THE CHINA ECLIPSE

A commentary analysis on the rapid growth of China
and India in industries critical to United States National Security.

By
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In a accordance with Congressman Jim Gibbons.

I. The competition is killing us.

A. China's ingredients

The advantages China has acquired over the United States in the last few decades are terrifying. Worse, the pace at which China has acquired advantages has dramatically increased in the last 10 years. These advantages are primarily in the areas of manufacturing technology, production capacities, electronics and computer technology. For the United States to not be a leader in these areas is a threat to its national security. At present, almost every product purchased by US consumers are either made in China or contain a component made in China. China has now enjoyed a long and steady investment stream from US and multinational companies for several decades. Multinational companies have no interest in patriotism. Their interests are mechanically capitalistic. Furthermore, the Chinese government supplements, subsidizes or creates extra opportunity for many companies which make these investments. Thus, the manufacturing infrastructure in China has exploded well beyond the capacities of the US. Not only is China's manufacturing capability and technology exploding, but with the advent of the internet and other inexpensive telecommunication means, China is able to electronically export its cheap, abundant, disciplined and well trained work force, replacing US positions for a small fraction of the cost. In addition to the benefit of new infrastructure, its requirements for environment, safety and licensing are nonexistent or far less. Thus, equipment, materials or methods which are simply too expensive to utilize in the US these days are still useful, profitable assets in China. The productivity of the new infrastructure, utility of old infrastructure and a labor force that is far larger, better trained, disciplined and without mandated protections or overhead put China's opportunity so far ahead of the United States that within 15 years or sooner, China may not only have the world's leading economy, but the world's leading military as well, leaving the United States as nothing but a nation of consumers.

B. China Metastasizes

In the past, access to Chinese business and connections was a valuable asset and gave many companies which had those assets a significant cost advantage over companies dependant on domestic production. However, with the advent of the internet and inexpensive wireless or other telecommunication technologies, China has been able to break down the communication barriers within its own country and furthermore court many US and European companies with their low costs and high production capabilities directly through email, faxes or telemarketing. Not only is the ease of communication a boon to China, but the ability to send software, designs and reports electronically allow China to quickly acquire valuable technical and other intellectual property. The reversal advantage is that it allows China to quickly export intellectual work that would otherwise be of little value without timeliness. Thus, China's products are no longer just tangible, now, their intellectual as well. Many white collar positions are being lost because companies can now effectively "out source" those positions.

China and India are the two largest beneficiaries of this position exodus. Even our most protected Hollywood industries are finding a new competitor in the arena who has far more strength and much less weight.

But the problem now has an even deeper level. Large companies whose patents and copyrights once protected their goods from knock off or pirated product sales are no longer able to protect themselves. Although these companies may themselves have their goods produced in China, their patents or copyrights protected them from Chinese companies selling copies of their products here in the US. Large companies could simply, with a threatening letter, stop large distributors and retailers from carrying the pirated product. However, lately, Chinese manufacturers have begun selling DIRECTLY to the US consumer. Therefore, there is no distributor or retailer for the product originator to pressure with patent or copyright violations. Again, the internet and cheap communications has made this possible. And, while shipping costs may be high, the cost conscience US consumers, now given the option, will usually chose that option for the collective savings over a much higher cost domestic purchase of a genuine article.

C. China's source of strength.

In a free market society, the most competitive is usually the victor. The simple, obvious secret to why China is winning is that they are more competitive than we are. Why they are more competitive than us is not a secret. Our government's zeal to protect us, control us and fund itself in the last 20 years has given China all the help it needs. China's labor has not become cheaper, in fact it has become more expensive. China's production, land and equipment have not become cheaper, no those have also increased. But, our labor and cost of business has become tragically high over the same period. This is mainly due to the increase in safety regulations, insurance requirements, EPA requirements, minimum wage laws, fair employment laws, patent laws and the tort crafted methods of operations to which business here must subscribe. To expect the rest of the world to follow our lead in these restraints on productivity would require global hypnosis and suppression of human intelligence. Now that China has the tools to communicate and consummate a sale directly with the American consumer, American companies have no final barrier to protect them from the rare strengths of the Chinese competitors.

II. We're killing ourselves.

A. Our own weight.

Ask any business owner large or small if it is easier to operate their business today or 20 years ago, they'll answer the later, despite computers. The bombardment from all levels of city, county, state and federal requirements is not only costly in direct tax and license expense, but it takes time and work just to comply. Many countries, although corrupt, are much simpler to operate in. Pay the right people and that's it.

