

Anxiety in Australian elite over Trump's policies

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There is nervousness in Australian ruling circles that Donald Trump's "America first" protectionism will trigger trade wars that could have disastrous consequences for the country's fragile, debt-laden and commodity export-dependent economy.

In the name of restoring "Americans jobs," Trump has threatened to impose tariffs of up to 45 percent on China and possibly Japan and South Korea. Between them, these three countries account for 60 percent of exports from Australia—some \$158 billion out of \$266 billion in 2014.

Any such tariffs could provoke retaliation, leading to all-out trade wars that are likely to crash the global economy, further devastating Australian capitalism, which also relies heavily on inflows of foreign investment and borrowings.

For public consumption, the Turnbull government and the corporate media are playing down the implications of Trump's threats. They are trying to create illusions that Trump will modify his policies once he takes office.

Deloitte Access Economics spokesman Chris Richardson said Trump could hurt Australia's economy via trade. But he said people should not panic. "The chances are that policies will change, but what will change will be slower and smaller than you've heard in the campaign," he said.

Other commentators, usually cited in media business columns, were more frank. University of New South Wales economics fellow Tim Harcourt said: "Trump could be the most isolationist, protectionist president since Herbert Hoover in the '20s, so it's actually quite alarming for the world."

AMP Capital chief economist Shane Oliver said investors are particularly worried about Trump's protectionist trade policies triggering "a global trade

war." In a report, he wrote: "Australian shares would be particularly vulnerable to this given our high trade exposure."

Former Australian Foreign Minister Bob Carr said any tension with China would have a knock-on affect. "I think the economic shock to Australia would be big. The damage he [Trump] would do by a trade war with China would be immeasurable."

One attempt to measure the impact was made by Australian National University economist Professor Warwick McKibbin, a former board member of the Reserve Bank of Australia. In order to try to model the fallout from a 40 percent increase in tariffs between the US and China and other major economies, he based himself on a working paper he had co-written for the World Bank.

McKibbin estimated that Australia would suffer a 5.6 percent reversal in economic growth in the first year alone—more than enough to inflict a recession. "We'd get hit by more than the US because we're a lot more exposed to trade," he told the *Australian*.

He said his forecasts assumed a trade war on all fronts and a more realistic scenario was a trade war on manufacturing, but Australia was also exposed to a Trump administration's impact on rising interest rates. Australia's banks depend on borrowing on world financial markets for almost half their funds.

Fairfax Media economics editor Peter Martin said even small cuts in Chinese demand for Australian commodities would send the federal budget—already in deep deficit—"into conniptions" (fits of hysterical excitement or anger). He pointed out that the US is China's biggest market, taking 18 percent of everything it sells.

If a Trump government imposed tariffs on China, Martin warned, Beijing "would have to retaliate

(somehow), raising the prospect of a trade war that would damage both China and the US. War gaming by the respected Peterson Institute says it could push the US into recession by 2019. The last time that happened, during the global financial crisis, Australia avoided recession with help from China. We mightn't get it a second time."

Following the 2008 breakdown, the Australian economy did not crash only because the Chinese regime produced massive debt-driven stimulus packages that temporarily drove up demand for Australian-exported coal and iron ore, igniting a mining boom. That made the Australian economy more acutely dependent on China's growth.

Such is the concern in Australia's establishment that Philip Lowe, the recently-appointed governor of the Reserve Bank of Australia, last month cast aside the central bank's traditionally cautious language.

Responding to questions from journalists after his first public speech as governor, Lowe described the prospect of a Trump presidency as less than "benign." He added: "We don't have a Trump plan. What we do is have a generic response plan to a whole range of shocks."

Answering another question, Lowe said: "If I go through the list of things that make me worried about the global economy ... right at the top of that list is the shift towards protectionism."

The Australian economy's vulnerability was underscored this week. Global credit ratings agency Standard & Poor's reiterated its warning, first issued after the Turnbull government's near-defeat in the July 2 election, that Australia would lose its AAA rating within months unless the government proved it could push spending and revenue measures through both houses of parliament.

Craig Michaels, S&P's head of sovereign ratings, said the government had to demonstrate it could deliver its pledge to eliminate the annual deficit, currently around \$40 billion, by 2020–21. He said this date would be more than a decade since the federal government first went into deficit after the 2008 crisis, and eight years after the previous Labor government first vowed to produce a balanced budget for 2012–13.

Michaels said combined consumer, bank and government debt reached around 250 percent of gross domestic product by mid-2014. "What it means is that

Australia's economic prospects are beholden to the ongoing willingness of foreign investors to roll over that debt and to continue to fund what is a structural current account deficit."

That was fine "provided foreign investors remain comfortable and confident in the Australian growth story." A sudden collapse or withdrawal of foreign lending was a "low probability scenario" but "that fiscal story" was "starting to break down a little bit now."

Yesterday's *Australian Financial Review* editorial warned: "The credit rating agencies are running out of patience." It insisted that Prime Minister Malcolm Turnbull's Liberal-National government had to both inflict austerity measures and "induce" growth, supposedly by cutting the country's 30 percent company tax rate.

The financial newspaper claimed that this would "encourage companies to invest now." In reality, company tax rates would only fatten profits, and the dividends paid to the wealthy elite, while the resulting revenue loss would further gut social spending, especially on health, education and welfare.

Statistics on foreign investment released this week highlighted the fragility. They showed a 25 percent fall to \$117.9 billion in 2015, down from \$156.6 billion in 2014.

There were also more signs of an end to a debt-fuelled residential apartment boom that has partly offset the implosion of the mining sector since 2011. A 3 percent fall in the value of residential construction to \$17.6 billion in the September quarter was accompanied by a 10.9 percent slump in non-residential work to \$8.3 billion—the biggest quarter-on-quarter fall in 16 years. Engineering construction also slipped, taking total construction down to \$46.1 billion, 11 percent less than a year ago.



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