陸克文政府的貿易政策及其對東北亞的影響

李察·利佛爾

澳洲福臨德斯大學政治與國際研究系副教授

關鍵字：陸克文、澳洲貿易政策、東北亞、澳洲工黨

中文摘要

陸克文有充分的時間來擘劃工黨新政府的外交貿易政策。2003 年下半年澳洲國會裡的工黨充滿著世代交替的氣氛，而陸克文本身就是其中的重要部分。雷森（Mark Latham）以些微多數取代運氣不佳的克林（Simon Crean）擔任工黨黨魁。雷森隨即指派陸克文（Kevin Rudd）為其影子內閣裡的外長一職。因此，陸克文與他的顧問們有四年的時間來制訂工黨新政府的外交貿易政策的大綱。除一項例外外，他們所釐定的政策路線大抵與傳統工黨導向一致，即將與美國的同盟視為澳洲政策的基石、重返多邊的機制以及加強區域的交往。這三項政策柱石在貿易政策上似乎都表現得很明確，因為他們對霍華德（John Howard）政府時代所積極推動的雙邊自由貿易協定抱持懷疑的態度，而偏好多邊主義。

本文主旨即在首先剖析陸克文工黨政府在未上台時是如何擘劃其未來的貿易政策及其所面對的環境，然後討論其對澳洲與東北亞貿易的意義。

The Trade Policy of the Rudd Government and its Implications for Northeast Asia

Richard Leaver
Associate Professor
Flinders University of South Australia

Key words: Kevin Rudd, Australian trade policy, Northeast Asia, ALP

Kevin Rudd had plenty of time to plan the foreign and trade policies of a new Labor government. He was a significant part of the mood for 'generational shift' that swept though the parliamentary Labor party in late 2003. This mood saw Mark Latham narrowly installed as leader in place of the hapless Simon Crean, and Latham in turn re-anointed Rudd as shadow foreign minister. Thereafter, Rudd and his advisors had four years to outline the foreign and trade policies for a new Labor government.

Their plan was, with one arguable exception, conventional Labor Party boilerplate: the US alliance as the cornerstone of Australian policy; the return to multilateral modalities; and greater effort for regional engagement.[1] This 'three pillars policy'[2] appeared to speak

[1] The arguable exception was the degree of attention that earlier

loudly and unequivocally to trade policy, for its preference for multilateralism dovetailed neatly with Labor's evolving scepticism about the bilateral free trade agreements much favoured by the Howard government. Back in 1999 and 2000, when Howard first embraced commercial bilateralism, Beazley's Labor party had refused to follow. True enough, Latham did eventually fall in behind the 2004 Australia – US FTA, but only in a highly qualified and begrudging kind of way.[3] But even this turned out to be a quite temporary embrace; after Latham disappeared in his own cloud of smoke, Labor criticisms of bilaterals redoubled.[4] Particularly noteworthy was the 2006 critique of the AUSFTA by Michael Costello, Beazley's former Chief of Staff, that Australia was 'done over' by the Americans in this deal, and that the country should have no desire to see it happen again. Consequently, by the time China emerged as Australia's major trading partner in

---

Labor governments had given to the US alliance. Whether or not it was true, Howard's team had argued in 1996 that Hawke and Keating had neglected the US alliance. Under Rudd's guidance, no new Labor government was going to be caught out in quite this same way again. Paradoxically, Mark Latham invented a new way onto this reef.

2 For the seminal documents, see Kevin Rudd, *The Three Pillars: A Foreign Policy Statement by the Australian Labor Party*, October 2004, and 'Leading, Not Following: The Renewal of Australian Middle Power Diplomacy', *The Sydney Papers*, Summer 2007.

3 For my account of the makings of the 2004 agreement, see 'The New Trade Agenda', in Carl Ungerer (ed.), *Australian Foreign Policy In an Age of Terror*, University of New South Wales Press, Kensington NSW, 2008.

4 Michael Costello, 'Done like a dinner on free trade deal', *Australian Financial Review*, 6th January 2006.

2007, Labor's scepticism about bilateral trade deals was very much back in vogue.

