



“The Art of the Deal” and China

As a general rule, the most successful man in life is the man who has the best information

He's bullied the media, tweeted with reckless abandon, lied, exaggerated, and fired half his staff like some real-life version of *The Apprentice*. He's also grabbed women inappropriately, had sex with porn stars then tried to cover it up with hush money, and threatened nuclear war with Kim Jong-un. But then, what did Americans expect would happen when they elected Donald Trump to the highest office in the land? As Dorothy might say, “Toto, I've a feeling we're not in Kansas anymore.”

For the past few weeks it's looked like the United States has been hurtling towards a full-blown trade war with both friend and foe, including China, former BFF Canada, its amigo Mexico, and the EU. Or are we? Our ability to read presidential messages is not the same under President Trump as under previous presidents, because Trump doesn't telegraph his tweets, which have become official White House policy. Trump even sacked his secretary of state on Twitter. It's all fire and fury, with no apparent reasoning going into what were once carefully worded presidential statements. That's Trump for you. While some call him coarse, blunt, indiscrete, even dangerous or unstable, his supporters say he's an everyman (if everyman was a playboy, real estate mogul and billionaire, a ridiculous statement), and like them, he has his faults. They'll take him over some slick Washington operator any day. Those that compare him to previous presidents though, may be forgetting that Trump is the quintessential deal-maker. His 1987 book *The Art of the Deal* explains much about his presidency, as revealed by a few choice quotes:

“I never get too attached to one deal or one approach. For starters, I keep a lot of balls in the air, because most deals fall out, no matter how promising they seem at first.”

“The final key to the way I promote is bravado. I play to people's fantasies. People may not always think big themselves, but they can still get very excited by those who do. That's why a little hyperbole never hurts. People want to believe

that something is the biggest and the greatest and the most spectacular. I call it truthful hyperbole. It's an innocent form of exaggeration, and a very effective form of promotion."

"I'm the first to admit that I am very competitive and that I'll do nearly anything within legal bounds to win. Sometimes, part of making a deal is denigrating your competition." Donald Trump, *The Art of the Deal*

As I watch the climb-down on the trade war front, with a lot of countries now exempted from steel and aluminum tariffs and even the US and China seemingly making nice, I'm left with questions: What next? How is deal-maker Trump going to handle an increasingly aggressive China, and what to make of his about-face



with Russia?

Trump and Putin were buddies during the election campaign, all smug with mutual admiration, and the thrust of Russian interference in the campaign was to elect Trump, not Clinton, but now Trump has piled on Putin by expelling 60 Russian diplomats. Has something changed in his opinion of Putin? Was it the chemical weapon attack in Salisbury? Where is he going with China? This article will try to find some answers.

What trade war?

When Trump first announced a 25% tariff on steel and 15% on aluminum, [across the board](#), his trading partners reacted with alarm, issuing statements threatening counter-measures to punish the US for daring to upset the globalist free trade world order. A week went by before NAFTA partners Canada and Mexico knew their status. How could they be lumped under "national security", the stated White House rationale for issuing the trade restrictions? Then something remarkable happened. Mexico and Canada would be exempted, at least temporarily while NAFTA talks continue. Some called the move a negotiating ploy to attract more concessions from them. That's probably true. Trump then scaled back further, exempting more nations from the tariffs. The EU, Brazil, Australia, Argentina and South Korea would now have a 5-week grace period, until May 1, before tariffs take effect. The President has these nations all scurrying to ensure that the exemptions become permanent.

The point being, Trump's negotiating strategy is the same as he might employ when selling a condominium in New York. Start the opening bid at \$1.3 million, when his real goal is to get a million, and he'll even accept \$925,000. It's the art of the deal, folks, practised and preached by the 1980s real estate mogul, The Donald.

The interesting part of the strategy is China, which many have assumed is the real target of the tariffs, even though China exports comparatively small amounts of steel to the US (about a third as much as top exporter Canada). But China has been dumping steel and aluminum into the US market for years either through subsidies or moving it through other countries, hurting the US steel industry. Targeting unfair trade practices was a key plank of Trump's election campaign – he wanted 35% tariffs on American's main trading partners - and he planned to do something about the trade deficit.

