

The Clash Of The Giants, USA v China – Three Part Series

From International Man

Part 1- The US and China: A Difference in Approaches By Jeff Thomas

The image below typifies how many countries outside the US see the US approach to diplomacy.



The US Approach: Bluster and Intimidation

Whilst, typically, US diplomats wear suits and appear businesslike in their manner, their message is often considerably different. If the US states what it wants from another country and that country then chooses to decline, the response by the US is often an “in your face” approach not unlike that associated with the image of a wild-West sheriff.

The message received from the sheriff is often along the lines of, “We’ve decided what your role in the world should be, so get with the programme or you’ll feel our boot on your neck.”

It should be said that it makes no difference to the country on the receiving end whether it is a left boot or a right boot; whether the current US president is a democrat or republican is of no consequence. The country feels the boot equally, whichever party is in power. And the message and the objectives remain the same, regardless of which party is presently in control.

As offensive and reprehensible as this approach is, the countries of the world often simply cave in to such behaviour. They understand that if a country’s leader were to decide to, say, cease to trade in US dollars, his country might be attacked for trumped-up reasons and the leader could end up in a pine box. (This approach has been employed on more than one occasion in recent years.)

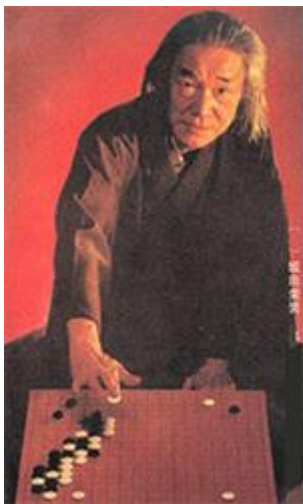
The threat from the US sheriff is therefore very real.

But presumably, this bullying approach would be less effective if attempted against one of the world's more powerful countries. If, for example, the US were to find itself in a situation such as the present one with China, in which the US appeared to be losing its battle over the dollar's power as the world's reserve currency, what would occur? Would the US sheriff attempt to bully China? And if the ploy did not succeed, would the US draw its six-guns and fire off a few rounds in the air for emphasis?

And if the above were to take place, what would the Chinese reaction be? Would they retaliate in a similar manner—the diplomatic equivalent of an American baseball player butting chests with an umpire—each one childishly seeking to win through sheer bluster?

Here, it would be useful to consider Chinese culture. Traditionally, bluster and braggadocio are not consistent with Chinese behaviour. The Chinese tend to take a quieter, more thoughtful approach, one that employs patience and careful timing.

The Chinese Approach: Wéiqí



It might be useful to consider the traditional game of Wéiqí (aka Go), a board game that was first played in China thousands of years ago and is still popular to this day.

In Wéiqí, the objective is to place the playing pieces on the board one at a time, in an effort to surround the pieces of the opponent. (Once the pieces are surrounded, they are considered taken.) Of interest is that a common tactic is to avoid being obvious in the effort to surround the opponent's pieces. The greater the subtlety of play, the greater the likelihood of eventual success. In essence, the philosophy is the exact opposite of the US approach. It is one of

surrounding the opponent, rather than meeting him head-on.

The game of Wéiqí is of greater significance in China than, say, Monopoly is in the US. It contains a philosophy that is basic in Chinese thinking. Although this is not a game that is likely to become popular in Las Vegas, it is one that informs Chinese diplomacy.

side from the occasional comment from the Xinhua News Agency suggesting building a “de-Americanized world,” the Chinese have generally kept their cards close to their vest.

Returning to the question of the dominant currency in the world, the US is unquestionably following its wild-West sheriff approach in demanding that the dollar remain the world's default currency: taking military action against those who move in another direction.

Meanwhile, the Chinese have been quietly expanding the power of the renminbi, first by encouraging its use internationally, then working out currency agreements with the BRICS, ASEAN, etc. More recently, they have created agreements with Western countries like Australia and the UK to trade in the renminbi.

As in a game of Wéiqí, China is not attacking the dollar directly. They are surrounding it, by creating relationships first with their own close allies, then with the US allies. If they continue in this tactic, it is likely that they will complete their ability to trade with all or most of the world in the renminbi, then announce to the US that, in order to continue to buy Chinese sneakers to sell in Walmart, the renminbi must be used.

At that point, should the US refuse, China would be in a position to say, “You’re an important customer, but if we lose you as a customer, we will still be able to maintain our present relationship with the rest of the world without you.”

The question would then be whether the US need for Chinese goods is greater than the Chinese need to sell them those goods. There can be no doubt that both countries want the relationship to continue; however, the one who could hold out the longest would be the victor—in essence, a game of economic “chicken.”

