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# *THE BURGHERS BY THE SEA*

**US-China Trade: Competition or Collaboration?**

New York Energy Forum - 14 March 2019

Renè Javier Aninao



# RODIN + FRIEDRICH.

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“The spirit is willing—but the flesh is weak.” -Matthew 26:40



# RODIN + FRIEDRICH.

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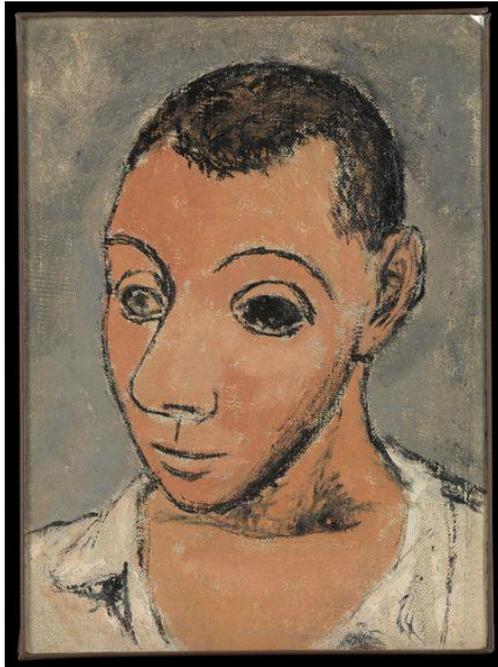
Trump administration spirit towards global trade



# DISCLAIMERS.

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- **Remarks are my own**—NOT the product of EvercoreISI Research + do not necessarily reflect the views of Evercore
- Always **defer to Amy Jaffe**—don't tempt the goddesses



# PAST. FUTURE. PRESENT.

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- Understand the *origins of trade*
- Remember United States' historical relationship to it
- Appreciate gravity of what's at stake in present + future



# WALLS + TRADE.

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- The two archetypes of the Trump administration
- Evoke most forceful emotions—why?
- Emerge out of “**The Two Violences**”—*fundamentally* human



# VIOLENCE #1: ARCHITECTURE.

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- To build shelter + structure—ie, a **Wall**
- To “wrest place from space”—create a **real Place**
- “...to reduce the intensity of nature.” —Jeff Koons



# VIOLENCE #2: FINANCE.

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- What to **Abstain** from today...
- ... in hope of having a better life tomorrow?
- Time value of money

$$PV = \frac{FV}{(1 + i)^n}$$

$$E = MC^2$$

$$\hat{H}\Psi = i\hbar\partial_t\Psi$$

$$C = SN(d_1) - N(d_2)Ke^{-it}$$

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# TRADE—VALUES OF EXCHANGE.

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- By meeting the needs of **The Other**
- Recognize common identity
- Develop our notions of shared human dignity



# TRADE = LANGUAGE.

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- Trade was the catalyst for written language
- Human consciousness developed from the oral to the written
- First balance sheet—Sumerian tablet, **3000 B.C.**