Opposition plans, however, only rise off the drawing board in the actual circumstances that prevail when a new government arrives in office. And in November 2007, three circumstances qualified upon Labor's trade plans: the factional circumstances that attended Rudd's rise to the leadership of his party; the recessionary circumstances that, even then, loomed on the horizon, and the circumstances of a bull market in commodities that was nearing its zenith. This paper describes the ways in which plans and circumstances came together, and the implications for Australian trade with Northeast Asia.

Party factions and policy fictions

Rudd's rise to the top of the Labor Party was underwritten by a unique conjuncture in the party's internal politics. This conjuncture was the unwitting creation of Kim Beazley, who made a comeback as party leader for two years after Simon Crean and Mark Latham had their tries. Perhaps Beazley's biggest mistake during this period was to 'encourage' Crean to exit politics altogether, in part by appearing to support a new candidate for preselection in Crean's seat. This was regarded as extremely poor form by many in the ALP, where the prevailing convention was that past leaders (even highly unsuccessful ones) got to make up their own mind about the time and place of their leaving. Indeed, this cause was sufficient to rally the Left and Right factions of the ALP's Victorian Branch around the defence of Crean, leaving their usually intense factional politics to one side.

Three consequences came out of this unification of the Victorian branch. First, Beazley lost the political support he would normally have obtained from the Victorian right – a loss that sealed his fate once Rudd decided to run at the ALP's top job. Rudd duly recognised these realities by giving Crean the important position of trade minister. Second, Julia Gillard was most significant second order beneficiary. Previously, her advancement appeared to require her to move from the Left to the Right faction – but the new-found factional unity in Victoria now made this unnecessary. So a Crean-Gillard axis was formed, with significant consequences for Rudd's rise to fame (not to mention his continued enjoyment of the highest office).[5] Third, other Left Victorians were, like Gillard, similarly empowered, along with their policy ideas. And as the home of Australian manufacturing, two policy themes have been strongly associated with the Victorian left in recent decades: a general hostility to free trade and free trade agreements, especially when they are done with low-wage countries; and a strong preference for industry policy over free trade, especially in the auto sector that is so central to the Victorian economy.

Simon Crean was the ideal vehicle for this package. As Trade Minister, he has given the appearance of being a

---

5 Rudd, of course, now enjoys the prime ministership by virtue of his high personal popularity, which rarely falls below 55%. But if it should fall dramatically, then Crean still has the power of king-maker - which he would exercise in Gillard's favour.

great supporter of free trade, and particularly free trade at the multilateral level. But support for multilateral free trade has come cheap during the life of the Rudd government because the Doha Round was not about to be realised. George W. Bush's trade promotion authority had lapsed six months before Labor even got to office, and this meant that any trade deal struck at the executive level would have to obtain line item approval from the US Congress. The last time an American president had pursued multilateral trade negotiations without congressional authority, the outcome had been the Seattle fiasco of 1999. Rudd, indeed, was on the record as acknowledging the death of the Doha Round well before he got to office.

Crean, however, appeared to detect a pulse in the multilateral corpse, and got about the task of reviving it. He was careful to appear in public as the greatest of all enthusiasts for a possible multilateral outcome, and his salesmanship of this cause countenanced no setbacks. So, for instance, when a massive US farm bill issued forth from Congress in May 2008, he simply described it as 'a lost opportunity'. Since he had been active on Capitol Hill lobbying against it, Crean knew full well that a Congress capable of generating such a bill would also savage any immediate Doha agreement. But rather than speak to this truism, Crean preferred the Orwellian turn where everyone would just have to try harder. The future, it seemed, was always certain, and all one had to do was to continue to look on the bright side of things.

And try harder he seemed to do. So, in Bush's final weeks, he was party to a final free trade push – a real long-shot – on the American congressional scene. And a week after Obama’s installation, he was back at it again in Davos, trying to get the new president all enthusiastic about his favourite cause. For his troubles, he ran into a mild rebuke from Bill Clinton, the villain of Seattle: there was a time and place for serious free trade negotiations, and Davos was neither.[6] Clinton had clearly learned something from his failures – but that something was too subtle for Crean.

