



No. 5

**Resource politics
and diplomacy
beyond the
European Union:
China, Australia and
South Africa**

UWA, UCT & PKU

Mark Beeson, Mills
Soko & Wang Yong



Please cite this working paper as:
Beeson, Mark and Soko, Mills and Yong, Wang (2011), 'Resource
Politics and Diplomacy beyond the European Union: China,
Australia and South Africa', *GR:EEEN Working Paper, No.5*
www.greenfp7.eu/papers/workingpapers

This research acknowledges the support of the FP7 large-scale integrated research
project **GR:EEEN - Global Re-ordering: Evolution through European Networks**
European Commission Project Number: 266809

Abstract

The material transformation of the Chinese economy is forcing a concomitant process of political adjustment, and not just in China. Other states are being forced to accommodate the 'rise of China'. In this context this paper does two things. First, it presents a comparative analysis of China's impact on two countries —Australia and South Africa—which have little in common other than a wealth of natural resources and a possible status as middle powers. This is a particularly useful exercise because these states are geographically distant and have very different political structures and general developmental histories and they provide important example of the new resource diplomacy beyond the EU. Second, we consider how China's bilateral ties look from a Chinese perspective in these two very different relationships. Such an analysis reminds us that resource dependency is a two-way street. We argue that underlying material realities are constraining and to some extent determining the domestic and foreign policies of three very different states that otherwise have little in common.

Introduction

China's remarkable economic development over the last few decades has rightly attracted much attention—and no little admiration.¹ Millions of people have been lifted out of poverty at an historically unprecedented pace. In some ways China's industrialization and social transformation mirrors earlier experiences in Europe and North America, but what sets the Chinese experience apart is not just the rapidity of this transformation, but its sheer scale. As a result, the impact of its industrialization is not being felt in China alone: across the world, countries are having to adjust to the competitive impact and corporate practices of Chinese companies, and China's seemingly insatiable demand for energy and raw materials.² The underlying material transformation of the Chinese economy is forcing a concomitant process of political adjustment, and not just in China. Whether other states like it or not—and plainly, some do not—they are being forced to accommodate the 'rise of China' and the threats and opportunities that overworked expression implies.

¹ Jacques, M. (2009) *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World*, (London: Allen Lane).

² Klare, M.T. (2008) *Rising Powers, Shrinking Planet: The New Geopolitics of Energy*, (New York: Metropolitan Books).

Even for the world's only remaining superpower, the adjustment process is proving difficult.³ But if accommodating China is proving a challenge for the United States (US), how much more so for so-called 'middle powers' that lack the capacity to 'push back' and must adjust to both the economic and political impact of closer ties with China? Whether it any longer makes sense to describe China as a 'communist' country is a moot point,⁴ but there is no doubt that for many countries, dealing with China presents greater challenges than normal, and the potential for misunderstandings are manifold. This is nowhere more evident than in China's ties with Australia, a country that remains an integral part of a regional security architecture that has the effect, if not the clear intention, of countering China's strategic potential. But Australia is a country—South Africa is another, even if the strategic dimension is less immediate—that must now come to terms with China because it has become a central component in both national economic development and the political discourse that seeks to rationalize the new diplomatic realities.

The intention and contribution of this paper is, therefore, twofold. At one level the paper presents a comparative analysis of China's impact on two countries which have little in common other than a wealth of natural resources and a possible status as middle powers. This is a particularly useful exercise in itself because much of the analysis of China's resource diplomacy has focused on similarly positioned countries in Africa or Latin America,⁵ rather than on states that are geographically distant and which have very different political structures and general developmental histories. The other novel aspect of the following discussion is to consider how China's bilateral ties look from a Chinese perspective in two very different relationships. For all the sometimes

³ Art, R.J. (2010) 'The United States and the Rise of China: Implications for the Long Haul', *Political Science Quarterly* 125(3): 359-391. Ikenberry, G.J. (2008) 'The rise of China and the future of the West: Can the liberal system survive?', *Foreign Affairs*, 87(1): 23-37.

⁴ McGregor, R. (2010) *The Party: The Secret World of China's Communist Rulers*, (New York: HarperCollins).

⁵ See, for example, Taylor, I. (2006) 'China's oil diplomacy in Africa', *International Affairs* 82: 937-959. Zha, D. (2006) 'China's energy security', *Survival* 48(1): 179-190; Zhao, S. (2008) 'China's global search for energy security: Cooperation and competition in Asia-Pacific', *Journal of Contemporary China* 17(55): 207 – 227; Zweig, D. and Jianhai, B. (2005) 'China's global hunt for energy', *Foreign Affairs* 84(5): 25-38.

alarmist talk about neo-colonialism and the impenetrability of state capitalism, such an analysis reminds us that resource dependency is a two-way street. Indeed, given the political importance of maintaining the development process in China, the attitude of its policymakers toward pivotal trade partners becomes more comprehensible. The following discussion illustrates how underlying material realities are constraining and to some extent determining the domestic and foreign policies of three very different states that otherwise have little in common.

Resource diplomacy: The Chinese perspective

The pace and scale of China's rise are historically unprecedented and this has had a major impact on international energy and resource production as a consequence. It is important to remember how recent this phenomenon has been: only in 1993 did China change from being a net exporter of oil to being an importer. Significantly, this long-term transformation created precisely the same sorts of concerns about vulnerability to external suppliers as it had in Japan twenty years before. The distinctively East Asian preoccupation with a form of 'comprehensive security', which includes economic security, has developed in China where it feeds into wider concerns about economic and social stability.⁶ Many outside observers are concerned that China will also replicate the same sort of 'neo-mercantilist' strategies that Japan adopted during its own high growth phase,⁷ a possibility that is reinforced by the prominence of 'state capitalism' in a number of rising powers.⁸

But before we consider the implications of China's evolving foreign policy, it is important to understand why its government is so exercised about resource security and nervous about relying on market forces. Projections about China's future energy demands are frankly alarming for a regime that relies

⁶ China's major energy planner, the State Reform and Development Commission (SRDC) warned that China's ratio of imported petroleum dependence surpassed 50 percent in 2009, and that China's energy environment had changed from a status of relative security to relative insecurity.

⁷ Nester, W. R. (1992) *Japan and the Third World: Patterns, Power, Prospects*, New York, St. Martin's Press.

