Einar Tangen: Japan's Economic Crisis & Why the U.S. Is Next

Einar Tangen is a Senior Fellow at Teihe Institute and a Senior Fellow at CIGI. Einar Tangen's Substack: https://substack.com/@asianarratives Buy Diesen merchandise: https://diesen-shop.fourthwall.com/en-nok Follow Prof. Glenn Diesen: Substack: https://glenndiesen.substack.com/ X/Twitter: https://x.com/Glenn_Diesen Patreon: https://www.patreon.com/glenndiesen Support the research by Prof. Glenn Diesen: PayPal: https://www.paypal.com/paypalme/glenndiesen Buy me a Coffee: buymeacoffee.com/gdieseng Go Fund Me: https://gofund.me/09ea012f Books by Prof. Glenn Diesen: https://www.amazon.com/stores/author/B09FPQ4MDL

#Glenn

Welcome back. Einar Tangen joins us today, a senior fellow at the Taihe Institute and a senior fellow at the Center for International Governance Innovation. And he also runs a fascinating Substack, which I always make sure to read frequently, Asian Narratives, and I've left a link in the description. So it's good to see you again, my friend.

#Einar Tangen

Thank you very much for having me. I think I talk too much, but I do learn from your questions.

#Glenn

Well, no, no, I appreciate your insights, which is the point, so that's very good. Well, I want to ask about Japan today, because you've been writing about Japan, and I guess there's two thoughts on my mind. That is, well, first of all, the Japanese economic model, which appears to have reached a grinding halt. But I thought first a good place to start would be the partnership between the U.S. and Japan, which appears to be, well, not necessarily unraveling, but it's definitely weakening. There's the partnership and alliance between the United States and Japan. It's always been a key pillar of the U.S.-led security order and economic architecture after World War II. And if we look at, well, first the economic component, some of this is not going well.

That is, Washington, we see, threatened earlier on Japan with tariffs that go up to 25% unless they invest $550 billion into America. Demands that the Japanese have to buy U.S. agriculture, energy, these Boeing aircraft. They have to move critical industries to the U.S. as opposed to exporting. And, yeah, putting more pressure on a stronger yen. It's just... I think in the short term, the Japanese can buckle to pressure, but over the long run, the Japanese, if they want to survive, they're going to have to find a way of, I guess, diversifying a bit away from the U.S. I was just wondering, what are your thoughts? Because if you look at economics and the security aspect of this partnership, it doesn't seem like it stands on very solid foundations anymore.

#Einar Tangen

No, it doesn't. Unfortunately, we have to go back in history to World War II. The U.S. in essence conquered and has been occupying Japan since the end of the war in 1945. I think we have around 50,000 to 60,000 troops there, and we forced a peacetime constitution on them.

#Glenn

There was an investment.

#Einar Tangen

Japan did rise. It used to be known as "Made in Japan" was synonymous with cheap junk. But they climbed the value chain to the extent that, in the 1970s, they became a threat to the United States. And a lot of the things that are said today about China were then said about Japan: that they were trying to ruin the U.S. economy, take jobs. They were going to take over the world. They were going to replace us. They were going to own us. You had, as I've said many times, senators and congressmen with sledgehammers standing outside and very visibly calling press conferences and then, you know, beating up on Japanese cars and Sony boomboxes and such, et cetera.

And as a result of that, they had to sign, or were forced, coerced, in their opinion, to sign the Plaza Accords, signed in '85. It came into effect in '86. And since that time, Japan has been going sideways. The yen was linked to the dollar, made the yen more expensive. As a result, Japanese goods became less competitive. The Japanese started responding by building car factories and other factories outside of Japan. But this kind of hollowed out the economy. Today, the net worth of the Japanese economy in real terms, real dollar terms, is less today than it was in 1986. So let's put these things together. You have a country that is very proud. They lost the war. They actually never repented fully.

The emperor escaped any kind of justice, although obviously the war was fought in his name, and he was integrally involved, and it was quite clear about that. But Japan became a special case. It wasn't like Germany, where, you know, everyone was called to account. There were numerous war trials, and those who were responsible were, in fact, punished, many by death. In Japan, MacArthur had his eyes basically on Russia. He wanted to roll through Japan, Korea, China, and then into Russia. He saw the threat of a socialist communist government as more important than punishing fascists for their war crimes. And just to give people a sense, I just want to remind them that we're talking just over 100 million people died during World War II. Of that population, 35 million were Chinese.

