

**United States of America as the Global Steward**

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*A Nation Divided*

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## **Abstract**

The principle of subsidiarity states that local communities are best equipped to govern most of their affairs. In an increasingly connected world, this idea gets contested frequently. Since World War 2, the globe has experienced relative peace due to the US setting precedence. We see the US leadership in the world being challenged by players like China, which is doing so in a manner that prioritizes their people and goals. If the United States wants to stay relevant, then it must revisit trade policy, monetary policy, fiscal policy, and national security policy.

## **Introduction**

Maintaining the primacy of the United States will require the United States at the helm as the global steward, and a renewed stance on various actions. Globalism can produce positive outcomes; however, it must be governed with prudence. While the globe is connected through many agreements between a variety of parties, often one leader emerges. According to Jacoby, author of the book *Trump, trade, and the end of globalization*, “globalization can stay alive, but it could be under the stewardship of a new superpower”<sup>1</sup>. The most frequently suggested steward of the future world is China. Trusting China and the influence they wield can be disastrous. According to James Carafano, a leading expert in national security and foreign policy, the way China treats their own people should reflect how they will treat others<sup>2</sup>. In order to remain the global leader, the United States must adopt a strategy to counter Chinese influence, make sure to balance protectionist policies with global policies, and overall make decisions that keep the U.S. dollar and economy stable.

## **Exigence on Threat of China**

On December 3, 2020, as a sort of last statement to the American people before leaving office during the transition to the Biden administration, John Ratcliffe, former United States Director of National Intelligence, stated China is national security threat number 1<sup>3</sup>. This is substantiated by the fact that as Director of National Intelligence, Ratcliffe was entrusted with more intelligence than any other member of the government other than the president. Ratcliffe urgently states, “If I could communicate one thing to the American people from this unique vantage point, it is that the People’s Republic of China poses the greatest threat to America today, and the greatest threat to democracy and freedom world-wide since World War 2”<sup>4</sup>. Ratcliffe in relation to China, states, “This is our once-in-a-generation challenge”<sup>5</sup>.

## **Exigence on Chinese Threat Domestically**

China operates domestically inside the United States. According to Former Secretary of State Mike Pompeo, China was conducting one of the largest spy-rings inside the United States, which led to the decision to order China to close its consulate in Houston, Texas during the Trump presidency<sup>6</sup>. According to Ratcliffe, “Three scientists were ousted in 2019 from MD Anderson Cancer Center in Houston over concerns about China’s theft of cancer research”<sup>7</sup>.

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<sup>1</sup> David Jacoby, *Trump, Trade, and the End of Globalization* (Santa Barbara, California: Praeger, 2018), 80

<sup>2</sup> James Carafano, “Protecting the Homeland: U.S. National Defense in a New Age with Dr. James Carafano” (lecture at Liberty University, Lynchburg, VA, January 25, 2022).

<sup>3</sup> John Ratcliffe, “China is National Security Threat No. 1,” *Wall Street Journal*, December 3, 2020

<sup>4</sup> Ratcliffe, “China is National Security Threat No. 1.”

<sup>5</sup> Ibid

<sup>6</sup> Mike Pompeo, “Freedom Uncensored” (lecture at Liberty University, Lynchburg, VA, November 12, 2021).

<sup>7</sup> Ratcliffe, “China is National Security Threat No. 1.”

China frequently steals research and development secrets, and as of December 3, 2020, the U.S. government estimated \$500 billion a year is lost because of China's intellectual property theft<sup>8</sup>. China frequently employs subject matter experts from all over the world to share, develop, and steal intellectual property for them. According to Ratcliffe, China was allegedly paying the head of Harvard's Chemistry Department \$50,000 a month to steal information<sup>9</sup>. All this theft is reflected in China's research and development (R&D) expenses. As of 2018, U.S. companies spent an average of 2.2% of company revenue on R&D, while the world average, including China, is 2.5%<sup>10</sup>. China simply piggybacks off the hard work of others, and therefore their average company, as of 2018, spent merely 0.8% of company revenues on R&D<sup>11</sup>. The intellectual property theft China conducts is detrimental to the US economy, and lowers the integrity of US law by providing subject matter experts huge incentives to break the law.

