



# When war comes

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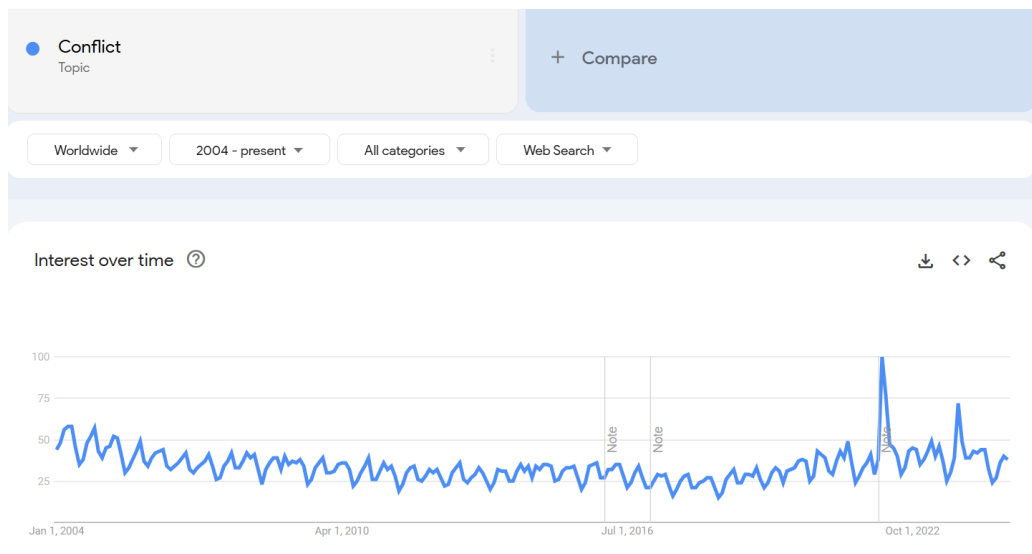
## Guide to the apocalypse

Over the last few weeks, geopolitical doomsayers had a blast with, for example, Donald Trump's election victory, the possible sabotaging of European data cables, Joe Biden's authorisation for Kyiv to deploy long-range American missiles on Russian territory, Russian leader Putin lowering the threshold for the use of nuclear weapons, and the news that Iran has added another 20 kilograms or so of highly enriched uranium to its stockpile.

Fears of escalation are real enough on Europe's eastern flank. At any rate, there is a heightened state of alert. Helsinki has set up a comprehensive website with survival strategies for Finns, and Stockholm is distributing brochures among five million households with the title *Om krisen eller kriget kommer* ('In case of crisis or war'). In the leaflet, the Swedish government explains how citizens can prepare for emergency scenarios such as natural disasters, cyber-attacks and actual war.



While specialists such as ourselves - who are on top of political, economic and financial news - hear alarm bells ringing and see emergency signals flashing, the average Google user does not seem to be getting ready to dive into the bomb shelter just yet. Google search volumes of terms such as 'war' and 'conflict' are nowhere near their trending levels at the time of the outbreak of the Ukraine war and around the 7 October 2023 attack on Israel.



This makes sense, of course, in the sense that a new conflict is not on the verge of breaking out. Nor is it the case that an existing crisis is worsening. However, given the aforementioned developments, it could only be a matter of time before the world is faced with further geopolitical escalation. In the last few days, financial markets have been reacting nervously to the missiles flying around between the Ukraine and Russia.

America is still the strongest kid in the schoolyard, with the most pocket money, the biggest pocket knife, the biggest mouth and the most friends. This means that the Trump administration taking office in two months will leave a strong mark on the geopolitical outlook for the coming quarters and years.

## Essence of Decision Revisited

President-elect Donald Trump's recent nominations for the team that will be responsible for international policy during Trump's second term seem to suggest a clear direction for US foreign policy, defence policy, security policy, trade policy and international economic policy (We have listed the main Team Trumpers - including Marco Rubio, Mike Waltz and Elon Musk - with their views and ideas [behind this link](#) for the 'wonks').

