

April 21, 2013

Comments on the Developing Asian Crisis

Our firm is presently in the process of developing the remaining sections of our comprehensive analysis of China's economic and socio-political trends:

http://www.globalsecuritieswatch.org/special_report_on_the_future_of_chinese_economy.pdf

In the interim, I would like to share our thoughts regarding the escalating Asian crisis between China, North Korea, Japan, South Korea and the U.S. (and possibly involving Russia and Iran). A related graphic (below) depicts our assessment of the situation and the manner in which it may evolve. We do not believe that the recent activities are simply another instance of “saber-rattling” by North Korea.

Nationalization of Daiyou / Senkaku Islands by Japan was not a Unilateral Action

As a party to the U.S. – Japan Treaty of Mutual Cooperation and Security, it is doubtful in the extreme that Japan would have nationalized the Daiyou / Senkaku Islands without the explicit consent of the U.S. It is far more plausible that the United States government instigated Japan's actions resulting in the nationalization of the islands. Consider that a very interesting situation has subsequently ensued: a strong nationalistic sentiment has provoked the Chinese populace [1]. Simultaneously, the Chinese economy is precariously close to a systemic crisis (and the evolution into a domestic consumption-driven economy is completely unrealistic). If the CCP civilian leadership does not defend China's territorial claim, the CCP civilian leadership will be perceived as weak by both the populace and the PLA, creating the potential for a fracture between the PLA Officer Corps and the civilian CCP leadership. As Ambrose Evans-Pritchard has pointed out [2], the mindset of the PLA Officer Corps is “what they can do” vs. “what they should do” (comparable to Japan in the 1930s). Conversely, if the civilian CCP leadership does defend China's territorial claim, the government becomes vulnerable to a hostile offset on its US assets (e.g., foreign exchange reserves held in the form of U.S. treasury debt) for attacking a U.S. ally (and possibly U.S. bases) [3], resulting in an economic implosion of the Chinese economy and the CCP itself. China then reverts to its historical pattern of regional power-grabs / warfare / revolution. It is therefore highly unlikely that the Japanese government will rescind Japan's territorial claim to the islands. Japan has also indicated a willingness to sign a mutual military defense agreement with South Korea.

Pursuit of the “Chinese Dream” is in Conflict with Interests of Western Powers

However, as the related graphic illustrates, there may be broader implications to this developing situation, e.g., China's seizure of Taiwan [5]. The situation may be embodied within the concept of the “Chinese Dream” espoused by Xi Jinping, the newly-installed head of the Chinese Communist Party [6]. Mr Xi is reportedly seeking to strengthen political support of the Communist Party by the PLA [7]. A potential ‘wild card’ is Russia, which has recently engaged in provocative actions in regard to U.S. airspace and military facilities [8]. Russia has also recently affirmed its ties with China's new Communist Party leadership [9]. A second potential ‘wild card’ is the vow by the Deputy Chief of Staff of Iran's Armed Forces that Iran's military will defend North Korea in an armed conflict [10].

Economic Warfare by the U.S. and Japan

A major contributing factor to the crisis is undoubtedly the fact that Japan has now partnered with the U.S. to undertake quantitative easing (money creation) at the combined rate of nearly \$2 trillion per year, and China is undoubtedly concerned regarding the country's export competitiveness as well as the inflationary effect on the domestic Chinese economy in combination with the devaluation of China's U.S. dollar-denominated assets held as foreign exchange reserves [11]. History demonstrates that currency wars lead to trade wars (or is itself a form of trade war), which lead to 'hot' wars.

