

WHO WOKE THE DRAGON

China is a sleeping dragon. Let it sleep. If it wakes, it will shake the world.
Napoleon Bonaparte

It has been said God doesn't speak to mankind because mankind doesn't listen. Be that as it may, it is certainly true that England didn't listen to Napoleon's warning regarding China. Contrary to Napoleon's advice, England woke China up.



CHASING THE DRAGON

In 1999 China was a source of cheap labor, the dot.com bubble hadn't yet burst, the financial deregulation allowed by the repeal of Glass-Steagall still had to work its

destructive magic and global growth appeared to be endless. Life, however, was about to change.

In 2000 the dot.com bubble burst and in 2007 the largest bubble in history, the US real estate bubble collapsed freezing credit markets around the world. Investment banks Bear Stearns and Lehman's fell, stock markets crashed and out of the rubble of change China emerged as a world power.

CAPITALISM'S JOURNEY TO THE EAST

Capitalism propelled England to world dominion by allowing England to wage war on credit. Capitalism, however, requires constant economic expansion and when capitalist economies contract, they collapse in a monetary phenomenon called a deflationary depression.

This is the reason economists in credit-based economies fixate on economic growth. In credit-based economies stagnant growth leads to *parcus nex*, economic death. Without growth, capitalist economies cannot survive as levels of constantly compounding debt, created by previously issued credit, will overwhelm a country's productive capacity to service and/or retire that debt.

Constantly compounding debt is therefore the devil's whip which necessitates the continual expansion of credit-based economies; and, to ensure that expansion, capitalism needs to constantly recycle its savings. When savings are not recycled, economies slow and recessions and/or depressions result.

Soon after the US went off the gold standard in 1973, the US began running large trade deficits with Asian countries. First Taiwan in the 1970s, Japan in the 1980s, then China in the 1990s and 2000s, with each succeeding decade and each new trading partner, US trade deficits increased as did the profits of Asian manufacturers. But unlike other nations, Asian nations didn't spend their profits, they saved them.

After 1971 when the US reneged on its gold obligations under Bretton-Woods, the US was able to pay Asian manufacturers with fiat paper money instead of gold-convertible dollars; and US trade deficits soon became so large that any bar owner would have recognized the US as a deadbeat.

Inevitably, the flow of US paper dollars diverted by Asia's high savings rate caused the West's juggernaut of credit and debt to slow; and, like a dysfunctional circulatory system, the growing savings of the East eventually began to affect the West's ability to absorb its now quickly rising levels of compounding debt.

US PAPER DOLLARS AND ASIAN GOLD RESERVES

But instead of slowing the outward flow of its dollars by slowing its purchases of Asian goods, the US instead pressured Asian manufacturers to recycle their dollars back into the

US; and, in the 1970s, after heavy US pressure, Taiwan decided to do so, but instead of buying manufactured goods from the US, Taiwan bought gold.

If balancing the trade deficit were the sole US objective, Taiwan's purchases of gold would have sufficed but the real US trade objective was for Taiwan to recycle US dollars in the form of US goods and services, not gold bullion.

[Note: Despite their public statements about gold, Western central bankers are well aware of the role gold plays in monetary systems: and, because of the West's desire to retain financial dominance, the US didn't want Asian countries owning more gold bullion.]

When threatened with trade sanctions, Taiwan succumbed to US pressure. The US, however, was about to encounter an even larger problem regarding its increasingly negative balance of trade—Japan.

By the 1980s, Japan's exports to the US dwarfed Taiwan's. Edwards Deming's theories of quality had catapulted Japanese manufacturing to the forefront of global competitiveness and the Japanese advantages of superior quality, lower prices and greater efficiency decimated American competition in automobiles, electronics, and consumer items.

But the US couldn't force Japan to buy US goods as it had Taiwan; because in the 1980s the US badly needed Japanese savings to fund its multi-trillion dollar military buildup. Reagan's explosive military spending had tripled the US national debt in only eight years, radically shifting US priorities from selling US goods and services to funding its now enormous budget deficits.