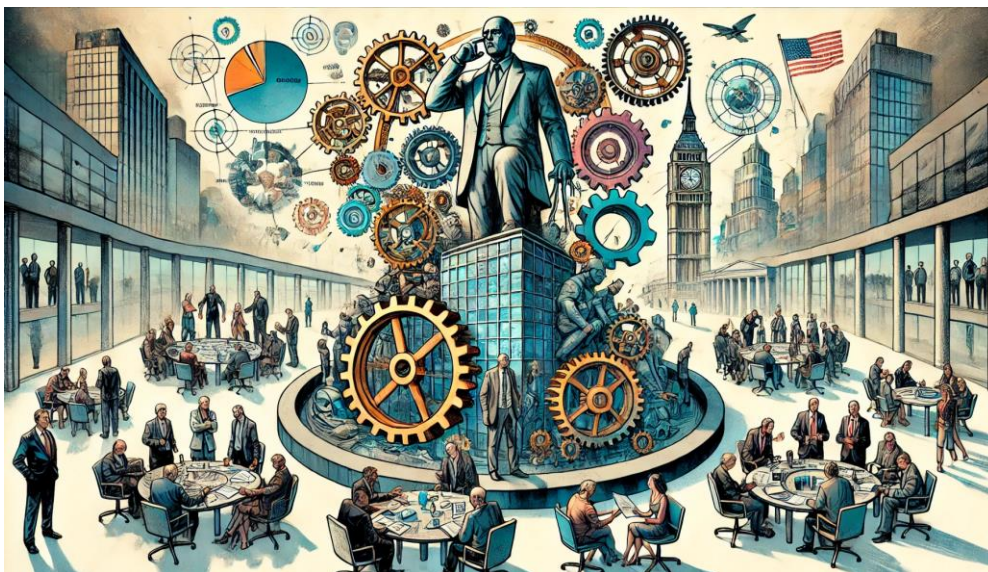
The question is to what extent individuals (will) actually influence the creation and implementation of policies. Our previous report discussed [Allison and Zelikow's theory](#) behind this quite extensively, which is why we will now suffice with a brief summary of their ideas.



While the adage *people are policy* is an important perspective in foreign policy analysis, it is certainly not the only approach. In their book *Essence of Decision*, Allison and Zelikow introduced three models to analyse foreign policy:

- » **The Rational Actor Model (RAM):** This model views government as a monolithic, rational entity that takes targeted action to maximise national interests; countries are like billiard balls colliding. Decisions are made after careful consideration of costs and benefits. The emphasis is on structured processes and less so on individual influences.
- » **The Organisational Behaviour Model:** According to this model, decisions are shaped by standard procedures and routines within organisations. Policy is the result of established processes and structures, where individual influence is certainly present, but to a limited extent; individuals play a role, but within the context of their institutional positions.
- » **The Governmental Politics Model:** This model stresses the role of individuals within government who have various interests and positions of power, and who negotiate and compete. *People are policy* is most applicable here, as personal beliefs and power dynamics strongly influence policymaking.

Needless to say, Allison and Zelikow were not the only ones conducting research in the fields of international relations and political science on the influence of individuals on the creation and implementation of foreign, trade, defence and security policies. In most cases, it ultimately - and very boringly - turns out that the extent to which the maxim *People are policy* applies varies depending on several factors.





In many cases, individuals appear to be mere implementers within broader structural forces, including economic trends, geopolitical logic or social pressures. Individual leadership and freedom of choice are often limited by:

- » **Structural conditions**, such as international power systems.
- » **Unique occurrences**, including economic crises and political instability.
- » **Institutional frameworks**, such as the UN, national bureaucracies and legal standards.
- » **Historical determinism**, where individuals act in line with the expectations and constraints of their time.

