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True father of our minerals miracle

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Men of steel: Hu Yaobang and Bob Hawke survey the Pilbara's mountains of iron in 1985.

THE seeds of Australia's resources boom were sown a quarter of a century ago by two visionary leaders on an outback hill.

China's then Communist Party boss, Hu Yaobang, had flown with then prime minister Bob Hawke to see for himself the mountains of iron that were said to cover the Pilbara in Western Australia.

"If we take the long-term perspective, the profits will be huge," Mr Hu told his host on his 1985 Australian tour, according to Chinese records of the trip.

And he added: "If someone asks me whether our opening policy will change, my answer is no."

Mr Hawke's invitation to premier Zhao Ziyang a year earlier to invest in an Australian iron ore mine had helped give the Chinese leadership the assurance of supply they needed to open up and then hugely expand their steel industry.

In 1987, a division of China's Ministry of Metallurgy (now Sinosteel) and Hamersley Iron (now Rio Tinto) signed China's first major overseas investment deal, giving China 40 per cent of the 10 million tonnes of ore to be excavated each year.

The mountain that Hu Yaobang and Bob Hawke stood upon back in 1985, Mt Channar, is now 187 million tonnes smaller than it was. Most of that iron ore has been shipped to China.

"Channar was China's first major overseas resources project and the Chinese leadership had a lot of vision to undertake it at that time," said Ian Bauert, who helped negotiate the deal for Rio Tinto and last year returned as the company's China president.

"It is important economically and highly symbolic as the predecessor of a lot of very close co-operation taking place," he said.

Last year China became both Australia's largest source of foreign direct investment and its largest trading partner.

This year Australia is on track to supply the world with 425 million tonnes of iron ore worth \$US55 billion (\$A65 billion), with more than half of it headed to China, says Melinda Moore, equities commodities analyst at Credit Suisse.

In recent weeks, commodities investors have panicked that China's economy might be slowing. The dollar tumbled and analysts ditched their earlier predictions that large interest rate hikes would be necessary to cool the economy.

Clinton Dines, who last year stepped down as BHP Billiton president in China after three decades at the company, said the China-driven steel boom since 2002 had been "spectacularly abnormal" and "this period has now come to an end".

But even still, demand for Australian iron ore to supply Chinese steel mills would remain unprecedented as

Chinese steel production growth slowed from double the rate of GDP growth to merely matching it, he said.

"With strong GDP growth and a lot of property and infrastructure yet to be built, steel demand growth is still likely to be somewhere around 10 per cent for the foreseeable future," he said.

Mr Hawke has fond memories of the outback tour that set the Australia-China resources trade on course. He and Mr Hu were both hugely popular and confident leaders who enjoyed mixing with people.

"After [premier] Zhao Ziyang clinched the Channar deal, Hu Yaobang came out to Channar and stopped at Whyalla," said Mr Hawke. "People heard I was coming and they all turned out waving and cheering and he thought it was for him."

A Chinese saying at the time had it that Mr Hu was the Communist Party's conscience, Mr Zhao its brain and Deng Xiaoping the power. Mr Deng purged Mr Hu in 1987 (he died in 1989) and did the same with Mr Zhao in 1989, in a series of events that ended as the June 4 massacre, which will be commemorated around the world next week except in China.

China's lurch to the political left in 1989 has not been reversed, nor has it dented the economy.

"Once a major policy is good for the prosperity of the state and prosperity of the people so that it wins the support of the people, how could it be changed?" Mr Hu said in 1985.

Mr Hawke, who responded tearfully to news of the Tiananmen massacre at the time, says the upheaval made no difference to the long-run growth path of the Chinese economy. "In the end, Deng stayed strongly committed to the progress of economic reform," he said.

And how would Mr Hu feel if he looked back at China today?

"I think he would be very proud," said Mr Hawke. "The post-1978 achievements, economically and in terms of the standard of life of the people, have been remarkable."