Beijing's Australian accent

Australia is a preferred destination for China's foreign investment and the resource sector is at the top of the list. The trouble is, there is not a lot to buy. That is the view of Robin Chambers, senior partner of international law firm Chambers & Company, who was the general counsel responsible for framing China's first foreign joint venture, a Hamersley project between the Chinese Government and CRA (now Rio Tinto).

"In Australia, the iron business is dominated by Rio [Tinto] and BHP Billiton," he says. "You have got a number of companies that want to invest in iron ore and there aren't enough projects because Rio and BHP are a duopoly. There are a number of Chinese companies wanting to invest in iron ore and there are not enough projects to invest in."

Chambers says there is a lot of activity "behind the scenes" between Chinese and Australian companies and investors. Local mining stocks may soon be actively looking north for capital.

"China has a policy to push very hard to encourage Chinese organisations to invest in Australia. There is a lot of interest in the ferrous and non-ferrous areas. Certainly, raw materials projects are at the top of the list."

The implication is that Australia is a preferred supplier to China, which is moving to ensure a reliable long-term source of raw materials to underpin its rapid industrialisation. The most recent instance is the Woodside LNG joint venture with China, but the Chinese leadership's strategy dates back to the CRA Chennar joint venture in the mid-1980s.

Chambers says the China's Premier, Zhu Rongji, began the process then, and he believes Zhu's vote was critical in helping Woodside win the $25-billion contract in October 2002 to sell liquefied natural gas to China. "Zhu was always very favorable to Australia," he says. "It seemed to me that it was their vision to have locked in secure supply of natural resources for China, and Australia is still a major focus. We are the largest destination for Chinese foreign investment. The Chinese always told us that we have no political baggage with China, we are small enough not to be a political threat and also we have an excellent range of resources."

China's economic emergence may be the most important event for the Australian resources industry in half a century. A report by Andy Xie, Hong Kong economist for Morgan Stanley, comments that commodity prices have "never recovered from the end of the post-World War II reconstruction in Europe and Japan".

But he believes that China's industrialisation will have a similar effect on commodity prices as the European and Japanese reconstructions. "It is already having a discernible effect on some commodities.

For example, Chinese demand is already the determining factor for palm oil and iron ore prices. China accounts for almost 100% of the increase in global demand for steel. Gold could be the next commodity to become affected by Chinese demand."

China's emergence will have a profound effect on the global structure of the mining industry. According to the 2001 *World Investment Report* by the United Nations Conference on Trade and Development, in 1990, six of the top 100 transnational companies (ranked by foreign assets) were metals companies. By the end of the decade, there was only one: Rio Tinto, which ranked 87 (BHP left the top 100 in 1998). By contrast, the 1990 list included 13 petroleum companies, the same number as at the end of the decade. And four of those were in the top 10. In other words, while the petroleum industry maintained its global structure, the metals industry retreated from globalisation.

The long-term decline in commodity prices encouraged global rationalisation and resulted in senior management taking a more risk-averse approach to foreign affiliates. Although the mining industry remains global in character, and its managers are the "bobos" (bourgeois bohemians) of globalisation, the industry appears not to have embraced some of the more aggressive aspects of globalisation.

China's emergence will change that. There is the likelihood of increased demand pressure. The US-based Commodity Research Bureau's commodity index has risen 30% since October 2001 despite signs of global deflationary pressures. And the Chinese will actively pursue participation and ownership in the global supply chains for commodities.

A first target appears to be Australia. "The future can only get bigger in China," Chambers says.

DAVID JAMES