



Written by [Daniel Sayani](#) on February 22, 2011

Communist China Embraces the Gold Standard

In one of the most ironic and revealing moves in the unfolding of relations between the United States and China, China has announced that it is seeking a shift to the gold standard. According to the World Gold Council, the market development organization for the gold industry, China's appetite for gold has been rapidly expanding: It consumed 175.2 tons of gold in the fourth quarter of 2010, bringing its grand total for the year to 579.5 tons, or 18.5 million ounces. By comparison, the United States consumed a mere 233.3 tons of gold in 2010. While it is unknown how much of China's gold acquisitions were made by private citizens, industry, or central banks, speculations remain as to what the country's true intentions are regarding its continued massive purchase and use of the gold.



The financial news source [The Street](#) reports that many in the gold community theorize that China wants its yuan to become the world's reserve currency, and is buying gold and silver in order to accomplish that goal:

A Chinese gold standard?

The idea is staggering and not to mention fraught with difficulties. China's central bank currently holds 1,054 tons of gold, about 1.8% of its total reserves.

China currently holds \$2.85 trillion in foreign reserves. This means the country would need to buy roughly 66,000 tons of gold to fully back its currency. Even if the country upped the ante to just 3%, the country would need to buy 1,000 tons.

China has also been telling its citizens to buy gold, promoting different gold funds, giving investors access to overseas products and launching a global gold contract based in yuan by Chinese Gold & Silver Exchange. The ICBC and World Gold Council recently teamed up for the creation of the Only Gold Gift Bar in China, where a customer can buy gold as a gift complete with engraving and can sell it back to the ICBC for cash.

China's gambit for global dominance, therefore, rests upon the notion that it must impose economic policies that will boost its power, prosperity, and economic strength. While staying true to the theoretical foundations and assumptions of the communist state, including its commitment to the principles of Marxism-Leninism and Maoism, China realizes that in order for the communist state to be strengthened and prevail victorious, it must incorporate some classical principles and economic concepts associated with capitalism.



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Karl Marx believed that all states progressed through a series of several economic stages, culminating in a communist state. Observing economic history in his native Germany, Marx believed that states proceeded from capitalism to socialism, and then culminated in outright communism. Since China never before had a Western-style communist economy, it is now embracing capitalism — not in its true *laissez-faire*, free-market form, but within the context of centrally-planned state capitalism. After the death of Mao Zedong in 1976, under Deng Jiaoping China began embracing elements of state capitalism, and in 2002, its pantheon of communist theory expanded to include Jiang Zemin's Theory of Three Represents, which includes an emphasis on economic production, and "represents advanced social productive forces."

China's turn toward hard currency in the form of the gold standard is the latest development in its pursuit of wealth and power through state capitalism. This trend has rightly raised the concern of those who fear a dominant Red China, as reported in the [Wall Street Journal](#):

Central to China's approach are policies that champion state-owned firms and other so-called national champions, seek aggressively to obtain advanced technology, and manage its exchange rate to benefit exporters. It leverages state control of the financial system to channel low-cost capital to domestic industries — and to resource-rich foreign nations whose oil and minerals China needs to maintain rapid growth.

China's policies are partly a product of its unique status: a developing country that is also a rising superpower. Its leaders don't assume the market is preeminent. Rather, they see state power as essential to maintaining stability and growth, and thereby ensuring continued Communist Party rule.

It's a model with a track record of getting things done, especially at a time when public faith in the efficacy of markets and the competence of politicians is shaken in much of the West. Already the world's biggest exporter, China is on track to pass Japan this year as the second-biggest economy.

Western critics say China's practices are a form of mercantilism aimed at piling up wealth by manipulating trade. They point to China's \$2.6 trillion in foreign-exchange reserves. The U.S. and the European Union have lodged a series of WTO cases and other trade actions targeting Beijing's policies, and hammer China's refusal to let its currency appreciate more quickly, which they argue fuels global economic imbalances.

Similar to China's economic ascendancy is that of Russia, which has been described as embracing state capitalism as early as under the days of dictator Joseph Stalin's rule, and to an even greater extent under the rule of its current leader, Vladimir Putin. Tony Cliff, in his book *Russia: A Marxist Analysis*, first [identified](#) Stalinism as a form of state capitalism in 1955, and most recently, Andrei Illarianov, Putin's former economic adviser, defected from Russia to become a fellow at the Cato Institute, due to what he observed as state capitalism. Illarianov also [cautioned](#) that the West, especially the United States, is emboldening and enriching hostile regimes such as Russia and China, through continued investments and economic agreements:

"This is the usual state of affairs of the West. As strange as it may seem, in actuality the West during the course of two centuries, and, perhaps, even longer, has supported any regimes at all. What is important for the West is its own short-term interests. And the West supports relations, including commercial ones, as we know, with Russian special services generals, and with Chinese



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communists, and with Iranian ayatollahs, and with Saddamist generals... In the 1930s, the West actively cooperated with Hitler's regime — the flow of French, American and British investments into Germany was huge."

