

Australia was created at the height of European domination of the world as Britain developed the greatest global empire ever seen. Throughout its progression from penal colony to useful supplier of highly profitable resources, Australia has been locked into the orbit of a global power – first Britain and later the United States. Both world powers have dominated the Australian economy, through ownership of minerals and energy resources, agriculture and manufacturing for both the domestic market and for export.

Australia's main role in the world economy today is as a supplier of energy, minerals and agricultural exports. It has a developed services industry – finance, transport, retail, construction etc – and a continuously declining and narrowing manufacturing base.

From the 1970s British and US investors were joined by mainland European and Japanese interests. Japan's investment push was slowed by the bursting of its asset price bubble from 1989 and subsequent stagnation for at least a decade.

British capital's revival (especially in finance) under Margaret Thatcher saw British-based companies increase their control of Australian resources, including iron ore, coal, base metals, gold, precious metals, gas and uranium. These companies are largely listed (or dual-listed) on the London stock exchange and primarily owned by UK investors. They include BHP Billiton, Rio Tinto, Xstrata, Anglo American, Shell, BP and British Gas.

US companies which also play a major role include Newmont, Alcoa, Cliffs Natural Resources, Exxon Mobil, Chevron, Texaco, Apache Oil and Conoco-Phillips.

British and US firms are dominant in gas (LNG) and uranium, two energy sources which the growing environmental crisis makes increasingly strategic as alternatives to coal.

An estimated \$70 billion worth of gas projects are planned for Australia which would make us the third biggest gas exporter after Qatar and Russia. In uranium, the planned Olympic

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The struggle for Australia

*by Abe David**

Dam expansion in South Australia alone would make Australia the "Saudi Arabia of uranium".

Given that Britain and the US are minor consumers of our resource and agricultural exports, concentration of ownership in their hands is in contradiction to the fact that our biggest export markets are in Asia. This contradiction between ownership and trade is becoming acute as the economic crisis weakens the US/UK in relation to Asia, particularly China.

The biggest market for Australian exports, Japan, is completely dependent on minerals and energy imports and largely reliant on agricultural imports. And Japan remains the second biggest economy.

China, with the fastest growing economy in the world, has a huge demand for Australian resources to feed its exports machine which is rapidly moving up the value chain (in cars, whitegoods, consumer electronics, machine tools, shipbuilding and aerospace) as well as China's massive infrastructure development (power generation, rail, roads, water, etc).

South Korea, Taiwan and Southeast Asia are also important customers for Australian resources, with the Korean steel company Posco being our biggest corporate buyer. As India rapidly develops it is also joining the queue of customers especially for Australian coking coal, copper and gas.

A shift in economic power from the US and Western Europe to North East Asia was clearly evident in the late 1980s when the late Ted Wheelwright and I wrote *The Third Wave*, but was delayed by 20 years as a result of the US/UK resurgence fuelled by consumer debt and financial wizardry. But wars for oil supply and imperial hubris, plus financial greed on a scale rarely seen in history, have inevitably rebounded.

Australia is now in play as the leading Asian powers look to their long-term strategic interests in securing access to Australia's treasures – resources and agriculture – plus selected services and manufacturing which offer useful additions to companies developing a global reach. Joining

the struggle as minor players are the cashed-up Gulf Arabs, Southeast Asian Chinese traders, Singapore sovereign wealth funds and rival resources suppliers Brazil and Russia.

What is the nature of the Asian push led by Japan and China?

Japan, the first Asian country to modernise as an independent state, broke the colonial hold over Asia in World War 2. Defeat in war put it under the hegemony of the US. It was allowed to develop its economic capacity under US military and political control – an Egypt to Rome's empire. But with a weakening US and rising China, Japan must reach for a new position.

It has a dynamic industrial base and is a world leader in many technologies, with impressive physical infrastructure and a well-educated population. It has large domestic savings (reserves of one trillion US dollars) and although government debt is approaching 200% of GNP, most of it is internal.

Against this Japan is massively dependent on imports to fuel its industry. Its ageing population without significant immigration will present a huge financial challenge. The inbred political caste (now in its fifth generation) is struggling to come up with ideas to reposition Japan in the new global order.

Japanese investment in Australia today is centred on resources, especially gas, led by the national petroleum company Inpex (Browse and Ichthys projects) and the Mitsubishi group (see spread of Mitsubishi investments below). They are followed by other trading houses and utilities such as Mitsui, Sumitomo, Osaka Gas and Tokyo Gas.

Driven by stagnant or declining domestic markets, Japanese consumer products manufacturers are making a huge push into Australia. Examples include Kirin (taking over Lion Nathan, Dairy Farmers and National Foods), Suntory (Cerebos in the 80s, more recently Frucor) and Asahi

(Cadbury Schweppes beverages). These companies will buy more Australian assets and will be followed by other Japanese consumer companies. Japan's property and construction companies have not so far re-committed to Australia as they did in the 1980s, but engineering firms will certainly follow investment in resources and resource-infrastructure projects.

Japan's battle with Chinese interests over Australia will focus on energy supplies, especially gas and uranium.

The rise of China is now seen as the main economic and political event affecting the future of Australia, Asia and the world.

