

Riding the Dragon, Soaring on Eagles

By Col. Daniel Smith (Ret.) | April 1, 2005

*While they prate of economic laws, men and women are starving.
We must lay hold of the fact that economic laws are not made by nature.
They are made by human beings.*

Franklin D. Roosevelt

Everyone is entitled to their own opinion, but not their own facts.

Daniel Patrick Moynihan

Once upon a time, creditors exacted “a pound of flesh” from those who, having borrowed money at high interest rates, found themselves unable to repay loans on time and in full. John Perkins, author of *Confessions of an Economic Hit Man* (EHM), appearing on PBS television’s *NOW* on March 4, 2005, described a modern twist in this vicious circle at the level of nation-states. Since World War II, the United States has deliberately manipulated the economic and political life of developing countries to create a new global imperium based on massive indebtedness as the basis for exacting many pounds of flesh. Posing as a friendly expert, the EHM advises countries to contract with large U.S. companies to build massive projects financed by loans from international financial organizations, justifying the projects as critical for improving the lives of ordinary citizens. But the loans are so large and the interest rates so high that the money cannot be repaid, and common people’s lives get more, not less, desperate. Opposition by individual elected officials in victimized countries can trigger “accidents” (assassinations), and collective rejection or default may trigger military action. According to Perkins, the price for self-preservation, both personal and national, is to fall in behind U.S. “leadership.”

Economic Overstretch

But this U.S. empire, built on enthralling debtor nations, may itself be in danger from economic overextension. While economists may opine learnedly about the significance (if any) of the U.S. federal debt for

fiscal and monetary policy, many non-economist internationalists and ordinary citizens are convinced that the United States is increasingly vulnerable to the pressures and priorities of creditors who see the current administration as a heedless bull-in-a-china-shop recklessly threatening to destroy agreements and institutions that have helped stabilize international relations for several decades.

At the risk of statistical numbing, it might be instructive to sample a few U.S. economic facts as documented by Congress and the Treasury Department:

- Between January 2001 and July 2004, the portion of the U.S. debt privately held by foreigners rose from 30% to 42%.
- Between September 2003 and September 2004, foreigners increased their holdings by \$400 billion, from \$1.46 trillion to \$1.86 trillion—financing virtually the entire \$422 billion budget deficit for fiscal year 2004.
- U.S. Treasury Department statistics through July 2004 reveal that five of the seven top foreign holders of U.S. obligations are Asian, with Japan (\$696 billion) and China (\$167 billion) in first and second place, respectively. (The other three in Asia, ranked five, six, and seven, are South Korea at \$62 billion, Taiwan at \$58 billion, and Hong Kong at \$50 billion.)
- Despite an overall increase in the value of foreign holdings for all of calendar year 2004, December saw a sharp monthly decline in foreign purchases of

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Treasury bonds and notes. Foreign Central Bank acquisitions nose-dived by two-thirds (from \$21 billion to \$7 billion) while private foreign purchases plummeted by nearly 75% (from \$32.8 billion to \$8.4 billion).

- Japanese non-Central Bank holdings dropped \$3.1 billion (from \$714.9 to \$711.8 billion) from November to December 2004. South Korea's portion registered a slight decrease. In contrast, the Chinese increased their total holdings by \$2.7 billion (from \$191.1 billion to \$193.8 billion).
- In late February 2005, South Korea's Central Bank revealed its intention to "diversify" by straying from the dollar to other currencies—undoubtedly the Euro, which has strengthened over the last few years.

These economic realities are noteworthy, because excessive debt can act as a reverse "nuclear deterrent" for a large debtor. That is, a debtor's ability to initiate or avoid action on the global stage is constrained (less "elbow room"), because those who "own" the debt may have priorities that differ from those of the debtor nation, and the creditors may decide to use their economic position to advance their preferred policies or to thwart those of the debtor. When this impasse goes "critical" in the form of "vital national interests," the fallback position is either selective or general violence in an effort to regain—or at a minimum maintain—the debtor nation's empire.

Legitimacy Crisis

Economic woes in the form of a weak currency, ballooning debt, and unsustainably large trade deficits are not the only indicators of cracks in the empire's edifice. Another in a series of international polls—this one in December 2004—looked at the role of the United States and China in the world. Nearly 23,000 individuals in 22 countries in Asia (6), Europe (8), North and South America (6), the Middle East (1), and Africa (1) were interviewed.