Actions taken by China domestically besides espionage and theft include extortion. China is targeting members of Congress with six times the frequency of Russia, and 12 times the frequency of Iran<sup>12</sup>. We never hear about this, but we hear about Russian interference in the 2016 election. Chinese-owned firms in the U.S. conduct this kind of influence<sup>13</sup>. According to Ratcliffe, a representative of the Chinese firm will approach the plant's union leader and explain that the local member of Congress is taking a hardline position on legislation against Beijing and will instruct the union leader to urge the local member of Congress to change positions or the plant and all its jobs will be gone<sup>14</sup>. According to Ratcliffe, "Our intelligence shows that Beijing regularly directs this type of influence operation in the U.S."<sup>15</sup>. This not only threatens the integrity of the US political system, but also puts the wellbeing and livelihood of Americans in the hands of China.

China is aggressively asserting itself through the acquisition of U.S. based companies. This is alarming due to the access of influence it will give China. In reference to the year of 2012, a Wall Street Journal article states, "Last year, Chinese buyers agreed to spend \$11.57 billion in 49 deals to acquire U.S. companies or stakes in U.S. firms"<sup>16</sup>. The 2012 dollar volume was higher than the total from 2009 through 2011 combined<sup>17</sup>. The coupled economies of the U.S. and China, bring some benefits to Americans, however, it is becoming more clear that these benefits come with Chinese influence asserted.

For some reason, Chinese purchases of American companies do get approved by US government officials. An example of a Chinese business with a unionized workforce in the U.S., as referenced by Ratcliffe as being particularly prone to Chinese influence, is the 2013 purchase of Smithfield Foods by Shuanghui, China's largest meat processor<sup>18</sup>. The deal valued Smithfield at \$7.1 billion<sup>19</sup>. According to Senator Debbie Stabenow, this deal represented a 30% premium,

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<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> David Jacoby, *Trump, Trade, and the End of Globalization* (Santa Barbara, California: Praeger, 2018), 98

<sup>11</sup> Jacoby, *Trump, Trade, and the End of Globalization*, 98

<sup>12</sup> Ratcliffe, "China is National Security Threat No. 1."

<sup>13</sup> Ibid

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> Dana Mattioli, Dana Cimilluca, David Kesmodel, "China Makes Biggest U.S. Play," *Wall Street Journal*, May 30, 2013

<sup>17</sup> Dana Mattioli, Dana Cimilluca, David Kesmodel, "China Makes Biggest U.S. Play,"

<sup>18</sup> Ibid

<sup>19</sup> Dana Mattioli, Dana Cimilluca, David Kesmodel, "China Makes Biggest U.S. Play,"

and a 25% stake in the U.S. pork industry at the time of purchase<sup>20</sup>. Shuanghui made the purchase with a loan approved in a single day for \$4 billion from the Bank of China (PBS, 2014). According to Nathan Halverson of the Center for Investigative Reporting, the United States Treasury Department approved the deal through a special committee, that meets behind closed doors, with the final report on the matter classified<sup>21</sup>. Given that the details of the deal are not publicly available, there has been debate around the Chinese government's direct involvement in the deal. However, according to Daniel Slane, a congressional advisor who received classified China briefings from the CIA, the Chinese government instructed their domestic companies to acquire companies in the same industries<sup>22</sup>. This idea is elaborated on by Nathan Halverson, by stating that the Chinese government issued a five-year plan directing food companies to obtain more meat for their production lines by purchasing overseas businesses<sup>23</sup>. China had many incentives for the purchase, and some included coveted technology. According to Chen et al., faculty from the University of Virginia school of business, concern was raised by U.S. politicians about the deal<sup>24</sup>. Chen et al., state how, "China needed Smithfield's technology to improve its patchy record on food safety, and ShuangHui could take the technology to China and increase domestic production"<sup>25</sup>. This in turn would reduce the need to import U.S. pork<sup>26</sup>. Given these assertions, and the fact that the Bank of China approved the loan without delay, the idea of Chinese government involvement in the Smithfield acquisition is likely. This is an example of China working to vertically integrate its supply chain, become less reliant on foreign suppliers, and exercising protectionism.

