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TRUMP ADMINISTRATION: The first 100 days

By Michael Moran **December 15, 2016**

Summary: The new US administration takes power on following the inauguration of President Donald Trump on January 20 will find itself enviably situation to press ahead with much of its political, economic and foreign policy agenda. The retention of both houses of Congress by Trump's Republican Party and the generally favorable reaction of financial markets and consumer sentiment metrics will enable a fast start on issues where promises of wholesale change were central to the president's upset victory on 8 November, 2016. While the internal dynamics of Trump's cabinet and his ability to work with a wary GOP congressional leadership will be key factors in determining how much of his agenda can be enacted, political and economic dynamics suggest his administration will be successful in changing important aspects of the US business environment early in his term in the honeymoon period generally reckoned to be 100 days in length. Writ large, this will mean serious changes that affect all sectors, some good and some bad, including:

- Legislation to lower corporate taxes as well as redraw individual rates in a way that will eliminate many deductions and require a serious reworking of some tax strategies;
- a roll back of regulation in the energy and financial services sectors and a less forceful federal role in enforcing workplace and labor market regulations;
- new restrictions on immigrants and visas particularly from MENA countries but possibly also affecting European Union states viewed as compromised by radicalized Islamic terror;
- a major increase in federal spending on infrastructure and defense, with commensurate cuts to social welfare, US foreign aid and regulatory enforcement budgets.
- a disruption of the US insurance market with the rescinding of key elements of the Affordable Health Care Act (Obamacare);
- aggressive, possibly disruptive efforts to change the terms of trade with China, Mexico and other low cost manufacturing nations.

INTRODUCTION

The long transition (73 days or just over 10 ½ weeks) between the 8 November, 2016 US election and the seating of the new president and his administration has created a cottage industry of pundits and forecasters claiming to understand what President Trump will do once in office. Trump's personal style – the use of Twitter, for instance, to comment on issues from foreign policy to factory closings – makes it difficult to say for certain exactly which campaign pronouncements will manifest as policy once his administration takes office.

The new administration's makeup, which might be characterized as a mix of experienced center-right politicians and populist mavericks, creates another forecasting challenge: Which members of his new cabinet will emerge as power brokers on the many issues facing the new administration, and how much will Trump's own penchant for 'gut' decisions overrule their views?

Finally, Trump comes to office owing very little to traditional Republican Party constituencies and openly feuded and disagreed with key party factions and leaders ever since he descended from the golden escalator at Trump Tower with his wife Melania in June 2015 to announce his candidacy. While he has mended fences with some Republican groups, most notably the Tea Party faction and the oil and gas industry, he remains at odds on many issues of basic ideology and policy with figures like (foreign policy hawks) Sens. John McCain and Lyndsay Graham, with (free traders) like House Speaker Paul Ryan and the US Chamber of Commerce, and (deficit hawks) like Sens. Rand Paul and Ted Cruz. His success or failure in keeping these dissident voices from opposing him publicly will have a great effect on Trump's legislative agenda.

100 Days? What's the significance?

The frequent references to a president's first 100 days has no constitutional or legal meaning. Loosely applied to the so-called 'honeymoon period' that presidents hope they will carry into office after electoral victory, the reference has two distant but interesting antecedents.

In an American context, Franklin D. Roosevelt embedded the concept of the First 100 Days in the US consciousness by vowing to push through 15 major pieces of legislation – what would become known to history as the New Deal – in his first hundred days in office. Presidents since have measured their effectiveness, usually to their chagrin, against FDR's.

The deeper reference involves Napoleon Bonaparte. Following his defeat in 1814 after a disastrous invasion of Russia, the French emperor was exiled to the Mediterranean island of Elba. He spend 100 Days there plotting his return and secretly raising a new army. He was confronted and defeated again, this time at the infamous Battle of Waterloo. His second exile, to remote St. Helena in the South Atlantic, proved permanent.

