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TOPIC: Australian and Asian perspectives on resources diplomacy
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Introductory paper

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In May 2010, ASPI published a major report on the challenges facing Australia's resources diplomacy in Asia. The report argued that the return of natural resource politics was associated with three global developments—the continuing economic rise of China and India, the intermingling of trade, national security and environmental considerations, and the emphasis on the trade in resources for national prosperity at a time of uncertainty in the international economy.

That report focused mostly on the supply side of the equation—it analysed the role that Australian strategic commodities such as iron ore and uranium could play in achieving broader foreign policy outcomes in our diplomacy towards Asia.

But there is an important demand-side to this equation as well. It concerns the strategies that major commodity consumers in Asia—particularly China, India, Japan and South Korea—have employed to ensure the longevity of their industrial production and economic growth.

In an effort to broaden the debate in Australia on the strategic implications of resources diplomacy in Asia, ASPI hosted an Outreach seminar in Brisbane in June. This seminar brought together a number of academics and policy officials. As a result of those discussions, ASPI commissioned several participants to write short analytical papers from different country perspectives.

The process has yielded some rich insights into how regional countries view Australia's natural resource endowments. For both Sean Xian Liu and O.Yul Kwon, the challenge for Australia is to look beyond the current high levels of Asian dependence on raw commodities and to start building a stronger foundation for economic cooperation across the region. In the case of India, Ashutosh Misra sees the problem from a different angle. For him the urgency of India's energy security demands, particularly in relation to the nuclear fuel cycle, means that Australia has a narrowing window of opportunity to either export uranium to India or be overtaken by other suppliers. Leverage is only effective when you have something of value to sell.

The fourth and fifth papers, from David Martin Jones and Ian Hall, examine the implications of this debate from a broader perspective.

For Ian, seeking diplomatic gains from resources diplomacy can be a ‘risky business’. Most participants at the forum had acknowledged that market forces will prevail, and that trade is conducted between companies, not between governments. But there was no doubt that governments can and do make a difference. And resources security is now a first order priority for many countries in the region.

The final word is given to my co-author on the ASPI paper, Richard Leaver. For Richard, the real question here is in balancing the risks of leveraging our long-term strategic partnerships with China and India for national interest considerations against the idea that ‘normal commercial relations’ should prevail. Given the current volatility in commodity markets and the centrality of natural resources in Australia’s export dependence on Asia, the point is somewhat moot. Resources diplomacy, properly executed, can help to manage and mitigate some of those risks. And these ideas need a thoroughgoing public consideration.

Resources diplomacy in the Australia–China relationship

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A well-designed strategic plan will enable Australia’s rich natural resources to play a leading role in strengthening Australia’s relationship with China while maximising national interests. Development and implementation of such a plan requires a complete understanding of the relevant conditions and considerations of both nations.

China’s strategy for resources/energy security has been an integral part of its modernisation and national rejuvenation. Due to globalisation, China’s economy has become increasingly integrated with the world market. However, as a component of its foreign policy, China’s resources diplomacy must be consistent with the Five Principles of Peaceful Coexistence, particularly regarding independence and equality of sovereignty. In adhering to its principle of self-reliance, China relies predominantly on domestic markets for its resource/energy demands, even while attaching a growing role to international markets. For instance, aware of the sensitivity of its petroleum dependence on the international market, China has taken various measures to diversify its import markets and transport channels. In essence, China will not allow foreign forces to become a dominant factor in its resources market.

In terms of global energy supply and environment pollution, consensus is that it is infeasible for China to follow the traditional pathway of high resource-consumption taken by developed countries. Therefore, China’s strategy for energy security has focused on developing new energies, improving energy efficiency and protecting the environment. To this purpose, China has also striven to upgrade its economy towards one characterised by high-technology, innovation and knowledge. These factors will influence the forecast for China’s total energy demands and the priority arrangement for its resources diplomacy.