So hitting China and others with steel and aluminum tariffs shouldn't have come as a shock – other than the way in which it was done – from on high, without consultation, and out of the blue. But when it comes to US-Chinese trade relations, belligerence apparently works. China reacted to the tariffs with a paltry \$3 billion worth of their own tariffs on US products including California wines, almonds, fruits, pork, and recycled steel and aluminum pipes. Trump responded with 20 times greater force, levelling another \$60 billion in tariffs on Chinese goods entering the US. Days after, Chancellor Angela Merkel from Germany and Chinese President Xi Jinping met to discuss overcapacity in world steel markets and how to reduce steel supply. Would this meeting have taken place without Trump's shot across the bow? I don't think so.

And that's not the only set of meetings taking place. US trade representatives are [reportedly talking to Liu He, Vice Premier of China](#), its top economic official, to negotiate US access to Chinese markets, including a possible easing of tensions over intellectual property theft.

“Such a deal would include Beijing opening its markets further to U.S. exports, reducing its tariffs and stopping pressure on U.S. companies in China to transfer their technology to Chinese joint-venture partners,” US Treasury Secretary Steven Mnuchin [told Fox News](#). American companies typically have to hand over intellectual property rights as a condition of access to the Chinese market.

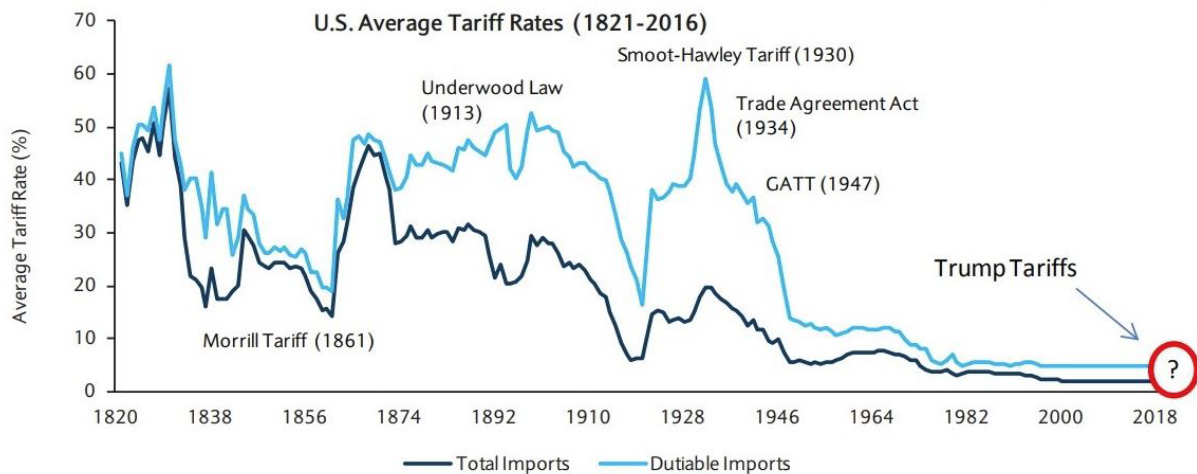
Of course the holy grail of any discussions between China and the United States, at least for the Trump Administration, is to get a result concerning the yawning trade deficit between the two countries, which reached \$375 billion last year. Trump has set a target of \$100 billion.

While Capital Economics has said that the damage to China's economy is likely to only dent its GDP by 0.1%, the other way to look at the response to Trump's steel and aluminum tariffs is that China blinked. As [The Guardian smartly observed](#), China could have hit the US a lot harder, by slapping tariffs on soybeans, sorghum and Boeing aircraft. “China is reacting mildly to a set of tariffs that have largely been rolled back for almost everyone except China,” the British newspaper quoted a chief economist with financial advisory company RSM, who downgraded the trade dispute to “a spat.”

Getting things done, Trump style

As mentioned, Trump campaigned on a promise to slap 35% tariffs on its trading partners. [Forbes notes the real goal is likely 10%](#), even though that would cause a fall in global GDP according to the Organization for Economic Development and Cooperation (OECD). Ten percent is still small by historical standards. The US applied tariffs up to 50% prior to World War II. (see graph below). In NAFTA negotiations, Trump started off demanding that cars produced in Mexico have 50% US content, but later abandoned that after realizing it was a non-starter.

US tariffs applied to up to 50% of all US imports in the pre-war period, but we think a return to that era is unlikely for now



Source: US ITC historical database, Barclays Research.

Both Forbes and CNBC observed recently that this pattern of beginning from a strong negotiating position and then gradually backing down is classic “art of the deal.”

“You start off first with something very dramatic as a starting point for negotiations, and then there's room to scale back,” [said veteran trader Art Cashin](#), who noted that Wall Street traders are getting used to it, with the market typically dipping on a Trump announcement or tweet then rebounding.

