"It was in our strategical thinking… that we made our mistakes. It was because our strategy was wrong that our tactics… never worked out. And now if we do not develop a grand strategy of peace, we will be wrong again—and we shall have another war."

Richard Law,
UK Parliamentary Under-Secretary of State for Foreign Affairs, 1942
(KCL_CGS) April 12, 2020

The U.S. needs a grand strategy. Lacking one, our country may fail to achieve its full potential.

What's a "grand strategy?" Professor John Bew, who heads the Grand Strategy Programme in the Department of War Studies at King's College London, defines the term as, "big-picture long-term thinking," a practice of looking "…10, 20, 30, 40 years ahead" so that governments "…don't simply crisis-manage… but they have some idea… about where they might want to end up."[1]

In his book ***On Grand Strategy***, Pulitzer Prize-winning historian John Gaddis Lewis explains grand strategy as "…the alignment of potentially unlimited aspirations with necessarily limited capabilities. If you seek ends beyond your means, then sooner or later you'll have to scale back your ends to fit your means."

I'm concerned that the U.S. may be overreaching its means as we seek to alleviate the economic impact of the COVID-19 pandemic. I believe we need to pursue a strategy that will allow the U.S. to pay off debts even as we grow the economy, which benefits everyone.

To that end, I'm impressed by this statement by Raghuram G. Rajan, former governor of the Reserve Bank of India:

> "…the investor in new debt needs to be confident that the government's current and future tax revenues (net of critical spending) will be sufficient to repay its accumulated debt. There is a limit, but if the funds raised through new debt are invested in high-return infrastructure projects, it probably will never be tested – additional future revenues will pay for the additional debt. If, however, the money is spent on much-needed support for poor and vulnerable households, the limit eventually will come into view."[2]

As Rajan suggests, let's push for infrastructure investment that can pay for itself—and which will also help the U.S. to compete with China. China's grand strategy is designed to achieve "sci-tech independence." Late in 2020, China set specific goals in its 14th Five Year Plan in the areas of computing, internet infrastructure, space exploration, power, and life and biotech.[3] For example, China plans to become a leader in 7 nm process chips and quantum computer prototypes by 2030. China's 2030 internet infrastructure goals include global coverage and integration of satellite, mobile, and ground networks and national big data exchange standards. It's possible that China's goals are even more ambitious than what has been published. China may be holding back. Its announced goal of semiconductor independence by 2025 alarmed some U.S. leaders.

Beyond science and technology, late this year China signed the Regional Comprehensive Economic Partnership with 15 countries in the Association of Southeast Asian Nations.[4] This agreement will help China with its export markets and supply chain.[5]

Unlike China, the U.S. lacks an industrial policy, which is defined by distinguished policy analyst Robert D. Atkinson as "a coherent set of policies and programs focused on particular industries and technologies, rather than the overall economy."[6] I'd like to see the U.S. develop such a policy. Both political parties seem somewhat open to the idea. My hope is that any U.S. industrial policy focuses on "advanced industry competitiveness," as Atkinson suggests.

While the U.S. has not explicitly defined a grand strategy, the nature of time and change have shifted the country's foreign policy strategy. In 1980, President Jimmy Carter said, "An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force." The "Carter Doctrine," as it became known, essentially said that the U.S. would defend the Middle East to ensure a supply of imported oil.

Today, the U.S. has largely abandoned the Carter Doctrine because foreign oil is less important. Back in 1980, the U.S. consumed about 17.06 million barrels of petroleum a day, but produced only about 10.77 million barrels a day, leaving a significant gap between consumption and production.[7] Under the influence of fracking, U.S. net imports of petroleum began falling in 2010 from 9.44 million barrels of daily net imports to a mere 0.67 million barrels of daily net imports in 2019.[8] At that level, we need not spend American "blood and treasure"—human lives and money—to protect the Middle East.

I look at the grand strategy of the U.S. as part of my quest to identify new investment opportunities. One needs the right framework—like a grand strategy—with which to look at investment markets if one's short-term investment tactics are to pay off over the long run.

China may be stepping up to fill the gap left by the U.S. Last fall it proposed a new forum to tackle tensions in the Middle East. This may be tied to China's recent investments in Iran that are said to include a 25-year supply of Iranian oil at a discount.[9] As oil fades in importance, it's clear to me that solar energy's role will increase as our country advances along the Kardashev scale. Futurist Michio Kaku describes that scale as follows, in his book, *The Future of Humanity*:[10]

1. A Type I civilization utilizes all the energy of the sunlight that falls on that planet.
2. A Type II civilization utilizes all the energy of the sunlight that its sun produces.
3. A Type III civilization utilizes the energy of an entire galaxy.

The U.S. has yet to reach Type I. "We are about a century or two away from becoming a Type I civilization," says Kaku.[11] The Kardashev scale, as explained by Kaku, suggests that solar companies have a long runway for growth ahead of them, with many more advances to come. This is why I'm holding on to solar investments initiated in February and completed in March 2020 despite a significant increase in price since that time. As I invest, I strive to take advantage of long-term trends like this.

Still, I haven't given up on other forms of energy as shorter-term opportunities arise. Given the 2021 outlook for airlines and other economic indicators, I've added to investments in the oil and gas pipelines that are essential to supply liquid petroleum and natural gas to where they will be needed.

These energy-related investments are only two of the ways that I seek to capitalize on long-term trends and shorter-term opportunities.

As always, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang

[1] https://www.youtube.com/watch?v=3j1ugooYPro&index=3&list=PLhmPz0vZubxiAudyV62HWCZgtTxAiPF3m approximate minute markers 1:48, 2:57, 3:05
[2] https://www.project-syndicate.org/commentary/borrowing-and-spending-limits-in-ultra-low-interest-rate-environment-by-raghuram-rajan-2020-11
[3] https://news.cgtn.com/news/2020-10-31/Graph-How-exactly-is-China-planning-to-achieve-sci-tech-independence--V2OgbSy9Ne/index.html
[4] https://www.brookings.edu/blog/order-from-chaos/2020/11/16/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/
[5] https://twitter.com/Frontlinestory/status/1327958088087846912
[6] https://americancompass.org/the-commons/industrial-policy-may-have-finally-arrived-but-for-what/
[7] https://www.eia.gov/energyexplained/oil-and-petroleum-products/imports-and-exports.php
[8] https://www.bts.gov/content/overview-us-petroleum-production-imports-exports-and-consumption-million-barrels-day
[9] https://www.middleeastmonitor.com/20201012-china-proposes-multilateral-forum-to-defuse-tensions-in-middle-east/
[10] Kaku, 249
[11] Kaku, 250