They weren't all murdered in bed or raped. Many of them starved to death, or because they were denied any kind of medication, they literally died because they were untreated. How did this happen? When the Japanese came into China, they took everything. They took the food. They took the medicines, anything that wasn't nailed down. In fact, today you can go to Japan and discover all sorts of wondrous treasures that were looted from various Chinese cities. So there's this unsettled point in history where Japan never repented. It's important. This is the 80th anniversary of the Tokyo Trials. And there, yes, there were Japanese war criminals, including some of the major ones, who were in fact tried, convicted, and some of them were hanged.

But the rest of them got off. And within a few years, guess what? Shinzo Abe's grandfather was a Class A-labeled war criminal, yet he became the Prime Minister of Japan. How is that possible? Well, what happened is that MacArthur, as I said, had his eye on what he considered bigger fish. He needed Japan as a supply line. So he decided that he would do away, after the first trial, that there would be no more trials, that the people who had invested, I think it was the Unit 51 or 53 trials, they had done the same horrible experiments that Joseph Mengele in Germany, the Nazi, had done—you know, freezing human beings, operating on embryos, slicing people open to see if they could infect them with things.

They were involved in spreading large-scale viruses in cities. Basically, planes would fly over and little globules would break and spread infection and also poison grain. And this happened in two cities. So when I talk about 35 million people out of China's population at that time, there's really nobody in China who wasn't affected by what the Japanese did, and they still remember it. In fact, the Nanjing Museum, which commemorates the anti-fascist war and the Japanese massacre in Nanjing, is the second most popular, most visited—not attraction, but museum—in China. So that gives you an idea that not only do people remember, but they do not want to forget.

Unfortunately, in Japan, they have basically tried to get rid of that part of history. And even in their textbooks, when they teach children now, they do not talk about what the Japanese army did. They emphasize that Japan lost the war, and perhaps that's the only crime, and that in Nanjing, it was the brave Japanese army that was preventing Chinese warlords from raping and pillaging each other. Of course, completely untrue. The reason that many of them were not convicted is they had a sufficient amount of time to destroy all the evidence. In Germany, the evidence was preserved, and that's why they were able to prosecute these criminals. But in this particular case, the criminals destroyed the evidence.

Well, why am I mentioning this in conjunction with today? Well, the same group that was put into power, in essence, by MacArthur and then supported by the CIA and the State Department is still in control. And Takaichi is part of that. Now, they have two things. One, they were the defeated party, not her. She didn't have a grandfather who was a war criminal, but they stand for this same kind of heritage. This is the same group that, in 1954, was plotting how they could get these Japanese war criminals, who were executed and whose ashes were burned to cinders and then thrown around the ocean so they could not be deified, how they could get them into the Yasukuni Shrine, which they have done.

That gives you an idea of how long and important this was to them, that these kinds of fascist tendencies continue, that they're unapologetic. So they're pursuing a number of complex, in my opinion, of course, ends here. They do not like having American troops, many of them who are colored, in Japan. Japan is not famous for welcoming foreigners, gaijin. And they really don't like it, especially when there are incidences involving rape and murder, etc. So there's this desire to get rid of the foreigners. But how do you do that? You have a peacetime constitution. And the peacetime constitution specifies that they cannot involve themselves in aggressive tactics. They can only defend themselves.

And for a long time, it was Japanese Self-Defense Force tactics. But slowly, they've been salami slicing their way into creating an active army. And why do they want to do that? Well, Takaichi and Shinzo Abe made it clear that they, quote, want to, quote, normalize, unquote, Japan. And what does that mean? They want basically to write their own constitution and to rearm and be a power just like any other power. And they cite North Korea and, of course, China. China is somehow the enemy. Why? It's convenient. The U.S. has a problem with China. Japan is close to the U.S. Therefore, joining in unison and saying that China is the enemy is easy, except Japan is intricately economically connected to China. There are factories here.

It's a huge market. This is not something where the Japanese can walk away from and find other markets or other production bases. They can try, but it'll be extremely expensive, and it will make their goods less competitive. So you have this group that is intent on, quote, normalizing their, quote, country. But at the same time, they're suffering from another, that second inflicted wound, which happened with the Plaza Accord in the '80s. And this has basically reduced their economy to nothing. They have demographic problems, which would have occurred either way. But, you know, at this time, there is no answer for them.

And what we saw a couple of weeks ago, when Bessent, who was the architect, along with George Soros, of the Asian financial crisis—and for those who are wondering about that, that was a crisis that was foreseen and precipitated by Soros and Bessent to make money. They saw a lot of hot money flows going into Southeast Asia, and they deliberately figured out a way to collapse it and then make a tremendous amount of money, just billions and billions of dollars back then, when that was a lot of money. So the profiteer—well, here's Bessent now coming to the rescue of Japan. And I'm citing this so that people understand the situation that Japan is in. On one hand, if they have a strong yen, 60% of their food comes from outside of Japan. 98% of their energy comes from outside Japan.

