
WHAT TRUMP HAS REALLY LEARNED FROM RUSSIA

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While the allegations surrounding President Donald Trumps shadowy ties to Russia are unsettling, as of yet, no smoking gun has been found. But on at least one issue, Mr Trump and Vladimir Putin, his Russian counterpart, are of a similar mind.

When it comes to trade, Mr Trumps approach is very much in line with the practice of Mr Putins Russia over the past 17 years. Always willing to use trade as a cudgel or a tool for geopolitical gains, both presidents seem to enthusiastically subordinate economic gains to political ends.

However, one need only look at Russia today to see the end result of such policies. Rather than enrich the country, economic nationalism has led Russia to stagnation, a fate which could also befall the US.

Mr Trump has been consistent even before his successful foray into politics in his disdain for free trade in general and multilateral trade deals in particular. Central to this approach is the belief that a country should use all means available to protect its national interest.

The president announced at his inauguration that protection will lead to great prosperity and strength, while Steve Bannon, his chief adviser, explicitly named this approach economic nationalism at his speech at the Conservative Political Action Conference.

In earlier interviews, Mr Bannon expanded on this idea, railing against globalists who created a middle class in Asia, gutting the American working class. Peter Navarro, the head of the newly-created National Trade Council, has gone even further and spoken of unwinding international supply chains in order to keep production in the US.

This approach, jarring to the ears of any economist, is also sadly familiar from both history and contemporary practice. One of its main proponents is Mr Putin, who is on record repeatedly supporting economic nationalism and strategic trade policy.

President Putin is credited with publishing a dissertation in 1997 touching on these themes. In the paper, he spoke of harnessing the power of industry for the glory of the state, subsidising industry at home to keep domestic prices low and production within a countrys borders.

To pay for this support, the costs would be passed on to foreign consumers in the form of much higher prices. This worldview has been a justification for the creeping nationalisation of the commanding heights of the Russian economy, above all Gazprom, and also has informed Russias indiscriminate use of tariffs, repeatedly breaking treaties as necessary in order to keep official duties high. Such an approach has benefited the non-tradeable sector, mainly extractive

industries, while harming tradeables such as agriculture and technology.

This is precisely what Messrs Bannon, Trump, Navarro and others in the US administration have been espousing, especially in regards to Mr Bannons call for massive infrastructure investments (a key non-tradeable).

Once enacted, however, economic nationalism tends to take on a life of its own. Despite being a member of the World Trade Organisation, Russia has also famously utilised non-tariff barriers such as sanitary regulations and quality control to restrict trade from whomever it was quarrelling with at that moment.

Tiny states that refuse to kowtow to Moscows political directives have been the recipients of Mr Putins trade policies, with Moldova and Georgia both suffering bans on their wine due to pesticides and Belarus seeing a ban on its dairy products in 2009. In each of these cases, a political dispute, generally involving a turn towards the EU, preceded these sudden quality issues.

Perhaps the most dramatic use of such instruments is in Ukraine, where Mr Putin used the threat of embargo for years to bring Kiev to heel. After the Euromaidan Revolution in early 2014 and the ouster of Viktor Yanukovich, the Russian-backed president, Russia imposed a series of embargoes culminating in a complete food ban in 2016 and a series of import bans with the EU.

The example of Russia, the worlds leading proponent of strategic trade policy, should be a cautionary tale for Mr Trump. Russias policy has left it isolated and concentrated, susceptible to commodity price swings and with a declining standard of living. Despite record popularity for seizing Crimea, Russias inflation rate topped 15 per cent in 2015 and the economy has contracted since.

Extractive industries, once merely a third of Russia budget revenues, have regularly been above 50 per cent since 2006 and comprise well over 65 per cent of Russias exports. Behind a wall of protection, Russia has become a mono-economy, with US senator John McCains jibe that Russia was a gas station masquerading as a country not far off the mark. The drop in global oil prices since late 2014 has deepened the countrys economic malaise.

Mr Putin has shown little interest in economic policy or in enacting pro-growth policies, instead seeing economics as a means to an end. Unfortunately, Mr Trump has espoused that very same worldview, a view which has led to a stagnant but stable Russia.

While Mr Trump sees politics as paramount for national greatness, to paraphrase Trotsky, you may not be interested in economics, but economics is interested in you.

Kaynak/Source: