



Global Political Drivers

TRUMP THE PREDICTABLE

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- Donald Trump's State of the Union address this week provided plentiful examples of the way he applies his *Art of the Deal* to politics. For all his notoriously erratic operating procedures, the policy menu that goes into that mix is as unchanging as would be found in a traditional diner.
- America and the world is getting what it said on Trump's campaign tin, except that the product of the predictable ingredients depends on Trump's arbitrary decisions on the fermentation – when to stop it, what to extract from it.
- Two main forecasting lessons emerge.
 - When a core Trump agenda item disappears from view, that does not mean that he has given up on it: on the contrary, it will be back – with the 'Mexican wall' and infrastructure being topical examples.
 - Recurrent implementation patterns hinge on inflexion points: the political imperative is to bang drums that please his voter base; but Trump switches between drums as projects progress, or stall, or get mixed together in a pot to see what may come out.
- Applying these patterns to the present state of play, particularly in view of Trump's signalling of the endgame in the trade war against China, we conclude that there is a high probability that he will turn his trade guns back towards Europe – with cars (and therefore Germany) particularly in his sights.
- Another itch that will return is the one about "getting along better than Russia". This, however, would be less of a Global Political Driver for the economy and markets unless it took the form of new strategic nuclear arms control talks triangulating with China, thus helping to stabilize the US-China relationship.

Political *Art of the Deal*

Among commonplaces about Donald Trump, “wildly erratic and unpredictable” is a staple.

It is rare that established commonplaces are outright fallacies, for experience will eventually tend to falsify even the most popular delusions. The trouble with commonplaces lies instead in the way that the obvious realities which they identify distract from contrasting realities of equal importance. This rule applies in our view to Trump’s notorious unpredictability.

It is the outputs of the Trump agenda that are unpredictable, while the inputs are steady.

Trump’s way of resolving this apparent paradox is nicely captured in the revealing passage of his *Art of the Deal* where, flying in the face of conventional logic, he counsels against setting negotiating goals. Instead, our guru advises negotiators to throw their agendas into the mix, and then, observing the progress of reactions with the counterparties’ agendas, grab opportunistically the optimal combination that emerges. This is the way to score “big wins”.

Translating this style into the political arena, the noisy process ranks equally with the inevitable (proclaimed) victory. For the process generates the politically important signalling – summed up in this soundbite from Trump’s annual state of the union address earlier this week:

Wages are rising at the fastest pace in decades, and growing for blue-collar workers, who I promise to fight for.

True to this template, the content of Trump’s campaigns as president since January 2017 has stuck closely to the main themes and slogans of his campaign to become president in 2015-16. With the possible exception of his call for reduced prescription drug prices, there was nothing of substance in Trump’s ‘state of the union’ last Wednesday that did not feature in his boilerplate stump pitch. (Even that passage on healthcare was couched in standard ‘America First’ terms of putting an end to “global [price] freeloading”.)

Nuclear arms control was one of the few other topics covered in this speech that, unusually, is not one of Trump’s long-standing favourites. His decision to withdraw from the 1987 Intermediate Nuclear Forces Treaty (INF) with Russia was, however, harnessed to the leitmotif of correcting the errors and omissions of Barack Obama – or especially Obama, but often also of “all” predecessors. In this INF example, the Obama administration objected to Russian violations, but it took Trump to take decisive action. No less important, the INF dossier ties in with the core theme of standing up to China. Hence the punchline:

Perhaps we can negotiate a different agreement, adding China, or perhaps we can’t – in which case, we will outspend and out-innovate all others by far.

This nuclear arms control theme turns out to be as good an example as any of the “mix it up” feature of Trump’s standard operating procedure. This, together with the other (three) main features, are mapped in our graphic below against the core, 2016 campaign-vintage agenda. Our attempt here at a snapshot history of the Trump presidency to date is designed to show, above all, the persistence of his policy priorities and the recurrent patterns of policy implementation as already discussed in an *Art of the Deal* perspective.

