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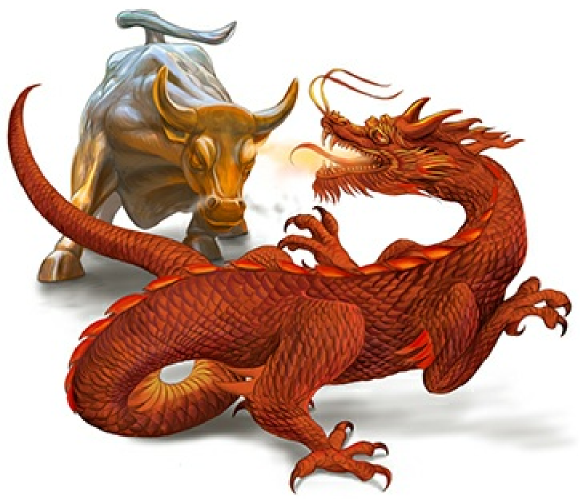

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## Spiraling Into Trade War

Donald Trump is accused of starting a trade war. Actually, this war is entering its later, most dangerous stages.

- Richard Palmer
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America is under attack. Its factories and manufacturing capacity are being destroyed. Millions of lives are being disrupted. And this attack will worsen—to the point that it will bring the nation to its knees.

But because this attack is invisible, few are paying attention. Politicians ignore it. The media paints a distorted picture of the war, so many believe America started it.

This invisible battle is a trade war. This is not dusty economics. Trade wars can cause mass unemployment, concentrated in specific jobs or regions—which can escalate into a political crisis. They can destroy a nation's capacity to fight, crippling its ability to produce arms and weapons. In their most extreme form, trade wars can kill—by cutting off foreign food supplies.

An ongoing trade war has already changed the world—and changed your life. Yet too few understand this quiet world war.

## Free-Trade Saints?

More people would understand if the story were reported better. The latest news is that United States President Donald Trump announced tariffs (taxes on imported goods) on steel and aluminum beginning March 23. So far, he has exempted Canada, Mexico and Australia.

Europe has lashed out in response, threatening tariffs on any stereotypically American product they can think of, like Harley Davidson motorbikes, Kentucky bourbon and Levi's jeans.

The consensus is that America is about to launch a war that could escalate dangerously. America puts up some tariffs, Europe and China retaliate, America retaliates against their retaliation—and soon, trade barriers are up everywhere, stopping trade and sending prices soaring. This leads to skyrocketing unemployment, economic depression and political upheaval.

Such a future is plausible. But is it caused by America senselessly upsetting global trade?

No. In fact, *America is the most pro-trade advanced economy.* America imposes only *half* the level of tariffs that China does. The European Union slaps 10 percent tariffs on U.S.-made cars and foodstuffs—while the U.S. imposes only tiny tariffs in exchange.

The EU and China have been attacking the United States economically *for years.* America is the victim of a trade beatdown. Donald Trump is only "starting a trade war" in the sense that he is fighting back.

The EU and China have been fighting a trade war in the same way Russia fought its war in Ukraine. It used soldiers with no insignia on their uniforms and invaded without "really" invading. Europe and China have avoided actions that seem like an outright declaration of war. This way, they have been able to boost their economies at the expense of America's. Just as in

Crimea, everyone knows who is to blame. But as in Crimea, America has done nothing.

The costs of this inaction have been catastrophic.

## Subsidies Strike

What are the weapons of a trade war? A major one is government subsidies. Governments often want to help their nations' manufacturers sell more abroad. So they hand the manufacturers money. A government may give a manufacturer $20 per gadget it sells abroad. The manufacturer can sell that gadget for $20 less and still make the same profit. Foreign consumers will buy more of these cheaper gadgets from the manufacturer—and less from their foreign competitors.

The World Trade Organization (wto) heavily limits subsidies, but China has skirted this for years. In China, the government and big business are intertwined. The ruling Chinese Communist Party helps many companies sell goods much more cheaply than they would otherwise. This is a well-known fact, but not quite overt enough to trigger much of an American response. Occasionally the U.S. will take China to the wto over a specific subsidy. But the bulk pass unchallenged.

