the Australia-based Chinese CEO of Hanlong Mining, Steven Xiao, was given an eight year prison sentence for insider trading (Malone, 2016).[12] The ongoing public scrutiny of Chinese investors in Australia means that any other kinds of illegal activities that threaten Australia's interests or public order are likely to be spotted early and dealt with effectively.

Most large-scale Chinese investors in Australia do not get into trouble because they take great care to comply with Australian corporate governance requirements, retaining major Australian law firms and international accounting firms to advise them on best practices (KPMG, 2016, 28).

[12] Hanlong Mining is an Australian subsidiary of the privately controlled Hanlong Group based in Sichuan Province. Calvin Zhu, another Hanlong Mining executive, also received a jail sentence of two years and three months (Malone, 2016).

Encouraging this acculturation process will not only protect Australians but will boost the reputation of these well-managed enterprises in China and give greater justification to Chinese leaders who are demanding further privatization of SOEs and deeper market-based reform of the Chinese economy. How would this not be good for the Australia-China relationship?

APPENDIX ONE: PROFILE OF GUO GUANGCHANG 郭广昌

Known as 'China's Warren Buffett', Guo Guangchang co-founded and is the chairman of Fosun Group, one of the mainland's largest private firms with a large global footprint. The Group started as a small venture among five university graduates including Guo back in 1992, and currently has revenues of over RMB78 billion [A$15 billion] (Fosun Annual Report, 2015) from a wide range of businesses, including property development, medical drugs, insurance, retail and steel-making. In addition to building up its own industrial business, Fosun also invests in other companies, as a private equity investor (Chan and Chen, 2012). Currently Guo is the 11th richest person on the 2015 Forbes China Rich List, with a net worth of US$7.3 billion (Forbes, 2016).

Childhood and Early Education

Guo Guangchang was born in Dongyang, Zhejiang Province in 1967 to a low-income peasant family. Little is known about his childhood. Because of the Cultural Revolution, he didn't receive any formal education until the age of 10. However, when school finally started he was a bright student and was accepted into the philosophy department of Fudan University in Shanghai in the late 1980s. After graduation, he was preparing to undertake further studies in the United States when he was inspired by the speech of Deng Xiaoping, the retired but still influential former leader of China. Deng famously took a 'southern tour' in 1992 and in his public speeches encouraged deeper economic reform and personal entrepreneurship. As a result, Guo Guangchang decided to stay in China to start his own company (Cao, 2010).

Career

As the market economy picked up, professional marketing research and consultancy became popular among companies that were trying to get a foothold in the mainland market but there were fewer than 10 marketing research and consultancy companies nationwide, with only four in the economic centre of Shanghai. Guo Guangchang saw an opportunity to apply his research skills from university to a new business venture (China Weekly, 2010).

In November 1992, Guo Guangchang teamed with genetics student Liang Xinjun to start Shanghai Guangxin Technology Consulting Company that provided consultancy and market research services to foreign companies trying to get a foothold in the mainland market (Cao, 2010). Business picked up quickly and in 1993 Guo and Liang made their first one million RMB after winning a contract with Yuanzu Food Company, a Taiwanese company that was establishing itself in Shanghai. By the end of 1993, the small venture was joined by three other university friends, Wang Qunbin, Fan Wei and Tan Jian, and renamed Shanghai Fosun High Technology (Group) Co., Ltd (China Weekly, 2010).

Guo's subsequent marriage to Tan Jian was an important stepping stone for the business, because through Tan's father, a respected academic scientist, it gained Guo access to advanced pharmaceutical research, which was little-known to most entrepreneurs (Zhang, 2016). In 1993 Guo Guangchang started the pharmaceutical business Fosun Pharma and also moved into real estate with the establishment of Shanghai Forte Land (Fosun, 2014). Fosun Pharma was later listed in Shanghai in 1998 and in Hong Kong in 2012 and Forte Land was listed in Hong Kong in 2004 (Chan and Chen, 2012).

