

America's Weakening Position as Global Superpower

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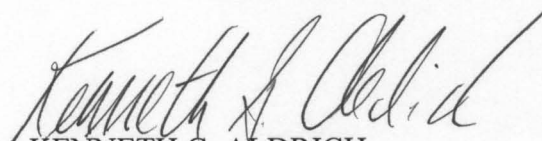
Group Room M12

18 March 2005

MEMORANDUM FOR FA, M12, USASMA, Fort Bliss, TX 79906

SUBJECT: Group Thesis Statement

1. Thesis Statement: The United States position as global superpower is weakening and may end abruptly within a generation.
2. Discussion: The United States is at great risk of losing its status as the World's sole superpower within 10-20 years. This argument is economic in nature. Economics is the driving force in creating the wealth required for a deadly military force. The US is currently headed for economic disaster. Asia's economic growth and wealth is surging. This growth is caused by America's addiction to credit and consumption beyond its means. China, Japan, and India are becoming the primary beneficiaries of US deficit spending. America finances a large portion of its debt through debt instruments such as treasury notes and bonds that foreign central banks then purchase. The US is willfully providing our debt financiers (Asia) a financial weapon of mass destruction (WMD). If our overseas financiers lose faith or decide to no longer play ball, they can willfully sell these instruments and create a dollar crash/hyper inflation. If China decides to annex Taiwan and America resists, China can single handedly plunge the American economy into chaos by selling their 700 plus Billion in US reserves that they currently possess. The question is no longer if this is going to happen but when. US federal and trade deficits are spiraling out of control. Evidence now indicates that foreign central banks are already slowing down future purchases of US backed debt and many will soon begin to reverse ownership – choosing safer currencies such as the Euro and Canadian dollar. The US annual trade gap with China is currently 180 billion and widening. This amounts to sending China 180 billion in hard cash to China on an annual basis. This cash is fueling rapid military transformation for the Chinese. On the economic front, multi-national corporations, once the staple of the “American Way” are now flocking to invest in Asia while they outsource high paying America jobs to this part of the world.
3. Conclusion: Without major change at home through debt reduction, fiscal responsibility, oil conservation - alternate fuel development, and finally a US foreign policy that focuses on America within, a positive future is very much in doubt. The United States is rapidly leveraging its future and the day of reckoning is near.
4. Haines Award: Our group does not desire to submit this paper for Haines Award consideration.

  
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MSG, USA  
Group Chairperson

## Outline

Thesis: The United States position as the global superpower is weakening and may end abruptly within a generation.

### I. Introduction - America the Superpower

- A. Global power shift in the making
- B. America's leveraged position – economic WMD within
- C. America's collision course with the world

### II. Economic Health – America's Power Would Not Exist Without It

- A. Oil – The Source in Gaining and Maintaining Dominance
  - 1. Theory of Hubbert's Peak
  - 2. US declining production
  - 3. Surging world demand
- B. Budget and Current Account Deficits
  - 1. Federal, state, and local government debt
  - 2. Trade deficit
  - 3. Unfunded liabilities
- C. Asset Bubbles
  - 1. Real estate
  - 2. Stock market
  - 3. Consumer debt

### III. State Threats From The East

- A. China
  - 1. Military forces
  - 2. Economics
  - 3. Future aspirations
- B. Russia
  - 1. Military Forces
  - 2. Economics
  - 3. Futures aspirations