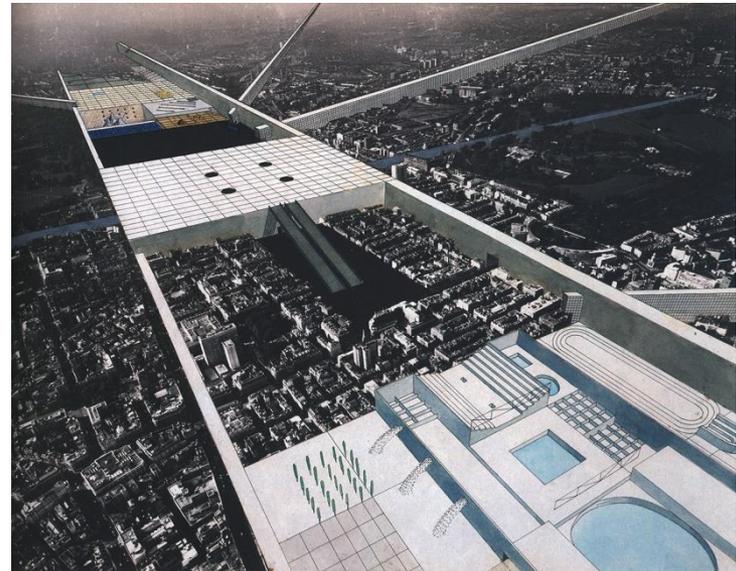


# NO TRADE WITHOUT WALLS.

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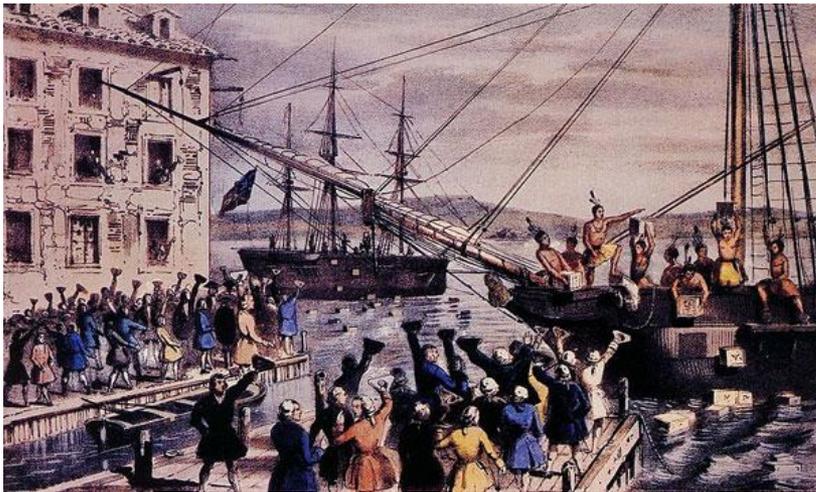
- From Great Wall of China to Wall Street to Facebook's "Wall"
- Walls exclude AND license, encircle AND liberate
- Existence of Trade **presupposes Security**



# TECH + TRADE + US CONSTITUTION.

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- **1789, Founding:** Boston Tea Party vs **mercantilist imports**
- **1865, Civil War:** vestiges of feudalism + industrial transition
- **1937, New Deal:** feudo-industrialism begat US welfare state



# 1989-2019: 30 YRS WAR vs THE WALL.

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- Feb, 1989: “Have We Reached the End of History?”
- July, 1989: Tiananmen Square Protests
- Nov, 1989: **Fall of the Berlin Wall**



# POST-WALL GRAND BARGAIN.

- Bob Rubin's off-balance sheet Marshall Plan
- "Strong USD in interest of US"—stealth EM development plan
- Bargain: US runs **deficit in goods + surplus in services**

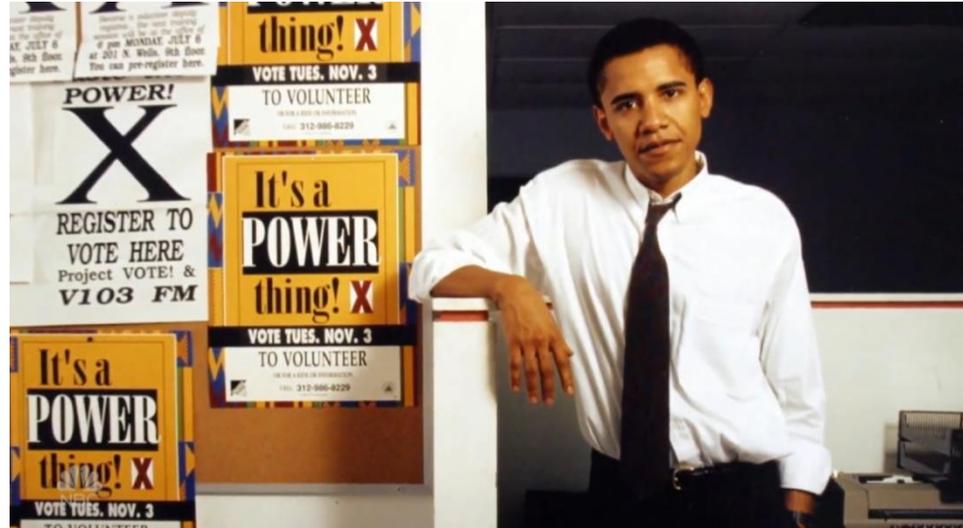


# IT FAILED—IT'S OVER.

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- 1992:



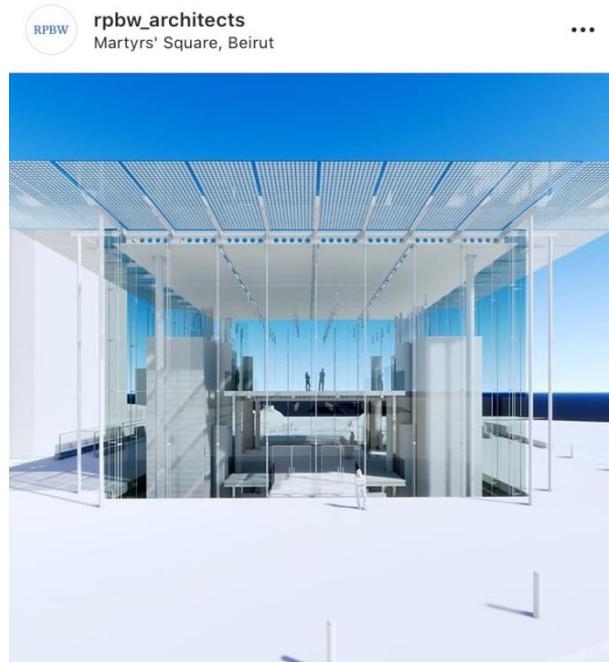
- 2017:



# 2019: THE GREAT REBALANCING.

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- Definition of **Sovereignty** vs Digital **Borderlessness**
- Demarcation of **Public** vs **Private**
- Relationship of the **Individual** vs the **State**



 rpbw\_architects  
Martyrs' Square, Beirut

...

# STRATEGIC LANDSCAPE'S CHANGED.

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- Entered an era of **Great Power** competition
- “Democracy enhancing multilateralism” disastrously failed
- Institutions incapable of dealing with mercantilist challenges



**Donald J. Trump** ✓  
@realDonaldTrump



North Korean Leader Kim Jong Un just stated that the “Nuclear Button is on his desk at all times.” Will someone from his depleted and food starved regime please inform him that I too have a Nuclear Button, but it is a much bigger & more powerful one than his, and my Button works!

12:49 AM - Jan 3, 2018

74,411 74,116 177,875





# STRATEGIC APPROACH.

- Aggressive **deterrence** + enforcement
- Creation of leverage via **bilateral** negotiations
- “**Prudent decoupling**” via whole-of-government response



ye   
@kanyewest

Follow

One of my favorite of many things about what the Trump hat represents to me is that people can't tell me what to do because I'm black

4:23 PM - 1 Jan 2019

10,430 Retweets 67,115 Likes



 6.3K  10K  67K 

# STRATEGIC SECTORS.

- **Technology + telecommunications**
- **Energy**
- **Autos + aviation**



# STRATEGIC TOOL #1: ECONOMIC.

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- Tax cuts + **supply-side** reforms + higher nominal wages
- **Interest rate** space (read: lower)
- Low **oil** + gasoline + energy prices