In 1993 Fosun Group made its first RMB10 million from the sale of residential properties, and by 1995, with the success of its polymerase chain reaction (PCR) diagnostic reagents used in genetic and forensic medicine, Fosun Group made its first RMB100 million and became the premier privately-controlled high technology company in Shanghai (China Weekly, 2010).

Around 2000 Guo Guangchang met Zhang Zhixiang, an entrepreneur with the nickname China's Steel King. Their encounter woke Guo Guangchang to the potential of the steel-making industry, and he invested RMB350 million into Zhang Zhixiang's Tangshan Jianlong Company, purchasing 30 percent of its shares. In 2002 Fosun Group also set up a joint venture with Nanjing Nangang Iron & Steel Group, with Fosun Group controlling 60 percent of the shares.

Around the same time, Fosun Group became the biggest shareholder of Shanghai Yuyuan Tourist Mart Co. Ltd., a former Shanghai state-owned retail enterprise, which soon branched out into finance and listed in Hong Kong in 2006 (Cao, 2010; China Weekly, 2010). Fosun International Limited, the parent company of Fosun Group, was also listed in Hong Kong in 2007, with Guo Guangchang holding the majority of its shares.

More recently, Fosun Group has acquired five major insurance companies in China and overseas covering all aspects of the business: property and casualty, life, general insurance and re-insurance. By 2015, 44.6 percent of Fosun's total assets were in its insurance business. (Fosun, 2016; Zhang, 2016).

From 2010 through 2015, Fosun Group went on a foreign acquisition spree in a broad range of industries, from fashion labels to banks, focusing on developing its 'health, wealth and happiness' segments. Prominent deals included Club Med in France, Thomas Cook Holidays in the UK, Cirque du Soleil in Canada and Roc Oil in Australia (Fosun, 2016).

By 2015, the Group's revenues were RMB78.80 billion with total assets exceeding RMB405.34 billion (Fosun Annual Report, 2015).

These foreign investments cost the company around A$30 billion in total, significantly enlarging Fosun Group's global footprint, but also raised doubts over the sustainability of Fosun's vast debt (Economist, 2016). In July 2016 it was reported that Fosun's acquisition of the US insurance firm Ironshore Inc. was still under review by CFIUS, the US government's foreign investment watchdog and the ratings firm A.M Best assigned a negative outlook on Ironshore Inc, citing concerns regarding Fosun's high debt ratio (Barinka, 2016). In June 2016 Standard & Poor Global Ratings also downgraded Fosun International from "stable" to 'negative', citing similar concerns (Zhang, 2016; Economist, 2016).

Guo Guangchang and Politics

Guo Guangchang is a Member of the 12th National Committee of the Chinese People's Political Consultative Conference, a Member of the 11th Standing Committee of All-China Federation of Industry & Commerce and the All-China Youth Federation and Vice Chairman of The Zhejiang Chamber of Commerce. He was also a Deputy to the 10th and 11th National People's Congress of the PRC (Fosun, 2016).

In December 2015 Guo Guangchang went missing briefly and it was reported that he was detained by state authorities to assist an unspecified investigation. He is one of the few Chinese billionaires who managed to resurface after being taken away for questioning by state authorities (Ryan, 2015; Gu, 2016).

Since this incident, Fosun Group has been scaling back its foreign investments, including terminating a potential deal with Israeli Insurer Phoenix Holdings. Guo Guangchang said that Fosun Group will focus on cross-selling opportunities among the companies it has gobbled up in recent years, instead of continuing to '[bulk] up and [gain] muscle' (Gu, 2016). However, investors were spooked by Guo's vanishing act, as its shares plunged more than 10 percent in December 2015 (Gu, 2016).

APPENDIX TWO: PROFILE OF WANG JIANLIN 王健林

At the time of writing, Wang Jianlin, 62, is the second richest man in Asia, with a fortune estimated at US$32.7 billion (Mao, 2016). He has been Chairman of the Dalian Wanda Group since 1989 (Wanda, 2016) which is not only China's biggest private property developer but also owner of the world's largest cinema chain after purchasing the American firm AMC Entertainment Holdings in 2012 (Economist, 2015; Forsythe, 2015a).

