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“THE WORLD TURNED UPSIDE DOWN”

MORE FALSE HOPE RE: CHINA DEAL



Yes, this coming week American and Chinese negotiators will meet in China. But despite the stock market's gains being augmented of late due to renewed hopes for *some* kind of break-through, both sides have been notably tempering expectations. Indeed, those of us looking at this landscape for what it is are hard-pressed to find *any* cause for optimism, no matter the Alfred E. Neuman-like, “What, me Worry?” attitude of the markets *still*.

In his wide-ranging discussion with reporters late Friday, President Trump suggested China would try to play for time in the hopes that whoever his Democrat Party opponent is next year wins. They are hoping for another “dope,” the president said, who would let them get away with everything his *several* predecessors allowed. **But there will likely be a price for further Chinese foot dragging.** As White House chief economic advisor Larry Kudlow reminded the press earlier in the day, Trump stands ready to impose additional tariffs on Chinese imports if these coming discussions do not move the ball forward in some meaningful way.

But China seems to be further digging in its own heels. Officials there most recently led by Commerce Minister Zhong Shang are one-upping Trump when it comes to the nationalist rhetoric. Zhong says China must uphold “the spirit of struggle” in defending national interests. *Notably, he has joined (apparently as “bad cop”) the more moderate and agreeable Liu He as a top negotiator.*

Ever more—even among some of the political and media classes, though as I said above the markets still don't quite get this—this “New Cold War” between the U.S. and China is correctly being perceived (as I have often put it) as being something WAY more than a battle over sneakers, soybeans

and software. What we are belatedly seeing is a **true clash of cultures**; the difference today being that—whatever his other faults—Trump is one American president who is finally saying “Enough!” For a *quarter of a century* now China has been allowed special privileges (even still) as a “developing nation” by a gullible and even suicidal “West.” Trump has drawn the line and said, *no more*.

As part of this cold war, Trump has demanded that steps be taken at the World Trade Organization to strip China of its advantages as a supposed “developing” country, now that its economy is second only to America’s. Though he attempted to extend it a largely symbolic olive branch recently, **on the ground the battle against Huawei continues**. Congress still has its dander up over this and may yet—despite the White House’s request for patient—pass legislation further crimping China’s tech giant and would-be 5G leader.

Venture capitalist Peter Thiel (right) recently outdid Trump in the hyperbole department; he is accusing Google of “treason” in its dealings with China. Initially, Trump took a more moderate tone, though at week’s end he was here as well hardening his own stance. And *everyone*—from Trump on down—who is ever more a “hawk” on China saw their cause bolstered again this week by F.B.I. Director Christopher Wray. In congressional testimony Tuesday, **he again unmistakably labeled China as America’s number one technology and cyber security threat** (to the visible consternation of a few impeachment-minded Democrats with especially acute T.D.S.—Trump Derangement Syndrome—who are still pushing the fantasy that *Russia* should be so recognized.) As Wray pointed out, the F.B.I. currently has about 1,000 active I.P. theft and related open investigations; and virtually all of them involve China, not Russia.



In the end, what we are seeing play out before us is the fulfillment of the predictions many of us made back in the 90’s over the whole idea of bringing China—with its *vastly* different culture and apparatus of a “state capitalism” and even *fascist system* (as that term is to be understood as an *economic system*; not the off-point and bastardized political epithet it’s used as today)—into the fold of Western-oriented “free trade” and democratic capitalism. **All along this has been like mixing oil and water**; but transient benefits were enjoyed—hypocritical as *both* sides are about things now—that were sufficient to allow LOTS of inequities to slide by. . . and China to continually get away with all manner of theft and dirty tricks as it (and even Trump doesn’t blame *them* for this, as he said again Friday) got everything it could get while the getting was good.



As noted hedge fund manager Kyle Bass told *CNBC* Thursday afternoon in his latest interview with that network—at <https://www.cnbc.com/2019/07/25/hedge-fund-manager-kyle-bass-says-a-us-china-trade-deal-cant-be-reached.html?&qsearchterm=kyle%20bass%20china> **he simply sees no chance of a true deal being reached**. Having already gamed the West/W.T.O. generally and the U.S. to a great extent specifically for so long, China is showing increasing signs that—if it is *finally* going to be

required to fundamentally change its core economic system, apparatus and values—it **would sooner leave the W.T.O., etc. and seek to find a way forward otherwise.** Global markets REALLY aren't prepared for this. I would not put it past China to make some grandiose claim that *this* is its intention (“forced” into this by a reckless Trump, they will say) as a means of harming the only real American political adversary it has had in recent years. If they are right, maybe another “dope” *will* come on the scene that will apologize for all the damage The Orange Wonder did. . .and continue business as usual.

