It’s more than just a boom

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Port Hedland in WA is on the front line of the booming resources industry. Picture: Colin Murty Source: The Australian

THE economic phase Australia is entering is being described as a resources boom. I believe this is wrong.

The term boom implies a relatively short, sharp upturn to be followed by an inevitable bust.

I believe we’re seeing long-term structural change, one in which Australia is the principal source of the resources developing nations need to build and to create energy.

It’s akin to the dominant paradigm of the past 50 years: that the world runs on oil and it gets more of it from the Middle East than anywhere else.

A third of the world’s oil production happens in Middle Eastern countries, headed by Saudi Arabia, Iran, United Arab Emirates (including Dubai and Sharjah) and Kuwait. The region is also prominent in natural gas production, headed by Iran, Saudi Arabia and Qatar.

Nations such as Saudi Arabia, Kuwait, Dubai and Qatar have not had a boom; they’ve had long-term sustained demand for their products stretching back many decades.

The new paradigm features the rise of new forces in the world economy: China, India, Russia, Brazil, Malaysia, Indonesia and South Korea, to name a few. Africa is starting to emerge as a significant economic force also.

China’s growth is not a flash-in-the-pan scenario. China is on a path to becoming one of the world’s dominant economic powers; and it plans to stay there.

India is equally important in terms of demand for Australian resources. India’s economic ambitions are as driven as China’s and we’re starting to see the first big Indian investment in Australia’s resources sector, particularly in Queensland’s coal industry.

This too is not a short-term scenario. India is not just buying from us. It's investing big time for the long term.

Individual companies are making multibillion-dollar investments in mines, rail lines and export terminals. They're here for the long haul, with projects that have 20, 30 or 40-year horizons.

The same is true of China, Malaysia and South Korea. Many of the resources developments happening in Western Australia, South Australia and Queensland have joint-venture partners from these key Asian economies.

In August, Simon Crean, federal Minister for Regional Australia, said "Australia will become the Saudi Arabia of gas".

He was suggesting Australia would be to gas what Saudi Arabia has been to oil: the leading supplier across the long term. I think he's right.

The four largest liquefied natural gas projects in WA entail investment totalling $115 billion and the four big coal seam gas to LNG developments focused on Gladstone in Queensland are worth about $70bn.

Keep in mind that they all have sales contracts in place for much of the gas they will produce for decades into the future, with India, South Korea, Malaysia, China and Indonesia important customers.

In terms of their effect on the Australian economy, it's significant that they are only in the early stages of construction, in most cases. The big impact in terms of jobs and business spending is still to come.

The same is true of the expansion programs by the big iron ore miners in WA and the growth plans of coal miners in Queensland and NSW.

In 2001, there were 26,500 employed in the mining sector in WA. Ten years later there are 101,100 jobs and plenty more still to be created as the big projects like Gorgon get under way.

The number of fly-in, fly-out workers moving through Perth Airport is already at record levels, with more growth on the way.

The creation of new or upgraded export facilities is a growth industry in itself. The various plans for Port Hedland, Geraldton and Gladstone – each a $5bn-plus undertaking – are massive. Newcastle in NSW has multibillion-dollar port facilities planned by three different entities. In Queensland, multiple new terminals costing billions are proposed near Mackay and the expansion of Port Abbot near Bowen now entails six new coal export terminals totalling $9bn.

Property investors with assets in those locations can feel some comfort that the growth forces are long term, rather than a boom.

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