C. Other Asian and Middle East Countries

1. Iran
2. Pakistan and India
3. North Korea and former Soviet Republics

IV. Conclusion

- A. Summary
- B. Questions
- C. Conclusion

### **America's Weakening Position as Global Superpower**

The United States served as the World's preeminent leader from the end of World War II throughout the dawn of the 21st century. American military and economic might arguably passed by none in civilization. Upon the fall of the Soviet Union in 1989, the United States enjoyed unchallenged reign of strategic objectives and financial markets throughout the world. However, growing evidence indicates that an infrequent and major global power shift is in the making. Power shifts are rarely peaceful and one only has to look to World War II to study the last one. The imperialistic Germany and Japan failed to adjust to the changing geopolitical landscape resulting devastation in large parts of the world. Their peoples and countries laid destroyed and in ruin begging for mercy. Today, like the US in its early years, it is the populous states of Asia that desire to play a greater political and economic role. Many witness the East's road to greater power however; it appears that the US is ill prepared for it. Unresolved flash points around the globe appear ripe for miscalculation and explosion into large-scale warfare and economic chaos making Iraq a simple policing action. In times of major power struggles, the states with the deadliest Armies strike with success but often place last in the end. The states having the energy resources and economic foundations to continue their struggle often succeed. It also is essential in having the general belief by the global community that your actions are in self-defense or morally justified. Does the US still have the resources and economic foundation to continue any large-scale conflict most likely during this global shift? Is US foreign policy still the bedrock of morality and good will that many of the global states once thought but no longer? This paper sets out to discuss and answer these two previous questions. However, the evidence provides a snapshot that economic and state threats risk displacing the US as global superpower.

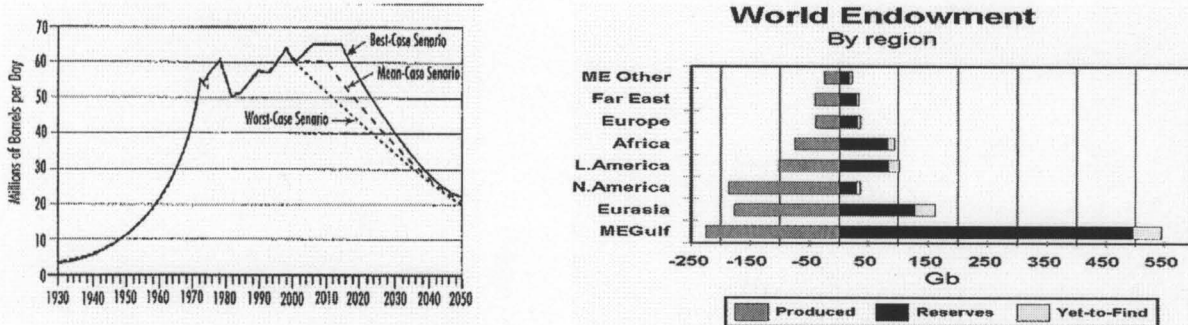
### **Economic Threats to the US – Weapons of Mass Destruction from Within**

The healthy economic foundation of the US is essential to future stability and the ability to project power in our Nations interests. However, it appears that America faces a perfect storm of economic tribulation. Once being exposed can quickly snatch the financial resources that have build the nations fighting machine – let alone maintain it. Below discusses the three main areas and reasons for a pending economic collapse – oil, deficits, and asset bubbles.

#### **Oil – The Blood that Fuels the Great America Machine**

Domestic oil production's peak year in 1973 symbolized clearly that we were dependent on foreign energy. Middle Eastern OPEC nations turned off the oil to the US in October just as winter was approaching causing drastic damage to both our nation and economy. First, gas quadrupled in the US – in today's terms, from two to eight dollars. Second, inflation and interest rates skyrocketed to near 20 percent sending the economy into deep recession. As reported by the American Automobile Association, at one point, 20 percent of the country's gas stations were without fuel. Waiting in line for up to three hours was common - all this from a temporary stoppage of Middle Eastern oil. What happens if the shortage is permanent and accelerating? Oil not only produces gasoline but also home heating oil and 90 percent of all organic chemicals including pharmaceuticals, agricultural products, plastics and fabrics to name a few. In 1969, a prominent geologist M. King Hubbert, working for Shell's Houston labs, created a graph that depicted world oil production over time would like a bell curve, with its peak around year 2000 – 2005. There after he argued, production would slowly drop and become more expensive to extract at first, and then accelerate declines and extraction costs over the following five to ten years. Hubbert's track record read like that of a prophet – his 1956

