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Forecasting the World

# The Assent of China the New Face of China



习近平

Xi Jinping

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### A C K N O W L E D G E M E N T S

I would like to thank all the former employees, associates, sources, and contacts for their ongoing support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

The purpose of these reports is to broaden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a Sovereign Debt Crisis that threatens our core survival. There is no plan to ever pay off debts. The majority of debt increase is paying interest perpetually to roll over without any long-term plan. What you see in Greece and in the States, we have run out of other people's money. The socialists keep pointing to the rich. But to fund the deficits, we need to borrow now from foreign lands. We ran out of money domestically and to support the current system like Greece, we need foreign capital. But all governments are facing the same crisis and we are on the verge of another widespread government default. Adam Smith warned in his Wealth of Nations that in 1776, no government paid off their debt and had always defaulted. We will have no choice either.

There is no hope that politicians will save us, for they only form committees to investigate after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust of wind blew them off. The average man being a realistic-pessimist, immediately sees he is about to die and begins praying. The politicians, the ultimate optimist, can be heard saying "Well so far so good!" as he passes the 4th floor.

At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. The world is far more dynamic and every change even in a distant land can alter the course of the global economy. Just as has been shown with the turmoil in Greece, a CONTAGION takes place and now capital begins to look around at all countries. We can no more comprehend the future but looking only at domestic issues today than we can do so in every other area, such as disease and the spread of flus.

We live in a NEW DYNAMIC GLOBAL ECONOMY where capital rushes around fleeing political changes and taxes just as it is attracted by prosperity. All the people who migrated to the United States in the 19th and 20th Centuries, came for the same reasons as those still coming from Mexico - jobs and prosperity. In the 19th Century, America was said to have so much wealth, its streets were paved in gold. We must now look to both the past and the entire world to understand where we now are today,

# The Assent of China

## the New Face of China



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NDERSTANDING CHINA is of critical importance if we intend to be in any position whatsoever to comprehend the years that lie ahead. Unless you have spent actual time in other countries, you cannot get that "feel" for its culture that allows understanding to begin to form. The key to conceptual beliefs usually lies deep within the language. Japanese call foreigners GAI JIN, whereby "jin" means a person so the actual term means foreign devil. Of course, this meaning is not the general feeling today about foreigners, but it still reflects a underlying sense of distrust. Because all Japanese who are pure blood have black hair, they used the term KIN PATZE to apply to anyone with hair other than black, yet its strict interpretation originally meant BLOND for "KIN" means gold. Thus, words can with time drift from their original meaning, yet still encapsulate the root sense of caution. In Chinese, the term for foreigner was WHI KAO QUI or Ocean Devil and some used Ocean Ghost, meaning those people who came from the sea and caused trouble, such as the British acting like drug dealers in the Opium War.

Most people are familiar with what is called a **NAPOLEON COMPLEX** meaning that they over-compensate for being short. This factor will also effect nations for it is still a human trait. This has been the historic main factor behind countries building great armies during the 17th and 18th centuries that is still with us today. The **RIGHT WING** in most governments still pound their chests and are intent upon building vast armies no different than a small guy taking working out to the extreme to compensate for his small stature.

This is why in the Constitution of the United States there was the Second Amendment that was the right to retain arms. Jefferson was **AGAINST** maintaining standing armies for (1) it wasted the national resources and (2) since the army was there, it led to the use of force more-often-than-not, and the right for citizens to retain arms was the hope of returning to the early Roman Republic when there was a citizen army, not professionals. The **RIGHT WING** inside of every government still wants to create big armies to be macho.

To a large extent, mankind is still in the very primitive stone age. Countries are defending themselves against the GHOSTS OF CENTURIES PAST. In the old days before the rise of CAPITALISM, countries operated on what I call the CONQUEST MODEL. The manner in which a city-state grew into a nation and then an empire, was through conquest and plunder. This is how Rome rose as did the Greeks. But then you reach that point of maximum entropy, the cost of maintaining the army is no longer sustainable from the conquest and plunder of others, it then turns against its own people raising taxes, creating laws, and criminally prosecuting the people to confiscate their property and thus the plunder becomes a cancer that leads to the downfall of the empire.

CAPITALISM was the greatest single advancement in political-economic history. It meant that a nation no longer needed to wage war and conquer its neighbors to make money and grow. The rise of mercantilism demonstrates that the WEALTH OF A NATION could be increased through economic means, which was the entire purpose behind Adam Smith's work in 1776. Marxists hate anything to do with CAPITALISM for they see only the money and jump-up-and-down in their yellow raincoats screaming about the unfairness of wealth and that the guy next-door has more than he does. They seek to use law to in fact recreate the CONQUEST model on a very personal level. As Margaret Thatcher once said: SOCIALISM WORKS UNTIL YOU RUN OUT OF OTHER PEOPLE'S MONEY.