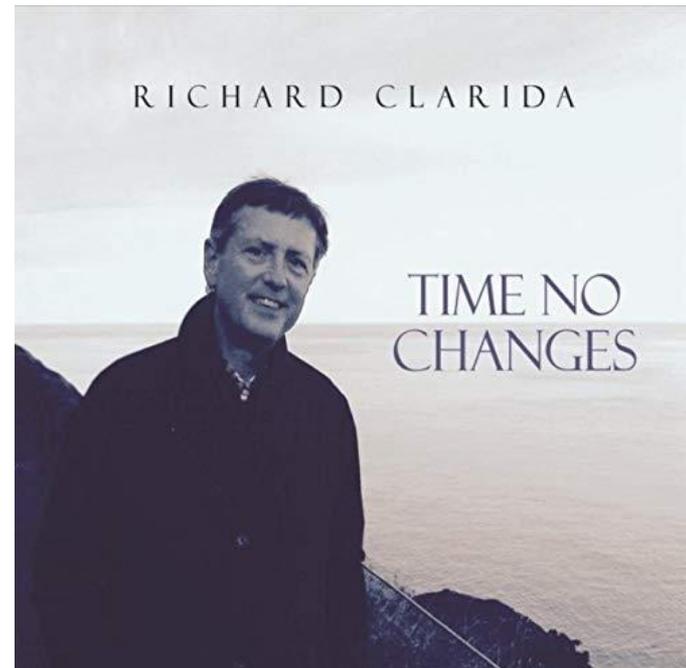


**Donald J. Trump** ✓  
@realDonaldTrump

Following

It is incredible that with a very strong dollar and virtually no inflation, the outside world blowing up around us, Paris is burning and China way down, the Fed is even considering yet another interest rate hike. Take the Victory!

8:27 AM - 17 Dec 2018



# STRATEGIC TOOL #2: LEGAL.

- FIRRMMA + enlarged **CFIUS** powers
- Export Control Regime Act **#Extraterritoriality**
- DOJ “China Initiative” (ZTE, Huawei, etc)



**Steven Mnuchin**   
@stevenmnuchin1 

Glad to see FIRRMMA signed into law today. It will strengthen CFIUS and enhance the Government’s capacity to protect critical technology while keeping the U.S. open to investment.

8:28 PM - Aug 13, 2018

76  38 people are talking about this 



 **Justice Department**   
@TheJusticeDept  

#ICYMI: Attorney General Jeff Sessions Announced a New Initiative to Combat Chinese Economic Espionage [justice.gov/opa/speech/att](https://justice.gov/opa/speech/att) ...



# STRATEGIC TOOL #3: SECURITY.

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- **Asia:** “Free and Open Indo-Pacific” (Pompeo, DC speech)
- **EU:** “Restoring the Nation-State” (Pompeo, Brussels speech)
- **Middle East:** “A Force for Good” (Pompeo, Cairo speech)
- **LatAm:** “Troika of Tyranny” (Bolton, Miami speech)
- **Africa:** “New Africa Strategy” (Bolton, speech at Heritage)



Follow

I wish Nicolas Maduro and his top advisors a long, quiet retirement, living on a nice beach somewhere far from Venezuela. They should take advantage of President Guaido's amnesty and move on. The sooner the better.

9:58 AM - 31 Jan 2019



# MONEY + PEN + SWORD → TRADE.

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- **USMCA** (“NAFTA 2.0”)
- KORUS (eg, no autos side letter creates leverage re NoKo)
- Initiated TPA processes with Japan + UK + EU
- **China** “Trade Agreement”



# USMCA ≠ TPP.

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- **Non-market economy** clause (chapter 32.10)
- **Macroeconomic committee** (chapter 33, read: FX)
- **Rules of origin** (disincentivize offshoring / China influence)
- Redefines **SOEs** (“control rights”)
- **Sunset clause**—vigilant assessment of the “vincolo esterno”



***“The Trump Playbook for Future Deals”***

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# LIGHTHIZER vs BEIJING.

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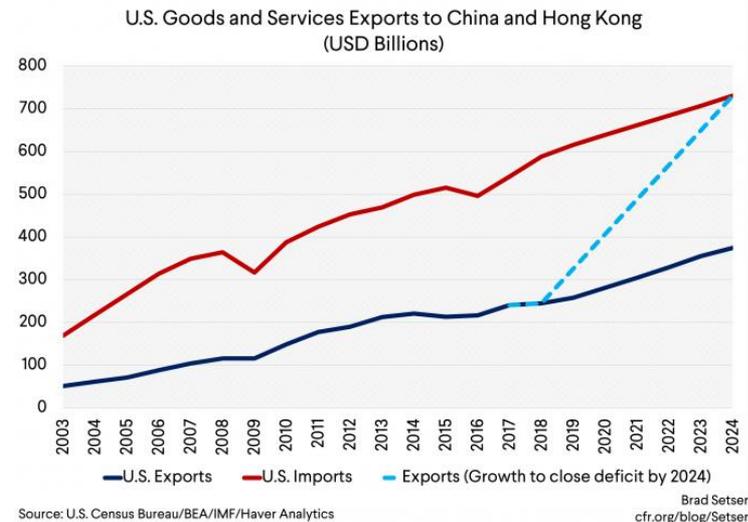
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- **“Uppercase C” Cyber + technology**
  - Market access + industrial policy
  - Compliance + verification + **enforcement**
- **End the NON-ECONOMIC TRANSFER OF TECHNOLOGY**