Consistent with all this positive spin, Crean also appeared to be bringing the bilateral trade agreements with China and Japan off the back burner where the Howard government had left them. But once again, neither of these agreements was anywhere near done. Crean, indeed, had described the China agreement early on as ‘frozen’ – a reasonable assessment given Beijing’s consistent lack of interest from Day One. As with Doha, Crean was therefore able to talk up the potential importance of the agreement without having to worry that it was going to be realised.[7] When, in its early days, the Rudd government removed small amounts of money from the operating budgets for bilateral trade negotiations, the real signs were clear. And later on, Crean acted in ways that made bilateral agreement even less likely – adding, most notably, the difficult issue of China’s restrictive mining laws to the negotiating agenda.[8] When he did

---

6 Paulo Totaro, ‘Bill Clinton dubious about Crean call for renewed push on global trade’, *The Age*, 31st January 2009.

7 There is an inverse sliding scale at work here: the less that is actually achieved, the greater the potential for the future.

8 Tracy Sutherland, ‘Crean on standby to accelerate China FTA talks’, *Australian Financial Review*, 28th November 2008.

produce a bilateral success – the FTA with ASEAN, ten years in the making – the first detailed assessment of it reported that in some sectors there was 'little or nothing within the shell of the framework'.[9]

So Crean's rhetoric of positivity about trade was essentially a smoke screen for actual policy, which was developed quietly behind it. And at the centre of actual policy was industry policy, a well known Victorian favourite from the Hawke years.[10]

The return of industry policy

The focus of industry policy, as in the mid-1980s, was the auto sector, which saw the final closure of Mitsubishi's Adelaide plant and the downsizing of Ford in Geelong following Rudd's election.[11] The share of domestic production in total Australian sales had been steadily falling in recent times, partly because no Australian manufacturer was producing the small cars that Australian consumers clearly preferred. When former Victorian premier Steve Bracks was commissioned to

---

9 The assessment was made by the law firm Minter Ellison. It is quoted in Rowan Callick, 'Our FTA with SE Asia labelled "mediocre"', *The Weekend Australian*, 4th – 5th April 2009.

10 For the work of the Hawke government on industry policy for the auto sector, see Ann Capling and Brian Galligan, 'The Motor Vehicle Industry', chapter six in their *Beyond the Protective State: The Political Economy of Australia's Manufacturing Industry Policy*, Cambridge University Press, Cambridge, 1992.

11 Even more recently, General Motors has cut its Adelaide assembly line back to one shift per day. Four years ago, it was running three shifts.

inquire into the state of the sector and make recommendations to the federal government, the pattern became to clarify.

Evidence of the evolving pattern appeared in Rudd's June 2008 visit to Tokyo where he offered up thirty five billion dollars for the near-term commencement of production of a hybrid Camry at Toyota's Altona plant in Victoria. This was depicted locally as a timely last minute Australian victory over Thailand for Toyota's green investment favours.[12] Since it was done before Bracks had reported, Rudd had effectively pre-empted his own investigation. But the Tokyo victory was also unhealthy in a substantive sense because of its token quantities: out of the small annual Australian yield of ten thousand hybrid Camrys, half would be earmarked for government fleets, and the balance would make up about two per cent of purchases of locally made cars. More importantly, the entire power plant for the Altona hybrid was going to be imported, and it seemed that Toyota's Australian production line was regressing to a latter-day assembly plant. Since the company was aiming for a global total of one million hybrids in five years, Altona appeared destined to play almost no part in this larger expansion.

Following the Toyota decision, 'process politics' demanded that the two remaining Australian producers be offered similar hand-outs for the plausible green projects they were busy preparing. Later in 2008, a further A$149

---

[12] See, for instance, Ian Porter and David Rood, 'Last-ditch effort won hybrid for Altona', *The Age*, 11th June 2008.

million of federal Green Car monies was (with a smaller state contribution) shelled out for General Motors Holden when it announced its intention to build a four cylinder small car at Elizabeth in South Australia.[13] This was good news in the sense that an Australian-built small car was long overdue. But a small car was not the same thing as a green car, as The Greens never tired of pointing out. And by this time, small cars were now beginning to suffer a steep sales decline after years of growth – which meant that the new plant was unlikely to be launched into a rising market. Indeed, since Holden is nothing more than a fully owned subsidiary of its US parent, the spectacle of the political travails of General Motors before Congress during this period made one wonder about the conviction of the company behind the promise.