The real distinction is between the CONQUEST MODEL and that of CAPITALISM, for socialism/communism is merely a hybrid that tries to sustain that final phase when the conquest of neighbors fails and the state then turns inward to attack its own people to gather money to sustain itself.

Today, we are stuck in the mud of the past as nations are still inclined to take vast resources and spend it on armies just as that little guy who feels he needs to get all buffed-out to show he is still a person to be RESPECTED! Often, people who have nothing else to hang their hat on as far as talent is concerned, turn to building their body to pretend they are something.

This is a sad state of affairs where countries still act like the buffed-out guy who tries to be the bully to get any respect for he has nothing else in life that impresses himself. Yet this is why nations still try to build armies. The USA is still in this mode and that invokes the same response from China. Yet, neither nation stands anything to gain from the CONQUEST of the other economically. It would be like poisoning the well to get your adversary, yet you too drink the same water to ensure he will do the same. This is the true essence of a Pyrrhic victory.

The CONQUEST MODEL is long dead. The USA now invades countries, and then spends a fortune rebuilding them all at the taxpayer's expense. This benefits those in power who have stakes in companies that will benefit from the death and carnage, but it contributes nothing to the advancement of society nor does it make the lives of its people better.

The USA has devolved into a half-ass CONQUEST MODEL whereby there is no longer any benefit to invading another nation. It is all about benefiting those with inside stakes in companies like Halliburton. Why did this American company become a foreign company? To prevent subpoena powers that would have exposed the corruption in the political circles. War has become solely for personal gain.

However, the trick is for the bully to pick on people he knows he can beat. Thus, one cannot profit personally from war if the opponent might kick-your-ass. Therefore, the likelihood of war for the old reasons of conquest to enrich the nation, no longer exists. In reality, there is no need for any army anymore in any nation. Money is electronic and CAPITALISM has replaced the CONQUEST MODEL. Therefore, the only purpose for an army is against the prospect of just (1) personal gain by those in power, or (2) protection from nut-cases that are willing to poison the well to kill their adversary.

The US Invasion of Iraq, ironically, has made the world LESS SAFE, because it has shown that the only way to protect against personal greed is to have nuclear weapons i.e. North Korea and Iran.

Unfortunately, we are in the blame game rather than trying to comprehend how this whole thing works. It is one thing to blame the other guy for doing something, but it is ignorant to simply refuse to understand his thinking process. During World War II, in North Africa, they would catch Arabs who were working with the Germans. They would torture them for info, but that did not work. They figured out that you can fight ONLY if you understand the values of your opponent. Bringing in a big pig, threatening to kill the pig and then the Arab if he did not talk and burying him inside the pig skin so he would never see God caused them to tell everything. It was belief that mattered.

The greatest mistake everyone makes is to judge their opponent by themselves. You MUST understand the beliefs of the other if you are to ever comprehend solutions. You cannot force your opponent to adopt your beliefs and if they refuse, you go to war.

China has been often mistreated ever since the Opium Wars. That has a very deep rooted effect. The grand Olympics in China was its efforts to show the world that China is a nation to be respected. It is a matter of dignity that they demand and expect to be treated like equals, rather than subordinate.

In Japan, there still runs the deep feeling that the West looks at them with a distorted view that they are just like ants who run around and work upon the commands of the state or company. These are perceptions that exist, and it is something that MUST be understood if there is ever to be lasting peace and economic prosperity.

The CONQUEST MODEL is dead. CAPITALISM replaced it and that means that the economic welfare of each nation is now firmly tied into the fate of its neighbor. MARXISM was an attempt to turn the CONQUEST MODEL in upon its own people. It failed and cost the lives of more people than war.

We are in the middle of the collapse of MARXISM that began in 1989 and this is the typical 26 year decline meaning that the final collapse in the West will come with the top of the next ECONOMIC CONFIDENCE MODEL in 2015.75. That will be the end of SOCIALISM in the West as we have known it.

As we enter the last 4 years of this 26 year decline in MARXISM, we will be entering the most dangerous stage of all. This is imperative that we try to reach a understanding of how and why the world moves the way it does. We have an opportunity to shed ourselves of this bitter class hatred that MARX merely fueled. It is not going to be easy, for those in power rarely like to listen.