Another recent example of Chinese influence on U.S. firms is BlackRock, which is often regarded as one of the largest asset management companies. According to Wei et al. from the Wall Street Journal, "BlackRock was influential in some controversial initiatives championed by Chinese leadership"<sup>27</sup>. MSCI Inc., a leading American investment decision company was considering whether to include some Chinese shares in its indices. Institutional investors were initially apprehensive for various, valid reasons. However, the Chinese government, along with BlackRock lobbied heavily for the inclusion<sup>28</sup>. MSCI initially took consideration seriously. However, China exercised leverage. According to Mike Bird, author from the Wall Street Journal, "China's two national stock exchanges also threatened to withdraw MSCI's access to market pricing data, which the company provided to its customers all over the world"<sup>29</sup>. China's influence was effective. Shortly after the threat, in June 2017, MSCI decided to include more than 200 domestic Chinese stocks in the emerging-markets index<sup>30</sup>. Mike Bird reflects the sentiment of Chinese influence by stating how there are questions over the independence of

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<sup>20</sup> PBS NewsHour, "Who's behind the Chinese takeover of the world's biggest pork producer?" September 12, 2014, <https://www.pbs.org/newshour/show/whos-behind-chinese-takeover-worlds-biggest-pork-producer>.

<sup>21</sup> PBS NewsHour, "Who's behind the Chinese takeover of the world's biggest pork producer?"

<sup>22</sup> Ibid

<sup>23</sup> Ibid

<sup>24</sup> Ming-Jer Chen et al., "The Smithfield Acquisition: Shuanghui Buys the Whole Hog," UVA Darden, August 13, 2019, <https://ideas.darden.virginia.edu/the-smithfield-acquisition>.

<sup>25</sup> Ming-Jer Chen et al., "The Smithfield Acquisition: Shuanghui Buys the Whole Hog."

<sup>26</sup> Ibid

<sup>27</sup> Wei et al., "China Has One Powerful Friend Left in the U.S.: Wall Street," *Wall Street Journal*, December 2, 2020.

<sup>28</sup> Wei et al., "China Has One Powerful Friend Left."

<sup>29</sup> Mike Bird, "How China Pressured MSCI to Add Its Market to Major Benchmark," *Wall Street Journal*, February 3, 2019.

<sup>30</sup> Mike Bird, "How China Pressured MSCI."

MSCI<sup>31</sup>. MSCI's power of its indices is huge given the phenomenon of passive investing<sup>32</sup>. Most investors utilize index funds, and MSCI drives the decision making of these index funds and therefore investors. This move to include Chinese stocks in its indices likely will continue to bring a lot of equity to Chinese firms. This is yet another type of influence that can be wielded by the aggregate force of Chinese entities.

Free markets will continue to take advantage of China as long as it is beneficial. For U.S. companies the incentive to work with China is extremely present, and this needs to be addressed. According to Chen et al., after the Smithfield acquisition, ShuangHui kept their promises by increasing capital spending at Smithfield by 24%, paying down Smithfield's debt, gaining a superior credit rating from Moody's, and overall led to 1,000 more jobs added in Virginia post acquisition<sup>33</sup>. As for American competitors in the pork industry, according to Daniel Slane, they are effectively competing not with a Chinese company, but the Chinese government<sup>34</sup>. There are many examples of the benefits that come with tapping the Chinese markets. Another example is the American technology company Qualcomm. According to their most recent 10-K filing, "We derive a significant portion of our revenues from Chinese OEMs, and from non-Chinese OEMs that utilize our integrated circuit products in their devices and sell those devices into China, which has the largest number of smartphone users in the world. We also source certain critical integrated circuit products from suppliers in China"<sup>35</sup>. The markets in China are large, and especially for crucial industries like technology. This is also an example of US supply chains that are dependent on Chinese manufacturing.

