

## With a little understanding

*Australia's fraught relationship with China takes another turn.*



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After Kevin Rudd, Australia's Mandarin-speaking prime minister, came to power in late 2007 the country's relations with China seemed set to take an upward turn. But the much-anticipated love-in has failed to happen. On Tuesday August 18th Australia's government announced that China had cancelled a visit by He Yafei, a foreign-affairs minister, earlier this month. He had been invited to a summit of Pacific island leaders in north Queensland, at which Mr Rudd hoped to discuss his plan for a new Asia-Pacific regional body involving China. Instead China sent a lowlier official.

The snub was the latest setback in a relationship undergoing strains on several fronts. Stephen Smith, Australia's foreign minister, talked of "managing difficulties in the relationship we have with China". Those difficulties increasingly involve a clash between Australia's commercial relations with its biggest trading partner, and China's unhappiness with Canberra's political stance, especially over human rights.

The cancelled ministerial visit was a response to a decision to allow Rebiya Kadeer, the exiled leader of China's ethnic Uighurs, to spend some time in Australia. China has accused Ms Kadeer of helping to incite riots involving Uighur and Han Chinese last month. Yet on Tuesday another Australian minister was in Beijing for the signing of a deal under which China will buy liquefied natural gas worth A\$50 billion (\$41 billion) from Gorgon, an undeveloped gas field off Western Australia's coast. The deal between PetroChina, a state-controlled company, and ExxonMobil is reckoned to be Australia's biggest ever trade contract by value.

China's increasingly prickly relations with Australia were intensified in May when Mr Rudd unveiled a defence white paper suggesting that China was now Australia's biggest strategic threat. Privately, China regarded the document as largely reflecting America's outlook on the Asia-Pacific region. But China was more obviously upset by what it saw as a threat to its business interests the next month. Rio Tinto walked away from an offer by Chinalco, a state-run aluminium firm, to pay \$19.5 billion to double its stake in the Anglo-Australian mining giant. Instead, Rio struck a deal with BHP Billiton, its main competitor, to exploit jointly the vast iron ore deposits of Western Australia's Pilbara region. China has long had an eye on Australia's iron ore, a vital fuel for its industrial expansion.

Australians mainly welcomed the collapse of the Chinalco deal, amid perceptions that China wanted to use its economic power to exert pressure on prices of one of the country's most lucrative resources. Previous smaller deals had also met with tough scrutiny from Australia's foreign-investment watchdog. Scepticism towards China in Australia hardened on July 5th after the detention of Stern Hu, an Australian who heads Rio's iron ore operations in China, and two

Chinese colleagues. Initially accused of stealing state secrets, seemingly to help Rio's bargaining position in the annual benchmark pricing negotiations for iron ore prices, Mr Hu was charged (along with some colleagues) this month with the lesser offences of commercial espionage and taking bribes.

Around the same time tensions were building over Ms Kadeer's visit to attend the premiere of an Australian film about her. The Melbourne Film Festival's organisers ignored pressure from Chinese officials to cancel the screening. Instead they moved it to a larger venue after publicity over the row sparked big demand to see it. China reportedly threatened Melbourne's mayor with ending a sister-city relationship with Tianjin. It also unsuccessfully leaned on the National Press Club in Canberra to cancel an invitation to Ms Kadeer to speak there on August 11th.

But as China political pressure was growing China cut a deal with Fortescue Metals, a smaller mining firm, to supply iron ore at a small discount to the benchmark price struck earlier this year with Japan and Korea. In return, China will provide a loan of almost \$6 billion to help Fortescue boost production.

The Chinese deal with Fortescue may be more than a counter-attack against Rio and BHP. The Chinese and the two firms have yet to settle on iron ore prices this year. Together with the Gorgon deal, there are hopes that China might be sending a signal that commercial pragmatism will dictate its relations with Australia from here on. Ken Henry, the head of Australia's Treasury, seems optimistic. He rightly notes that China's economy will play an important role in shaping Australia's economic prospects "for some time to come".

The political challenges for Mr Rudd, though, seem more complex. Reflecting his own background as a diplomat in China, he has taken a low-key approach to resolving the affair of Mr Hu. China's recent tough tactics may have done little to reassure Australians about the intentions of their giant trading partner. But an opinion poll published on Monday found that 58% of people approved of Mr Rudd's handling of the China relationship. If Australians are fearful, China probably feels disappointment in finding that Mr Rudd's friendship may be harder to win than it once assumed.

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