



# Russian and Chinese Global Perspectives



CPM Group

PDAC  
Toronto  
6 March 2018

# Today's Subject Matter

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## **Russian World View**

**World View**

**View of the “West,” U.S. and Europe**

**View of metals markets**

## **Chinese World View**

**World View**

**View of the “West,” U.S. and Europe**

**View of metals markets**

## **Implications for metals and mining**



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# Disclaimers

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## **1. My qualifications for speaking on these subjects.**

## **2. There are legitimate considerations related to political cultures of countries.**

There are some cultural traits and tendencies valuable to understanding.  
Certain opinions and cultural tendencies are held by ~60% of the populations.

## **3. One must avoid Stereotypes and gross generalizations.**

These are not monolithic societies nor are they monolithic governments.  
~40% of the population does not seem to adhere to such standardized views.  
It would be foolish and counter productive to deal solely in generalizations.

## **4. You cannot speak about how Russians and Chinese governments and people view the world without considering how they view the United States government.**

Concerns over U.S. government policies are central to other governments' considerations **around the world.**



# **Truisms Applicable To Nearly All Countries**

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**History informs the political culture.**

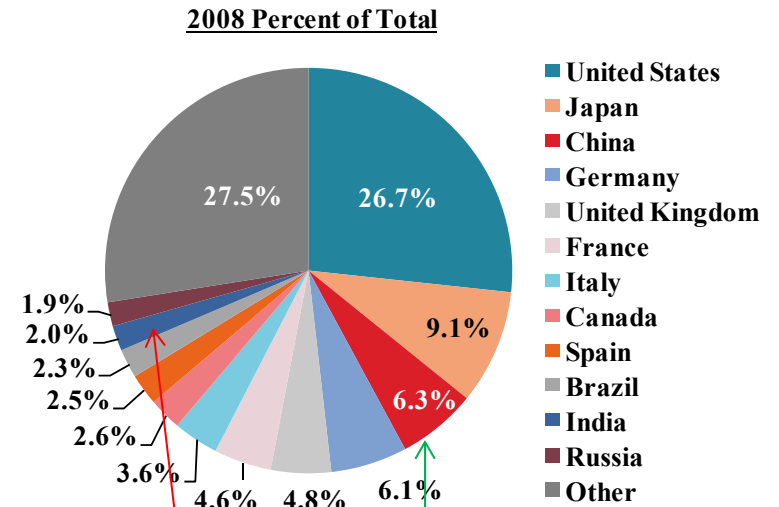
**Political ‘values’ and objectives often are more aspirational than realized.  
Cognitive dissonance reigns supreme in political beliefs.**

**The habit of blaming external forces for problems is nearly universal.**

# First: China and Russia's Places In The World Economy

## Major World Economies: Share of Global Gross Domestic Product

	<u>Rank</u>	<u>2008 Percent of Total</u>
United States	1	26.7%
Japan	2	9.1%
China	3	6.3%
Germany	4	6.1%
United Kingdom	6	4.8%
France	5	4.6%
Italy	7	3.6%
Canada	8	2.6%
Spain	9	2.5%
Brazil	10	2.3%
India	11	2.0%
Russia	12	1.9%
Other		27.5%
<i>Subtotal top economies</i>		72.5%



**Russia is greatly diminished as a world economic power, a point it is painfully aware of.**

**China meanwhile now is second, having surpassed Japan.**

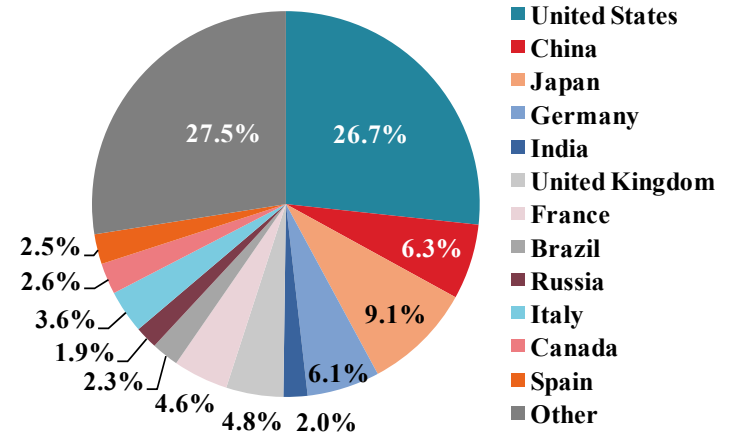
Source: The Economic Research Service of the U.S. Department of Agriculture