But Trump holds a strong hand nonetheless. His first advantage is the US economy and the positive reaction (so far) that financial markets have delivered following his election in spite of concerns about fiscal policy and, potentially, a trade war. Unlike Obama in 2008, who also came to office with both houses of Congress led by his party, Trump faces no economic catastrophe nor is the US actively engaged in two major wars. US growth appears solid, with our macroeconomic partners Oxford Economics forecasting 2.3% GDP growth in 2017 followed by 2.5% in 2018. Obama, of course, faced the worst recession since the Great Depression, and while he did not manage to wind down the Iraq and Afghan wars, the intensity and fiscal burden of ongoing combat in both places is exponentially less.

Another advantage Trump wields going into his first 100 days is the power of the modern presidency. The scope of domestic US executive power expanded dramatically under Franklin Roosevelt (1933-1944) and then continued to grow in the realm of foreign policy and national security during the Cold War. The attacks of 9/11 further empowered the executive.

Many of the pledges Trump made during the US political campaign will require the help of Congress to enact, including reforms of the US tax code, increased stimulus spending on infrastructure and defense, and creation of a border wall along the southern frontier with Mexico. But in the realms of foreign affairs, trade, immigration, and a wide range of regulatory enforcement issues, the president's ability to make things happen unilaterally ensures that some of what candidate Trump campaigned on will quickly become US government policy.

The following forecast assesses what Control Risks believes to be the most likely issues Trump's administration will tackle quickly. These are arrayed by sector. This is followed by a notional timeline of events during the 1000-day period.

TRADE POLICY

While some expected a reversal of harsh campaign rhetoric on China, Mexico and offshoring of US jobs generally, if anything Trump has maintained his course during the transition period, specifically strong-arming Ford, General Motors and the air conditioner manufacturer Carrier not to move jobs overseas.

- **TPP, NAFTA moves**: Expect the president to make official Washington's break with the Trans Pacific Partnership (TPP) ratification process, and to move quickly to put on notice Canada and Mexico of his administration's intention to pull out of the North American Free Trade Accord (NAFTA) unless significant changes are accepted by all parties.
- **Tariffs on Chinese steel, aluminum and some auto parts**: The president will use his

executive power to raise tariffs on selected Chinese goods the US has long accused Beijing of subsidizing in violation of World Trade Organization (WTO) rules. This will be the first of many clashes between the two nations at the WTO.

- **New penalties for offshoring**: His first 100 days will also see new legislation enacted creating harsh new tax penalties for US businesses that engage in offshoring of jobs or tax inversions that re-domicile US firms to jurisdictions with less onerous tax burdens.
- **Border adjustment tax on Mexico**: Congressional Republicans will concurrently move to impose a border adjustment tax of 35% on any goods manufactured by US firms in Mexico, and they will also reduce tax benefits for importers. This will result in higher costs for those with global supply chains selling into the US market.
- **Tariffs and other actions against China**: Following a formal ultimatum demanding reforms at the WTO, Congress enacts a currency exchange rate oversight act that provides the president with the power to enact immediate tariff adjustments should any country be deemed a currency manipulator. Congress brands China a currency manipulator and a 45% tariff is placed on incoming Chinese goods. This results in a spike in retail inflation and counter-claims by China at the WTO, including Chinese tariffs on US agricultural and electronics goods.

FINANCIAL SERVICES

The new president and his nominee as Treasury Secretary, Steven Mnuchkin, have repeatedly stressed the need “get banks lending again.” This suggests that reforms aimed at lowering the compliance burden and capital requirements for small and regional banks, insurance companies and the shadow banking sector, will be an early focus. Other developments include:

- High capital requirements and regulation of larger banks are likely to remain in place;
- the private equity/hedge fund industry will see carried interest and the tax deductibility of interest payments cut back.
- Republicans in Congress will eliminate the Financial Stability Oversight Council, created by the Dodd-Frank reforms of 2010 to supervise stress tests and determine which institutions are ‘systemically significant’ and thus subject to high capital requirements.
- An effort to eliminate the Volcker Rule, a regulation prohibiting banks from playing the market with money meant to bolster liquidity during a crisis, will fail to pass the Senate. Named for former Federal Reserve Chairman Paul Volcker, it has led to a fall in bond trading at major banks and a shift of much of this activity toward the shadow banking industry. Democrat retain enough support for the rule and enough votes in the Senate to prevent a rescission from reaching the required 60 vote threshold that would avoid a filibuster.

