Lessons from Trump's Tariff Wars, Russia's Sanctions and Implications for Australia.

A Lenin quote best summarises the time since President Trump's inauguration: "There are decades where nothing happens, and there are weeks where decades happen."

LESSONS FROM TRUMP'S TARIFF WARS, RUSSIA'S SANCTIONS AND IMPLICATIONS FOR AUSTRALIA.

BY PAUL MIRON

Regardless of whether you are a Trump supporter or not, given the stock market turmoil and what can only be interpreted as personal attacks on global trading partners, Trump is quickly becoming one of the most globally polarising presidential figures in US history.

The trade war threatens global economic stability and reverses 80 years of globalisation. Geopolitics shape the global financial landscape, resulting in trade wars, wars, and sanctions, forcing nations to rethink their economic strategies.

Expect significant volatility to continue because we are in for a bumpy and uncertain ride during the remaining term of Trump's presidency; diversification across lowly correlated asset classes has never been more critical.

Trumpenomics might be the most crucial economic experiment in modern history, and if you think this has no impact on Australians, think again.

FROM A US PERSPECTIVE, PERHAPS THE COUNTRY HAS NO CHOICE BUT TO DO SOMETHING DRASTIC.

The US economy is the world's largest consumer of products, and its trade deficit is running at US$147.9 billion per month. This is certainly not sustainable. Federal debt stands at an all-time high of US$36.4 trillion, equating to 123% of GDP. This has been built up over decades because of the American consumer's voracious appetite for cheap products delivered to them through globalisation. However, the music has to stop one day to avoid continuing to fall into the inevitable debt spiral.

Trump argues that the fall in manufacturing in the US from 15.8% to 10.1% of GDP in the past 25 years has resulted in the single most significant deterioration in the living standards of the middle class, with the wealth being transferred to manufacturing economies such as China and Japan.

Despite Trump's bizarre public interpretation of tariffs, they essentially tax US citizens' consumption. Trump is infatuated by the Gilded Age in the US (1870 – 1900), when there was no personal income tax and governments raised most of their income through tariffs.

DEGLOBALISATION

Over the past 80 years, globalisation has been a powerful growth engine, lifting billions out of poverty, lowering consumer prices, and fostering unprecedented economic interdependence. For the US economy, globalisation enabled access to vast export markets, cheap imports, and global capital flows, keeping inflation in check and sustaining consumer demand.

Globalisation has delivered extraordinary prosperity to the US, with the complex, interconnected global supply network we enjoy today. The benefits of this network have been built over decades, with many US firms opening complex international supply chains to extract maximum global competitiveness. We do not know how they will be impacted, what the unintended consequences of these companies needing to trade under the new world order will be, and how this will affect both US and global markets.

Before the Global Financial Crisis, global trade exceeded 60% of world GDP. Since then, geopolitical fragmentation, supply chain vulnerabilities, and rising protectionism have ushered in an era of deglobalisation. The peak of globalisation is widely considered to have occurred in the mid-2000s.

A deglobalisation trend gathered pace during the COVID-19 pandemic, highlighting countries' vulnerabilities and sovereignty in severe crises. It is important to note that from an economic standpoint, we have reached a pivotal point where the benefits of globalisation have been fully absorbed by our current western economies. Therefore, the current costs of global trade outweigh the benefits and a growing group of economists such as Dani Rodrik, Richard Baldwin and Nouriel Roubini[1] firmly support deglobalisation.

The irony of Trump's intentions regarding tariffs is that they have a sound fundamental economic basis when applied evenly, fairly, and measuredly. They are not an attack on trading partners, but a tax placed on consumers.

However, when tariffs are intentionally imposed to harm foreign countries, we enter a different geopolitical game, resulting in trade wars, shifting alliances, increased global tensions, conflicts, and the risk of wars.

[1] https://www.economist.com/international/2009/02/19/turning-their-backs-on-the-world

LESSONS TO BE LEARNT FROM HISTORY

Two historical case studies provide glimpses of rational thinking that supports tariffs: the US-China trade war initiated by Trump in his first term in office, and Russia’s economic resilience under Western sanctions, offer valuable lessons for Australia.

While distinct in their circumstances, both examples underscore the importance of self-sufficiency, local manufacturing, and strategic economic policies to withstand external pressures.

UNDERSTANDING TRUMP’S TARIFF WARS

During Trump's first presidency, he launched a tariff war, primarily targeting China, to reduce the US trade deficit and encourage domestic manufacturing. His administration imposed tariffs on billions of dollars' worth of Chinese imports, arguing that unfair trade practices and intellectual property theft had disadvantaged American businesses.