# The World Is Changing

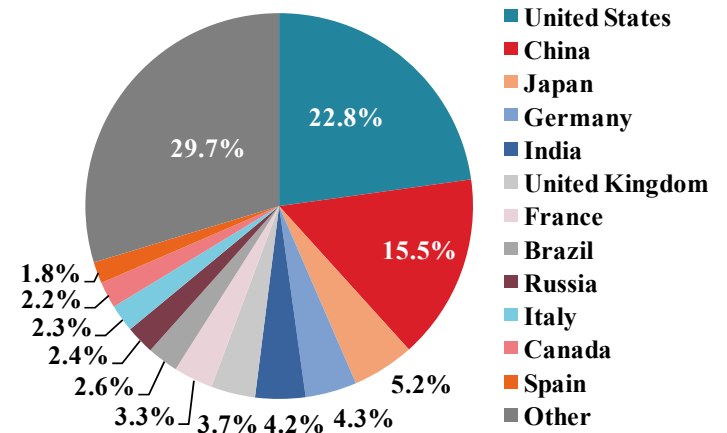
## Major World Economies: Share of Global Gross Domestic Product

	<u>Rank</u>	<u>2008</u> <u>Percent of</u> <u>Total</u>	<u>Rank</u>	<u>2030</u> <u>Percent of</u> <u>Total</u>
United States	1	26.7%	1	22.8%
China	3	6.3%	2	15.5%
Japan	2	9.1%	3	5.2%
Germany	4	6.1%	4	4.3%
India	11	2.0%	5	4.2%
United Kingdom	5	4.8%	6	3.7%
France	6	4.6%	7	3.3%
Brazil	10	2.3%	8	2.6%
Russia	12	1.9%	9	2.4%
Italy	7	3.6%	10	2.3%
Canada	8	2.6%	11	2.2%
Spain	9	2.5%	12	1.8%
Other		27.5%		29.7%
<i>Subtotal top economies</i>		72.5%		70.3%

2008 Percent of Total



2030 Percent of Total



Notes: Adjusted for purchasing power parity.

Source: The Economic Research Service of the U.S. Department of Agriculture

# What Was Old Will Be New Again, At Least With China

## Major World Economies: Share of Global Gross Domestic Product

	<u>Rank</u>	<u>2008</u> <u>Percent of</u> <u>Total</u>	<u>Rank</u>	<u>2030</u> <u>Percent of</u> <u>Total</u>	<u>Rank</u>	<u>1820</u> <u>Percent of</u> <u>Total</u>
<b>China</b>	3	6.3%	2	15.5%	1	32.9%
<b>India</b>	11	2.0%	5	4.2%	2	16.0%
<b>France</b>	6	4.6%	7	3.3%	3	5.5%
<b>Russia</b>	12	1.9%	9	2.4%	4	5.4%
<b>United Kingdom</b>	5	4.8%	6	3.7%	5	5.2%
<b>Germany</b>	4	6.1%	4	4.3%	6	3.8%
<b>Italy</b>	7	3.6%	10	2.3%	7	3.2%
<b>Japan</b>	2	9.1%	3	5.2%	8	3.0%
<b>Spain</b>	9	2.5%	12	1.8%	9	1.9%
<b>United States</b>	1	26.7%	1	22.8%	10	1.8%
<b>Brazil</b>	10	2.3%	8	2.6%	NA	
<b>Canada</b>	8	2.6%	11	2.2%	NA	
<b>Other</b>		27.5%		29.7%		21.3%
<i>Subtotal top economies</i>		72.5%		70.3%		78.7%

Notes: Adjusted for purchase power parity.