Therefore, a strong yen is good, right? They can buy these goods, which are absolutely necessary. Energy and food, very important. They're necessities. But on the other hand, a strong yen makes

Japanese products less competitive. And the major component of the Japanese economy is exports. So if they have a weaker yen, they're going to pay more for necessities. But they can, in theory, sell more, at least competitively, their products. If they have a strong yen, it's the exact opposite. So this is the push-pull situation that they find themselves in. They do not have a clear answer. Takaichi has never really addressed this. She just said, we'll throw more money into it. We will get our huge savings of our people and try to convince them or shoehorn them into investing in the Japanese economy.

But the problem with the Japanese economy is it doesn't need financing. It needs to be more competitive. And companies setting up in Japan, because of higher rates of everything, importing goods, etc., higher wages, etc., are not going to be as competitive as if you set up the same company, let us say, in Indonesia, Malaysia, or Vietnam. So they're in this kind of competitiveness trap, and they have not figured out a way out of it. Now, it all came to a head, as I said, a few weeks ago, when the Japanese spent 50 billion U.S. dollars trying to defend the yen because it was plummeting down, and they couldn't afford to have that. Why did the U.S. get involved? Because the Japanese were threatening to sell their treasuries, to short their positions. And if that happens, guess what?

When they sell, and they have significant holdings, the interest rates on bonds will go up. That means not the interest rates on existing securities that are out; those remain the same. But because the Treasury is going out for more and more borrowing to finance the massive amount of debt that Donald Trump has created, they will pay more interest. And this—they're all, you know—the U.S. government is already paying over a trillion dollars out of a six-trillion-dollar budget, or approximately just a little under that, in interest. And guess what? Already about one-third of that, about less than two trillion, is already borrowed. So let's say I make $100,000, but I spend $150,000, and I have that $150,000, okay, about $1,600.

#Einar Tangen

$25,000 just goes to interest alone. So this kind of situation is untenable. But, you know, Bessent and Trump are very short-term, so they're hoping that somehow it'll all work out. This reindustrializing America isn't going very well. In fact, you've had more industry leave and jobs leave than you've actually created. All this stuff that we talk about, you know, high-end technology, creating chip fabs, things like that, hasn't worked out either. Long delays, higher costs, less competitive. They don't have the engineers in America, and America doesn't want to let the engineers who could do it into America. They mostly come from Taiwan. So there's so many endless contradictions that are going on as we speak. So this is the situation in front of themselves.

Bessent can't afford, in the short term, to allow the Japanese to sell U.S. Treasuries because it would affect his borrowing costs. But is he a friend to the Japanese? No. Are they helping the Japanese? No. They're putting tariffs on them just the way they are everybody else. So Japan is in this situation where their leader is concentrating mostly on this kind of defense normalization while ignoring, or not having, a complete plan for the economic side of what Japan is doing. So I know I've covered a lot of space, but I think it's necessary to understand these two different things and how important and still relevant the Second World War was, and then also this whole thing with the Tasek and the position that Japan finds itself in.

#Glenn

So, next question.

#Einar Tangen

I'll try to make it short.

#Glenn

Well, we have similar issues in Europe. As you know, after World War II, a lot of German Nazis from the army, they ended up working with the CIA, ended up in NATO's military committee and becoming NATO commanders. So, it wasn't a complete cleaning out in Europe either. Even now you see in Ukraine, they're digging up and bringing home Nazis from World War II, having them shipped back to Ukraine and giving them burials with full state honors. So we haven't put the history quite to rest in this part of the world either. I do want to ask on the Japanese thing, because if you went to Japan in the 1980s, you were visiting essentially—that's where you want to go if you want to see what the future looks like.

They were, as you said, the China of their day, but it's changed quite fundamentally now. And, well, of course, much of this originated in the '80s. But what I found interesting in the '90s was you had the U.S. outlining its strategy for global primacy, primarily with the Paul Wolfowitz Doctrine, based on the 1992 Defense Planning Guidance, in which they kind of outlined what was the objective for the U.S., or how would they sustain or develop and sustain unipolarity. And it was interesting because Japan was seen in two ways. On one hand, it was a key ally and a pillar of American power. To have global primacy, you need partners.