[Note: The US did however exert pressure on Japan's central bank to limit its gold purchases and, as a result, Japan's gold holdings today comprise only 2.3% of its total reserves.]

After 1980, the recycling of Asian savings into US debt had become a necessity if the US was to continue its debt-based spending, spending which for the next 25 years was to be the primary driver of global growth.

The 25 year US consumer bubble (which Japan enabled by purchasing larger and larger amounts of US debt) helped Japan to survive a deflationary contraction caused by the collapse of its speculative bubble in 1990 as US consumers increasingly stocked up on Japanese cars, electronics and consumer goods during this period.

During the 1990s and 2000s, Japan and China willingly invested their savings in US Treasury debt to increase exports to the US. The US encouraged this practice because without borrowing Asian savings, the US couldn't spend money it didn't have.

In the 1990s and 2000s, China bought increasing amounts of US Treasuries. Buying US debt was a *quid pro quo* China could not resist. Entry into the restricted arena of power is

not easily come by and China's increasingly large purchases of US debt removed any objections the US might have raised regarding the transfer of US technology and manufacturing to China.

Between 1996 and 2006, in their quest for profit, American multinationals transferred the bulk of America's technological expertise and manufacturing capabilities to China, a transfer that was to transform China into a world power. China would never be the same—and neither would America.

What profiteth a nation should it gain share-holder value and lose its place in line

ENTER THE DRAGON

Rising in an empty city
Rising, Hexagram 46 line two/9
Rediscovering the I Ching
Whincup, Doubleday & Co., 1986

The world China is entering as a new power is in disarray; and those who currently wield power are the most vulnerable, as their paper money, the foundation of their suzerainty, is increasingly suspect.

Although an IOU can pass for money, it is not

The confluence of record debt levels in the West as savings in the East reached record levels has altered our world in a way not yet understood: UK and US control over global credit is ending and it was this control over credit that was responsible for their extraordinary geopolitical influence.

The lynchpin of this control since WWII has been the US dollar which is now falling in value; and China, with over a trillion dollars invested in US debt, has the most to lose when the dollar falls.

That China is driving the change for a new currency is understandable as the universal dictum regarding the preference for paper or gold is as follows:

Sellers of good and services prefer payment in gold and silver while purchasers prefer to pay with paper money

That Russia and China, both former communist powers, support the return of gold and silver whereas the US and UK, both capitalist powers, do not is understandable. This is because the power of capitalism lies in its substitution of credit for gold and silver, a monetary slight-of-hand which England and the US leveraged for financial gain and world dominion—over Russia and China.

The ability to print money in a world where everyone is for sale is an immense advantage

The capital of capitalism is, in actuality, a smoke and mirrors shell game wherein credit and debt are substituted for money; and, as long as the game of capitalism expands no one is the wiser because the fraud is so subtle. Capitalism, however, is no longer expanding. It is contracting.

THE EAST MEETS WEST—AGAIN

The symmetry of history is as wonderful to behold as it is surprising to those who do not understand it. In the 1800s, England “woke” China by forcing China to accept British opium under the guise of free trade; but it was actually China’s refusal to accept England’s paper money that caused England to invade China.

The First Opium War or the First Anglo-Chinese War was fought between the British East India Company and the Qing Dynasty of China from 1839 to 1842 with the aim of forcing China to allow free trade, particularly in opium.

Wikipedia, http://en.wikipedia.org/wiki/First_Opium_War

After defeating China, England’s sales of opium eliminated England’s need to pay China with silver. But today, the question of paper money and its questionable value has again reappeared in the relationship between China and the West.

Today, just as then, the intent of the West is to leverage its paper money in order to maintain its advantage in paper-based capital markets; but, today, circumstances are far different. Today, China is awake.

