



China wise

Posted 5/13/2011

WHAT'S HAPPENING IN CHINA THAT WILL AFFECT YOU?



For the answers, just peek into a Coach.

There's a bag full of answers and implications for you inside.

First, Coach announced this year that it is now getting 13 percent of its sales from China.

This is important because it indicates that China's growing middle class is now able to afford a high luxury brand. This means that China's rapidly growing middle class will be demanding more and more of the world's scarce materials, ranging from food to metals to oil.

This will affect the prices of everything you buy. This trend will accelerate as Coach moves to rapidly expand its China store count from 55 to well beyond the 174 it has in Japan.

Second, Coach announced earlier in the year that it would no longer manufacture in China.

It is significant that a high luxury brand with lush profit margins would find China's rising labor costs prohibitive. This highlights a trend which started in 2007, when over 70,000 factories in the Guangdong province closed. If you look at your clothing labels, you will find fewer and fewer made in China as companies move their manufacturing bases to India, Bangladesh, Pakistan, Indonesia and other low labor

cost countries.

This means China will continue to increase domestic security forces to hold down the unrest spreading among laid-off factory workers. The implication for you: uneven quality. Great underwear from Honduras, raggedy underwear from Pakistan. (Maybe the Pakistani workers are attempting to sabotage our shorts.)

Third, Coach announced that it will list its stock on the Hong Kong exchange while remaining on the New York exchange.

This move demonstrates that China is slowly loosening its rigid control over the yuan, hoping to expand the use of its currency in international trade. Because of Fed Chairman Bernanke's loose monetary policies of zero percent interest rates and increasing dollar liquidity, the value of the dollar continues to fall.

As the dollar falls, it reduces the value of China's dollar holdings and increases the country's inflation. This pattern is stimulating Beijing to examine a wide variety of economic strategies which could loosen its dependence on the dollar. Both China and India are also increasing their gold reserves.

For you, this signals moves by Asia and Europe to denigrate the value of the dollar further by creating a basket of currencies involving the euro, yen and yuan. For you, this means that the U.S. government will have increasing difficulty in borrowing on the world markets by selling Treasury Bonds.

At the very least, it means our borrowing costs will go up as the rating agencies warn of an American ratings downgrade. If this happens, the interest rates on the federal debt would increase, resulting in even higher annual deficits.

All three moves by Coach, when taken together, suggest a lowering of the American standard of living.

Before we become Greece, we must balance the budget and begin to reduce our debt.

Unfortunately neither political party is willing to create the best combination of cost cuts and tax increases which would accomplish debt reduction.

Better buy a Coach bag while you can still afford one.

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