China’s resources diplomacy has been guided by the following features: 1) Mutual benefit and common development with target nations. China’s resources diplomacy in African and Latin American developing countries has involved joint development of local resources in a mutually beneficial way. 2) Long-term contracts. China’s preference for stable long-term agreements over market mechanism is exemplified in some Sino-Russian energy agreements. 3) Diversification of its energy import markets, energy import channels and domestic energy constitution. China has taken full advantage of international and domestic opportunities to safeguard its resources/energy security. It cooperates with developing countries in areas of bio-energy and with developed countries in areas of high-tech renewable energy, while additionally developing its own such technologies.

Australia’s natural resource export is an important part of its foreign trade with China. In the recent global economic recession, China’s continuously increasing demand for Australian resources prevented Australia’s economic decline. This indicates the emergence of a unique and significant relationship between Australia and China based on the supply and demand of such resources.

A long-term and stable foreign trade regime is required to maximise Australia’s interest. International trade practice has demonstrated that primary products—including farm products, raw materials and resources—are usually disadvantaged. They often suffer from unfavourable trade terms and are affected most severely by the boom-bust cycle. Although China as a monopolistic demand market will gain increasing power in a global free market, its dominant interest lies in establishing a stable trade regime under current international and domestic conditions—which can be seen as a common ground shared by Australia.

In order to establish a stable, long-term and mutually beneficial framework for resources trade, Australia will need to achieve strategic integrations at several levels, including: 1) Interests of Australia’s various resources enterprises; 2) Foreign corporations and joint ventures in Australia’s resources industry; 3) Free market principles and ideologies; 4) Interests of different economic sections and social groups. Such integration will allow the Australian Federal Government to represent the national interest in establishing a framework with China, which has previously formed partnerships with other countries under such frameworks.

The concept of resources diplomacy should be broadened to maximise Australia’s long-term interest during the rise of Asian powers such as China and India. When China completes its urbanisation by 2050s, its demand on Australia’s resources will differ significantly. To avoid becoming a ‘Banana Republic’, Australia should engage in more varied and long-term forms of economic cooperation so that it will continue to benefit beyond the immediate resource demands. To this purpose, the following measures can be taken in the resources industry: 1) Export relevant expertise, technologies and equipment alongside resources; 2) Use Australia's expertise, technologies and equipment to establish joint ventures in China; 3) Use China's capital to establish joint ventures in Australia's exploration, development and processing of resources. Aluminium smelting, for example, is a promising area for cooperation; 4) Jointly develop new energies and technologies, such as clean coal technology. Cooperation between Australia and China in nuclear energy development also has huge potential. More broadly, this pattern of resources diplomacy established with China can be extended to all major countries in Asia since diversification of its export markets is in line with Australia's interest.

Australia is a resource-rich country and its geographic position places it at the forefront to benefit from the rapid economic development in Asia. Such factors, considered alongside Asia's aforementioned trend towards integration, all indicate that Australia's future will be ever more closely linked to this region.

An Asian Community proposed by Australia is in line with development trends in Asia. However, such strategic institutional and international establishment will first require consolidation of shared economic and political interests. In this respect, lessons can be drawn from two examples: the European Coal and Steel Community that laid the foundation for the European Community; and the growing economic cooperation between ASEAN and other Asian countries such as China, Japan and South Korea that has promoted regional integration in East Asia. Both these cases provide encouraging precedents for a broad but close economic cooperation between Australia and Asian countries becoming the cornerstone for an Asian Community in which Australia is favourably positioned.

Australia's resource diplomacy and India's energy needs

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India is the world's sixth largest energy consumer owing to robust economic development, industrialisation and rising human population. It is estimated that by 2025 India will become one of the world's top energy consumers along with United States and China. India currently imports 69% of its oil out of which 67% comes from the Middle East. And considering the volatility of that region, India realises the need to devise a comprehensive energy security regime. The Indian public and private sector companies through consortiums have had their tasks carved out in exploration, refining, marketing and transportation, with a fair degree of success over the years. India also has been going energy hunting from West Asia, Persian Gulf, Central Asia, and South Asia, to the Asia–Pacific with mixed results. Indian company Oil and Natural Gas Commission Videsh Limited (OVL) has repeatedly lost major overseas hydrocarbon bids to Chinese competitors, Petrochina and Sinopec.

