

## Borderline security splits sister cities

Terrorism threatens to end hundreds of years of close cultural and economic ties, writes **Lorraine Orlandi**.

**T**he Mexican border city of Nuevo Laredo and its Texas sister, Laredo, share 250-year-old roots, family bloodlines and a set of bridges over the Rio Grande river linking their people and economies.

Since September 11, 2001, they also face a common threat: the potential for Mexican territory to be used by extremist groups as a launch pad to attack the United States.

"To hit Texas would be to hit the heart of the United States," says Francisco Tomas Cayuela, attorney-general in the Mexican border state of Tamaulipas, noting Texas is home to US President George Bush.

"The bridges are symbolic. Dynamite them and we could repair them in a week. But the image would travel the world. They link the United States to the rest of the continent."

Meeting the threat has become a top priority for law enforcement along the porous 3200-kilometre border.

The border supports \$US250 billion (\$356 billion) in trade annually and is the crossing point for the highest number of illegal migrants entering the United States. Some see it as a weak spot in the US war on terror.

"Every portion of the border is a concern for us," says Mario Villarreal, a spokesman for US Customs and Border Control. "In the 9-11 world, the mission is to prevent terrorists, terrorist weapons and weapons of mass destruction from entering the United States."

Carrying more than 4000 trucks a day northward, the World Trade Bridge between Nuevo Laredo and Laredo is the border's busiest commercial crossing.

Shutting it down would halt the flow of imports essential to US businesses and consumers, from new Fords to insulated wire cable and Corona beer.

"The bridges are strategic security points," says Nuevo Laredo police chief Martin Landa.

"Closing a bridge would be catastrophic."

Since September 11, 2001, military highway checkpoints and meticulous inspections at crossings have become a way of life for border residents, prompting complaints of rights abuses in both countries and dampening tourism and commerce between them.

The colonial city of San Agustin de Laredo was founded in 1755 on the north bank of the Rio Grande. It became a Mexican city with Mexico's independence from Spain and then part of the United States with the US annexation of Texas.

Some Mexicans moved south across the river to keep their nationality and formed Nuevo Laredo. They still

celebrate George Washington's birthday, while their counterparts in Texas join in Mexico's independence fiestas every September.

Here the borderline blurs. Families are split between two countries. Workers commute between nations. Locals have coined a Spanish verb for crossing from Reynosa to McAllen, east of Laredo: They go "mccalleando".

"There is a dependency between the two countries, for food, fuel, clothes, everything," says Raymundo Ramos, a local journalist and rights worker.

But with tighter security, US tourists are put off by Mexican army patrols, and some have filed complaints of abuse.

Mexico's rights ombudsman says undocumented migrants have been shot and beaten by Mexican soldiers.

Fears of new attacks also cause Mexicans to think twice about casual trips to US territory, Ramos says.

"We said, 'Why should we go to the mall? We're targets at the mall!'"

Concerns are heightened with the approach of US presidential elections in November and by the March train

**"There is a dependency between the two countries, for food, fuel, clothes, everything."**

bombings in Madrid that killed 191 people three days before Spain's election.

Laredo is the largest inland US port on the border. Almost 1.3 million trucks hauling \$US49 billion in merchandise enter here each year, according to Customs and Border Protection. It also leads the nation in drug cargo seizures.

In all, Tamaulipas state has 16 crossings, including two railroads and a hand-drawn ferry, more than half of all the crossings from Mexico into the United States. The state has 60 per cent of all cross-border traffic, Cayuela says.

Nearly half of Tamaulipas's 380 km of frontier is uninhabited and harder to monitor. US border patrols are aided by new technology such as seismic sensors and infrared cameras.

In February, US Homeland Security Secretary Tom Ridge said that networks of drug smugglers and people traffickers in Mexico could be used by terrorists, though there was no evidence yet of them infiltrating via Mexico.

"Controlling our common border with Mexico is as important a homeland security relationship as we have with any other country," assistant homeland security secretary Stewart Verdery told US lawmakers in March.

At the behest of US officials, Mexican authorities are particularly vigilant for illegal Middle Eastern immigrants.