Translating "The Art of the Deal" into politics

| Campaign theme/ Promise | | 1. Launch, then pause/ meet obstacle | 2. Mix-it-up | 3. Resume charge | 4. "Success!" |
|---------------------------------------|---------------|---|-----------------------|---|---------------------------------------|
| Correcting non-trade "bad deals" | Iran JCPOA | 2017: Tillerson opposed | | H1 2018: Tillerson departs | |
| | NATO spending | 2017 summit | | 2018 summit | |
| "Reversing calamitous trade policies" | NAFTA | | | | November 2018 USMCA |
| | Europe | 2018 Juncker holding deal | | Not if, only when | |
| | China | 2017: On hold | | Q2 2018 | |
| North Korea | | 2017 "Fire and Fury" | China/ NK link | 2018 Singapore summit | 27-28 February 2019 Vietnam summit |
| "Stopping foolish, endless wars" | | H2 2017 Leaving Syria "Blob" objects | | H2 2018 Ditto Mattis departs (plus Afghanistan) | Taliban deal |
| Illegal immigration (The Wall) | | 2017 H2 2018 On the back-burner | Linkage offer to Dems | Late 2018: "Wall-Shutdown campaign" | No let-up |
| Infrastructure | | | | | |
| "Getting along with Russia" | | Immediate "Russiagate" block | | Not if, only when | |

Dormant not dead

The main lesson from this survey is that Trump never gives up on his idées fixes. Another way of putting this is that the watching world should not be lulled into complacency by the temporary disappearance from view of one Trump's core agenda items. Just because something gets put on the back burner does not mean that it has lapsed. On the contrary, it will be back.

The most topical example is illegal immigration. Along with reversing "historic trade blunders [such as] the catastrophe known as NAFTA", this topic of immigration provides the most effective messaging to voters in rust-belt states (also mentioned by name in this week's speech) that put Trump into the White House. The 'state of the union' speechwriters came up with this punchy formulation:

No issue better illustrates the divide between America's working class and America's political class than illegal immigration.

But with the exception of the relatively brief flare-up a year ago of the controversy over illegal immigrant detention centres on the Mexican border, it is only since late 2018 that the "Mexican wall" project that was a staple of Trump's 2016 stump speeches has returned to centre stage – or rather, front and centre, as reflected in the federal government shutdown and Trump's irreversible commitment to the wall despite his losing the shutdown 'battle' (even while vowing to continue the 'war'). In parallel with the "wall" campaign, Trump has also now revived another of his campaign themes of rebuilding infrastructure.

This waxing and waning of the various Trump agenda items seems like a common-sense tactic. There would be no point simultaneously beating all the drums that please the voter base: they would drown each other out in the resulting din. Another consideration is that all campaigns will encounter obstacles and blockages or, in the best case, risk becoming monotonous even before finally falling away from the agenda in the event of a declaration of victory. So it makes sense to bang different drums in sequence rather than unison.

This last point leads on to a final recurrent pattern in the operating procedure: the handling of inflexion points. This pattern has three variants.

- **Temporary pause, then plough on.** Trump was determined to pull out of the Iran nuclear deal. During his first year of office, his wish was resisted by the foreign policy establishment led by the then-Secretary of State, Rex Tillerson. A year later, Tillerson was fired, and the anti-Iran policy rolled out. A similar pattern has played out over the troop withdrawals from Syria (and, prospectively, from Afghanistan too as a deal with the Taliban is close to being finalized), with Tillerson's role taken by the departing Secretary of Defence, James Mattis.
- **"Mix it up."** In his first set-piece meeting with Xi Jinping at his Mar el Lago estate in Florida in April 2017, Trump declared that he would put his well-founded grievances against China on hold if Xi would help him end the North Korean nuclear threat. By early 2018, North Korea had turned dovish, and Trump then launched his 'trade war' against China.
- **Episode sequencing.** Since his third summit with Xi in Buenos Aires last December, Trump has been signalling that the "Success!" moment of the China trade war is visible on the horizon, raising the question of 'what next?'

As this week's events have shown, that horizon remains distant. We must wait to see what is the thinking behind Trump's announcement that the advertised further summit with Xi to clinch an ambitious deal will not now occur before the 1 March (the escalation trigger date in the latest round of tariff hikes on Chinese imports in the absence of a settlement). It may be that he (and/or the Chinese side) wants to keep this process separate from the North Korea track, with the next Trump-Kim summit now fixed for 27-28 February in Vietnam. Alternative or complementary explanations include Trump seeing advantage – on tactical political or negotiating grounds – in the China trade war running on a bit longer before declaring victory.

However all that may be, the key point is that the victory cannot be final. This sober reality applies in two senses. First, what looks like a clear decision by Trump to go for a victory lap on China this year will necessarily involve a degree of compromise on the substance and uncertainty on implementation that is bound to disappoint the anti-China hawks who dominate the US political establishment. Second, Trump's political agenda requires trade wars. While Chinese imports of US soybeans on the back of a new deal would be good for window dressing, manufacturing jobs lost to China will not come flooding back to the old US industrial heartlands.