- In 14 countries, China is seen as a positive influence on world events by a plurality or majority—with the average across all countries standing at 48%. In contrast, the United States is viewed positively in

only six countries and negatively in 15, with the averages being 38% and 4%, respectively.

- Among its six regional neighbors, approval for China ranges from 70% in the Philippines to South Korea's 49%, with only Japan lagging at 22%. Significantly, of all of China's neighbors, only Japan (at 35%) registered less than majority support for a more economically powerful China.
- Regarding military power, citizens in 17 of the 22 nations said a stronger China would not be a positive development—with the average negative response at 59%. Nonetheless, a clear majority in India (56%) viewed a stronger military role for China as a positive development. Negative responses from the remaining regional countries ranged from 79% in Australia to 46% in the Philippines. Equally interesting in light of the European Union's (EU) now-postponed plan to lift its embargo on arms sales to China, is that clear majorities in all five EU countries felt a militarily stronger China would be a negative development. Only Turkey, which has been trying for years to begin the process for EU membership, polled below 50% negative response to a more militarized China.

Even those who dismiss "street" polls as mere venting of popular passions or reflections of government propaganda can find little solace in the reality of China's growing influence in Asia.

China's Good Neighbor Policy

The numerous regional agreements between China and its neighbors indicate that Beijing has succeeded in ameliorating the fears and suspicions of most countries. This is most apparent in China's relationship with the 10-member Association of Southeast Asian Nations (ASEAN), both mainland and island states.

- In November 2002, China and ASEAN concluded the Framework on Economic Cooperation, which, among other provisions, calls for a free-trade zone between China and the original six ASEAN states: Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand.

- ASEAN and China initialed a “Strategic Partnership for Peace and Security” in October 2003, with China also acceding to the terms of ASEAN’s “Treaty of Amity and Commerce.”
- November 2004 saw two important additional steps. One was an agreement to resolve trade disputes, and the second affirmed the intent of all parties to resolve quarrels concerning territory and jurisdiction in the South China Sea without “resorting to the threat or use of force.”

China has also been shoring up its north and north-western fronts. The 1996 Shanghai Five (China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan) agreement recognized China’s drive for reunification (to fully incorporate Macao, Hong Kong, Tibet, and Taiwan), paved the way toward resolution of remaining international border disputes among the five, initiated a demilitarizing of common borders, and affirmed the principle of state sovereignty and noninterference in the internal affairs of each country. With the accession of Uzbekistan in 2001, the renamed Shanghai Cooperation Organization (SCO) turned to regional economic arrangements and anti-terrorism concerns. With the declared intention of opposing “terrorism, extremism, and separatism,” the SCO provides all six member countries a multinational platform for resisting U.S. calls for political liberalization and greater human rights.

Interestingly, India and Pakistan have both signaled an interest in joining the SCO, a bid that current members seem hesitant to approve. Of the six SCO nations, China would have the most to gain from such an expansion, for it would frustrate, to some degree, U.S. attempts to erect a “containment ring” around China. For its part, Beijing is countering these U.S. moves with more active diplomacy in what many might consider U.S. “home turf.”

- On October 10, 2002, with all of the former Soviet Central Asian republics enrolled in the North Atlantic Treaty Organization’s (NATO) Partnership for Peace, China formally requested the opening of a “strategic dialogue” with NATO. (In NATO’s June 2004 Istanbul summit, the alliance the alliance signaled a potentially closer relationship by declaring

that Central Asia and the Caucasus were “strategically important regions.”)