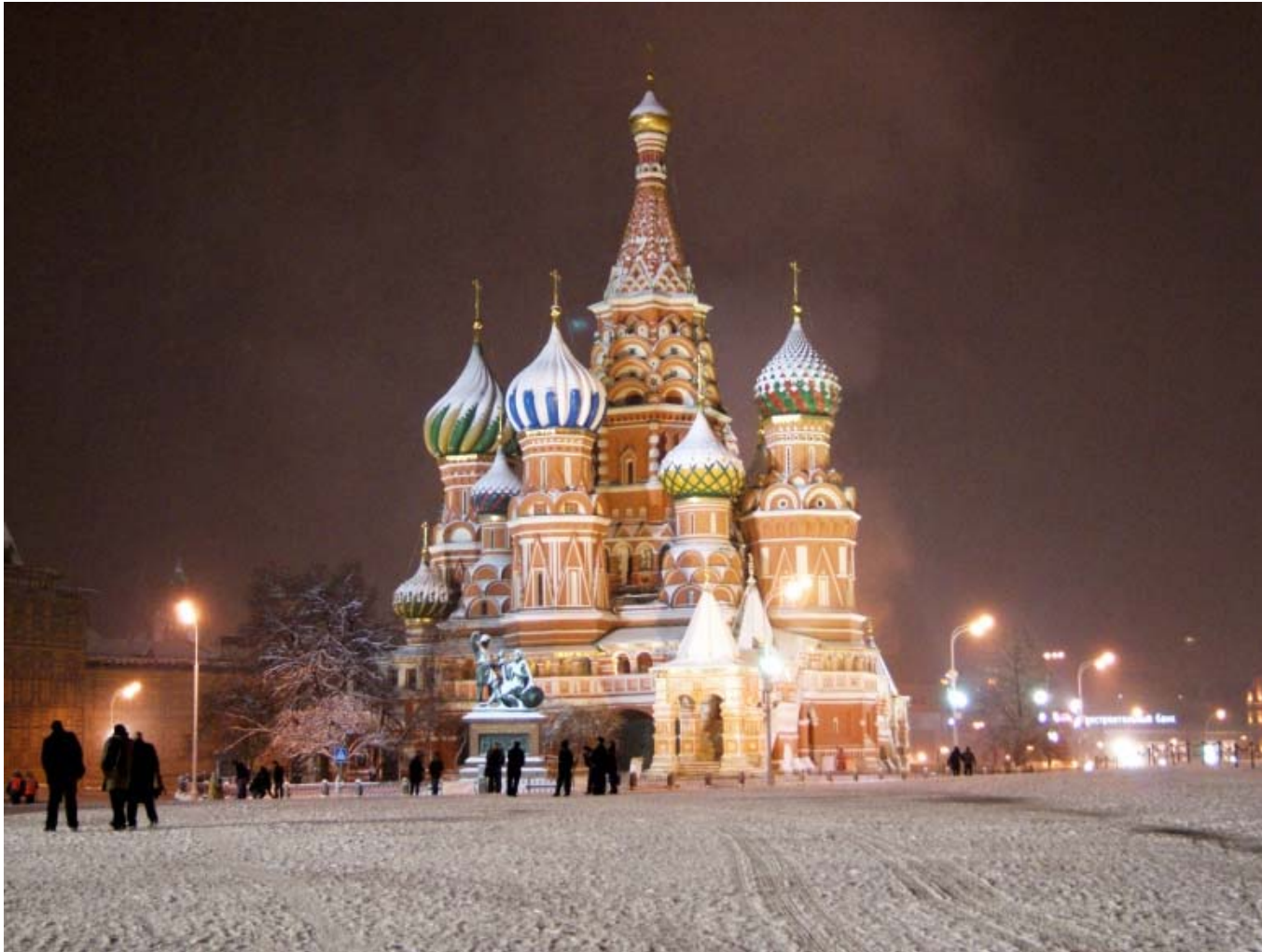
Sources: Angus Maddison's The World Economy (1820); ERS, USDA (2008, 2030)



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# Russia

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# “Geopolitics” Are Not “International Politics”

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**Geopolitics is a largely discredited theory about how geography determines the nature of political structures and systems.**

*Noun:* 1. Politics, especially international relations, as influenced by geographical factors.

2. A broad spectrum of ideas which builds on an "early-twentieth-century term for a [pseudoscience](#) of [political geography](#)" and other [pseudoscientific](#) theories of [historical](#) and [geographic determinism](#). Christopher Gogwilt, cited in Wikipedia.

Background:

Sir Halford MacKinder’s Heartland Theory, in support of colonialism and imperialism.

The German National Socialist Party theorists (Nazis).

# Geopolitics flavor Russian historical world views

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**In Russian political culture there is a concept of a rim of neighboring countries protecting the Heartland from outside intrusion:**

The Heartland

The Rimland

The Outer or Insular Crescent

The Rest of the World



# Russian Historical World Views

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## **Russian political culture has characteristics that include:**

A strong national identity rooted in historical place in the world.

A strong cultural identity partly defined by Russian ethnic traditions and partly by differentiations from west Europe.

Strong cultural identity bound up in the traditions related to the mores of the Orthodox Church.

A sense of siege.

Suspicion of outsiders.