HEALTH CARE AND INSURANCE SECTOR

The Congress began the process of dismantling the Affordable Care Act even before Trump's inauguration and looks likely to adopt his timeline of replacing the law within six months. However, during the first 100 days the focus will be on winning of Rep. Tom Price, his nominee for secretary of the Health and Human Services Department and the mean expected to lead the effort to reconcile a half dozen GOP health care alternative plans being supported by various factions. Many Republicans in Congress would prefer to simply repeal Obamacare and let those who lose coverage fend for themselves, a reversion to the traditional GOP preference to focus on cost and choice rather than the number of uninsured extended coverage. Price and Trump, however, appear to take seriously pledges to expand the availability of coverage. This has important implications for the insurance sector as it will incentivize an expansion in the growth of Medicaid, one of the decades-old pillars of Obamacare, and possibly open new markets at the very lowest end of the market as Obamacare's exchanges are phased out. The effect on profitability for health care providers hinges largely on whether any new legislation provides tax incentives and/or subsidies to ensure a minimal disruption of those covered by Obamacare.

PHARMACEUTICALS

Many in the pharmaceutical sector quietly cheered the demise of TPP, a sweeping free trade accord that would have cut their exclusive intellectual property/patent rights on new drugs to eight from 12 years. While other provisions benefit all exporters generally, that would have been a particularly bitter pill for pharma to swallow. The new administration will also bring with it a deregulatory philosophy that should benefit drug companies, though candidate Trump has spoken of price controls on some drugs, leaving much uncertainty. Should a particular drug catch the new president's eye, a Twitter blast could severely impact share price and possibly brand reputation.

ENERGY SECTOR

A burst of executive actions in the first weeks of Trump's presidency will reverse many of the constraints imposed by his processor on drilling, exploration, leasing and licensing on US federal lands as well as the waters off Alaska's North Slope and the US Southeastern seaboard. Other actions will include:

- rescinding rules that penalize methane and other greenhouse emissions will benefit coal producers and rig operators.
- The Clean Power Plan (CPP), a detailed requirement enacted in 2015 that would require states to curtail carbon gas emissions or pay heavy fines by the early 2020s, is likely to be rescinded entirely, eliminating a significant compliance burden not only for energy companies but state regulatory agencies as well.
- Ending federal efforts to extend the Environmental Protection Agency's (EPA) jurisdiction over hydraulic fracturing and other new energy technologies through liberal interpretations of the Clean Water Act and Clean Air Act.

Paris Climate Treaty: A larger question hovers over the Paris Climate Accord, signed in 2015 by the Obama administration. The Trump team has given mixed statements on whether the US would pull out of the accord – something that would trigger anger in Europe, China and around the world – or whether it will simply regard it as an advisory document and choose not to enforce its provisions. The rescinding of CPP, however, already will raise serious doubts about the US pledge under the Paris accord to 26–28 percent of 2005 levels by 2025. That had already looked difficult and if the administration scraps CPP and other greenhouse gas regulations the Paris goal is out of reach.

Tax incentives and subsidies: The new administration and Congress will take longer to revisit the current apportionment of tax subsidies to the energy sector. With major reforms to the US corporate and individual tax code a medium-term priority of the administration, it could be said that all current subsidies are at risk. What seems certain is that the current mix will change. Currently renewables rely on $7.3 billion in federal subsidies annually annually, or 45% of all current such US subsidies. Fossil fuels currently receive $3.2 billion or 20%, energy efficiency measures $4.8 billion or 29 percent, and the nuclear industry $1.1 billion (7 percent). If the entire subsidy program is not sacrificed in the larger debate over keeping tax reform 'fiscally neutral,' a fair assumption would be that efficiency and renewable subsidies will be at risk.