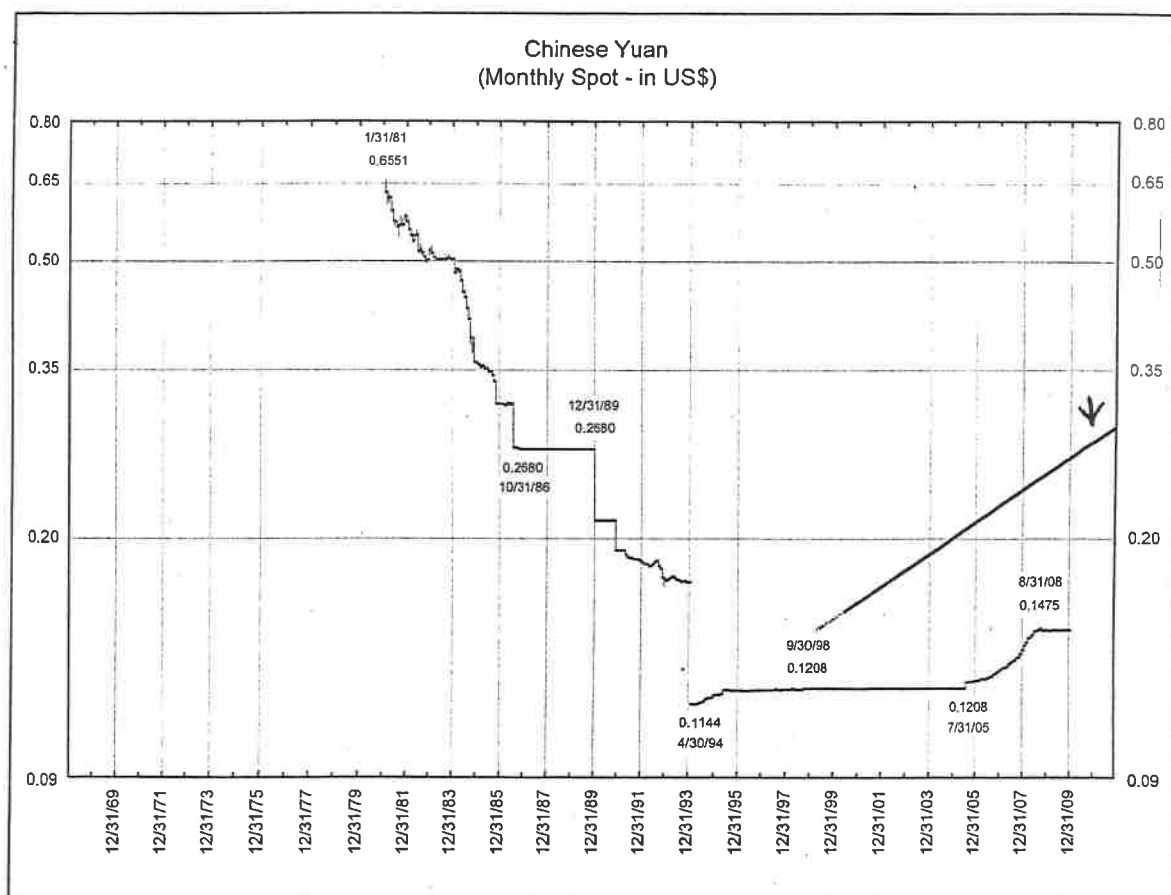
We are approaching that infamous river and unless we can cross the Phlegethon, we will not escape from Hades. We have to now understand what is really going on if we are to ever make it the other side of Phlegethon.

China is pressing the issue that the US\$ should not be the reserve currency. This is economically correct and is why I have been stating that we will reach that solution of ONE WORLD RESERVE CURRENCY that will be the first step to cross the Phlegethon.

NO nation should be the reserve currency. For when a nation is the reserve currency, it cannot isolate its domestic policy from the rest of the world and it exports domestic trends to other nations, regardless of whether or not it is intended.

By creating a ONE WORLD RESERVE currency, we will isolate domestic policy from international and that will help to reduce economic tensions. The way this works is simply a UNIT OF ACCOUNT, not an actual circulating currency. Each nation would retain its OWN currency and that would float against the RESERVE CURRENCY. Commodities would trade in the RESERVE, such as oil, gold, wheat, etc. To purchase any, one would then pay in his local currency at the rate on the exchange. This way, if a nation wants to increase its money supply to offset domestic economic problems, it can do so without exporting that effect to others because its currency is the RESERVE currency.

The British Empire collapsed because Britain tried to keep the pound overvalued for prestige purposes. The pound was only a UNIT OF ACCOUNT (1 pound sterling silver) for which no coin existed until the gold guinea. Keeping the pound overvalued, reduced exports and then created the incentive to break-up the British Commonwealth. Trade increased by abandoning Great Britain. The sun finally set upon the British Empire.