One specific and concerning industry China has focused on is American farming. Senator Debbie Stabenow, head of the Senate Agriculture Committee states, "food is a strategic resource that should be as important to the U.S. government as oil"<sup>36</sup>. According to Ryan McCrimmon from Politico, "The push to drain China's influence from the U.S. economy has reached America's farm country, as congressional lawmakers from both parties are looking at measures to crack down on foreign purchases of prime agricultural real estate"<sup>37</sup>. America's food supply is increasingly being outsourced, not necessarily outside the U.S., but simply by pushing the burden to others. In 1900, nearly 40% of the U.S. population lived on farms, by 2000 that percentage dropped to less than 2%<sup>38</sup>. "Scholars have documented increasing ownership of land by financial investors, such as farmland investment firms and farmer/investor hybrid models, who are motivated by the prospect of capital gains from rising land prices and the steady income provided through leases"<sup>39</sup>. The small amount of people with this remaining burden to take care of such a vital resource need to be protected, and need to be free of Chinese influence. Of course, there is opposition, or at least concern over the idea of restricting Chinese owned farmland.

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<sup>31</sup> Ibid

<sup>32</sup> Ibid

<sup>33</sup> Ming-Jer Chen et al., "The Smithfield Acquisition: Shuanghui Buys the Whole Hog," UVA Darden, August 13, 2019, <https://ideas.darden.virginia.edu/the-smithfield-acquisition>.

<sup>34</sup> PBS NewsHour, "Who's behind the Chinese takeover of the world's biggest pork producer?"

<sup>35</sup> Securities and Exchange Commission, "10-K," November 3, 2021, [https://www.sec.gov/cgi-bin/viewer?action=view&cik=804328&accession\\_number=0001728949-21-000076&xbRL\\_type=v](https://www.sec.gov/cgi-bin/viewer?action=view&cik=804328&accession_number=0001728949-21-000076&xbRL_type=v).

<sup>36</sup> PBS NewsHour, "Who's behind the Chinese takeover of the world's biggest pork producer?"

<sup>37</sup> Ryan McCrimmon, "China is buying up American farms. Washington wants to crack down," Politico, July 19, 2021, <https://www.politico.com/news/2021/07/19/china-buying-us-farms-foreign-purchase-499893>.

<sup>38</sup> Megan Horst, "Changes in Farmland Ownership in Oregon, USA," *Land* 8, no. 3 (2019)

<sup>39</sup> Horst, "Changes."

Representative Grace Meng (D-N.Y.) makes the point that if we restrict Chinese buyers, we must restrict all foreign buyers to not perpetuate anti-Asian hate <sup>40</sup>.

### **Policy Recommendation**

Chinese foreign direct investment in the United States should be either entirely eliminated, or put under intense scrutiny prior to being undertaken. There is no reason the United States should be worried about Chinese influence when government officials can cease foreign direct investments from China. While clandestine influence will most likely still occur, the US must stop what it can. While Chinese business can prove to be very lucrative for US partners, the US needs to develop more protectionist policies to help these businesses so they don't get so enticed by foreign money. While some may argue that protectionist policies may increase consumer prices, American patriots should be proud to support a domestic business and at the end of the day don't need the vastness of material items Chinese manufacturing provides at such a low price. Also, if domestic manufacturing doesn't pick up, in the event of an international conflict with China, consumers won't have the option to buy cheaper, they will just have no options all together.

### **China has Conquered Protectionist Globalism**

China doesn't allow foreign influence on its economy the way the U.S. does, and they value protectionism. According to an online dictionary, protectionism is, "the theory, practice, or system of fostering or developing domestic industries by protecting them from foreign competition through duties or quotas imposed on importations" <sup>41</sup>. According to William Burns, a career diplomat and the Director of the CIA under President Biden, China has enjoyed a protectionist trade advantage long after their "developing country" rationale failed <sup>42</sup>. In a Wall Street Journal article, Lester Ross, a Beijing-based lawyer at WilmerHale who advises American firms operating in China, states, "China shows no intention of letting foreign competitors dominate even though it is letting more firms in" <sup>43</sup>. According to Belke and Gros, authors from the *Journal of Economics and Finance*, one of the reasons of the recent global slowdown of trade is that China is more vertically integrated <sup>44</sup>. According to Liss, "withing the last five years, US business associations have become aghast at China's increased reliance on industrial policy while closing their domestic markets to foreigners" <sup>45</sup>. China is producing more components of its supply chain domestically, while they continue to be the world's largest exporter.