INFRASTRUCTURE AND TRANSPORTATION

Market and sectoral expectations of a 'trillion dollar stimulus package' for US infrastructure will be disappointed. Those campaign promises discounted the extent to which the GOP Congress – the vital player in any endeavor requiring appropriations – remains heavily focused on the US deficit and national debt. A stimulus would require revenues via taxes as well as federal borrowing. Early signals from Republican House Speaker Paul Ryan and his counterpart in the Senate, Majority Leader Mitch McConnell, are starkly negative on both counts. What is likely to happen will take the form of a lighter regulatory load for infrastructure firms. Trump's nominee for the Transportation Secretary post, Elaine Chao, answering a Senate committee pre-confirmation questionnaire, said: “It is important to find ways to expedite making repairs and building new constructions and decreasing the regulatory burdens when appropriate… With or without a new infusion of funds, it is necessary to look at the existing processes for infrastructure development and find more efficient ways to address bottlenecks in planning and permitting.” Not exactly a trillion-dollar comment. A better estimate of new funds to be made available might be $200 billion.

But deregulation has the potential to provide a significant boost to some sub-sectors, particularly in the pipeline construction and power engineering industries. The new administration supports major pipeline and other energy infrastructure plans, including more export terminals for US oil and coal, as well as the controversial Keystone XL and Dakota Access pipelines. While completion of these projects could put a crimp in the profits of railroads who now ship the bulk of US tight oil and Canada’s shale oil to refineries on the Gulf Coast, in the short term push to phase out older oil tankers due to safety concerns is likely to be less aggressively pursued by a Trump administration.

A final note: Mass transit will offer a fat target to an administration trying to find deep cuts in US federal spending to offset the lower corporate and individual tax rates proposed in the administrations tax reform plan. As with most projects that benefit mostly urban areas, mass transit tends to rely on Democratic support and will not be a priority in a Trump administration.

FOREIGN POLICY

While it is difficult to separate US policy toward China and Mexico from the administration’s aggressive efforts to alter the terms of trade with those two nations, Trump and his key cabinet members appear intent on altering course on several foreign policy fronts. What is viewed as an upswell in protectionist sentiment in both political parties domestically is mirrored by a similar swelling of neo-isolationist sentiment abroad.

Russia: Nowhere is US foreign policy facing as uncertain a future as with Washington’s relations with Russia. A long and oft-repeated intention of the new president is to explore ways to work with Russia to contain radical Islamic terrorism, particularly the IS. The outgoing administration’s insistence on Syrian President Bashar Assad’s replacement does not appear to be shared by the Trump team. However, mounting evidence and political pressure in the US regarding Russia’s cyber activities during the US election, and some starkly different views held by many of Trump’s most senior foreign policy and national security cabinet nominees, suggest the White House thirst for a ‘reset’ may not last long. While nothing approaching ‘warmth’ may emerge, there is a significant chance that sanctions placed on Russia because of its covert invasion of Ukraine in 2015 and annexation of Crimea might be revisited as part of a broader negotiation about the outcome of Syria’s civil war and IS.

Mexico and Latin America: Mexico will be under intense pressure to accept a renegotiation of NAFTA as well as to participate financially in building a border barrier, ties will deteriorate significantly over a third issue: treatment of undocumented Mexicans living in the US. Plans for a sweep of immigration neighborhoods by a new ‘deportation corps’ may yet prove to be campaign rhetoric, but the Obama administration’s tolerance for a blackmarket

workforce will end and deportations, as well as new measures aimed at denying social benefits to undocumented migrants, will ensue. Combined with the border adjustment tax and any retaliatory action by Mexico, this risks a return to a bygone era when the two viewed each other virtually as enemies.
The clampdown on immigration will impact Central American nations, too, as the Mexican conduit through which many have entered the US in recent year becomes more difficult to navigate.
The opening to Cuba launched by Obama executive orders is curbed though some commercial ties related to travel and food exports are retained.
In the wider region, countries enjoying growing exports to the US market will be at risk of tariffs or slowed investment from US firms as offshoring grows politically and economically difficult. Textiles, agricultural and seafood products, and some manufactured goods from Brazil, Peru, Argentina, and Colombia could be effected. While it's not likely to happen in the first 100 days of Trump's administration, bilateral free trade accords with Panama and Colombia are likely to be subject to eventual demands for renegotiation.