⁸ Bremmer, I. (2008) 'The return of state capitalism', *Survival* 50(3): 55 - 64.

heavily on 'performance legitimacy' to underpin its authority.⁹ Overall, it is estimated that alone China will consume 20 per cent of the world's energy by 2035—a sobering prospect given the zero sum nature of energy inputs.¹⁰ According to different Chinese forecasts, the ratio of imported petroleum dependency will reach 60% to 65% by 2020.¹¹ The US Department of Energy projects an even worse scenario, suggesting the ratio could climb nearly 80 percent by 2020, even higher than US dependence rate (70 percent by 2020).¹² Since the 8th Five Year Plan (1991-1995), petroleum consumption has increased by 4.9 percent per year, but in the same period domestic production has increased by only 1.7 percent per year.¹³ The same story can be told in other critical resources: according to China Mining Industries Association, by 2020, 19 of the 45 main minerals needed in China will be in short supply.¹⁴ nsurprisingly, energy and resource security are now pivotal parts of China's foreign policy.

China's evolving global strategy

Resource security has become so important to China that it is re-shaping its entire approach to foreign policy. In order to secure access to overseas resources, the government has relaxed restrictions on investment abroad, and implemented incentives to Chinese companies operating overseas as

⁹ Zheng, Y. and L.F. Lye. (2005) 'Political legitimacy in reform china: Between economic performance and democratization', in L White (ed) *Legitimacy: Ambiguities of Political Success or Failure in East and Southeast Asia*. (New Jersey: World Scientific): 183-214.

¹⁰ Pfeifer, S. (2010) 'China to use 20% of global energy by 2035'. *Financial Times*, November 9.

¹¹ Wang Xiaozong: "Experts say oil export capacity of China reached its peak by 2016," *China Economic Weekly*(Chinese magazine), January 25, 2010, see <http://news.sohu.com/20100126/n269821686.shtml>

¹² Wang Xiaozong: "Experts say oil export capacity of China reached its peak by 2016," *China Economic Weekly*(Chinese magazine), January 25, 2010, see <http://news.sohu.com/20100126/n269821686.shtml>

¹³ "China's oil resources : petroleum demand and security," *China Industry and Economics News* (Chinese newspaper), July 10, 2002; Wang Xiaozong, *ibid*.

¹⁴ The list includes which includes 10 sorts of minerals in 'shortage', such as oil, uranium, iron, manganese, bauxite, tin, lead, nickel, antimony and gold; and 9 sorts of minerals in 'serious shortage', including chromium, copper, zinc, cobalt, *platinum group element* (PGE), gill, potassium, boron and diamond. See zhongguo kuangye wang (China Mining Network): "woguo jiuzhong kuangchan ziyuan yanzhong duanque, jinkou yilai chengdu zhunian zengjia(China's nine mineral resources are in serious shortage, and the dependence on imports has increased year by year), see" www.chinamining.com.cn/news/listnews.asp?classid=154&siteid=134667.

part of its 'Going Global' strategy.¹⁵ Drawing on China's rapidly expanding pool of foreign exchange reserves, entities such as China National Petroleum Company(CNPC) and other 'national champions' are encouraged to gain direct access to overseas resources through exploration and investment. CNPC has established a presence in Central Asia, Africa (especially in Sudan and Angola), Russia and elsewhere in order to boost the supply and control of oil in the hope of placing downward pressure on international oil prices.¹⁶ Revealingly, China's efforts to secure oil supplies include building a strategic oil reserve system, a strategy based on the experiences of US and Japan, which started in 2006, to buffer market disruptions.¹⁷ Although the oil sector is the most volatile and strategically sensitive, a similar logic is at work in the resource sector. Chinese importers are worried about the potential for price manipulation that flows from the ownership concentration in the resource trade, where three major iron ore suppliers, Rio Tinto, BHP Billiton and CVRD (Companhia Vale do Rio Doce), dominate supply to China. As China's principal importer, the China Steel and Iron Association has attempted to use its own market power to counteract the suppliers' virtual monopoly position, but weak coordination capacity on the Chinese side has seen negotiations collapse and commodity price rises continue. China's limited domestic reserves and consequent 70 percent dependence on imports mean that Chinese firms have little option other than to accept the inflated price imposed by the big suppliers. As a result, greater attention has been given to resource security in the increasingly outspoken Chinese media,¹⁸ something that has heaped further pressure on the

¹⁵ Zhang Juanjuan, "Guanyuan guli qiye zouchuqu(Officials encourage enterprises to go global), in *Zhongguo jingji zhouban*(China Economic Weekly), September 13, 2009, see <http://www.zgjzk.cn/html/Article/20099130839463.html>.

¹⁶ US expert Erica Downs discussed the Chinese energy companies in Africa, and pointed out that the influence of China in gaining oil resource there is limited. See Erica S. Downs, "China Security: The Fact and Fiction of Sino-African Energy Relations," *China Security*, Vol. 3 No. 3 Summer 2007, pp. 42 – 68.

¹⁷ China plans to have the equivalent of 90 days imported oil in reserve by 2020. On China's strategic oil reserve, see Wang Xiaozong, "Decipher Chinese strategic oil reserves," *China Economic Weekly*, No.3, 2011, see http://news.xinhuanet.com/2011-01/21/c_121006711.htm.

¹⁸ Chinese media has focused on issues related to secure supply of energy, such as China-Japan competition for the construction of Siberian oil pipeline, bottlenecked transportation of Middle oil via narrow Malaga strait and so on. On the other hand, the publication of works written by western authors, such as Michael T.Klare's *Resource War*(2002), Frederick William Engdahl's *A century of war: Anglo-*

government. Particular concern has been expressed about the increasing dependence on imported coking coal, with Chinese market analysts highlighting the monopolization of the trade and demanding action to overcome what are depicted as unfair monopoly pricing practices by foreign companies.¹⁹

As part of China's attempts to diversify the sources of energy and raw materials, its immediate neighbors are seen as especially important.²⁰ Summit diplomacy has been used as a means of consolidating 'strategic partnerships' with resource-rich countries such as Russia, Central Asia, Saudi Arabia and Nigeria. The strategically important oil pipeline linking Russia's Siberia to Northeast China, which started to pump crude oil to China in late 2010, is a good example of the new foreign policy's effectiveness. These diplomatic initiatives are part of a major effort to engage key economic partners through regional forums with Africa, the Caribbean, and the South Pacific, in addition to China's influential role in the Shanghai Cooperation Organization.

Developing countries in particular are targeted by China because they hope to gain from Chinese aid and investment, and because there are generally fewer political obstacles for China to overcome.