### **The United States Needs to Engage in Protectionist Globalism**

For national security reasons, the United States needs to become more self-reliant. When discussing supply chain, Dawn Meyerriecks former CIA Deputy Director for Science and Technology states, "we, we, for various reasons, let our capabilities move offshore, perhaps to

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<sup>40</sup> McCrimmon, "China is buying up American Farms."

<sup>41</sup> "Protectionism," Dictionary.com, n.d., <https://www.dictionary.com/browse/protectionism>.

<sup>42</sup> William Burns, *The Back Channel* (New York: Penguin Random House LLC, 2019), 397.

<sup>43</sup> Wei et al., "China Has One Powerful Friend Left."

<sup>44</sup> Ansgar Belke and Danielle Gros, "The slowdown in trade: End of the "globalisation hype" and a return to normal?" *Journal of Economics and Finance* 45, no. 2 (2021): 226.

<sup>45</sup> Jesse Liss, "Globalization as ideology: China's effects on organizational advocacy and relations among US trade policy stakeholder groups," *Review of International Political Economy* 28, no. 4 (2020) <https://doi.org/10.1080/09692290.2020.1755716>.

places we can't rely on, if push comes to shove, and perhaps that wasn't the best strategy"<sup>46</sup>. Many staple American goods are manufactured in China. The United States isn't just dependent on China for finished goods, but raw materials for production such as important minerals. "The United States is now heavily dependent on foreign resources (many of which come from China) for its manufacturing industries"<sup>47</sup>. Besides trade wars, and national security concerns, China is becoming less of a source for these materials anyway due to the fact they are consuming increasing proportions of their own minerals they produce<sup>48</sup>. According to Yanzhong Huang, author from the Council on Foreign Relations, "80 percent of the active pharmaceutical ingredients (APIs) used to make drugs in the United States are said to come from China and other countries like India"<sup>49</sup>. Yanzhong went on to explain how China curbed, "its exports of raw materials for vitamins and antibiotics as a countermeasure in the trade war with the United States"<sup>50</sup>. "The dependence of a country's economy on the international markets may become a liability in the situation of an intensive conflict or a war of aggression like the one waged against Ukraine by Russia since 2014"<sup>51</sup>.

The advocacy for protectionist globalism is not a new idea. "Alexander Hamilton was the first US Treasury Secretary and he was not a proponent of free trade, rather, he advocated for strategic trade and industrial policy to develop globally competitive US industries"<sup>52</sup>. The US-China Business Council (USCBC) and Coalition for a Prosperous America (CPA) generally oppose each other in trade policy, as the USCBC represents hundreds of US multinational corporations operating in China, and the CPA represents domestic manufacturers. Increasingly, despite their seemingly incongruent parties, the CPA and USCBC alike, have been advocating for Alexander Hamilton policy on trade with China<sup>53</sup>. Parties in the US are calling for an industrial strategy with American characteristics, and even to include public investments<sup>54</sup>.

In relation to foreign policy and diplomacy, globalism provides opportunities for non-violent de-escalation, and incentive to work together. The more economies are intertwined, the more leverage can be exercised through non-violent measures. Therefore, it is important that the United States, to a certain degree, remain engaged in foreign economic affairs. According to Talley and Forrest, authors from the Wall Street Journal, "Past U.S. efforts to wage economic warfare have produced mixed results"<sup>55</sup>. It has been noted that specifically Iran and North Korea overtime have adjusted to economic embargoes imposed due to their nuclear weapons programs<sup>56</sup>. One of Porter's 5 Forces is the bargaining power of buyers, and the US is the world's largest buyer, therefore offering the US international power. In relation to the 2008

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<sup>46</sup> Dawn Meyerriecks, interview by Intelligence Matters podcast, January 26, 2022

<sup>47</sup> Andrew L. Gulley, Nedal T. Nassar, & Sean Xun, "China, the United States, and competition for resources that enable emerging technologies," *Proceedings of the National Academy of Sciences* 115, no. 16 (2018) <https://doi.org/10.1073/pnas.1717152115>.