"There is no tolerance when it comes to nationals from the Middle East who could be a threat," Cayuela says.

Reuters

A far-sighted lawyer has invested 20 years in smoothing the path between Australia and one of our biggest trading partners, writes **Rowan Callick**, Asia-Pacific editor.

**W**hen the BHP Billiton negotiating team glanced across the table at their Chinese counterparts in Shanghai — where an \$11.8 billion iron ore deal with four massive steel mills was at stake — they saw among them a pin-striped, Collins Street lawyer.

Robin Chambers has become the Australian counsel of choice for China Inc in the face of tough competition from the legal heavyweights. En route he has gained an extraordinary insight into the surge of China, and into its emerging corporations' strategies for enmeshment with Australia.

He has grown used to being the only non-Chinese in a team that relies heavily on his experience to drive the best available bargain in deals that often involve hundreds of millions of dollars.

Now his firm, Chambers & Company, has a mandate from its Chinese corporate clients to operate virtually as a merchant bank on their behalf, to seek fresh joint ventures as China scrambles to tie up supply of the strategic resources it urgently needs to maintain the momentum of its industrial growth, running at about 20 per cent a year. The new priority: coking coal, of which Australia has massive resources. The preferred vehicle: joint ventures in developing greenfield sites or extending existing mines.

After law school in Melbourne and a master's degree in the United States, Chambers worked on Wall Street with US law firm Chadbourne & Parke for which he has now become special counsel for China.

When he returned from New York, Rod Carnegie, then executive chairman of CRA (whose name has now reverted to Rio Tinto) asked him to set up a legal department.

He stayed with the company for 14 years, gaining his deep expertise on the business and politics of the resource industry. During these "golden years for CRA," he worked on a wide range of projects in 30 different countries, from Bougainville Copper to Argyl diamonds and Blair Atholl coal.

Encouraged by Sir Rod who, he says,

## An Australian making it big in Shanghai

**Rowan Callick**

**M**ichael Wadley, an entrepreneurial lawyer from Brisbane, is seeking his fortune in the great 21st-century city of business dreams: Shanghai.

For two years he was chief representative there of Hunt & Hunt, one of six Australian law firms in China. But when the firm decided to withdraw he found a new niche running the Shanghai office of a Hong Kong firm owned by Philip Wong and his son Kennedy.

Most of the 186 foreign law firms in China are from Hong Kong, a situation now being reinforced by the Closer Economic Partnership Arrangement. This is a form of free-trade agreement which allows businesses in Hong Kong — locally or foreign owned — almost complete freedom to operate in China.

"Building alliances in Hong Kong, Beijing and Taiwan is important if you operate in Shanghai," says Wadley, whose wife is Taiwanese and whose three children attend a local school in the old French quarter of Shanghai, where they live.

The Wongs are powerful allies. They have been operating inside mainland China for 11 years and Philip Wong is especially well-known for his contacts there, where the family also has manufacturing and real-estate interests.

But they have found it difficult to attract fellow Hong Kongers to shift to Shanghai to develop the practice there. Enter the Australian, Wadley, who is determined to succeed in the hugely competitive climate of contemporary Shanghai.

He is receiving several applications every day from people wishing to join the firm in Shanghai, including many from ABCs — Australian-born Chinese — who are eager to return to their roots.

The growth area for the corporate legal sector in Shanghai is inward American investment. "People operating foreign firms in China don't seem obsessed with dealing through their own countrymen," Wadley says. So his client base is internationally diverse, and includes Chinese companies with international ambitions too.

"Getting work through the door is not difficult, but getting the work done to a high quality and earning the right margin is the challenge." It is inevitable, he says, that a law firm in China becomes involved in every aspect of a business as a broad adviser.

If a foreign company is dealing with a substantial business in Shanghai, it remains acceptable to go to arbitration in another jurisdiction such as Hong Kong or Singapore. "But there are issues of face involved."

People are not as nervous about the degree of risk engaging with the Chinese legal system as they were five years ago, he says.

"But the nature of your due diligence remains very important. If you have an issue with a Chinese company, you need to find out who is calling the shots and make a decision — on commercial or legal action — based on that."