Yet Chinese subsidies have *devastated* American manufacturing.

The London School of Economics' *CentrePiece* magazine estimated that in 2013 China spent up to 1.5 percent of its economic output on subsidies for export-focused businesses. This is a huge figure of around $100 billion. Before 2008, foreign-owned firms in China paid only *half* the standard corporation tax if they sold at least 70 percent of their goods outside of China. China also offers special economic zones that lower tax rates further. Favored companies also receive cheap loans, cheap utilities and other benefits.

*CentrePiece* wrote that "the subsidies have been instrumental in concentrating a tremendous amount of manufacturing activity in China" (Summer 2013).

Chinese-owned firms are also showered in subsidies. "Government subsidies to produce technologically advanced products and undercut foreign manufacturers have buttressed China's trade prowess," Usha C. V. Haley and George T. Haley wrote in the *Harvard Business Review* in 2013. "Since 2000, the value of Chinese exports more than quadrupled" (April 25, 2013).

They studied a range of industries, including solar, steel, glass, paper and auto parts. China's production of all of these exploded because Chinese companies sold their products for less than foreign competitors did. "We found that Chinese companies could do this only because of subsidies they received from China's central and provincial governments. The subsidies took the form of free or low-cost loans; artificially cheap raw materials, components, energy and land; and support for [research and development] and technology acquisitions.

"Since 2001, when China joined the World Trade Organization, subsidies have annually financed over 20 percent of the expansion of the country's manufacturing capacity. … Huge Chinese subsidies have led to massive excess global capacity, increased exports, and depressed worldwide prices, and have hollowed out other countries' industrial bases" (ibid).

## Property Theft

Chinese firms can sell to the U.S. easily. They are subject to the same rules and taxes as American firms, plus some trivial import duties. If an American firm wants to sell in China, it is much harder.

For some industries, including energy, communications and car manufacturing, the Chinese government bans foreign firms. They can only sell to Chinese consumers if they form a joint venture with a Chinese company. This means that Boeing, Ford and General Motors must work with Chinese firms, sharing market information, research and development, and other resources—until the Chinese firm takes those resources for itself and leaves the foreign firm out.

In other industries, the government won't allow a foreign company in until it has scrutinized that company's technology. The American Chamber of Commerce in China wrote in April last year, "Chinese government authorities jeopardize the value of trade secrets by demanding unnecessary disclosure of confidential information for product approvals."

"China does not play by the rules, and it has gotten away with it for too long," wrote James Andrew Lewis, senior vice president at the Center for Strategic and International Studies last summer. "The goals of Chinese policy are easily summarized: They wish to extract technologies from Western companies, use subsidies and nontariff barriers to competition to build national champions, and then create a protected domestic market for these champions to give them an advantage as they venture out in the world" (Aug. 2, 2017).

Former National Security Agency director general Keith Alexander has called it "the greatest transfer of wealth in history."

Businesses now know that giving up some intellectual properties is the price of doing business in China. They either pay it or forgo a market of over a billion. But when they pay that price, China uses that expertise to build up Chinese firms that, with government help, outcompete the American company that gave them the knowledge.

## The Massive Way China Cheats

These are aggressive economic attacks, but they are not China's worst. Some economics background is crucial to understand the full depth of China's subtle war. You will be stunned at what China (and Europe) are doing to the global economy. They know that if it is even slightly complicated, most people won't bother to understand it, let alone do anything about it.

According to one estimate, this next economic tactic costs the U.S. economy half a trillion dollars*a year.*

The current global system is designed for natural exchange rates that change according to supply and demand. If the demand for the dollar rises, the price of the dollar goes up compared to other currencies. If the demand falls, then the value of the dollar drops. This is called a "free floating" exchange rate.