By contrast the investment climate among developed economies is often more complex and unwelcoming. When the US Congress blocked the state-owned China National Offshore Oil Corporation (CNOOC) from taking over the US-based UNOICAL in 2005 in under the pretext of safeguarding name of national security, this provided the proverbial wake-up call for Chinese policymakers and highlighted the sensitivity in many Western countries about

American oil politics and the new world order(2004), and somewhat conspiracy notions, is claimed to send alarmist signals to China. See Zhao Peng, "Zhuajin goujian guojia ziyuan anquan zhanlue tixi"(Speed up building national strategic system of resource security), Xinhuanet, April 14, 2005, see http://news.xinhuanet.com/newscenter/2005-04/14/content_2829651.htm.

¹⁹ Yang Ye, "Jingti jiaomei cheng xiayige tiekuangshi"(vigilance on coke into the next 'iron ore'), "Jingji cankao bao(*Economic Information Daily*)", February 15, 2011, see http://news.xinhuanet.com/fortune/2011-02/15/c_121077444.htm

²⁰ See You Ji, "Dealing with the Malacca Dilemma: China's Effort to Protect its Energy Supply," *Strategic Analysis*, Volume 31, Issue 3 May 2007, pages 467-489.

China's form of state capitalism. When the Aluminum Corporation of China Limited (Chinalco), another state-owned company, was also stopped from investing in Australia-based iron ore supplier Rio Tinto in 2009, it was clear that China's outward economic expansion was going to have to overcome formidable political hurdles if it was to play a role in China's resource security policy. Significantly, Chinese commentary on these events has generally been negative and it has been suggested that China should adopt a more nationalistic attitude and monitor inward foreign direct investment in the same way.²¹

Although China's evolving strategy generates alarm and unfavorable comment in the West, it is important to recognize that, from a Chinese perspective, it is not very different from the policies of the United States, Japan or South Korea. The Chinese government extends a variety of incentives and support to the companies "going global". China's rapidly growing foreign exchange reserves allow state-owned financial institutions to underwrite overseas investment and expansion, but foreign aid is still quite limited in size compared to the amount of foreign assistance given by the US and some other developed countries, despite its potential role in securing resource contracts. Despite the claims made about the distinctiveness of China's investment strategies, they have been largely market driven and conforming. Indeed, Chinese commentators emphasize that intensive competition has developed among the companies owned by the central government, the localities and private investors, and that this competition also exists among Chinese companies seeking resources abroad. The idea of a 'China Inc' controlling and coordinating the activities of China-based companies overseas misconceives the nature of the relationship and the power of the Chinese state.

²¹ A series of failed mergers and acquisitions by Chinese firms overseas, led some experts to call for stricter screening of foreign investment in China. See "Zhongguo qiye haiwai shoucuo, zhuanjia jianyi shencha waiqi zaihua binggou" (Chinese enterprises frustrated overseas, experts suggest screening M&A cases of foreign enterprises in China), IT.Sohu.com, see <http://it.sohu.com/20110228/n279557088.shtml>.

In reality, the companies involved in China's "Going Global" strategies have multiple owners in the central and provincial governments, as well as privately-owned companies with divergent interests. These firms compete with each other in bidding for overseas projects, development rights and construction contracts. For example, over 100 different firms are competing to invest in iron ore mines in Australia; competition between the three biggest state-owned petroleum companies—CNPC, Sinopec and CNOOC—often inflates bids for exploration and drilling contracts.²² Since the global financial crisis, Chinese companies have increased resource investments overseas, but competition among the three big petroleum firms has lifted the cost; the price paid for Brazil's Repsol oil assets, for example, was driven much higher by intra-firm competition. Likewise, in 2009, Sinopec was thought to have paid over the odds for the oil and gas assets owned by a Swiss oil company Addax.²³ Similarly, the intense competition between China Import-Export Bank and State Development Bank in competing to finance projects in Africa has not only driven up the prices paid by Chinese interests, but also attracted much negative commentary in the Chinese media.²⁴ The reality is that China's economic expansion and restructuring are also affecting the policy process and the domestic interests that are competing to influence it. China is far from the monolith of popular external commentary.

China's policy toward Australia and South Africa

From a Chinese perspective, overcoming negative perceptions and the concerns raised by its rapid economic rise and outward expansion are major

²² Xi Min and Lu Fuming, "Juedi fanji, zhongguo gangqi kaituo zizhu kuangshan bantu"(Strike Back: China's steel firms explore the self-reliance mining landscape), *Jingji cankao bao*(Economic Information News), June 7, 2010, see http://jjckb.xinhuanet.com/2010-06/07/content_224716.htm.

²³ The actual figure was 7.24 billion USD. See, Li Wei-Na: "Sinopec Targets upstream in high price," *Caijing*(Chinese weekly), No.22, 2010 (published in October 25, 2010).

²⁴ For example, Wang Liying, Zhou Jun: "Shui gai zuo zouchuqu de zhulijun?"(Who should be the main force going global), *Caikuai xinbao*(Financial and Accounting News), Nov.1, 2010, see <http://opinion.hexun.com/2010-11-01/125361830.html> ; Deng Yao, "Yangqi haiwai binggou pingxian exing jzheng,xianghu taijia ziwa qiangjiao"(National SOEs viciously compete in oversea M&A,boosting the bid to be mutually destroyed),*21 shiji jingji baodao*(21st century economic news), May 10, 2011, see <http://www.21fd.cn/a/fengmianbaodao/2011/0510/26199.html>.

priorities. In this context, Australia and South Africa are not simply strategically important resource rich countries, but they provide an important testing ground of the efficacy of China's foreign policies toward states in very different economic and political circumstances.

As far as China's policymakers and investing companies are concerned, there is a clear contrast between Australia and South Africa and their respective attitudes to China's resource investment. The perception in China is that the South African government sees Chinese investment as more of a development opportunity than a security threat. Indeed, Chinese policymakers see Africa generally as an exceptionally promising and receptive investment area in the aftermath of the Cold War when ideological tensions have diminished and there is a perception that Africa has been abandoned by the West. This is especially the case when Chinese investment is not encumbered with the widely resented demands for reform that are associated with 'Western' political and economic engagement in the region.²⁵ China sees its investment in energy and raw materials in developing countries such as South Africa as integral to developing local infrastructure and speeding up economic development. The much discussed 'African renaissance' is, many Chinese believe, partly a consequence of its investment and developmental strategies.²⁶

10

The challenges presented by engagement with Australia are, by contrast, of a very different nature, but have proved equally difficult for Chinese officials and investors. Australia does not have the same basic need for investment and this necessarily influences the overall context of the relationship. Indeed, Chinese policymakers are aware of the politically sensitive nature of Chinese

²⁵ Carmody, P.R. and F.Y. Owusu. 2007. 'Competing hegemony? Chinese versus American geo-economic strategies in Africa.' *Political Geography* 26(5), 504-524.

