

The New Containment – Trump torpedoed Nixon’s 1972 China Policy

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“The highest form of warfare is to attack [the enemy’s] Strategy itself; The next, To attack [his] Alliances. The next, To attack Armies;” — (Henry Kissinger, On China)



In 1972 following the historic visit of US President Richard Nixon to China, then 19-year-old Chinese President Xi Jinping was reunited with his father Xi Zhongxun who had been imprisoned during the Cultural Revolution. Xi apparently credits Nixon’s visit for the political thaw that saw his father released from prison. Still fascinated by America, decades later Xi will send his only child Xi Mingze to study at Harvard.

In contrast, in 1972, 26-year old US President Donald Trump became president of the Trump Organization, received his final Vietnam War draft deferments and plunged headlong into the New York real estate business. Trump and his parents, avowed anti-communists, opposed Nixon’s détente with China and favored New York Senator James Buckley’s strongly skeptical position on China. The Trumps were big donors to Buckley’s 1971 historic upset campaign in New York. Trump since the 1970s has remained true to his China skepticism even as his daughter Ivanka has deepened business interests in China and taught his granddaughter Mandarin.

Trump, the China skeptic, and Xi, the pro-American Chinese princeling, are now locked in a generational tectonic struggle that will reshape the world with significant ramifications for international business

While most investors and western policy analysts have focused exclusively on the trade and economic tensions between the US and China, willfully ignoring the more conflictual security relationship, security concerns now threatens to torpedo the trade deal with significant geopolitical consequences for global capital markets.

With the MSCI Index increasing its inclusion factor of Chinese large-cap stocks to 10% in May 2019 (and another 5% each in September and December 2019), the US-China relationship may become the epicenter of risk to the global corporate sector and financial markets for years to come unless China and the US do a 'Big Bang Trade & Security Combo deal' – a virtual impossibility given the divergent security interests in Asia.

In structural geopolitical terms on February 21, 1972 when US President Richard Nixon, an avowed anti-communist, arrived in Beijing to ink a détente with Chairman Mao, the death kneel of the Soviet Union was sealed, and the catalytic forces which will later guarantee 50 years of economic prosperity for the West were unleashed. Nixon's act, guided by the foremost geopolitical theoretician of his generation, former US National Security Advisor Henry Kissinger, prevented an ideological unification of the entire Eurasian landmass under one political regime, and guaranteed that when in 17 years the Soviet Union was tottering, China did NOT come to its economic rescue and prolong the Cold War – despite both being communist regimes.

Nixon and Kissinger's foresight in 1972 virtually guaranteed the collapse of the Soviet Union, hastening a new global economic order. Trump aims to partially reverse 1972 due to the growing economic imbalances between the two nations, which threatens America's long term economic dominance.

Even if Trump's economic containment of China is successful, he may inevitably re-unite the Eurasian landmass with a stronger Russia-China relationship, posing significant dangers for EU and Nato in the years ahead. To paraphrase Halford Mackinder from 1909, 'whoever controls the Eurasian landmass, will control Europe, and the world island.' Trump's economic war with China, and the Democrats political war with Russia may unite the two US foes against the US in Eurasia.