<sup>48</sup> Gulley, "China, the United States"

<sup>49</sup> Yanzhong Huang, "U.S. Dependence on Pharmaceutical Products From China," Council on Foreign Relations, August 14, 2019, <https://www.cfr.org/blog/us-dependence-pharmaceutical-products-china>.

<sup>50</sup> Huang, "U.S. Dependence."

<sup>51</sup> Anton Oleinik, "Open Economy or Protectionism: Ukraine's Dilemma," *Montenegrin Journal of Economics* 14, no. 3 (2018): 115.

<sup>52</sup> Jesse Liss, "Globalization"

<sup>53</sup> Ibid

<sup>54</sup> Ibid

<sup>55</sup> Ian Talley & Brett Forrest, "Biden's Sanctions Plan Targets Russian Banks, Companies and Imports if Ukraine Is Attacked" *Wall Street Journal*, January 28, 2022.

<sup>56</sup> Talley & Forrest, "Biden's Sanctions."

financial crisis, “As a result of US imports declining, many economies have slipped into recession, which has further affected China’s exports”<sup>57</sup>. This is empirical evidence of the power US buyers have on international markets.

China has realized that it needs to internationalize its currency to achieve their goals. The US has dominated in internationalizing its currency. According to the Mercator Institute for China Studies, a leading European think tank on China, “The US dollar and the euro are massively dominant in global commerce, accounting in 2019 for more than three quarters of all global transactions, of which 42.5 percent were cleared in dollars and 36.2 percent in euros”<sup>58</sup>. Part of China’s strategy to extend the reach and use of its currency is to digitize it. One of the goals this will help achieve is to sanction proof itself from the US. According to Karnfelt, “Fearing that US financial sanctions against its banks and restrictions on access to the SWIFT global payments system are no longer unthinkable, Beijing is accelerating its efforts to internationalize its currency”<sup>59</sup>. At the 2022 Winter Olympics, China has been piloting their digital currency. Even though Visa is supposed to be the sole payment service, according to a Wall Street Journal article, the digital currency is legal tender and therefore doesn’t violate any terms on the Visa sponsorship<sup>60</sup>. This is proof that the digital currency can move to subordinate established, traditional American payment methods.

### **Policy Recommendation**

One strategy is to enhance our partnership with Mexico. This will counter China’s power in exports therefore resulting in direct competition with China. In theory this will bring China to a closer state of negotiation. This strategy also builds upon strengths of globalism by working with international partners. According to Wordliczek, author of a scholarly, peer-reviewed journal article, competition between China and Mexico as economic partners is a favorable situation<sup>61</sup>. According to the United States Census Bureau, year to date November 2021 exports to Mexico were \$252.7 billion and merely \$137.7 billion to China<sup>62</sup>. On that same note, imports from Mexico were \$351.5 billion, while imports from China were a staggering \$456.8 billion<sup>63</sup>. The United States has much more balanced trade levels with Mexico, and therefore that is a relationship the U.S. should build on. Interestingly, purchasing power parity in China is so high partly due to inexpensive labor costs, however, “for several years, labor costs in China have been increasing and in some sectors are already higher than in Mexico”<sup>64</sup>. A large reason for trade with China is the inexpensive labor, however it appears that labor may be less expensive in Mexico now. Mexico provides many opportunities as a strategic trading partner and some include, low transportation costs, common non-economic goals, historical experience, and a

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<sup>57</sup> Qiangbing Chen, “Why China Should Invest Its Foreign Exchange Reserves in the Major US Banks,” *China & World Economy* 17, no. 4 (2009) <https://doi.org/10.1111/j.1749-124X.2009.01155.x>

<sup>58</sup> Maximilian Karnfelt, “The digital Yuan will only lend a minor boost to internationalization of the currency,” Mercator Institute for China Studies, November 16, 2020, <https://merics.org/en/short-analysis/digital-yuan-will-only-lend-minor-boost-internationalization-currency>.