After World War II, Europe was also obsessed with seeing their currencies rise against the dollar. Politicians used this as a measurement of the success of their administrations. France was fixed upon the value of the French franc, for you see, in the Great Depression, it was France who was the last to abandon the gold standard after the US, and its gold reserves were up there as the second largest in the world. France wanted to relive that glory and began then taking dollars and demanding gold in the 1960s along with the Swiss that forced the collapse of the gold standard in 1971. It was all about ego.

The EURO is the same thing. It was pushed by France for it remained insulted that the world used the dollar and English. While economically lacking the ability to rise to meet the US on an equal footing, the French pushed for the EURO to rival the dollar using it still as a symbol of how far they had come from the depths of the days of World War II. A strong currency was seen as political success.

China has so far avoided that trap of having the currency be the symbol of its greatest. As long as Europe clings to the Euro and America the dollar, China has in fact taken the economic practical road and avoided the currency trap of ego.

The Chinese yuan will nonetheless about double in value going into 2016. It has followed the **ECONOMIC CONFIDENCE MODEL** in a truly amazing way since 1981. It peaked at that time, collapsed into 1985 for the low, and traded sideways (UP) into the next high 1989.95, and then started its collapse with the fall of **MARXISM/COMMUNISM** bottoming in 1994 with the next low. It then rallied with the high in 1998, went sideways unto 2005, and then began its rise with the decline of socialism in the West. From a long-term view, this currency is rising and capital will begin to concentrate in China during the next leg into 2016. The greatest percentage rise could still be on the downside of the next 8.6 year wave between 2015.75 and 2020.05. We are looking at a shift once again in the Financial Capital of the World moving to China.

## T H E   A S S E N T   O F   C H I N A

We must understand this MACHO tendency that ALL nations have for their political leaders (REGARDLESS OF ITS FORM) are interested in playing king of the hill. Politicians want to pound their chests in general and deploy their power that then they view as personal. The **CONQUEST MODEL** is long dead. There are no longer the spoils of war. There is no profit for a nation, only private profit for companies such as Halliburton, not to mention the bankers.

Yet, the otherside of the coin is the economic ASSENT of China is FAR MORE **BULLISH** than most comprehend. The railroads were the first step in the **INTERNET** type of economy in that this allowed the development of the markets whereby Sears began with a mail-order catalogue, general stores all across the country became order-takers, and the railroad enabled delivery. This was the 19th Century **INTERNET**. It was what allowed the economy in America to explode and it united the nation into one giant market. When the automobile was invented, this led to trucks and most important, tractors. Now the food supply increased and this created the shift from a 70% agrarian society in 1860 to 40% by 1900 and 3% by 1980. By this statement I am speaking about the percent of the work-force. The railroads created the national economy, and the automobile enabled the development of a skilled work-force. Without these two developments, we would be still an agrarian society, not much different from the middle ages minus the feudalism.

China is following this very same pattern of development. It is constructing a railroad that will connect it to the middle east all the way to Iran, which is the old Silk Road that connected China with the Roman Empire. China is interestingly developing precisely along the path of the United States. Within decades, China will recreate the American dream in the East even if they do not intend to do so. While the US is extinguishing the light of liberty and becoming more totalitarian turning inward against its own people, China is rising on the horizon.

Connecting China and the East is the major step in it ASSENT to become the next **FINANCIAL CAPITAL OF THE WORLD**. To understand what I am saying, one must realize that city-states, nations, and empires all rise and fall. Nobody to date has avoided this cycle. Britain was the previous true capital, for they took it from the Dutch when they chose William of Orange to be their king. William being Dutch, brought their ways of capital markets to England. The first exchange was in Amsterdam. It was Gresham who was England's agent trying to borrow selling British debt in Amsterdam that led him to conclude **Gresham Law** that debasing the money (inflation) drives out good money (older) that becomes hoarded. Trying to sell British debt when the pound was being debased became an impossible task.

The Dutch won their capital status when Spain defaulted for the 7th time wiping out the Italian and German bankers. The Germans briefly took it from Florence when the Spanish defaulted for the 3rd time. The Florentines stole the title from Siena when the French and English defaulted. Siena was the first to rise after the Dark Ages. Before that it was Constantinople, which took that title from Rome, who had taken it from the Greeks at Athens, who in turn captured that title from Babylon. The **Financial Capital of the World** has always migrated with the fall of each empire. Britain peaked in 1914 and passed the torch to America thanks to J.P. Morgan who was determined to make New York the new financial center, and stole that thunder from Philadelphia after the Panic of 1873. So, the capital ALWAYS migrates with the rise and fall of such centers. We are looking at the ASSENT TO CHINA and it is American arrogance that will ensure that.

Two more signs confirming the ASSENT OF CHINA is the effort to use Israeli Technology to pipe in sea water to recapture the desert. China is employing this technology to cause a rebirth of its West territory. The final signal pointing to the ASSENT is the restoration of its national culture that was suppressed by Communism. Now, Confucianism is returning restoring the essential national identity and pride. Culture is everything!