The U.S. imports a lot more than it exports. It has to pay for its imports using the currencies of the countries they come from. It sells dollars to buy foreign currency. Selling lots of anything, including dollars, drives its price down. So the price of the dollar falls.

Imagine that one dollar is worth one euro. A car costing €10,000 in Europe would naturally cost $10,000 in the U.S. Now imagine that the U.S. has sold so many dollars that the value of the dollar has fallen 20 percent compared to the euro. That €10,000 car now costs $12,500.

Since European cars have become more expensive for Americans to buy, they buy fewer of them. Meanwhile, an American car that costs $10,000 now only costs €8,000 in Europe, so Europeans buy more of them.

When currencies are free to adjust to supply and demand, the system automatically balances itself. America imports more than it exports. This weakens the dollar. American exports become cheaper for consumers who use other currencies. So they buy more U.S. goods. America then starts importing less and exporting more, returning it to a balance.

In practice, however, it's not quite so neat. The dollar is the world's most commonly held currency and is used as a "reserve currency." It is seen as a safe investment, so demand for dollars remains higher than it would normally be, keeping its value higher than it would be otherwise.

But China deliberately breaks this system. For years the Chinese government has manipulated the yuan's value to keep it weak.

The weak yuan acts as an invisible subsidy on everything China exports and an invisible tariff on everything it imports. A Chinese smartphone that may ordinarily cost $250 now costs only $200 because of this currency manipulation. So Americans buy more Chinese goods. In the short term, American consumers get cheaper phones, but in the long term, American manufacturers lose out—and many relocate to China.

The result is a massive trade imbalance, with China exporting huge amounts to the U.S. and little going the other way.

China has signed up to play by the standard rules. It is a member of the International Monetary Fund, of which "avoiding manipulating exchange rates" is an entry condition.

America has failed to confront China on this. The Omnibus Trade and Competitiveness Act of 1988 requires that the U.S. Treasury identifies all currency manipulators "gaining unfair competitive advantage in international trade." The Treasury labeled China as a manipulator from 1992 to 1994, but it has not done so since, despite almost all major economists agreeing that the Chinese government manipulates its currency. C. Fred Bergsten, senior fellow and director emeritus at the Peterson Institute for International Economics, wrote that "China was the champion currency manipulator of all time from 2003 through 2014." Even Ben Bernanke, then chairman of the Federal Reserve, said in 2010 that China was manipulating its currency. Still, the Treasury did nothing.

The Economic Policy Institute (epi) estimates that currency manipulation—led by China—increases the U.S. trade deficit by $200 billion to $500 billion a year. These are huge figures, far exceeding the annual benefits of the dollar being the world's dominant reserve currency. The epi estimates that if China stopped this practice, the size of the American economy would increase between 2 percent and 4.9 percent and the number of jobs would increase by 2.3 million to 5.8 million. Crucially, 40 percent of these jobs would be in the manufacturing industry, which has been devastated in recent decades.

There is some debate on whether China is still a currency manipulator. Some argue that in recent years China has ended its manipulation as part of a bid to replace the dollar as the world's reserve currency. These economists may be right. Others argue that the loss of manufacturing to China doesn't matter; after all, cheaper smartphones mean the public can spend more on other things. But the fact that China has manipulated its economy for years is beyond dispute.

## Germany: An Even Subtler Foe

China's trade war is no secret. It has contained its economic assault just enough to avoid prompting a strong American response. Germany's trade war is even subtler.

Europe has manipulated the currency markets in Germany's favor. Like China's currency manipulation, the nature of the euro stops the normal self-correcting mechanism of floating exchange rates from working.

Before the euro existed, each European country had its own currency. Germany had a strong exporting economy, so its currency got stronger. Countries in Southern Europe (including France, for the sake of economics) imported a lot from Germany, making their currencies weaker. German goods became more expensive, Southern Europe's exports became cheaper, and they were able to remain fairly competitive.

