

Professor explores US politics and world markets

Australian Broadcasting Corporation

Broadcast: 04/11/2008

Reporter: Ticky Fullerton

Geoffrey Garrett is the founding CEO of the United States studies centre at the University of Sydney, and joins Lateline to discuss the US election movements.

Transcript

TICKY FULLERTON, PRESENTER: To explore what a new US president could mean for world markets and Australia, I spoke to Professor Geoffrey Garrett, the founding CEO of the United States Study Centre at the University of Sydney.

Professor Geoffrey Garrett thanks for joining us.

GEOFFREY GARRETT, US STUDIES CENTRE: You're most welcome.

TICKY FULLERTON: The latest data for October shows a manufacturing crash in the US, and falls in Britain, Europe and China, whoever gets in as the new Commander in Chief has a monumental task in the US.

GEOFFREY GARRETT: Absolutely, so in addition to this economic meltdown that's now moved from Wall Street to main street, you're fighting two wars; maybe an expanded international terrorism agenda at the same time as the US is staring at a trillion dollar annual deficit and public debt that's close to the size of the entire economy.

TICKY FULLERTON: I want to talk about Chinese/US relations in particular. What do you think is going to be the impact on trade?

GEOFFREY GARRETT: Well, if you go back through the 2000s and looked at what the Bush Administration has done, I think you'd see something like a wary coexistence as the name of the game for the Bush Administration, that is, they understand the economic inter-dependence between the two countries.

The US has also understood that China could do some very heavy lifting for the US in Asia, with respect to North Korea, but the trade tensions have always been there, and that of course was against the backdrop of closer to full employment in the US, but with expanding inequality in America.

So I think the combination of inequality with a decline in the economy plus Democrats in Congress is going to put a lot of pressure on the next president to get tough on China.

TICKY FULLERTON: And what about from the Chinese point of view, do you think the nature of the investment will change?

GEOFFREY GARRETT: Well China has been allowing America to have its housing bubble by its insatiable demand for T-bills and dollars.

But you'd expect now that China is looking at the US and saying "Boy, there are a lot of fixed assets we'd like to snap up", "Gee, we could use some automobile technology, maybe we could try to buy a chunk of one of the big Detroit auto firms."

I think the question on the US side is going to be whether that's politically saleable in the US at the moment. When this happened 20 years ago and Japan wanted to start buying up things in the US, Americans were basically opposed to that.

And Japan of course was an ally and a Democratic country, neither is true for China.

TICKY FULLERTON: Closely related to all this is the currency. There's been pressure in the past from America to revalue the Chinese currency. Do you think that pressure's going to increase?

GEOFFREY GARRETT: I think it will increase for the reasons I've already said in the sense that the inequality now has been joined by a bigger economic downturn in the US.

And Americans now believe that free trade has been bad for the country and China really is the face of free trade in the US.

So there will be more pressure and of course it will come through this Democratic Congress. George Bush resisted all the pressures coming out of Congress to be tough with China.

He was sold on China and sent Hank Paulson, the Treasury Secretary, to China to say, "Listen, don't worry about what comes out of Congress", I am not sure the next president, particularly if it's Barack Obama, will be able to do that.

TICKY FULLERTON: And I guess all this has big implications for Australia?

GEOFFREY GARRETT: It does have implications for Australia. The old adage that America sneezes, Australia and the world catches a cold, seems to be true.

But of course at the moment, I think it is getting mediated quite directly through China, if one looks at the drop in the Australian dollar, surely one of the reasons for that is that the markets are saying, "Listen, American demand for Chinese goods is going down, so China won't have to build as much infrastructure," so its demand for Australian raw materials also goes down.

TICKY FULLERTON: So, what does all this mean for America in terms of continuing to be such an important global player?

GEOFFREY GARRETT: Well, at the moment there's this big debate: is the US staring at the 1930s again, this diabolical decade of Depression that led to fascism, protectionism and World War II?

Or is this more like the 1980s when the US was really in trouble after the market crash in 1987, worried about Japanese competition, "Oh my god, the US is no longer number one, Japan is."

The US bounced back incredibly in the 1990s to lead one of the world's most prosperous decades. If I had to look at which one are we closer to, '30s or '80s, I think it's probably still close to the '80s, but I doubt there's any realistic prospect of the US enjoying in the 2010s with what it did in the 1990s, if for no other reason than China and India's today are realities, economic realities that there weren't then.

TICKY FULLERTON: Let me ask you then about climate change. If we're going to have issues of trade, and perhaps no new Doha Round, what does this say for Copenhagen?

GEOFFREY GARRETT: Well Copenhagen is an interesting question. I think the position of both Barack Obama and John McCain on climate change actually looks not so dissimilar from the Brendan Nelson position that lost him his job in Australia.

Which is to say, "Yes, we're for a global Emissions Trading Scheme but we really want China and India to be at the table on day one."

I would expect that even a president Obama would make that claim. And the reason is that in American politics climate change just isn't as salient as it is in Australia.

It's energy and dependence which is the big story, not climate change.

TICKY FULLERTON: Professor Garrett thanks for talking to us.

GEOFFREY GARRETT: You're most welcome.

Search Lateline

Sort by: relevance date

Video



Professor explores US politics and world markets

Windows Media [Broadband](#) [Dial-up](#)

Real Player [Broadband](#) [Dial-up](#)