

Arrest of Rio Tinto executive points to deepening economic crisis in China

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15 July 2009

The arrest of Stern Hu, Rio-Tinto's China iron ore executive, in Shanghai on July 5 signals a more aggressive policy by the Chinese regime toward its economic rivals, amid an ongoing slump in export orders and rising unemployment. Fearing social explosions—a danger highlighted by the protests that erupted in Xinjiang on the same day—Beijing has elevated the conduct of its commercial affairs to the level of national security.

Stern Hu, a Chinese-born Australian national, was reportedly accused of stealing state secrets, along with three of his Chinese colleagues—a pretext that is usually reserved for targeting domestic political dissidents. The Shanghai State Security agency apparently alleged that he bribed officials of Chinese steel companies in order to obtain information during this year's iron ore negotiations with global mining giants, including the Anglo-Australian Rio Tinto, the Australian-based BHP Billiton and the Brazilian-based Vale.

The Chinese secret police have provided little information about the case, and no charges have been formally laid. Hu could be prosecuted under Article 282 of China's Criminal Law, which carries a penalty of up to seven years in jail. According to the official *China Daily* on July 14, Rio and other multinational mining companies "might have bribed executives to get access to figures such as stock levels, production schedules and volumes, financial information and purchase plans to place China at a disadvantage during price talks".

In what appears to be a widening probe, a number of Chinese steel executives and China Iron and Steel Association officials who were present at the iron ore negotiations are being investigated. The iron ore head of a large steel company Shouguan, Tan Yixin, was detained on July 7.

Sydney On ~~Monday~~, ~~Herald~~, government sources, reported that Chinese President Hu Jintao personally endorsed the investigation that led to Stern Hu's arrest. The newspaper said the powerful nine-member Chinese Communist Party (CCP) Politburo Standing Committee had taken control of economic policy from the State Council headed by Premier Wen Jiabao. Yesterday the Chinese foreign ministry denied that President Hu had directly authorised the detention of Stern Hu, as diplomatic tensions with Canberra deepened.

The *Herald* noted: "The elevation of Chinese economic policy to a top national security concern began late last year with the collapse of the Shanghai and Shenzhen share markets, the weakening of the real estate market and difficulties with manufacturing exports in coastal regions. The process accelerated with the full onset of the financial crisis since September."

Michael Pettis, a finance professor at Peking University's Guanghua School of Management, told the newspaper: "It probably reflects that Chinese leaders are much more worried about the economy than everybody else."

Iron ore price negotiations, which usually end on June 30 each year, have failed to reach a result this year, because of the Chinese Steel Association's demand for 40 to 45 percent price cuts—more than Rio and BHP's 33 percent reduction agreed with major steel corporations in Japan, South Korea and Taiwan. Major Chinese steel companies have been forced to rely on unstable supplies and uncertain prices on spot markets—previously unthinkable for the world's largest steel producer.

China Business News reported on July 8 that Chinese steel mills were forced to accept the 33 percent cut, but neither BHP nor Rio has confirmed the reports. As China imported 444 million metric tonnes of iron ore last year (70 percent from the big three miners—Vale, Rio and BHP), huge

potential losses are at stake. China's manufacturing industry relies on low-cost materials as well as cheap labour. Under conditions of sharp falls in exports, input prices are a life and death issue for many companies, not to mention the prospect of further huge job losses. Already, more than 20 million Chinese workers have lost their jobs since September.

China Daily reported yesterday that the government may cancel iron ore licenses for more than 20 smaller companies accused of ordering iron ore in order to resell it later at higher prices. Such stockpiling "often inflates the price of a particular commodity because it artificially increases the demand for it," the newspaper stated. As a result of rampant speculation, it is estimated that China is currently importing more than 50 million tonnes of iron ore every month, nearly double the levels of its actual consumption, helping to push up global commodity prices.

The Stern Hu case has generated concerns among multinational executives who do business in China through bribes, political connections and corruption in order to gain advantages over their rivals. Beijing-based consultancy Dragonomics managing director Arthur Kroeber told AFP: "If you take information out of a state enterprise and give it to any kind of foreign party, you can under Chinese law be accused of violating the state secrets law."

Despite the obvious known risk of "rattling investors" in a "public relations fiasco"—in the words of the *New York Times*—the Chinese leadership is desperate to defend the steel industry, which is the back bone of its manufacturing-based economy. Jim Lennon, a London-based steel analyst for Macquarie Group told the newspaper: "Chinese steel mills feel vulnerable... They want to lock in sources of supply. And yet, in the worst ever economic downturn, the annual benchmark price is the second-highest it's ever been."

Stern Hu's arrest came just a month after Rio dumped a \$19.5 billion partial buyout by the state-owned Aluminium Corp. of China (Chinalco) in favour of forming a \$116 billion monopolistic iron ore joint-venture with BHP.

Faced with rising prices in recent years, China has been attempting to acquire mining and industrial assets in Africa, Latin America and Australia. As a result, the Chinese state has come into sharp conflict with global mining conglomerates, which have imposed extortionate price hikes.

Rio recently escalated tensions by seeking \$9 billion in

compensation for the cancellation or postponement of iron ore orders by Chinese mills last year. The *21st Century Business Herald* reported last week that Rio had visited Chinese steel mills one by one since June seeking payments for contract breaches.

Australian Prime Minister Kevin Rudd has been reluctant to openly protest against Stern Hu's arrest, even as he has come under harsh criticism from the Liberal-National opposition for not standing up to Beijing and defending Australia's national interests. To avoid being seen as bowing down to Beijing, Rudd told reporters on Tuesday that the "wellbeing of any Australian citizen" came first, not the huge business interests involved with China.

There has also been speculation in the Australian media that Stern Hu's arrest was pay-back for Canberra's recent defence White Paper, which warned that China could be a security threat to Australia and other US allies during the next 20 years. Sections of the ruling elite, including former Prime Minister Paul Keating, have criticised the White Paper and claimed that its approach could antagonise Beijing.

Australian capitalism is heavily dependent on mineral exports to China and there are fears in Canberra that the global economic downturn will unleash sharp social conflicts in that country. The current travel warning on the Australian Department of Foreign Affairs and Trade web site states: "There has been an increase in the number of incidents in which Australians and other foreigners, often factory managers, have been held against their will at their work place. These incidents may involve disgruntled employees attempting to resolve pay and employment disputes through protests which are often accompanied with threats of violence."

Like other Western leaders, Rudd has not condemned Beijing's police-state measures in Xinjiang. The conflicts there are yet another reflection of the broader social discontent being generated by the regime's enforcement of the cheap labour conditions that have played such a key role in sustaining world capitalism over the past two decades.



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