## CULTURE IS ABSOLUTELY EVERYTHING

**CULTURE** is something greatly overlooked, yet is important both with the national state level as well as corporately. By the term "**CULTURE**" I am defining this as the manner or character of a nation that encapsulates just about everything from moral to religious beliefs.

**CULTURE** is something that is inherent within a nation as well as within a corporation. It embraces HOW people do things. It is widespread in scope. When I lived in London during the mid 1980s, you had to go to the store to buy milk or have it delivered every day for it would not last in the Frig. If you wanted a phone line installed, you waited weeks and if you complained, they remarked - "Oh your American." This was a **CULTURE** clash were by American expected the instant service, and in Europe they looked at you as being impatient. The pace was even slower in Mexico, while faster in Japan.

The legal age for an adult was starkly opposite. Americans were fast paced in just about every aspect, except raising children. The legal age was 18 for a woman/girl, yet it was 16 just about everywhere else. This led to the protests in America with the Vietnam War for you could not drink, but you were old enough to die for your country at the age of 18. These are **CULTURAL** issues that are embedded within the American nature that are impossible to extract. Janet Jackson's breast is exposed on American TV and that leads to Senate hearings and legislation. If the Americans ruled Europe, there would be a tarp over almost all art.

Corporations are the same. One there is a ingrained **CULTURE** of how business is done, unless you fire everyone, any new people that come in will quickly adopt the **CULTURE** that is dominant. When Goldman Sachs merged with the commodity firm J. Aaron, the **CULTURE** of J. Aaron converted the commerial paper house into a lean and mean trading machine.

**CULTURE IS ABSOLUTELY EVERYTHING!** It is the core nature of how a nation or corporation will act. This is rarely ever discussed and unless you have been involved in corporate mergers and trying to deal internationally, **CULTURE** is just something always overlooked.

This attempt to explain **CULTURE** in one page or less, is certainly a subject that I cannot give true justice. It is not some esoteric observation. Those in power often understand this subject more than anyone suspects. Why do you think that Mao Tse-tung called it the **CULTURAL REVOLUTION**? This was an attempt to sweep out the old and bring in the new atheism replacing God with the state. But what Mao missed, was that for centuries, politicians in the East and West, used religion to control the masses for it was the OPIUM that controlled the people.

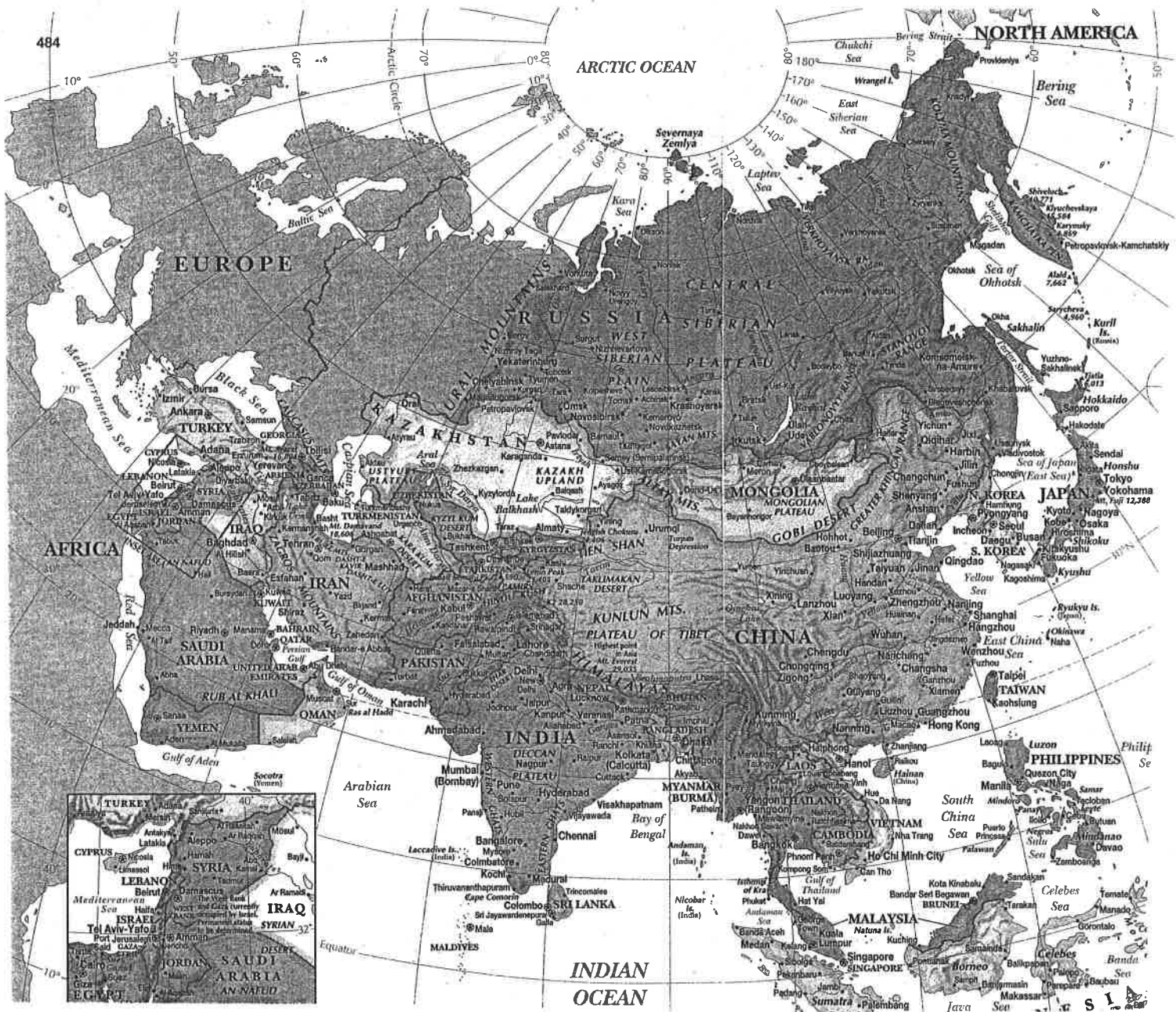
The Byzantine Emperors began to place the image of Jesus Christ on their coinage for this reduced fraud - the clipping of the coinage. Shaving a little gold from the edge of every coin was a profitable trade well into the Middle Ages. This became the reason for bankers who would provide a receipt and one did not have to check every coin.

