

Donald Trump's Wars

by Adrian Phillips

The election of Donald Trump as US President in November triggered one immediate and striking reaction on Wall Street that has endured since then. The shares of defence companies rose by 10-15% in the days after the vote and have largely held onto their gains. European defence majors BAE and Safran performed in a similar fashion.

More remarkable still is that these gains were not compromised by the President elect's high profile complaints at supposedly over-generous pricing on government contracts, most notably for the new presidential aircraft, Air Force 1 and for a 10% price cut on the F-35 new generation combat aircraft. These have been vocal enough to trigger small falls in the relevant share prices, but not to an extent that suggests that anyone expects a new era of hard negotiating by the Pentagon. Perhaps Wall Street foresees that the phase in which Mr Trump applies his business skills and instincts to the business of government will not outlive the pre-inaugural period, during which they could be deployed to demonstrate the competencies which he is bringing to his new office. Once installed in the Oval Office, so this logic goes, he will unfailingly go native under the blandishments of a machine that has been well-oiled to propel politicians at all levels along harmless paths.

Nothing in Trump's rhetoric so far supports the idea that he will adopt policies that require a stronger military. Indeed, his scepticism about NATO ought to point in the other direction. NATO is the last home of heavy weaponry organized to fight an old-style war. Indeed Trump's vocally stated desire for rapprochement with President Putin of Russia may well express itself in a reduction in the scale of existing US forces in Europe as well as a reluctance to apply any diplomatic pressure against further moves by Putin to restore elements of the old Soviet empire.

The former US enthusiasm for EU expansion viewed the EU as part of the US sphere of diplomatic influence, if not a downright antechamber to NATO. Similar considerations underpinned, and perhaps dominated, the enthusiasm of former Communist states for EU membership. The death-knell for this policy had already been sounded by its lamentable failure in the instance of Ukraine, when its incompetent and ill-thought-out application provided a narrative to support Russia's annexation of Crimea and the seizure of border areas with large ethnic Russian populations. France will likely have a pro-Putin President next year (Fillon or Le Pen) and the EU itself faces the destabilising practicalities of British departure.

It is practically Putin's choice whether Russia will continue to reverse the loss of territory (and diplomatic humiliation) of the 1990s. Direct investors in the Baltic republics (fortunately a minor region in financial markets) should proceed with extreme caution and damage to sentiment towards mainstream Europe majors as well as actual financial losses might have to reckoned with.

Beyond rhetoric at token level it is improbable that Putin will offer any real assistance to President Trump's anti-Chinese stance. Like his illustrious predecessor Josef Stalin he will be content to maintain all quiet on the eastern front; the easy laurels are to be had in the West. So far, Trump's policy statements have anyway focused above all on trade relations with little said about the numerous territorial disputes in the region. Trump's public questioning of the one China policy has the flavour the flavour of openly fingering a purely diplomatic bargaining chip (US recognition of one China has never hurt business relations with Taiwan) in advance of what will be essentially trade negotiations.

Trump's isolationist instincts argue against any US military build-up in the East. Here again the ultimate choice will lie the other side of the negotiating table. Peking must decide whether sufficient concessions will be given on trade to allow the US to trumpet 'victory'. With no public opinion to worry about and little risk of incurring material damage to its economy, Peking ought to be cooperative.

Sadly all the above does not constitute advice to short the defence sector. None of it undermines a potent scenario that explains and justifies the rally. Once in office, Trump will face bitter criticism. His competence and ethics will inevitably be severely challenged. It is a very open question as to whether he can achieve enough in terms of job creation, trade policy or immigration control to offset this. He may yet have to manufacture a scenario in which his opponents may be castigated as unpatriotic: military engagement on a scale sufficient to be presented as of existential importance to the USA.

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