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China Inc needs us too

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We react to China's state-directed economic performance with awe and even apprehension.

But recall the old tune, "It seems I've heard that song before. It comes from an old familiar score."

In the late 1980s and early 1990s many economists known as "revisionists" believed "Japan Inc" would take over the world. Western free-market capitalism could not compete with Japan's state- directed, insider capitalism. However, to quote from a **Cato Institute** paper, "Japan has not attained worldwide dominance; on the contrary, it has suffered a 'lost decade' of economic stagnation.

The 'Japan, Inc' model has not eclipsed Western-style capitalism; instead, there is an emerging consensus on both sides of the Pacific that the Japanese model has failed." As Mark Twain said, "History doesn't really repeat itself, but it has a nasty habit of rhyming."

Today China is struggling with what Marx called, in a different context, the contradictions of capitalism. The forces of production are struggling to break free from state control and seem to have had a victory.

Last week it was reported that Baosteel, China's largest iron and steel producer, would take over the protracted iron ore price negotiations from the China Iron and Steel Association. Although state-owned, Baosteel has its headquarters in Shanghai.

"Beijing is a long way away and the mountains are high," is an ancient Chinese maxim. Again, in terms of recurring history, recall Australia's justifiable post-war fear of Japan.

Over the years this fear has subsided, and is now almost non- existent, as Japan, feeling its way, decided any attempted domination of Australian resource companies would be counter- productive and instead adopted a policy of providing joint venture capital as well as taking minority equity interests, assuring that supply equalled, or was greater than, demand. Perhaps the China Iron and Steel Association's last hurrah was the recent deal with Andrew Forrest's Fortescue Metals, which is 3per cent below prices iron ore producers have settled with non-Chinese steel mills. However, Fortescue has won other goodies. China has agreed to finance, on terms suitable to the miner, $US5.5billion to $US6billion by September30 this year for expansion.

The company also has a joint venture exploration agreement with Baosteel at Fortescue's Glacier Valley property adjacent to its Pilbara infrastructure.

Reaction to the deal has been mixed. Some commentators claim China is knocking off the weakest of the iron ore miners in an attempt to force iron ore prices down. Others claim it is a formula for the future.

Most brokers have a "sell" on the stock, now priced at $4.45. Bell Potter's "sell" valuation is $3.30.

Patersons have a "hold" with a target price of $2.60. Baillieu's is a short-term "speculative buy" carrying "very high risk" at $4.16.

Fortescue has been largely ignored by the institutions but the company has a strong advocate in Southern Cross Equities' Charlie Aiken, who argues that analysts "miss the fact that China Inc wants and needs alternative sources of long-term [iron ore] supply" and as well China has attempted to make Rio Tinto appear "a dishonourable" company.

He adds, "Resource analysts remain China's best friend but they are not the investor's best friend."

Southern Cross has Fortescue a strong "buy" with a target price of $5.50. As for your columnist, perhaps a "dip the toes in" investment at $4.58 with a "knees-up" follow-up should the stock rise.

wharcour@bigpond.net.au

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