²⁶ Liu Jianfei, "Wushi huhui: zhongguo tuidong xin nannan hezuo"(To be pragmatic and mutual beneficial: China pushes forward new modes of South-South cooperation), *Zhongguo jingying bao*(China Business News), see <http://finance.sina.com.cn/g/20061104/03413048965.shtml>. African leaders praise Chinese contribution in improvement of infrastructure and countering the global financial crisis, see Yin Liang, "Zhongguo wei feizhou jingji fuxing tigongde qiangda de dongli"(China provides a strong force for African economic renaissance), *Guoji zaixian*(CRI International news online), see <http://gb.cri.cn/27824/2011/05/07/2225s3240341.htm>.

investment in Australia, and the widespread concerns about the long-term strategic consequences of foreign control. There is great sensitivity in both China and Australia about managing a relationship between two such very different countries that are inexorably drawn together by their joint material interests. Chinese political and economic elites are aware that concerns about their political system, the role of state-owned enterprises, and state capitalism more generally mean that the relationship is easily politicized in Australia, especially at times of crisis. The behavior of Australia's former prime minister and now foreign minister, Kevin Rudd, and his desire to stand up to China was especially disappointing given all the hopes that were invested in Australia's first Mandarin-speaking, China-savvy leader.²⁷ To understand why the relationship with Australia remains problematic despite the potential benefits of Rudd's leadership and an increasingly sophisticated appreciation of the relationship on the Chinese side, it is important to see the relationship from an Australian perspective.

Australia's relationship with China

Few countries illustrate the diplomatic complexities that flow from China's rise more than Australia. China's growing economic *and* strategic importance are exercising an increasing influence on Australia's domestic and foreign policies. It cannot be overstated just how novel and challenging this is: for most of Australia's short history as an independent state, China has been a remote and/or threatening presence on the geopolitical horizon. Australia's overriding strategic imperative since the Second World War has been shoring up its relationship with the US—a reality that accounts for Australia's unwillingness to even recognize the People's Republic of China following the communist take-over in 1949.²⁸ While Australia's sense of vulnerability and the febrile atmosphere of the Cold war may go some way to explaining Australia foreign policy half a century ago, one of the most striking features of Australia's

²⁷ See Daniel Flitton, "Rudd the butt of WikiLeaks exposé," *Sydney Morning Herald*, December 6, 2010, see

<http://www.smh.com.au/technology/security/rudd-the-butt-of-wikileaks-expos-20101205-18lf2.html>.

²⁸ Waters, Christopher (2001) 'War' decolonization, and postwar security', in *Facing North: A Century of Australian Engagement with Asia*, Goldsworthy, D (ed.), (Melbourne University Press), p 127.

contemporary position is that a similar sort of calculus continues to underpin policy. What complicates matters now, of course, is that China is far more important to Australia economically than it was, making it impossible to ignore and the calculation of Australia's 'national interest' more complex as a consequence. The recent claim by Western Australia's Premier Colin Barnett that relations with China were becoming more important than relations with Canberra may have been made primarily for its impact on domestic politics, but it is an indication of just how important China ties have become.²⁹

There is, however, one aspect of Australia's relationship with China that is not unprecedented and from which its policymakers might have been expected to learn. Australia's immense store of natural resources means that throughout its short history, economic development has been profoundly shaped by external demand for commodities. For example, large scale immigration during the nineteenth century—including from China—was spurred by an early gold rush. More recently in the late 1960s and early 1970s there was the first of a series of 'resource booms', triggered by the rapid industrialization of Japan in particular and East Asia more generally. Asian industrialization and Australia's vast mineral wealth have led many to see a natural complementarity between resource-rich Australia and the 'Asian tigers', an idea that has been reflected in domestic public policy debates.³⁰ Indeed, discussions about the potential pitfalls of extensive foreign ownership, deindustrialization and the potentially negative impact of resource development on the agricultural sector were rehearsed forty years ago.³¹ What makes such debates more potent now is the fact that the resource sector has become an even more important part of Australia's overall economic profile, especially its export sector. The other complicating factor is that it is 'communist China' rather than the US or even Japan that is the

²⁹ Burrell, Andrew (2011) 'Western Australia shuns Canberra, eyes China', *The Australian*, May 28.

³⁰ Most influentially in Garnaut, Ross (1990) *Australia and the Northeast Ascendancy*, (Canberra: A.G.P.S.).

³¹ See, Gregory, R.H. (1976) 'Some implications of the growth of the mineral sector', *The Australian Journal of Agricultural Economics* 20(2).

principal economic partner driving policy responses and this is heightening fears about the impact of foreign ownership of 'Australian' assets.³²

There are a number of general points that help explain the current dilemmas confronting Australian policymakers. First, while the resource sector is by far the largest contributor to Australia's exports it employs less than 3% of the workforce. Indeed, despite its prominence in Australia's export profile, where it accounts for over 50% export income, mining in particular only accounts for little more than 5% of gross domestic product.³³ Despite this relatively modest contribution to national wealth creation and employment, the resource sector generally is exercising a disproportionate influence over public policy debates and making the construction of inclusive public policy increasingly complex. Most immediately, the resource sector is driving a divisive debate about supposed 'skills shortages' in Australia and the sort of immigration policy that ought to be adopted as a consequence.³⁴ Indeed, Australia has seen something of a throwback to an earlier era with cheap Chinese labor being brought in on short-term contract to plug gaps in the work force.³⁵ At one level this is simply an expression of sectional interest and the resource sector's historic failure to train adequate numbers of employees. At another level, however, labor shortages highlight both the difficulty of easily shifting labor from one section of the domestic economy to another and the impact of the break-neck pace of development that is occurring in the resource sector—something that is increasingly a consequence of China's seemingly insatiable energy and resource demands.

It is important to spell out just how significant demand from China actually is as this is directly spilling over into domestic political debates. China is now both Australia's largest trade partner and—even more strikingly, perhaps—one of the largest sources of politically sensitive direct foreign investment.

³² Massola, J. (2011) 'Chinese miner's land buyout passed national interest test, says Bill Shorten'. *The Australian* June 29.

³³ Connolly, E and Lewis, C. (2010) 'Structural change in the Australian economy', *RBA Bulletin*, September, pp 19.

³⁴ Tasker, S.-J. and Jiminez, K. (2010) 'Skills crisis risks \$150bn worth of projects'. *The Australian* December 08.

³⁵ Fraser, A. (2010) 'Chinese to fly in for mining jobs'. *The Australian* December 14.