China, India and East Asia: Friction over trade with China is just as acute, and it risks halting cooperation on a host of issues from a Bilateral Investment Treaty (BIT) to climate change to North Korea's nuclear arsenal. An additional wild card was raised by Trump early in his transition when he broke with precedent and had a long phone call with the Taiwanese president, infuriating Beijing. For the first time in decades, Taiwan's status has emerged as another point of friction. Already, this has led China to take steps aimed at overtly countering US power in the Pacific by upgrading military ties with various nations including the Russia, Philippines, Myanmar, Pakistan and Cambodia and adopting a more aggressive posture visa v the US Seventh Fleet. The risk of accidental miscalculation is rising.

The Trump administration will seek concessions, too, on its security arrangements with Japan and South Korea, each of which already pay an annual stipend to support the presence of US troops on their territories. A sore point at times during the campaign, these issues are likely to be resolved with little substantive change, in effect, allowing Trump to tick them off as 'successes' without risk of damaging the deeper defense relationships.

The same cannot be said for The Philippines. Early in the Trump presidency, the lucrative back office offshoring industry which has enjoyed a boom in the past decade in The Philippines could be at risk. While not as easy to track or tax as offshored manufacturing facilities, the administration's new chief trade negotiator, Robert Lighthizer, has voiced concern about job losses stemming from such practices not only in The Philippines but also in India.

But while India, too, may face tougher trade scrutiny, it is likely to benefit from the administration's transactional approach to everything from energy markets to arms deals. India was approved in the outgoing days of the Obama administration as a 'major defense partner,' a status that affords it greater access to US technology and intelligence. Gen. James Mattis, the retired Marine nominated as Trump's defense secretary, has praised that decision and called India a "strategic partner."

The Middle East: Trump's administration will tilt toward a strongly pro-Israeli view of the region, including a focus on counterterrorism and non-proliferation a desire to see a conservative military-dominated Egypt return to its place as a power broker, a renewed push to contain and even confront Iran, a comfortable and transactional relationship with Saudi Arabia and the GCC based largely on arms sales and energy politics.

- **IS, Iraq and Syria**: Trump shows no desire to prolong the fighting in western Iraq or Syria, but also takes no position on Assad's survival in Damascus. This suggests he will step up US airstrikes, special forces activity and encourage and goad allies to do the same. With IS already on the ropes, Trump may luck out in his first 100 days and be able to preside over a kind of joint declaration of victory with Russia, Turkey and other erstwhile allies over the jihadist terrorists.

This would be illusory as their threat simply mutates into a stateless asymmetric one with an established track record of radicalizing native born US citizens. Trump's administration is also unlikely to secure any kind of grand bargain with Russia that ends fighting in Syria and Iraq, but in practice Russian support for the Assad regime's military and US-led airstrikes are combining to denude IS of its territorial base. The US may simply wash its hands of Syria once it feels the threat to Iraq is contained.

- **Iran:** While much attention will be focused on Syria, the return to pre-Obama pro-Israel posture in the Middle East will have its earliest manifestation in relations with Iran, where the Iran-nuclear accord remains a divisive issue within Trump's cabinet and in Congress. Expect Trump and Congress to apply new sanctions on Tehran citing ballistic missile development, human rights issues, and the support Iran has provided for groups like Hezbollah and Hamas. The strategy of trying to goad Iran into withdrawing from the accord will fail, and EU and other allies will also oppose any deterioration of the joint protocol. But the effort will be timed to create problems for Iran during its presidential elections (in March) and could eventually lead Trump to simply drop out of the accord unilaterally. That is unlikely to happen immediately, however, and Israel's ambiguous view of the accord will be more influential than ever.

DOMESTIC ISSUES

Crime and Social Unrest

Periodic outbreaks of social unrest persist in urban areas. During the campaign Trump vowed to seek a return to 1980s sentencing guidelines that had much to do with the explosion of the US prison population in the 80s and 90s, as well as the angry sense in minority communities that mostly white law enforcement agencies were putting mostly them in jail. This will exacerbate movements like "Black Lives Matter" and possibly incite further 'ambush' killings of police officers by angry African-American and other minority radicals like the shooting murders of officers in the summer of 2016 in Dallas, Baton Rouge and a handful of other cities.