"...[s]o one simply needs to understand that that state of affairs which many of us remember from the period of the cold war, when partially certain western leaders — Reagan and Thatcher — took a moral political position in relation to the Soviet Union — such a phenomenon is historically still the exception, and not the rule. The west is extremely pragmatic and sufficiently lacking in principle in relation to external phenomena."

Russia has also moved toward adopting the gold standard, as previously reported by [The Telegraph](#):

Arkady Dvorkovich, the Kremlin's chief economic adviser, said Russia would favour the inclusion of gold bullion in the basket-weighting of a new world currency based on Special Drawing Rights issued by the International Monetary Fund.

Chinese and Russian leaders both plan to open debate on an SDR-based reserve currency as an alternative to the US dollar at the G20 summit in London this week, although the world may not yet be ready for such a radical proposal.

Mr Dvorkovich said it was "logical" that the new currency should include the rouble and the yuan, adding that "we could also think about more effective use of gold in this system."

Like Russia, which is seeking to strengthen its currency in order to overtake what economist Joseph Liu called dollar hegemony, China has been manipulating its currency and trying to beef up the yuan to make it a more viable global currency. The website of the People's Bank of China says it is trying to allow banks and businesses in countries such as Russia and the U.S. to be able to make direct investments in the yuan, which essentially brings the once-isolated currency onto the world stage. The website explains that this move "better support[s] Chinese enterprises to go abroad and facilitate trades and investments."

Even United States citizens realize the economic superiority of China over the beleaguered American economy, which consistently operates contrary to the capitalistic principles elevating China to wealth at America's expense. While communist China moves in the direction of market reforms, decentralization, and privatization, including embracing the gold standard, the United States continues to pursue a destructive course of deficit spending, Keynesian economics, unsound and unsubstantiated currency, and economic nationalization. It seems as if Red China has embraced capitalism to a greater extent than the United States, and while Fort Knox remains empty, China has even begun investing in American gold reserves, as reported by [The Street](#) (which also notes that because both the United States and China are signatories to the International Monetary Fund (IMF) Articles of Agreement, Article IV, Amendment I, ratified in 1978, member countries are forbidden from switching over to a gold standard; they are not allowed to peg their currencies to gold):

But that doesn't mean that China won't try to legitimize its currency by ramping up its gold holdings. The U.S., which sports the current world reserve currency, holds more than 8,000 tons of gold, more than 8 times the size of the SPDR Gold Shares [the largest gold exchange traded product and second largest exchange-traded fund in the world by market capitalization, accounting for over 80 percent of the gold within the Exchange Traded Gold group].

Not only has China been furiously buying gold, but local gold producers have been looking outside the country to find more gold. State-controlled China National Gold Corp bought half of Coeur



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d'Alene Mines' gold concentrates from its Kensington gold mine in Alaska.

This seems to be in fulfillment of Vladimir Lenin's prophetic warning that Communists would "hang the capitalists with the rope they sell us," as China economically surpasses the United States as it adopts the gold standard, using gold obtained from American mines. In fact, as far back as June 2009, China has been encouraging its citizens and companies to purchase as much American gold, assets, land, and commodities as possible, much of which China owns as part of America's indebtedness to China. According to a [Reuters](#) report, then-head of the Chinese Communist Party Economic Department policy research office Li Lianzhong declared that Beijing should use more of its massive foreign exchange reserves to buy gold to support its aim of raising the international role of the yuan currency, and encourage domestic enterprises to acquire foreign energy and natural resource assets by using part of the foreign exchange reserves. Furthermore, [Chinese state TV](#) has been featuring numerous Chinese investors trading in yuan paper notes for bars of gold, with China becoming the world's largest buyer of gold. To quote [Wang Zhenying](#), an official from the People's Bank of China:

China will likely develop more yuan-denominated gold investment products, thus utilizing the more than 30 trillion yuan in savings the country has. A currency's international status depends on its being accepted in trade and settlement and having certain international commodities denominated in that currency helps China's goal to internationalize the yuan. Gold is a good choice to have yuan trading.

It is a sad day for the United States when China adopts economic policies more capitalistic than the United States, and when Beijing is more willing to embrace the ideas of hard-currency advocates such as Murray Rothbard, Ludwig Von Mises, Lewis Lehrman, and Rep. Ron Paul (R-Texas) than is Washington, D.C. As long as America continues down its destructive path and allows Fort Knox to remain barren, China will keep on charging toward its goal of global hegemony, overpowering the United States — using the "rope" we sold them and utilizing the facilitating means we so easily surrendered.

Photo: A security guard walks past the Bank of China head office building in Beijing Wednesday May 31, 2006: AP Images



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