

President Trump

As you know, I remain deeply skeptical it's ever going to happen (one piece of evidence from Friday: a nationwide Washington post poll showing that Donald Trump's net approval ratings among Hispanics is a staggering -64%). But if it were to happen, what are the implications for the country... and the world?

A few areas worth looking at.

1) Unilateralism. The biggest implication would be the fracturing of the system of American alliances that has defined the post-war era, though in many ways, the Trump presidency would amount less to a sudden change than to an intensification of what other countries have already been perceiving and experiencing from the United States over the past couple presidencies. Almost all American allies already question the level of US commitment to, and long term sustainability of, their bilateral relationships with the US. Whether it's in reaction to Ukraine, to various middle east conflicts, or to the refugee crisis, there's been a view in Washington that the United States needn't do much lifting to respond to such foreign problems because they don't have that great of a direct impact on the country. There's been a growing gap, under the Obama administration, between rhetoric and reality, but at least the political narrative has remained that of an "indispensable" nation committed to the world order.

Under a Trump presidency, US policy would become explicitly more unilateral. That's the single most consistent plank of Trump's populist message, and a core theme that he's pursued for decades, not just since deciding to run for president. China, Japan, the Gulf states, Mexico: these countries are taking advantage of American generosity/stupidity, an imbalance that needs to be addressed. This would translate into more "America first" than "make American great again," and would lead to a reduced commitment to collective action: the NATO alliance, US-Asian security guarantees, the transatlantic trade and investment partnership (TTIP) and the like. The transatlantic relationship, already at levels of historic weakness, would further diminish, eroded by hedging from the Americans as well as Europeans. A Trump-Putin reset would surely be attempted, with the United States happier to accept Russia taking a lead role in the resolution of Syria. The biggest near-term danger would be cyber and trade relations with the Chinese, particularly as a Trump presidency likely eventually coincides with a significant increase in domestic political pressure on Xi Jinping's administration.

2) Reality. While the orientation of US foreign policy would narrow and the rhetoric would sharpen, Trump has rolled out a number of headline foreign policies that won't remotely stand for implementation. A wall on America's southern border (paid for by the Mexican government) coupled with the sending back to their home countries of 11 million undocumented people living in the states. A temporary suspension on all Muslims attempting to travel to the United States. 40% tariffs against Chinese goods coming into the United States. Waterboarding and other torture of suspected terrorists. Along with other more mundane, exorbitant promises, like a tax plan that would lead to additional trillions in deficit.

All of those would at most be implemented only at a symbolic level, with no resemblance to the actual implications of the policies on the table. Several are unconstitutional/illegal (the deportations of children of illegal immigrants born in the United States, for example); all are politically completely infeasible irrespective of Republican leadership in both houses of Congress. Vested interests would ensure Trump's calls for protectionism don't make it into policy, though executive orders could create marginally less US economic integration with other countries. On balance, the Trump administration would have to turn to

more economic inducements for us corporations to bring jobs back into the country rather than sticks, a policy that would face an uphill climb given the general reduction in labor requirements in most sectors.

3) The team. Yes, former republican presidential nominee Mitt Romney made headlines all week with a blistering "never Trump" speech. But far more significant was the republican debate, during which Ted Cruz, John Kasich, and Marco Rubio all committed to supporting Trump for president if he got the nomination. that means it's more likely he wins... but also that a trump cabinet is less of a wild card. For the majority of the political establishment (on both sides of the aisle), personal ambition will eventually take priority over concerns about the "good of the nation". For now, New Jersey governor Chris Christie looks weak and clownish for his early endorsement... but if Trump gets the nomination, a large contingent of the republican party seniors will sign onto the team to beat Hillary Clinton (and, importantly, fox news and the gop media establishment will also get on board).

Given Trump's own, non-ideological orientation and a personal proclivity towards hiring expensive talent that's been recognized elsewhere as valuable, the Trump team is less likely to be unknown loyalists than a capable and experienced group from across the spectrum, themselves more venal than ideologically-grounded. A Kennedy-like family member heavy "kitchen cabinet" — in this case with an orientation toward business interests — would supplement them. I'd actually expect a more experienced and less insular group — though also less loyal — than the second term Obama administration.

4) The president. But for all the common sense ultimately prevailing, you also can't ignore the "Berlusconi effect" of a Trump presidency. The exaggerated populism, buffoonery, and narcissism attached to Trump individually would undermine American efforts at securing cooperation from other countries. Its role in multilateral organizations would diminish and dissenting views would become louder. Antagonists and rogues would use the Trump caricature as a rallying point for their own interests, and anti-Americanism would increase accordingly.

There'd also be the risk of a "Putin effect," namely the chances that a larger appetite for confrontation by the new president leads to greater prospects for conflagration, turning small disputes into larger ones. Whereas a Cruz or Sanders presidency would lead to more significant changes in baseline American governance (because of more ideologically-coherent appointees and policies — on the supreme court, for example), a Trump presidency would be more stable on that front but open the way for greater "tail risks" over things like, say, terrorism, North Korea... or even an un-contained flare-up between US and Chinese forces in Asia.