The euro ended that. When Germany, Southern Europe and the rest of the countries in the eurozone all adopted the euro in 1999, they became locked into one exchange rate, doing away with the floating rates of their old, obsolete currencies. The result is that Germany exports more and more to Southern Europe, and there is no built-in mechanism to stop the flow.

But the euro did more than that. The euro is a less stable currency than the deutsche mark was and is thus much weaker. According to last summer's report from the imf, the euro is 10 percent to 20 percent cheaper than a German currency would be. This means that a German car that would cost $10,000 in a fair market actually costs $8,000 to $9,000. No wonder Germany is an exporting powerhouse: It has a built-in advantage.

The fact that the euro would be weaker than the deutsche mark, giving Germany an enormous exporting advantage, was clear from the start. In his 1995 book *The Rotten Heart of Europe,* Bernard Connolly writes that "a monetary union cannot survive without a political union, as the Bundesbank has said time without number. But there will *not* be a political union cohesive enough for everyone to put 'Union' interests above national interests. … It follows that the single European currency will certainly be weaker than the deutsche mark …."

Economists still argue whether this euro advantage was deliberate or an unforeseen side effect. But the effect is undeniable. Since the euro was introduced, Germany's trade surplus has exploded.

## A Trade Alliance

The Bible prophesies of a trade alliance that matches these two powers that are already waging economic war on the United States. Isaiah 23 forecasts a "mart of nations" (verse 3). The chapter is full of references to ships, oceans and overseas trade. It is describing a trade alliance.

The alliance includes Tyre, an ancient economic power and a type of the economic power rising in Europe. It also includes China, using its ancient name, *Chittim.* (Request our free booklet *Isaiah's End-Time Vision* for biblical proof.)

Other scriptures forecast a trade war on the U.S. In Deuteronomy 28:52, God tells Israel that its enemies would "besiege thee in all thy gates"—cut its economy off from the outside world—the most extreme form of a trade war. Ezekiel 4-5 describe a siege of Jerusalem along with the other tribes of Israel. This siege, as outlined in Ezekiel 4 did not happen during his time. In fact, most of ancient Israel had already been conquered, deported and enslaved by the time Ezekiel wrote this.

Why give these prophecies? Because they are for the modern descendants of Israel, including America and Britain. (Request your free copy of *The United States and Britain in Prophecy* to trace this history.)

Put these scriptures together, and it's clear that this mart of nations uses trade to oppose Britain and America. These nations cut America off completely, besieging it and bringing it down.

*Trumpet* editor in chief Gerald Flurry explains in *Isaiah's End-Time Vision:* "With a German-led Europe (the king of the north) possessing great maritime power, North America will be surrounded on the east by Europe and the south by Latin America. The Bible contains many prophecies of the European power attacking America—and many other prophecies of America being *besieged.*

Infographic

*See infographic: "A Coming Global Trade War"*

"That is where China and the giants of Asia enter the picture. … [C]onsidering China has come to possess most of the world's strategic sea gates (which, ironically, at one time were held by Britain and America), we believe there may be a brief alliance between the German-led Holy Roman Empire and certain Asian powers (Russia, China, Japan—the kings of the east). Should Europe, the resurrected Holy Roman Empire, find a way to take advantage—even for a moment—of key resources and strategic holdings of China, Russia and Japan, it would have more than enough power to besiege the Anglo-Saxon nations and enslave them."

The powers mentioned in Isaiah 23 are already besieging America—albeit in a limited way compared to what is to come. All that is required for this prophecy to be fulfilled is for Europe and Asia to band together and begin aggressive economic warfare.

In singling out Germany and China, Donald Trump is confronting a major danger to the U.S. But there is also a great danger in his approach.

180405 Xi Merkel Getty Images 810153374 Copy

*China's president Xi Jinping (L) and Germany's chancellor Angela Merkel shake hands during a meeting on the first day of the G20 summit in Hamburg.* (Getty Images)

Peter Zeihan, a geopolitical analyst formerly of Stratfor, wrote on March 5 that "considering the global nature of most modern supply chains, any America-First-themed trade war is a trade war with the entire international system: rivals, but also allies, with every action rippling throughout the entire global order. A global recession is absolutely guaranteed and based on how fast and heavy Trump lowers the boom, this could well be the singular action that drops the world into the disorder that I often speak and write about."