In spite of these and other high-profile shooting sprees, including one during the transition that took multiple lives in Ft. Lauderdale, Florida, Crime rates continue the trend of decline witnessed since the early 1990s, though with significant regional disparities. Rates of homicide and violent crime remain very high in some urban areas, while general crime rates continue to be significantly higher (around 50%) in south-eastern areas than elsewhere in the country. Outliers – those cities where rates have fallen but remain high compared with other US metropolitan areas – include Detroit (Michigan), Newark, (New Jersey), St. Louis (Missouri), Memphis (Tennessee), New Orleans (Louisiana), Oakland (California), and Birmingham (Alabama).

A smaller risk exists of a coalescing of anti-Trump movements into something larger and more disruptive given the divisiveness of the 2016 election. Much will depend on the issues that administration associates itself with on the social agenda. The administration's plans to restrict Muslim immigration, to renegotiate or even abrogate free trade accords and to reform the US tax code will not provoke mainstream groups. However, Trump's opportunity to fill the vacant seat on the US Supreme Court co uld lead to the kind of decision that would infuriate large parts of the population. Any deterioration of the right of a woman to seek abortions, for instance, could lead to nationwide protests led by women's groups. Similarly, any effort to legally legitimize torture, repeal the Dodd-Frank financial reforms wholesale, or further undermine the voting rights act, will tend to swell the ranks of protesters with progressive followers of Sen. Bernie Sanders and rank-and-file Democrats. Together with minority groups this could form a serious challenge during Trump's first term.

DOMESTIC TERRORISM AND VISA POLICIES

Although the US remains a target for transnational terrorist groups such as al-Qaida and IS, the threat of a large-scale terrorist attack remains low. Unlike Europe and Australia, the US has seen only a trickle of its citizens choose to join jihadi groups currently fighting in Syria and Iraq, though a small but significant concentration of ethnic Somali jihadis, mostly from the upper Midwest states of Wisconsin and Minnesota, have travelled to their homeland.

Despite the small numbers of such returning fighters and the highly effective counter-terrorism capabilities of US law enforcement, the Trump administration plans to impose more rigorous tests on visitors and potential immigrants from certain Muslim countries it determines to pose an infiltration threat. This will do nothing to address the main threat: small-scale terrorist acts mostly perpetrated by small domestic cells or 'lone wolf' actors inspired by groups such as IS, and such attacks will occur periodically.

LIKELY TIMELINE OF TRUMP'S FIRST 100 DAYS

LATE JANUARY

- An official statement withdrawing the United States from the Trans-Pacific Partnership
- Executive order reversing Obama-era fees and regulations on methane and other greenhouse gas emissions at power plants, refineries, well-heads and mines
- Executive order reversing Obama-era ban on offshore energy exploration and mining on US federal lands
- Executive order reversing the Clean Power Plan (CPP)
- Congressional action repealing key elements of the Affordable Care Act

FEBRUARY

- New executive branch sanctions against Iran citing its continued pursuit of ballistic missile technology and aid for terrorism in the Gulf region
- Congressional action scrapping the US inheritance tax
- Executive order sanctioning Iran for allegedly supporting terrorism and pursuing ballistic missile technology for use with nuclear warheads.
- Appointment of a new associate justice for the US Supreme Court opening
- Notice to Mexico and Canada of pending withdrawal from NAFTA and imposition of a border assessment tax on cars, appliances and other goods manufactured by US subsidiaries there
- Enactment of executive branch tariffs on Chinese steel, aluminum and auto parts.

MARCH

- An ultimatum from the White House to the World Trade Organization (WTO) demanding reforms of its conflict resolution and enforcement provisions.
- Debate begins in Congress on an infrastructure stimulus bill with GOP leaders against new borrowing or federal outlays
- Approval of emergency funding to bolster US combat activities against the Islamic State (IS) including new border security and visa provisions against selected Muslim nations.
- Congressional action explicitly amending the Clean Air Act and Clean Water Act to exempt fracking operations from federal EPA regulatory jurisdiction.
- Congress enacts a currency exchange rate oversight act that provides for immediate tariff adjustments should any country be deemed a currency manipulator.
- Congress brands China a currency manipulator.
- Introduction of legislation in both houses to revise the US corporate and individual tax code. Debates will delay passage beyond the 100 days.

- Congress and White House begin work on federal budget for fiscal 2018. Debates will delay passage beyond the first 100 days.