At such a point, the US would be likely to appeal to its allies to step in and side with them. But if the event were timed by the Chinese to coincide with massive inflation of the US dollar, the US allies would then need to choose between the two: the collapsing dollar, with no backing to shore it up, or a gold-backed renminbi.

The reader may decide what he feels the outcome might be.

Part 2 - How China Could Freeze the US Military **By Nick Giambruno**



Last April, President Trump launched 59 Tomahawk cruise missiles into Syria.

He was responding to an alleged chemical weapons attack by Bashar al-Assad's Syrian government.

It was Trump's most dramatic military move since he became president. It was also the United States' first deliberate attack on the Syrian government.

At the exact moment he ordered the strike, Trump was also hosting China's president, Xi Jinping, for dinner at Mar-a-Lago, Trump's Florida resort. Xi's wife was also there.

Trump said:

I was sitting at the table. We had finished dinner. We are now having dessert. And we had the most beautiful piece of chocolate cake that you have ever seen. And President Xi was enjoying it. And I was given the message from the generals that the ships are loaded and loaded. What do you do? And we made a determination to do it. So the missiles were on the way. And I said: 'Mr. President, let me explain something to you... we've just launched 59 missiles... heading toward Syria and I want you to know that.' When asked how President Xi responded, Trump claimed: "He paused for 10 seconds and then he asked the interpreter to please say it again."

The timing of the attack was meant to intimidate Xi and send China a message.

You see, China and Syria are allies. The Chinese give Assad's government diplomatic, military, and economic support. China has also used its veto power at the UN several times to support Syria.

Essentially, Trump invited President Xi and his wife to his home for dinner. Then, over cake, he bombed one of Xi's friends.

Trump hoped his hardball diplomacy would encourage China to tighten the screws on North Korea. He also wanted China to make changes in other areas like trade. He explicitly told Xi as much.

However, on closer look, Trump's Syrian fireworks show was nothing but a hollow gesture. That's because, without China, Trump would have no missiles to launch at anyone.

The guidance systems on the Tomahawk cruise missiles Trump launched at Syria depend on special materials that China has a near monopoly on producing. Surely, Xi knew this, though Trump probably didn't at the time.

And it's not just the missiles...

If China decided to cut off these special materials, the entire US military would cease to function in short order.

Not surprisingly, Trump's display of machismo did not impress the Chinese. Nor did it make them change their approach to North Korea.

A few months later, North Korea tested both an intercontinental ballistic missile capable of hitting the continental US and a thermonuclear weapon for the first time. Both might've been prevented if China had pushed harder to reign in North Korea.

So eventually—and likely soon—the US government will try to force China's hand through trade and economic means.

Trump already threatened to cut off trade with any country that does business with North Korea. He was talking about China.

And Trump's Secretary of the Treasury threatened to kick China out of the US dollar if it doesn't crack down on North Korea. That would be akin to dropping a financial nuclear bomb on Beijing.

Sure, these seem like exaggerated threats. But it shows Trump's frustration. It also means trade penalties against China could be imminent.

I think a full-blown trade war is coming soon.

But China has a big card to play. It could restrict access to that special material I just mentioned—the material used to make advanced electronic components, like the Tomahawk cruise missile guidance system. China has used this strategy before. About six years ago, it restricted exports during a spat with Japan. The supply crunch caused a veritable mania in the special material's industry.

Almost overnight, the price of this special material went up over 10 times.

Companies in the industry went up many times higher.

That's why you should position yourself *now*.

The US and China are in the early stages of a trade war. It's only a matter of time before it escalates. That will probably happen soon. The perilous situation with North Korea guarantees it. The next time China restricts access to this special material, I think the industry will explode... just like it did the last time.

Even a whiff of the possibility that China could restrict supplies again would send these stocks soaring.

Part 3 - China's Most Powerful Weapon in the Coming Trade War

By Nick Giambruno

“When any market is down 90%, you’re obligated to go and investigate.”

That’s what Doug Casey often says. And it’s part of the reason I put my boots on the ground in China a few months ago.

As I told you yesterday, the country has a monopoly on a little-known resource market. For years, stocks in this sector only went down. The industry was left for dead... until recently.

The last time this happened, the price of **this resource skyrocketed over 10 times almost overnight.**

And, as I’ll show in a moment, I think there’s a strong chance a similar mania will start soon...

China’s Monopoly

Most people have never heard of the material China controls. But it’s essential to modern life.

It’s used to make crucial components for advanced electronics like iPhones, electric cars, flat-screen TVs, computers, and sophisticated military equipment—like guidance systems, drones, anti-missile systems, radars, and fighter jets.

The United States’ top-line fighter jet, the F-35, contains nearly 450 kilograms of this material.

