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Economic Nationalism and the Post-Global Future

by Francesco Gaudiosi

Global economic trends have been deeply affected by the advent of protectionist leaders such as Donald J. Trump in the United States. Trump is not alone in this new wave of populism and nationalism, with others including Theresa May in the United Kingdom and Beata Szydło in Poland. Yet, given the international economic weight of the US, and the role played by Washington as the leader of the liberal internationalist order, deviations from the traditional US playbook are having significant implications, not only for the US itself but also for Europe and indeed the world.

Trump made a rather ambitious, and yet unfulfilled, promise during the presidential campaign: increase US GDP output from 2 to 4 percent a year.[1] To implement this plan, Trump decided to brush up on the goddess of economic nationalism,[2] a concept that can be traced back to the first half of the nineteenth century until it was seemingly overcome by the expansion of world trade and the industrial revolution, two key factors intrinsically linked to the advent of globalization.

Economic nationalism argues that closing off an economy to external influences can be beneficial to growth and economic progress and can be defined as a mixture of trade protectionism and economic planning.[3] In this respect, economic nationalism fits with Donald Trump's announced "America First" strategy,

[1] Bob Bryan, "Trump Is Officially Making an Economic Promise that Will Be Nearly Impossible to Keep", in *Business Insider*, 22 January 2017, http://read.bi/2j3L8kQ.

[2] Ben Chu, "What is Steve Bannon's 'Economic Nationalism'? And Should We Be Scared?", in *The Independent*, 24 February 2017, http://www.independent.co.uk/news/business/news/steve-bannon-economic-nationalism-what-is-it-explained-donald-trump-cpac-2017-a7598181.html.

[3] Sam Pryke, "Economic Nationalism: Theory, History and Prospects", in *Global Policy*, Vol. 3, No. 3 (September 2012), p. 281-291.

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an outlook that seems to clash with decades of established US policy and "globalist" posture on the world stage. Indeed, economic nationalism stands in contrast to globalization and its emphasis on open markets, global competition and economic interdependence.

But what are the key points on which economic nationalism is based and how do these relate to the Trump administration's first year in power?

Six central elements can be highlighted.

A first point relates to the fact that a country needs to be self-sufficient and maintain complete sovereignty over its economy and production capacity. This implies an effort to avoid fiscal deficits, especially if foreign actors hold this debt.

A second important aspect is that of avoiding commercial agreements that favour the influx of low-cost foreign goods to avoid competition in the labour market and keep labour costs stable. The cost of labour determines the cost of production and therefore the final price of goods produced in the nation. Therefore, tariff regimes are adopted on low-cost imported goods in order to inflate their price and match those produced domestically.

As a third point, immigration, particularly of low-skilled labour, should be avoided as this pushes wages downwards, damaging national workers.

A fourth point relates to the need for large national investment strategies funded by public financial institutions to support infrastructure development, reindustrialization and job creation for national workers, avoiding, as far as possible, a dependence on market forces to determine loan rates.

Connected to the above, the fifth point, relates to the need to strengthen the domestic economic capacity by developing a broad public infrastructure programme to increase interstate connections and boost internal production and trade.

Finally, the sixth point relates to a culture of consumer nationalism, namely the promotion of national products over those produced in foreign lands. Through slogans and patriotic messages, consumer nationalism seeks to convince citizens to prioritize national products as an investment in their economic wellbeing.

The Trump administration has already embraced some of the doctrinal points outlined above. The administration has signalled its opposition to free trade by abandoning negotiations for a Trans Pacific Partnership (TPP), launching a review of the North American Free Trade Agreement (NAFTA), letting the Transatlantic Trade and Investment Partnership (TTIP) flounder and threatening a pseudo trade war with China: the president has accused China of manipulating currency and exchange rates stating that improper business practices have cost the US millions of jobs.[4] Trump has also revised

[4] Atman Trivedi, "Trump's Coming Trade War with China", in *The Diplomat*, 19 December 2017, https://thediplomat.com/2017/12/trumps-coming-trade-war-with-china.