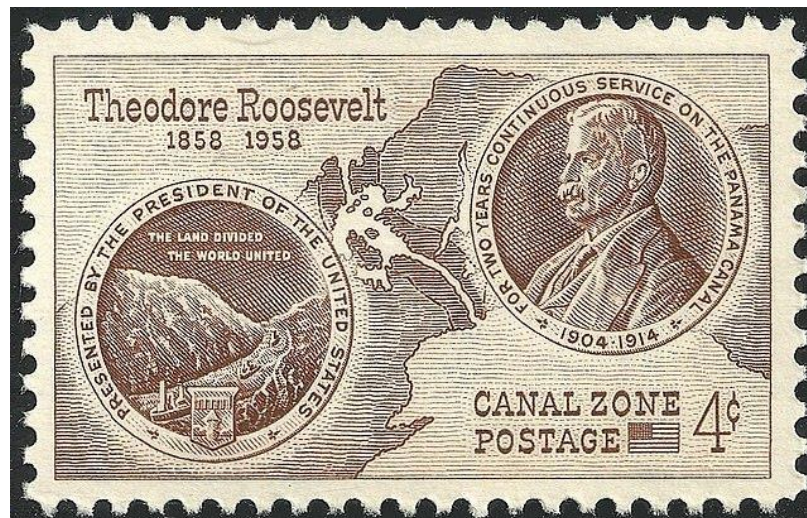
Although it is tempting to view individuals as heroic heroes (or devastating devils), actions of leaders are often inevitable responses to larger forces.

That said, under specific circumstances, individual leaders, such as heads of state and ministers, certainly have a considerable impact. Their personal beliefs, experiences and leadership styles can influence the direction and content of policy. In situations of high urgency and uncertainty, such as international crises, individual leaders can sometimes play a bigger role. By contrast, institutional processes and standard procedures dominate in more routine policy issues, limiting the influence of individuals.

## Leaders who left an indelible mark

An integrated approach that considers both individual and institutional factors offers the most comprehensive understanding of policymaking. However, we currently focus on the personal side of the story because of all the attention for the key people in Team Trump. The past offers countless examples (we will skip the Cuba crisis here, as we have mentioned it in previous reports) where individuals were the driving force behind major changes:

- » **Roosevelt and the Panama Canal (1903-1914)**: As president of the United States, Theodore Roosevelt played a crucial role in the creation of the Panama Canal. His direct involvement and political strategy were decisive, despite institutional and national barriers.



- » **Nixon's visit to China (1972):** President Richard Nixon's (and Henry Kissinger's) decision to establish diplomatic relations with the People's Republic of China marked a turning point in the Cold War. This move, prompted by his personal conviction and strategic insight, went against the conventional wisdom and bureaucratic resistance of the time.
- » **Margaret Thatcher and the Falklands War (1982):** British Prime Minister Margaret Thatcher showed how individual leadership can set the international agenda. Her decision to defend the Falkland Islands against Argentina was controversial, but she combined national pride and personal determination to achieve political and military success.
- » **Mikhail Gorbachev and *Glasnost/Perestroika* (from 1985 onwards):** Gorbachev played a decisive role in ending the Cold War. His personal preference for reform and transparency through *Glasnost* ('openness') and *Perestroika* ('restructuring') circumvented traditional Soviet bureaucracies and facilitated international détente.
- » **Nelson Mandela and South Africa (from roughly 1990 onwards):** Mandela's role in ending apartheid and steering South Africa towards reconciliation is widely viewed as an example of how individual leadership can shape historic events.
- » **Helmut Kohl and German Unification (1990):** German Chancellor Helmut Kohl played a crucial role in the reunification of Germany. His personal vision and political courage had a decisive impact, despite initial resistance from international leaders and bureaucratic obstacles.



- » **Kofi Annan and the UN (1997-2006):** As UN Secretary-General, Kofi Annan demonstrated how individuals can be innovative within multilateral institutions by breaking diplomatic deadlocks, as in the conflicts in Iraq and Darfur.

Why were these leaders able to make their mark?