Like Toyota, what was certain was that the new four cylinder model would not draw any major transmission components from local sources – even though General Motors Holden's four cylinder engine production line at Fishermans Bend had once been the nation's largest single exporter of manufactures.[14] For two and a half decades, that plant had very successfully sold engines into other GM plants around the world – without ever being seriously regarded as the basis for a local small car.[15]

---

13 See Paul Gover, 'Aussie four-cylinder car to future-proof Holden', *The Courier-Mail*, 3rd December 2008.

14 For a thumb-nail history of the Fishermans Bend plant, see Ashleigh Wilson, 'End of the road for old faithful', *The Australian*, 7 June 2008.

15 There was a minor exception early in this decade with the local production of the Holden Astra.

During this period, the main way that Australians could enjoy this locally made engine was to buy from the Korean Daewoo range, some of whose imports proudly sported an 'Aussie-made 4 cylinder motor'. But the wind-down of that production line over eighteen months was announced in June 2008, and there was no attempt to use Industry Policy monies to update its cast iron technology with a view to the future. Consistent with this mid-year silence, there was no end-of-year discussion about breathing new life into the declining plant.

So industry policy was gathering steam even before The Bracks Review was handed down.[16] It recommended the resumption of tariff cuts in the sector – Howard had frozen them in late 1996 – in return for federal monies for green technology over the next fifteen years. Rudd responded by doubling the money, which brought the annual flux of cash up in line with the rate achieved under the Howard government's Automotive Competitiveness and Investment Scheme of 2001.

In theory, an effective industry policy undercuts free trade. Since Australian consumers source most of their auto imports from Northeast Asia and Thailand, an effective industry policy would substitute domestic production for imports. But an ineffective one – and this seems to be what Kim Carr is independently inventing in his Industry portfolio – will have no great negative consequence on trade outcomes. Indeed, the slow erosion

---

16 See Review of Australia's Automotive Industry, *Final Report*, Commonwealth of Australia, 22nd July 2008 <http://www.innovation.gov.au/automotivereview/Pages/HTMLversionofreport.aspx>.

of plans for auto exports by Australian producers seems consistent with new plans to import drive trains for green and small cars, as highlighted above. So Labor's actual industry plans, along with a trade policy that is best regarded as an exercise in strategic deception, suggests no great change in the nature of the Australian economic relationship with Northeast Asia.

The Great Recessions

Recessions, especially Great Recessions,[17] figure large in the trade history of all countries. So it was that the Asian Financial Crisis wrought some dramatic (if largely unnoticed) changes in the geographical pattern and composition of Australia's trade. And so it is likely to be that the current Global Financial Crisis will shift those patterns around once again.

Consider what happened in and around the Asian Crisis of 1997-8. The decade leading up to it had been marked by the emergence of a 'third generation' of Asian miracle economies in Southeast Asia and coastal China, which in turn induced belated recognition from the World Bank about the central role of the state in Asian development. The two earlier generations of miracle economies had, of course, vastly expanded Australia's

[17] I emphasize the plural, because the term has two comings. Most recently, it was used by the IMF to describe the Global Financial Crisis. What the IMF did not acknowledge was that Paul Krugman used it a decade earlier to characterize the Asian crisis: see P. Krugman, *The Return of Depression Economics*, W.W. Norton & Co., New York, 1999.

exports of high grade industrial minerals. The volume of these mineral exports was great, so great that Australia became the world's largest exporter of coal by the mid-1980s, and high exports in turn tilted the balance of bilateral trade with industrializing Asia strongly in Australia's favour. This string of trade surpluses in Asia was vital in helping offset Australia's large trade deficits with other regions, most notably with the US and Europe. But it also had a downside: a national vulnerability to sudden shifts in the terms of trade for primary products. This was particularly evident on the backside of the 1980s recession, when a nine per cent decline in the terms of trade caused treasurer Keating to warn repeatedly about the dangers of Australia becoming a 'banana republic'.

Against this background, it was notable that the rise of the third generation of Asian miracles had a significantly different impact. Once again, bilateral trade balances began running strongly in Australia's favour. But what was different this time was the more significant place of manufactures in the suite of Australian exports. Given the general expansion of service exports at the end of the Cold War, this was the time when Keating now began to celebrate a national export structure that 'walked on four legs': primary products, simple manufactures, elaborately transformed manufactures, and services. Hence the vulnerabilities associated with the earlier structure of Asian trade seemed less pressing.

