# Beyond the China-U.S. Trade War

**Published on May 29, 2019 by Ray Dalio Co-Chief Investment Officer & Co-Chairman of Bridgewater Associates, L.P.**

As I have explained for a while, the U.S.-China conflict is much more extensive than a “trade war.” It is an ideological conflict of comparable powers in a small world. It’s about 1) China emerging to challenge the power of the U.S. in many areas and 2) these two countries having two different approaches to life­—one that’s top down and one that’s bottom up. These conflicts extend to American and Chinese businesses, technologies, capital markets, influences over other countries, militaries, ideologies, and most everything else. They are made especially difficult because the Chinese, the Americans, and those who deal with them both are now so interdependent, with the interdependencies being both vulnerabilities of each and weapons that each can use to hurt the other.

 As someone in these negotiations wisely said, history shows that countries in conflict have seen that such conflicts can easily slip beyond their control and become terrible wars that all parties, including the leaders who got their countries into them, deeply regretted, so the parties in the negotiations should be careful that that doesn’t happen. Right now we are seeing brinksmanship negotiations, so it is a risky time. It is widely believed that time is on China’s side so that it is in the U.S. interest to have any fight that’s going to occur happen earlier and in China’s interest to have it later. This is leading to the Trump administration’s pushing the limits. Worth keeping in mind is how Chinese and Americans fight wars differently (the Chinese more strategically by gaining relative strength and the Americans more by exchanging blows until one side gives up). While all of this enters into my thinking, what is now most important at this time of brinksmanship is seeing what actually happens next—i.e. whether we see the “tariff war” slip into an “export embargo war” intended to shut parts of the other country down.

As explained last week in the “Beyond the Trade War: The Huawei Step,” the U.S. shutting off supplies to Huawei appears to be a step forward by the United States in weaponizing export controls. Notably, soon after that announcement, President Xi visited the largest rare metals mine in China and a top planning organization suggested that China might reciprocate such moves by the U.S. by not selling rare metals to the U.S. Refined rare metals are a critical import that American companies don’t produce and need to get from China to produce many needed products in the U.S. such as mobile phones, magnets, night vision glasses, gyroscopes in jets, LED lights, glass, and ceramics.

I would view an increasing of export controls that are intended to shut down key areas as a major escalation of the “war.” Building independence will happen regardless of what is negotiated because both sides have learned that they need to be protected against being squeezed in the years of increasing tensions ahead. That is a big deal because it is a major, multi-year undertaking that will take resources away from other development. Uncertainties over tariffs and future developments are causing many businesses who produce in China to export to the U.S. (or who might be affected by the fight between the U.S. and China) to rethink whether they would be better off producing in another country. These forces will be major disruptors to the specific people, companies, and governments affected by them.