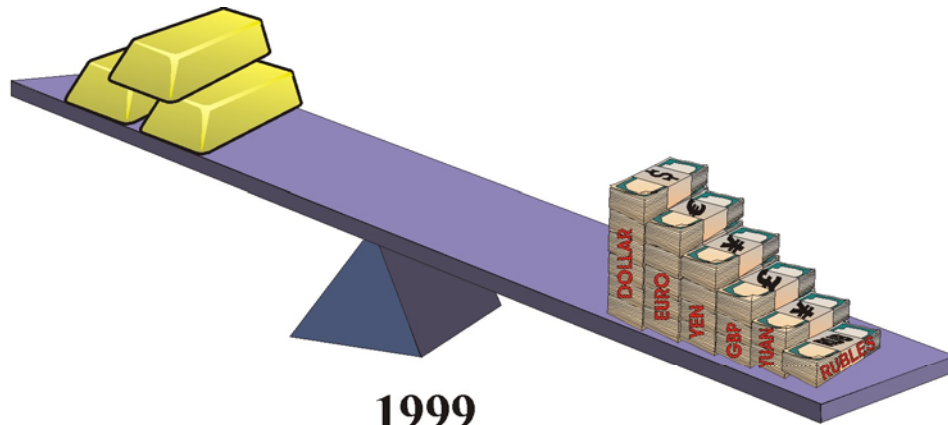
PAPER MONEY AND GOLD

China’s rise to power in this new era is truly akin to *Rising in an empty city* where the previously powerful have lost control. The US and UK and others, including Japan—the Japanese yen for leverage having cost it dearly—have fallen victim to the very system by which they controlled others.

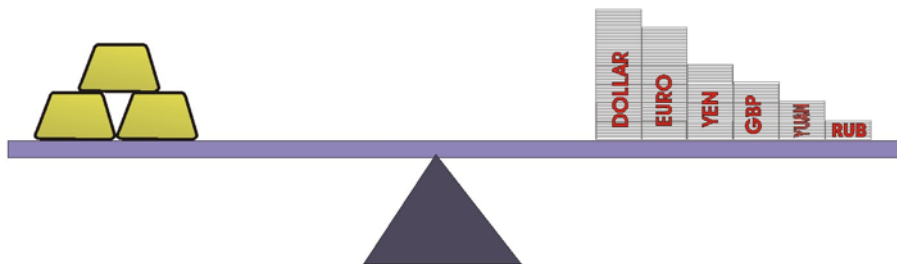
Burdened by increasingly onerous amounts of defaulting debt as their credit-based economies contract and collapse, they are now reduced to printing more and more money desperately hoping to outrun the compounding debt they themselves created.

Deflation is a monetary black hole that once in motion can’t be escaped

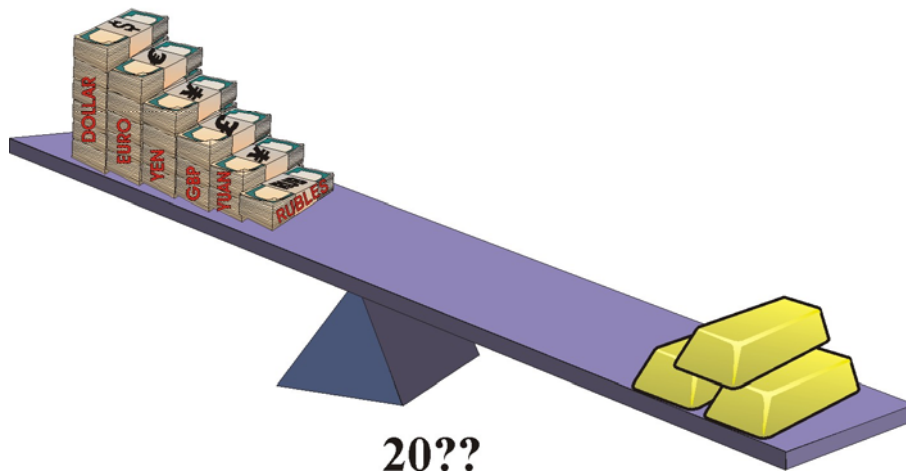
To support the declining value of their paper currencies, central bankers in the West and Japan are struggling to control the price of gold, the one indicator that mirrors the declining value of paper money.