Childhood, Education and Career Development

Wang Jianlin was born in Sichuan Province in China in 1954, to a soldier of the Red Army, Wang Yiquan. Wang Jianlin's mother, Qin Jialan, was the first female mayor of a county in Sichuan Province (Huang et al, 2013).

In 1958 when Wang Jianlin was four the family moved to Dajing County in Sichuan Province where Wang Yiquan served as deputy director of the local Forest Industry Department. With his father's stable work Wang Jianlin's childhood was relatively comfortable (Huang et al, 2013).

During the chaotic Cultural Revolution, Wang initially worked as a labourer with the Forestry Department and in 1969 joined the army (Zhou Xuan, 2015). By 1978, Wang Jianlin had risen to the rank of platoon leader and enrolled in the Dalian Army Academy in North-East China (Huang et al, 2013). In 1983, he was accepted to study at Liaoning University and graduated in 1986 with a degree in Economic Management. He left the army and became a local official in the Xigang District Government in Dalian.

In 1989 he was appointed General Manager of Xigang Housing Development Company, a local state-owned enterprise that was deeply in debt (Zhou Xuan, 2015). This company became the precursor of Wanda (Huang et al, 2015). Through successful management of several redevelopment projects, Wang was able to turn around the finances of the company (Zhou Xuan, 2015) and in 1992 it was one of the first companies in Dalian to be selected for partial privatization as a test case for economic reform (Zhou Xuan, 2015). It became Dalian Wanda Group Co. Ltd. and Wang Jianlin has been its Chairman ever since (Wanda, 2016).

Wang Jianlin's initial experience was with residential properties and Wanda's first forays into commercial property development led to two failures in 2002 and 2003 with Changchun Wanda Plaza and Shenyang Wanda Plaza. The Changchun development was a joint venture with Walmart and Red Star Macalline, but half the shops remained un-let when the Plaza opened (Huang et al, 2013). Shenyang Wanda Plaza had problems with both the building structure and facilities, which led to over 200 lawsuits from disgruntled shop owners. The Plaza was completely demolished and rebuilt in 2008-9 and Wanda Group paid at least 800 million RMB in compensation to the shop owners (Zhou Xuan, 2015).

These two incidents impressed on Wang the importance of hiring expert construction and design teams and experienced marketing specialists. By 2007 Wanda had successfully developed a dozen Wanda Plaza shopping centres in China (ibid.) and by 2014 Wanda Group had become China's biggest private property developer with revenues of US$40 billion (Economist, 2015) and over 100 Wanda Plaza shopping centres completed (Wanda, 2016). That same year Wanda Commercial Properties completed its IPO on the Hong Kong Stock Exchange. Wang's controlling stake in the Wanda Group made him Asia's second richest man with a fortune estimated at US$32.7 Billion (Mao, 2016).

Investments in Entertainment and Cultural Sectors

Besides real property, Wanda Group has made substantial inroads into the entertainment business with its cinema chains in China and overseas. In 2012 it purchased AMC, an American cinema chain for US$2.6 billion and established Wanda Culture Industry Group, which operates cinemas, film production, and theme parks. The purchase of AMC made Wanda Cultural Industry Group the world's largest cinema operator and it expanded still further in 2015-16 by buying up Hoyts Group in Australia and the European Odeon & UCI Cinemas Group and making a bid for another US competitor, Carmike. Wanda

Group has also launched several projects to construct Cultural Tourist Cities and Movie Parks in China and has recently acquired the Hollywood movie production firm Legend Entertainment (Wanda, 2016; Forsythe, 2015a).

