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HD **How to win over friends and influence others**
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Though **China** appears central to Australia's economic destiny, Julie Bishop assures Americans the US is our true friend. John Kehoe

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The vexed foreign relations debate on whether Australia can walk and chew gum at the same time in its security and economic relationships with the United States and **China** has reared its head in Washington.

As US and Australian diplomats, trade and defence experts contested the issue at a forum in Washington last week, Foreign Affairs Minister Julie Bishop left no one in the room guessing where she stood, boldly declaring that the US was Australia's single most important economic partner.

"We're true friends who share common values, whose interests overwhelmingly align," Bishop said.

For the general observer, those sentiments would appear to overturn conventional wisdom that Australia's economic destiny is determined by **China**, which is our largest export market and has for the past decade had an insatiable appetite for minerals.

Bishop's doctrine was based on the US being Australia's largest source of foreign investment, which combined with trade flows accounts for \$1 trillion a year. It's a reasonable argument to make, with US multinationals Chevron, ExxonMobil, GE and ConocoPhillips having significant investments Down Under.

Regardless of whether the US or **China** is more important economically, what is beyond dispute is that both are critical. The three economies are also heavily interdependent.

Bishop made the link in New York, noting that US resources companies have significant **mining** investments in Australia, helping dig up the country's commodities and export them to **China**.

Still, there remains a legitimate question if the strengthening security alliance with the US jeopardises Australia's economic relationship with **China**, particularly when there is heightened instability in the trade corridors of the East and South **China** Seas. The dilemma Australia faces, as one former senior diplomat told me, is how far do you accommodate **China**'s political interests to benefit your economic interests.

The **Chinese** have long held the strategic ambition to separate Australia from the US. The world's two biggest economies are rivals and are vying for global dominance, even though America is almost certain to hold that baton for decades to come.

China can be very aggressive, diplomatically, in trying to achieve its goals, to the point of bullying foreign politicians and diplomats in negotiations. Australia has what **China** needs

But fortunately Australia has an ace up its sleeve that many other nations do not. Australia has what **China** needs – an abundance of **iron ore**, **coal** and gas to fuel the Sino economic development. These minerals are a strategic asset for Australia to leverage and offset the possibility of **China** deciding to inflict economic damage on Australia because of its US ties.

"The economic relationship is as important to **China** as it is to Australia," former Australian defence minister turned US Studies Centre professor Robert Hill said in an interview in Washington. "The free flow of natural resources into **China** is critical for its development."

Though Brazil and increasingly Africa are seen as competitors to Australia in the world's resources supply chain, government strategists believe it is unlikely **China** would stop buying our reliable resources and pay higher prices elsewhere to send a political message.

If **China** does get unhappy, the more likely scenario is a ban on meeting Australian ministers for, say, six months.

"I think we haven't been conscious enough in dealing with the strong position we have in dealing with the **Chinese**," says a senior supporter of the US-Australia alliance.

The Abbott government is also acutely aware that Australia is far from alone in facing the **China** conundrum and is not in a unique situation in balancing ties with **China** and the US.

In fact, most south-east Asian nations are in the same boat. **China** is the biggest export market for Japan and Korea, both of whom are aligned with the US.

But if the US is truly Australia's single most important economic partner, a point Trade and Investment Minister Andrew Robb also made recently, the Abbott government needs to back talk with action.

Only two months ago Treasurer Joe Hockey blocked US food processing giant Archer Daniels Midland's \$3.4 **billion** bid for GrainCorp. US government officials had worked for months with the Australian government and ADM, which is very well connected in Washington, on trying to usher through the deal.

Soon after, the government waved through State Grid Corporation of **China's** \$7.5 **billion purchase** of electricity and gas distribution assets across Australia's east coast. In another **Chinese**-friendly decision, Hockey relaxed rules that would have forced Yanzhou, a **Chinese** state-owned enterprise, to reduce its **stake** in Yancoal, one of Australia's largest **coal** miners.

Knocking back an **acquisition** by a US private-sector business while approving ownership by **Chinese** state-owned enterprises sent a paradoxical message abroad.

Hence, Bishop's trumpeting of the US economic relationship is surely, in part, designed to appease any US concerns from these events. Now the government is banking on **China** acting in its self-interest and not dishing out any economic pain.

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