<sup>59</sup> Karnfelt, “The digital Yuan.”

<sup>60</sup> Jing Yang & AnnaMaria Andriotis, “At the Winter Olympics, Beijing’s Digital Yuan Push Puts Visa in a Bind” *Wall Street Journal*, February 9, 2022.

<sup>61</sup> Rafal Wordliczek, “North American Free Trade Agreement,” *Politeja* 18, no. 5 (2021) <https://doi.org/10.12797/Politeja.18.2021.74.18>.

<sup>62</sup> “Top Trading Partners -November 2021,” U.S. Census Bureau, <https://www.census.gov/foreign-trade/statistics/highlights/top/top2111yr.html>.

<sup>63</sup> “Top Trading Partners.”

<sup>64</sup> Wordliczek, “North American”

multi-million Mexican minority living and working in the United States<sup>65</sup>. Relations with Mexico are vital for national security and economics. Ever since the Zimmermann Telegram, it is clear how important local geographic partners are. In this case, our close geographic partner to the south can even help us displace rivals that are geographically distant.

### **The USD and US Economy**

The US dollar is a major reserve currency, and is utilized as tools for foreign policy in various forms such as sanctions, aid packages, the funding of defense, and more. Subordinating dollar primacy will unravel world markets, and belittle our tools of foreign policy. It is imperative we preserve it. According to Georgi Kantchev, author from the Wall Street Journal, in an effort to sanction-proof itself, “To an extent, Russia has weaned itself off the dollar and reduced the share of its debt held by foreign investors”<sup>66</sup>. Russia’s government has maintained a conservative fiscal stance and kept its government debt under 20% of GDP as of the end of January 2022<sup>67</sup>. Having global markets that demand the dollar is a foreign policy asset. America’s adversaries are aware, and are attempting to circumvent it.

The economy of a country is its biggest military asset. Historically, the United States has never fought in a war with a country with a comparable gross domestic product (GDP). According to Richard Cooper, research assistant from Harvard University, the Soviet Union’s strongest economy during the Cold War measured at 44 percent of US GDP<sup>68</sup>. According to the World Bank, 2020 GDP for the US was about \$20.9 trillion and China’s GDP was about \$14.7 trillion when compared at the current official exchange rate<sup>69</sup>. However, when valued at purchasing power parity (PPP), China’s GDP in 2020 was about \$24.3 trillion at current international dollars<sup>70</sup>. According to the CIA World Factbook, in China’s situation, GDP at PPP provides the best measure for comparison across countries<sup>71</sup>. Pricing China’s output at prices prevailing in the US shows that they are producing more goods and services than the US and that their currency has stronger purchasing power within their country. If inflation is not kept at a manageable average of 2% annual growth, it will strain our economy and make us less competitive as a country.

According to Jacoby, U.S. goods and services cost at least 20% to 23% more than those of its international competitors. “The largest problems that are driving U.S. companies’ costs up compared to international competitors are high healthcare costs, high corporate tax rates, and excessive regulatory compliance costs”<sup>72</sup>. “Until the tax reform of late 2017, the U.S. corporate tax rate, at 40%, including both federal and state taxes, was the highest of 171 countries in the world according to a study by KPMG”<sup>73</sup>. According to PwC, a Big Four accounting firm, Sweden has no local or municipal income taxes on Swedish corporations, and their corporate tax

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<sup>65</sup> Ibid

<sup>66</sup> Georgi Kantchev, “Russia’s Attempts to Sanction-Proof Its Economy Have Exposed a Weak Spot” *Wall Street Journal*, January 26, 2022.

<sup>67</sup> Kantchev, “Russia’s Attempts.”

