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AUSTRALIAN CONSTRUCTION INSIGHTS
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Construction Brief

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Trade ructions globally, tradie boom locally

With the attention they received last week, the casual observer might think that the trade tensions between the US and China have escalated quickly. In fact, this has been occurring for more than a decade.

The 'tit for tat' trade tensions that have been touted as a trade fight have been going since the Bush Administration.

The WTO rules allow members to impose temporary extra tariffs on goods to counter a destabilizing flood of imports.

The US was led the way in challenging the WTO to address 'dumping' of goods at below-cost prices that could undermine domestic industries. This strategy escalated after the GFC as the US fought to protect domestic employment, particularly in their automotive industry.

"The Obama Administration will continue to fight for U.S. jobs and businesses. We will use our trade laws to stand up for our workers and address harm to them." (U.S. Trade Representative Ron Kirk, 2011)

The Obama Administration also moved ahead of WTO sanctions imposing punitive restrictions on imported products, which were exclusively sourced from China.

"We have said all along that President Obama's decision to impose duties on Chinese tires was fully consistent with our WTO obligations." (2011)

These punitive tariffs on Chinese imports resulted in China imposing their own non-WTO compliant sanctions on US goods imported into China.

One notable example was the US move to impose trade sanctions on 'new' car tyres imported from China in 2008/09. In return the Chinese banned the importation of 'used' car tyres from the US – which were used as fuel in industrial processes. As a consequence the US found that it did not have a domestic industry capable of processing waste tyres and illegal dumping became prolific.

The lesson learnt was that all countries benefit from free/fair trade.

The situation has rapidly escalated.

Last week's trade skirmish began with President Trump confirming that the US would go through with previously-threatened tariffs on $50 billion worth of Chinese goods including industrial machinery and agricultural goods. These tariffs are to take effect in two tranches, the first occurring in just a couple of weeks on 6 July. Beijing responded immediately and in kind, saying it would impose its own tariffs on $50 billion worth of American goods including beef, poultry, tobacco and cars. These are also set to take effect on 6 July.

The Trump administration escalated the situation further on 19 June, announcing its intention to identify another $200 million worth of Chinese goods for additional tariffs at a rate of 10 per cent.

The Chinese response was again swift, but in this instance inexact, issuing an online statement that China would 'have to adopt comprehensive measures combining quantity and quality to make a strong countermeasure.'

The real effects of the actual committed-to tariff increases however are likely to be relatively small. For China, the exported goods that will be subject to the tariff increases on 6 July contribute roughly 0.25 per cent to China's GDP, a non-trivial but nor insignificant share that is unlikely to dry up completely as a result of the 25 per cent tariff. The tariffs that China is imposing on US producers appears to be targeting President Trump's key constituency, but the economy-wide effects in the US are likely to be muted.

As for the additional most fresh tariff announcements from both sides, these have come with little detail. They could emerge as ultimately being tactical moves in broader trade negotiations between the countries.

Australia could be caught up as collateral damage.

These sparring powers represent Australia's two most important international economic relationships. China is Australia's largest export market (purchasing nearly 30 per cent of our total exports) while the US represents the largest source of foreign direct investment into Australia.

Already the Chinese Government has responded to public criticism of the current administration by refusing to issue visas for Australian politicians to visit China.

In the short term there may in fact be some upside to the trade spat. Already the Australian dollar has weakened in the face of the tensions, boosting Australia's international competiveness. China may also seek Australian goods as substitutes for the American goods now attracting a tariff.

Foreign investment is an essential source of capital, while foreign markets are an essential source of demand of Australian goods and services. Rising protectionism would be a significant drag on the Australian economy. Thus far, Australian exporters have notably managed to dodge rising tariffs. Australia's access to foreign capital however, has not fared so well, with taxes at both state and federal levels now applying to foreign investment into residential property.

Free apprenticeships in NSW

The NSW government budget allocated some $285 million to cover the cost of courses for all apprenticeships. The measure is estimated to save students $2,000 per course. Apprentices, irrespective of from whom they receive their training (whether TAFE or another vocational education provider) and the field of their training will be eligible to have their fees paid for by the state government.

This measure is designed to address the mounting skills shortage in the state. The availability of construction trades in the state (in Sydney in particular) has already been in short supply for some years now and more recently has been the tightest in the country. The burgeoning infrastructure build occurring in the state on top of ongoing strong levels of new home building will of course continue to put pressure on demand for skilled labour so this investment by the NSW government is entirely necessary and timely.

The fortnight ahead – key dates and releases (AEST)

Thursday 28 June

HIA Stamp Duty Watch, Winter 2018, 11.00am

Friday 29 June

HIA New Home Sales, May 2018, 11.00am

Monday 2 July

CoreLogic Home Price data, June 2018

Tuesday 3 July

ABS Building Approvals, May 2018, 11.30am

RBA Board Interest Rate Decision, June 2018, 2.30pm

Wednesday 4 July:

HIA Housing Scorecard, Winter 2018, 11.00am

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