"The bigger the project, the more likely you will receive a rational outcome. The Chinese want to be taken seriously as international players."

One of the big recent changes in attitude in Shanghai, Wadley says, is that lawyers are being viewed by the authorities as facilitators of investment rather than as irritants. The mayor's office and the Justice Bureau in 2003 invited the chief representatives of foreign law firms to a meeting where the vice-mayor said: "You are advisers, your clients listen to you. What can we do to make your job easier?"



Border security has become a top priority for law enforcement.

Photo: AFP

# enduring bridge to China

foresaw the future importance of China, he initially went to China at the beginning of the 1980s with the first Australian legal delegation, comprising lawyers from the major firms as well as the corporate sector, led by the then attorney-general Bob Ellicott.

All were invited to give talks and Chambers chose joint-venture law. Afterwards he was invited by the Chinese leader to tea where he was asked to advise on China's new joint-venture law as the country started to evolve into a market economy.

He was appointed as an adviser on China's legislative program to the state council (cabinet) and helped them frame their new joint-venture laws. He also conducted lecture series for senior cadres.

It was the negotiations starting 20 years ago that established the Channar iron ore venture with Rio Tinto's Hamersley Iron which triggered Chambers' new career. The Chinese metallurgical ministry-owned corporation that was eventually to acquire a 40 per cent stake in the \$420 million project asked Chambers to act for it in the negotiations.

"When the Chinese negotiators for the Channar project came to Australia, despite meeting the major law firms they appointed me to represent them because they knew me." His network of relationships — his *guanxi* — together with his experience in both countries counted for everything then and since, relegating the modest size of his boutique law firm to an irrelevance.

He left CRA, which was already starting to downsize its head office, and set up his own firm in the same tower at the top of Collins Street, just a few floors away from where he used to work. Today Chambers' colleagues are mostly from Greater China: the People's Republic, Taiwan and Hong Kong.

Chambers had resigned from CRA and flown to Perth at only a day's notice for those first Channar negotiations. The head of the Chinese delegation was so grateful, and also so concerned about the young family Chambers had left behind, that he welcomed him to the team with a gracious speech before taking \$US15,000 in cash out of his pocket and giving it to Chambers to send back to his wife in Melbourne.

Since then, he has been a director of the Chinese government's holding companies representing its interests in Western Australia, as well as China's representative on the policy committee of the Channar joint venture.

Typically, Chambers was in China every month last year except for May, even when SARS was ravaging the country. He has made 120 to 130 trips there in all.

His firm's recent dealmaking has included — on behalf of his American clients — relocating to China an American chemical company's operations from Michigan, and a manufacturing company's factory from Mexico. He represents both Australian and American companies on joint venture projects in China.

Chambers knows not only about the big deals that have been done, but about some that got away, too. A decade ago, he says, Capital Steel (Shougang) approached BHP through Chambers' firm about a Channar-style joint venture, but the negotiations drifted and Capital Steel went to Peru instead.

He regrets the takeover of North by Rio Tinto because, he says, North's then chief executive Malcolm Broomhead (now running Orica) was on the verge of expanding into iron ore business with China, and "could have been a valuable third force" alongside BHP and Rio.

China Inc has not confined its use of Chambers to the giant resources deals. He has also acted for Chinese government entities in establishing businesses in Australia in manufacturing, agriculture, real estate and hotels.

Chambers' firm missed out on the deal that landed China's biggest overseas investment vehicle, Citic, with a stake in the Portland aluminium smelter in Victoria. But — alerted by this deal to Citic's interest in Australia — Chambers soon landed an invitation, through a Hong Kong Chinese client, to dinner with Citic's vice-chairman.

Other, far bigger institutions, were offering to help broker a permanent presence for Citic in Australia. But Chambers showed the vice-chairman some photos of his Melbourne office and the no-nonsense cadre asked if



Robin Chambers has advised the Chinese cabinet on joint-venture laws.

Photo: GABRIELE CHAROTTE

there was room for Citic too. The company ended up renting space next to Chambers for its first decade in Australia before shifting to bigger offices, and now turns over more than \$750 million a year here. After Citic moved, it continued to call on Chambers for work.

