FINANCIAL REVIEW

Too much focus on China means Australia is being ‘left behind’

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Updated Sep 3, 2024 – 6.01pm,

Flat-footed Australian companies risk missing out on China’s explosive green boom as security tensions between China and the US leave Australia torn between its military ally and largest trading partner.

The threat of conflict in Asia adds to a long list of worries for investors, alongside unregulated use of artificial intelligence, attacks on democracy, and the undermining of trade rules.

“It’s a pretty confronting picture for a great trading nation like ours that has benefited so much from globalisation,” Foreign Minister Penny Wong told The Australian Financial Review Asia Summit in Melbourne on Tuesday.

Foreign Minister Penny Wong at The Australian Financial Review Asia Summit.

“The complexity and interconnected nature of the challenges we face cannot easily be compared to any other period in history.”

But the threat of conflict remains a key investment risk, and Senator Wong said a lack of transparency over China’s military build-up remained worrying.

She also cited China’s greater military co-operation with Russia and Beijing’s efforts to normalise “dangerous actions” by repeatedly clashing with Philippines ships in the South China Sea, and sailing warships and flying fighter jets into Taiwanese water and airspace as other disturbing developments.

“Behaviour speaks louder than words, and we share our region’s concerns that these activities stand in contrast to the stated and shared objectives of peace and prosperity,” Senator Wong said.

Australian ambassador to the US, Kevin Rudd, said there had been some improvement in relations between China and the US, but military tensions remained. He said strong deterrence by Western allies was crucial to stop a conflict erupting between the two superpowers.

“Is [the US-China relationship] better than it was before? Yes,” he said. “Have any of the fundamental security differences between the two sides been substantively dealt with? No.”

Senator Wong also warned Australian businesses had been too focused on China and North Asia, and had failed to take advantage of the explosive growth in South-East Asia, where other countries have gained a foothold in investment opportunities.

“We have a good foundation with the region, but our investment doesn’t keep pace. We are being left behind.”

The Summit was held against the backdrop of China’s growing economic uncertainty, buffeted by a property crisis, debt bubble, rising youth unemployment, and an ageing population.

One of the ramifications has been the iron ore price – which has underpinned Australia's prosperity for more than decades – now languishing about $US100 a tonne, hurting the federal budget.

The president and CEO of international think tank the Asia Society, Kang Kyung-wha, said a recent survey of business, academics and other figures in South-East Asia revealed Australia ranked very low on their radar.

"I think it's because there is no visible business presence," she said. "There's lots of trade … and there's lots of academic presence … but I think there's not much business investment that brings in business expertise."

Businesses would go where they would be profitable, "but I think we need to take a longer-term [approach] when engaging and growing with ASEAN", Dr Kang said.

Speakers also said Australia could make a faster transition to a lower carbon economy by embracing Chinese investment and technology, and putting it to work on the nation's huge solar and wind resources.

Former Australian ambassador to China and coal mining director Geoff Raby said it was "nuts" for Australia to spend taxpayers money trying to establish a domestic solar panel manufacturing industry rather than buying from the established solar industry in China.

“Spending a billion dollars of Australian taxpayers’ money trying to build solar panel manufacturing capacity in Australia when we can get it for next to nothing from China – it’s nuts. The securitisation of this space is going to cost Australians dearly,” he said.

Prime Minister Anthony Albanese announced a $1 billion package of grants and subsidies for domestic solar panel manufacturing in March, and then promised a further $523 million for early-stage battery-making projects in May’s federal budget.

Energy analyst Tim Buckley told the Summit that Australia should embrace the decarbonisation opportunity that would come from a more open stance towards Chinese investment.

“It’s critical Australia actually double down and work and enhance and partner with China because if not, they will go elsewhere,” he said.

“At the moment, I don’t think that message is coming through loud and clear. We don’t know what the rules, or China doesn’t know what the rules are, for when they do invest here.”

The comments come after a marked slowdown in Chinese investment in Australia, including a 57 per cent drop in 2023 to $US613 million, according to KPMG.

High-profile rejections of proposed takeovers by Chinese-linked companies of gas pipeline owner APA Group and lithium miner Alita Resources have heightened uncertainty about receptiveness to investments, particularly in the energy and green metals sectors.

“We should be smarter about foreign investment into Australia,” said Lowy Institute fellow Richard McGregor.

“It’s often said that when FDI (foreign direct investment) goes into China, that’s a compliment to China, it’s this vote of confidence in China. When Chinese investment comes into here, it’s considered somewhat of a weakness or a bit scary.

“So, we’ve got to get smarter about what we harness, about how we harness that Chinese investment.”

Mr Buckley said the biggest opportunity for Australia in decarbonisation would be to convert the iron ore export industry to selling “green iron”, a more processed product that is almost pure iron.

Accelerating the nascent green iron industry could protect Australia against a possible, long-term decline of the coking coal export industry, given coking coal is used to turn iron ore into pure iron.

Rio Tinto's head of steel decarbonisation, Simon Farry, said he was optimistic that Australian iron ore miners could make the pivot to green iron. But he said a switch to green production fuelled by green hydrogen was more than 15 years off, and would require strong policy support through incentives and subsidies.

But hitching Australia's fortunes to China's economic growth still faces troubles, as the world's largest economy slows. A property crisis, debt bubble and rampant youth unemployment have all contributed to China's slowing growth, which dipped to 4.7 per cent year-on-year GDP for the second quarter.

Another element of the tensions between China and the US are the tit-for-tat trade tariffs that reshore manufacturing back towards the US, and curbing runaway Chinese exports.

"Australia needs to be very careful about how far we allow that process to go because, in many ways, we are heading to a world which is reminiscent of what existed between the First and the Second World Wars, which is a slowing of globalisation," said Peter Varghese, chancellor of the University of Queensland.

“Australia is a country that does best when our economy is the most open. We’re a country which is very dependent on a global trading system.”

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