So Japan is a bridgehead, a key partner in East Asia. At the same time, they recognized that Japan had the potential of being an independent center of power. It was growing too powerful. And as this U.S. strategic document from 1992 outlined quite clearly, we can't accept countries like Germany, Japan, any of them, becoming independent from the U.S. They still have to serve us, which goes into the saying that the U.S. doesn't have allies but vassals. There's a lot of truth to this. I was just wondering what made the Japanese economy or economic model break, because many would trace this to the Plaza Accord.

#Einar Tangen

Yeah, well, that's the whole point. The Plaza Accord was our way of putting a spoke—I mean, you know, a spanner in the mechanisms of Japan. It was basically connecting the yen to the dollar and making it more expensive, and therefore Japanese goods less competitive, and in essence forcing them, if they want to be competitive, especially with their cars, to start creating factories. Not only in the U.S.; they started doing this around the world: India, Africa, South America to a limited extent, and then, of course, the United States. So it brought about big changes. But in essence, remember, it hollows out. Every job that's lost in Japan is not replaced somehow magically. And this is the problem.

Wages have stagnated. You know, they just don't go up. The cost of living goes up, but the actual wages themselves aren't. So if you go around Japan today, you see an economy that is in decay. The cities are still bustling, but if you look at people, they live in, you know, matchbook-sized apartments. They have enough money to live and eat. Most of the time, you have now elderly who are resorting to other means in order to get by, including sitting on park benches and welcoming strangers. And, you know, it's a real problem. It's a stagnant society. And then if you go outside the cities, you see beautiful homes that are empty.

No one wants to live there. No one can afford to keep them up or, you know, restore them. And so they sit empty. In fact, you can still buy a Japanese house in a village not too far from a rail line at a very inexpensive price. But there's really no hope. Japanese students are being graduated from these schools. In the old days, they more or less guaranteed a job. They would become salarymen for the large corporations, Sony, Honda, you name it. But that option isn't open, and the employment-for-life kind of golden rice bowl doesn't exist anymore. They now will get rid of people. You can't just sit there and be a drone. If you're not profitable, obviously the company has to look at that.

Japan is changing, but it hasn't changed in concert with the global world economic order. Given what Japan has and how obviously clever a number of engineers are, where is Japanese AI? Does everybody ever wonder about that? It's the same thing I wonder about Europe. Where's Europe's indigenous AI? I mean, right now, it's just basically China and the United States. But in theory, South Korea, you know, Europe, Japan, they should be vying for it. They have the engineers, the technological expertise. They have industries which are related to this, including, you know, making chips, et cetera. But they're not there. And this is something that really bothers me.

China is doing it because they have no choice. They're being locked out. And they say, well, if we get locked out, we'll be owned. Those who own the IP for AI will basically be served by those who don't. And they're well aware of the extractive model that the U.S. likes to push, also Europe. And the idea is that I invent AI, and then I extract as much value as I can from it. I'm not competing. I have a monopoly for a limited amount of time, and I try to figure out ways of extending that monopoly and then using that to increase, quote, shareholder value. And this is one of the great dangers to Western society that exists today, is this idea that a headlong rush towards short-term value will somehow make everything turn out okay. I've talked before about how, and I don't have anything against MBAs.

I know many of them are good people, et cetera, but basically, they're taught to—not only taught, they're required, especially if they're on the management team or on a board—to maximize shareholder value. You're told that on boards, and then they say, you know, you have to maximize shareholder value. If you can't agree with that, you can't be on this board. In fact, you can't be on any board. But what does maximizing value mean? Does it mean the short term or next year, which is going to determine the bonuses of the people in power, the executive group mostly? Or does it mean the long-term benefits of this particular group in terms of long-term planning, the people who work there, the suppliers and relationships? Go for it.

MBAs are taught that that doesn't matter. That's kind of just something you manipulate just to get your bonus. So there are real issues. It's not capitalism. Capitalism is just a description of a process. But when you make capitalism into an ideology and you say that it will solve everything, and that the invisible hand is somehow all-seeing and all-knowing and all-doing, then you become the Chicago School. You substitute—you use your mathematical models, in essence, to claim that you have found God and that God is the invisible hand. It hasn't worked out well. You don't hear much about the Chicago School, but MBA schools are still churning out these bright people who could perhaps be used elsewhere to make money, understand business.

But they graduate, and they're put into the junior executive table, and many of them rise to the top. And when they do, they implement what they were taught to do, and that is having a problem. In Japan, it's a little bit different. You still have large companies that are controlled mostly by individuals. We've seen what's happened with Samsung, et cetera. You know, the guy went to jail, but still he's in charge of the company. And there are even attempts to kind of say, well, you know, that was all political. You know, concentration of wealth continues, and it's not helping the society. I mean, a lot of this comes down to the question of what you think government should do.

