

Friday, 2nd December, 2016

Dear Chris,

Even though I have come back from New York, I find my thoughts frequently returning to 57th & 5th and the great edifice of Trump Tower, the golden home of the President-Elect, who has declared (with characteristic hand gestures) that the USA would be withdrawing from the 'crooked' Trans Pacific Partnership (TPP) on his first day in office.

We wrote about TPP in September 2013 in a piece called 'The Return of Mr. Chamberlain', drawing a comparison between TPP and the 'Imperial Preference' structure championed by Joseph Chamberlain in the early years of the twentieth century.

Imperial Preference was Britain's last gasp effort to preserve sterling's position by setting up an empire-only trading area that cleared payments solely in pounds. This payment mechanism worked well for a decade until it was dismantled by the American Lend Lease arrangement during WWII; sterling was displaced by the US Dollar in trade and financial settlements, and the rest is history.

TPP, like Imperial Preference, was created to cement the US \$'s pre-eminence in the Pacific by setting up a trading block (excluding China) to settle payments in US\$'s only. But now with TPP seemingly dead, what will be the payment system

Chris Andrew
Clarmond Wealth
1 Holbein Place
London, SW1W 8NS



for the Pacific? Unlike the 1930s there is no 'superpower in waiting' who is determined to up-end the world payment order. This now leaves a gap, and, as markets abhor a vacuum, we can assume it will be filled more quickly than we expect - implying the current US\$ fetish may be rather finite.

The American withdrawal from the TPP means that the Pacific nations cannot earn enough US\$'s to settle their US\$ payments, and are now incentivised to find an alternative solution to their payment problems. Will it be the renminbi? The euro? Or something cobbled together? We do not know, but whatever the answer, the key will be 'to earn in what you owe'.

President-Elect Trump may try to 'Make America Great Again' by curtailing the world's use of his dollars, but it takes only one external event to fracture his financial wall and undermine his currency's foundations, as discovered by a previous Mr. Chamberlain.

See you this afternoon. Mustafa