What is it like to work with the Chinese? "They're excellent clients," says Chambers. "They are willing to take advice. They know what they want. They're very astute. They put together some very capable teams, targeting the different skills bases they need. They're always very grateful, and express it — something not so common with other clients. And they pay their bills on time." Even 20 years ago, in American dollars out of New York.

The Channar talks took place on two levels, he says: the commercial negotiations, "which were difficult at times," led on Chambers' side by the newly corporatised entity of the Ministry of Metallurgy; and those at a supervisory, political level driven by then prime minister Bob Hawke — especially with then party leader Hu Yaobang.

Channar was the crucial template for the enmeshment of the Chinese and Australian resource sectors that has followed over the last 20 years. "The Chinese describe it as the model joint venture," he says.

It became clear then, what they wanted: a simple formula of long-term contracts and equity. "The \$25 billion North-West Shelf liquefied natural gas deal had to fit that formula. Our advice to Australia LNG from the start had been to bring equity in to the equation."

The Chinese have introduced other ideas into the frame from time to time, but they have not proven central and have been dispensed with. For instance, early in the Channar talks they suggested bringing Chinese miners to the Pilbarra to work the ore.

Chambers was not engaged in the core LNG negotiations, but did help to provide

background information for the Australian side at that second, political level which is always present in big deals with China.

Through his contacts Chambers confirmed that Australian LNG, or ALNG, retained a strong chance to land the first big gas contract with China because Premier Zhu Rongji, a critical player, was perceived to be in favour of Australia as a long-term supplier of raw materials for China and would be prepared to override the opposition.

His involvement in the giant new BHP Billiton iron ore deal announced on March 1 came originally through special connections his firm had with the Wuhan Iron and Steel (Group) Corporation and Tangshan Iron & Steel (Group) Co Ltd, the two biggest of the four steel mills that forged the contract to take a 40 per cent interest in the Jimblebar mine near Newman in Western Australia.

Chambers & Co saw off some major rivals to be appointed as advisers for the four mills, who came together, deciding to use one law firm as recommended by BHP Billiton. Chambers says: "There were no conflicts of interests between them. They had identical interests, and they combined their negotiating efforts extremely well."

The negotiations persisted through 2003 and culminated in typically detailed documentation comprising hundreds of pages. BHP Billiton always envisaged an equity role, so that was not an issue.

Chambers had hoped the deal could have been announced during the visit last October of President Hu Jintao. He had in mind the model of the 1997 visit of Zhu when he had signed a protocol for the development, with the collaboration of Chinese markets, of Australia United Steel Industry (Ausi), a company involving former Hamersley chief Russel Madigan, Carnegie, and former ambassador to China Ross Garnaut. Chambers also worked with Ausi, but the

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project failed to take off in the face of the Asian financial crisis of 1997.

He says: "If Hu had signed in October, the Chinese would have accelerated the approvals process. But others held the view that the deal had not been consummated and didn't want to be making public statements about it prematurely."

Most of the talks took place in Shanghai with more than a dozen on the Chinese side, including Chambers and his team, and about six for BHP Billiton. "They were difficult negotiations at times," he says, "as these joint ventures often are."

As the talks approached the end-game, more English and less Chinese was used to speed the process. Eighty per cent of the Chinese negotiators spoke good English. The formal documentation is in English, underlining the rapid institutional modernisation of China today. It has not been signed yet, awaiting final approvals from the Chinese government, the ultimate owner of three of the steel mills (the fourth is privately owned). But this is largely a formality at this stage and is expected to be concluded by mid-year.

Chambers is now watching the replacement of the generation of Chinese who boldly supervised the transition towards a market economy by highly qualified market players.

"The president of a major Chinese enterprise, who had been in the position for 20 years, retired at the end of 2003. He was a good friend. His replacement is a man in his 40s who was educated in the US and has worked there for some years.

"That's the new China. People who know what business is all about. But they're still developing a comprehensive legal system, and in part our role with our clients — there and internationally — is culturally educative. It's crucial that our clients understand the context of doing business there, and they realise that. They still want their hands held."