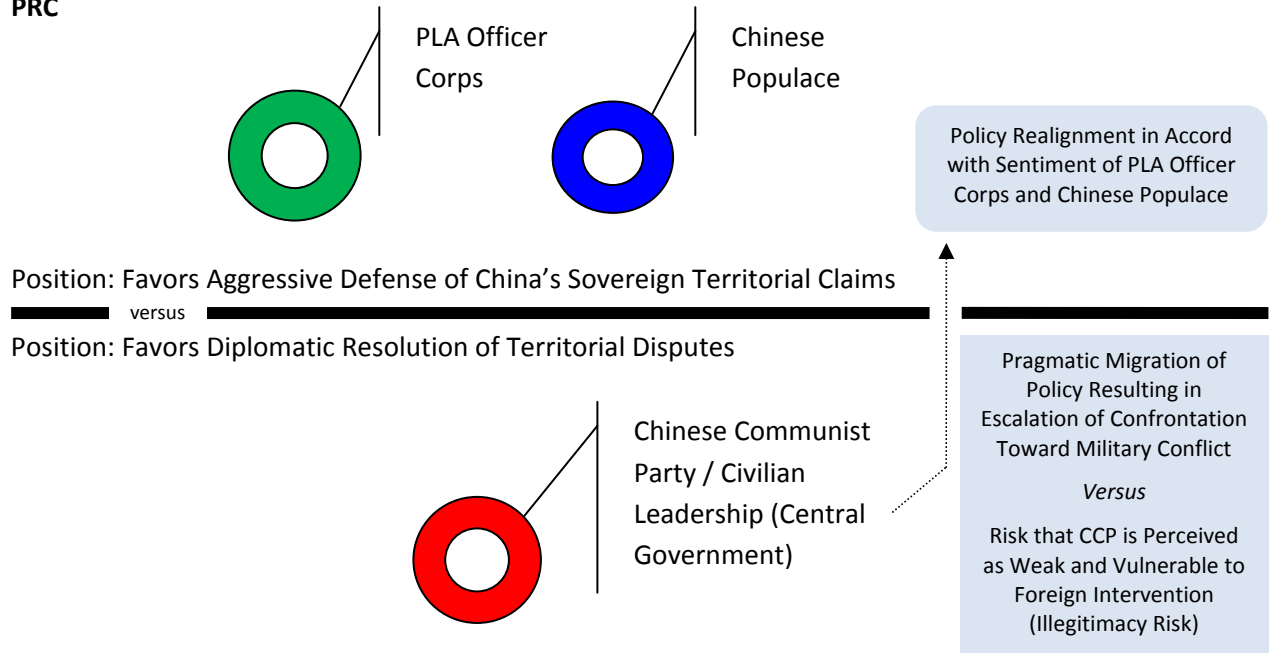
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References:

- [1] For an overview of the numerous anti-Japanese riots and protests in China, see: http://en.wikipedia.org/wiki/2012_China_anti-Japanese_demonstrations
- [2] *"China's Young Officers and the 1930s Syndrome,"* by Ambrose Evans-Pritchard, The Telegraph (September 07, 2010).
- [3] *"Beijing War Prep,"* by Bill Gertz, Washington Free Beacon (February 27, 2013).
- [4] *"Japan Ready to Sign South Korea Military Agreement in Light of North's Aggressions,"* by John Hofilena, Japan Daily Press (April 17, 2013).
- [5] *"China Deploys Anti-Ship Missile Off Taiwan,"* by Sarah Mishkin and Kathrin Hille, Financial Times (April 19, 2013).
- [6] *"Centralized Power Key to Realizing Xi's China Dream,"* by Willy Lam, Jamestown Foundation China Brief (March 28, 2013).
- [7] *"China Leader Courts Military, Worries West,"* by Jeremy Page, Wall Street Journal (March 05, 2013).
- [8] *"Russian Bomber Roulette,"* by Bill Gertz, Washington Free Beacon (April 05, 2013).
- [9] *"Xi's Russia Visit Confirms Continuity of Ties,"* distributed via Xinhua and reported by China Daily (April 03, 2013).
- [10] *"Iran Lines Up Behind North Korea, Warns the U.S. of Great Losses,"* reported by DEBKAFfile (April 05, 2013).
- [11] *"Livid Top Chinese Economists Call BoJ Decision 'Monetary Blackmail,' Demand 'Currency War' Retaliation,"* by Tyler Durden (pseudonym), Zero Hedge (April 07, 2013) and *"U.S., Japan Now Global Allies in Money Printing,"* by Jeff Cox, CNBC.com (April 08, 2013).

Same Dynamic at Work in Both China and North Korea

PRC



North Korea

Leader Kim Jong-Un appeals to sentiment of both civilian population and military