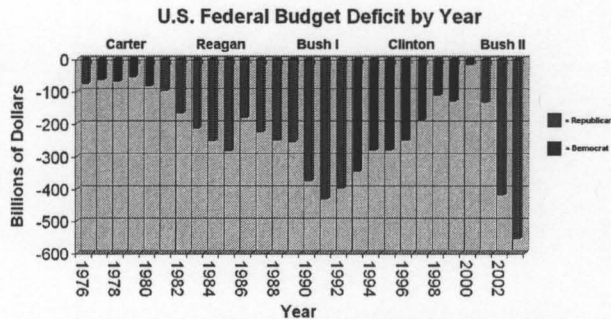
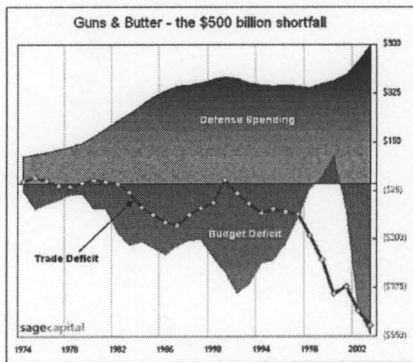
forecast that the US's oil production would peak in the early 1970s (1973) proved eerily correct. Several top industry geologists have now come out with similar findings confirming Herbert's forecasts. Look at the graphs below and consume their trends before we continue:



The findings of Hubbert commonly accepted in the industry today are the source of many new studies and books on the subject. Kenneth Deffeyes, author of Beyond Oil: The View from Hubberts Peak, was so convinced in Hubbert's calculations that he left the oil industry and now is a professor emeritus of geosciences at Princeton University. As the graphs show above, Dreffeyes' prognosis for the future is bleak. He believes (mean-case scenario) that world oil production is currently peaking (2005-2010) during a period when world demand is soaring. By 2010, he suggests oil prices will soar to beyond 100-150 dollars a barrel forcing business throughout America against the corner and many not able to cope to bankruptcy. He also fears escalating resource wars around the world and potential mass starvation in certain countries. Now is the time for a "Manhattan Project" for alternative fuels. However, no desire seems to exist except to continue living beyond our means and the un-impeding ability to gas up those SUVs. The policy of this generation seems to be "preemptive strike" and "democratization" of global tyrants and "evil-doers" across the globe (endless death and destruction). The US is ill prepared for any significant disruption in oil or the production thereof in an environment of soaring demand – especially when the piggy bank is just about broke, as we will discuss next.

### Government Deficits and National Debt

How can you resource military defense and foreign policy in the interests of the Nation when the bank is about broke and your lenders (2 trillion cash to foreign central banks) now think you are too risky? You might not be able to after long. When you watch CNBC on cable television you will often see that guy, Larry Kudlow, you know the guy I am talking about, the one that says stocks are always a good buy just before they crash? He also talks highly about the economy and how it is so strong and vigorous and that our deficits are no big deal because they are in a small band between 3 and 3.4% (400 + Billion/annual) of Gross Domestic Product - GDP (11.9 Trillion). He is delusional. Kudlow talks about deficits and not the national debt or total net borrowed. Americans consume what he and many political leaders say but the evidence tells another story. Look at the figures below:



**Which party is *truly* the "party of fiscal responsibility"?**

Source: U.S. Department of the Treasury, Bureau of the Public Debt  
 (<http://www.publicdebt.treas.gov/opd/opdpubdot.htm>)

Each year since 1969, Congress has spent more than its income. The treasury department has to borrow money each year by issuing debt instruments issued by the Federal Reserve to cover these liabilities. Like a credit junky with a credit card with a balance that slowing increases each month along with increasing interest payments, at some point 100% of your minimum payment is interest and you creep into bankruptcy. Like the credit card junky, the US National Debt now

stands at 7.6 trillion dollars. Look at the chart (right) above; at first glance, it does not look bad. Deficit spending significantly surged starting with Reagan and carried forward with Bush I, decreased significantly to near zero during Clinton's last year. Bush II's huge run-up in the deficit would not be so tragic if it were not for one little thing – we have never paid down any principle built up from the 26 previous debt years. The US simply pays the annual interest, allowing the principle to grow, and then call-it a day! The US government (taxpayer) paid \$322 billion in interest alone in 2004. Taking a closer look, compare that to the Department of Education (61 billion) and Department of Transportation (56 billion).