CHINA'S RISK IN PLAYING THIS CARD

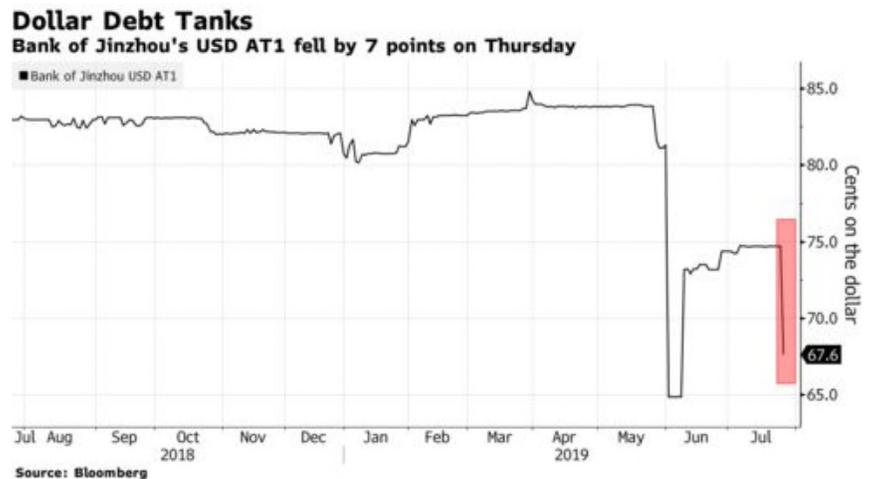
Though Chinese officials take turns with Trump in seeing who can be more bellicose at times, **the FACT remains that—in relative terms—China is taking a greater economic and financial risk as it stubbornly clings to *its* positions (and unfair advantages *and theft*) in this cold war.**

News is out this past week that a *second* major Chinese bank now (after Baoshang) in 2019—Bank of Jinzhou—is going belly up. All told—as Bass pointed out elsewhere this week—there are some 500 or so major Chinese banks that are teetering for a host of reasons.

Worse still, during his *CNBC* discussion, Bass pointed out that—in **addition to the renewed political and civil turmoil in Hong Kong—that country's leverage vastly trumps even the mainland.** Both financially and politically, Chinese officials are playing with dynamite—if not nitroglycerin. As I have often pointed out in the past, one advantage that country *has had* with its command-and-control system is an even greater ability to postpone, paper over or by simple diktat cover-up its mountains of nonperforming and otherwise dubious debts.

If the laws of mathematics finally catch up with China's officials, however, there will be hell to pay. Sure, China will beat the nationalist drums even louder; and cry “foul” over a “jealous” U.S. afraid of losing its status as “king of the hill” globally. Whatever the *politics* of all this, though, an implosion in China (see <https://nationalinvestor.com/1980/china-number-one-worry-enter-2019/> for my warning back at the beginning of the year that THIS was the biggest risk facing us, **a warning I am here and now DOUBLING down on**) will upend global markets unlike anything we've seen since 2008.

That *major* change is afoot where the post-War regimen of increased integration and globalization is concerned is beyond doubt. The only question is how messy it will get. Aside to the shock that will hit Pollyanna-ish markets if 1. China leaves the W.T.O., 2. China's financial sector implodes or 3. **Both, China is also going to have to reckon with a further weakened economy and competitive posture anyway.** Even before things heated up as they have with the U.S. of late, the country was *already* seeing an exodus of plants and jobs out of its country, in favor of even cheaper labor and other costs in places like Vietnam, Indonesia and India. (Apple notably announced recently that it was opening a “trial production” facility in that Vietnam.) **So China is increasingly being hoist with its own petard,** starting



to lose market share, bargaining power and all the rest *after* going on a MASSIVE debt-fueled spree to build *and support* a middle class, massive new infrastructure, etc.

But unlike the U.S., China does *not* have the world's reserve currency—and the world's largest and deepest markets—to fall back on.

THINGS DETERIORATING ANEW WITH EUROPE AS WELL

Though in comparison they have *nowhere near* the significance economically or financially than does the cold war with China and all its moving parts, **things aren't exactly warm and fuzzy between the U.S. and Europe these days either.**



"I hope you enjoy bathing in this swill, Emmanuel!"

With the E.C.B. pretty much out of tricks and the European economy weakening further, governments in most cases are flailing about looking for money anywhere they can find it. In the case of France, that's in part in the form of new taxes on U.S.-based tech giants like Amazon, Facebook and Google. And *that* at week's end was drawing the ire of Trump, angry that France is invading on the purview of America to tax its own companies. In retaliation, he is now threatening "reciprocal" measures on French products and services, including French wine imports.

