

*All articles written by Freydis (except where noted)*

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## Mythical Giants

08.04.01 & 23.09.09 NASDAQ, the Dow plummeting, Asian currencies faltering again, ho-hum who couldn't see it all a mile away. Nothing changes because nothing is fixed, merely plastered over with billions in bailouts.

But what really irks me more than ever is the myth that China is an (emerging) economic superpower, a force we should apparently all genuflect to, or at the least be desperately attempting to get our collective 'meat-hooks' into before it's too late, be a Rupert Murdoch or something. Come on, what garbage. Most of China is a desiccated wasteland of sand and dirt and most of the people still subsist as very poor peasantry. In China the corruption level is endemic, mismanagement and waste are unbelievable and their currency isn't even convertible! I mean Taiwan, South Korea, they far out-produce China because they don't have to lie to themselves or the world about their rank and position. Oh right but they don't have over a billion potential consumers to sell to...

This whole emerging Chinese superpower myth is especially dangerous because it's increasingly being warped for political ends, maybe even to manufacture another Cold War. Look at President Bush's latest realignment of military opponents from Russia to China. And think about it: what if that U.S. spy plane had crash-landed not on Hainan Island but in Iraq and it was Saddam Hussein holding the crew and stealing equipment? U\$ bombs would be raining on Iraq for weeks! And isn't it interesting how so many U\$ politicians, both active and semi-retired, have significant vested interests in China; from Kissinger to Senator Dianne Feinstein? Indeed her state of California has a higher yearly income (GDP of \$1.03 trillion) than *all* of China!

| <b>Statistics For:</b>                   | <b>China</b>              | <b>India</b>              |
|--|---------------------------|---------------------------|
| <b>Population</b>                        | <b>1,242,980,000</b>      | <b>984,004,000</b>        |
| <b>GNP</b>                               | <b>\$906,079,000,000</b>  | <b>\$357,759,000,000</b>  |
| <b>Economically Active Population</b>    | <b>696,600,000 (56%)</b>  | <b>314,131,370 (32%)</b>  |
| <b>GNP Per Active Person</b>             | <b>\$1300<sup>1</sup></b> | <b>\$1139<sup>1</sup></b> |
| <b>Military Expenditures Per Person</b>  | <b>\$53</b>               | <b>\$8</b>                |
| From: Britannica.com except <sup>1</sup> |                           |                           |

So why China? Is it because they have over a billion people confined to ultra-crowded, polluted industrial cities on the Pacific, east coast? Why not India whose population is rapidly approaching that of China and is predicted to surpass in the

near future? Why aren't we hearing stories of the emerging Indian economic giant?

Although India's population is close to China's, 984,004,000 billion versus 1,242,980,000 billion; India has less than half the active working population of China, 314,131,370 versus 696,600,000, yet they produce over half the GDP per capita of China. India's GNP per total capita is \$380 while China's is \$750. [all figures from Brittanica.com]

So India actually has to support more idle persons (32 percent of pop works) yet still produces nearly equal per capita with China (56 percent of pop works).

India: 314,131,370 people produce \$357,759,000,000 or \$1139

China: 696,600,000 people produce \$906,079,000,000 or \$1300

Furthermore, China spends (or wastes, as an opinionated person might say) \$53 per person on military expenses while India spends only \$8!

But one very important thing to keep in mind with all these numbers is that China is a communist, closed economy that masquerades as a capitalist economy when convenient for the purposes of profit without pain. In other words it's still a planned communist economy and all these figures are either sheer estimates or officially provided state figures which everyone knows are inflated anyway. India has a convertible currency and an open economy. The difference far outweighs any apparent imbalances between the two. India has a significant corruption at all levels but China is as bad, if not worse, anyway. The attraction of China has always been the fact they're this closed system, a tease for the foreign capital. Yet India isn't as misleading. The answer is clear: to invest in India makes more sense than China.