China's share of Australian exports has grown from 6% in 1990 to 30% in 2009—driven primarily by demand for coal and iron ore, which grew by 39% in 2009 alone. Important as these material indicators of increased engagement are, they do not capture the full impact of the growing ties between the two countries, however. According to the Melbourne Institute's Asialink Index, which provides a measure of regional engagement that includes a broader range of factors such as tourism, education links, migration and humanitarian assistance, engagement with China has increased 16 times in the period since 1990.³⁶ In other words, relations with China are both increasingly important and experienced in a number of domains.

Resource politics

While the underlying structure and drivers of the growing ties between Australia and China may be easy to identify, their implications are not. True, the principal source of Chinese demand is driven by construction and manufacturing, as it was with the earlier Japanese-inspired resource booms, but the consequences look likely to be rather different. There are both domestic and international aspects of the relationship with China which are distinctive and which merit spelling out.

China's impact on Australia's domestic politics has been manifest primarily in the debate over the taxation and ownership of the resource sector. The principal consequence of China's growing material importance to Australia has been to increase the power of the mining sector. The mining lobby in Australia has always been influential; what sets the current generation of mining companies apart is their willingness to directly intervene in the domestic political process.³⁷ The most glaring example of this possibility occurred in the last federal election when the mining companies lobbied furiously against the Australian Labor Party (ALP) government of (then) Prime Minister Kevin Rudd. The Rudd government's proposal to introduce a new

³⁶ Melbourne Institute (2010) *PwC Melbourne Institute Asialink Index*, (Melbourne).

³⁷ Pearse, G. (2009) 'Quarry vision: Coal, climate change and the end of the resources boom', *Quarterly Essay* 31-122.

resource tax outraged the miners and caused them to launch a massive, lavishly-funded publicity campaign denigrating the government's position. Public support of the government in general and Kevin Rudd in particular declined dramatically in the face of the mining sector's relentless, skilfully executed campaign. In the face of increasingly dire public opinion polls, the ALP dumped Rudd in favor of the supposedly more voter-friendly Julia Gillard.

At one level, the fact that it is the growing trade with China that has underpinned the mining sector's increasing political power in Australia is entirely incidental. It is, after all, simply the perceived importance of the mining sector itself, not its trading partners, that gives it leverage. At another level, however, because it is China rather than say Japan, that occupies this pivotal position, this adds another layer of complexity for a government that many thought would be particularly well-placed to manage China ties under Rudd—the Western world's first Mandarin speaking leader. In reality Rudd was vulnerable to criticisms of being too close to China, and his attempts to use his supposedly superior insight into Chinese culture backfired at times.³⁸ More fundamentally, however, perceptions about the operations and underlying logic of China's growing numbers of overseas companies have tested the Australian government's policy settings and ability to deal even-handedly with what is often seen as a neo-mercantilist power.³⁹

The potential difficulties confronting the Australian (and Chinese government, for that matter) can be clearly seen in Chinalco's aborted efforts to take over the British-Australian mining giant, Rio Tinto. As a result of the global financial crisis, a concomitant downturn in commodity prices, and a \$A40billion debt from its own acquisition of Canada's Alcan, Rio Tinto was suddenly vulnerable to a hostile takeover bid. When its notional archrival BHP Billiton attempted to launch such a takeover, Rio Tinto was forced into a desperate search for new investment to service its debts when international capital markets were

³⁸ Wines, M. (2009) 'Uneasy engagement'. *New York Times*, June 3.

³⁹ Dorling, P. (2011) 'Labor's secret curb on China'. *The Age* March 3.

effectively frozen. It was in this environment that Rio Tinto invited Chinalco, a state controlled investment and holding company to invest nearly \$A20 bn.⁴⁰

As far as Chinalco (and Chinese policymakers) was concerned, its largest offshore investment thus far would have given it a presence on Rio Tinto's board and forestalled the possibility of Rio Tinto and BHP Billiton cooperating to control the price and supply of key resources. From the outset, however, Rio's shareholders were divided, and the Australian government was increasingly nervous about the possibility of Chinese interests manipulating iron ore prices to favour its steelmakers.⁴¹ Fortunately for the Australian government it did not have to actually reject Chinalco's investment on national interest grounds despite appearing willing to do so. The revival of international financial markets and a surprise proposal by BHP Billiton to jointly develop iron ore assets in Western Australia meant that Rio Tinto was no longer dependent on Chinalco to effectively bail it out.⁴²

The subsequent trial of Rio Tinto executive Stern Hu on corruption charges was seen by some as revenge for Chinalco's failed investment.⁴³ Whatever the truth of such claims, the trial revealed the corrupt, opaque nature of a resource trade where demand from small mills without state patronage frequently outstripped supply. For many commentators, the imprisoning of Hu was a sobering reminder of the dangers of dealing with a country that subscribed to different standards of governance and where the state was more directly involved in economic activity.

Power politics

The challenges posed by China's rise in more traditional power politics have proved even more acute. Despite China's growing importance as a trade

⁴⁰ Waldmeir, P. and MacNamara, W. (2010) 'Rio Tinto case highlights risks in China'. *Financial Times* April 5.

⁴¹ Yeates, C. and Garnaut, J. (2009) 'Brakes put on Chinese investment'. *The Age*, September 25.

⁴² Thanks to Wikileaks, we now know that BHP lobbied the Australian government to stop the deal and that this played an important part in stymieing the deal.

⁴³ Bowring, P. (2010) 'China gets tougher.' *New York Times*. April 3.

partner, this has not brought about a similar transformation in Australia's strategic orientation. On the contrary, in the most recent defense White Paper produced during Rudd's period as prime minister, China was specifically named as a potential strategic threat to Australia—revealing major differences of opinion between military hawks and intelligence doves about the implications of China's rise. Significantly, avowed China expert and then prime minister Rudd sided with the hawks. It has since become clear—again, thanks to Wikileaks—that Rudd's entire strategy of 'Asian engagement' has been predicated on a desire to 'contain' China.⁴⁴

The centerpiece Rudd's strategy for managing China's regional rise was his 'Asia Pacific Community' initiative. Although pitched as a mechanism for furthering regional cooperation and institution-building, it has subsequently become apparent that it was primarily envisaged by Rudd as a mechanism for containing Chinese influence, about which Rudd describes himself as a 'brutal realist'.⁴⁵ Despite the fact that the APC itself has failed to gain traction, its underlying rationale and—crucially—its membership have coalesced in a revitalized East Asian Summit (EAS). The key point here is that the US—Australia's principal strategic ally—is a fully engaged member of the EAS. For some observers this is a triumph of Australian realpolitik and a crucial hedge against China's growing power.⁴⁶

In a domestic context, therefore, relations with China are an increasingly important measure of foreign and domestic policy competence. How to respond to the threats and opportunities presented by China has become the key policy question of the era. Significantly, even members of Australia's strategic establishment have now begun to argue that Australia may need to entirely re-think the way in which it has previously viewed the region, and come to terms with the idea that the US interests and Australian interests may not coincide in quite the way they once did. As Hugh White puts it, 'the alliance will only survive for as long as the US role in Asia serves our interests,

⁴⁴ Dorling, P. 2010. 'Scathing attacks on Rudd revealed in us diplomatic cables.' *The Age*. December 8.