B. Giving away too much.

The advent of NAFTA opened another door of opportunity to foreign manufacturers. The opportunity to avoid US tariffs. Chinese companies can produce primary subassemblies in China. Ship those units to their affiliate in Mexico. Do final assembly in Mexico and bring the finished product up through the border as a "Product of Mexico", reaping the full benefits of NAFTA. Mexican and Canadian import requirements are much less stringent and enforced with far less vigor than in the US. Corruption in the Mexican and Canadian ports is also easier to achieve. Many multinational companies are practiced in this art as simply a way of doing business.

B. Not in our back yard.

Requiring an ecological procedure, a safety measure or employee benefit, may make us feel better or right. But, it turns a blind eye toward the fact that every law, rule, requirement or procedure here is one more step American business must take to produce the same result as a foreign competitor who doesn't have that requirement to retard them.

Today we buy many products from China and other countries which are made with or contain materials which are illegal to handle, store, dispose of or process in the US. US Companies that once competed in these product areas are simply gone. But the end products these materials or practices produce are still bought here in the US. But, from China or other countries who operate outside our environmental standards.

C. Slowing innovation.

Countries which do not have the bureaucratic weight and obstacles of the FCC, FDA, EPA or the U.S. PTO and it's accompanying legal industry can take tremendous liberties in research, development and deployment of the newest technologies. Innovation is a self-feeding system. You can not innovate vulcanized rubber tires if your surrounding industries still trade in furs and corn. Where the US once was the hotbed of innovation and a self-sustaining mechanism of innovation and new technologies, it is no longer for many important industries. No single industry illustrates this more that Biotechnologies and Stem Cell Research. China has a thriving Garage shop scale industry now in stem cell research. Because the government of China does not interfere with almost any innovations, many top researchers in the US are trading flags for a lab in China. In the next few years, China may not only be able to grow someone a new heart but may reap the economic benefits of the thundering medical industries which can make use of these new technologies. All the while, our politicians here will be scouring the bible for where GOD says we're not supposed to do that.

Our last great industry boom, software, was innovated primarily in the US. Much cheaper but equal or less skilled employees in India and China are now sucking what is left of this industry out of the US faster than you can send an email. Again, US companies are forced to carry an astounding load to employ software talent and operate their business here in the US. A load which is nonexistent in China and India. To say that one foreign company which has 10% of the overhead of its US counterpart is competitive is a gross understatement. US companies are forced to outsource or form alliances with foreign software partners to leverage this huge cost advantage or face sudden death by monstrous operating costs.

III. Strategies for resurrecting American industries.

A. Grabbing the other guy's shorts.

The bleeding has to stop first before repair can begin. There's no magic law or organization that can be instituted immediately to gives us back what we have given away for so many years. So a working strategy for the first move is to slow the other guy down. China still depends heavily on the US for a market.

1. Increasing tariffs dramatically on finished and packaged goods but doing so incrementally over time as to allow industries time to adjust, should have the following affects:

a. Jobs will be created by cheater companies who will make final assembly packaging installations here in the US in order to get a completed product in the US.
b. Companies considering a borderline cost advantage by having a finished Chinese product may pause to rethink.
c. Companies still bound to domestic production may find the market more fair, thus a opportunity to expand.

2. Decreasing the tariffs dramatically and immediately on non-consumer component goods such as electronic parts, mechanical components, test instruments, production machinery, chemicals and so forth should have the affect of increase opportunities for companies to produce finished goods in the US.

3. A significant tax break for returns on investments made into US companies which have operating domestic production exclusively and are considered small and domesti-

cally held. This would help fuel the grass roots of innovation which is the small business. It would also promote infrastructure rebuilding at the level that is the most productive.

4. Many small US companies need more than tax breaks and tariff advantage to resuscitate at this point. While the need should be temporary, direct government assistance may be required to defibrillate many dieing US companies. Assistance in the form of credit worthiness, governmental compliance and tax issues could help jump-start many businesses. Offices, with financial and legal authority for the purpose of assisting smaller domestic companies to gain a foot hold or grow would not be unlike the assistance the Chinese government has given to so many new businesses in China in the past.

B. Long term solutions.

1. Education is crucial.

Availability of skilled American workers is crucial to the growth and stability of our industries in need. At present, industrial technology schools and curriculums are nearly dead. The repercussions of this gap in training for the next generation could be catastrophic if not artificially stimulated for a period. The demand for these skills has left the country. Until that demand returns to this country, learning certain industrial skills may have to be made mandatory, even in unrelated areas of education.

