

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

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## Whither CHINA? A Third Way?

Ever since President Bush visited China, the airwaves and the print media have been chocked full of stories and analyses from geopolitical and economic experts, as well as from the chattering class, on the future of China and, by extension, on U.S.-Sino relations. So I thought it wouldn't hurt if an occasional-observer like me weighed in with a few thoughts of my own.

My first observation is that there appears to be two distinct "expert" views on the future of China. Some seers are convinced that China is destined to become a friend of America, a good neighbor to America's Asian allies, and an economic colossus. This, they say, is the natural progression of China's commitment to developing a modern, market-based economy.

Others are just as certain that China is an enemy of America and likely to become even more threatening in the future. With some variations, these folks generally believe that China's long-term plan is to take advantage of America's economic largess until it becomes strong enough militarily to force the United States to admit that it would be too costly to honor its pledge to defend its allies in the region. Under this scenario, China would then force Taiwan into submission and Japan and Korea into a strategic alliance. And finally, China would challenge the United States for global influence, beginning in central Asia.

One thing upon which both camps seem to agree is that the choice between these two radically different scenarios will be determined by the outcome of an on-going ideological struggle between "hawks" and "doves" within the Chinese leadership. They also seem to agree that the principal variables affecting the outcome of the dispute are internal to China.

The consensus assumption seems to be that the United States, regardless of who is President or what China does in the meantime, will passively await the outcome, restricting its involvement, for the most part, to promoting the friendly-China scenario with continued economic cooperation and regular assurances of friendship, while preparing for the aggressive-China scenario by maintaining a strong military presence in the region.

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To the degree that anyone ever seems to consider the prospect of a more active U.S. role in the dispute, it involves the possibility that it might “do something stupid” that will strengthen the argument of the “hawks.”

In mathematics, this is a perfectly reasonable analytical method. It is called “freezing one of the variables” in order to help better determine the relationship between the others. In foreign affairs it is called GIGO, or “garbage-in, garbage-out,” because human factors are involved in geopolitical equations, and such factors are not even theoretically freezable.

For example, although it might seem highly unlikely right now, I believe it would be extremely foolish to ignore the prospect that President Bush might, at some point in the future, actively try to take the choice between the two scenarios out of the hands of China’s “hawks” and “doves.”

Indeed, I would argue that one can’t completely discount the possibility that President Bush might even try to add a new, third scenario by actively taking steps to promote a “regime change” in China by aggressively attempting to undermine the Chinese economy and disrupt its society.

It couldn’t happen, you say?

Really?

Why not?

Present Reagan did it to the U.S.S.R. He decided early in his presidency that the Soviet Union was tottering on the brink of collapse, due to the economic and social problems that are endemic to socialism, and that if the United States pushed a little it would go over the edge.

He further decided that were he to take such an action, he would not only be eliminating a dangerous U.S. adversary, but would also be doing the Russian people a tremendous favor by freeing them from a repressive, “evil empire.”

He publicly signaled his intention to test his thesis four months after taking office with a speech in May 1981 at Notre Dame University in which predicted that “the West will not contain Communism, it will transcend Communism.” And then he set about doing it via a series of policies that were almost breathtaking in their scope.

The blueprint for the program can be found in three “secret,” but now declassified National Security Decision Directives (NSDDs). Among other things, these directives set in motion an extensive program of support for the Solidarity movement in Poland and the resistance movement in Afghanistan; a strike at the heart of the Soviet economy by limiting Western purchases of natural gas from the Soviets and, with Saudi Arabian help, a reduction in the price of crude oil, the USSR’s largest export commodity; limitations on Soviet access to Western high-tech goods, including gas and oil exploration technology; and an intense U.S. military buildup that severely strained Soviet defense resources.

The first of these NSDDs, Number 32, was signed in March 1982. It declared that among America's top "global objectives" during President Reagan's administration would be the following:

O "To contain and reverse the expansion of Soviet control and military presence throughout the world . . . ."

O "To foster restraint . . . in Soviet military spending . . . by forcing the USSR to bear the brunt of its economic shortcomings, and to encourage long-term liberalization and nationalist tendencies within the Soviet Union and allied countries."

This NSDD was followed by another, Number 66, in November 29 of that year. It discussed how America's allies had been brought into the effort by agreeing to a number of coordinated responses. These included:

O An agreement not to "commit to any incremental deliveries of Soviet gas beyond the amounts contracted for from the first strand of the Siberian pipeline . . . ."

O "A quick agreement that allied security interests require controls on [the sale to the USSR of] advanced technology and equipment . . . including equipment in the oil and gas sector . . . ."

O An agreement "substantially raising interests rates to the USSR to achieve further restraints on officially-backed credits such as higher down payments, shortened maturities and an established framework to monitor this process . . ."