⁴⁵ Maley, P. (2010) 'Kevin Rudd's plan to contain Beijing'. *The Australian* December 05.

⁴⁶ Sheridan, G. 2010. 'The realist we need in foreign affairs.' *The Australian*. December 09.

and that is something we can no longer take for granted.¹⁴⁷ After all, when the US itself recognizes the constraints that arise from relying on China to fund its deficits and strategic ambitions, how much more likely is it that Australia will find itself having to adjust to Chinese ascendancy in its near north? Whether Australian policymakers can reconcile traditional strategic orientations with new material realities is the key question of the era. It is a similarly portentous question for South Africa, albeit for rather different reasons.

South Africa's relationship with China

Political and economic cooperation

Since the establishment in 1998 of formal diplomatic links between South Africa and China, the relationship between the two countries has grown rapidly to become one of the closest between an African country and the emerging global superpower. At the core of the relationship has been a mutual desire to strengthen diplomatic and political ties as a platform for deepening economic engagement. The framework for political cooperation was set out in the 'Pretoria Declaration,' which was signed by former Chinese president Jiang Zemin and his counterpart, former president Thabo Mbeki, during Jiang's state visit to South Africa in April 2000. The declaration pledged the two countries' commitment to a 'spirit of partnership and constructive dialogue,' while also stressing the 'moral imperative for developing countries to strengthen capacity for cooperation and mutual support in the international system.'⁴⁸

These sentiments were subsequently echoed in the decision in 2004 to forge a 'Partnership for Growth and Development' with the aim of building a more equitable bilateral relationship, in the adoption in 2006 of the 'Programme of Cooperation on Deepening the Strategic Partnership,' and in the signing in 2010 of the 'Beijing Declaration' by presidents Jacob Zuma and Hu Jintao that

⁴⁷ White, H. (2010) 'Power shift: Australia's future between Washington and Beijing', *Quarterly Essay*, p 53.

⁴⁸ Garth le Pere and Garth Shelton, *China, Africa and South Africa: South-South cooperation in a global era* (Midrand: Institute for Global Dialogue, 2007), p.165.

committed both countries to 'establishing a Comprehensive Strategic Partnership based on equality, mutual benefit and common development.'⁴⁹

The importance both countries attach to the burgeoning relationship is underscored by the frequency of high-level visits that have been undertaken by political leaders since the formalization of diplomatic ties. Apart from Jiang's trip in 2000, other Chinese leaders that have visited South Africa on official business over the past few years include current premier Wen Jiabao (2006), president (then vice-president) Hu Jintao (1999) and current vice-president Xi Jinping (2010). South African leaders who have visited China are ex-president Nelson Mandela (1999), former president Thabo Mbeki (2001) and current president Jacob Zuma (2010). Institutional support for these diplomatic interactions has been provided by a binational commission that was set up in 2001, which meets frequently to steer and coordinate state-to-state relations between the two countries.

Undergirding the strong diplomatic ties has been growing economic cooperation. In recent years, trade between South Africa and China has grown appreciably. Two-way trade grew from a modest US\$14 million in 1991 to US\$800 million in 1998 (the onset of diplomatic relations), rising to US\$2 billion in 2002 and to US\$11.2 billion in 2007. In 2009, China became South Africa's single largest trade partner, with bilateral trade totalling US\$16.3 billion.⁵⁰ South Africa has also become China's biggest trade partner in Africa, representing about 25% of overall China-Africa trade.⁵¹

Buoyant trade has been complemented by steadily increasing investments. To be sure, China has designated South Africa as a 'preferred country' on the 'preferred continent' for Chinese investments – 'the only country on the African continent that has a manufacturing and service base that is anything

⁴⁹ Department of International Relations and Cooperation, *Beijing declaration on the establishment of a strategic comprehensive strategic partnership between the Republic of South Africa and the People's Republic of China* (Pretoria: Government Printer, 2010), p.1.

⁵⁰ Chris Alden, 'South Africa and China: forging Africa's strategic partnership,' *China Brief* 8:13, June 2008, p.1.

⁵¹ Lloyd Gedye, 'China's boom swells the coffers of African economies,' *Mail & Guardian*, 6 May 2011.

near the scale required to engage the Chinese market.’⁵² Chinese companies have invested in a range of sectors in South Africa, including mining, textiles, electronics, agriculture, communications, transportation and banking. By 2006, Chinese firms had ploughed into South Africa investments worth more than US\$180 million, while South African companies had invested in excess of 200 projects in China valued at US\$330 million.⁵³ China’s initially low levels investment into South Africa rose dramatically with the acquisition in 2007 by the Industrial and Commercial Bank of China (ICBC) of a 20% stake (worth US\$5.6 billion) in Standard Bank, South Africa’s largest bank.⁵⁴ The ICBC-Standard Bank deal represents the single largest Chinese investment in Africa to date. Recent Chinese investments include the purchase by the Jinchuan Group and China-Africa Development Fund of a 50% stake in Samancor Chrome for US\$230 million, as well as the injection in the same year by Chinese firm First Auto Works of US\$100 million in the transport sector.⁵⁵ South Africa now accounts for a quarter of all Chinese foreign direct investment in Africa.

Resource diplomacy versus domestic politics

Although South Africa is not the only African country that boasts natural resources that China needs, it is a vital focal point of Beijing’s resource diplomacy. South Africa boasts 33% of the world’s reserves of chromium, 77% of manganese reserves and 88% of platinum reserves. The preponderance of these metals, and the absence of alternative supplies, makes South Africa strategically important to China.⁵⁶ China’s resource diplomacy has focused primarily on securing access to South Africa’s abundant mineral resources. Already, base metals and mineral products account for over 70% of South Africa’s exports to China, including iron ore, aluminium, nickel, manganese, copper, zirconium, vanadium oxides, chromium ores, granite, platinum, and

⁵² Richard Bowker, ‘Dancing with the dragon: economic relations between South Africa and China,’ *TradeInvest SouthAfrica*, 25 July 2008, p.1.

⁵³ le Pere and Shelton, *China, Africa and South Africa*, p.171.