But the 1997 economic collapse of the ASEAN Four, and most especially the collapse of their currency values, suddenly snuffed out this new line of Australian manufactured exports. At the same time, China was the one member of the third generation to comprehensively survive the financial crisis, and its manufacturers began to enjoy the benefits of a lower currency value that its government had engineered through two devaluations early in the 1990s. Hence, for entirely different reasons – the collapse of Australian manufactured exports on one flank, the rise of manufactured imports from China on the other – the aggregate result was that Australia's trade balances with the third generation of Asian miracles moved quickly and decisively from surplus to deficit. China led the way, becoming the first East Asian country to run consistent trade surpluses with Australia. At the same time, the asymmetric and vulnerable export structure from earlier times roaring back – with minerals more central than ever.[18]

The Asian crisis, then, set up the Australian economy for a long run of relatively serious trade deficits once growth resumed. The previous saviour, Japanese growth, was nowhere to be seen: Japan's economy continued to wallow in recession and low growth, and its share of Australian exports dropped away quite considerably. Meanwhile, Howard's hoped-for new saviour, the Australian coupling to the US, more or less proved an

18 This point is well made by John Ravenhill in his 'Australia and the Global Economy', in James Cotton and John Ravenhill (eds.), The National Interest in a Global Era: Australia in World Affairs 1996 – 2000, Oxford University Press in association with the Australian Institute of International Affairs, Melbourne, 2001, pp. 279-83.

instant let-down.[19] Given these two disappointments, the return of minerals in Australia's export profile began to seem like no bad thing, for commodity prices did indeed boom between 2005 and 2008 after the economic effects from the onset of the GWOT had been ironed out.[20] But the beginnings of the second Great Recession now begs the question of how big the bursting of the commodity cycle is likely to be this time around.

I leave the economic dimensions of this matter to the final section; here the political aspects have front stage. The collapse of the Japanese economy at the end of 2008 into another high Yen recession, with the rate of annualised decline over 12 per cent and the disappearance of decades of trade surpluses, has dramatically reduced the demand for Australian exports, which have 'dropped off a cliff', to use a popular phrase. Meanwhile, Australian sales into China have (to date) held up quite well. Between 2004 and 2007, China moved ahead of the US and then Japan to become Australia's largest trading partner in terms of two-way trade.[21] And booming commodity prices over this period (which, if anything, accelerated through the FY2008 round of negotiations) began to produce a more equal overall balance of trade, with Australian export receipts rising on

---

19 For a less instant and more 'results-based' assessment by a former director of the Industry Assistance Commission, see Martin Feil, 'Trade millstone around Australia's neck', *The Age*, 10th February 2009.

20 In 2006, Andy Xie from Morgan Stanley referred to 'the ore war' that was forming up around China. The term was highly apposite, and more will be said about it below.

21 See David Uren, 'China emerges as our biggest trade partner', *The Weekend Australian*, 5th – 6th May 2007.

increases in value in particular. Furthermore, even when the Australian and Chinese economic performances began to fall away in the last quarter of 2008, a thirty per cent decline in the Australian dollar held up foreign revenues from commodity exports quite well.[22] So Kevin Rudd might well have been tempted to say – as John Howard said in his early years – that the times were going to suit him.

Rudd has used his mandarin skills in a very subtle way against a domestic political background that is anything but subtle.[23] And he has used them, at least to date, for political rather than economic ends. So, for instance, his first trip to Beijing was part of a global tour that began in Washington, and he used his time in both places to give his interlocutors a solid relationship that was nonetheless something less than what they might have wanted in their dreams. It was, as the Lowy Institute's Michael Fullilove noted, a 'neat trick'.[24] And although Fullilove did not say so, it was notable that sympathetic critics of the Howard government's latter-day rebalancing towards Beijing had been calling for just this kind of finesse.[25] So it was at least arguable that Rudd was

---

22 Most Australian commodities are internationally bought and sold in US dollars.

23 The current national preoccupation with the relationship between the defence minister and his family friend Ms. Liu is an excellent demonstration of the brutishness of local debate.

24 Michael Fullilove, 'Rudd steps out into the world with elan', *Sydney Morning Herald*, 14th July 2008.

25 See, most notably, Pauline Kerr and Shannon Tow, 'Australia's changing alliances and alignments: towards a new diplomatic two-step?', in Brendan Taylor (ed.), *Australia as an Asia-Pacific regional power: Friendships in Flux?*, Routledge, London, 2007.

delivering in precisely those areas where Howard had fallen somewhat short of the mark.

But the boom time is now over, and something much more malign is now stretched out through the indefinite future – for Australia, certainly, if not China quite yet.

The super-cycle of booms and busts

It is surely significant that authors as politically diverse as Geoffrey Blainey and the late Donald Horne have both, at different times and places, used the highly charged notion of a 'cult' to describe the Australian attitude to resource development.[26] In the second half of the twentieth century, there were two separate comings and goings – perhaps three in the Australian case[27] – that sustained this cult. What has been undeniable in recent years is that the world economy was once again moving to this familiar tune – but this time with the developing markets of China and India at the epicentre.[28] And, in Australia's case, with intimations of a boom that is almost without end – a 'super cycle' in commodities. If China has

26 See Geoffrey Blainey, 'The Cargo Cult in Mineral Policy', *Economic Record*, 44(108), 1968, and Donald Horne, 'Resources and the Cult of National Development in Australia', in Stuart Harris and Geoff Taylor (eds.), *Resource Development and the future of Australian Society*, CRES Monograph 7, Centre for Resource and Environmental Studies, ANU, Canberra, 1982.

27 The bourse-based commodity boom of 1969-70, the Poseidon boom, adds to local complexity.

28 For a general description and analysis, see Marian Radetzki, 'The Anatomy of Three Commodity Booms', *Resources Policy*, 31(1), 2006.

been the demand-side country that has driven this boom, then iron ore has been the commodity at its centre. And Chinese demand for iron ore has been through a growth phase that is without any historical precedent.

Consider, for instance, the 1995 study of the Australian and Chinese iron and steel industries by DFAT's East Asia Analytical Unit (EAAU), which claimed that Australia's iron ore exports would grow by one hundred and fifty per cent over the next decade.[29] As a creation of the 1989 Garnaut Report, the EAAU was known for predictive bullishness, but this forecast soon proved massively underwhelming. For when Australian exports in 2005 eventually came in, iron ore exports had grown by another one hundred and fifty per cent on top of the EAAU forecast![30] And the primary engine of this massive spurt – more rapid, indeed, than during the Australian industry's first spectacular decade – was the demand coming from China's steel industry. Hence, in 2003, China passed Japan to become the largest importer of iron ore. Just five years later, the gap between Chinese and Japanese imports of Australian ore had blown out to nearly 3:1.[31]

---

29 *Iron & Steel in China & Australia*, East Asia Analytical Unit, Canberra, 1995, p. 81.

30 For 2005 export figures, see Simon Richmond, Will Millsteed and Ryan Wilson, 'Steel and steel making raw materials: prospects for iron ore, steel, metallurgical coal and nickel', *Australian Commodities*, 13(1), March 2006, p. 125.

31 For recent statistics and analysis, see Trust Fund on Iron Ore Information, *Iron Ore Market, 2007 – 2009*, UNTAD, Geneva, June 2008.

This vast expansion in volume was reflected in contract prices, which rose by a cumulative total of about three hundred per cent in the five years after 2003. Unlike most other raw materials whose price increases through this period owed a great deal to speculative forces, iron ore is a market in physical materials that does not offer a significant point of entry for purely financial speculators. Prices are therefore determined through annual contract negotiations between the leading miners and steel mills, a method that lowers risks for both parties. And with Rio Tinto and BHP as the world's second and third largest producers, iron ore suddenly became the largest Australian export once again (having briefly enjoyed this mantle in the late 1970s). Naturally, iron ore began to add significant weight to Australian economic growth, which in any case was conforming to that most Australian of dreams, magic pudding economics.

But in boom and in bust, this vast expansion placed political pressure on the Australia-China relationship that was not altogether welcome from the Australian end, where Canberra's official ideology gives primacy of place to commercial forces. There has always been, however, a thin underlay of national regulation beneath commercial primacy, with 'national interests' attended by the Foreign Investment Review Board (the FIRB) and competition preserved by the Australian Competition and Consumer Commission (the ACCC). So when the boom phase encouraged BHP to make an outlandish bid for Rio Tinto, Chinese authorities used their state-owned aluminium company Chinalco to acquire what might have been a blocking position in Rio shares. Given the bullish market at that time (February 2008), this acquisition was done at great expense, but it nonetheless helped generate a considerable expansion in FIRB oversight of the workings of sovereign-backed agents – and, much less noticed, the warning shot that certain sectors of the Australian economy would henceforth be regarded as 'strategic'.[32] This could have been regarded as playing catch-up with Chinese policy where, as mentioned earlier, a new mining law ruled a line through foreign investment in many minerals on the very same grounds. The FIRB nonetheless approved the first Chinalco bid, while the ACCC later chimed in to give the stamp of approval to the BHP-Rio merger.