- » **Crisis conditions or a political/policy vacuum:** There are situations in which normal institutional or bureaucratic decision-making processes prove insufficient or too slow to respond effectively to an urgent or unexpected event. In these cases, the usual, structured way of making decisions begins to squeak and creak, and space emerges for individuals to take the lead.
- » **A unique vision, networks and charisma:** Leaders with a strong personal vision and charisma and the right contacts can challenge existing structures and implement reforms that would otherwise be unthinkable.
- » **Strategic insight:** Leaders such as Nixon saw opportunities others missed and were willing to take political risks to gain strategic advantages.

## America First in no way means US retreat

Given the examples above, there is therefore certainly a chance that Trump and associates will (partly) shape America's role in the world in the coming years. Due to the views, personalities and careers of Trump and the people he has nominated for key positions for foreign policy and related policies, the following policy shifts will become more likely in our view.



Before focusing more specifically on the various policy areas, we will highlight two overarching changes/adjustments.

## Reinforced unilateralism and the 'America First' approach

Trump's previous policy was characterised by a unilateral approach, where international agreements were reviewed or cancelled when they were not directly in America's interests. His second term will probably show a continuation of this trend, with a focus on bilateral agreements and a declining involvement with multilateral institutions. This could lead to higher trade tariffs and the renegotiation of existing trade agreements, with the aim of protecting and strengthening the US economy.



## Alliances and international relations under review

Trump has previously criticised NATO allies over their defence spending and threatened to withdraw from the alliance. A second term may lead to a review of US involvement in international alliances, with allies being encouraged (even more) to contribute more to joint defence efforts. This will create tensions within traditional alliances, possibly leading to a shift in global power dynamics.

Partly because of these two overarching trends, we believe the following developments will become more likely in the following areas (as pointed out above and in previous reports, it is important to note that structural, bureaucratic and other factors will partly adjust and frustrate the will of Trump and his advisers and secretaries).





## Foreign policy

### China: strategic rivalry

- » **Economy:** A renewed focus on economic decoupling is to be expected, with an emphasis on reducing dependence on Chinese supply chains, and on promoting domestic production in strategic sectors such as semiconductors. This will lead to the realignment of global supply chains and international trade relations.
- » **Trade:** Given the previous trade wars and rhetoric, it is likely that Trump will take a harder line on China. New sanctions and import tariffs against China will take effect. Washington will particularly target Chinese companies operating in critical technologies.
- » **Taiwan and regional stability:** Trump could expand direct military support to protect Taiwan from the Chinese threat.

### Europe and NATO

- » **Defence spending:** European NATO member states will come under considerable pressure to further ramp up defence budgets. A lack of compliance could lead to a reduction in US support for the alliance.
- » **Russia:** Trump may adopt a pragmatic stance with Russia. This could lead to divisions in Europe, for example between countries in Western and Southern Europe that perceive less threat from Russia and Eastern European countries that are far more concerned.

### The Middle East: energy and alliances

- » **Iran:** A stricter sanctions regime is likely, combined with economic and military pressure to limit Iran's influence in the region.
- » **Israel and Gulf States:** Deeper engagement with Israel and the Abrahamic accords, where the two-state solution will be even more out of reach. Trump will seek further normalisation of relations between Israel and other Arab states.

### Africa and Latin America

- » **Africa:** The US will focus (even) less on African democratisation projects and more on achieving commodity security and countering Chinese influence.
- » **Latin America:** A focus on border security and immigration control, with less attention for multilateral development initiatives.



## Defence policy: modernisation and isolationism

- » **Military modernisation:** Investments in hypersonic missiles, AI-controlled weapon systems and autonomous drones, for example. The focus will be on technological superiority.
- » **Cyber warfare:** The strengthening of offensive and defensive cyber capabilities to deter strategic adversaries such as China and Russia.
- » **Troops reductions:** Reductions in long-term military presence abroad.
- » **Aerospace:** The establishment of Space Force in Trump's first term and Musk's presence suggest continued investment in military space capabilities, with the goal of gaining control of critical infrastructure such as satellites. This increases the chances of clashes with other countries with space ambitions, such as Russia and China.