There’s no substitute for this resource in these advanced electronics. The US military and US consumer depend on it.

The problem is that finding this material isn’t cheap. And once you find it, mining it is expensive and messy. It takes about 40 tonnes of rock (40,000 kilograms) to get only about 250 kilograms of this valuable material.

The costs are even higher if you separate the material from the ore in an environmentally friendly way.

But China is willing to do the dirty work.

Beijing helps by subsidizing the industry. Meanwhile, many companies in other countries—operating without hefty state subsidies—go bankrupt.

Plus, China doesn’t fret about the environmental fallout as much as other countries. This lets it produce the material at a much lower cost than its competitors.

Until recently, one company in the US still produced a small amount of this material. Then, after a spat with a neighboring country, China flooded the

market with supply. This oversupply drove the last US company out of business.

According to a US Congressional report:

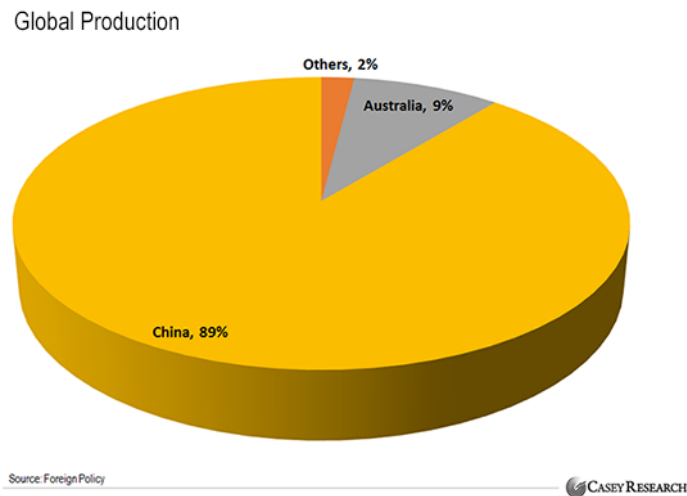
[China] flooded the market by more than tripling the previous world supply of the materials. During this time, [Chinese firms] were largely unprofitable but were allowed to survive through direct and indirect support by the Chinese government.

This backing enabled [China's industry] to continue to mine and export these materials at prices far below the actual costs of production...

Mines in the United States and elsewhere, unable to remain profitable against cheap Chinese exports, went out of business.

This is how China undercut everyone else and came to dominate the industry. Today, China produces around 90% of global supplies of this material.

In short, no one poses a serious threat to China's monopoly. China can simply hold prices lower for longer than any competitor can stay solvent.



This unchallenged monopoly could quickly become a huge problem for the US. But the US government won't just sit on its hands...

The US-China Trade War Is Heating Up

Regular readers know I think a full-blown trade war between the US and China is imminent. And we've already heard the opening shot.

Let me explain...

Early on in his presidency, Donald Trump indicated that he wouldn't handle China like the previous US presidents. In January 2017, he became the first

president in 40 years to speak with the leader of Taiwan, an island off the coast of China that Beijing considers a renegade province. Even during the campaign, Trump famously threatened a 45% tariff on Chinese goods entering the US.

He also said China was sucking “the blood out of the United States” and “we can’t continue to allow China to rape our country, and that’s what they’re doing.” Getting tough with China on trade is a campaign promise Trump can actually keep. He doesn’t need anyone’s cooperation. Legally, he can implement the necessary policies on his own.

And last summer, Trump fired the first shot in the trade war.

His administration launched an investigation against China using Section 301 of the Trade Act of 1974.

This rarely used provision allows Trump to “take all appropriate action... to obtain removal of any [trade] practice that is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce.”

The Chinese considered this a provocative move. Since the World Trade Organization (WTO) was founded in 1995, member countries—including China and the US—have traditionally settled trade disputes through it.

But Trump, using the Section 301 investigation, is taking a one-sided approach.

China’s Not-So-Secret Weapon

As I mentioned yesterday, China has a big card to play now. It could easily restrict supplies of the special material again.

That would bring any country—including the US—to its knees.

This isn’t some wild speculation. Remember, [China didn’t hesitate to restrict supplies in the past.](#)

Plus, if it restricts supplies again, I think the WTO will give its blessing. That’s because China’s move would probably be in response to one-sided US trade penalties—something Trump has already shown he’s willing to implement.

There’s no way around it. The Chinese are ready to use their monopoly in this market. It’s their ultimate weapon in the trade war with the US. The good news for investors is that we can use this crisis to make huge profits.

Prices of this special resource are still near their lows for this cycle. So before tensions between Washington and Beijing escalate further, we can buy a dollar’s worth of assets for a dime or less.

This way, we’ll be positioned to profit before the war heats up and the next mania kicks in.