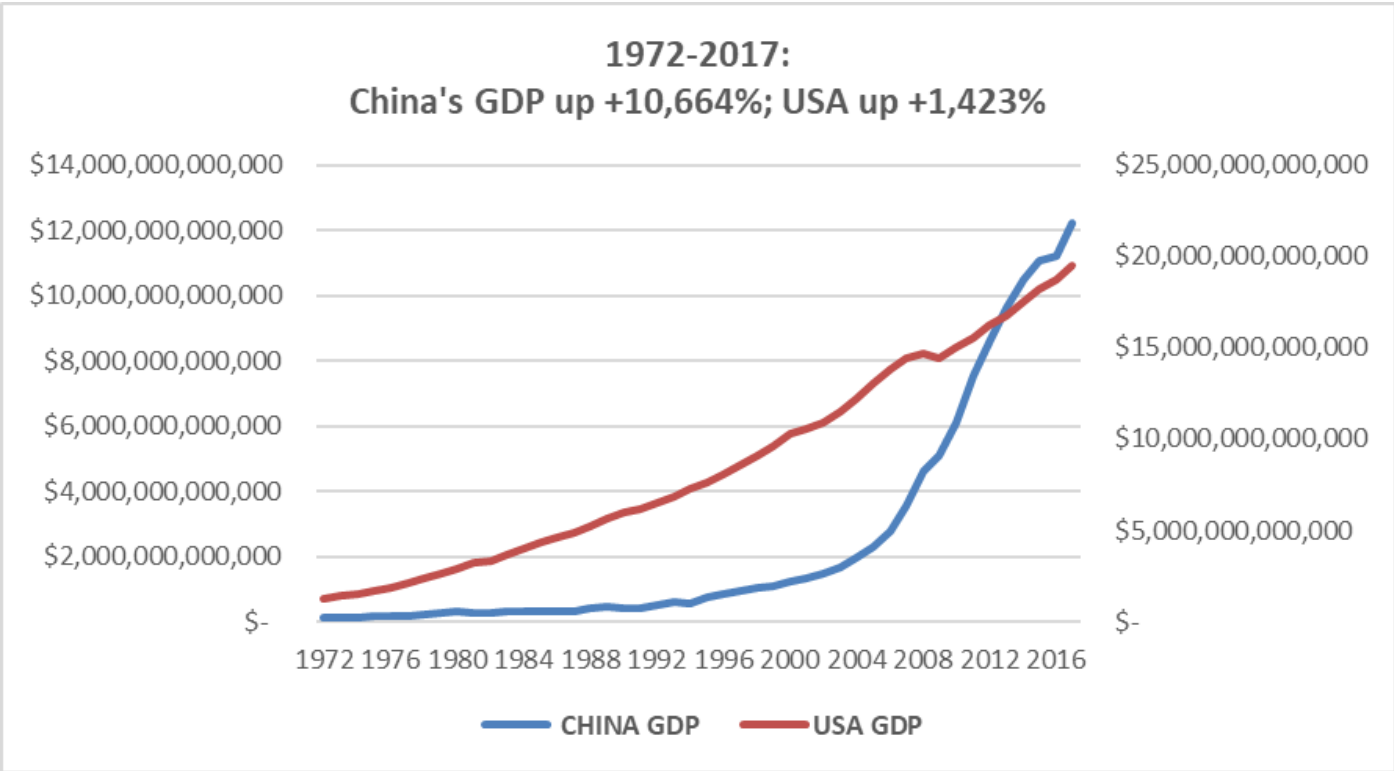
Trump and his National Security Advisors John Bolton remain concerned that unless China is 'Economically Contained' the country will ultimately amass preponderant geopolitical power to re-shape Asia, the Eurasia and the entire world order. The advent of Chinese preeminence in AI and other advanced technologies raises significant strategic security challenges to the US further complicating the trade talks.

47 years after Nixon's visit China is today over 10,664% wealthier than it was in 1972 and the average Chinese has experienced an increase in wealth by a factor of nearly 25 times their American compatriots. And yet despite the hubristic hopes of 1972 and 2000 when the Clinton administration ushered China into the WTO, China remains a firmly communist state-controlled country with no signs of a democratic future despite its large middle class. China's non-transition to a democratic state despite its large middle class and growing economic wealth upends political science theory that a growing middle class will inevitably demand greater political freedoms.

The 1972 and 2000 WTO bargains contained within them a hubristic lie that has now been laid bare. The lie was essentially that China's economic development and integration into the global economic order will cause its rising middle classes to demand that China abandon its 4,000-year Confucian political autocratic traditions for a modern 230-year old western liberal democratic order. What Trump and Bolton grasp, which Wall Street does not yet understand is that without an internal democratic transformation of Chinese society, a wealthier more economically stable China will ultimately upend the US led global order – much like how Athens and Sparta ultimately vied for supremacy with two fundamentally opposite political systems.



