



## China, US\$, and Gold

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<http://www.ck-wong.ca/China/china%20us%20gold%2020060121.pdf>

### Introduction

According to a WSJA report, the domestic steel price in China is falling which stimulates the machinery export. This report goes further revealing the trading partners are the US unfriendly countries such as Iran, Iraq and Latin America. How does it relate to the Chinese FX strategy?

### Third largest economy of the world

Ready or not, China has become the third largest economy behind US and Japan. The economy has built up based on the internal consumption and export. The level of export has extended to the full spectrum of the merchandises. It is not just the famous low price in Wal-Mart. Trading in mid-tech (as oppose to high-tech) such as machinery, TV and furnitures around the world accelerate the world market penetration. While there are many islands of merchandises presence already, the list has to continue to grow. There are a few area China could follow the India after overcoming a few barriers.

With a few exceptions in the high-tech area, Chinese does not take on any service oriented business. It is a mystery to me. In the high-tech area, foreign companies set up research and development lab (more to sales support than anything) as the vehicle to set up local presence and shows a friendly gesture to the Chinese government. Real service oriented economy is pretty much support the domestic. Most recent change in the banking policy increases the opportunity of overseas banks to participate on the banking service bridge forts in China. This will groom those less fortune locally educated Chinese to the financial sector. These are high end of service. The participants are low. As the promotion of the Beijing Olympic, part of the enforcement on language is to increase the English ability of the population. The preparation motivates population, the visitor fortify the importance of mastering English. As the result of this, the economy could compete India in the area of Call Centre. Since the *death of distance* (a slogan from the '90 telecom industry after the introduction of optical fiber to reduce long distance call cost) cut-throat competition on call centre will becomes a full pledge worldwide engagement.

China practices on the associated business. She uses the opportunity of doing one business to generate associated business. One such possibility would be the call centre for the IBM PC. Since IBM divestiture of PC unit to Lenovo, it is reasonable to pursue the support call centre by China. Once she got this piece, there are no reasons why she could not pursue Dell or even banking call centre opportunities.

### Trading with US non-Friendly Countries

American Congress has its most worry about China's influence to the world because of the political and economic benefit. Trade is always a way to influence the diplomatic

relationship. The success of China forming ties with the African countries (the most recent success was the stake of Nigeria oil producer by CNOOC), Middle East and Latin America such as Cuba and Venezuela would call for non-US\$ currency. While all economists continue the debate on the value of the US\$, the trend to inflate the US\$ is almost a common consensus. I would ask what currency of payment would those non-US friendly (NUF) countries will pay China during the transaction or receive from China.

Ideally, Chinese would like to reduce the US\$ ownership by paying it off while reducing its holding of US\$ by taking alternative currency. To be really exaggerated, the Chinese import companies may be encouraged to buy the T-bill from Chinese government to pay to these NUF countries.

Although US\$ and Euro has been the mostly accepted international payment settlement. For those NUF countries the amount of US\$ FX they are holding on will either continue to reduce or none. In the case of Iran, they pull their reserve out of the Europe banks. It has a high probability to preserve their reserve in the form of gold. As the result, the payment may not be in the local currency, US\$ or Euro. Both Russian rouble and Indian rupee are getting strong. They could be the currency of payment especially they are returning to gold standard. Russian friendly countries may choose rouble but both rouble and rupee are not widely accepted. RMB could be an alternative.

If we take a closer look at the culture of these NUF countries, they all have the history affiliated with gold. It could be speculative but when these NUF countries try to shake off the last tied with the American and the American control of their wealth they would either accumulate the wealth in gold or trade in gold.