Unfortunately this doesn't answer the premise of this essay, why is so much hype focused on China? I think most of it is just that 'so near but yet never quite materializing' potential. It's the allure of China and just think if every Chinese family bought a new car every four years, wow, and we could sell it to 'em! The primary conundrum that has yet to be resolved is the fact that the capital is missing. The productivity doesn't exist and the economy of China is not nearly functional or anywhere near efficient enough to produce the savings needed to generate wage levels and stored wealth near that of the USA. It's not impossible but it would take decades to do and as long as the Chinese government is the problem not the solution how likely is this? It's all predicted on the ludicrous delusion that the Communist party of China is going to pack their bags wave goodbye and just leave town soon, that thousands of years of Chinese tradition will suddenly go western capitalist - start trusting banks and such and that the Chinese economy will magically turn into an efficient production-consumption model of America. Nothing but pipe dreams and capitalist investor fantasies.

## Market Saturation

07.09.00 Our present globalized economic order has the masses disenchanting and the CEOs wealthier than ever before. Still, they have nothing but what the people allowed them through apathy and the politicians through venality. Significant evidence mounts pointing to the fact that this gigantic party, of which only a few have been invited, may soon come to an end, party crashers aside. Responding to this perplexity of the 21st century dictates dual approaches. Most importantly from the level of the individual and community and secondly on a worldwide scale by spreading an understanding of what is happening to environment and the crumbling economic well-being of the majority.

The fundamental ideal behind globalized economic development is that by exploiting the developing world's resources a middle class can be constructed thereby facilitating new consumer markets primarily for the developed world to sell their products. As it stands today the high-wage industries in computing and information manipulation are only marketable within the developed realm itself, after all what does a homeless Indian or a Chinese rice-farmer have for database software when they don't even have electricity? Hence the astounding imbalance of accounts plaguing the USA, all those billions of dollars flooding out to trading partners, making a paradox of pittance wages employing laborers that can't possibly afford the products they assemble. Vietnamese 'slaves' sewing \$80 Nike shoes and Chinese peasants assembling \$3000 High Definition Televisions.

The absurdities of 'Free Trade' are legion, depletion of natural resources to uphold commodity-based exporting, ballooning debt maintenance, devalued currencies and wage competition amongst a global labor surplus, None of it leads the developing world into anything resembling the vaunted middle class consumer clones but instead leads inexorably further into the abyss. The present order, just as its colonial predecessor, is supported by a one way road of exploitation, all wages are headed lower if for no other reason than the law of averages. Yes, even Mr. Software developer making \$120,000 a year, this includes you. Corporate consumerism means we're forced to forever run like mice in the production-consumption wheel, faster and faster. The greater the wealth the more intricately dependent one is to this order.

The worldwide labor pool will be exploitable for centuries but the natural resources won't last nearly that long. Real cost's can't be masked by externalization indefinitely. Already fuel and electricity prices are rising in inflation, forming that dreaded economic friction that leads to lay-offs and higher prices. Curiously this effect is magnified by pervasive automation. Certainly aluminum plants are the first victims of high power costs (deregulation you've done it again!), but auto manufacturing is a close second example. Having fired all their technical assemblers

in favor of a handful of robot operators, now even the fortunate remainder is left facing job cuts due to the power demands of those tireless computerized machines. Oil prices are hitting new highs and forcing food prices up too, since it's all trucked or shipped in from the other side of the planet even when the same produce grows on the farm down the road. Oddly enough most oil producers are now constrained not so much by desire to increase production as in the lack of infrastructure to do so.

So the globalized economy is really predicated on the ability to mask the true cost of products via externalization machinations like low-wage regions, cheap commodities, financial fluidity and especially low energy prices. Negate any of those benefits and it ceases to be profitable.

Only one exit for the global economy remains and that's to expand the consumer base thereby balancing trade between 'north' and 'south'. Yet every action on the part of Multinationals throughout the developing world has been to *destroy* the only base that could support a middle class; it's impoverishment for the short term gain of cheap labor.

Ultimately the final chapter has already been written. This economic system of exploitation for greater corporate profit is doomed because all of the markets for developed-world products (and the associated high-paying jobs manufacturing them) have already been saturated. Not only that but having de-industrialized and specialized the 'north', our future is now nearly as bleak! What little remaining margin existed to soak up more of those goods has been inflated into a bubble. By artificially lowering interest rates below safe levels and blowing up the money supply the Federal Reserve has created a boom remarkable in its failure to benefit the rest of the planet! Now credit cards are maxed out, savings are negative. It's as if every family has concrete shoes made of mortgages and consumer debt without any lifejacket of savings. It begs the question, how well can *you* swim when the tide comes in?