China is allowing the return of religion and they even erected a statute of Confucius. The hard-core communists attacked it. But Confucius is uniquely Chinese. Buddhism was imported from India. The West tried to convert the Chinese to Christinity. Therefore, China became a country dominated by **CULTURAL** aspects that were imported. What is now at the threshold is a revival of authentic Chinese **CULTURE**.

This is the vital last component to the revival of China - the restoration of its **CULTURE**. This is the foundation of national pride and belief that is essential to the resurrection of the great East Empire that once rivaled Rome, and had the first known diplomatic contact back in 166AD.

Its government structure, is still a hybrid between Democracy and Communism. Yet it is developing along the lines of Italian Republics of the Middle Ages arising out of the Dark Ages. City states like Genoa were run by merchants as if it were a corporate board. They raised everyone up for their idea was to compete with Venice or Florence. They did not turn against their own people creating class warfare, but the poor rose with the rich for it was Genoa against the world, not internal class warfare. China is right now following that path and its respect for **CULTURE** and global standing is the key to the Assent of China.

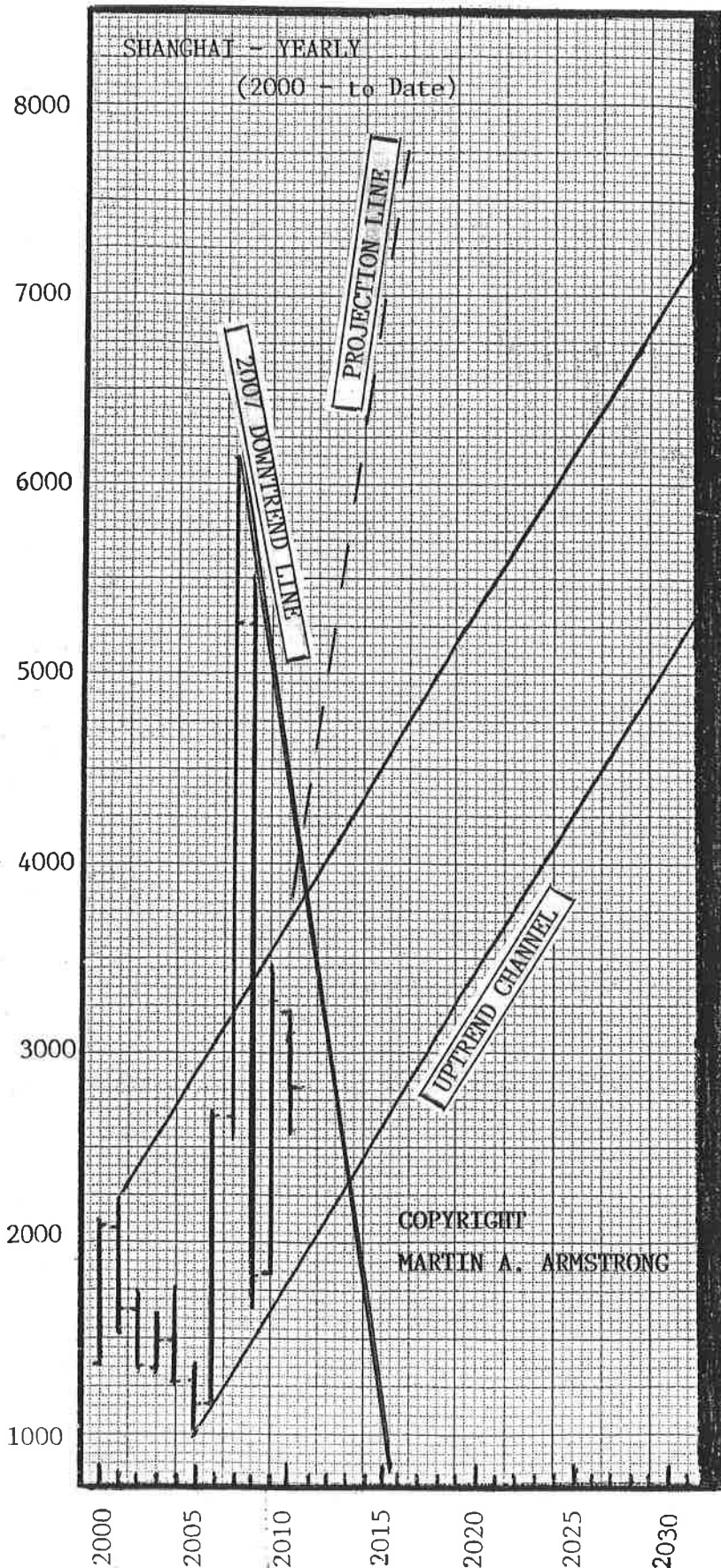




The rise of Xi Jinping is typical of Asian culture. Even in Japan, the head of a company has risen through the ranks and spent time in each department so when he reaches the top, he understands the entire operation. The Chinese government structure is the same. Jinping has spent time in each department and will be far more qualified than any such American president who is elected simply by the people perhaps because of a pleasant face. We elect by form, not substance.

If politicians had to have experience to run, there might be nobody there to elect. Thus, China should look at the old Genoa Republic, use democratic elections for the local government, but the groomed heir for the national. As long as it is a grooming process, there will be a greater chance of achieving a goal. At least then there will be less of a risk incompetence. Yet, we must still be concerned of lobbyists. Hank Paulson has endeared himself to Jinping. Is Goldman trying to infiltrate China too?

## SHANGHAI YEARLY OUTLOOK



The Shanghai Yearly Outlook is but no means long-term bearish, despite China's effort to raise interest rates. China did close 2010 in a neutral position for the immediate near future. There was no buy or sell signal.

The MONTHLY BEARISH REVERSAL still remains down at 1633. The Crash of 2008 tested that level falling to 1664.93, which was a truly amazing test. Only a monthly closing beneath 1633 would warn of a drop to test 1080-1100.

Technically, we remain within the Uptrend Channel, which stands at 3800 above and 1900 on the low-end. This affords the NORMAL trading range for now. There is no major buy nor sell within this range at this time.