“President Trump’s pattern thus far has been to take an aggressive public position, dominate the news cycle, and then soften the language in the details of a policy once financial markets react,” agreed Tomasz Wieladek, a senior economist in London, quoted by Forbes.

Trump's aggressive deal-making style is either loathed or loved, but more Americans appear to be liking their unconventional President. This week a [new poll came out](#) showing Trump's approval rating climbed 7 points, to 42%.

Containing Putin

In a recent post we argued that Trump's trade protectionism is part of a plan, driven by nationalism/populism, to make the United States less dependent on other countries for strategic materials like steel, lithium, manganese, rare earths and oil. [Trump, in effect, is building a war machine.](#) But who is the threat? We pointed to Russia and China as the two most obvious US adversaries.

Russia has been a thorn in the side of US foreign relations since the Obama years. The two men never really got along. Since Trump was elected relations have deteriorated, what with Russia continuing to back Syrian President Assad, who is literally killing his own people and violating UN ceasefires, the Kremlin meddling in US elections, Russian aggression in the Ukraine and now, an alleged nerve agent attack on a former Russian spy and his daughter in Britain.

But if Trump is afraid of Putin, he's not showing it. Trump has joined his allies in condemning Russia for the Salisbury attack despite Russian denials, and on Monday ordered the expulsion of 60 Russian diplomats. The Putin pile-on has begun in earnest, and the Russian President, despite being recently elected for another six-year term, appeared increasingly weak and isolated.

The United States and the EU levelled sanctions against Russia following its invasion of Crimea, followed up in January and March with new US rounds, with the latest [targeted at Russian interference in the 2016 Presidential election](#) along with an attempt to penetrate the US energy grid and other cyberattacks.

While the effects of recent sanctions are hard to assess, a [NATO Review article](#) published a year after sanctioning Russia for annexing Crimea showed that the sanctions exacerbated a fall in the ruble initiated by the 2014 crash in oil prices, as well as increased capital flight from Russia.

[Project Syndicate observed](#) that while Putin's foreign incursions and public displays of military power have won him respect and support at home, "they have also turned Russia into an economic lightweight, and left it increasingly isolated on the world stage." Author Carl Bildt, the former Prime Minister of Sweden, argues that Russian economic growth is weaker than his first years in power and that its economy is closer to Italy's than China's, which rivals the United States, being the second largest economy in the world. Russian foreign policy moves have also turned out to be failures. Examples include Ukraine forming an association agreement with the EU despite Russia's attempts to prevent Ukrainian dalliances with Europe and Russia going into Eastern Ukraine; and continued fighting, with Russian casualties, in Syria.

[The Huffington Post noted](#) that US GDP is 15 times greater than Russia's, with the German, British and French economies two to three times larger. In terms of GDP per capita, Russia is a third world country, at \$8,200 versus the US at \$52,000.

We have said that if the Western powers really wanted to finish off Russia, [all they would need to do is boycott its oil sales](#); 36% of Russia's federal budget comes from oil & gas revenues, and two-thirds of its exports. Also, stop the flow of Western investment money and pretty quick Russia is another North Korea...perhaps an NK on steroids but the similarity would be uncanny.

Russia could retaliate with force, but its conventional military is no match for the United States. For Russia's new nuclear force to be effective the rest of the world has to believe it could be used, frightening as the new missile technology is, so what, what good is it? Bluff, bully, threaten, when the bluff is called what then? Launch and you die. So who cares about Putin's new toys? Do you think the US is sleeping? The US and Russia already have enough missiles pointed at each other that if either launched each country, and all the rest of us, die many many times over.

Putin knows how vulnerable his petroleum-driven Western invested in economy is, which is why he's cozying up to Saudi Arabia, an unlikely alliance considering that the Saudis are a traditional ally of the United States and is backing the other side in the Syrian civil war. This week Saudi Crown Prince Mohammed bin Salman reportedly said [Riyadh and Moscow are considering extending a year-to-year agreement to extend the OPEC oil price cut that started in 2017, to between 10 and 20 years](#). The unprecedented agreement is aimed at ending extreme oil market volatility, an analyst quoted by Reuters said. But more importantly, "A long-term pact between Moscow and Riyadh would effectively co-opt Russia to the Saudi-led OPEC cartel while strengthening Russia's hand in the Middle East where the United States has long been the dominant super-power," the news agency stated.

