

# 'Trumponomics' to bring rising protectionism and isolationism

- 'America First' policy to bring tariffs and higher tensions
- US to renegotiate treaties ranging from NAFTA to NATO
- Fiscal stimulus for infrastructure and tax cuts but scope uncertain

**The new era of 'Trumponomics' will see a rise in protectionism and isolationism,** leading to souring trade relations that do not bode well for growth, says Chief Economist Léon Cornelissen.

Newly inaugurated President Donald Trump will usher in a new era of looking to fiscal rather than monetary policy to stimulate the United States economy – a model that ironically may strengthen monetary policy as the central bank subsequently raises rates, he says.

"In his inauguration speech, Trump dashed any hopes on a softening of his protectionist stance showed during his campaign," Cornelissen says. "The guiding principles will be 'America First' and 'buy American, hire American', raising uncomfortable echoes of the 1930s."



Léon Cornelissen,  
Chief Economist

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'Trump will usher  
in a new era'

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### China the whipping boy

"The US will pull out of the Trans-Pacific Partnership, negotiated under the former Obama administration with eleven Pacific Rim economies, including Japan but excluding China. And the governments of Canada and Mexico will be notified almost immediately that the new administration intends to renegotiate the North American Free Trade Agreement (NAFTA) and withdraw from it unless the US gets a 'satisfactory' deal, implying 'a fair deal' to American workers."

"China has been a frequent target of the president's rhetoric: it has been threatened with 45% tariffs on its exports. It has also been accused of manipulating its currency to the detriment of US interests. Ironically, in the recent past, China has tried to dampen the weakening of the yuan vis-à-vis the US dollar by massive currency interventions, in line with US interests."

"Europe has not been free from pressure either. In an interview with German newspaper Bild, Trump threatened to impose a 35% tariff – he called it a 'tax' – on every car that BMW exports to the US. It is clear that souring trade relations do not bode well for world economic growth, and could easily damage US growth prospects as well. It will also push up inflation, an inflation of the wrong type."

### Expansive fiscal policy

Cornelissen says a potential positive, albeit with consequences for US national debt, would be Trump's plans to use fiscal rather than monetary policy to stimulate the economy and create jobs – a tactic which Robeco highlighted as 'Time for Plan B' in its recent 2017 outlook.

"Fiscal policy will expand; firstly, individual and corporate tax rates will be lowered," Cornelissen says. "Apart from that, Trump wants to implement vast public works to repair and rebuild US infrastructure. Also, he wishes to rebuild the American military, especially strengthening the size of the Air Force and Navy to assure the US's unquestionable military dominance."

"On the other hand, Social Security and Medicare benefits should be preserved. It is clear that a complete implementation of this agenda will lead to huge budget deficits, which would be unpopular with the substantial group of fiscal hawks within the Republican Party."

"It remains to be seen how substantial the fiscal push will be in the end. For infrastructure, proposals are floating to implement this primarily via tax credits and public/private partnerships, in which case it is doubtful if this will amount to anything substantial in macroeconomic terms. Fiscal hawks are also calling for budgetary neutral changes in taxation."

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'It remains to be seen how substantial the fiscal push will be'

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"In the end it all depends on Trump's cooperation with the US Congress, especially with the Senate, in which the Republicans have a small majority of two, and are far from the 60-40 'filibuster-proof' majority that would allow them to essentially force through legislation."

#### Tighter monetary policy

Regarding monetary policy, the Federal Reserve is likely to raise rates in 2017 – Robeco predicts three quarter-point rises, taking the minimum lending rate to 1.5% for the first time since the financial crisis. And that would further strengthen an already sky-high dollar, creating new economic problems for the US.

"With the US expansion already in its eighth year, and a continuing improving labor market leading to almost full employment, any additional fiscal push will lead to higher inflation and push the US central bank to higher interest rates," Cornelissen says.

"The US dollar will strengthen and the US current account deficit will worsen. This last factor could easily stir up calls for more protectionist measures. During his campaign, Trump was highly critical of the Fed, which in his view was conducting overly loose monetary policy. It remains to be seen if his attitude changes when monetary policy starts to bite."

#### Deregulation targets

Meanwhile, Trump's campaign promised ambitious plans to unravel President Obama's signature Affordable Care Act, along with a raft of regulations affecting Wall Street and the energy industry. "A high priority of the new administration is unraveling Obamacare; the Dodd-Frank Act on financial reform could also be a casualty," he says. "The US will also abandon its commitments under the Paris agreement on climate change, and roll back Obama's Clean Power Plan."

"Further afield, Trump has been sowing doubts about his commitment to NATO. His questioning of the US's 'One China' policy regarding Taiwan is seen by some as an opening move in a negotiating process that would end with a US withdrawal from the West Pacific."

"This isolationistic stance could easily lead to higher geopolitical tensions, as China and Russia will see it as an invitation to flex their muscles. A scrapping of sanctions relief under the Iran nuclear deal could also strain relations with European allies and raise geopolitical tensions in the Middle East. We're in for a bumpy ride."

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'Any additional fiscal push will lead to higher inflation'

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