The greatest irony may well be that the high-rollers in the computer-biz today will get burned the worst since their entire industry is founded on expansion and rapid technological obsolescence requiring upgrades. Who are they going to sell to in a *domestic* recession, something the IT realm has never faced?]

Within the corporate world, business can continue for a while longer pretending nothing is wrong and the future is rosy, selling their IT products to themselves, dot.com 'companies' trading advertising as 'revenue', creative accounting incomes and high stock valuations enabling corporations to pay their workers with stock and perform takeovers of failed ventures that multiply like flies in a cow-pasture. And as long as the banks keep the funds fluid and the loans flowing this big-fish-eat-the-little-fish shell-game can go on as long as the Federal Reserve keeps the interest rates low. And they will as long as they can keep foreign confidence in the value of the dollar high. If any major debt holders began to question any of the assumptions

which underpin globalization or the US\$ economic bubble for that matter the Federal Reserve will be forced to raise interest rates to lure the money back into domestic bond-sinks. Eventually such inquiries will be considered because they're as much entangled in the globalized economy as we are.

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### Sacrificing the Gold Calf

25.06.00 The Central bankers realized some time ago that the Euro was going to hit hard on debut, but without developing an alternative they forged ahead anyway. Much like the release of Godzilla the movie they probably figure that even a dud could work with enough publicity. Or maybe they don't really care 'cuz they get paid either way. With the hype gone and the Euro still falling they needed to act to prop it up. The big players jumped in and conducted some showcase buying support, but it was fairly uneventful. What to do now?

Well, about the only thing the Central bankers could do was start selling gold. The reason is to eliminate the competition it poses to the Euro by driving down its price and thereby boosting demand for the Euro, albeit indirectly. The Bank of England for example is dumping 415 tons - over half of their reserves! Why else would they have pre-announced the massive sales of the metal? Certainly not to make a profit from the trade since the immediate effect was to drop the price of gold! And what are the Bank of England and others turning the money from the gold sales into? Mostly Euros but also Yen and Dollars, duh! So now we see what a cozy relationship our trilateral buddies have after all, propping up the sagging demand for each other's fiat currencies by simultaneously selling off the only real competition: gold.

But the dangers of this policy are that by driving the price of gold so low they're forcing the shutdown of mines and the mothballing of large portions of the mining industry. The long term trend is to constrict supply and inevitably drive up prices. Especially with all the forward contracts on the metal, I wonder if future demand can be met with an ever-decreasing flow into the market? So unless the central banks have a brilliant plan to get out of the next crisis ala Houdini it could get pretty ugly. It reminds me of the way stars in their dying phases start expanding and burning heavier and heavier elements in a desperate attempt to extend their lives, eventually burning up everything in near orbit and exploding in supernova.

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### Boom 'n' Bust

16.06.00 Most of the East Asian economies burned by the financial debacle that started around three years ago haven't fully recovered, but they have at least regained their composure. Thailand, just as its neighbors, had numerous financial

faults, and true even overvalued currencies, but much of that blame resides not with sloppy or corrupt government, which they have, but with artificially cheap credit from financial speculators that fueled the artificial boom/build-up of these 'tiger economies'. What the tiger economies discovered is that what the bankers give they can also take away, and at very inopportune moments. The power that these financial speculators wield is quite real and potent, especially against nascent, highly leveraged commodity and export based economies.

My insinuation is of course that it's reasonable to question the 'accidental' nature of the East Asian financial debacle; and certainly I wouldn't be the first. Dr. Mahathir of Malaysia believes the entire scenario from Thailand to Indonesia was orchestrated by financial wire-pullers hungry for quick profits made via currency speculation. But I would say that wasn't the only goal. By examining the results we may get a better idea of why it happened. First of all East Asian nations have over the past decade relinquished control of labor markets - example the infamous sweatshops of Vietnam. But these same countries have not been so eager to hand over control of state industry to western business. Wresting these national assets from even the most venal administrations has proved no facile task. Failure to control them means significant risk to western investment for one because they can never fully trust them if they don't share the same goals, but also as competition. Today Indonesia and South Korea are two examples of the again re-emerging economies. They've been forced to shed much of the old, nationally coveted industrial crown-jewels. Example Ford motor company trying to buy South Korea's KIA. The deal fell through though because, like so many others, KIA has too much debt to make it a viable acquisition. This points out the hazard involved.