In a major move to reduce dependence on oil, the government of India took three key decisions. First, switch over from oil to gas; second, invest in research and development in renewable energy sources; and third, increase the share of nuclear power to meet the burgeoning energy demands. This led to the landmark Indo-US nuclear deal in 2006 under which provision 123 of the United States Atomic Energy Act were amended though the Henry J Hyde Act to enable uranium supplies to a non-NPT signatory, India.

It is in this context that Australian energy policy and resource diplomacy crosses path with India's energy and security needs. Australia owns 39% of the world's uranium reserves and is a member of the 45-member Nuclear Suppliers Group (NSG) in which it played an extremely vital role in October 2008. It helped approve a US proposal to lift the ban on nuclear trade with India under the India–US nuclear deal.

It certainly baffled New Delhi to find the government which facilitated the approval by the NSG would soon veto the supplies of uranium from its reserves. The veto perhaps driven by politico-ideological consideration was justified on the grounds that Australia should not become party to a nuclear arms race in South Asia. It was nonetheless taken in a rather spirited manner by New Delhi which labelled it as an understandable complexity of democracy. The decision reminded India how leadership can play such a decisive role in shaping foreign policy over issues which are less to do with national priorities and more with party ideology. Unfortunately, for the Rudd government, Australia–India relations continued to tumble due to other unforeseen developments such as the attacks on Indian students in Australia. In the process Australia's positive role in the NSG was completely forgotten and Canberra too, did very little to sell it aggressively in the Indian media.

The contours of Australia's resource diplomacy still remain largely unstructured. In this context the talk of sustaining uranium resource diplomacy vis-à-vis India appears out of sync not only with the shifts in international politics but also with Australia's own resolve to seek stronger relations with India. It must not be lost to the protagonists of resource diplomacy that it is structurally unstable in nature and runs the risk of backlash if not carried out meticulously. The instrument of resource diplomacy is predominantly perceived by the developing countries as a tactical neocolonial strategy and may cause grave misgivings between nations. Therefore, the political leadership must take extreme care in ascertaining whether resource diplomacy is to be exercised for political, economic, strategic or ideological reasons.

Another, key aspect of resource diplomacy is the timing. Any misjudgment in its timing may not only harm bilateral relations but could also possibly hurt the economic interest. In the strategic community in Australia, increasingly the point is gaining traction that the window of opportunity to supply uranium to India is not infinite and therefore must be done sooner rather than later. As the US, France, Russia and other suppliers line up, Australia's decision to supply uranium after much delay, may just lose its diplomatic, political and economic currency. Like New Delhi, strategists in Australia are hopeful that after the leadership change and the rise of Julia Gillard to power, policy on the issue may change. Gillard's emphasis on improving relations with India offers promise on several fronts, including uranium.

South Korea's approach to energy and resource security

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In 2006, South Korea was the world's tenth-largest consumer of primary energy at 2.1% of the global total. Korea's total primary energy consumption increased fairly steadily from 193.0 million metric tonnes of oil equivalent (Mtoe) in 2000 to 240.8 Mtoe in 2008, an average annual growth rate over the period of 3%. Korea has only limited domestic supplies of energy, and has to import 96.4% of its energy requirements. A remarkable change in the structure of energy consumption has occurred recently. Coal consumption has increased steadily in the recent past, while petroleum consumption has remained more or less unchanged. LNG consumption increased most rapidly and by 2005, LNG has replaced most other sources of energy in the domestic sector and overtaken oil as a major source of power generation. Nuclear power provides about 15% of primary energy consumption and all uranium required has to be imported.

