



OPINION & ANALYSIS

Shifting tide of Chinese attitude

Two trading partners are understanding each other better.

JOHN GARNAUT



IN 2009 Lou Jiwei, the head of China's sovereign wealth fund, was known to privately boast that the then prime minister, Kevin Rudd, had given him his private mobile phone number in case of any problems, but he was so angry about so many problems that he refused to dial the number. Last year, however, such streaks of disdainful arrogance began to fade.

Partly that was because Canberra had finally cleared the logjam of applications and had a better handle on what its concerns were. Partly, it was because a message had come down from on high, on both sides, that it was time to put the China-Australia relationship on a better footing.

Mostly, however, it was because Chinese executives were discovering that their biggest challenge was not getting money into Australia but managing it once it got there.

Last week's star-studded chief executives' forum at the Beijing Hotel and Prime Minister Julia Gillard's equally impressive lunch at the Australian embassy marked the start of an important conversation. The discussions were not about whether Chinese investors should be welcome in Australia but how they could make their money work.

Gillard got to hear how red tape was strangling a lot of potential activity in Australia. And Chinese executives were reminded that there were benefits that flowed from decent labour and environmental standards.

"[There was] a fair bit of discussion about Australia's need for infrastructure and potential for investing in infrastructure and they raised concerns about skills shortages," Gillard told me afterwards. "They did also raise regulatory issues, speed of approvals — I wouldn't say they raised it as a complaint, they raised it as a concern."

Almost all the executives Gillard met were Communist Party members who had been appointed to their corporate positions by the party's Organisation Department. Without exception they are intelligent, capable and well endowed with bureaucratic and political skills. Being good at business helps, but it is not always essential.

The Prime Minister came face to face with impressive and open-minded businessmen such as Baosteel's Xu Lejiang, Minmetals' Zhou Zhongshu and particularly Sinopec's Fu Chengyu (formerly of CNOOC, China's offshore oil company). Over lunch Ms Gillard saw that Lou Jiwei, at the China Investment Corporation, has moved on from griping about Australia's foreign investment regime to happily bantering about how the high Australian dollar is great for his investments (while his peers grumbled that the dollar was shutting them out of the market). Gillard was also due to meet one or two Chinese corporate bosses who have hardly made a profitable business decision in their lives.

It was a pity that Shen Heting, party secretary of China Metallurgical Group Corp (with MCC being the listed subsidiary) left the business forum before Gillard arrived and



was not available for lunch at the embassy on the following day. "The Australian government needs to liberalise in terms of skilled workers," Shen had earlier told the business forum.

Australian officials have been telling their Chinese counterparts for at least seven years that Australian immigration and labour laws are not going to be bent to suit them. But that hasn't stopped Shen from continuing to successfully pitch the cheap labour idea internally to win Chinese government investment funding and approvals, according to a senior executive at a rival state-owned enterprise, and then blaming Australian workers when it all goes wrong and demanding that Chinese taxpayers pay it.

The most ambitious of MCC's Australian projects, the \$6 billion Sino Iron mine at Cape Preston (where MCC has the construction contract and 20 per cent joint venture stake with CITIC Pacific), is running two years late

and about \$2 billion over budget. Its trail of unpaid Australian contractors and angry workers has almost trashed the reputation of Chinese companies in Western Australia.

And Shen faces even worse problems in developing countries, such as Papua New Guinea, Afghanistan and Libya, that don't have sufficiently robust governance regimes to stop him from getting what he wished for.

"This business is not only something we want to pursue but something we need to do for the country," Shen told Caixin Media last year, explaining why his overseas investments were losing so much money and the state should bail him out.

The Chinese executives who succeed in their overseas investments are those who recognise that the skills that led them to rise to the top of Communist Party politics and guanxi-dominated business do not transfer easily abroad.