1999



2009



20??

In this struggle, too, central bankers are losing control. Only by selling more and more of their gold have they been able to slow gold's rise. Today, literally, they are scrapping the bottom of the barrel as they are running out of deliverable gold.

Toronto analyst Rob Kirby's recounting of the behind-the-scenes activity that recently drove up the price of gold is but one example of this on-going battle. On the last day in

September, Kirby reported large buyers of gold entered the futures market and demanded immediate physical delivery on the September contract.

The counterparties, allegedly JP Morgan Chase and Deutsche Bank, both complicit in the central bank suppression of gold, counter offered with premiums 25% above spot if the contracts could be settled with paper money instead of physical gold but the buyers refused, sending gold to record highs as the banks scrambled to deliver gold they did not own.

Questions were also raised about the quality of the gold bars delivered. Evidently, the bars provided by the Bank of England had to be re-cast as to meet the .999 quality necessary for delivery; and Professor Antal Fekete in his current article, *The Gold Basis Is Dead—Long Live The Gold Basis*, adds more to the controversy surrounding deliverable gold.

Reports are circulating that similar audits of certain Asian depositories have already produced “good” delivery bars (400 oz or 12.5 kg gold bricks) that have been gutted and stuffed with tungsten — a metal whose specific weight approximates that of gold, so that the famous test of Archimedes (fl. 287-212 B.C.) based on the Law of Buoyancy, designed to expose fraudulent goldsmiths, would be inapplicable.

The shortage of deliverable gold may, in fact, be the reason for the 17,500 ounces of gold bullion missing from the Royal Mint of Canada, almost exactly ½ tonne gone without a clue from a secure government facility. It is reasonable to suspect that government conveyance may have played a part in this unresolved crime.

Central bankers and governments are increasingly desperate to cap gold’s price and government chicanery cannot be ruled out, indeed, it almost can be assumed in these times.

GOLD, GOLD AND MORE GOLD

In two weeks I will be joining Professor Fekete at an event sponsored by the Gold Standard Institute in Canberra, Australia. Professor Fekete, whom I consider the leading proponent of the gold standard today and the preeminent expert on the gold basis, says:

This year’s Seminar will discuss the gold basis in the light of the very latest developments. The gold basis is not dead, it just needs to be correctly interpreted. I shall show my audience how to do that through uncovering the hidden premium in the price of 24 carat gold available for immediate delivery; through the spread between the share price and the NAV of the gold ETF’s; through the popping up of 22 carat gold bars offered as bribe money, and other miscellaneous signs of a very real physical short squeeze in the market for monetary gold.

For event information, see www.professorfekete.com.

The up-coming seminar featuring Professor Fekete will be the Gold Standard Institute’s inaugural event. The organization has taken upon itself the considerable task to collect

and disseminate information on the Gold Standard and to promote needed inquiry into this important subject.

Last spring in Vienna I had the pleasure of interviewing Philip Barton about the Gold Standard Institute and its intended mission, an interview that has just been released on Youtube, see <http://www.youtube.com/user/SchoonWorks#p/a/u/0/NLNOvygUsHo> .

In these times, Professor Fekete's description of gold, as "a golden dinghy on a stormy sea" could not be more true. Today, the world is on the verge of another great depression, three major economies, the US, the UK and Japan are bankrupt and are loaning themselves, i.e. printing, money they need to survive, and dining in English restaurants is now as good as anywhere in the world.

Anything can happen.

Darryl Robert Schoon

www.survivethecrisis.com

www.dr schoon.com

Blog www.posdev.net/pdn/index.php?option=com_myblog&blogger=drs&Itemid=81