

Time to Take a Stand Against the CCP’s Economic Warfare

This isn’t a hot war, neither is it a cold one.

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The world's largest dump trucks shifting earth at Citic Pacific Mining's Sino Iron magnetite iron ore project in the Pilbara region of Western Australia on Mar. 5, 2010. (Amy Coopes/AFP via Getty Images)

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Commentary

BHP's [proposed closure](#) of its Nickel West activities in Western Australia is the canary in the coal mine of the risk to Australia's prosperity and security posed by the Chinese Communist Party's (CCP) mercantilist strategy.

Pre-eminent 19th-century theorist of war, Carl von Clausewitz, said that "war is a continuation of politics by other means."

But economics can also be a continuation of politics by other means, and therefore economics can also be war.

That defined the international order in the 18th and much of the 19th century, and it is defining it now.

The West's naïve politicians didn't "get" this, and neither did their capitalists, and they have bound themselves to China, their major strategic adversary, by economic ties of trade.

To his credit, former U.S. President Donald Trump was the first world leader to blow the whistle on the CCP and initiate a decoupling from the Chinese economy, but that has since slowed down.

The Chinese regime is now in the process of utilising those ties in an attempt to break the United States's ability to dictate terms. This isn't a hot war, neither is it a cold one.

This should be most concerning for a country like Australia, stuck at the bottom of the Asian landmass, and heavily dependent on China for income and the United States for defence.

What should be even more immediately concerning is the degree to which our country is at risk from commodity prices and volumes, which are very much at the whim of China.

The defence of Australia depends on it having a robust economy, yet it has squandered the good years of economic growth built on mineral exports to China.

That easy prosperity is at risk, yet Australia's politicians are fixated on distributing wealth rather than growing it and securing it.

Crushing the Nickel Market

The problem in the nickel market, as reported in The Strategist, is that Indonesia has hugely increased its production from 200,000 tonnes in 2016, to 1.8 million tonnes in 2023 which has largely caused the [price of nickel to plummet](#) from US\$50,000 a tonne in 2022 to US\$16,100 now.

This is a result of greater mine output, and also an innovative process for producing stainless steel. The Indonesian government has insisted, contrary to WTO rules, that refining must occur in Indonesia, and it is powered by cheap Indonesian coal.

Approval and construction periods are also shorter in Indonesia than elsewhere with The Strategist reporting:

“Three Chinese businesses ... have built Indonesian plants to manufacture battery-grade nickel for under US\$1.5 billion each. The plants took only three years to build and 12 months to reach full capacity.

“By comparison, the Ravensthorpe plant in Western Australia, with a similar output, cost US\$2.2 billion and took nine years to build and reach production capacity. The Goro plant in New Caledonia cost US\$5.9 billion and took 17 years to reach capacity.”

Ominously, Indonesia is said to be looking to apply the same strategy to bauxite and possibly copper, two other metals important to the Australian economy.

How Important Are Our Mineral Exports?

In minerals, 70 percent of processed rare earth come from China. You can't run sophisticated computer chips vital for high-end uses like AI and defence without the mineral.

China also dominates solar panel manufacturing, and is well on the way to dominating the production of electric vehicles, and on it goes.

Vertical integration with all roads leading to Beijing, based on a zero-sum, Malthusian fear of resource scarcity appears to be what the Belt and Road strategy is all about.

Australia's prosperity relies heavily on exports of iron ore and coal. Exports represent approximately 23 percent of our GDP, metal ores and minerals are 8 percent of GDP, and coal, coke, and briquettes 7 percent.

If we don't have exports of those minerals at current prices and volumes, it is going to be more difficult to pay for imports which are equivalent to around 18 percent of GDP and include petroleum, virtually all of our motor vehicles, telecom equipment and parts, computers and electronics, and pharmaceuticals.

It would also represent a threat to state and federal budgets.

In 2021-22, mining contributed \$63 billion to state and federal budgets, and accounted for 32 percent of all company taxes paid in the country.

According to the Minerals Council of Australia, this would fund the entire [Medicare scheme for two years](#).

While most forecasts see only a gradual decline in the price of iron ore and coal over the next few years, forecasts are always wrong.

BHP certainly didn't see the collapse in nickel when it was developing its Nickel West assets, and it was the Ukraine war that shook coal out of a slump most had not predicted.

Beijing is attempting to curtail Australia's dominance of iron ore exports [by developing the Simandou mine in Guinea, West Africa](#).

The first ore is projected to be produced in 2025, although the project faces huge challenges, including building 550 kilometres of rail line, which involves 235 bridges as well as 11 kilometres of tunnels.

Beijing aims for self-sufficiency in iron, which in itself should reduce the price we receive as we will have to substitute markets.

Likewise, we have competitors in coal, and it doesn't take too much to tip the coal market into surplus and deep discount.

What is Australia's Answer?

In part it relies on the concept of a “green premium,” and doing critical minerals deals with other countries in our security bloc.

The “premium”—the idea that manufacturers will pay more for products with an environmentally responsible chain of production—is a mirage and can be seen nowhere in the minerals markets or reality.

Perhaps the critical minerals strategy has some legs, but it is really protectionism under another guise. The federal and Western Australian governments are suggesting royalty holidays or tax credits, both of which would be ruinously expensive for Australian governments, to keep the nickel industry alive.

The problem with protectionism is that it raises costs for everyone making the whole economy uncompetitive. BHP indicated a more competitive Australia is the solution, but the federal government is pushing us in the other direction.

Their “Closing the Loopholes” Act will make employing already well-paid staff in the mining sector even more expensive, at the same time that inflation is pushing up wage costs everywhere, flowing through to all mining inputs.

Australian governments everywhere are increasing sovereign risk. Queensland unilaterally introduced the highest taxes on coal in the world with no notice, the federal government has imposed price caps on gas producers, and coal producers have been forced to provide coal to power generators at a discounted price in New South Wales.

Added to that, Environment Minister Tanya Plibersek is revamping the Environmental Protection and Biodiversity Conservation Act to be more aggressive and restrictive, which means fewer opportunities and longer timelines.

And a flight from merit is neutering the skills our students need to create the innovations that have kept Australia ahead in capital-intensive industries like mining.

It should be a warning to everyone that the vast surpluses from mining cannot be taken for granted, and that these should be banked rather than spent, or worse, pledged as collateral for sovereign debt to be spent particularly on goodies for voters.

We live in perilous times, but we will survive as long as we thrive economically. This is hard to do when the bulk of our politicians and voters seem to think that the Golden Goose will live forever.

Wise husbanders realise the goose needs to not only be nurtured, but bred.

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