Notice the influx of cheaper consumer items into the US, propelling the trade deficit into the stratosphere. Cheap commodities and cheap electronics help keep the domestic economy on a roll and that keeps the party in power too. Not too shabby a deal all in all, sure a few investors get burned but nobody puts all their money in one basket anymore, just write off the losses. The industrialists get to move in for the kill and buy up at foreclosure prices and the currency speculators made a killing all the way around. Everything works out great, well except for those poor slobs making shoes in Indonesia or the unemployed factory worker in South Korea. But hey, they never really had a chance anyway, right?

Doubtful we'll see too many western complainers, we all appreciate getting that cheap VCR and the new TV, but the point is that what can be done by corrupt and greedy plutocrats to trash a developing country and the lives of a billion can be done to us as well. Best be on the lookout for a recession then ask yourself who profits from it?

In summary financial panics are not that difficult to instigate especially when the investors are already in over their heads in high risk foreign markets. They operate in herds and as soon as an analyst or big-shot with significance points out that they

may not get their money back because of this or that, they pull out like a run on the bank.

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### Breaking the Collective Chains of Capital (or at least trading them for new ones)

09.05.00 The implications of a one world single currency are truly staggering; if implemented it would completely repeal the laws of debt and capital, albeit in a virtual manner, the effects would be quite real. No longer would the free market dictate social policy. In other words, anything becomes possible so if we want to build Fort Knox on the Moon we could do it. The only restrictions of social or technological progress become those of resource and labor limitations, the fundamental rules of physics.

This is the beauty of fiat currency backed purely by consumer and banking sentiment. One currency means no competition or reference point to measure success or failure, value or waste.

A relativistic money supply could create severe imbalances between supply and demand but it could also do things completely impossible under our present capitalist system. Space exploration is a good example. Today it's so expensive to launch even a one ton space probe into space that only international committee groups can afford to make a stab at it. But with a uni-currency this restriction would be irrelevant. Think Soviet economy on a global scale and you have some serious potential for progress and/or fiduciary mismanagement.

Clearly this is something that's not overly practical given our present ability as a group to manage wealth and resources. By and large we are unable to collectively conserve and utilize money effectively without using primitive behaviorist elements inherent within a capitalist-consumer-entrepreneur system of supply and demand. That doesn't mean it will or should always be that way. At some point in the near future the need for a single world currency will become politically irresistible, perhaps for fear of the alternative.

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### Part II: Corporate Defaults

15.10.99 & 2000 Sovereign defaults are always very serious matters, even when the amount of money may seem trivial. Pakistan's \$32 billion in debt is relatively minor amount; at least in comparison to say the US GDP in the trillions. But in the political realm it's a much graver matter, bad credit, military dictatorships, impoverished and overpopulated people and nuclear weapons -- that's not a healthy mixture.

Corporate bankruptcy is much more mundane but the actual cash amounts can often be in similar categories. The Iridium satellite telephone system partially backed by Motorola is a case in point. This multi-billion dollar fiasco looked great on paper but any prudent analyst should have foreseen the inevitable cost-overruns and delays intricately associated with all space launches. Of course in today's stock market good intentions are all that matters anyway so the Iridium stock price, grossly over-valued, never reflected the very risky nature of the endeavor.

*Iridium: At \$3000 per handset it's perfect for government users!*

The Iridium project soaked up 4.4 billion dollars then stalled with an estimated \$1-2 billion more needed. A few billion here, a few there no big deal. Iridium will use its remaining funds to intentionally de-orbit their constellation to burn up in the atmosphere. So now it's Chapter 11 for Iridium, not even listed except by a proxy corporation based in Bermuda, here's the very informative chart:



Basically \$5 billion has been wasted and no one is likely to get any use out of this thing because it's so fantastically cost-inefficient. Undaunted by flagrant logical imperatives, at least one other company is trying to do the same thing as Iridium - Teledesic LLC. Already having raised a cool \$1.5 billion, funding doesn't look to be an impediment given our present glut of foolish investors.

