

What Happens Next for China—Collapse or War with the US?

by Doug Casey, InternationalMan.com, 2 July 2020

International Man: While many have been distracted by the unrest in the US, tensions with China are soaring.

Recently, Beijing passed a national security law that would undermine Hong Kong's autonomy. What comes next for US-China relations?

Doug Casey: I lived in Hong Kong, on and off, from 1985 to 2005. When I first moved there, it was a Chinese city, but there were a lot of Western expats.

When I returned most recently, it had transformed into a Chinese city with very few expats. They'd all gone to Singapore.

What's happening in Hong Kong is unfortunate, but frankly, it's none of our business. Unfortunate things are happening in a hundred places around the world. You just can't solve other people's problems for them, nor should you try. Nobody likes a busybody.

As I've said so many times in the past, the US government has got to stop sticking its nose in other people's business. The US has been acting as the world's self-appointed cop since at least WWII, as often as not stepping in on the side of the bad guys—whether it knew it or not— and bankrupting itself while making enemies in the process.

In the case of Hong Kong, my view is that the Beijing regime is totally wrong, but it would be a disastrous error for us to get involved.

The same goes for the South and East China Seas, which were in the news a few years back. The US is sending a bunch of aircraft carriers there to show the flag, which is dangerous and provocative and none of our business. Just as it would be none of China's business if the US decided to make the Gulf of Mexico its own private backyard sea. Should China try to contest that? Should China step in if Mexico decided the Gulf is really its territorial water?

The fact is that Chinese and US businessmen get along just fine. If the Chinese prove to be unethical or dishonest, a US business should just stop working with the firm that cheats them. Why should the US government be involved?

The US and Chinese governments are posturing at each other like a couple of angry chimpanzees. The Chinese government and the US government are both dead hands on their economies. Neither serves a useful purpose. They're the problem, not Chinese and American businessmen.

Taiwan is another simmering problem.

The Chinese government sees Taiwan as a breakaway secessionist province. They don't recognize its independence, much as Lincoln didn't recognize the Confederacy. I think it's great the Taiwanese are independent, but it's not our problem. It's just as stupid for the US government to chance a war there as it would be for the Brazilian government to make Taiwan its business.

International Man: What does it mean for the economy and US politics?

Doug Casey: Well, there's a huge trade deficit between the US and China, which Trump loves to point out.

I don't see that as a problem at all.

The Chinese produce stuff and the US consumes it. It's one-sided—to the American consumer's benefit. We pay them in US dollars, which will soon be treated like Old Maid cards, created by the trillions. If the US government wants the deficit to stop, it only has to stop its printing presses.

The fact is that the Chinese economy has been tremendously successful because it dumped communism starting in 1980 and free-marketized. The progress that they've made in the last 40 years is totally unprecedented in world history as a result. Well, unprecedented for a country that size—because Singapore, Hong Kong, Dubai, all city-states—have done at least as well by implementing low taxes and almost no regulations.

That said, the Chinese economy could actually collapse. Why? Because the expansion that they've gone through over the last 40 years has been financed by hundreds of millions of Mrs. Wongs saving half of their income. They save it in Chinese yuan, and they put it in the banks. The banks lend it to governmental entities and businesses.

It's a debt-driven economy, not an equity-driven economy. The PRC has made huge progress, but—unlike Hong Kong, Singapore, or Taiwan—it's built on bank debt. The yuan isn't a sound currency.

China has an active stock market, and it's true that Mrs. Wong is involved in the stock market. But the Chinese stock market doesn't raise capital so much as substitute for a casino. Mrs. Wong trades the stock market but treats it like a version of the Macau casinos.

Because the Chinese economy is built on debt from the banks, and because the government controls so much of the economy, a lot of that debt has been misallocated. And can't be repaid. Remember, whenever the State is involved, things are done mainly for political, not economic, reasons. And there's always corruption whenever government is involved.

How so? Everybody's heard about the scores of new Chinese cities that have been built but largely unoccupied, combined with roads and bridges that go nowhere. Is it brilliant strategic thinking or a gigantic example of State "planning" and bureaucratic stupidity? I can't say from a current boots-on-the-ground standpoint because it's been about five years since I've been to China proper. But I believe that there's been a huge waste of capital—because it's being politically allocated.

If Mrs. Wong goes to take her yuan out of the bank and she can't because it has been put into uneconomic projects or if she gets her yuan back and they're worth nothing—there could be a revolution in China.

As the US descends into the Greater Depression, a lot of Chinese factories producing for the US market are going to be in trouble. That will result in a lot of Chinese unemployment, mostly urban. China has had one of the great mass migrations of history since 1980—most peasants have moved from the countryside into the city.

If people in the cities become unemployed, they're going to blame the government, and their government will blame the US. The whole world revolves around government today. It's not just true in the US and China, but all countries.

What's the upshot of this? Will manufacturing return to the US? I don't think so because the US isn't very business-friendly. For one thing, taxes in the US are going to go up.

Most governments—the US government, the states, cities, and local governments—are more bankrupt than ever before because of the COVID hysteria. These governments are also adding regulations—they're not deregulating. Why should businesses come back to the US and be subject to vastly more regulations than in the Orient? US labor costs are also higher, even though labor is less and less an element in manufacturing.

As taxes and regulation grow, at some point the US is likely to have foreign exchange controls to keep capital from leaving. A word to the wise on that subject—diversify abroad. In any event, during a depression, the general standard of living goes down. It'll go down both for the Chinese, who will be producing less. And for the Americans, who'll be consuming less.

International Man: What are your thoughts on China's future overall?

Doug Casey: First, I'd like to point out that a lot of people still refer to the country as "Communist China." That's a huge misnomer.