From the mid-20th Century China emerged as an independent power after 200 years of humiliation at the hands of the West. After three decades of Mao, Deng Xiao Ping brought about a Meiji-like opening of China very much on its own terms. Implementation of Deng's slogans – "To get rich is glorious",

"Crossing the river stone by stone", "Development is the only truth" – has propelled China to global power, with cash reserves of almost US\$2 trillion; a deepening industrial base; rapidly improving infrastructure; a reasonably stable political and social structure, despite growing regional and social inequality.

As China extends its reach, developing as Japan did a world-class industrial base, the need for security of industrial inputs has become crucial. Australia with its abundance of relatively close energy, minerals and agricultural products makes it an obvious partner capable of offering security of supply. This is the background to China's current investment push into Australia's mining sector.

Rio Tinto, the UK-controlled epitome of Australia's traditional ownership structure, is now in play, as the Chinese take advantage of Rio's corporate mistakes and a global



downturn. China's proposed investment in Rio is of great consequence for Australia, as it will establish a paradigm for the next leg of our historical development.

Do we let the end user of our resources take ownership and therefore set the price and terms of our exports? Clearly buyer and seller have different interests. This is especially the case with China and Japan where buyers are closely tied to State interests.

Chinalco's proposed investment in Rio should give us the opportunity to review the form of our resource development. Much of the world – the Middle East, Southeast Asia, Russia and South America – has recently chosen to consolidate control of key resources by the State or national capital. In Australia, with such a weak and dependent business class, only the State can look after national interests.

The Whitlam government favoured a national superannuation fund, along the lines of those adopted by Singapore and Malaysia and Japan's national postal bank, to co-develop Australia's resources. The idea was to manage the important issues of profit sharing, sequencing of developments, pricing and inputs. Do we develop a mining inputs industry to service such a big part of our economy? Or continue to let private – mainly US and UK – capital develop Australia's resources for their own interests?

A national investment fund, channelling Australian savings into co-ownership of resources with end users such as the North Asian economies, would fit the current needs of all parties; providing stable and price-competitive supply for buyers, while funding Australia's spending requirements as our economy narrows (payment of pensions, education, health and other social infrastructure).

As the struggle for global resources intensifies, Australia should use its natural wealth to make sure its population gets a piece of the action.

Major Mitsubishi investments in Australia

Mid West WA – iron ore

Mitsubishi owns half of Murchison Metals' iron ore business, including the Jack Hills project about 400 km north-east of Geraldton. Murchison is the biggest of the emerging iron ore producers in the Mid-West region. Mitsubishi's deal with Murchison effectively underwrites mine and infrastructure development costs.

Chiyoda Corporation

Giant engineering company Chiyoda is part of the Mitsubishi group. Chiyoda has set up a fully owned operation in Perth to manage natural gas plant-building projects. Chiyoda says it has already lined up feasibility studies for two Australian

LNG plants being planned by Woodside. Chiyoda has also been appointed major contractor to the Ichthys natural gas field off WA. The Ichthys field is being developed by Inpex, which is controlled by the Japanese government and has Mitsubishi as its biggest private sector shareholder. Ichthys will be Japan's biggest project in Australia to date.

Olympic Dam

Securing access to Australia's uranium at Olympic Dam is an important Mitsubishi goal. Mitsubishi is extending its nuclear-related business and linking up with France's Areva, the world's largest maker of nuclear reactors. The two companies plan to jointly sell nuclear reactor fuel, among other co-operative ventures. Japan relies on nuclear plants for a third of its energy needs, and aims to raise that to nearly 40 per cent by 2010.

Mitsubishi Development Pty Ltd

Mitsubishi's wholly owned carbon steel, raw materials and energy mining arm, based in Sydney. Incorporated in 1968, MDP is engaged primarily in the coal sector, including its 50/50 coking coal alliance with BHP Billiton in the Bowen Basin. MDP is the third largest coking coal exporter in the world.

BHP Billiton Mitsubishi Alliance (BMA)

Australia's largest coal miner and exporter, BMA is a 50/50 partnership between BHP Billiton and Mitsubishi Development Pty Ltd, under which the two companies share equal ownership and management of seven Central Queensland coal mines – Goonyella Riverside, Broadmeadow, Peak Downs, Saraji, Norwich Park, Gregory Crinum and Blackwater, as well as the Hay Point export terminal near Mackay. BMA also manages the operations of BHP Mitsui Coal, owned by BHP Billiton (80%) and Mitsui (20%). These include South Walker Creek mine and Poitrel mine.

Kirin

Mitsubishi group member Kirin sees Australia as a base on which to build a global food business. Kirin is now creating Australia's biggest food and beverage company through acquisitions, having bought Dairy Farmers, National Foods (key brands Pura Milk, Yoplait yogurt, Berri juices and Lactos cheese) and brewers Lion Nathan and Boags.

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References:

1. *Abe David and Ted Wheelwright, "The Third Wave (Australian and Asian Capitalism), Left Book Club Coop Ltd, Sydney, 1989.*
2. *Hugh Stretton, "Australia Fair", UNSW Press, 2005 (particularly Chpt. 3- "National Purposes").*