Trump and China fears overshadow fragile Australian economy

Mike Head
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The New Year has produced warnings in the Australian media about the multiple "risks" in 2017 to the country's economy, which already experienced an official contraction in the September quarter of 2016. Above all, there are fears in ruling circles that conflict between the US, led by the protectionist Donald Trump, and China, Australian capitalism's largest export market, could have catastrophic consequences.

Last week's announcement of a trade surplus of $1.24 billion for November, the first monthly surplus since March 2014, was initially presented as signalling a revival of economic fortunes. The outcome was the result of higher prices for Australian capitalism's biggest export earners—iron ore and coal—during the second half of 2016.

This turnaround, it was claimed, could prevent the prospect of another quarterly contraction that would officially mark a recession. The *Australian* reported a "ray of light" for the economy and the Turnbull government. "The stars are finally starting to align for Australia's trade numbers," Paul Bloxham, HSBC Australia's chief economist, told the *Guardian* .

In reality, the upswing in commodity prices, which had collapsed during the previous 18 months, is likely to be short-lived and unable to overcome the underlying economic deterioration produced by a four-year plunge in corporate investment, both mining and non-mining. In fact, the brief upturn, which is already reversing, underscores the country's substantial dependence on China.

Prices of coking coal, which is used in steelmaking, rose sharply in the second half of last year, from $US90 a tonne in late June to $308 by early November. But this was based almost entirely on relatively strong Chinese steel demand, largely generated by infrastructure and real estate stimulus packages adopted by Beijing to avert a fall in China's economic growth rate, as well as coal mining restrictions by the regime.

Over the past five years, China's growth, which averaged 10 percent per year from 1989 to 2009, has slowed sharply under the impact of the post-2008 global financial crisis. Even to prevent the official rate from dropping below their current target of 6.5 percent, the Beijing authorities again resorted to stimulus measures during 2016, but these led to renewed production gluts and a further blowout in debt.

The country's combined public and private debt is estimated to have reached 260 percent of gross domestic product by the end of last year, the highest debt-to-GDP ratio in the world. As a result, Beijing has been forced to pull back its measures, and this has quickly affected global coal and iron ore prices.

In the first week of 2017, coking coal prices fell to near $200 per tonne, extending their drop in the previous six weeks to 35 percent. Iron ore prices, which rose from $54 a tonne to $80 in the second half of last year, were trading at $76 last weekend and are expected to drop further as Beijing continues to restructure its steel industry to cut more than 100 million tonnes a year of steelmaking capacity.

The Australian government's own commodity forecaster cautioned last week that the price surges would not last for long. "The combination of slowing demand growth from China's steel sector and increased global supplies are expected to lower export unit values in 2017–18," Mark Cully, the Department of Industry, Innovation and Science's chief economist, said.

Even these predictions will be shattered if the Trump administration instigates tariffs and other trade war measures against China, let alone provokes military conflict between the two nuclear powers. Not only would the world economy be thrown into crisis, but

Australian capitalism would be particularly devastated.

Writing in the *Australian* on January 9, finance journalist Stephen Bartholomeusz first noted the likelihood of contracting Chinese demand this year. Then he warned: “The biggest wildcard, however, probably remains the nature and effect of Trump’s trade policies and the extent to which they damage China’s export volumes and economy.”

The Australian Broadcasting Corporation’s David Taylor also gave voice to this overriding fear. “One big issue to keep an eye out for is China’s trade relationship with the US. If president-elect Donald Trump starts a trade war with Australia’s largest trading partner (imposing tariffs as much as 45 percent on all of the country’s exports), all bets are off.”

One indication of the nervousness in the corporate elite was provided by another ABC business reporter, Michael Janda, who listed 10 “risks” to the Australian economy in 2017. Reflecting the country’s particular vulnerability to a global slump, they included “China slowdown,” “The Trump factor” and “European disintegration.”

At the top of Janda’s list were five “risks” of soaring unemployment. They were “Car industry shutdown,” “Mining investment bust continues,” “Commodity price snap back,” “Property price fall” and “Construction boom peaks.”

Janda explained that on top of the thousands of jobs being eliminated by Ford, General Motors and Toyota in closing all their car plants by the end of 2017, and the completion of the country’s remaining major mining construction projects, there could be a rout in the real estate market, triggered by a glut in apartment construction, which would wipe out an estimated 200,000 jobs.

“With the construction industry accounting for almost 10 percent of employment, not to mention hundreds of thousands of extra jobs in the broader real estate sector, this is another huge economic risk facing Australia this year or next.”

To his list, Janda added the almost certain loss of the country’s AAA credit rating this year. This could help produce another risk—an “Australian banking crisis”—because of the major banks’ high levels of exposure to the debt-fuelled housing market and their heavy reliance on borrowing from international financial markets.

Any rise in interest rates from their current official low of 1.5 percent would exacerbate these dangers, generating mortgage defaults by financially-stressed families. Household debt is now above 175 percent of GDP—one of the highest levels in the world.

The ABC journalist concluded with a “doomsday scenario”: “Imagine, as tens of thousands more jobs are shed from the mining and automotive sectors (as we know will happen), that 200,000 workers start drifting out of residential construction and related industries…

“Most likely this exact scenario won’t happen this year and Australia will keep muddling through with below par economic growth and weak employment and wages outcomes. But the fact that it is even plausible highlights how fragile the nation’s economy has become.”

These warnings reflect two concerns dominating the corporate and media establishment. One is that Prime Minister Malcolm Turnbull’s government is failing to sufficiently satisfy the demands of the financial elite for an all-out offensive against social spending and working class wages and conditions.

The other fear is that the deteriorating economic situation and rising joblessness will intensify the growing popular discontent and political disaffection produced by years of austerity measures by successive governments and the continual destruction of full-time jobs, which has already pushed hundreds of thousands of workers and youth into lower-paid and insecure employment.