In other words, Putin is desperate for friends and oil market stability (I.e. No more oil price drops), and is less a threat to the United States than people think. Trump is not concerned about Russia, but he has reason to be worried about China.

Chinese aggression

Obama's "pivot to Asia" was designed to curb Chinese territorial ambitions which include the reunification of Taiwan with China – a hornet's nest that Trump walked into when he accepted a phone call from Taiwanese President Tsai Ing-wen soon after inauguration.



But the pivot, to be realized through increased trade like the Trans Pacific Partnership (TPP) and increasing its regional military profile, has been a failure. The US could not prevent China from annexing 80% of the South China Sea, defend freedom of navigation through the \$5-trillion annual maritime trade corridor, or stop China-backed North Korea from conducting nuclear tests.

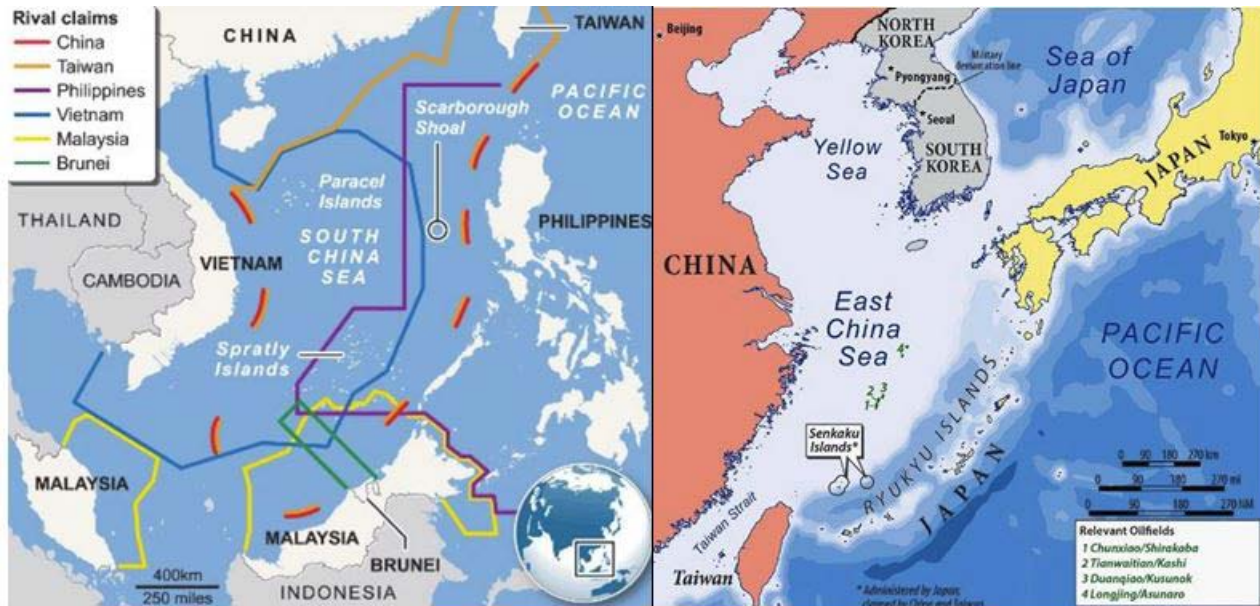
On assuming power Trump pulled the US out of the TPP and began a dangerous war of words with North Korea's Kim Jong-un as the reclusive nation successfully tested its first intercontinental ballistic missile capable of hitting the US mainland. Meanwhile China continues to expand its military. In early March it was reported that [China plans to boost military spending by 8.1% in 2018](#), compared to a 7% increase in 2017.

Recent maneuvers in the South China Sea demonstrate that Beijing is willing to flex its muscles in a region it sees as strategically and economically important. This week the [Chinese air force buzzed Japan's southern islands and conducted drills](#); satellite photos showed [China's aircraft carrier, the Lianing, traversing the Taiwan Strait](#) flanked by 40 ships and submarines.



Why the South China Sea? China is energy-starved and the areas off the coast of the Philippine province of Palawan are oil rich. In mid-2012, the Philippines and China came dangerously close to an armed conflict over the Scarborough Shoal in the South China Sea. China's increasingly contentious showdown with Japan in the East China Sea could prove to be even more dangerous. At issue are disputed Islands (Senkakus to the Japanese, Diaoyu to China) and the fishing rights and natural resources those islands would deliver to their owner.

The standoff has resulted in several direct confrontations between China and Japan.