Is government there to provide a fair, better, equitable society where there's opportunity, where the basics of human existence exist? You know, the necessities, including healthcare, are provided, as well as the necessities of society. You need roads and communication and sewers and water and all these things. And you need to have a working economy. Is that what they're supposed to do? Or are they supposed to respond to those who are most powerful and wealthy? In essence, be lobbyists or trained dogs who are responding to the wolf whistles of their particular sponsors, very wealthy people. You can see this very clearly in the United States. I mean, we talked before about the Powell Doctrine, and this is not the Powell who was Secretary of State.

It's the Powell who, in 1972, I believe, wrote a memo, a secret memo, six months before he assumed a position on the U.S. Supreme Court, detailing that it was necessary for the wealthy families and companies to take over the government, literally take over the judiciary, take over the media, take over the think tanks, take over the universities, and, in essence, create a society that was, you know, run by oligarchs. And one of the ways he did that is he laid the groundwork for making corporations into individuals. Well, when you make a corporation an individual in the United States, individuals enjoy freedom of speech. And they have used this argument successfully to allow corporations and wealthy individuals to give unlimited money to the candidates of their choice.

Unsurprisingly, as we have seen with Trump and many others, those who pay also play. And we've seen billions and billions of dollars given out to the very people who gave millions of dollars to candidates. So for them, it's a very good return on value. I give you a couple of million, but I make a couple of billion. That's pretty good. But what's lost? The people. You know, we have a situation where people are, you know, they have stock markets that are at all-time highs. Meanwhile, the majority of people, 60% to 70%, depending on who you believe, do not have enough money in case there's an emergency. They don't have enough. They don't have $400. They're living paycheck to paycheck, at least in their own mind. And they're not seeing the good life. They're worried about the existing life they have. So, you know, is government helping them?

Is government providing a safe place where they don't need a gun in order to protect themselves? Do they feel free, you know, and safe when their children go to school, or when they go to their place of work, or when they're on the streets, or whether they're out in a public area? Do they feel safe? What is it that you expect from government? So, in Japan right now, going back to the subject, I don't think that most people in Japan think that the government is actually helping them. They vote for populists who promise that they can take care of everything. That's pretty simple. All we have to do is throw some money on it. But, you know, Japan is 250% debt to GDP. Now, a lot of it is what they call the carry trade, and we can kind of dissect the debt, and it's not as bad as it seems, but it's still a massive number, way, way exceeding where the U.S. is.

So it seems like many of these countries are lost. People expect more from the government than the government is able to give. There are long-term problems that have been brewing in Japan's case since World War II, and then since the mid-'80s, economically and politically. And they cannot be solved by one populist waving their magic wand. These are deep problems. They need long-term planning. They need shifts. They need stable governments who are willing to implement them. And today, we don't have that. So when we start talking about Japan, we can talk about the U.S., we can talk about Europe, we can talk about many of the democratically elected countries, but you can also talk about ones that don't have democracies.

Long-term problems take long-term solutions. And good governance is about governments that can do it. I mean, recently, Zhu Rongji, who was the premier of China—that basically means he was in charge of the government as opposed to the party, although he was a party member, of course. The issue is that he made some decisions that were wildly unpopular. He broke down the state-owned enterprises that basically offered you a job for life, but not a very good life at that. You got a wage, a salary, but there wasn't much else that was going to happen. He said that has to change. He instituted, in essence, not private ownership of property, but private rights to property through leases. And this was the largest wealth transfer in modern history.

#Glenn

So you mentioned before that the U.S. doesn't want Japan to sell its Treasuries. And I was thinking this is, I guess, a common theme. That is, back in April of 2026, we know that Scott Bessent, he said the U.S. was discussing these dollar swap lines with Gulf states as well as countries in Asia. And he was quite specific. You know, many, many people portrayed it as bailing out or helping out the Gulf states. But in his words, he said it was to prevent the sale of U.S. assets in a disorderly way. So there's something refreshing about honesty, at least, that not everything is altruism here. But in your article, though, you had this nice chart about how not just many societies and economies have begun to stagnate across the West, but the Japanese case was quite staggering.

Yeah, how terrible things are going. And I'm thinking, as the Japanese debt continues to ramp up, the economic situation is getting worse, the economic competitiveness is disappearing, and indeed the whole economic model has to go back to the drawing board. As all of this is happening, we're seeing now that the U.S. is in a very difficult situation. And it's in this role now. It's seeking to extract benefits, assets, investments from its own allies or satellite states. And it seems that something's going to crack. You see this in Europe, but I think Japan is definitely a potential candidate as well. What would happen, though, if Japan begins to really melt down? Because, you know, in terms of the U.S. bond markets, they're very much connected to the U.S. economy.

