

US Elections, From The Outside Looking In

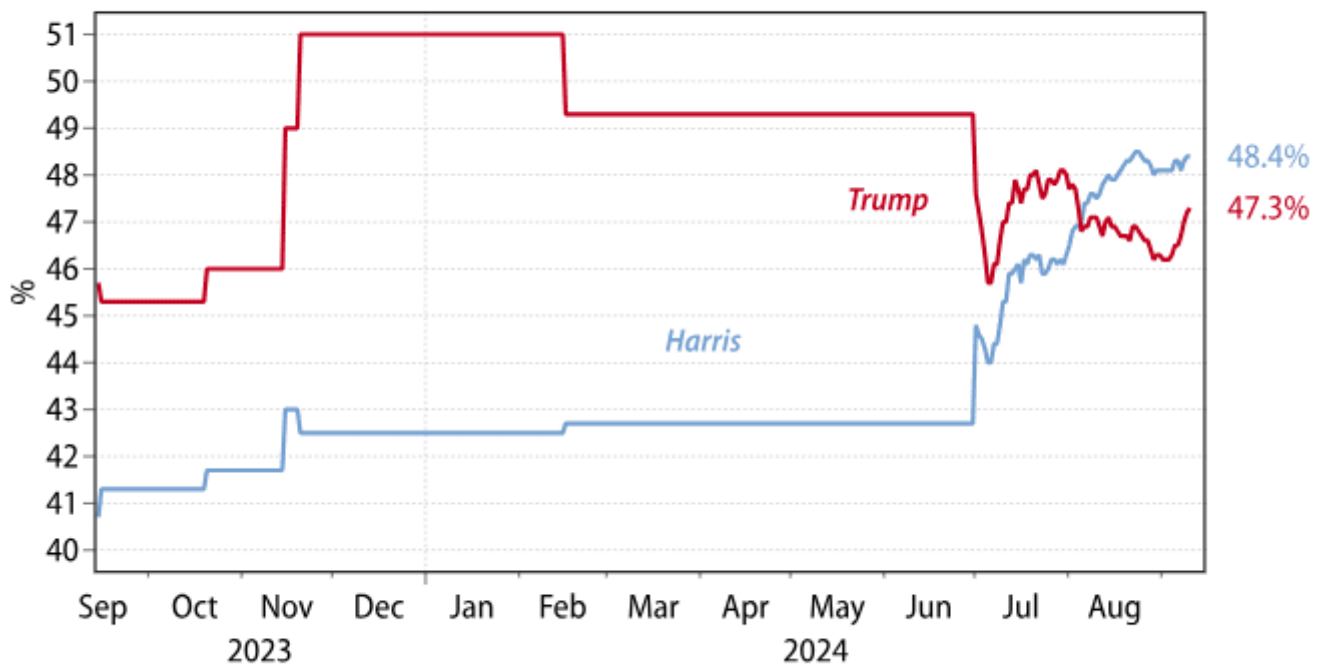
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US presidential elections are terrific entertainment. Given their cost (a couple of billion US dollars for either side), this is just as well. This uniquely elevated price point might help to explain why every election is “the most important in our lifetime” and a “genuine toss-up” between the two main candidates. If a candidate were thought to have the election sewn up months in advance, there would be nothing to keep the viewers glued to their screens and the advertising dollars rolling in.

Electoral drama is a big component of the US media business model. I was too young to remember the 1984 presidential election, but I would not be surprised if in the weeks before Ronald Reagan’s near-total wipe-out of Walter Mondale, the vote was described as “too close to call” and “a genuine nail-biter” (at least ahead of Reagan’s famous debate [quip](#)).

Kamala Harris has taken the lead in national polling

RealClearPolitics poll, 2024 US presidential election



Gavekal Research/Macrobond

Of course, some candidates are more prone to drama than others. But the media conglomerates can rejoice, as the current electoral cycle has been rich in dramatic events. The lawfare against Donald Trump and Joe Biden's defenestration are both unprecedented. And then there is the blurring of party lines with former Democrats including Robert Kennedy Jr. and Tulsi Gabbard jumping ship for the Trump campaign, while the liberal-left's one-time favorite arch-villain, Dick Cheney, has publicly endorsed Kamala Harris. Yet amid all this excitement, it feels from the recent meetings I have had that investors may be overlooking one of the most important developments of the campaign so far: **the change in the people around Trump**, especially when it comes to foreign policy.