<sup>68</sup> Richard N. Cooper, “Economic Aspects of the Cold War, 1962-1975,” Harvard Library, February 2008, [https://dash.harvard.edu/bitstream/handle/1/3677060/Cooper\\_EconomicAspects.pdf](https://dash.harvard.edu/bitstream/handle/1/3677060/Cooper_EconomicAspects.pdf).

<sup>69</sup> World Bank, <https://data.worldbank.org/indicator/ny.gdp.mktp.pp.cd>.

<sup>70</sup> World Bank

<sup>71</sup> CIA, “World Factbook,” <https://www.cia.gov/the-world-factbook/countries/china/#economy>.

<sup>72</sup> David Jacoby, *Trump, Trade, and the End of Globalization* (Santa Barbara, California: Praeger, 2018), 39

<sup>73</sup> Jacoby, *Trump, Trade, and the End of Globalization*, 43

rate is a flat 20.6% <sup>74</sup>. “The United States spent 17.1% of its GDP on healthcare, compared to 6.7% for the average of all other countries in the world (excluding the United States)” <sup>75</sup>. The U.S. spends \$8,200 per person per year on healthcare, while Nordic countries spend only \$3,800 to \$5,400 per person <sup>76</sup>. Therefore, a country that is known for its welfare state such as Sweden, has lower taxes and spends less on healthcare than the United States.

### **Policy Recommendation**

To prevent the USD from losing its purchasing power, and in tandem the US economy losing its might, a policy recommendation is to place a limit on the amount of federal debt that the Federal Reserve can finance. This limit can be defined as an overall percentage of federal debt. If Congress doesn't have such an obliging lender at its disposal, it won't be able to spend at levels that outpace our GDP. Our economy services this debt, and especially in environments when interest rates are rising, having debt that is larger than GDP can be catastrophic. According to Alan Reynolds and Steve Stein, authors from the American Institute for Economic Research, federal debt rose to 125.5% of GDP in 2021, compared to 61.6% of GDP in 2007 <sup>77</sup>. Restraining the Federal Reserve would manage this. During the 2008 financial crisis, a private financial market, even one as large as that of the US, could not inject enough funds into the banking system fast enough to save it <sup>78</sup>. Having our economy rely on continued money creation on behalf of the Federal Reserve is dangerous. Traditional credit markets create money that is directly assigned to a good or service. However, the Federal Reserve is habitually creating money that is assigned to debt. This is not good for inflation or for the stroke of power the US economy wields. It is important the United States looks at its debt.

### **Conclusion**

For decades, due to military might displayed in past wars, and the establishment of the USD as the world reserve currency, the US has been able to rely mainly on diplomacy to exercise its interests. That is a privilege. The US needs to control its debt, because if future borrowers can't be located, all the exported dollars around the world will flock home and there will be hyperinflation. The US needs to develop policy to develop a vertical supply chain, while keeping other countries reliant on the US for financial and supply chain transactions. Lastly, exigence about China's capabilities and threats needs to be established. Nancy Pearcey sums up the balance between America first and international relations Biblically by stating, “The balance of unity and diversity in the Trinity gives a model for human social life, because it implies that both individuality and relationship exist within the Godhead itself” <sup>79</sup>

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<sup>74</sup> PwC, “Taxes on Corporate Income,” <https://taxsummaries.pwc.com/sweden/corporate/taxes-on-corporate-income>.

<sup>75</sup> David Jacoby, *Trump, Trade, and the End of Globalization* (Santa Barbara, California: Praeger, 2018), 39

<sup>76</sup> Jacoby, *Trump, Trade, and the End of Globalization*, 40

<sup>77</sup> Alan Reynolds & Steve Stein, “A Smarter Debt Limit Bill,” Cato Institute, December 3, 2021, <https://www.cato.org/commentary/smarter-debt-limit-bill#>.

<sup>78</sup> Qiangbing Chen, “Why China Should Invest Its Foreign Exchange Reserves in the Major US Banks,” *China & World Economy* 17, no. 4 (2009) <https://doi.org/10.1111/j.1749-124X.2009.01155.x>.

<sup>79</sup> Nancy Pearcey, *Total Truth* (Wheaton, Illinois: Crossway, 2004), 132.

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