The strategy was designed to make imported goods more expensive, incentivising firms and consumers to buy domestically produced alternatives.

While the immediate effects included increased costs for US consumers and retaliatory tariffs from China, the broader goal was to shift supply chains, encourage domestic production, and reduce reliance on foreign economies. Some industries benefited—such as steel and aluminium manufacturing—while others, such as agriculture, suffered from reduced exports due to retaliatory measures.

The long-term impact remains debated, but the lesson is clear: economic policy tools, such as tariffs, can strategically reorientate an economy toward self-reliance.

RUSSIA’S ECONOMIC RESILIENCE UNDER SANCTIONS

A parallel case is Russia, which, despite facing heavy sanctions from Western nations, after its 2014 annexation of Crimea and, more significantly, after its 2022 invasion of Ukraine managed to sustain and even grow its economy.

Sanctions aimed to cripple key industries, limit access to global financial markets, and pressure the government into compliance. However, Russia’s response was instructive. The country aggressively pivoted toward self-sufficiency, particularly in food and energy production.

Russia mitigated the impact of sanctions by increasing local manufacturing and shifting trade to non-Western partners such as China and India. The Ruble remained relatively stable due to strict capital controls and alternative trade agreements.

This demonstrated how a nation can adapt when forced into economic isolation by fostering domestic industries and securing alternative markets.

TRUMP’S the art of the deal

Perhaps it is worthwhile to delve into Trump’s psychology, which has been formed throughout his career – a businessman deeply rooted in high-stakes negotiation, underpinned by access to immense financial resources and brand capital. Inheriting a real estate business from his father, Trump expanded the empire into Manhattan's luxury property market, leveraging aggressive deal-making and media-savvy self-promotion. Trump consistently positioned himself as a power negotiator, unafraid of risk or confrontation. This negotiating style, as erratic and aggressive, comes from a position of power and wealth, which has paid off all his life and is all that he knows.

Now, as President, he is applying the same leadership style while in charge of the largest economy in the world, as he has done throughout his life. Regarding the position on tariffs, do not expect any consistency; he will pivot and change his position as frequently as he changes his underwear, leaving everyone consistently guessing. Meanwhile, Trump-esque logic and rationale will always justify his actions with gusto and unquivering confidence.

Perhaps this is where the high-risk strategy evolves. There is no doubt he is going for broke and it is anyone's guess as to where this will end. There may be global recessions with markets overwhelmingly turning pessimistic. Alternatively, he will end up with low interest rates so that government debt is more manageable, thereby reducing income tax and regaining local popularity by re-orientating the economy in record time as world leaders cave into Trump's outrageous demands and hurt the Chinese economy. It is also plausible that straight base 10% tariffs are applied, with the exception of China; only time will tell.

LESSONS FOR AUSTRALIA AND INVESTORS

Despite Trump's overall strategy with tariffs in these unprecedented times, any politician, economy, asset class, or equity fund manager can go from hero to villain back, and then back to hero overnight. Investors should take note and ensure they do not make decisions based on pure emotion and be led by animal spirits (the collective mood of the market).

Many economists and politicians have been calling for an emergency rate cut. This is highly unlikely, despite these recent events damaging consumer and business confidence. There are endless permutations on how this may impact our economy. Our Reserve Bank Governor has on many occasions said that they make decisions based on data. There is still inflationary pressure that could be placed on our economy from the shifting nature of trade and geopolitics, and there is no need to rush to a decision that could be made in haste.

Whether Trump plays the long or short-term game, tariffs will accelerate the deglobalisation trend. Australia must focus on reducing import dependence, strengthening local manufacturing, and diversifying trade partnerships.

From an investment perspective, there has never been a more critical time to ensure the right diversification in one's investment portfolio. Despite the best research conducted by large fund managers regarding the correct composition of shares, fixed interest, alternative assets, and private funds within the portfolio, there is often a lack of understanding of how these types of, either black swan events or long structural changes to the economy, can set back one's portfolio so considerably.

As a private credit fund manager, we can only see increased investor demand in Australia as there continues to be growing uncertainty and volatility in the equity markets.

Paul Miron has spent the past 25 years in the banking and finance sector, the majority of which has been in debt transactions. He co-founded Msquared Capital eight years ago as he identified a widening gap in the market for a trusted private credit fund manager, and is passionate about enabling investors to access high-quality mortgage investments secured by real estate. Paul has been instrumental in the firm's expansion, while at all times maintaining a meticulous focus on credit analysis. As the private credit sector has boomed in recent years, Paul has been a vocal advocate for transparency in the sector to ensure investors can understand what they are actually investing in.