⁵⁴ Sharon Davis, ‘China’s involvement in South Africa: romance or rape?’ *The Wits Business School Journal* 1:24 2011, p.46; see also Alden, ‘South Africa and China,’ p.3.

⁵⁵ Gedye, ‘China’s boom.’

⁵⁶ Sharon Davis, ‘China’s involvement,’ p.46

gold. In return, South Africa imports from China mainly textiles and clothing, footwear, plastic products, electrical appliances and, increasingly, higher-value added products such as motor vehicles.⁵⁷

However, this 'neo-colonial' pattern of South Africa-China trade – with the former chiefly exporting raw materials and importing finished products – has been a source of contention in South African domestic politics; it has acted as a lightning rod for a variety of concerns that South Africans have about China. Not only has it heightened anxieties about South Africa's ballooning trade deficit with China (which stood at US\$2.7 billion in 2009), it has been blamed by labor unions for the dislocation of the local textile sector that has buckled under a deluge of low-cost Chinese imports – triggering fears of 'de-industrialization' of the South African economy and appeals for government protection.⁵⁸ South African policymakers have also voiced worries that the pattern of trade is not favorable to rapid creation of jobs in low-skill manufacturing, touted as an antidote to South Africa's high unemployment rate.⁵⁹

The South African business community has questioned South Africa's decision to grant China market-economy status, making it very difficult for local firms to prove that the Chinese government gives its companies an unfair advantage.⁶⁰ Moreover, China's economic expansion into Africa has been seen as a threat by South African companies who have lost market share in South Africa's 'near abroad.'⁶¹ A case in point is Zimbabwe, traditionally South Africa's largest African trade partner and a 'captive market' for South African firms. Stealing a march on South African companies, Chinese firms have firmed up their grip on Zimbabwe as part of Beijing's Africa strategy, snapping up sizeable stakes in such sectors as mining, agriculture, property, construction, infrastructure and communications. China has also extended various loans to Zimbabwe, with the most recent being a

⁵⁷ Alden, 'South Africa and China,' p.3.

⁵⁸ Claire Bissek, 'Shanghaied by quota plan,' *Financial Mail*, 17 August 2007.

⁵⁹ Phil Alves, 'More sour than sweet in SA-China trade relations,' *Sunday Times*, 29 June 2006.

⁶⁰ le Pere and Shelton, *China, Africa and South Africa*, p.175.

⁶¹ Alden, 'South Africa and China,' p.2.

US\$700 million facility unveiled in March 2011 to enable the country to revitalize its health, mining and agriculture sectors.⁶²

For their part, civil society organizations have voiced uneasiness over the influence of growing South Africa-China economic relations on South Africa's foreign policy. The intensification of economic ties between South Africa and China has coincided with a shift in South Africa's foreign policy away from its central focus on Europe and North America. This shift became particularly clear when South Africa assumed a non-permanent seat on the United Nations Security Council in 2006 and took policy positions – on contentious issues like Zimbabwe, Darfur and Myanmar – that were not dissimilar to those of China. The South African government was also fiercely criticized by social activists and opposition parties for its decision in 2010 to deny the Dalai Lama a visa to attend a peace conference in 2010, with government officials proclaiming that granting a visa would be 'not in our interests.'⁶³ These developments have reinforced a belief that South Africa will do anything to appease China even if it is at the expense of the moral ethos that has guided the country's foreign policy since it became a democracy in 1994.

To show sensitivity to concerns about the surge of Chinese textile goods into the South African market, the Chinese government agreed in June 2006 to unilaterally impose quotas – effective until December 2008 – on 100 categories of its clothing exports to the South African market in order to give local producers time to modernise and streamline their operations. Regarding concerns about the unbalanced trade structure between the two countries, the Chinese agreed to the inclusion of a provision in the 'Beijing Declaration' that which encourages Chinese investment in South Africa and greater market access in China for South African value-added products in return for allowing China long-term access to South African mineral resources. As the declaration states, the two countries have pledged to work together to: 'Improve through a concerted effort, the current structure of trade between the two countries, in particular, by working towards a more balanced trade profile

⁶² Dumisani Muleya, 'China tightens hold on Harare,' *Business Day*, 24 March 2011.

⁶³ Davis, 'China's involvement, p.47.

and encouraging trade in manufactured value-added products.⁶⁴ It also notes that: 'China, in this spirit, will encourage its enterprises to increase investment in South Africa's manufacturing industry and to promote the creation of value-adding activities in close proximity to the source of raw materials.'⁶⁵ To ease tensions over growing commercial competition between South African and Chinese firms for projects, the declaration states that efforts will be made to: 'Encourage Chinese and South African companies to explore cooperation opportunities in infrastructure construction projects such as roads, railways, ports, power generation, airports and housing.'⁶⁶

Can South Africa accommodate China?

Predicated on mutual need and benefit, the South Africa-China relationship is poised to even become stronger and grow further in the future. Viewed through China's lens, South Africa's bountiful mineral wealth – which China needs to power its industrial development – has elevated Pretoria-Beijing relations strategic importance. Moreover, China views South Africa's regional power status – predicated on South Africa's significant industrial and commercial base and the strength of its state apparatus – as well as its position as an important global actor as justification for elevating state-to-state dialogue and cooperation to a strategic level.⁶⁷ It regards Pretoria as a pivotal African state that it cannot ignore in its broader African engagement strategy. This explains why China pushed very hard for extending an invitation to South Africa to join the 'elite' grouping of the BRICSs (Brazil, Russia, India and China) nations.⁶⁸ China also sees the strengthening bilateral relations with South Africa as a vital part of bolstering South-South collaboration.⁶⁹

In South Africa's strategic calculations, China's import resides primarily with it being a growing source of foreign investment that South Africa needs desperately to ameliorate pressing domestic social challenges, notably high unemployment, poverty and social inequality. Furthermore, South Africa

⁶⁴ Department of International Relations and Development, *Beijing declaration*, p.3.

⁶⁵ Department of International Relations and Development, *Beijing declaration*, p.3.

⁶⁶ Department of International Relations and Development, *Beijing declaration*, p.3.

⁶⁷ Bowker, 'Dancing with the dragon,' p.1.

⁶⁸ Telephonic interview with a senior South African diplomat, 12 February 2011.

⁶⁹ le Pere and Shelton, *China, Africa and South Africa*, p.165.

regards China as indispensable to the pursuit of one of the country's key foreign policy objectives: transformation of global governance institutions to reflect the changing balance of power in the international system. In particular, South Africa regards China's support as crucial to promoting Africa's interests in the United Nations and other multilateral institutions.⁷⁰ China's push for a 'multipolar' global order and its identification with the Global South agenda resonate strongly with South Africa's foreign policy interests. Related to this, South Africa views the deepening of economic links with China (and with the other BRICS countries) as central to its economic strategy of diversifying its external trade away from Europe, which currently absorbs 40% of South African exports.⁷¹ The urgency of diversifying South Africa's export markets has been underlined by the adverse impact of the global financial crisis on the country's exports.