5) The political risks. None of the above touches on near-term market impact. Indeed, if the dollar or the US equity markets took a significant hit on the back of a trump win, that would strike me as a strong buy signal — because, if anything, the increased unilateralism of the United States means that geopolitical tensions in other parts of the world are going to grow. The near-term relative stability of the American market would actually increase under a Trump administration.

Longer-term, however, it's a more persistent G-zero world under a Trump administration; and, in that event, the eventual "post G-zero" is less likely to move toward inclusive "concert of nations" or "G2" type scenarios. That's a recipe for greater fragmentation of the world system and ultimately poses a faster hit to the exorbitant privilege of the US dollar as the world's reserve currency. I think it's safe to say that for your children, a Trump administration isn't the way you want to go.

China

China's annual national people's congress is meeting this and next week. It's important for the government's guidance on an annual growth and deficit target (with growth set at 6.5-7%, the first time the government has used a range to buy more wiggle room), and this year will be particularly notable for its conclusion, when the government will announce its 13th five year plan. In terms of guidance from Beijing, this is one of the last major political events in the run-up to the 19th party congress next fall, when Xi Jinping makes the leadership transition towards the team he intends to (at least in principle) serve out his legacy with.

The big news is that there's unlikely to be big news — despite all the challenges around a slowing economy and significant mistakes in particular in managing the Chinese stock market, the leadership looks to be doubling down on its existing strategy. The headlines will be expanded anti-corruption efforts and transformation further away from commodities dependence, as well as more resources devoted to new technology development, competitiveness, and financial reform. Beijing's 2016 work report, released at the opening of the event, reflected these goals.

That has been diluted somewhat by promises of rapid growth and higher deficit spending (which the government is prepared for) as well as more incrementalism on some structural reforms. And yet, continuity in economic transformation will still be the big story here.

Anti-corruption efforts matter as they're getting closer and closer to the top of the party structure — early moves hit provincial decision-makers and state-owned enterprises; now the government is focusing on central ministries. Don't buy the market rumors that Xi is backing off — if anything, he'll wait until next year to smooth the way for the party's transition. the broader reduction in commodities dependence will also mean targets for lower production capacity in formerly strategic sectors: cement, coal, and steel in particular. With the exception of the very top, the changes being driven by China's leadership are meant to facilitate a faster transformation of the economy, a doubling down on consumers in a more challenging growth environment (with the biggest fiscal expansions going toward education, pensions, healthcare, the environment and the like), and a hit to the most firmly entrenched and least productive elements of the Chinese state-connected elite.

That's sending a strong message internationally. Xi Jinping feels his leadership is suitably consolidated that not only can he and his team weather a downturn, but they can use it (at least for now) to further their long term political and economic goals. That's a strong positive in terms of the stabilizing aspect of policy continuity from China, the lack of populism from the top, and the consequent desire for international stability. But there are also a couple of downsides. First, increasingly-senior Chinese leaders are finding themselves under the gun, with fewer resources at their disposal, the potential for harsh administrative punishment if they aren't loyal, and a fight for their own political survival given next year's top down shakeup. That means reluctance to take business decisions among China's most powerful will reach unprecedented levels (think about the paralysis caused by an impending corporate restructuring x20). Xi's recent attempts to give officials more bandwidth to "make mistakes" won't have much bite here. And the broader economic impact of Chinese willingness to accept lower growth levels, particularly in commodity-intensive sectors, will have an outsized impact on emerging markets that have relied on high levels of export to China. The possibility of recessions is increasing accordingly.

Brazil

The biggest news to date in Brazil's worst political crisis since its return to democracy: the detention of former president Luiz Ignacio Lula da Silva. Investigators finding evidence to directly implicate Lula is a tipping point: with political lines being sharply drawn as his allies in the workers' party (PT) and among organized labor are coming out to defend him.

What had been an extraordinarily open environment in which the rule of law and an independent judiciary drove the inquiries — in ways truly unprecedented in an emerging market — are now going to become deeply politicized, as the PT party's goal (which president Dilma Rousseff also belongs to) will now be to delegitimize the country's prosecutors, claiming a witch-hunt at the hands of political enemies. Rousseff has been able to distance herself from the prosecutions to date, by far the best political strategy for her presidency... but that's going to prove very challenging going forward as all her allies rally around her, and upcoming impeachment rallies (the next scheduled for march 13) grow in size. In that context, she's more likely to switch strategies and support Lula — especially since she's under investigation herself. Which will lead to the end of her support from Brazil's centrist parties.

If there's good news, it's that we're finally getting close to the breaking point. There's a growing possibility of new elections being called — important as a truly clean slate (as opposed to a Rousseff impeachment and vice president Michel Temer coming in, which would only serve to continue the weak presidency/political crisis dynamic) is the only thing that could lead to a return to legitimate governance and a reform agenda. We're not there yet, though: for now, it's only deepening political crisis for Brazil.