

How Chinese capital can reinforce stability and prosperity

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In May, Treasurer [Jim Chalmers](#) said that the Albanese government was trying to erase an 'artificial distinction between our prosperity and our security'.

In the 'most challenging strategic environment since World War II', as well as facing the 'unmistakable signs of climate change', 'economic security' and 'economic resilience' had become an 'essential component of assuring our national security'.

This demanded that Canberra embrace more interventionist policy settings, including using taxpayer dollars to support greater domestic production and attract the 'right kind' of foreign investment, while more closely scrutinising 'risky' proposals in 'sensitive' sectors, like critical minerals.

Unsurprisingly, many [pundits](#) read this as 'Chinese' proposals. The Treasurer had [previously emphasised](#) risks stemming from a concentration of critical minerals supply chain activity in China, and since 2022 has presided over an apparent de-facto ban on further Chinese involvement in Australia's critical minerals sector.

There are two tensions in the Treasurer's analysis.

The first relates to big picture assessments.

At the end of 2022, Foreign Minister [Penny Wong](#) told a Washington audience that 'our national interest lies in being at every table where economic integration in Asia is being discussed'. In January 2023, in London, she [elaborated](#) that this was because economic engagement 'in an investment in our security. Stability and prosperity are mutually reinforcing'.

Wong then agrees with Chalmers that prosperity and security are linked, but emphasises that economic engagement and integration supports both. In contrast, Chalmers has taken to emphasising that economic engagement and integration could see prosperity and security undermined, at least when it involves China.

The Treasurer and Foreign Minister differ over international economic engagement

The second tension relates to the translation of these big picture assessments to the nitty gritty of policy settings.

The Treasurer sees greater government intervention, such as taking a more securitised approach to foreign investment, as necessary to advancing prosperity and security.

Yet Australia's own experience in 'sensitive' sectors like critical minerals is more aligned with the Foreign Minister's inclinations towards openness.

Few would argue that the critical minerals sector is now providing a major boost to Australia's prosperity, as well as the resilience of critical minerals supply chains globally.

This year, local lithium [production](#) is expected to be about five times larger than in 2017 and Australia now supplies 52 percent of the global total. Australia is also a top five producer of rutile, zircon, cobalt, manganese, rare earths, nickel and tantalum. And alongside Canada, Australia is the world's leader in [exploration spending](#) for critical minerals, a leading indicator of project development.

Further downstream, the first facility outside of China capable of processing lightly processed lithium spodumene into battery grade lithium hydroxide began production in Kwinana last year. By 2029, Australian supply of lithium hydroxide is [expected](#) to account for 15 percent of the global total.

Yet a major driver of all this prosperity and supply chain resilience was the decision of previous Australian governments to welcome China as a partner. In 2012, for example, [Tianqi](#) was approved to begin investing in Australian lithium mining, and over the past decade has funded multiple rounds of capacity expansion. In 2015, [Ganfeng](#) began on the same path with Mineral Resources Limited.

The Kwinana lithium hydroxide facility now selling to international customers, including in South Korea and Sweden, is due to a 2017 [commitment](#) by Tianqi. The project's successful completion not only [leveraged](#) Chinese capital but also lent heavily on the transfer of Chinese capital equipment, technology and specialist construction skills.

Chalmers seems to imagine that Australia can simply partner with geopolitically 'like-minded' countries to further supercharge the critical minerals sector's development.

But for an industry to achieve international competitiveness, particularly downstream from the mine site, it must have access to the world's best technology. And that technology oftentimes is Chinese.

Why China now dominates rare earths technology and research

Last year, a [report](#) prepared for the US Congress and government departments estimated there are now 12,000 full-time researchers in China focused on rare earths, spread across four national labs. This compares with just 300 in the US.

The commercial rare earths sector in China is also estimated to host more than 300,000 full-time employees, compared with around 400 in the US, delivering enormous process knowledge advantages.

Meanwhile, the policy choices of geopolitical 'like-minded' frequently appear more focused on the '[on-shoring](#)' rather than 'friend-shoring', and supporting their companies to compete internationally, including against commercial rivals in Australia.

The successful visit to Australia of Chinese premier, Li Qiang in June showed that the Albanese government is comfortable embracing China as a potential partner in the diplomatic realm.

But in the foreign investment realm, the Treasurer is tilting in the direction of a zero-sum, national security framing that positions China only as an adversary.

The Treasurer is right that geopolitical risks to economic security and resilience need to be recognised and mitigated. And that prosperity and security are linked. The current economic policy direction, however, is unlikely to deliver either.

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