# MAR-A-LAGO AGREEMENT.

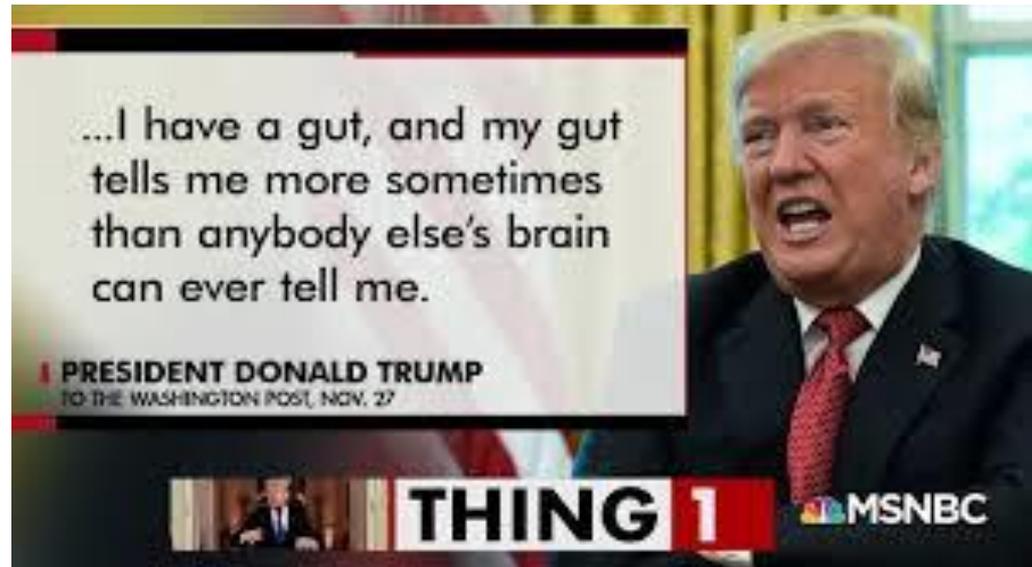
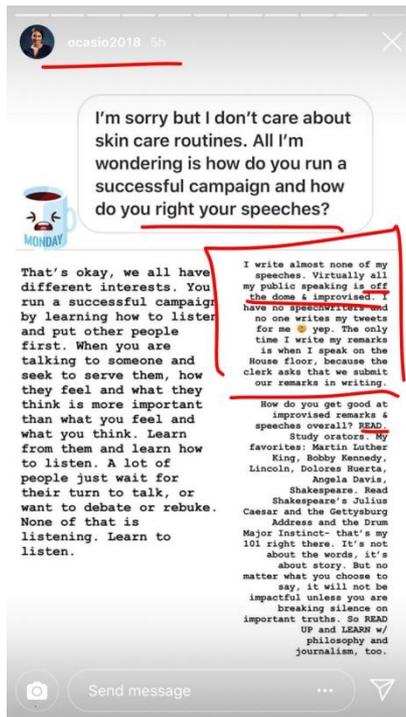
- **Purchase Commitment:** \$1T++ over 6 years, ag / energy
- **FX Agreement:** SOE / reserve accumulation transparency
- **Structural Reform Legislation:** Foreign Investment Law
- **Enforcement Mechanism:** “proportionally, but unilaterally”
- **Tariff Rollback:** bullets back in chamber—creates leverage



# QED: AGAINST “THE MASCULINE”.

- There **IS** indeed a strategy! **#TrumpTradeDoctrine**
- Throw away your DC powerpoints or Kissingerian fantasies
- **INTUITIVE**...enigmatic...autonomous... → Powerful

