

Trump's autarkic ambitions

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The rationales Trump offers for his trade policy include those with some legitimacy seek to:

- pressure Canada and Mexico to prevent illegal immigration and fentanyl imports
- ensure strategic industries are on US soil.
- level the playing field
 - combatting subsidised exports to the US that are detrimental to domestic production. China is targeted because its government provides greater industry support than other governments. But even with [China](#), the support (mainly soft loans) averages only 3 per cent of the selected firms' revenues and is almost certainly at the cost to firms that are not favoured.
 - addressing other countries' protectionism when it denies markets to US suppliers. Trump cited the 200 per cent tariff Canada places on dairy imports from the US (he said nothing of the 300 per cent tariff the US has on peanuts!)

More controversially, Trump:

- is targeting those nations that have a strong trade surplus with the US arguing that this is an indication of cheating (a logic that would indicate Australia cheats in its bilateral trade with China and Japan!);
- would like to see tariffs as the major source of government income, as they were in 1900. Aside from the fact that 120 years ago the Federal government comprised 7 as opposed to 30 per cent of national expenditure, his fondness for tariffs is based on the incorrect notion that overseas suppliers, not domestic customers, incur the costs.
- Trump's autarkical ambitions are compounded by his seeking to gain an edge for US exports, notably gas.

The fact is that all nations' international transactions must balance. A positive balance on trade in goods and services has to be balanced by capital outflows (overseas investment) or in amassing gold and foreign currency reserves. The likely outcome of an "improved" current account balance of payments is a

currency revaluation reducing the price-competitiveness of exports and improving that of imports.

Normally, “picking winners” with government interventions creates more losses than gains. Thus, the preferential treatment received by some Chinese exporters will bring a corresponding cost to non-privileged firms and it is by no means certain that this particular intervention generates a net benefit to Chinese businesses as a whole.

That said, Trump has introduced swingeing tariffs targeting both individual trading partners - Canada, Mexico, China – and imports globally. Australia is caught up in the global tariffs on aluminium and steel.

Aluminium exports are important at \$500 million per year. Although at one time Australia was a highly competitive global exporter, government policies favouring renewables have undermined smelters’ low-cost coal-generated energy and state and Commonwealth governments are now subsidising the smelters to compensate them for the high energy costs caused by their policies. The US government has not indicated its awareness of Australian government subsidies to aluminium.

Regarding steel, a US anti-dumping inquiry judged that Australian exports were being subsidised. Malcolm Turnbull has famously boasted that in 2018, he talked the US out of punitive tariffs. Valued at over \$300 million a year, steel exports mainly comprise BlueScope’s Colorbond, which is also supplied from its US factories. Bluescope itself welcomed the tariff’s beneficial effect on the prices its US subsidiaries could charge.

Bluescope’s price improvement is a price penalty for consumers. But Trump adviser, [David Bossie](#), called projections of higher price outcomes from tariff increases a “stale argument” and added, “[By elevating tariffs to 25% on aluminum and restoring the 25% levy on steel](#)”, the Trump administration is making clear that they have the backs of thousands of American aluminium and steel workers and are resolute in their mission to create a multitude of new manufacturing jobs”.

There is no certainty that the US tariff activity will stop where it is. Australian direct exports to the US are dominated by beef and lamb (\$6 billion) and pharmaceuticals and medical equipment (\$5 billion) plus gold which could not

be tarified. Wine is a favoured target for tariff hawks - sales to the US are over \$300 million a year.

But more important is the effect on the web of supply chains that the US measures threatens. The disruption of sudden change can bring cascading downturns as was the case in the 1930s.

One possibly ominous sign of the measures introduced and threatened is a recent collapse in [consumer confidence](#), often a [precursor](#) of an economic downturn. Not unrelated, the stock market is down over 6 per cent since inauguration. Noah Smith compares the performance in Trump 1 and Trump 2.

Change in S&P 500 since the inauguration day of Trump's first and second term



Note: The first term shows through the end of 2017.
Source: FactSet

What Trump sees as a rebalancing of a trade system that operates adversely to US interests is certain to take on further dimensions with regard to EU competition policy. The EU's interpretation of [fair competition](#) is adversely impacting the Big Four IT firms (Apple Alphabet, Meta and Amazon) which collectively have been hit with €15.4 billion in fines and back taxes. This also has a bearing on the more rigorous application of US free speech, which is on

collision course with European requirements for tech firms to act more forcefully against hate speech and to reveal personal information to government authorities.

Conflict in those respects is likely to be augmented by the Trump Administration requiring firms and government departments to disengage from Diversity Equity and Inclusion (DEI) provisions at the same time as [EU laws](#) are requiring a much stricter application (along with considerable fines for non-complying firms).

Of course, none of this means a recession and a cascading system of measures is inevitable. Trade conflicts have been common over the past two centuries but the Great Depression is the only occasion when they had wide and enduring effects. And, though stock markets are down, they are coming off Price/Earning peaks that were widely considered to be unsustainable.

Trump's election almost certainly presages a marked worldwide departure in a whole spectrum of government administration and inter-governmental relationships. The Thatcher-Reagan era brought a global trend to economic deregulation but this morphed into 'winner-picking' socialism and the tumescent counter-productive bureaucracies we now label 'the swamp'. This has led to economic lethargy – at least outside the tech area. Trump is unleashing a tornado of anti-coagulants with a global effect, but with some unfortunate side-effects.