
China's Increasing Importance to Australia

This article appeared in The International Resource Journal, Paydirt and Oil & Gas Magazines in 2011

When China was first touted as the anticipated future superpower some ten years ago by a handful of Australian resource company executives, many couldn't see past the strong trade reliance with the US. Cut to 2011, and Australia's economic ties with the US are night and day from those with China.

Imports from the US currently exceed Australian exports to the US by some \$16.2bn. Compare this to last year, when Australia exported \$64.4b of goods and services to China, resulting in a trade surplus of \$23.4bn. Since 2005, Australian exports to China have more than trebled and the market is now almost as big as Australia's next two largest export markets, Japan and South Korea, combined.

Fuelled by a massive investment in its infrastructure, China's demand for minerals to make steel for bridges, railways, airports and buildings has seen Australian exports to China constitute a massive three-fifths of the country's total export growth since 2005.

Whilst current exports are dominated by iron ore (\$34.7bn last year) and coal (\$5.2bn), the landscape is expected to change in the next decade. With more than \$140bn worth of liquefied natural gas (LNG) projects in the pipeline in Western Australia alone, Australia is on track to become the number one LNG producer in the world with predication it will surpass Qatar by 2020.

According to the World Energy Outlook forecast, China's demand for gas is expected to increase by 6 per cent a year during the next 25 years. This means China would increase their global gas consumption from today's 2.7 per cent to 8.7 per cent by 2035.

Australia is in a unique position. Its abundance of natural resources, proximity to the major consumers – China, Japan and Korea – and stable environment mean Australia is an ideal operating and investment base. Even without new exploration and discovery, Australia has more than 30 years of gas resources in supply.

Of note, 41 of the 75 projects listed as advanced by the Australian Bureau of Agriculture and Resources Economics (ABARE), are in the energy sector.

Not surprisingly, Australia is seeing an increase in Chinese investment with two-way investment between the countries actually growing at a faster pace than trade, despite starting from a near zero base.

Chinese entities are looking to invest in Australia for two primary reasons. Firstly, it secures their own future resources supply and secondly, enables them to participate in the financial upside.

Australia is seeing this already with the Chinese-led CiticPacific Mining Sino Iron Ore Project in Western Australia and Waratah Coal's China First Coal Project in Queensland. Projects such as

Australian Pacific LNG have also been given the go-ahead, mainly off the back of a major supply contracts agreed with China.

The Australian Government's Foreign Investment Policy takes a flexible approach to foreign investment proposals and reviews each on a case by case basis. The philosophy underpinning the Policy is to avoid rigid laws that prohibit potential valuable investments. Instead, each proposal is reviewed based on the investment opportunity against protecting Australia's interests. Since November 2007, the Government has approved over \$400 billion of proposed foreign investment.

The burgeoning middle-class consumer sector in China means the country will continue to play an integral role in Australia's own growth prospects. But let's not forget the US altogether. In 2010, China ranked first in the total value of imports for the US at 19.1 per cent. Australia ranks 33rd in import value to the US at 0.4 per cent, but China is integral here too - through its manufacture of Australian resources into goods for export to the US.

Increasingly, the relationship between Australia and China is becoming one of inter-dependence and mutual benefit.

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About Jody Elliott With fifteen years in senior and management roles across human resources, career and organisational development, and recruitment, Jody has held positions at WMC Resources, CSR, Australian Rail Track Corporation, Santos and more recently, three years with BHP Billiton, managing the Nickel West recruitment function. She is a regular speaker at conferences and within media on sourcing and skills availability.