In the chart on page four titled, "Guns or Butter" you will notice a sharp association with skyrocketing defense spending and budget deficits. Resourcing war in the coming years and the current War on Terrorism will no doubt be awfully expensive and impossible for the US to continue endlessly. We must pick our fights wisely, which makes Iraq, as stated by former President Reagan's Navy Secretary, "a major strategic blunder." As we talk about the deficit, Iraq, and outfitting our Army with the tools necessary to fight and win in perpetual combat, here are a few numbers of the costs. The government has authorized (until now) approximately 200 billion of your taxpayer dollars and probably another 200 billion within two to three years. A recent article in [Foreign Affairs Online](#), titled, "Riding for a Fall" by Peter Peterson, said:

In September 2003, with bombs still raining down on Baghdad, President Bush made an emergency war-spending request for \$87 billion. It was the largest such request since the opening months of World War II. The cost details arriving from the battlefield were riveting. For patrolling the "Sunni Triangle" in Iraq, the Army wanted 595 extra Humvees, at a price tag of \$250,000 each. Another 60,000 troops needed three-piece body-armor suits: \$5,000 each. Every day, the logistical needs of the forces in Iraq required dozens of 30-truck convoys from Kuwait and Turkey, carrying everything from half a million bottles of spring water to countless electronic modules, all provided by 6,000 civilian contractors. Sun and sand, meanwhile, did more damage to the equipment than did ambushes by insurgents. Every Bradley fighting vehicle in Iraq needed new

tracks every 60 days, at \$22,576 each. Apache attack helicopters, in perpetual need of maintenance, single-handedly devoured an amazing \$1.3 billion in spare parts in fiscal year 2003. Engineering and construction costs were (and still are) billions of dollars over their original estimates.

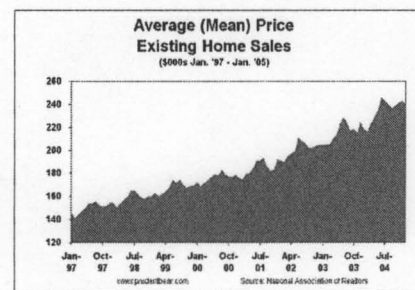
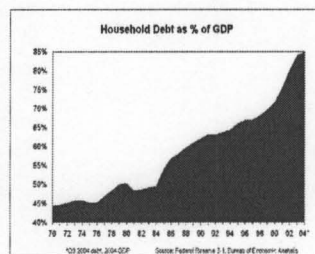
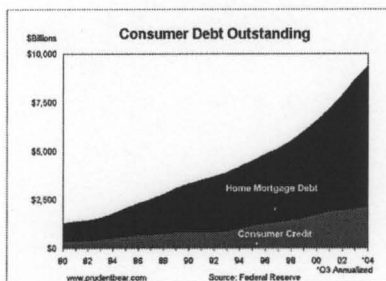
America's founding fathers often warned about forcing democratization and liberty outside its borders because it often led to peoples losing within theirs. Perhaps going broke and non-stop conflict was one of their main concerns.

The current account deficit is the measurement at which capital flows out of the United States. If there is a deficit, the US basically is exporting its wealth (through cash) to foreign that sell their products to us. Our defense means their surplus. The US commerce department reported in March 2005 that 2004 U.S. current account deficit increased year over year by 25.5 percent to \$665.9 billion. Yes folks, we exported 665.9 billion cash into the hands of foreigners. Since we import over 60 percent of our oil, which is soaring in price, and love to shop at Walmart, projections show the total 2005 deficit at 765 billion. Nearly 200 billion of this will be to China. Guess what China can afford with this kind of cash. We will answer this question farther into this paper when discussing the emerging China threat. Current account deficits can be a good thing in moderation as foreigners take the dollars we hand them to and re-invest in the U.S. stock market corporate bond and Treasury securities (instruments that fund out federal deficits). However, many leading international economists now worry that current deficits are so high that foreigners may decide to fun for the exit in fear their dollar denominated assets may drop significantly in value (see devaluation of dollar). If this run for the exits occurred, the dollar would not only continue its significant fall (55 percent vs Euro) but also catastrophically plunge along with stocks and real estate as interest would soar to 10 – 15 percent. That credit card payment would really start biting you! Take note as well that as the dollar's value