Wang Jianlin also has a great interest in soccer. He established his own Wanda Soccer Club in Dalian in 1995, which was sold in 2000 (Zhou Xuan, 2015). In 2015 Wanda Group reached an agreement to purchase INfront Sports & Media, a Swiss sports marketing company, which holds partial marketing rights to the FIFA World Cup (Economist, 2015). Wanda Group also bought a 20 percent stake in Spanish soccer club Atlético Madrid for US$52 million, making Wang the latest Asian billionaire to invest in the sport in Europe (Burkitt and Davies, 2015).

As if that wasn't cool enough, in 2013 Wang Jianlin's conglomerate also acquired Sunseeker, the British maker of sleek motor yachts featured in several James Bond films (Economist, 2015).

Wang Jianlin and Politics

The success of Wang Jianlin and the Wanda Group has inevitably attracted public attention and speculation regarding his background and political relationships. In public, Wang often repeats the phrase 'stay close to the government but stay away from politics' to describe his relationship with the Chinese government (Forsythe, 2015a). He acknowledges that it is impossible to manage a real property business in China without government encouragement, since the Chinese government has ownership rights over all land. But it does not mean that his dealings with the government have involved corruption.

However, an examination of the company's records reveals that some family members of Politburo Standing Committee members have held minority stakes in Wanda Group's subsidiaries, allowing them to profit substantially from their listings in Hong Kong (ibid.). One of Wanda's executives was also fired recently after it emerged he had paid bribes to a local official in Dalian to thank him for assisting Wanda's full privatisation in 2007 (Zheng, 2016). Like other leading Chinese private entrepreneurs, Wang has been appointed to various advisory positions, including as a member of the CPPCC, Vice Chair of the All-China Federation of Industry and Commerce and a delegate to the CCP's 17th National Congress in 2007.

Wang Jianlin's shift of focus to the entertainment and cultural sectors, and away from real estate development, certainly resonates with Beijing's policy to cool down the property market and enhance Chinese cultural influence both internationally and domestically. Nevertheless, there are clear business benefits to this strategy as well and this transition could simply be another demonstration of Wang's outstanding business acumen (Forsythe, 2015a).

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ABOUT ACRI

For the first time in its history, Australia's most important economic relationship is with a nation very different in governance, politics and values. In the past, Australia's dominating economic relationships have been with the British Empire, the United States and Japan.

Today our most important economic partner is China, absorbing more than 30 percent of Australia's exports. China now contributes more to world economic growth than any other country. By 2030, 70 percent of the Chinese population is likely to enjoy middle class status: that's 850 million more middle class Chinese than today.

In 2014 the University of Technology Sydney established the Australia-China Relations Institute (ACRI) as a think tank to illuminate the Australia-China relationship.

Chinese studies centres exist in other universities. ACRI, however, is the first think tank devoted to the study of the relationship of these two countries.

The Prime Minister who opened diplomatic relations with China, Gough Whitlam, wrote in 1973: 'We seek a relationship with China based on friendship, cooperation and mutual trust, comparable with that which we have, or seek, with other major powers.' This spirit was captured by the 2014 commitments by both countries to a Comprehensive Strategic Partnership and the 2015 signing of a Free Trade Agreement.

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Dr. Hawes studied Chinese at Durham University, UK, and in Beijing and Wuhan, China. He holds a Ph.D. in Asian Studies and an LL.B. from the University of British Columbia (UBC) in Vancouver. He practised law in Vancouver focusing on Asia-related cases before joining the UTS Law Faculty in 2005.

Colin is especially interested in the intersection between corporations, law and culture: how cultural values impact on the way that corporations behave in different societies, and how large business corporations can be held accountable for their actions. He has published numerous articles on Chinese corporate governance and Chinese law and society in leading international journals including *Australian Journal of Corporate Law, American Journal of Comparative Law, Asian Journal of Comparative Law* and *The China Journal*. He also authored a book entitled *The Chinese Transformation of Corporate Culture* (Routledge Press, 2012). Colin is currently engaged in collaborative research projects on the creative interpretation of corporate law by Chinese judges, and on the complex governance structures of large Chinese corporations.

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