The Chinese are coming

By Roger Simmermaker December 29, 2010

Prior to the start of 2010, Gerald Celente, an American trend forecaster, publisher of the Trends Journal, and an author who has made several accurate predictions like the 1987 stock market crash, the collapse of the Soviet Union in 1991, the 1997 Asian currency crash and the 2007 subprime mortgage scandal, made the following one of his top ten predictions for the year: ***8. Not Made In China.*** *A "Buy Local/My Country First" backlash will be the first sign of what we forecast will become a massive, "circle-the-wagons" movement. As economies continue to decline and even more jobs are lost and/or sent abroad, it will be seen as politically incorrect and financially self-defeating to plunk down money to enrich multinationals at the expense of local and domestic producers.*

Now I don't normally make predictions myself, but I'll venture out on a limb and make this one: 2011 will be the year that China makes a major attempt to buy American assets with money that used to be ours. Allow me to explain what I mean about the "money that used to be ours" part.

For almost 30 years, America has been fixated on (largely to our own detriment) lowering domestic tariffs while getting little in return and crafting endless "free trade" deals. The basic mindset has been, starting with the Ford Administration, that any trade deal was a good trade deal. 1975 was the last year the United States had a trade surplus, and now we have twin deficits (budget and trade) as far as the eye can see.

During the Reagan Administration, we went from being a creditor nation to a debtor nation. We became a nation based on consumption rather than production. Our domestic manufacturing sector has (until recently, at least) been in decline, and we lost thousands of production jobs, most notably to China. For example, over 90 percent of the clothing and toys we buy is imported. There are scarcely any toy manufacturers here today, but there are hundreds of thousands of Chinese workers making toys for the American market.

Not surprisingly, traditional national foundations like independence, self-sufficiency, and self-reliance were thrown out the window as we assumed free trade and globalization were the best things to come along since sliced bread (fortunately most of our bread was still baked in America). Economists, policy-makers, Congress, and all the presidents since Gerald Ford backed up the seemingly undeniable notion. Anyone who disagreed with the free-trade-uber-alles idea (like me) was either a Xenophobe, a protectionist, an isolationist, or was living in the past. Ironically, the policies of the past (like between 1947 and the beginning of the Ford administration when we had trade surpluses, no national debt, a higher GDP, a more solid gold standard, and smart protectionism) were actually better.

The new normal on trade policy dictated that we send China our dollars, and they in turn would send us cheaper goods than we could make for ourselves. They would also get "most favored nation" (MFN) status, which was later re-named the less antagonistic "normal trade relations" (NTR) status, and finally permanent normal trade relations

(PNTR) status. Funny thing is we never bothered to give our own country (along with our own manufacturers and producers) anything close to a “most favored” status. The pasture is always greener on the other side, I suppose.

Free trade was the policy of the day and subsequently several decades. And with that free trade, we gave foreign producers easier and lower-cost access to our consumers than we gave our own American producers. We practiced free trade with a protectionist China (and countless other protectionist countries) and kept our market wide open in the belief that the rest of the world would see the light about how our trade theory was superior and eventually follow suit if we waited and pleaded long enough. But the world eventually saw that this “superior” trade theory also brought unsustainable debt, unsustainable trade and budget deficits, the need to make tough decisions on taxes and spending, and the like. China, whose economy routinely grows at 10 percent each year while ours languishes between two percent and three percent, chose not to follow the U.S. model, but rather chose the more-protectionist Japanese model, seeing how that country had successfully amassed huge trade surpluses with us and siphoned away manufacturing jobs from us while giving us little in exchange.

As hundreds of thousands of Chinese make our toys, we send them American dollars. Since Chinese workers don’t pay taxes to America (including taxes to support today’s fiscally-challenged Social Security) we have a shortage of national revenue to pay for the things “We the People” have demanded from the use of our tax dollars. Budget deficits mount. Trade deficits follow.

Short on cash to meet our obligations, we need to borrow money to stay afloat. So we borrow money from China (money that used to be ours before we sent it to them to buy toys, clothes, and other products that used to be linked to American jobs and a growing chorus of the elite decided Americans did not want), and pledged to pay them interest on it.

Then, all those American workers we intentionally allowed to be fired from their jobs making toys and clothes and the like were retrained with taxpayer dollars for new jobs they didn’t want in the first place. We routinely spend hundreds of millions of dollars for the privilege of putting American in unemployment lines so we can send them back to school on the taxpayer dole and retrain them for the “jobs of the future.” Explain that strategy to a former auto plant employee in Michigan, who qualified to take courses for one of the new “green jobs” and now earns half of the $50,000 annually he used to make.

So what does China have up their Chinese-made shirt sleeve for 2011? Flush with nearly a trillion U.S. dollars of cash reserves, they’re going to get more aggressive at seeking to siphon American dollars through the profits generated from formerly American-owned companies.

This signals a shift in the traditional Chinese strategy of exporting endless goods to America for our endless consumption. America has become increasingly sensitive to the flood of Chinese imports, as seen by the Obama Administration’s 35 percent tariff on Chinese tires, which was recently held up by the WTO (World Trade Organization).

There's a chance we might become sensitive enough to thwart major Chinese takeovers of American companies before more major damage is done, but that doesn't mean China won't make a concerted effort to gain substantial ground before we do.

Chinese-owned Huawei Technologies acquired Bay Area start-up 3Leaf Systems' staff and intellectual property in May. 3Leaf Systems is a technology firm that develops technology to make server computers synchronize and work together to form a more powerful machine. Executives from the two companies didn't think the acquisition would prompt a review by the Committee on Foreign Investment in the U.S. (CFIUS) because it wasn't an outright 100 percent takeover, but the acquisition has now been held up on national security concerns.

In October, Chinese offshore oil company (CNOOC) Ltd paid $1.1 billion for a stake in Chesapeake Energy Corp's shale project in southern Texas. Earlier this month, the Wall Street Journal detailed the latest sign of China's escalating appetite for U.S.-owned companies as Chinese-owned Bright Food Group Co. announced it was close to coughing up nearly $3 billion to purchase vitamin retailer GNC Holdings Inc.

Meanwhile, China now boasts of the world's fastest supercomputer, as we scramble to restore our supposed leadership in high-technology (another area where the U.S. runs a trade deficit with China). Chinese engineers relied on Sparc technology, which originated from Sun Microsystems, and eventually plan to develop completely original microprocessors. If that happens, China will no longer need to rely on U.S. companies and will be far less vulnerable to export controls from the U.S. government, which restrict access to military applications technology.

China is making the transition from toys to high technology. Thanks to free trade, which has traded away our national sovereignty and leverage as a leader in high tech, we are hopelessly in debt to the Chinese, and they will raise the stakes in 2011 to buy American land, companies, factories, and assets with money that used to be ours.

We can't stop Chinese and other foreign companies from buying American assets, but the good news is we can sure stop sending them the money with which to do it. We need to support American-owned companies that make things in the USA and not foreign-owned companies because we need a lot less foreign investment and a lot more American investment. Let's buy American and ensure that there will always be American left to buy.