decreases, oil increases. A significant drop in the dollar could easily send a barrel of oil to between 80 to 100 dollars a barrel and this is without taking into consideration the previous points made on decreasing supply and soaring demand. Gas would then easily top 3.50 to 4.00 a gallon. An Associated Press writer recently recorded that a recent treasury report showed, "...foreigners now hold 1.96 trillion in Treasury securities, 45 percent of the total that is publicly traded. This does not include cash reserves in approximately the same amount of 2 trillion dollars in foreign hands (1 trillion alone between Japan and China). Liquidating these holdings alone could destroy the US economy. Looks like foreign lenders are now holding our cards.

### Asset Bubbles – Real Estate, Stocks, and Consumer Debt

Easy cash and speculation create asset bubbles. The US economy took a major hit beginning with the stock market decline in April 2001 and officially plunged into recession shortly after the September 11th disaster. The plunge of the NASDAQ represented a pop of the stock market bubble but was that it? It appears the bubble just shifted to real estate and later back into stocks as growing evidence suggests. A recent article in MSN Money Central Online, titled, "Housing mania will end in tears" by Bill Fleckenstein, stated, "Like the day traders of the 1990's dot-com boom, people are investing in a market that seems to just go up." History tells us, even in real estate, markets go down after bubble run-ups. Look below:



The charts above show that easy money from the Federal Reserve greased the pads to skyrocketing demand consumers were able to get their hands on the money to bid up housing prices. Skyrocketing housing prices have enabled US households to dig them into greater debt using their housing as ATM machines and debt vehicles for additional spending. Consumer household debt as a percentage of GDP is fast approaching 100 percent and has increased nearly 400 percent in the last 20 years. If consumers are two-thirds of the economy, and they cannot spend anymore at some point in the near future, how can our economy sustain a fighting force to project our National interests?

### **Emerging State Threats throughout Asia**

Asia is rising fast, with its economic engine translating into political and economic strength. As the west adapts it, much chose its steps wisely or be left behind. Below we look at the emerging powers:

#### **China**

China is the greatest Asian power to rise and threaten the US going forward. Its economy is expected to double the size of Germany's (3d largest) by 2010 and surpass Japan as the second largest economy by 2020. Some projections show China will surpass the US as the world's largest economy by 2030. As indicated earlier in this paper, China possesses significant financial leverage over the US. Our current account deficit with the Chinese is running nearly 200 billion annually. This windfall of cash is going partly into military force modernization programs. The CIA's chief Peter Goss, recently stated, "Beijing's military modernization and military buildup is tilting the balance of power in the Taiwan Strait."