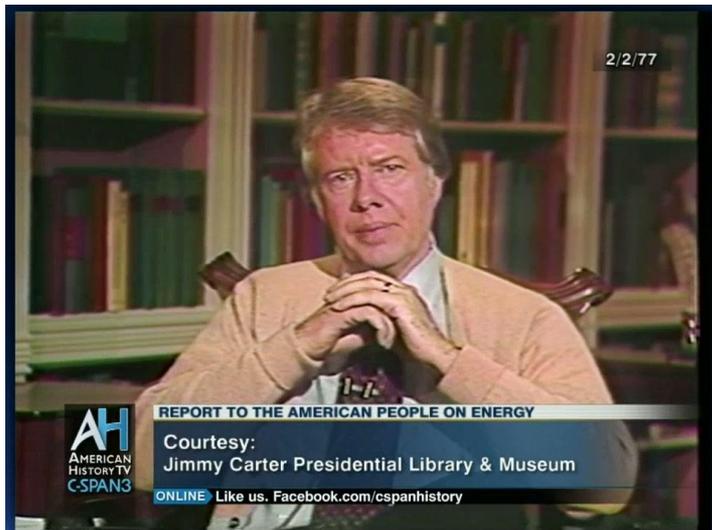
**#AOClovesPOTUS**



# NEW ERA: US-CCP RELATIONS.

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- **1949-1979:** Richard Pipes, “**geology** > meteorology”
- **1979-2019:** Carter > Kirkpatrick, “revolution ≠ idealism”
- **2019-?:** Beijing’s Afghan ’79... or Mao with post-Westphalian weapons?



# NEW ERA: US TRADE SPACE.

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- **Europe:** Sec232 autos vs ag + Brexit + fall of EPP vs fiscal?
- **ASEAN:** Vietnam / Taiwan FTA + regional reform sparks?
- **Russia... MENA:** “Kennan 2.0” lynchpin... NOPEC?



# NEW ERA: GLOBAL CAPITAL.

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- Re-Regionalization is reflationary
- End of “global supply chain arb” / unfettered flow of capital
- Winners on right side of **#AmericaFirst** policy paradigm



# NEW ERA: GLOBAL MARKETS.

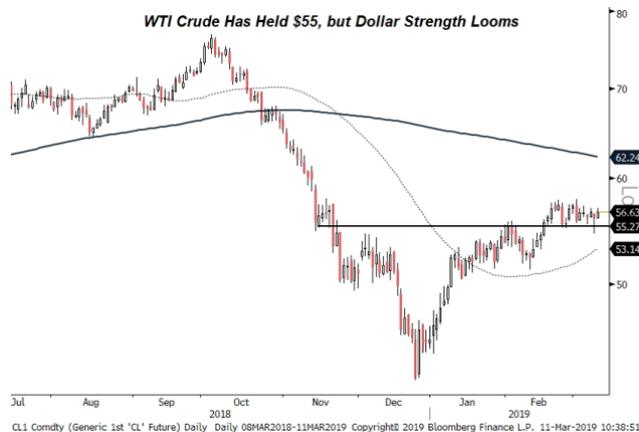
## Back to the Future: From post-Wall to post-Bretton Woods

### WINNERS

- **Curves (steeper)** / breakevens
- Real rates (lower, then higher)
- Spread product (receive)
- US Value names

### LOSERS

- **European equity**
- EM w/o US security guarantor
- Commodity complex
- SPX outright / unpaired



# NEW ERA: GLOBALIZATION.

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- **Less Jacques Delors** / supranationalism
- **More Charles de Gaulle** / intergovernmentalism
- “Restore Individual’s place within context of the collective”



# NEW ERA: INDIVIDUAL FREEDOM.

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- Zuckerbergian “build bridges not walls”—illusion of liberty
- “Can we accommodate the Specific without abandoning the project of **Wholeness**?” –Rem Koolhaas



# CONTEMPLATION > DESPAIR.

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“Because of its **monotony** and **boundlessness**, it has no other foreground than **the frame**. And when one looks at it, it is as if one’s eyelids had been cut away.”

-Heinrich von Kleist, 1810



# THANK YOU! -RJA.

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“Step outside the narrow **borders** of what men call reality and you step into chaos.”

-Ralph Ellison

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