In terms of energy imports, Korea is the world's fourth-largest oil importer and second largest importer of coal and natural gas (LNG) after Japan. All Korea's energy imports must arrive by maritime transport because of the division of the Korean peninsula. According to the International Energy Agency (IEA), Korea's total primary energy supply requirement is expected to increase by 37% between 2006 and 2020. The uncertainty that surrounds North Korea adds a layer of difficulty to South Korea's energy security strategy. In the event of a North Korean collapse and some form of unification, Korea's energy demand would increase dramatically. North Korea has experienced a critical energy deficit for many years.

Most of Korean mineral requirements have to be met with imports. The Korean steel industry has grown steadily along with its economic growth. Korea has to import all iron ore and coking coal needed for its steel industry. Because of the close link between the non-ferrous industry and the economy, the Korean non-ferrous industry has also expanded over time, thereby increasing its demand for non-ferrous metal ingots, including aluminium, lead, zinc and nickel. Korea depends heavily on imported ingots for most non-ferrous metals.

Because of its high dependence on external sources for energy and mineral resources, Korea's strategies to secure them are in essence diversification of energy and mineral supply sources and their overseas development, although the main thrust varies with the characteristics of their industries. For energy in particular, Korea seeks to secure stable, cost-effective, and environmentally-friendly energy supply. To this end, the government focuses on developing a blend of mainly natural gas, bituminous coal and nuclear power for the country's energy supply into the extended future. It also seeks to reduce its reliance on imported oil in addition to diversifying its sources of imported oil. Korea has undertaken direct investments in numerous overseas resource projects to secure energy and mineral supplies and set targets of importing an increasing portion of imports from Korean-owned overseas operations. In particular, Korea expects large growth potential in imports of Russian oil through its participation in oil development.

Korea's strategy of import diversification of energy and mineral sources could have some implications for Australia. Some of Australia's competitors with price advantages may increase their market shares in Korea's imports of energy and minerals at Australia's expense. Russia and Indonesia appear to be future competitors in supplying LNG to Korea. Although Korea's investment in Australian energy and mineral sectors could be welcome in principle, Korean investors would seek to participate in and control management of Australian companies for their benefit.

Australia should remain vigilant about the development of Korea's long-term strategies to secure energy and mineral resources. It should also seek to improve its diplomatic ties and economic relations by establishing a Free Trade Agreement with Korea. Australia should keep an eye on energy and mineral developments in East Asia including Siberia. Australia should also incessantly seek to diversify its export destination of energy and mineral resources. Australia should attract Korean investment in its energy and mineral sectors as a way of securing the Korean markets for its resources. However, Australia should not lose its managerial power of its major energy and resources sectors.

Australia and the problem of resource security in Asia

Dr David Martin Jones
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As the dust begins to settle from what the current Australian Foreign Minister once termed the Global Financial Crisis, a much altered regional and global economic landscape is beginning to appear. The global imbalance between financially solvent, export-oriented East Asia, whose economies run large budget and trade surpluses, and the consumption driven, financially insolvent European and US economies which (with the exception of Germany) run large trade deficits, is in the process of creating a global economic power shift. As the West inexorably diminishes economically, the material and geo-political influence of the new giant economies of Asia, India and China, as if by an invisible hand, grows.

In particular as the East Asian hemisphere detaches from the West, China, now the world's second largest economy, is becoming the anchor for a new cycle of self sustaining economic development between Asia and the rest of the developing world that is bypassing the economies of Europe and the United States. The impact is already apparent in China's trade statistics, with the biggest increases in exports in the last year coming from developing economies. Trade with ASEAN increased by 54.7% in the first half of this year and by 60.3% with Brazil. This new alignment presents important opportunities as well as dilemmas for developed and emerging resource-rich middle powers like Australia, Indonesia and Malaysia.

As Chinese and to a lesser extent Indian growth has continued, the problems that this has generated for the region are, therefore, fundamentally different from those facing the structurally indebted West. For resource-rich Australia the problem is one of growing dependence upon Northeast Asia in general and China in particular for its exports of natural resources.