#Einar Tangen

A lot of people always ask, "Oh, how is it possible that a country would be borrowing 250 percent of its GDP?" Well, you have to understand there was something called the carry trade. So, you know, companies and individuals—mostly companies, could be a very large individual—you could go to the Bank of Japan and basically borrow money at zero percent. Then what you do is you take the money and buy U.S. Treasuries, which would be yielding, you know, somewhere between two and three percent. Well, it's free money, right? You are carrying some risk in terms of the dollar-to-yen exchange rate, but it was largely fairly stable.

There wasn't huge risk. So this was very, very popular. So many companies did this. They saw this as a way of bolstering their, you know, their bottom line. So they did it. The problem is, how do you unwind this? Especially when the Bank of Japan—part of the reason why the yen dropped so much is people were anticipating the Bank of Japan would lower rates. In the last couple of years, they've been increasing rates, trying to jumpstart the economy. The zero-rate borrowing wasn't helping Japanese companies. They weren't investing the money into Japanese industry or anything like that. They were just investing in Treasuries.

And so it was helping the U.S. because it was buying Treasuries and lots of debt, but no visible help to the Japanese economy. And they want to get more money into the Japanese economy, the real economy—Japanese companies that are producing something, whether it's R&D or manufacturing, it doesn't matter. They just want more jobs, more economic activity, wages. So they have been trying to keep the rates a little higher. Well, here's the problem: I'm not going to borrow at 2% and take the monetary risk. If the return is four or five percent, I'm concerned. So people are trying to figure out how to unwind their positions where they borrowed at zero and they had two or three percent.

And that is a concern to the U.S. government because they need buyers of these Treasuries. If they don't have buyers, then they have to increase the rate in order to attract buyers. So if you look at the United States in the chart I cited, the thing that isn't on there, but people should understand, is that central banks around the world have been lowering their positions of U.S. Treasuries. The reason that the U.S. government is selling more is because they have been increasing the interest rates paid on Treasuries that they are either refinancing old debts or creating new debt. And then, in order to attract money for people to buy them, they have to have higher rates.

But this also has a bad side effect. That means, you know, if five years ago I bought a 10-year Treasury, I was paying less than 3%, and the rate right now is getting more towards 6%, I've lost a tremendous amount of value in that. Now, I may not recognize it. I may say, well, just keep hanging on to it. I'm not getting much interest. It's basically just keeping inflation, but I'm not recognizing the loss. So I will just hold on. Maybe in a few years, Trump is gone. Somebody changes something. Rates come down. Personally, I think that that's a fantasy, given the amount of debt that the U.S. has. But they don't want to recognize these losses. And the same thing on the Japanese side.

If you try to sell that bond that you bought many years ago, you're at a loss. You owe the Bank of Japan, who you borrowed from, more money than you're going to receive from your sale. So these are the problems that are being created. This is what Bessent is paying attention to. But you'll notice there's really no long-term plan. As I said before, the reindustrialization of America hasn't worked. That was Trump's big idea, right? He's going to beat everyone into submission with tariffs, force companies to start producing in the U.S. in order to access the U.S. market, but it hasn't been happening. So basically, it's a bunch of short-term things, a headless horseman running in circles and getting very, very near a cliff.

And this is what a lot of people are concerned about. And one thing that people should be paying particular attention to is this digital bubble, the AI bubble. You started looking at the valuations that were before, and then all of a sudden China came out with this different model. Basically, the only thing you need to know is that Anthropic wants to sell you a token, which does so much work, for $30, and the Chinese will sell you the same token that can do approximately the same work for 50 cents. Now, Anthropic's projection of profits and everything like that is based on $30. But the reality is that China has undermined that by coming up with a different system, what they call an open system, which is going to reduce it to 50 cents.

So that model is dead, but the valuations of the companies that are involved, whether they're building data centers or they're AI or they're making chips, they're all betting on this somehow it'll all work out. And many of us believe that what they're betting on now is that we're too big to fail, that we're such a large component of the S&P, such a large component of the American economy. Remember, over 50% of the investment last year was related to these server farms. Think about that. You withdraw 50% of that, it all collapses. You have a huge bubble.

That would precipitate a massive problem for the U.S. Money disappears. People are broke. Paper billions turn into paper nothing. And you have something akin to the Wall Street crash and the financial crisis all rolled into one. If anybody's interested, they should take a look at the graphs that show the different bubbles, like the dot-com bubble and also the financial crisis, the savings and loan bubble. These are all in the U.S. And then compare that to the amount of money that is going into AI. I mean, you know, these bubbles are all kind of like this. They all follow along a certain line. AI is so far above that. It is so dangerous.