The Defense Information Agency bought a contract for Iridium phones, including all the shiny accessories, for \$219 million dollars, all of it apparently completely wasted at this point. Also it's interesting to note that Motorola launched several Iridium satellites from China using that country's Long March rockets. Technology was pilfered from at least one of those



rockets and used by China to improve multiple re-entry vehicles for its nuclear-tipped ballistic missiles (guess where they're aimed). What other technology improvements China may have gained from Motorola either directly or otherwise remains for the courts to decide.

With easy financing and cheap money projects like Iridium grow and die like weeds in a trashy lawn. Just think of the mega-malls that keep popping-up despite the fact almost none of them ever return a profit. Or think of the similar aspects of the dot-com bubble frenzy. Corporate defaults are already at fairly high level now, but what about five or ten years from now?

I recommend investing in debt-mitigation and restructuring companies. That seems like one sector that's really poised for growth.

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From the September 21, 1999 Statement of Ann Williamson to Congress on  
Russian financial corruption

Any pyramid scheme remains viable only so long as its base continues to expand and it is that fact which has driven US foreign policy for much of the past century. Since politicians and investment bankers both have an interest in promoting deficits and in forcing taxpayers to redeem government debt, they were quick to come to terms on the advantages of underwriting foreign debt along with new markets and natural resources from abroad. Taxpayer-subsidized globalism then is not a new phenomenon, but it has reached an apogee of sorts under the guiding hand of the current Clinton Administration.

Once the criminal financial flows from Russia and Asia were combined with the easy money common to presidential election cycles and began pumping into the economy in the spring of 1995, it wasn't long before asset inflation hit US corporate share valuations. Throughout 1995 and 1996, the money supply kept rising, and along with it mutual fund holders' paper wealth. Attracted by the double-digit yields found in risky, unregulated environments abroad, the banks - given the election year liquidity the Fed wished to export - lent unwisely and to excess. The moral hazard the 1995 \$40 billion bailout of Mexico unleashed (the debt was refinanced, not repaid, with additional IMF lending and proceeds from eurobond sales in 1996) led to a tripling of international capital flows. Investors took greater and greater risks in the belief that the "new paradigm" promised taxpayer-provided redemptions if necessary. The consequence of all those dollars frolicking in exotic locales is a \$141 billion bailout for Asia, more than \$20 billion for Russia in 1998 alone, and \$30 billion for Brazil in 1999.

Some governments - especially those with an election on the horizon - actually want to devalue since national exporters, their goods now being cheaper, sell more

goods. Global lenders like the IMF are also fond of devaluations because a rising national income from bargain exports leave plenty in the national kitty for principal and interest payments to them. (Global direct investors who stick to the dollar, quasi-"good guys", fear devaluations, because their profits calculated in a devalued domestic currency buy fewer dollars for repatriation.)

But when exchange rates depreciate rapidly the specter of capital flowing out of a country appears. Foreigners and residents put their savings elsewhere. The currency goes into free fall, its value plummets, more investors flee and at the end of the cycle, interest rates skyrocket. This is exactly what happened in Asia in 1997, in Russia in 1998 and in Brazil in 1999.

Yet to curse the speculators is useless; since the 1972 collapse of Bretton Woods that broke the international link between the dollar and gold, the fear of the syndrome described above is the only remaining bit of discipline in the international system. How much better, the globalists reason, if there were to be one central bank and one fiat currency for everyone so that then national leaderships (and the financial oligarchies they sustain) could inflate and rob their own populations in unison.

In time, U.S. corporate profits will decline as a consequence of the IMF-induced deflation and share prices of all but premiere multinational corporations will follow suit. Alas, those Americans up to their necks in credit card debt may well be the next class of debtors to be rolled, and American farmers have been suffering for some time from the collapse of farm commodities. In time, credit will dry up, government receipts will dwindle, the national debt will skyrocket and unemployment will increase. Eventually the government will inflate its way out of its accumulated debt.

- Ann Williamson

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Do you still believe that diamonds are rare?