- After years of effort and despite heavy U.S. pressure on the EU to maintain the ban, China seemed on the brink of persuading the European Union to lift the arms embargo imposed after the Tiananmen Square massacre in 1989. But with enactment of the anti-secession law codifying Beijing’s threat to employ force should Taiwan take overt steps toward or declare independence, the EU decided to delay lifting the embargo for at least six months.
- For its part, China had said it would not have tried to buy “expensive” and “obsolete” European arms, but U.S. analysts worry that China might get technology such as the EU’s Galileo navigation satellite. Tellingly, Australia—the main regional “Western” country and a steadfast U.S. ally—never objected to the lifting of the EU embargo. Canberra wants more information on the EU arms trade “code of conduct” and asks to be notified of any sales by EU countries. (Australia lifted its own embargo in 1992 and is now negotiating terms for providing uranium ore to China’s nuclear power industry.) Similarly, Israel and Russia, both of which have a history of military sales to China and imposed no post-Tiananmen embargos, never registered objections despite the sophisticated sales competition that the EU would represent.
- China’s first-ever deployment of uniformed personnel on a UN peacekeeping mission took place in 2004, when Beijing sent 1,000 riot police to Haiti.
- International Business Machine Corp. has sold its personal computer division to the Chinese firm Lenovo Group Ltd., in which the Chinese government has a stake. The sale’s finalization is subject to approval by Washington, which was finally given with some restrictions on access by non-U.S. personnel to collocated but unrelated high-tech projects.
- In testimony before the House Armed Services Committee on March 9, 2005, the head of the U.S. Southern Command noted that Chinese defense officials conducted 20 visits to Latin America and the Caribbean (prompting nine reciprocal visits to

Beijing). Several of the visits were to the 11 countries whose U.S. military aid was stopped, because their governments refused to sign agreements that would exempt U.S. personnel from the jurisdiction of the International Criminal Court.

North Korea and Taiwan

But economics and world image are not the only areas of concern for Washington. There are also the seemingly intractable issues of North Korea and Taiwan, both of which involve the United States as a central protagonist.

North Korea's nuclear weapons—anywhere from two to 15, depending on which U.S. intelligence agency is tallying—are not just a U.S. concern. But although Beijing does not want to see either North or South Korea (or an eventually reunited Korea) acquire a nuclear arsenal, it is not as beleaguered by the possibility as is Washington. In fact, Chinese officials have publicly questioned Washington's appraisal of Pyongyang's self-declared status as a nuclear weapons state.

Regarding the North Korean “problem,” China finds itself uniquely positioned as the only country genuinely able to mediate and facilitate discussions. But as the history of the “six-party talks” illustrates, Chinese envoys have been sorely tested just to keep the deliberations going. For example, on February 10, 2005, North Korea announced it was leaving the talks, which had not been held since August 2004 because of U.S. demands that the North completely dismantle its nuclear program as a precondition for more assistance. After a four-day visit by a senior Chinese government official, the North's leader, Kim Jong Il, was said to be willing to resume the six-party discussions, if Washington showed “trustworthy sincerity.” Just what counts as “sincere” remains undefined, but Pyongyang's past demands include written assurance that Washington does not seek regime change, guaranteed aid (including fuel), and conclusion of a peace treaty officially ending the Korean War.

U.S. military options are severely restricted by the ongoing war in Iraq, intelligence gaps regarding the location and vulnerability of North Korea's nuclear facilities, and the massive destruction that South Korea

(especially Seoul) would sustain in either a preemptive or retaliatory military strike by the North. Nonetheless, rhetoric from the Bush administration aimed both at Kim Jong Il personally and at North Korea as a political entity—e.g., rogue state and “outpost of tyranny”—seems designed to keep the atmosphere roiling and to postpone the next meeting of the six parties indefinitely.

Given Washington's approach to negotiations, Chinese leaders may soon interpret the Bush administration's endgame as keeping China's border with North Korea under persistent threat of large-scale migration, should Pyongyang suffer economic meltdown or go to war against the South. This would dovetail with Beijing's perception that many in Washington view China as the emergent great-power competitor that the United States will have to confront early in the 21st century. CIA Director Porter Goss was quite explicit on this theme when he stated that “Beijing's military modernization and military buildup is tilting the balance of power in the Taiwan Strait.” Yet of the four modernizations that China is pursuing, military modernization is the lowest priority.

Tensions in the Taiwan Strait

That said, China does not shirk from the question of Taiwan and military force. With neither Beijing nor Washington blinking, a series of intertwining events over the last 13 months has perceptibly raised tensions in the Taiwan Strait.

- In the run-up to the presidential election in March 2004, Taiwan's President Chen Shui-bian promised to rewrite the island's Constitution and free it from the “fiction” of being labeled part of China. He also proposed to seek approval of a “process” for independence via a referendum—sidestepping the Constitution—and even placed referenda to carry out the process on the March ballot. Chen was narrowly re-elected; the referenda were not approved. Under U.S. pressure to tone down his rhetoric, Chen then backpedaled on independence in his May 20 inaugural address.
- In July 2004, China, which had also castigated Chen during the Taiwan presidential race, conducted extensive military training in the Taiwan Strait

while the U.S. exercise “Operation Summer Pulse 04” in the Pacific—a larger drill than usual—was under way.