This complimentary relationship which has kept the region out of recession is, however, not without a downside. The downside for Australia is that posed by the 'Dutch disease', namely resource dependence that presents a dilemma about how to exploit finite resources to ensure future growth and development. The problem is further exacerbated not only by China's demand for resources but also by how Beijing seeks to secure and control those resources.

In the Australian case this has caused political friction both in terms of its trading relationship with China and domestically over the most effective strategy for managing its resource boom. This friction arises from China's determinedly nationalist strategy for managing its resource dependence via state-owned enterprises like Chinalco that 'go out' to capture resources rather than compete openly in a free market. This corporatist approach has particular implications for Australia, which unlike Brazil, Indonesia or Malaysia does not follow a state-managed approach to its resource sector. Australia allows a relatively open market to operate in terms of resource extraction, where the market itself is dominated by major transnational players like BHP Billiton, Xstrata and Rio Tinto.

In this context China's investment in resources heralds a new era of competition and conflict between the respective roles played by state-owned Chinese companies and first world transnational companies in the global market place. In the Australian resource sector this conflict is exemplified by the recent Stern Hu and Lynas cases. In the Stern Hu case, the prosecution of a Rio Tinto senior executive in Shanghai on corruption charges was widely viewed as payback for Chinalco's failed bid for Rio Tinto in 2009. Meanwhile, in 2010 the Australian FIRB (Financial Investment Regulation Board) prevented CNMC's (China Non Ferrous Metal Mining) controlling bid for Lynas, a rare earth mining company, which would have further deepened China's control of the world market for these strategically important materials. (Rare earths are a critical ingredient in renewable energy technologies). CNMC subsequently terminated its bid.

China's investment strategy, therefore, is to secure a controlled market with a view to controlling prices in its economic interest. In this context, Australia's resource management regime looks increasingly incoherent. More particularly, it lacks long-term strategic thinking about how it adjusts to a post-Anglospheric world order and what Ian Bremmer has termed, ‘the end of the free market’. Problematically, Australia’s foreign investment regime, which assesses investment on a case-by-case basis, assumes a world of transnational corporate players rather than state-owned enterprises backed by China’s state controlled banks with almost unlimited cash resources.

In other words, Australian policy towards its resource wealth requires a more coherent and less opaque investment regime. It also requires a coherent policy on managing its resource based prosperity via an efficient tax regime that secures wealth for the future and is invested in the national interest. In this context Australia’s mining tax and investment regime seems far less evolved than similarly democratic market oriented Western states like Norway and Canada. A sovereign wealth fund would seem an obvious option. At the same time, Australia needs to think carefully about its dependency on China for its resource exports. In this context, Australian policy makers need to examine the neglected possibilities of the burgeoning Indian market and its resource needs particularly in terms of sales of uranium which the Labor government, somewhat myopically, decided to suspend.

Australia, like other resource-rich countries, needs to think proactively and long term about the management of one-off mining resource revenues if this current blessing is not to be turned into a future curse.

Resources diplomacy: A wider view

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Using one’s resources as leverage over others is a practice as old as the hills, but it is a risky business. ‘Resource diplomacy’ means, in effect, manipulating the price of what you are selling. It means raising or lowering the price to change the behaviour of the customer. It means adding a political surcharge or offering a political discount to the price set by the market.

All states use trade in goods and services to influence other states, rewarding allies with cut-price deals for raw materials, high technology, food or arms, and punishing those of which they disapprove. This is not to say that this behaviour is uncontroversial. In practice, it frequently leads to protracted, sometimes violent, disputes.

There are good reasons to let the market set prices and to keep politics out of the equation. Economic efficiency is one—those who can pay the market price are often those who can use resources most efficiently and have the greatest incentive to do so. Interdependence—and the international peace that goes with it—is another. Free trade allows states with radically different political systems (like Australia and China) to exchange goods and services without having to have political disputes that could escalate into violent conflict. And, more importantly, the interdependence that flows from such trade gives both sides good reasons not to engage in those kinds of arguments.