In sum, therefore, the relationship between South Africa and China has thus far generally proved to be mutually beneficial. However, the extent to which South Africa will continue to satisfy China's resource hunger will depend on whether powerful domestic constituencies, mainly labor unions, organized business and civil society formations, in South Africa feel that their concerns about China's influence on South Africa's political economy are being addressed – especially around the continuing impact of Chinese textile imports on local jobs and wages, around the erosion of the competitive advantage of South African companies, in local and regional markets, by the growing presence of Chinese firms, around the skewed trade relationship, and around perceptions that expanding commercial relations have exerted a baleful influence on South African foreign policy. China's willingness to accede to South Africa's request to impose quotas on its textile exports (albeit for only two years) and its undertaking to work with South Africa to correct the unbalanced trade profile between the two countries – by urging Chinese firms to expand investment in the country's manufacturing sector and promote local beneficiation of raw materials – suggest that Beijing is well-attuned to the sensitivities of South African internal politics. It is clear, however, that China's

⁷⁰ Christina Alves, 'South Africa-China relations: getting beyond the crossroads?' *Sunday Independent*, 29 August 2010.

⁷¹ Mills Soko and Mzukisi Qobo, 'Creating more walls than Brics,' *Mail & Guardian*, 7 January 2011.

responsiveness and flexibility in this regard will remain conditional upon South Africa maintaining unfettered access to its mineral resources for Chinese firms, upon not questioning China's policy positions in multilateral forums and upon not interfering in China's domestic affairs (as evidenced by the Dalai Lama affair). China's economic backing for South Africa, therefore, comes at a price.

Resource politics revisited

The most striking feature of the new resource politics is that they are proving very challenging for all the governments concerned. True, all three countries stand to benefit significantly from China's remarkable economic development, but while managing the political and social impact of such a rapid transformation in their domestic economies is a 'good' problem to have, it is one that is transforming the status quo with unforeseeable consequences. China is the epicenter of the new resource politics and it is there that the stakes are highest. It is increasingly commonplace to observe that the 'performance legitimacy' of the Chinese government is almost entirely dependent on its ability to keep the process of economic development going and to fulfill the growing aspirations of its people.⁷² Resource security is a pivotal aspect of this implicit domestic political accommodation, which explains why it has become such a central part of China's evolving foreign policy. It also explains why the government is under pressure to pursue and protect 'national interests' in a potentially zero sum contest with resource rich nations like Australia and South Africa.

And yet a concern with protecting national interests is hardly exclusive to China, but an increasingly prominent feature of resource politics across the globe.⁷³ Even in notionally liberal countries such as Australia, there are growing concerns about protecting 'Australian' interests, and about how the massive wealth that is being generated by the resource sector should be

⁷² Gilley, B. (2008) 'Legitimacy and institutional change: The case of China', *Comparative Political Studies* 41(3): 259-284.

⁷³ Stevens, M. (2011) 'Rising resource nationalism a worry for miners'. *The Australian* June 07.

used.⁷⁴ The domestic structure of the Australian economy is being transformed as the paradoxical effects of the ‘resource curse’ take hold⁷⁵: the rising Australian dollar is making it hard for other key industries such as manufacturing and education to compete, leaving the country evermore dependent on the resource sector. The dangers of over-reliance on an industry that is notoriously prone to cyclical crises are evident from Australia’s earlier resource booms and busts,⁷⁶ but what is especially striking about the most recent phase of resource development has been the concomitant rise in the political power of the mining industry and its willingness to use it.⁷⁷ Further complicating the politics of resources in Australia is the fact that its major trading partner is also seen as the principal strategic threat in the region, a tension that highlights the contingent nature of Australia-China ties. In a perfect world, Australia’s principal economic ties would not be with ‘communist China’. It is a measure of how important and transformative brute materiality can be that the relationship works as well as it does: both ends of this unlikely pairing have little option other than to make it work.

The dynamics in the China-South Africa relationship are rather different, potentially more productive, but ultimately just as arbitrary and materially contingent as are Australia’s. What is different in the South African case is that there are other factors that may make bilateral resource politics more productive. Both China and South Africa are keen to assert themselves on the international stage, and can position themselves as part of a new world order that is more representative of contemporary geopolitical realities. Unlike Australia, South Africa is not as constrained by other strategic ties and has, via the BRICS, a forum in which common policy positions are at least conceivable. Whether such cooperation can be realized will depend on the conduct of the relationship and here good intentions are likely to collide with underlying conflicts of interest over the division of the spoils that flow from resource exploitation.

⁷⁴ Hay, J.L. (2009) ‘Challenges to liberalism: The case of Australian energy policy’, *Resources Policy* 34(3): 142-149.

⁷⁵ Ross, M.L. (1999) ‘The political economy of the resource curse’, *World Politics* 51:297-322.

⁷⁶ Horsburgh, M. (2011) ‘What happens when the mining boom goes bust?’, *National Times* April 8.

⁷⁷ Megalogenis, G. (2010) ‘Trivial pursuit: Leadership and the end of the reform era’, *Quarterly Essay*, 401-80.

At one level the relationship between China and both Australia and South Africa is necessarily zero sum: greater profits for the miners mean higher prices for Chinese importers, and vice versa. True, all may benefit from overall increased economic activity, but there is much to be gained and lost in the negotiations over price. At another level, of course, all benefit from expanding economic activity and China's rapid development. In the longer term, the most vital consequence of China's rise and the evolution of resource politics may be the impact China's developmental model has on its trade partners. Australian policymakers are already acutely aware of the need to avoid antagonizing its most important trade partner over strategic issues and human rights.⁷⁸ As for as South Africa is concerned—and a number of other emerging economies, for that matter—China's successful development may prove an attractive alternative to a 'Western' economic paradigm that is generally seen as having only limited efficacy in the developing world. Indeed, China's position as the world's most dynamic growth engine—especially when compared to the problems currently assailing the US economy—may have a major long-term impact on the internal and external politics of its trade partners. Whether they like it or not, accommodating the wishes of the world's most dynamic economy may be a reality other countries may have to get used to. In the resource politics of the twenty-first century, material forces may trump ideological ones.

⁷⁸ Shanahan, D. (2008) 'Pm pushes trade ahead of human rights.' *The Australian*. April 11.