- In the run-up to the December 2004 Taiwanese legislative elections, Chen again promised to move ahead with a 2006 referendum on independence specifying a 2008 implementation date, if his party won the December poll. His party lost, but the fact that Chen had reopened the independence question was enough to spur the mainland Chinese to introduce an “anti-secessionist” law at their National People’s Congress.
- Beijing steadfastly insists that Taiwan and its status are internal concerns of the Chinese people, who need no “assistance” from other countries. The February 20, 2005 joint declaration by the Japanese foreign minister and the U.S. defense secretary that the state of affairs in the Taiwan Strait is a “common strategic objective” was an attack on the unified sovereignty of China, which both the United States and Japan have acceded to under the “one China” policy.
- In addition to annual State Department funding of the American Institute of Taiwan—transparently an unofficial embassy—Washington reportedly plans to send military officers to Taiwan as official representatives of the Pentagon.
- For years, many in Congress have advocated UN membership for Taiwan, though this status is granted only to legitimate national governments. On February 17, 2005, five members of the House of Representatives introduced legislation demanding that the Bush administration restore full and official diplomatic relations with Taiwan. Such a move would embolden Chen Shui-bian, who so far has been dissuaded from declaring Taiwan’s independence both by the better judgment of the Taiwanese people and by Beijing’s insistence on the island’s peaceful reunification with the rest of China.
- Washington is trying to force Taiwan to accept and pay for \$18 billion in new “defensive” weapons first authorized in April 2001. The adoption of the anti-secessionist law by the mainland’s National People’s Congress has energized debate in Taiwan’s legislature over this U.S. aid package.

Beijing reportedly believes that one aim of the Bush administration is to turn China and Japan against each other. But China is now Japan’s number one trading partner, and China has opened its doors to Japanese investments. Japan also recognizes China’s role in facilitating the six-party talks with North Korea over the latter’s purported nuclear weapons and long-range missile programs.

At the same time, Japan’s expanding cooperation with the United States regarding ship-borne missile defense suggests that Tokyo’s concerns over North Korean missiles have broadened to include the 700-800 missiles on China’s mainland across from Taiwan. Moreover, the withdrawal of 12,500 U.S. troops from Korea, the repositioning of the remaining forces away from the Demilitarized Zone, statements by the U.S. Pacific Command that the troops left in Korea could be used regionally, and the twin possibilities that the combined UN command in Korea will be dissolved while the United States reconstitutes a corps headquarters in Japan all suggest a fundamental reorientation of Washington’s attention in Asia away from the Korean peninsula. This policy shift is reminiscent of the perception drawn from Secretary of State Dean Acheson’s January 1950 speech that Korea (and Taiwan) lay outside U.S. defense interests.

Although such maneuvering will not tempt Beijing to challenge Washington militarily, China’s growing economic and diplomatic presence on the world scene is engendering greater confidence among Chinese leaders. For example, U.S. criticism of China’s human rights record was uncharacteristically reciprocated by a spokesperson for China’s governing Cabinet who specifically cited accounts of prisoner abuse by U.S. military and civilian personnel at Abu Ghraib, Guantanamo Bay, and other prisons in Iraq and Afghanistan.

In the foreseeable future, China’s economic position vis-à-vis the United States and its role in the North Korean nuclear talks remains key to U.S.-China relations. On the economic front, because China’s rapid growth has been fueled by a large surplus of exports over imports in trade with the United States, Beijing is not expected to “pull the plug” on U.S. trade short of

looming and inevitable armed conflict resulting from a clear Taiwanese declaration of *de jure* independence. Beijing would like to regain political control of Taiwan without a fight, and to that end China will continue to enmesh the island in a web of economic relations that Taipei will increasingly be loathe to sacrifice.

Like all presidents ever since Richard Nixon “opened” China, George Bush has chosen, after initially hesitating, to try to ride the Chinese dragon—but with spurs on his boots. Having managed to climb on, he cannot get off without the risk of being thrown. For its part, China has decided to soar on the eagle to the sky’s limit. Beijing believes that if it can hitch a ride while the eagle economically exhausts itself, China can at last preempt U.S. influence in Asia.

As the old song says, “dragons live forever.”

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