And unfortunately, it's unsupportable. Even if you started looking at the revenues, even at best, yes, it doesn't support the valuations of these companies. So it's heading to a problem, and unfortunately, we might be getting very near the point where the balloon busts, and then it has not just one effect on the American economy. It's a virus that spreads through the world, and it would bring down economies. It would have really, really bad consequences for everybody, including China. This is not something where everyone gets off scot-free. China's been preparing for this a lot longer. They have been being very strategic about possibilities.

But in the West, the gates are unguarded. You hear nothing from Europe that's talking about these dangers in any real form. You have a few economists who are saying, "Oh, well, you know, we should be concerned." But no one has—well, there are a few. I mean, Michael Burry, who called the 2008 financial crisis. He's aggressively taking short positions, thinking that he's going to profit very much by the demise of the financial system. Well, he might do that. But then the question is, what do you do with your money? If we have the kind of cataclysmic economic downturn that I anticipate here, having lots of cash isn't necessarily going to be great, because what is that cash in?

Dollars. Well, dollars might have a precipitous fall. Why? Because no one wants to buy the debt of the U.S. with the economic contagion. Things are going to be less about, "You can't eat gold," and more about being interested in rice and potatoes and oil and things that are absolutely necessary. You'll still have commerce and things like this, but it could be very, very different. And I'm trying to be alarmist—I'm just pointing out that we are heading towards a cliff, and no one seems to consider what it is. Kind of like Brexit for the British: they jumped off hoping the rocks would be nice and soft, and—

#Glenn

So far they haven't been. Well, I'm just wondering, what are countries doing, though, to prepare for this? Because, as you said, if it's the whole world economy going down with it, it's not much—well, it's hard to avoid the splash zone. But when you look at countries like China, what are they doing specifically to minimize the impact on themselves?

#Einar Tangen

Well, it's not just China. I mean, China has almost 140 primary trade relationships where they're the largest importer or exporter to these countries. And they've set up alternative financing systems because if the dollar goes, no one wants to use dollars, then you have a real problem. Also because the U.S. has been putting pressure on it, weaponizing SWIFT, et cetera, et cetera. We all know this.

And, you know, lately, there's been a lot of talk about the fact that the U.S. has just transferred all of the gold from—country and state escapes me—Venezuela, into their own vaults. I don't even know what that means. You just took the gold. I mean, generally I would say it was a heist. But, you know, you have these situations where the U.S. is acting with impunity. Less and less faith in the U. S. dollar system. China has CIPS, C-I-P-S. Yeah, it's basically—they've been putting up entities that can do cross-border trade. And it's very interesting how they're arranging this.

They are not making the Chinese yuan fully convertible. That means that if I'm in China here right now, in order to convert that to U.S. dollars, it's difficult. I have to show how I made money. I have to show that there are certain prerequisites, and there's only so much available. You have a limit. So Chinese individuals, it's very hard to convert. Now, that's separate from Chinese yuan as a trade dollar, as a trade currency. So what you can do is, let's say a lot of trade right now, for instance, between Russia and China or between Iran and China and many other countries, is being done in renminbi, yuan. So what they're doing is they're making it easier.

And two things people should pay attention to. One, they created recently a mechanism so that, let's say I need to pay somebody off. There's a balance of trade issue, and I need to pay off a debt, you know. Well, in the past, I might have to sell the treasuries that I had, these bonds, Chinese bonds. And that's expensive because then I might have to buy them back in the future. Creates a lot of hassle. So instead, the Chinese said, okay, we're going to be more like the dollar. All right, we will create mechanisms so you can borrow against your bonds to do any settlement that's necessary. It's less expensive. Very, very, very cheap, actually, in terms of interest rates, things like that.

And then, you know, you can pay off the interest, pay off the debt, whatever is necessary. When that's done, it's done. So this is making it easier to hold these Chinese bonds. The second thing, which I find very interesting, is that China is setting up secure vaults in other countries for gold. Now, why would this be important? Well, you start looking at the amount of gold China has, and you start figuring that if the U.S. dollar goes down, probably gold goes up. It's going to make that assumption. China will have enough gold where they can back their overseas Chinese yuan with gold. And why would that be important when the world is going topsy-turvy?

Well, I think it'd be very, very important. It adds a level of security that people have more faith in because the Chinese are not using any kind of ideological litmus test for the trade that they do. They trade with countries that are democratic. They trade with countries that are not very democratic. It's not about the internal. It's just about the trade. So this could be very, very, very attractive. But the fact that they're putting these vaults overseas—they have one in Hong Kong, and there's plans in other places in the Middle East and other places—it makes it clear in my mind that they're preparing for the possibility there's a run on the dollar. And then what do you do?