# Russian World View

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## Russian Values

## Russian World Views

**Russian Attitudes toward what they see in the U.S. and ‘the west’ as**

**... barbarism versus respect for life and nature**

**Pro-choice, allowing abortion, tolerance of homosexuality are seen as reversions to a more primitive, pre-Christian culture.**

**... arrogance toward the rest of the world needing to accept their ‘modernist’ view of the world, their definitions of democracy and economic freedom, as the only and best way forward.**

**Russia also sees itself as having suffered a sharp diminution in its world standing.**

**It sees outsiders’ actions as perpetrating this,**

**Rather than ascribing this as the results of the actions of Russians.**



# Russian Perceptions of U.S. Aggression

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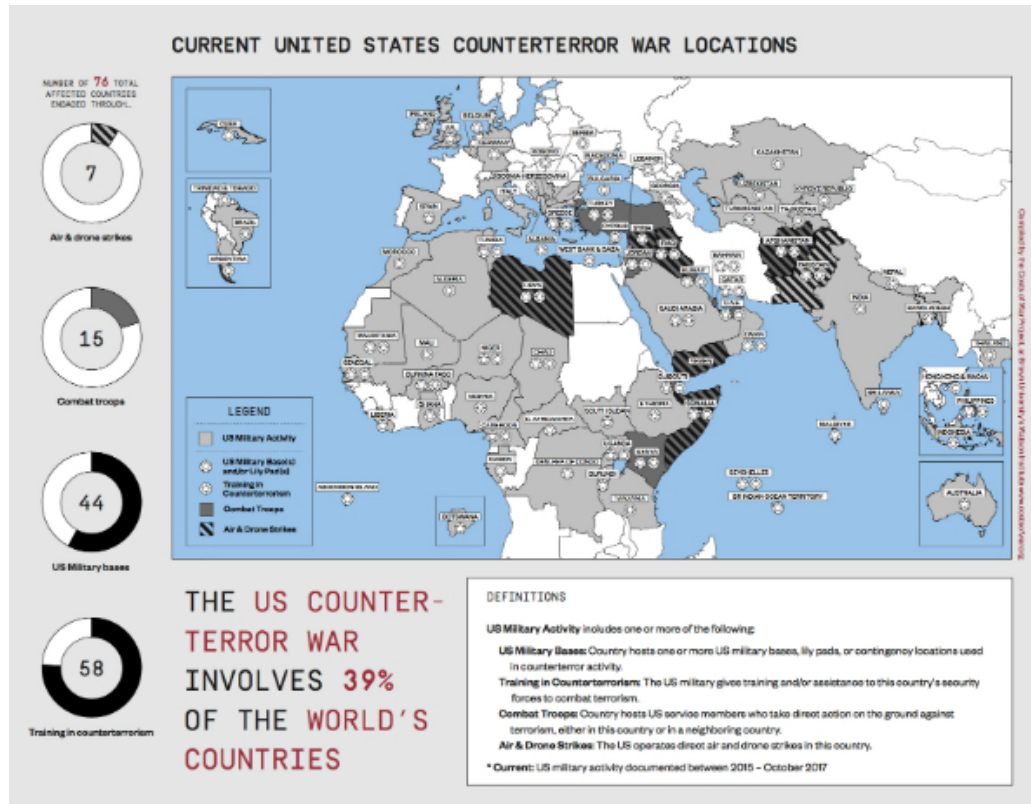
**U.S. neo-cons have exploited Russian suspicions and concerns consciously, both to further their own agenda and to diminish Russian global power and prestige. They have undertaken policies designed to back Russian leaders into otherwise unfavorable actions.**

**This has fueled Russian collectivism.**

**It has confirmed Russian suspicions of the U.S. government.**

- 1990: The U.S. State Department verbally agreed to limit Nato's eastward expansion to East Germany if Russia approved of German reunification in 1990. Russia complained when Nato expanded all the way up to including former Soviet republics. The U.S. government response was: 'We never agreed to that in writing.'**
- 1992: The Wolfowitz Doctrine leaked.**
- 1998: Paul Wolfowitz's article.**
- 1999: Richard Cheney's speech at the Royal Institute of Petroleum.**
- 2003: Mikhail Khordokovsky's relations with Cheney and the Duma elections,**

# Russia Perceives U.S. Aggression



**U.S. troops, special forces, in 149 countries in 2017.**

**44,000 U.S. overseas troops “unaccounted for” in official documents, deployed in unreported missions.**

**U.S. air bases, military bases, and illegal interrogation centers in CIS countries.**

# Reactions To U.S. Aggression

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To some extent some of the unfortunate political actions in Russia over the past 17 years are at least partly the result of the Russian government reacting to U.S. government activities in ways that were not as effective as they might have been handled.