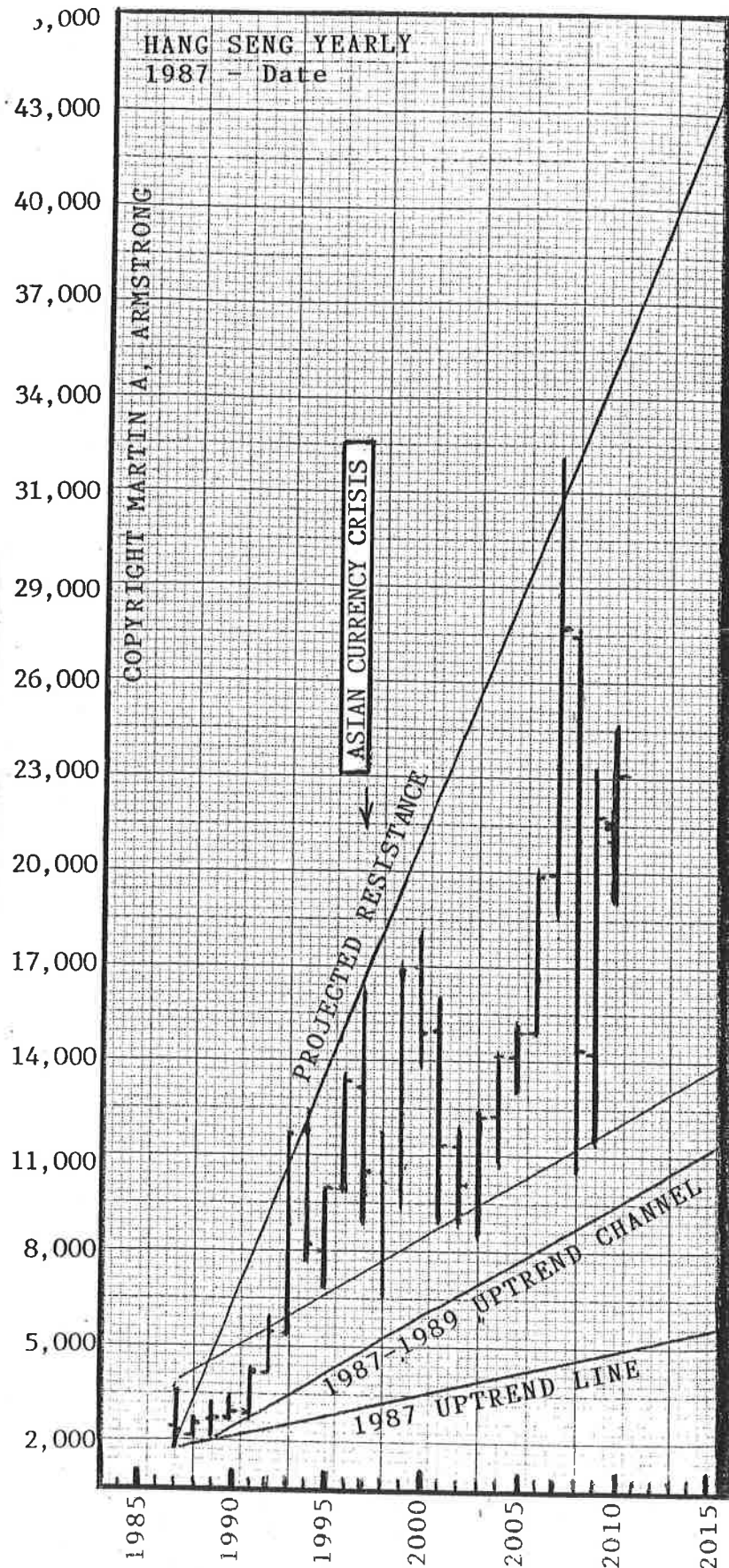
The pivot point for 2011 will be 2698. Moving below this area will shift the market into a short-term bearish trend. The closing at 2808 for the year 2010, was simply still neutral. The major support lies at 1660 and 1160.

From a timing perspective, it appears that Shanghai has been following the main **Economic Confidence Model** that is due for a low in June. If this holds true, we may then see a reversal of fortune, meaning a rise in this market to new highs going into 2015.75.

Watch the 2007 DOWNTREND LINE. Once the Shanghai market flips above this indicator, finds that it then provides support, the next bull market will begin. Just as the railroads began a long-term economic expansion, this is what lies on the horizon for China.

The major support to watch lies at 1260 during 2011. A break of the 2008 low of 1664.93, will technically suggest that a further decline to 1260 is possible. If that developed going into June, it would be the biggest buy signal possible. But there is no indication of this pattern taking place just yet. A mere retest of support in June 2011 forming the low for the year will be bullish long-term.

## HANG SENG YEARLY OUTLOOK



The Hang Seng closed 2010 at 23035 just below the 2009 high of 23099. On a purely technical perspective, that left the market neutral and poised still for a possible retest of support for June 2011.

The resistance for 2011 is now at 27900. The initial support lies at the 20000 level and this will be a technical pivot point for the year. The major key support lies at 12750-11900. Additional support will lie at 18600 area and that is the vital area to watch. Only a break beneath this area will signal the maximum decline to about 10900 is possible.

Monthly closing support begins at 20550. A monthly closing below this will signal a retest of support. Nevertheless, we still have monthly closing resistance standing at the 23100 level that held in 2009. A monthly closing ABOVE this area is necessary to imply further upside at the time.

2011 does appear to be a turning point. If we penetrate the 2009 low BEFORE the 2010 high, then we have a reasonable prospect for this becoming a major low.

The 2011 low is critical. If that is indeed a low, then we should see a rally into 2015.75. There will be a chance for an early high in 2013. I will discuss this at a latter date.

The Crash from the 2007 high was a very short duration of just 12 months. This reflected the fact that this was just a correction, albeit highly volatile. The Bearish Monthly Reversal is 17370. Only a monthly closing below that key level will warn of a serious drop for 2011.

The prospect for China developing into a major new economy beyond most people's contemplation, is not even on the radar. The prospect for the long-term bull market here in the East is one of the major type of cyclical shifts that are often 51.6 year cycle trends in and of themselves. China will be the place to watch.