Things have become much more interesting with the passing of the market's bull phase. After a full year of consideration, BHP withdrew its offer for Rio in November 2008 – only to see Chinalco double up on its Rio stake. The outcome of this second Chinalco move, which is much more in the nature of a marriage than a hostile raid, is still being decided, with the FIRB having exercised its right to take a further 90 days for investigations. Meanwhile, other FIRB decisions about smaller Chinese positions – by Hunan Valin in Fortescue Minerals, and Minmetals in Ozminerals – can be read both ways. At the same time, in left field, Rudd has outlined a broad conception of national security that, while ill-defined, appears to provide for some consideration of economic security.[33]

---

32 Malcolm Maiden, 'Swan's unfinished song needs a coda to the effect that there'll be no China ban', *The Age*, 27th June 2008.

33 See Address by the Prime Minister of Australia, 'The First National Security Statement to the Parliament', 4th December 2008, <http://www.pm.gov.au/media/Speech/2008/speech_0659.cfm>, accessed March 2009.

This could suddenly become very important in the tougher times that lie ahead. In the course of the global financial crisis, the Australian economy has enjoyed many advantages – the low penetration of sub-prime products; an initial position of federal surpluses; plenty of downside room for interest rates, and a solid financial structure built around the 'four pillars' of the big banks. At the same time, there are at least two major vulnerabilities – the extraordinarily high level of private debt, with the housing sector leading the way; and the external vulnerability that comes from high exposure to volatile minerals markets. In the case of iron ore, the prices and volumes for 2009 have yet to be decided, and negotiations may yet drag on for several more months (as they did in 2008, when it was the middle of the year before the pattern was finally set). But price declines up to fifty per cent are widely expected, even by the Australian mining houses,[34] and the massive size of iron ore stockpiles in China suggests volume reductions as well. Unless there are further significant falls in the Australian dollar,[35] the partial compensation that comes from currency devaluation has already been factored in. So at a time when the rest of the world is grappling with new-fangled modes of economic collapse, Australia is facing a more old-fashioned balance of payments crisis'.[36]

---

[34] For Rio Tinto's expectation, see Javier Blas, 'Rio Tinto accepts iron ore prices will fall', *Financial Times*, 25 March 2009.

[35] This cannot be completely ruled out. In the Asian crisis, for instance, the Australian dollar fell to US$0.48 – and at a time when the crisis largely seemed to be over in other places. It did not, however, start this fall from such a great height.

[36] For a powerful argument about the importance of balance of payments considerations, see Ed Shann, 'A Sharp, Protracted Recession Looms', *Australian Financial Review*, 12th January 2009.

Conclusion

This is remarkably consistent with the Australian experience of recent recessions. In 1974, a sudden rise in the price of oil brought instant economic pain to many oil-importing countries, but the recently completed drilling up of the Bass Strait fields offered Australia considerable insulation. When, however, the world economy went on to grind to a halt, then the Australian economy really began to suffer. The end result was that, in spite of a promising start, the Australian experience of that recession came in notably worse than the OECD average.[37] The pattern was repeated with minor variation in 1980 when expanding coal exports offered initial insulation – with collapsing prices chiming in later to greater effect.

Australian trade policy is unlikely to have a great impact one way or the other on the road to recession. But the reverse is not so true. Recession, especially prolonged recession, is likely to pose a significant challenge to Australian ways of thinking about the dynamics of commodity markets, and developments along both sides of the Australia-China economic relationship are already pre-positioning the instruments of policy for such a movement. China, of course, is not Northeast Asia, but it is nonetheless the country where the regional trend will be set. And that, in itself, is a notable departure from the

[37] For that comparison, see Francis G. Castles, *Australian public policy and economic vulnerability: a comparative and historical perspective*, Allen & Unwin, Sydney, 1988.

Japan-centric patterns of the last two generations of Australia’s Asian engagement.