## Trade policy: protectionism and bilateralism

- » **Multilateral trade institutions:** Trump will likely continue to marginalise the WTO, criticising its dispute settlement mechanisms and limiting US compliance with trade rules that he believes undermine American sovereignty.
- » **Regional trade agreements:** Stricter enforcement of regional trading conditions within the USMCA framework (NAFTA's successor) to protect American jobs. Furthermore, Trump will prefer bilateral trade agreements over multilateral structures.
- » **Sanctions as an economic weapon:** Trump will continue to use economic sanctions as a tool of geopolitical pressure, for example against Iran, North Korea and possibly European companies doing business with Russia or China.

## International economic policy

- » **De-dollarisation:** Trump will support initiatives to defend the dollar's role as a global reserve currency against challenges posed by digital currencies and alternative trade mechanisms emerging from China and Russia in particular.



- » **Fossil fuels:** Policies will focus on expanding export markets for US LNG and oil, while renewable energy will be a lower priority.
- » **Export controls:** Trump will likely impose stricter controls on US technology exports to strategic competitors, which could cause further fragmentation of global collaboration in technology.

## Climate policy and international co-operation

Trump will turn his back on further efforts to mitigate the impact of climate change, which could lead to friction with European allies and emerging markets. There is also a very real chance that he will reduce funding for climate adaptation programmes in the Global South, putting already vulnerable economies at even higher risk from climate impacts.

## Multilateralism vs. Unilateralism

- » **Cuts to UN programmes:** Trump's administration will likely reduce US contributions to UN programmes, particularly in healthcare and peacekeeping.
- » **IMF/World Bank:** Less support for global redistribution programmes and a focus on projects that directly promote US economic interests.

## Unilateral but not isolationist

Trump's second term will be geared towards strengthening US economic and geopolitical dominance. This approach, which is based on unilateralism and protectionism, will put further pressure on global



institutions and will complicate multilateral collaboration. This increases the risks of further political and economic fragmentation. We will not experience American isolationism, contrary to claims by some experts. Trump's first term showed that he certainly does not shy away from forceful American action on the world stage.

## Consequences for the markets from a political perspective

### Currencies

Trump's protectionist policies and unilateral approach could significantly affect foreign exchange markets. The dollar may strengthen further through a combination of increased capital inflows (due to higher US interest rates and increasing economic confidence) and protectionist policies. This is in line with our chief economist's view that EUR/USD could even decline below parity. In the longer term, however, all sorts of dark clouds loom for the dollar (including the risk of runaway public finances and the likely intensification of de-dollarisation initiatives).

### Shares

- » **Positive factors for US shares:** Tax cuts and deregulation could provide a boost to major US companies, particularly those active in energy, technology and defence. However, it looks as though prices have largely priced in these policies.
- » **Energy and industrial sectors:** Energy and industrial shares are expected to benefit from less regulation and larger investments in fossil fuel extraction.
- » **The tech sector:** Potentially stricter regulations on big tech may have negative effects, but companies focused on defence technology and cyber-security technology may actually benefit. Moreover, people like Musk actually want the freest possible playing field for (part of) the tech sector.



## Oil

Trump's focus on energy exports and the expansion of oil production will exert downward pressure on oil prices. Moreover, it is quite conceivable that Trump will also use oil and gas as a strategic weapon in the sense that the US can put downward pressure on energy prices through large-scale production and exports. This would greatly reduce Iran's and Russia's revenues, thereby putting these two countries in a weaker negotiating position.

## Safe havens

Gold and safe-haven currencies such as the yen and the Swiss franc can benefit from geopolitical uncertainty and increasing volatility in financial markets. If fiscal easing and infrastructure projects drive inflation higher, gold will remain appealing as a hedge. See also our gold report.

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