

Facing up to the Disruption of Trump

Mike Coates

The election of Donald Trump as president of the United States has Canadian officials and diplomats scrambling for a new bilateral roadmap. But, as Hill + Knowlton Global Vice Chair Michael Coates writes, “In his book The Art of the Deal Trump talks about using diversions as a negotiating tactic, where initial offers are not final but rather starting points to signal a serious intent to make a deal. Many analysts are now speculating that Trump’s bark may be worse than his bite.”

The most successful leaders in today’s business world are often the most disruptive. Now, after shock results in Britain’s Brexit referendum and the U.S. presidential election, it looks like the same trend holds for politicians, too.

The biggest shock with the largest global impact—in particular on Canada—was caused by Donald Trump, the epitome of disruption, who broke every political convention in the book to win the presidency in convincing fashion, while the Republicans won both houses of Congress. This outsider to politics will now be able to try to implement his declared, disruptive political agenda—and in the process throw a serious curveball at Justin Trudeau’s own political agenda.

First, Canadian foreign policy assumptions around multilateralism will be challenged. Trudeau’s foreign policy is rooted in many of the same tenets as his father’s was: Canada’s interests are enhanced through multilateral agreements; the United Nations is the only legitimate sanction for use of force; Canadian trade must diversify beyond America; relations with communist countries like China and Cuba must be improved regardless of concerns

about serious human rights issues.

Trump implicitly and explicitly challenges these assumptions. He had already signaled his suspicion of multilateral trade agreements by promising to tear up the Trans Pacific Partnership deal among 12 Pacific nations, including Canada, and to renegotiate the North American Free Trade Agreement. The Republican Party has increasingly marginalized the UN as a serious part of the U.S. foreign policy agenda, something Trump is unlikely to challenge.

Second, Canada will lose its corporate tax advantage over the United States. Congress has already signaled its willingness to legislate major corporate tax reductions in the range of 15-20 per cent, as well a one-time 10-per cent corporate tax on profits repatriated to the U.S. from other markets. These policies not only will keep business in America but will attract foreign investment that might otherwise have been bound for Canada.

Third, Canadian energy and environmental policies are now misaligned with those of the U.S. There will be no more talk of a North American Clean Air Act. Trump is determined

to achieve energy self-security and has promised to lift burdensome regulations that restrict oil and gas drilling and the production of electricity by burning coal. Meanwhile, Trudeau is close to reaching an agreement with the provinces on a green tax that will now make Canadian energy costs uncompetitive with those in the U.S.

Fourth, while both leaders see infrastructure as the key to growth, Trump’s spending plan could crowd out investor interest in Canadian projects. Furthermore, the initial reaction to Canada’s proposed infrastructure bank suggests Trudeau will have a big job on his hands to educate Canadians on the value of public-private partnerships. Public acceptance of public-private partnerships is an important hurdle investors in U.S. projects won’t have to deal with, as Americans are already accustomed to paying road tolls, operating private airports and generally sharing risks with the private sector.

Fifth, Trudeau and Trump are in two different worlds on immigration. While Trump wants to secure borders and eject illegal immigrants, Trudeau wants to expand Canada’s immigrant and refugee program, already much larger than the U.S. one on a per-capita basis. Canada stands to benefit internationally by being seen abroad as a welcoming and attractive place for immigrants, but this runs directly into conflict with Trump’s views on immigration, especially in light of U.S. security concerns about more than 30,000 Syrian refugees brought into Canada in the last year. It doesn’t take much imagination to envisage an impetuous reaction from President Trump if any refugee admitted to Canada turns out to be a terrorist.

Sixth, Canada meets the definition of the defence freeloader. The NATO

standard for defence spending is two per cent of a country's GDP; Canada's spending is less than one per cent. So far, Trump hasn't singled out Canada (unlike some European countries, South Korea and Japan), but President Obama did gently raise this in June during his visit to Ottawa. The issue is bound to come up.

Are we overreacting to Trump? In his book *The Art of the Deal* Trump talks about using diversions as a negotiating tactic, where initial offers are not final but rather starting points to signal a serious intent to make a deal. Many analysts are now speculating that Trump's bark may be worse than his bite. Moreover, many point out that the checks and balances built into the U.S. constitution will serve to mitigate the most aggressive of Trump's policies. But against this conventional wisdom are three important factors that may make Trump more effective in implementing his ideas.

First of all, Trump is not beholden to anyone financially for his victory. He self-financed most of his primary campaign and relied heavily on average Americans to fund his presidential race. This no-strings-attached presidency gives him remarkable flexibility, as evidenced by his willingness to take on traditional political donors such as Boeing, Ford and United Technologies.

Secondly, Trump's electoral success had more to do with Trump than with the Republican Party. He won in traditional Republican states and broke through in traditional Democratic states in the Rust Belt, fighting the Republican establishment every step of the way. Trump's supporters represent a movement loyal to him, not the party, which gives him powerful leverage over his own caucus when they don't play along with his agenda.

And thirdly, it is instructive to note that selected cabinet members seem to conform to his command-and-control view of the world, with at least three military men in his cabinet plus General Michael Flynn as National Security Adviser. Other secretaries who were committed to the policies in Trump's

campaign platform—including Tom Price in Health, Wilber Ross in Commerce and Scott Pruitt to head up the Environmental Protection Agency—will shake up their departments with agendas such as ending Obamacare, reopening NAFTA and rolling back EPA regulations.

Clearly, while there are still those who don't take Trump seriously, the evidence is mounting that he is hell-bent on executing his platform and may have greater flexibility to do that than previous administrations have had.

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So how should Canada respond?

From a policy perspective, this might suggest that Canada address some of the Trump curve balls in the following fashion:

1. Focus our trade negotiators on a new NAFTA arrangement and put everything else on the back burner until we have prepared for the engagement that is about to come.
2. While the Canadian government's recent clean air policy contemplates green taxes by 2018, we'll be

doing that at about the same time Trump's corporate tax changes will be coming into effect. Canada could consider reducing its corporate tax further to keep the carbon price tax-neutral.

3. We should immediately identify infrastructure projects along Canada's borders—such as pipelines, ports, the Seaway—where the mutual interests of Canada and the United States are aligned so we can table these during the first meeting we have with Trump.
4. We must reconsider our military priorities. We need to be prepared to help the United States in regions of the world where it needs the help the most. While Iraq is out of the question, Syria is not. We are there now and should consider whether to beef up this contribution and take our fight to ISIS.

The tendency for Canadian officials will be to urge caution and wait for the US to act before initiating engagement. Their standard operating position will be to plan, create options and prepare. After all, the United States has many things on its plate and it could be months or even years before any Canadian government needs to commit to policy actions in response to the Trump administration.

Anyone watching events unfold in business these days, particularly those of us in the communications industry, will know that this standard operating position is exactly what disruptors thrive on and that competition that relies on the status quo almost always slips behind. The Trump phenomenon is part of a worldwide trend to take back authority at the local and nation-state level and to try to manage the tectonic changes in our society without leaving it to multilateral institutions and treaties.

Justin Trudeau and his “sunny ways” government will have to adjust to this trend if they hope to mitigate the Trump effect. **P**

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