Back in 2016, Trump's foreign policy team was made up of the likes of Mike Pompeo, Nikki Haley, John Bolton, Mike Pence and Trump's son in law Jared Kushner. Most of these characters were confirmed hawks, always ready to argue for new wars, armed interventions and deployments of US military strength. When it came to China and economically and financially, the US-China relationship is the most important in the world—most of this crew were eager to confront Beijing. Between Pompeo's call for the US to recognize Taiwan as an independent state (something Taiwan is not asking for), Mike Pence's combative Hudson Institute [speech](#), and Bolton's description of China as an "existential threat" to the US, there was clearly no love lost for China among Trump's first-term circle of advisors.

Since then, **Trump's inner sanctum has been completely upended**. Today, his advisors include JD Vance (who actually served in a war, unlike Trump's earlier arm-chair warriors), Gabbard (the same), Kennedy, Donald Trump Jr, Tucker Carlson and Dana White. These individuals tend to have a less Manichaeian view of international relations, and are less keen on war as "the continuation of policy by other means," to paraphrase Carl von Clausewitz.

This matters because for now **most investors seem to assume that the foreign policy of a Trump 2.0 administration will simply be a repeat of the Trump 1.0 first go round**. Threats of tariffs, more isolationism, rattling China's cage! all these will be on the menu should Trump carry the day in November. But if Trump does win, he is highly unlikely to promote neo-conservatives to positions of power and influence this time round. At least, if he does, he will be breaking the promises he has clearly made to the likes of Kennedy and Gabbard. And an administration that is not rampant with belligerent neo-cons may be much easier for the rest of the world to engage with in genuine diplomacy.

This brings me back to the all-important US-China relationship. Here, it is possible to envisage two main scenarios.

The first scenario can be described as **"more of the same."** In this scenario, the US continues to treat China as a pariah state on the grounds it is undemocratic. Trump tries to exert economic pressure on China by increasingly closing the US market to Chinese companies with tariffs and regulations, while pressing the (mostly spineless) Europeans to do the same. The US increases its naval patrols in the South China Sea, and opens more military bases in South Korea and the Philippines.

The US also further integrates the Australian armed forces into its command structure. It bribes India into shedding its historically neutral stance. It encourages US dignitaries to visit Taiwan, and sells more higher-tech weapons to Taipei. After the first four years of Trump, and then four years of Biden, **this is essentially what the market is pricing in today**—hence all the talk

about China as uninvestible and the flight of both foreign and domestic capital (Chinese exporters are now more likely to build their next factory in Vietnam, Indonesia or Mexico than in Guangdong or Zhejiang).

However, given that the neo-cons have been shunted aside, it is possible to envisage a second scenario in which **Trump acknowledges that he only has one term to change the US economy and society**. From his speeches, it is clear that one of Trump's main aims is the reindustrialization of the US economy. This makes sense (although whether it is achievable is another matter). If nothing else, the Ukraine war has shown that deindustrializing while retaining the crown of global military hegemon is a challenging equilibrium to strike. To cut a long story short, can the US hope to maintain its global military dominance while producing just 4% of the world's steel? The Western world's struggle to keep Ukraine in the fight with new weapons would suggest the answer is "probably not."

So, assuming that Trump's priority (apart from getting elected) is to reindustrialize and that all his talk of reindustrialization is not just electoral posturing to win union votes, then as president he will face a simple choice:

- The US can try to reindustrialize on its own, and will attempt to do so following an economic clash with today's leading and highly productive industrial superpowers: China, Japan and South Korea. This path entails absolutely crushing the value of the US dollar and imposing much higher inflation on US consumers.
- The US can try and reindustrialize with China's help, by encouraging China's most productive companies to open factories across the US rust belt, South and Midwest. This will entail a very marked change of diplomatic tack from the course adopted over the past four years.

Interestingly, in several speeches over recent weeks, Trump has signaled he is very open to the second idea. This may be a direct reflection of the change in personnel around him. To the John Boltons of this world, this second course is not even worth considering; in a fight between good and evil, there can be no question of compromise. US politics, it seems, still retains its entertainment value.

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