# Russian Perceptions of China

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**Russia sees China as a very important neighbor, trading partner, nation.**

**Russia sees China as becoming the driving force in the world economically, and probably politically and culturally, in the long run, restoring China's place as the dominant economic and political force that it had maintained for centuries prior to the Industrial Revolution.**

Russia does NOT see China as a partner in a coalition against the United States and western Europe in any formal way, but rather as a nation facing many of the same international and inter-governmental challenges as it is, and thus a potential ally in various issues on an individual issue basis.



# Russian Politics: Implications for Metals Markets

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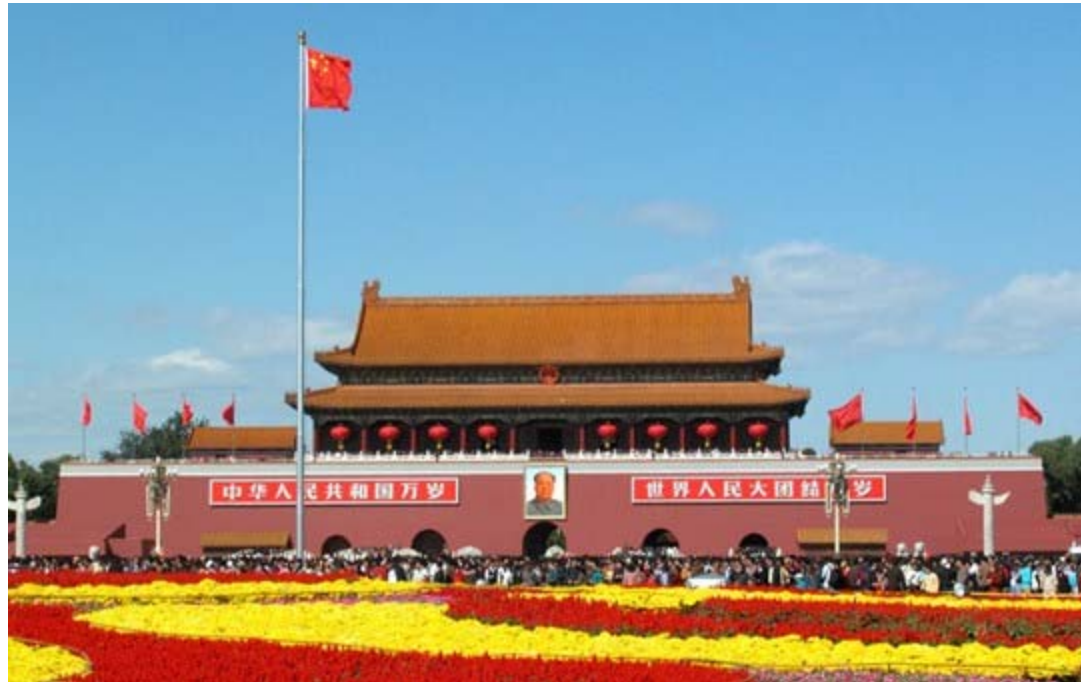
**Russia, even throughout the Soviet era, has separated metals exports policies, overall international trade policies, from political issues.**

**Russia continues to do so. It will trade with the world despite differences of opinions and even suspicions and evidence of hostile, anti-Russian activities.**

1. *The Russian government and central bank will buy more gold*, mostly from domestic production, to diversify the government's and central bank's monetary reserves.
  - a. It does not see a gold-backed ruble as a viable currency policy.
2. The idea that Russia would have imposed palladium export restrictions due to U.S. and European sanctions was nonsense circulated in the western business press but totally discredited within Russia.
3. Russia will seek to **secure supplies** of other metals as necessary raw materials, and to *maximize its export earnings* from metals and minerals sold overseas.
4. Russia will *welcome foreign investors* in Russian mining properties and operations while seeking to assure the *control of these will remain in Russia*.