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tariffs on numerous imported products, such as BMW cars and Harley Davidson motorcycles, in order to protect American companies. Commercial tariffs have been imposed on Mexico for example, in an effort to convince US companies to relocate back to the US mainland.[5]

What are the likely repercussions on the US economy if such policies are maintained? Empirical evidence demonstrates that open economies create greater wellbeing in the long term.[6] Competition and free market economies help productivity and innovation, boosting economic growth. A protectionist economic policy, on the other hand, tends to weaken productivity and competition, slowing transformation processes necessary to reform the economy and promote long-term economic growth.

To use one recent example from the US automobile sector, a protectionist policy would have prevented the 2014 merger between Italy's FIAT and the US's Chrysler Group. Protectionist concerns would have prevented the dramatic increase in production and sales that accompanied the merger into FIAT Chrysler Automobiles (FCA). A decision to move production of FCA's Renegade model Jeep to the Italian plant of Melfi, for example, led to a 100 percent increase in sales in 2016, setting a new record for the Jeep brand.[7]

Trump's close ties to corporate America coupled with his administration's vast tax cuts and incentives, which critics contend will add between 1 and 1.5 trillion dollars to the US deficit in about ten years,[8] could lead to an expansion of new investments in the economy, infrastructure and production capacity. Trump's recent tax cuts were justified precisely on the basis that by cutting corporate and federal taxes, states and multinationals will have more liquidity which could then be invested in the national economy to boost growth. But how long can this strategy last and will it in fact produce the desired outcomes?

Many believe this will not to be the case.[9] Inflationary pressures are undoubtedly foreseeable, as higher production costs lead to price hikes and inflation, together with increased wealth inequality and growing pressures on the middle-class.

[5] M. Angeles Villarreal, "Mexico Economic Relations: Trends, Issues, and Implications", in *CRS Reports*, No. RL32934 (27 April 2017), p. 17-22, https://fas.org/sgp/crs/row/RL32934.pdf.

[6] Takashi Omori, *Balancing Economic Growth with Well-Being: Implications of the Japanese Experience*, August 2001, http://www.oecd.org/innovation/research/1824787.pdf.

[7] FIAT, *FCA: 2016 Full Year and Fourth Quarter Results*, 26 January 2017, https://www.fcagroup.com/en-US/media_center/fca_press_release/2017/january/Pages/fca_2016_full_year_and_fourth_quarter_results.aspx.

[8] Michael R. Bloomberg, "This Tax Bill is a Trillion-Dollar Blunder", in *Bloomberg*, 15 December 2017, https://www.bloomberg.com/view/articles/2017-12-15/this-tax-bill-is-a-trillion-dollar-blunder.

[9] See for instance, Patrick W. Watson, "Why a Corporate Tax Cut Won't Boost Economic Growth", in *Forbes*, 27 November 2017, https://www.forbes.com/sites/patrickwwatson/2017/11/27/why-a-corporate-tax-cut-wont-boost-economic-growth; Matthew Sheffield, "CEOs Admit They Won't Create Jobs with Their Tax Cut Money", in *Salon*, 17 November 2017, https://www.salon.com/2017/11/17/ceos-admit-they-wont-create-jobs-with-their-tax-cut-money.

Notwithstanding these risks, the Trump administration and the Republican Party appear committed to implement their protectionist policies and prescriptions. Little matter that US competitiveness and innovation – two traditional pillars of the US economy – will gradually erode and weaken. Trump's decision to pull the US out of the International Climate Change deal, for example, or his support for coal and traditional energy companies, will deflect important resources and funding away from the renewable energy sector in the US, providing China and others ample leeway to slowly close the innovation gap with the US.[10] The fundamental question, therefore, relates to how long a protectionist and isolationist US can maintain its global strength and position.

President Trump is governing with a solid Republican majority in Congress and will likely succeed in creating some new jobs, cutting taxes on companies and expanding domestic investment in infrastructure and production capacity. Yet, looking to the future, such policies alone are unlikely to provide for strong growth, let alone reaching the ambitious objective of 4 percent GDP growth.

What instead *is* likely will be to see the US left with a huge public debt, growing inequality, declining public services and mounting socio-economic tensions. Weakened innovative capacity, productivity and a growing number of national companies kept afloat thanks to federal funding incentives can also be expected. Surely, this cannot appear as the best of blueprints to "make America great again".

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[10] Nick Butler, "China's Promised Energy Revolution", in *Financial Times*, 19 November 2017.

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