And then finally, in January 1983, came *the big one*, NSDD Number 75, which, I believe provided the blueprint for the eventual fall of the U.S.S.R. The following are a few excerpts from this comprehensive and fascinating outline of "U.S. policy toward the Soviet Union."

O "The U.S. must convey clearly to Moscow that unacceptable behavior will incur costs that would outweigh any gains."

O The U.S. must "promote . . . the process of change in the Soviet Union toward a more pluralistic political and economic system in which the power of the privileged ruling elite is gradually reduced. The U.S. recognizes that Soviet aggressiveness has deep roots in the internal system, and that relations with the USSR should therefore take into account whether or not they help to strengthen this system and its capacity to engage in aggression."

O "U.S. policy on economic relations with the USSR must serve strategic and foreign policy goals as well as economic interests. In this context, U.S. objectives are:

- Above all to ensure that East-West economic relations do not facilitate the Soviet military buildup . . . .
- To avoid subsidizing the Soviet economy or unduly easing the burden of Soviet resource allocation decisions, so as not to dilute pressures for structural change in the Soviet system.

- To seek to minimize the potential for Soviet exercise of reverse leverage on Western Countries based on trade, energy, supply, and financial relationships.”

O “U.S. policy must have an ideological thrust which clearly affirms the superiority of U.S. and Western values of individual dignity and freedom, a free press, free trade unions, free enterprise, and political democracy over the repressive features of Soviet Communism . . . . The U.S. should expose at all available fora the double standards employed by the Soviet Union in dealing with difficulties within its own domain and the outside (“capitalist”) world (e.g., treatment of labor, policies toward ethnic minorities, use of chemical weapons, etc.). . . .”

O “The U.S. should insist that Moscow address the full range of U.S. concerns about Soviet internal behavior and human rights violations, and should continue to resist Soviet efforts to return to a U.S.-Soviet agenda focused primarily on arms control. U.S.-Soviet diplomatic contacts on regional issues can serve U.S. interests if they are used to keep pressure on Moscow for responsible behavior. Such contacts can also be useful in driving home to Moscow that the costs of irresponsibility are high . . . .”

And finally,

“While allied support of U.S. overall strategy is essential, the U.S. may on occasion be forced to act to protect vital interests without Allied support and even in the face of allied opposition.”

I offer these quotes not to imply that President Bush has any such similar plans in mind for future U.S. relations with China. I am simply saying that if he were to determine, somewhere down the line, that China is not moving quickly enough toward the “friendship scenario,” and is instead becoming a threat to American interests, it is likely, I believe, that he might, *just might*, consider President Reagan’s three NSDDs as a worthwhile starting point for formulating a U.S. response.

This is especially likely, I think, since all of the senior people involved in advising him on foreign policy matters are Republicans with strong roots in the Cold War, and as such are not only acutely aware of these NSDDs, but, almost certainly, proud of both the effort they outlined, and the outcome.

One could argue, of course, that such a program would not work against China, given that nation’s impressive economic growth record, its extensive integration into the global economy, and the growing “openness” of its society.

One could also argue that no U.S. president would even consider such a plan given the extensive U.S. investments already in China, and the equally extensive investment opportunities that lie ahead.

But one could forgive an American president for arguing that if China under the current leadership is fertile ground for U.S. investment, then a China under a government that is enthusiastically friendly toward the United States and that enthusiastically endorses global capitalism would be even better, especially if the transition could be accomplished peacefully, with no more unrest that occurred in the USSR in the late 1980s.

In fact, such a president might argue that there would be no limit to the business that could be done with a China that no longer threatens Taiwan with an extensive and growing build-up of missiles; that no longer sells advanced missile components and technology to America's enemies; and that abides by internationally recognized norms in the area of human rights and religious freedom.

Such a president might not focus on the many glowing reports about China's economic future that seem to flow effortlessly from China itself as well as from its Western business partners and investors. He might instead reflect on the fact that, despite the outward appearance of a healthy economy, China is facing a host of acute economic and social problems that likely cannot be solved without huge capital outlays, which in turn, are unlikely to be available without continued free access to both U.S. consumer markets and its financial markets.

These problems include, but are not limited to a severe banking crisis, marked by an extremely high percentage of non-performing loans in the nation's major banks and evidence of extensive fraud throughout the system; a potentially debilitating energy shortfall which will necessitate continued extensive and highly expensive oil imports if industrial growth is to continue; and a morass of grave demographic problems, including severe shortfalls in the national pension accounts in the face of an alarming high number of elderly citizens relative to the working population.

As I said earlier, I am not predicting that President Bush will adopt a policy toward China that deliberately attempts to exacerbate that nation's economic and social problems in hopes of prompting a downfall of the existing government.

But, as a closing thought, I would just note that it is possible that such a policy could develop without any central coordination if China starts to hit various trip wires established by Bush's demand that the nations of the world "choose sides" in his "war on terror." But, of course, that's just a thought.

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