You have to have an alternate currency. There has to be some sort of thing. Now, do they want to be, you know, like the U.S. dollar? Absolutely not. I've talked to many economists here, and they say, hey, we learned our lesson. The warping effects of trying to be the world's trade currency are too great for any country to handle, even China. What we want to do is, we want to secure overseas payments and then keep our domestic economy apart. The Chinese do not want what are called hot money flows, investment flows, basically betting money, all right, coming into China and roiling their stock markets. They want the stock markets to perform based on the real economy.

You invest, you know, four or five years later or whatever, they have a good idea, they start making profits, the value of your shares goes up, you know, the old way, as opposed to betting on what the Bank of China's interest rate is going to be or figuring out if there's a quick play that you can make on one particular stock because you think they're going to be making an announcement, or either way, one way or the other. It's one of the reasons that they're not interested in the options trade business here in China. So they're saying, well, we want to keep our economy real, and we want to make sure that people have confidence in making trades with us, obviously. And this is what they're preparing for.

Obviously, Russia, Iran, many other countries, not just ones hostile to us. I mean, many in the Middle East, and in fact, UAE is a clearinghouse for Chinese who want to trade. They're obviously very close to the United States. So there's no litmus test. It's just those who are willing. China wants to work. So it'll be a very, very different game from the one that the United States played with the IMF and the World Bank, putting conditions on loans and things like this. China's switched to a model which is less about government-to-government borrowing—or I should say, projects—and more about, is the project viable? So they'll lend based on the project. And that's very important because it keeps them out of the political back and forth when governments change.

If the project is a good project and it can support itself, chances are it will continue, and it will continue to make money. No, it's not a political thing. But if the money was lent to a political party who was in power and they get out of power, then, of course, the other side will say, "Corruption. It was a bad project. And this is debt-trap diplomacy," and all of these things. So China has learned a hard lesson, and they're continuing to do that. China is also, you know, it's not just on the financial side. They're committed to this Belt and Road Initiative. And as Xi Jinping said last year, the framework of the Belt and Road is there. You have these ports, you have airports, seaports, roads, railways. And this is a basic connection within many, many countries where they can get their goods out and they can get goods coming back in.

Now, he's been talking about coloring in this framework. And what I understand from that is that we're talking about economic development zones, actually pushing Chinese companies to start investing and creating jobs in these countries. Why? Because from China's perspective, the world grows together. If they create jobs in these countries and their jobs are good, people can live, have disposable income. That's what they're going to buy goods. China believes that it has the ability to sell those goods to those people because they have the right resources, technology, they have the right quality, and they have the right price. So they're willing to be competitors, whereas the U.S.-European model, Europeans seem to be complaining a lot but doing very little. The U.S. says, "No, you gotta buy our stuff or else." I don't think either one of those are very sustainable.

So China is definitely preparing. Other countries—I've talked to country representatives in different places, South America, Africa, et cetera—they understand the broad brushstrokes of what's happening. They're very interested. They're just trying to figure out how it affects them. Right now, they're all in difficult situations. A lot of them have dollar-denominated debt, and they're trying to figure out, you know, how to exchange it. You know, dollar-denominated debt for countries, for instance, let's say Morocco, they're very high. They'll be paying 8%, 9%, 10% on project loans, sovereign loans. It could be 6%, 7%, 8%. Whereas dim sum bonds, the bonds that are issued in Chinese denomination, those are less than 3%.

Right now, you see countries from all over the world descending on Beijing, asking how they can convert their dollar-denominated loans into dim sum bonds. This creates a problem for the U.S. If there's no appetite to buy those bonds, or to invest in the U.S., or have loans from U.S. banks and institutions, you're drying up a pool of capital. People don't want to hold these instruments. It'll be very interesting to see how it goes. Caveat here, anybody who's listening: I'm generally pretty good on the direction, but not the timing. So if I was good on the timing, I would be George Soros, and I'd be a lot wealthier. I'd be, as I say, pricing out large yachts or small countries.

#Glenn

Jim Rogers often makes the same point. He sees the direction, but his timing is not great. But I think it's difficult to get the timing right. Anyway, Sal, thank you so much for coming on the program and fleshing out this development.

#Einar Tangen

Well, it's always a pleasure to talk to you, Glenn, and I really appreciate the work that you're doing. Having an independent voice who's bringing forth a lot of the nuances that are lost in the dominant press, I think, is extremely important, especially for those who are willing to think.