Source: UN Stats/ Current USD GDP



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Geopolitically China after decades of pragmatic foreign policy is today increasingly more embedded in a Russian led challenge to the global liberal geopolitical order than it was in 2000 or 1989.

In short, Trump and Bolton believe that 1972 Econo-centric détente has outlived its purpose and Security – NOT Economics should be the center of the US-China relations, and therefore an effective policy of economic containment to slow China’s rise is necessary to curb its growing geopolitical ambitions.

The emerging unstable dynamic between China and the US will likely unleash other intense mercantilist rivalries among seven key geopolitical and economic blocs. Trump’s mercantilist nationalism is simply a precursor of the kind of trade policy that will eventually emerge in many other OECD countries. As the supportive underlying US-led unipolar global security and economic architecture crumbles, with new foreign growth markets foreclosed, international trade channels blocked by mercantilist sanctions and new non-tariff barriers erected, the sky high price-earnings equity multiples of major global companies will re-adjust downwards with important consequences on pensions, investments and the volume of cross-listed securities traded on the global capital markets.

The emerging non-US led multipolar era will also likely see a nationalization of key privately owned multinational corporations who control critical natural resources and advanced technologies. Under pressure from nationalist politicians many of these stateless multinationals will be forced to become ‘patriotic’ and offload offshore assets in unfriendly countries. Other multinationals may simply abandon atrophying domestic markets and ‘defect’ to re-establish themselves fully in fast growing emerging foreign markets. Stock markets bourses will see a deluge in foreign equity de-listings as sanctioned companies ‘go home,’ trading volumes drop, cross-border deals, capital markets, PE ratios and profits dramatically shrink. In short, the next three decades of globalization is going to be very different from the preceding three. The global economy is about to be structurally ‘teleported’ back to the 19th century.

Stateless multinational corporations will in the coming years be forced to choose sides in the impending multi polar world order. To continue operating across several competing geopolitical terrains using the same system and protocols will no longer be a viable approach. With many multinational companies increasingly making most of their profits beyond the borders of their home territories, many will be forced by the new geopolitical order to either become instruments of domestic foreign policy, or pull back from abroad, or defect to faster growing growth markets or sell foreign units to local partners. Valiant attempts to stay neutral will simply expose these companies to charges of domestic un-patriotism and boycotts of their products at home.

Global goods and services trade, especially in technology, critical mineral and natural resources, IT, financial services, legal services and other critical professional and hospitality services which have all flourished freely with few restrictions under globalization will see growth dramatic declines as competing regional and bilateral trade blocs become more insular and protectionist. Trade embargoes, natural resources hoarding, and economic sanctions will be used by major global players to curb the free flow of goods and services.

Recognizing that economic health is a critical component of national power, On May 2, 2019, the US Department of Defense (Pentagon) released its annual report to congress titled “Military and Security Developments Involving the People’s Republic of China 2019.” The 136-pager offered somber reading and highlights that, “China’s leaders have benefited from what they view as a “period of strategic opportunity” during the initial two decades of the 21st century to develop domestically and expand China’s “comprehensive national power.” Over the coming decades, they are focused on realizing a powerful and prosperous China that is equipped with a “world-class” military, securing China’s status as a great power with the aim of emerging as the preeminent power in the Indo-Pacific region.” The report accused China of replacing imported technology with domestically produced technology; aligning civil and defense technology development; using One Belt, One Road (OBOR) to build foreign bases in Africa, Indo-Pacific; and “Chinese Communist Party (CCP) seeks to condition foreign and

multilateral political establishments and public opinion to accept China’s narrative surrounding its priorities like OBOR and South China Sea territorial and maritime claims. Overall, the Pentagon reckons that China has been involved in a “Three Warfare’s strategy in its operational planning since at least 2003, which is comprised of psychological warfare, public opinion warfare, and legal warfare. Consistent with this strategy, China conducts influence operations against cultural institutions, media organizations, and the business, academic, and policy communities of the United States, other countries, and international institutions.”

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