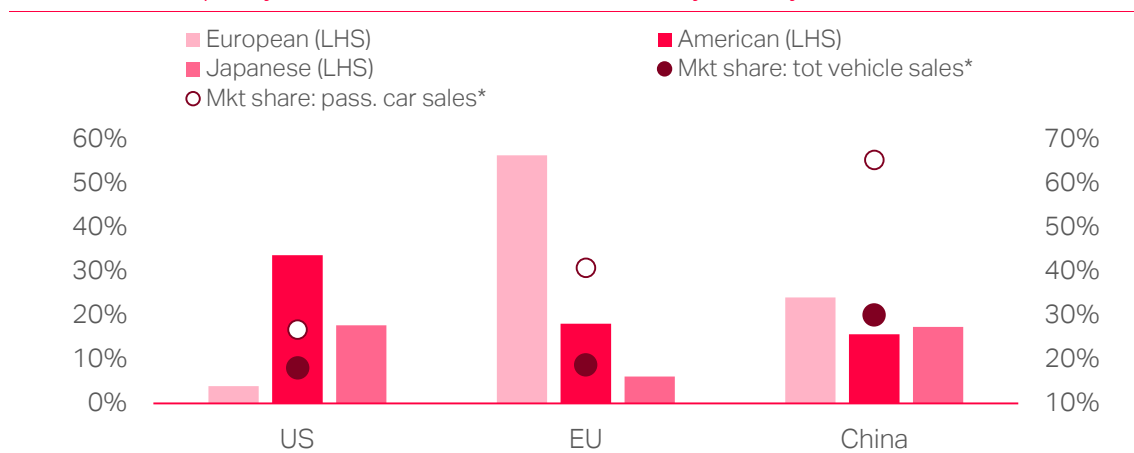
Tempting European target

This brings us to our punchline. Against the background of Trump's perennial agenda, and bearing in mind the implementation patterns of sequential drum banging around inflexion points, the prospect of Trump turning all or some of his trade war guns away from China and back towards Europe looks all too real. This is a topical debate given the 17 February deadline for the Department of Commerce to publish its Section 232 report on whether automobile imports constitute a threat to national security. As my colleague Constantine Fraser observed in [his recent analysis](#) of this prospect in our Europe Watch service, it is an open secret that the Commerce Department's report will endorse that rather unlikely proposition. Trump would then have ninety days to decide whether or not to impose tariffs on automobile exports.

Europe – and particularly Germany – would be in the frame. The threatened tariff might be as high as 25%, based on the China trade war model, or the hike may only go as high as 10% in symmetrical 'retaliation' against the EU's duty on imported passenger cars. Regardless of whether Trump ended up acting on such a tariff threat, or instead just using the threat for bargaining purposes, this would spell an end to the present trade truce with Europe since EU

Chart 1: EU car "imbalance"

Total vehicle output by maker and EU VMs' market share by country



Source: OICA, TS Lombard

Commission President Jean-Claude Juncker's visit to Washington DC in July last year. We would be pleasantly surprised if that truce holds firm during 2019.

Decisive incentives for Trump to take a shot at the European car industry are the leverage offered by the importance of that industry to the EU economy, with Germany again standing out, combined with the greater potential than in the China case for securing a voter-pleasing result. A note by our Europe economist Davide Oneglia [brings out](#) both points. His chart above on the contrast between EU vehicle manufacturers' decent (20%) share of the US car market and very small manufacturing presence in the US (4% of all output) points to a realistic "big win" for Trump.

Whatever else comes out of the likely revival of US-EU trade tensions, Trump cutting the ribbons on some new or expanded manufacturing facilities of German carmakers seems like a plausible scenario. It would do no more than mirror the outcome of the equivalent contention between the US and Japan in the 1980s. The spirit here is nicely captured by this final soundbite from the passage in this week's State of the Union address celebrating the new USMCA as:

Ensuring that more cars are proudly stamped with our four beautiful words: made in the USA.

Postscript: Russia, China and nuclear weapons

The Russia itch will return. Another firm prediction based on Trump's devotion to his core agenda and his habit of reviving dormant items must be that at some point before the end of his term, he will return to his stated goal of improving relations with Russia. This is more of an illustration of the global political driver rather than a driver in its own right given that the impact of any such move would be limited to the specialized area of Russian assets. Moreover, this could spell danger for Russian assets, as shown by the example of the political hysteria in Washington DC and renewed sanctions threats triggered by the Trump-Putin Summit in Helsinki last July.

Trump might set off again down this road of "getting along better with Russia" as an act of defiance against the finalization of the Mueller enquiry and ensuing political storms. But a less controversial path would be to revive the nuclear arms control agenda by initiating talks on the extension of the START 2 treaty beyond its present expiry date of 2021. To the extent that this process drew China into triangular talks on global strategic stability, then there might be wider positive potential for global political risks.

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