"[D]o *not* underestimate just how fast this unraveling can happen," he warned. In the past, Zeihan said, he "noted that the global system was so fragile and counterintuitive and out-of-date that it was a waste of time to guess what specific action might cause it all to crash apart. An American-initiated trade war is perhaps one of the ways to destroy it most quickly and thoroughly."

A trade war against Europe and China at the same time could unite the two together and lead to the "mart of nations"—and to its attack on America.

Even a "victory" poses great dangers. As we explained in our February issue of the *Trumpet* , Germany's political system is fragile and its economy depends on trade with America. A trade war could lead to a dangerous political transformation.

America has a lot of economic strength, and it could hurt these nations. But it also has a lot of debt. China owns more than $1 trillion of that debt. If it slows or stops its purchases of American debt, the Americans could not finance their out-of-control government spending, and the American economy, government and society would be imperiled.

For years Chinese leaders have murmured about using this economic "nuclear option" if they don't like the way the U.S. is heading.

## A Sure Solution

Exactly how Mr. Trump's trade retaliation will play out is unclear. We don't yet know exactly who will be included in the tariffs. Perhaps by confronting Germany and China, Mr. Trump will buy some temporary relief for the U.S.

But in the long run, he cannot save the American economy.

To understand why, we need to understand why America became a manufacturing and resource superpower in the first place.

In 1950, the U.S. and Britain produced three quarters of the world's steel. Today that figure has fallen to just over 5 percent—with most of that coming from the U.S.

Some of that drop is due to trade wars. But there is a more fundamental cause.

America’s massive industrial wealth was prophesied in the Bible. God said that Britain and America would receive “the precious things of heaven, for the dew, and for the deep that coucheth beneath, … And for the chief things of the ancient mountains, and for the precious things of the lasting hills, And for the precious things of the earth and fulness thereof …” (Deuteronomy 33:13, 15-16). God also promised to “bless all the work of thine hand”—America’s cities and storehouses—its manufacturing efforts would be blessed (Deuteronomy 28:3, 8, 12).

Charles M. Schwab, a steel magnate and one of America’s top industrialists, said in 1921, “Our United States has been endowed by God with everything to make it and keep it the foremost industrial and commercial nation of the world.”

Such knowledge and such statements used to be common. But now America no longer acknowledges where this wealth came from.

God also warned against this forgetfulness, saying, “Lest when thou hast eaten and art full, and hast built goodly houses, and dwelt therein; And when thy herds and thy flocks multiply, and thy silver and thy gold is multiplied, and all that thou hast is multiplied; Then thine heart be lifted up, and thou forget the Lord thy God … And thou say in thine heart, My power and the might of mine hand hath gotten me this wealth” (Deuteronomy 8:12-14, 17).

God warned ancient Israel not to forget who led them into the Promised Land. And God gives the same warning to their modern descendants, blessed with even more wealth and power.

God says that America’s work in its cities and in agriculture will be cursed (Deuteronomy 28:16). Where once their labor was blessed, now it is cursed (verses 17 and 19).

America’s besiegement by its enemies is one of these curses. China’s and Germany’s attacks on America are a foretaste of this curse from God.

This is why a trade war on Germany and China is not a lasting solution to America’s economic problems. The trade attacks from these powers are part of the correction from God.

But you can receive God’s blessings in your life, regardless of what the nation does. To learn the truth of why America is being attacked, to prove the biblical identity of modern America for yourself, and to learn what you can do, request our free book *The United States and Britain in Prophecy*, by Herbert W. Armstrong. ▪

## Want America great again?

First you need to understand what made America great to begin with. Request Herbert W. Armstrong’s free book***The United States and Britain in Prophecy*** to learn the remarkable story of America’s rise.

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