Setting prices politically, rather than through the market, creates incentives for states to seek alternative means of acquiring resources and alternatives to the resources themselves. In the past, the principal alternative to trade was war—taking resources by force rather than paying for them. In the past too, states have responded to attempts to manipulate resource prices by seeking to reduce their dependence on that resource and find another to use in its place. The Western response to OPEC's attempt to impose a political surcharge on oil after the 1973 Yom Kippur War is an obvious case in point. The greater the dependence, the faster the change, and the higher the likelihood that violence might play a part.

An Australian attempt to manipulate the price—the cash price and the political price—of its resources, especially of coal, iron and uranium, needs therefore to take account of the alternative strategies and alternative commodities on offer to its customers. Both China and India are acutely aware of the power resource vendors have over their economic prospects. They have already taken steps to diversify the range of suppliers they have. They have displayed no qualms about switching suppliers if one becomes difficult to manage. And they are actively seeking alternatives to certain key commodities—building nuclear and gas power stations to reduce the dependence on coal and investing heavily in new technologies.

China and India act this way not just because they recognise their vulnerability, but also because the stakes of the game they are playing are much, much higher than those faced by Australia. Their political elites are acutely aware that their political survival depends on their capacity to deliver higher standards of living to their people. Access to resources necessary to deliver economic development is a strategic necessity for these elites. Australia can afford to tinker with its resource extraction industry; China and India cannot afford to let their supplies run dry. A 50% reduction in Australian resources exports to Asia would lower incomes, raise unemployment, and probably lose the government an election. A comparable decline in imports to China and India would likely threaten the continued existence of their respective political systems.

This acute sensitivity of Chinese and Indian elites to attempts to manipulate the cost of the resources they crave focuses attention on what ought to be the key question concerning resource diplomacy, namely, what foreign policy objectives are worth the considerable associated risks? Leaver and Ungerer offer two possible objectives: first, creating an International Commodity Agreement (ICA) to manage the price and supply of iron destined for China, and second, using uranium exports to bring India in line with the nuclear non-proliferation regime. Are these objectives worth the risks? An ICA might allay Chinese fears of a future iron cartel, but Chinese acquisitions of foreign producers may well prevent such a cartel from emerging. Negotiating an ICA—and making iron ore exports even more political than they already are—would likely be more fraught than letting the mining firms negotiate their own deals. Negotiating an Indian deal would be equally difficult, but for different reasons. India seems now to have given up on Australia, following up the US–India agreement with a contract to supply uranium with Canada. The chances of Australia breaking back into that market, at least in the short to medium term, are slim.

Resource diplomacy has its attractions and its costs. Australia's resource exports do open windows for dialogue with the emerging economies and these should not be ignored. Done sensitively, and without changing the price of resources, it might well reap rewards, but it must be done with an acute awareness of the stakes of the game.

Resources and Asian engagement: an historical perspective on the future

Mr Richard Leaver
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Ian Hall is, of course, right: resources diplomacy is risky business. But so too is the obverse policy where the terms and conditions of international resource transfers are left to what Canberra has for three decades called 'normal commercial relations'. The real question is about the balance of risks between these two strategies and how that balance is moving over the short and long run. The comments below suggest some good reasons why resources diplomacy ought to make even more sense in the future than it does right now.

Thinking about the future is always helped by a bit of historical perspective. Trade in resources has historically been one of the most important foundations of Australia's policy of Asian engagement. In the 1950s, when Japanese importers arrived in Australia seeking the raw materials to feed their new world class industries, few Australians had any clear conception of where this might end up. The quantitative dimensions of this story are now well known: the rapid emergence of Japan as Australia's major export market; the fortuitous timing of this emergence, offsetting completely the declining importance of the British market; and the healthy trade surpluses that the resource trade delivered, virtually counter-balancing the trade deficits that Australia suffered with other OECD countries. Hence a great paradox quickly emerged: Australia became, at least by the concentration of its exports, more Asian than the countries of Asia—and well before policy talk about Asian engagement became a popular Australian pastime.