# China

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# **China Views The World With An Historical Perspective**

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**China was the largest country economically and culturally for centuries.**

**During the Ming Dynasty China turned inward, after having a powerful global trading presence.**

**The destruction of Admiral Zheng He's trading fleet, 1430-1525.**

**China suffered several centuries of economic, political, and social disarray.**

**China opted out of the Industrial Revolution.**

**Now:**

**Chinese policy began re-opening the economy and society in the late 1970s.**

**China sees itself as re-assuming its historical place in the world, peacefully, over time.**

# What “China” Would Like To See

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**China would like to see a multi-polar world:**

**Economically**

**Monetarily**

**Politically**

**Culturally**

**The Chinese government, and the majority of Chinese citizens according to polls, would like to see a world in which international institutions are balanced to reflect proportionate representation:**

**The United Nations**

**World Bank**

**International Monetary Fund**

**The expectation is that China will assume a position of being first one of the most important countries, nations, and economies in the world, and then ultimately the most important one.**

**It hopes to do so in a peaceful transition in a multi-polar environment.**



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# How This Translates Into Policies and Actions

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*“Free trade,” relatively, in a Chinese Communist definition of it*

**Mutually beneficial trade**

**Avoid colonization**

**Avoid interference in other countries’ domestic affairs, and hope they do not try to interfere with China’s internal matters.**

**Strive for what China wants ...**

**But never be seen as making demands on the world.**

# The Silk Road Revival Reflects Chinese Aspirations

## The reviving of the Silk Road

Infrastructure projects being planned and undertaken as of December 2015 in China's Belt and Road initiative.



# **Chinese Politics: Implications for Metals Markets**

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**Chinese policy makers realize their country will need enormous volumes of metals, minerals, agricultural commodities, and energy.**

**It is concerned about how to secure these peacefully,**

**It is concerned about potential resource conflicts among nations.**

**China wishes to develop its own metals resources, many of which are not fully explored and delineated yet.**

**It also wishes to invest in and secure supplies from overseas.**

**The nation has adopted a cautious approach to investing overseas, wanting to avoid the inefficient deployment of capital that has characterized the global mining industry.**

**The Chinese government and central bank will add gold to their reserves and holdings, mostly from domestic production, to diversify their reserves.**

**They do not see a gold-backed currency as a viable monetary policy.**

# Implications for Metals Markets

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**Russian and Chinese governmental and private sector investment decisions will be made in a multi-polar global economy with competing forces emanating from many decision-making entities.**

**Russian and Chinese decisions, conditioned by their political cultural heritage, will influence trends in markets, but probably will not dictate trends.**

Gold may play a more important in global financial markets, if not in monetary policies.

Cobalt, lithium, manganese, vanadium, and other metals may experience wild swings in demand and price as technological developments make certain metals critical to new technologies. only to find themselves engineered out of key products and industrial applications shortly thereafter.

Major base metals markets such as copper, nickel, lead, and zinc may find their fortunes buffeted wildly by changing technologies as well as shifts in the global economic, financial, monetary, and political balances.





# Two Telling Anecdotes

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**The U.S. government is the only government in the world that sees military action as the first response.**

**The World Bank conference in March 2009.**

**Secretary of State Hillary Clinton's comment on what backs the U.S. dollar.**

# Research-Driven Research and Consulting

## Thank You.

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**Perspective Flies Out The Window**

*This month's report has two articles up front. The first concerns the volatility that has rattled all financial markets, and some governments, over the past month. Much of the volatility originated in changes the Chinese government and People's Bank of China (PBOC) initiated, beginning in July but becoming more apparent in August. Many of these changes will bear long-term positive fruit. The shift to a new world paradigm for financial and monetary markets caught a lot of investors by surprise, however. Furthermore, the changes and the market reactions spawned an obscene amount of totally preposterous and over-sized fears in global commodities, equities, fixed income, and currency markets.*

*The first article deals with precious metals markets over the past month, and where they are likely to head.*

*The second article focuses on the immediate and long-term implications for gold markets and prices of a major shift in the PBOC's posture toward gold.*

After falling sharply in July and early August, precious metals prices recovered by the end of the month. Gold prices had the strongest recovery, finishing the month at \$1,132, up from \$1,085.30 on 5 August, the lowest settlement price since February 2010, and up from \$1,094.90 on 31 July 2015. Other precious metals prices were also up from the lows that they reached during the first few days of August, but silver and palladium remained below their settlement prices at the end of July while platinum rose 2.6% over the course of August to \$1,010.50 from the end of July.

The rebound in gold prices, primarily, reflected investors covering previously established short positions. There was some increase in fresh long demand, but most of the buying seemed to be from investors buying back their short positions. Total open interest on the Comex gold futures market dropped 7.4% from the low of gold prices on 24 July to 1 September.

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## Gold Long-Term Outlook

A comprehensive study of the global gold market including projections through 2025 of gold supply by mine and scrap, demand by end-use, official transactions, investment demand, and prices.

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