Likewise, E.U. officials more broadly have U.S.-based tech giants in their sights, launching a new antitrust investigation (see <https://www.businessinsider.com/amazon-eu-launches-antitrust-investigation-2019-7>). Having already hit (among others) the U.S.'s Qualcomm a while back with a big €242 million fine for "unlawfully price dumping chipsets," E.U. competition commissioner Margrethe Vestager is now, in part, investigating Amazon's business practices, reportedly, "...exploring the company's dual role as both a retailer and a host to rival third-party merchants, and looking into 'how the use of accumulated marketplace seller data by Amazon as a retailer affects competition'".

Still unresolved—lest you have forgotten—is that matter of Trump's six-month delay on the imposition of tariffs on auto and other imports. It will be interesting to see when/if those come back into play as retaliation for this or otherwise. **As I explained to you quite some time back, the idea in the first place of any grand new or refurbished trade deal with the E.U. as a body is a nonstarter.** And on this you can forget about Trump as the stick in the mud; double-minded E.U. rules which—in this instance—require unanimity among members pretty much guarantee failure.

"END OF GLOBALIZATION"

As I joked about / recapped elsewhere not long ago, I have long been amused by looking back at the many erstwhile predictions over the years of a *coming* "New World Order." Most recently, I reminded you of how **not a few purveyors of various "end times" theories once claimed that the euro would be the global currency of The Revived Roman Empire and/or The Antichrist.** We can see how *that* is turning out! And overall, some have pushed—and continue, incredibly and despite so many contradictory facts and developments to the contrary, to push—this "coming" one world government, etc.

The reality as I see it is this: we HAVE HAD such a regime pretty much since the end of the Second World War; one that has now seen its peak in power and especially in acceptance by the masses. The storyline going forward is *not* going to be in this globalization regimen being galvanized, *but in its (hopefully peaceful) UNDOING.*

Among other long-overdue tasks this summer, I am poring over some old newsletters and even audio and video recordings of talks I gave *two decades or more* ago. A couple of my “staples” were ones entitled *The New Imperialism* and *The World Turned Upside Down*. In the former, I discussed how globalization—what has usually been sold as something democratic and beneficial to the masses of the world—was just another means by which globalist bankers, corporations and other fat cats further enriched themselves and kept all the rest of us more as serfs. The outcome, I long believed, would be what I presented in the *second* of those.

I believe we have come to that point today. The world economic order as we have known it is being upended.

By and large (with the *possible* exception still of the “new NAFTA” between the U.S., Canada and Mexico) *multilateral/global* trade deals and *perhaps even institutions* are on their way out. For its part, the Trump Administration from the outset has made clear that it favors—as fairer and more manageable—*bilateral* ones. Now, of course—gleeful that a kindred soul in the form of new Prime Minister Boris Johnson has the reins—Trump is touting how wonderful a trade deal with the United Kingdom can be, once it has finally (I’m STILL not holding my breath, but hope for the peoples’ sake my skepticism is unwarranted) escaped from the European Union, an institution more than any on this planet which epitomizes how the dying order has failed *the people*.

As I opined a few issues back, the increasingly creaky nature of the global economy makes “protectionism” MORE likely rather than less; and will *accelerate* the dissolution of the present globalization regimen. Again, by most appearances, the most proximate threat to the global economy *and especially to markets* would be one or more of those major developments where China is concerned.

Beyond this—as I shared in a discussion with a colleague the other day in advance of a new media initiative we have in the planning stages to inform *and equip* people on the coming unraveling of “The New World Order”—we are going to see many more changes. Across the pond, I wish Godspeed to P.M. Johnson and his team as they seek finally to overcome the haplessness (if not treason) of Theresa May and deliver Brexit to the people. In Europe proper, I will continue to pray for and laud those everywhere doing battle against the plutocracy that has a dying continent, economy and culture by the throat; and doesn’t want to let go until Europe is DEAD.

Everywhere there is a long-overdue rebellion against centralization; especially one which has as its goals the amassing of financial and political power in the fewest hands. That is the “new world order” that actually isn’t that new anymore; and which both the masses of people and at least some national leaders now are in open rebellion against.



For people and national/local economies the future in a world shedding globalization need not be bad. In fact, as I will be arguing down the road it can actually be quite beneficial; and *itself* fulfill the FAILED promise of globalization/centralization in *truly* spreading wealth and prosperity to the masses of the people.

But while the people of the world more and more WANT this sea change to the way in which the world (and their own respective part of it) operates, those now in charge will not surrender easily. Further, keep in mind that one key reason for this is that the intricate, incestuous MARKETS they have created on this globalization edifice are definitely NOT ready for such a change. As these stresses grow further and more cracks appear in this dying regime, it will be a challenge—at the same time NEW opportunities will emerge as a consequence—to be a successful investor.

To be continued. . .

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