But Australia's Japanese story was equally important in qualitative terms. Because they insisted upon equality of treatment, the Japanese insinuated the principle of non-discrimination into Australian trade policy through the bilateral 1957 Treaty on Commerce. And, at a lower level of abstraction, the everyday practices that would constitute a market in bulk commodities which had never existed before needed to be specified. Here the desire of Japanese governments to restrain the export of capital from their economy conspired with the populist sensitivities of ordinary Australians against inbound Japanese foreign investment to thrust greatness upon long-term contracts as the backbone for this embryonic trade in bulk resources. These forward purchasing contracts radiated outward from the initial Hammersley project in the Pilbara across the province as a whole, thus allowing local miners to raise their development costs by debt financing with domestic and/or international banks. And so a narrow course was charted around two dangerous shoals: the domestic sensitivities that vertical integration with Japanese steelmakers would have highlighted; and the high risk of market failure in a sector where massive scale and 'lumpy' inputs conspired against the free market solution.

Cut forward four decades; it is easy to imagine that the rise of China is really just a modern re-run of this Japanese story, perhaps even more spectacular in the quantitative dimension than the prototype. The most important point, however, about the rise of China concerns the decline of the annual benchmark price system, the evolved form of those initial long-term contracts that came out of the Pilbara nearly half a century ago. In iron ore, annual sales contracts were phased out early in 2010 and replaced with quarterly contracts—contracts that are themselves presently under threat from a spot market that already accounts for more than 50% of Australian ore sales into China. Swap markets mediated by financial institutions are also beginning to develop, and speculation in iron ore, once almost unknown, is rife inside China. Consequently, and in complete contrast to the rise of Japan, the rise of China has been associated with the qualitative decay of a relatively stable form of the market, the annual contract.

So the first question that Australians need to ask, and which is presently going begging, is whether they can rest easy with so much of our national export revenue arriving through such inherently volatile markets. Over the last decade, natural resources have become the backbone of Australia's export sector; indeed, in 2008–09, black coal and iron together made up around 50% of total Australian exports, and the proportion is rising even further as higher ore prices, and especially higher spot prices, replace lower contract ones. It is quite remarkable that, in mid-2008, as the rest of the world was experiencing the nadir of the Global Financial Crisis, Australia's balance of trade suddenly jerked from deficit to surplus—an inversion that it repeated again earlier this year.

The easy answer to our question is therefore a resounding 'yes we can': yes, we can live with higher export prices; yes, we can put up with vast improvements in our terms of trade; and yes, we can afford to enjoy all this through improved superannuation funded out of the windfall profits of resource companies. But the altogether more prudent answer is 'no, we shouldn't'—and for two very different reasons.

The first reason concerns the long-run self-interest of a big commodity exporter: spot markets go up quickly, but they can also fall just as fast. Do we really want a double or nothing bet around Paul Keating's 1986 reading on the dangers of 'banana republicanism'? If the answer is no, then a more stable arrangement of the market of the kind that an International Commodity Agreement might provide begins to look very attractive.

The second reason for not wanting to place our export sector on the saw-tooth trajectory of shorter-termed markets concerns the interests of our customers. Because its iron and steel sector is so internally disorganised, China's rise as the number one consumer of iron ore has introduced a substantial degree of chaos into the international market. It will take some years until their authorities get on top of this problem through rationalisation, but the outcome is certain, especially once the 'growth at all costs' syndrome of current policy begins to ease. Since no one in China of any status has ever favoured a price system for iron ore other than annual contracts, Australians should expect that price-gouging now will be repaid in full measure over time. For these two reasons, then, Australians need to begin to appreciate that what is good for an Australian company is not necessarily good for Australia.