2. Patent Reform.

The patent and trademark office, once a key factor in motivating innovation has now become a major component in opposing it. Small businesses are pushed around by companies and banks of attorney's holding libraries of patents. Unable to defend themselves due to the ad hoc complexity of the system, many small companies won't even bother to explore areas of opportunity which may have a larger competitor who stretches the rights of the patent system. Garage innovators lose inspiration and drive when staring at the mine field of methods necessary to accomplish their goal which may be patented by someone else.

The idea that everything could eventually be patented may have seemed impossible a few years ago. But, with the time it takes for patents to expire and the endless applications for extension companies can make, it may indeed be possible, particularly if innovation slows or ceases. To foster innovation, patent protection should expire much sooner and definitely. However, businesses must be protected enough or innovation will be too risky. Shortening the patent term for software to 5 years, pharmaceuticals to 15 and all else to 7 would dramatically change the environment for innovation in a positive direction for the US.

3. NAFTA helps everyone but us.

Because "products of Mexico", through NAFTA, now have almost unrestricted access to the US market, many foreign companies will seek to use Mexico as a transitory point of origin for their products. Mexican labor is very cheap and the government is very corruptible. The repeal and change to NAFTA may take forever or never happen. For the interim, policy changes at certain US agencies may help here. For example, the next big technological trend is in wireless communication technologies between simple devices. Using the FCC to slow down or add cost to products of foreign origin which use these technologies may be a quicker route. Again through policy changes, using the IRS, NSA and Secret Service for increasing the costs of foreign labor applied to management, accounting and software development through auditing and security requirements may impede the trend to outsource these functions.

4. Untangling the ball.

The massive complexity of codes and laws we have in the US, if not already, ultimately will be inconclusively understandable by any individual as well as organization. Thus interpretation and implied summary understanding of these laws are what we have come to depend on. Interpretations and summary understandings are corruptible. Therefore, the more complex we make our system of laws and requirements, the more corruptible it becomes. There must be a concerted effort, maybe a new committee or agency formed for the exclusive purpose of identifying impractical codes or laws for which the results are statistically irrelevant if left unenforced. They would then bog down congress and the senate with new bills requesting the repeal or limitations of those laws and codes. Statistical relevance and priority is something which has been left by the wayside in legislation for the last 20 years. Thus, we have spent billions of dollars codifying and enforcing laws which, if we were without, would have little relevance in our daily lives except to simplify them. Successful repeals and slowing the progression and growth of new laws would be the goal of such an organization.

5.LEVELING THE PLAYING FIELD

Although China has been used as the main point of interest in this document, India poses nearly as much of threat in the future. Where China has vacuumed away US. industrial opportunites, India is and will vaccum away US software and intellectual industries as well as many other white collar jobs. The larger picture is not that China or India are the bad players. Any country with a capitalistic sense and desire that has a huge economic desparity with US can present this problem. And, while some may argue that industrial specialization by country is ultimately what is required for a one world economy, the rate and pace at which industries are drying up in the US because of this exedus is too dangerous. When changes occur at this pace, without ground work, planning and supporting infrastructure for those changes, injury and victims are usually significant byproducts of the outcome. A serious depression, economic take overs or economic terrorism are likely candidates for the outcome of our present course and speed.

A master control is needed which can stop or slow the pace at which our competitor nations extract wealth from our country. A simple control will have predictable outcome and does not rely on corruptable interpretations like so many aspects of our present complicated economic controls.

While our industries join the exedus for profit and efficiency reasons, their foriegn partners are simply motivated by being the receivers of American money when the transactions are completed. Simply put, the number one American export today is American money. American money is what our industrial competitors want. If we slow the exportation of our money, we can slow and control the exedus of American industry.

In terse terms, an export tariff on US funds leaving the US could almost eliminate the need for the present import tarriffs and customs functions. Ideally, if export tarriffs on cash were inversely proportional to the exchange rate of the country they were sent to, the costs for US portions of companies to do business with foriegn opportunites would be the same as that domestically. Unfortunately, it is easy for larger companies to thwart this by routing funds through countries with higher exchange rates. However, a flat rate computed by averaging exhange rate contributions in proportion to gross imports by country may at least offer some control over the speed at which industry in leaving America.

The ultimate outcome of globalization is an equilization of wealth. This seems inevitable. However, the pace at which we are allowing it to drain from our own country is reckless and will result in unnecessary severe trama to areas of our economy if it is not slowed and countrolled.