It hasn't been a communist system for 40 years, since Deng Xiaoping reformed the economy. China may still have pictures of Mao on their currency, but it has nothing to do with communism anymore.

The Communist Party is just a scam, benefitting its members alone. They get to live high off the hog. The Communist Party is nothing more than the Chinese Deep State. It no longer has anything to do with Marx, Lenin, or Mao—an unexpected plus.

We shouldn't call it communist China, because it's not communist. It's not even socialist. They have a fascist system, just like we have in the US. In other words, business is privately owned, and consumer goods are widely available—but it's all controlled by the State. It's an authoritarian system. The Chinese have moved towards the US system, even while the US is moving towards the Chinese system.

What's next for China?

There's an excellent chance China will go the way of Yugoslavia, which broke up into six smaller countries, or the USSR, which broke into 15. Czechoslovakia broke up into two. Or the United Kingdom, for that matter, which is probably going to become disunited. This is a trend all over the world today. Countries are subdividing into smaller ethnic-based units. It could happen in China. And the US as well—but that's a whole different conversation.

About 80% of the people in China are ethnic Han Chinese; most speak Mandarin as their mother language as well.

At the same time, there are scores of other languages and cultures within China, representing over 300 million—that's a lot of people.

For instance, in Southern China—Hong Kong, Guangzhou—the native language isn't Mandarin. It's Cantonese. They use the same ideograms as Mandarin does, but the language is as unintelligible to a native Mandarin speaker as, say, Danish is to an English speaker.

We're talking about 68 million native Cantonese speakers. That's a huge number. It's larger than most countries in Europe.

The same is true of the Shanghai-ese.

I'm not even counting Mongolia, Tibet, and Xinjiang—which are all actually separate countries with ethnically, culturally, and linguistically different natives. They're being purposefully overwhelmed, demographically conquered, by the Han Chinese. There are a dozen other seriously different countries within China itself.

I don't doubt that when the going gets tough, they're going to look to independence, as opposed to being bossed by Beijing. Of course, the central government will resist violently, the same way the Russians recently did with the Chechens, the Burmese did with the Karens and Rohingya, or the Indonesians with the East Timorese. But there are scores of other examples.

It's not unlikely China will break up into autonomous regions run by warlords, much the way it was during the 1930s. As outlandish as that might sound.

International Man: What are the odds of a military clash over Taiwan, Hong Kong, or the South China Sea, and what would be the consequences of that?

Doug Casey: Well, it's quite possible. But why does that have to be the problem of the US?

It's almost impossible for the US to invade China. What kind of attack can the US mount? Is the US going to launch a bunch of ICBMs onto Chinese cities?

That makes no sense because the Chinese have their own ICBMs to fire back. That's not what [World War III is likely to look like](#). And there will be something resembling World War 3. History hasn't ended, contrary to Fukuyama's silly book of some years ago.

So if the US can't and won't invade China and won't do an ICBM strike, what will they do? If it comes to a hot war, it will look like what I described in our recent interview.

But, along the way, the US government will try to destroy the Chinese economy.

Getting into a military dust-up with the Chinese—using aircraft and aircraft carriers—would be a catastrophe for the Americans. The Chinese have sophisticated bases all along their shore. This makes the dozen or so US aircraft carriers nothing but sitting ducks.

They'd be turned into artificial reefs. I'm sure divers of the next century will enjoy that—but today's Americans won't. A war is not out of the question, but, again, it won't be a conventional war using today's military junk. It's not really feasible, although the generals and admirals will be the last ones to figure that out.

International Man: Recent polls suggest that nearly 2/3 of Americans have a negative view of China. What role will China play in the upcoming presidential election?

Doug Casey: That is an interesting question, especially in the context of the race riots now taking place in the US right now.

When the going gets tough in any country, it makes all the sense in the world for that country's government to find a foreign enemy to unite the people. In the case of the US, they'd hope to change the equation from whites versus blacks and browns, to Americans against the Chinese.

Of course, they've played this card against Iraq and Iran. They played it against Russia.

When we talk about racism, the fact is that almost every ethnic group considers itself to be special or superior. That absolutely includes the Chinese. In fact, the Chinese, as a group, probably have more belief in their racial superiority than any other group. That augurs poorly for world peace.

But will the Chinese have anything to do with the coming election? I'd say very little. In so far as they do, however, they're going to be Democrat-leaning. The US still thinks it has a monopoly on interfering with other countries' elections and governments.

The Chinese dislike nationalists such as Trump. Trump is capable of all kinds of foolishness, as he's already shown, with import duties and quotas. They'd much rather have a globalist who would try to cooperate with them.

As you know, I made a money bet that Trump would win in 2016. This time, I don't care about Trump losing, *per se*. He's a guy with no philosophical core, although he is a cultural conservative, and against PC types and cultural Marxists on a gut level.

What I really care about is the Democrats *not* winning, because that would be a catastrophe. Unfortunately, however, the collectivists have momentum on their side. Why? They have an actual philosophy, even if it's a very bad one. The Republicans, however, have none. They only counter by saying their enemy is going too far, too fast. That's why they always come off as confused and weak hypocrites.

If I was going to put money on it this time, the winner is likely to be whoever cheats best. Both sides are going to stuff the ballot boxes and do all kinds of things with electronic voting and voting by mail.

The Democrats, however, are much more professional and experienced at this type of thing than the Republicans. They're likely to win.

Editor's Note: The US empire has overstretched itself across the world. Today, the US is actively at war in about half a dozen countries. But perhaps [the biggest danger is the rivalry with China](#), which has the potential to dethrone the US as the top global power.

China has a secret weapon that could bring the US to its knees. China can cut off the supply of rare commodities that are crucial to powering modern life. The US is scrambling to find a way to neutralize this threat before it's too late.