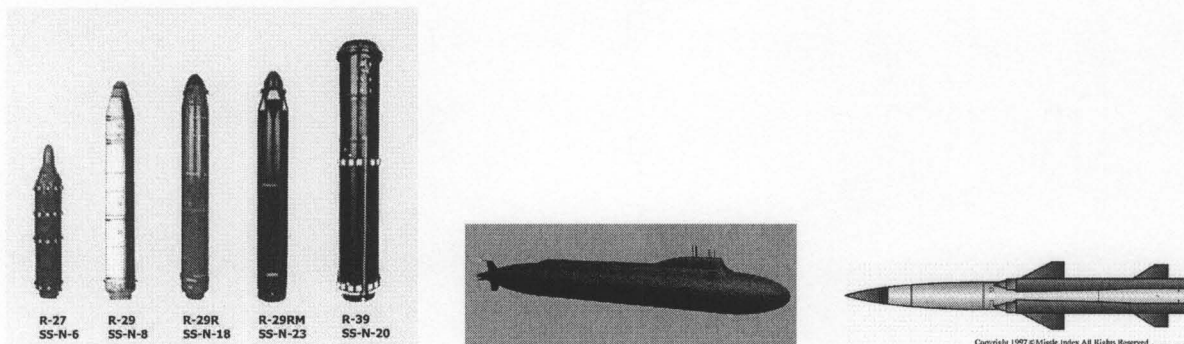
China is rapidly improving its ballistic missile on new surface destroyers and submarines purchased from Russia. It continues to develop a more modern, survivable nuclear-armed missile capable of striking throughout the region. According to analysts, China is rapidly expanding its submarine force to 85 vessels by 2010. Russia's SS-N-22 supersonic anti-ship missile comes with many of these vessels. Congresswoman Dana Rohrabacher is quoted as saying, "The SS-N-22 is the most dangerous anti-ship missile in the Russian, and now the Chinese, fleet. The United States Navy stated recently, "We consider this missile to be extremely difficult to defend against." Considered aircraft carrier killers, they are feared and unmatched. Of significance are China-Russian relations. Their first military exercise together will take place in China in autumn 2005. Russian made destroyer and advanced SU-30 warplanes purchased by China – a steady flow of weaponry is currently flowing from Russia to China.



### Russia

As mentioned above, China's primary contractor for advanced weaponry is Russia. It also ships weapons and technology to Iran, Pakistan, India, and other states that could potentially do us harm. America is on a potential collision course with Russia over greater and greater encroachment over its southern territories near the Caspian Sea and involvement in Ukraine.

Geological surveys suggest that many of the largest remaining oil reserve finds are along the Caspian Sea basin along the boundaries of current or previous Russian states. The other bordering state of Iran enjoys a fruitful relationship with Russia. Russia is responsible for providing Iran with its 1000 mega-watt dual nuclear reactor, which is nearly on-line. Russia agreed last month to allow nuclear fuel to be disposed of in Russia. If a significant disruption in world oil production occurs, the likeliness of conflict with Russia will significantly increase, as dominant players in the South-West Asia will struggle for remaining fuel sources. In this case, the Russians have a formidable nuclear and advanced weaponry deterrent. Below from left to right are their Submerged Intercontinental Ballistic Missiles (SIBM) – with range up to 8,000km, advanced nuclear submarine rivaling any in US inventory, and the before mentioned supersonic ship killer (SS-N-22):



### **Iran, Pakistan, India, North Korea, and Former Soviet Republics**

The main goal of all these states is to militarize their societies and gain access to nuclear weapons. In Paul Bracken's book, Fire in the East – The Rise of Asian Military Power and the second Nuclear Age, he states, "The world changed forever on May 11, 1998. That was the day India defied the rest of the world by testing nuclear weapons. The Indian test of five atomic

bombs and the Pakistani tests that answer a few weeks later, marked the end of an arms control system that has kept the world from nuclear war for half a century.” When the global community lifted light sanctions from both, the race was on to arm. Pakistan's black market nuclear super-market has now been uncovered and in an intelligence piece just a few weeks back, it appears they are back to it again. North Korea's move is anyone's guess – but their leader is a bit unstable and he now has nuclear weapons.

### **Conclusion**

The beginning of the 21st century contains both potholes and cliffs, both domestically and abroad. The United States served as the World's premier superpower of the 20th century. Remembering its dominance in history books, America shines bright. However, as stated in our introduction, when major global shifts occur, those superpowers resisting them often come out at the bottom. The primary reasons we argue that America's position as global superpower is weakening, is we have leveraged are economic future through huge deficits, dependence of depleting energy sources, arrogant foreign policy that says we are morally superior and can export democracy (capitalism) throughout oil rich countries, and afford it! The US may be able to strike first and often, but who will place first in the end? Without major change at home through debt reduction, fiscal responsibility, oil conservation - alternate fuel development, and finally a US foreign policy that focuses on America within, a favorable outcome is very much in doubt.

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