

HAS OUR COUNTRY SEALED ITS OWN FATE?

In the interest of alternating between steps we can take in our personal financial lives and observing the greater scheme of things, this week's column will focus on challenges to the U.S. economy. The first is the possible emergence of China as a competitor in the struggle for economic supremacy. The second is the likelihood of a forthcoming "brain drain."

Many people use China as the whipping post for American economic ills. It is recognized that many of our manufactured goods come from China or other parts of Asia. No one argues their lower prices, though some might have complaints about quality.

The question is, will China use its vast reserves of U.S. dollars to force a change in the economic balance of power? Keep in mind that the ongoing purchase of our government's debt by China and Japan is necessary for us to continue enjoying our high standard of living.

So, how realistic is this threat? China is very dependent on international flows of capital into their economy, which aids in job creation. The current boom in China, growing at about 9% per year, comes from construction related projects. Due to its size and bureaucratic traditions, China has huge administrative and pollution problems that will be almost impossible for their government to deal with. China has little legal infrastructure, and its banking system is nearly insolvent.

China is bound to grow in size, and it is projected that, in the next ten years, its economy will surpass every country in the world, except the United States. Even so, the Chinese citizen will have far less than the average European or American.

The impact of China's growth on commodity prices will be enormous. China is already the main consumer of steel and cement, and it will soon drive up prices of other industrial materials and agricultural products. China is looking into nuclear power for future energy needs and estimates are that 10 to 40 nuclear power plants will come on line in China in the next 15 years.

Here is a mind boggling number: By the end of this decade, China's middle class will be larger than the population of the United States.

China's growth does not necessarily represent a threat to our standard of living. If there is continued cooperation between the governments of China and the United States, the productivity of Chinese workers will continue to benefit American consumers.

Consider this: The education and technical skill of India's medical professionals has made medical care in that country equal to or surpassing that available in many parts of the United States. The point is that medical care in India is available at one-fifth to one-

tenth of the cost of that found in the United States, so Americans can now look to India as a viable competitor to local hospitals, thereby driving down the cost of health care while improving quality.

The future of America's economic leadership rests on our ability to be innovators and entrepreneurs. Consider the fact that China produces a quarter-of-a-million engineers and scientists each year while U.S. universities produce one-fifth of that number, roughly 50,000. This represents a very real economic threat, since education is often a precursor to innovation.

China has entered the bioengineering field and is moving ahead in stem cell research, while our nation fumbles over ethical and political considerations. Our current focus on moral issues imperils an important component for future business and job creation. The Chinese recently mapped the genome for rice and beat out a Japanese company to map the genetic makeup of silkworms. The country is producing carbon nanotube fibers, and their nuclear energy researchers are working hard.

Thanks to the Patriot Act, we are now implementing sharply curtailed immigration policies. As a result, the United States is actually discouraging people interested in the sciences to study at our universities.

Historically, our country's wealth and power have been greatly enhanced by the flow of human talent into our education system. Many undergraduate and graduate students ended up staying in the United States to start companies. Studies have shown that many of the businesses founded in California technology centers during the 1990s were started by Indian or Chinese-born entrepreneurs.

A Homeland Security report revealed that the number of people granted permanent residency to the United States declined by one-third in 2003. Almost two-thirds of foreigners with advanced degrees were declined admittance to the United States or opted out of entering the country.

Of further note, even U.S. born entrepreneurs are starting to look elsewhere for more hospitable environments. A number of biotechnology researchers are moving to England because of Congress' attitude toward stem cell research.

Other nations have made attracting highly talented and motivated immigrants a priority. Canada, Australia, and New Zealand all target individuals who can start businesses and generate local employment, while the United States seems most concerned with potential "security risks".

At one time, many foreigners came to the United States to learn English, since it is, after all, still the international language of business. Now that it's so hard for foreign nationals to get into the country, many English-only universities and technical schools have been established around the world.

Many experts feel that biotechnology, nanotechnology, and robotics are the high growth areas of the future. Will the United States remain the leader in these areas, or will we be usurped by countries focused on encouraging the development of new businesses?

My hope is that our own self-inflicted wounds, following Sept. 11, 2001, do not lead us to accept the downward economic spiral resulting from narcissistic and fearful policies. If we choose to do so, we can meet China head on, one business at a time. American talent is our best resource, so let's use it wisely.

Rob Rikoon is CEO of Rikoon Carret Wealth Management Group. He can be reached via e-mail at rrikoon@aol.com or by calling 989-3581.