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## Chancellor's Update

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### New Drums of War

In the November 2013 and April 2014 Updates an explanation of what was happening and what is expected to happen is now even hitting a major economic newsletter, *Money and Markets* by Martin Weiss in his Saturday May 17, 2014 edition. The following are excerpts:

New drums of war are everywhere and beating louder by the day.

If you don't get their message — or you underestimate their importance — it's about time that you pay closer attention:

**Global conflict is a powerful force that could drive key investments up —or down — and continue doing so for years to come...**

The story begins 25 years ago, in 1989.

That was the pivotal year for the most dramatic peaceful transformation of modern history ...

The democratic revolutions in Poland, Hungary, East Germany, Bulgaria, Czechoslovakia and Romania in the Autumn of 1989 ...

The fall of the Berlin Wall on November 9th of that year ...

The collapse of the Soviet Union in December ...

The rapid, lightning-like integration of Europe ...

The enormous capital flows from West to East in the 1990s, and ultimately ...

The inclusion of Russia in the grand old club of advanced, democratic nations, the G9.

Meanwhile, in Asia, we saw a parallel transformation (albeit mostly in the economic sphere): China literally leaped into the global market economy. Vietnam followed. Trade with the West and their capitalist neighbors doubled, tripled and then doubled again.

The transition to market-based economies created massive opportunities for investors. We saw a huge increase in cross-border trade and foreign direct investment. Almost simultaneously, the emergence of the digital revolution brought a decrease in international transaction costs. The Asian tigers and the BRIC countries — Brazil, Russia, India, and China — grew exponentially. We saw a surge in cross-border mergers and acquisitions.

In this environment, the mere *thought* of regional conflict seemed absurd. And anyone talking about global conflict would inevitably be invited to check in to the nearest insane asylum.

And yet, it was just about ten years ago, precisely at the peak of this grand peace cycle, that Larry Edelson, our precious metals analyst sent me a manuscript warning of precisely the opposite. His main point: There are a myriad of territorial disputes around the world that are potentially very dangerous — between China and Japan ... between China and its Southeast Asian neighbors ... between Russia and former Soviet republics ... between Russia and East European countries ... and many more.

His conclusion: Each of these will be major global hotspots someday. And some could emerge as the focal points of a future cold war — or worse...

But now look! *Just in the last few months, it seems as though the entire basis for the peaceful transformation of the last quarter century is beginning to disintegrate.*

**Russia** has been kicked out of the G8 (now G7). And throughout the country, anti-American propaganda in the media is so efficient, so extreme and so widespread, it makes the Soviet-era propaganda machine seem primitive by comparison.

*The New York Times*, reporting from Moscow, explains it this way:

"From the moment that Russia's invasion and annexation of Crimea cast a new, bitter chill over relations with the West, a sinister jingoistic vibe has pervaded this unsettled capital — stirred up by state-controlled television and Mr. Putin himself.

"In the weeks since the military incursion into Crimea, Russian flags have been hung from the windows of apartment buildings all over the city, just as American flags appeared in profusion after the Sept. 11 terror attacks.

"There is a new website with a name that translates as 'traitor.net' that includes photos and quotations of public figures who have spoken out in some way against Russia's policy toward Ukraine. The bottom of the site has a button inviting viewers to 'suggest a traitor.'

"At Mr. Putin's direction, a committee led by his chief of staff is developing a new 'state policy in culture.' Widely expected to be enacted into law, the proposed cultural policy emphasizes that 'Russia is not Europe' and urges 'a rejection of the principles of multiculturalism and tolerance' in favor of emphasizing Russia's 'unique state-government civilization...'"

And all this is supported by a massive, government-directed network of social media specialists, who not only are said to distort the facts, but are also considered very adept at *creating* facts based on false reporting from so-called "eyewitness bloggers."

In this sense, the machine is said to be far more advanced and efficient than anything used in Soviet Russia.

This is not to say that all Russians believe everything they read or hear. But minority opinions in Russia are now far more difficult to communicate, even more difficult to prove, and often downright dangerous.

**In China**, anti-American commentary is not the bigger issue — yet. It's the massive anti-Japanese propaganda machine.

Last November, China surprised the world by declaring an Air Defense Identification Zone covering most of the East China Sea, including the airspace above the hotly disputed Senkaku Islands administered by Japan (called the Diaoyu Islands in China)...

Meanwhile, Japan's government hasn't hesitated to give Japan-bashing bloggers material to write about: Just last month, for example, Japanese Prime Minister Shinzo Abe visited the Yasukuni Shrine in Tokyo, implicitly honoring World War II generals who were executed for war crimes in China and Korea — a not-so-subtle offense that sent waves of anger up the spines of Chinese citizens.

And just this week, nearly seven decades after the end of World War II, Abe is getting ready to officially call for an end to long-standing restrictions on Japan's military, another major shot across the bow of China...

All this is very serious. It has the earmarks of at least two massive regional conflicts — one in Europe, one in Asia.

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