Despite being rejected by the UN in 2016, China maintains it has control over the entire China South Sea Basin including crucial shipping lanes. China's territorial claims over the waters are disputed by its neighbors – the Philippines, Vietnam,

Malaysia, Indonesia and Brunei. The United States has tried to counteract China's growing dominance – which includes building military bases on new, reclaimed islands constructed from tiny rock outcrops – but without much success. For example [Reuters reported the Vietnamese government bowed to Chinese pressure and canceled a major oil drilling project](#) in disputed South China waters; Spanish oil firm Repsol lost \$200 million when Vietnam cancelled its planned exploration.

The United States has responded by sending US warships, refusing to register with air and maritime “identification zones” set up by the Chinese. The US Military also deployed the [F-35B vertical takeoff Joint Strike Fighter](#) in the region earlier this month. Trump's more frequent references to the “Indo-Pacific” are a deliberate attempt to pivot towards India and neighboring countries in an attempt to contain Chinese influence:

India has a border dispute with China in the Doklam region, which overheated last year. Japan has territorial disputes with China in the East China Sea over the Diaoyu/Senkaku Islands. Australia has sensitivities over China's investments in its strategic industries and is concerned about alleged Chinese intervention on Australian domestic politics. All these countries are aware that no one country can unilaterally balance against or challenge China – diplomatically, economically, and militarily. Overall, the term “Indo-Pacific” underscores not only the integration of regions and regional powers, but also the conflation of geopolitical and geoeconomic interests, priorities, and commitments.

- [Center for Strategic and International Studies](#)

China is also losing patience with Taiwan, which it has claimed as its own ever since former Chinese President Chiang Kai-shek and his Kuomintang followers fled to the island in 1949. Beijing under the leadership of [increasingly authoritarian President Xi Jinping's](#) (reappointed with no term limits) at the 19th Communist Party Congress said China must take control of Taiwan by 2050 at the latest, or as early as 2020 [according to a recent article in the South China Morning Post](#). The US backs Taiwan militarily but a Chinese official said in February that it will not allow American warships to dock there.

“The day a US Navy vessel arrives in Kaohsiung is the day that our People's Liberation Army unifies Taiwan with military force,” SCMP quoted the Washington-based official saying. On Tuesday a retired Chinese general [wrote in an op-ed piece carried by Chinese media how easy it would be to attack Taiwan](#) and disable its military within 48 hours.

Meanwhile [China continues to put its mark on Africa](#), where it has for years been accumulating natural resources such as iron ore, cobalt and copper as it seeks to feed an economy that up until 2015 was growing at double digits. [Recently overseas acquisitions of metal mines have switched from Africa to Latin America](#). Last year the Chinese military opened up its first overseas base in Djibouti. While

few in North America have likely even heard of the tiny African nation, it is located at the entrance to the Red Sea which is strategically significant as far as controlling trade in the region.

"We believe they are looking at investing in ports and infrastructure around the world, not just for military capabilities but also to control those governments," [U.S. House Intelligence Committee Chairman Devin Nunes was quoted saying.](#) "They can effectively cut off world trade if they want to."

Could the art of the deal work with China?

So how could Trump, the swaggering deal-maker, make peace with China? Already Trump has broken new ground in the diplomatic minefield of US-North Korean relations by agreeing to meet this spring with DPRK leader Kim Jong-un, with whom he traded personal insults earlier this year. What could become of such a meeting? The thought of the two adversaries meeting face to face is both chilling and enthralling.

Conclusion

Donald Trump is no ordinary President and he seems to prove it daily through his Twitter outbursts and unconventional tactics when it comes to international trade and diplomacy. Love him or hate him, you have to admit he is having an impact. Knocked off guard by his aggressive stance, trade partners, allies and adversaries are put at an immediate disadvantage, which according to the third quote cited above from *The Art of the Deal*, is all part of the plan: *"I'm the first to admit that I am very competitive and that I'll do nearly anything within legal bounds to win. Sometimes, part of making a deal is denigrating your competition."* That strategy, though off-putting by many, worked against Hillary, and it could even work to extract concessions from North Korea.

Sometimes the way to meet force is *not* to turn the other cheek. Other strong leaders respect that. I have to admit I'm enjoying watching The Donald wheel and deal and while his erraticism concerns me, his unconventional approach to seemingly intractable US entanglements is also a refreshing change. I've got *The Art of the Deal* on my radar screen as I try to figure out Donald Trump's next move. Do you?

If not, maybe you should.

Richard (Rick) Mills

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