Got Silk?

When Marco Polo trekked halfway across the world to China some 750 years ago, one of the items he carried back to his native Italy was silk. Today, Marco Polo would be truly amazed at the array of manufactured goods flowing out of China to destinations around the globe. (In case you were wondering, China remains to this day the world's leading producer of silk, even though you can't find it at a Wal-Mart.)

Because of its abundance of cheap labor, China has emerged as the manufacturer to the modern world and in doing so, has embraced key elements of capitalism. However, like cholesterol, there is good capitalism and bad capitalism, and China may be practicing the bad variety.

China is being faulted by many governments and private economists for keeping its currency and interest rates artificially low in the midst of an unprecedented economic boom. The conventional thinking is that this will contribute to excess money and credit conditions within China, thereby leading to an unsustainable boom followed by a major bust that will temporarily crash not only the Chinese economy but the global economy as well.

China's policies are enabled by the insatiable appetite of Americans for cheap manufactured goods. The more China produces, the more the Americans seem to buy. It is a vicious cycle built on expanding consumer debt. In 2003, China racked up a $125 billion trade surplus with the US. In 2004, it likely will top $150 billion.

China is in fact subsidizing the US consumer by helping to keep interest rates low. This is accomplished by China purchasing loads of US Government debt with its trade surpluses. The high demand from China for US Treasury bonds enables the US Government to borrow at cheaper than normal rates.

You can see where this is going. In a figurative sense, China is pushing drugs onto a nation of debt junkies. The eventual outcome is that China will drag the US into an economic abyss. When the moment arrives, China will have its own burgeoning middle class willing to buy its enormous manufacturing output. What we are witnessing is the emergence of capitalism in China and the decline of capitalism in the US. Unfortunately, we are too blind to see it.

The Chinese government and its citizens greatly value precious metals as an investment. This is an investment sector that generally is looked on with disdain by Wall Street. However, with China's gradual ascendancy to the world economic throne, it is inconceivable that gold, silver and platinum will not move to center stage and become basic building blocks of investment portfolios.

Precious metals possess a quality known as "intrinsic" value. Precious metals cannot be artificially created by a printing press. Precious metals have no financial statements subject to accounting manipulation. Precious metals cannot be destroyed by acts of war or acts of God. Over thousands of years, a culture as ancient as the Chinese has come to understand this quite well. It is engrained in their DNA. It couldn't be more alien to the American culture, which is quite ironic in light of what the framers of the US Constitution were seeking to accomplish when they declared it unlawful for money to be anything but gold and silver.

China is not the only major threat to US economic supremacy and the traditional American lifestyle. The global dynamic of power is shifting in other subtle and not-so-subtle ways. These "shifts" can be likened to the seismic activity that sends steam billowing from a dormant volcano (e.g., Mount St. Helen's) and usually is a precursor to more substantial and violent activity.

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