



August 31, 2020

## Trump's Foreign Policy in a Second Term

*(As is our custom, we will take a break for the Labor Day holiday. The next report will be published on September 7, 2020.)*

In our [WGR last week](#), we examined how U.S. foreign policy might look in the event that Democratic Party nominee Joe Biden wins the November presidential election. But, of course, the race remains competitive, and there is plenty of time for things to swing either way. In our report this week, we examine how foreign policy might look if President Trump wins a second term.

It's tempting to think a second term would be a mere continuation of Trump's first four years. In reality, it could differ significantly. Presidents in their second terms often rely on different advisors than they did when they first came to power. They're also lame ducks from their reelection onward, so they have less power. On the other hand, since they no longer need to worry about the next election, they can feel less constrained and anxious to build their legacy. The result could be a noticeably different foreign policy from 2021 to 2025, with important ramifications for investors.

### National Interests and Strategy

To begin this discussion, it may be helpful to step back and lay out a framework for understanding and analyzing foreign policy. By way of definition, foreign policy is the whole set of goals, principles, strategies, tactics, and methods chosen by an

administration to govern the country's relationships with the rest of the world.

The most important element of foreign policy is arguably the goals and principles selected, since they, in theory, should govern all other elements of the policy. The selected goals and principles are commonly understood to be "national interests," some of which are essential or vital, while others may have only medium or low importance. Throughout the Cold War, successive U.S. administrations generally subscribed to some version of the statement of vital interests laid out in a 1950 report from the National Security Council (NSC-68): ***"To preserve the United States as a free nation with our fundamental institutions and values intact."*** [A more modern reformulation by the Heritage Foundation](#) goes into greater detail, listing vital U.S. national interests as: ***"1) Defense of the homeland; 2) Stability in regions critical to U.S. interests; 3) Preservation of freedom of movement within the global commons."***

Note that global hegemony is never mentioned in these classic formulations. In part, that's because these statements are mostly for political and planning purposes. Foreign policy gets its true form and substance ("maintaining global hegemony," for example) through the process of adopting shorter-term goals, selecting the instruments of power that will achieve them, and applying those instruments. The instruments of power available to the U.S. are typically divided into three overlapping categories: diplomacy, economic leverage, and military force.





geopolitical aggressiveness in Asia for years to come.

How might Trump’s foreign policy change if he wins a second term? Since second-term presidents tend to have less political power than they did in their first term, they often shift their focus to foreign policy. After all, foreign policy can be conducted with more independence from Congress compared with domestic policy. In a second term, we would expect President Trump to continue his America First policies and maintain his personalized, transactional style. Overall, Trump might be a lame duck in his second term, but since he would likely interpret his reelection as a rousing mandate, he would probably try to double down on his approach to the world:

- Perhaps most importantly, a second-term Trump administration would probably intensify its focus on rolling back China’s aggressive geopolitical and economic activities around the globe. That would be especially likely if China fails to fulfill its commitments under the U.S.-China trade deal signed in January. A second-term Trump policy on China would likely encompass a wide range of initiatives, including: 1) more aggressive military operations, such as freedom-of-navigation patrols and forward military deployments, to thwart Chinese territorial ambitions; 2) tougher measures against Chinese spying and corporate misbehavior to rein in China’s theft of U.S. technology; 3) further trade barriers and perhaps new restrictions on capital flows to punish China for its unfair economic policies; 4) fighting back against Chinese efforts to influence U.S. public opinion and politics; and 5) working to isolate China in global forums like the UN and the WHO.
- In the Middle East, Trump would probably double down on his support for

Israel and Saudi Arabia, while continuing to pressure Iran over its weapons programs. That would likely keep alive the risk of an armed confrontation with Iran. However, as with North Korea, Trump would likely remain open to a ground-breaking peace deal with Iran if it could be made on his terms.

- Trump would probably also continue to ratchet back traditional U.S. alliances and step back from the traditional U.S. role as global hegemon. That would probably lead many foreign countries to give up hope for a return to past relationships and prompt them to start building up their own regional alliances and their own military capabilities. A key exception is that Trump may expand the “Five Eyes” intelligence-sharing alliance between the U.S., the UK, Canada, Australia, and New Zealand, perhaps even expanding the bloc to include nations like Japan and India.

As discussed above, second-term presidents often lose many of their best policy advisors to “White House fatigue” and independent ambition, only to replace them with lower-profile officials who might be more useful as policy implementers than developers. Looking at a possible Trump second term, Secretary of State Pompeo is among the most likely to leave as he [has shown signs of harboring his own political ambitions](#). It also wouldn’t be a surprise to see Defense Secretary Esper, Treasury Secretary Mnuchin, National Security Advisor O’Brien, or CIA Director Haspel leave, voluntarily or involuntarily, to pursue other interests. At this point, it is difficult to identify their likely successors as the most likely candidates would probably be lower-profile, less known individuals. However, it is notable that FBI Director Christopher

Wray [has been mentioned as a potential replacement for Haspel](#).

### **Ramifications**

As mentioned above, the classic formulation of U.S. vital national interests doesn't explicitly require that the country maintain its traditional role as global hegemon. However, the grand strategy of global hegemony that the U.S. has pursued to secure its vital interests since the end of World War II has provided important benefits for investors. In a second Trump term, an intensified America First strategy that plays to the public's existing disenchantment with traditional alliances and globalization would therefore come with costs, at least in terms of a potentially disruptive transition period. If the U.S. withdraws from its alliances and hunkers down into a "Fortress America," it could probably reduce the number of its men and women sent to foreign battlefields, but aggressor nations like China, Russia, Iran, or North Korea would almost certainly take advantage of such U.S. reticence and eventually impinge on U.S. interests in ways that would harm the U.S. economy and financial markets. It's far better to be an alpha male patrolling the outer fringes of his territory than a beta with little or no control over his fate.

Likewise, doubling down on Trump's America First policy could probably help boost domestic manufacturing. By limiting immigration, it could help tighten the labor

market and boost wages for lower-skilled workers. A tougher negotiating stance could produce new trade and investment treaties more favorable to U.S. businesses. The potential costs, however, might range from more disruptive trade wars and sudden capital flow restrictions in the short term to less efficient, higher cost supply chains and increased inflation in the longer term. The result would probably be more periods of volatility as markets try to gauge the risks. The likelihood of intensified conflict with China would probably be especially unsettling to the markets.

When it comes to foreign policy, a final specific concern for the financial markets is the impact on oil prices. In that realm, continued sanctions and other measures against Iran from a second Trump term would likely keep crude prices higher than they otherwise would be. After all, continued sanctions would keep some two million barrels per day of Iranian crude exports off the market. In addition, the possibility of an armed conflict in the Persian Gulf would tend to maintain a risk bid for crude. Trump would also probably oppose "green" policies in a second term, which would probably be modestly positive for oil prices.

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