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Hu Jintao's U.S. Visit Highlights Debt and Diplomacy ^[1]

Do you remember Hu Jintao's April 2006 visit to Washington, D.C.?

If you watched any of the news coverage on television you likely bring to mind the image of a Falun Gong protester and other odd faux pas. What received less attention were the circumstances surrounding the visit.

The visit began weeks before the Chinese President and Party leader arrived. Chinese Vice Minister Wu Yi dropped in on the White House before the visit to be reassured that Washington supports the one-China policy of the mainland. Lest anyone have any illusions, "one-China policy" means that Taiwan is considered a province of the mainland; in no sense an independent entity of any kind.

Why does every administration in recent memory dutifully reiterate this support? Given the fact that the United States is committed by treaty to defend Taiwan against attack, why would the defender agree with the notion that its client isn't even a state?

We have a saying in journalism: Follow the money.

In this case follow the U.S. trade deficit and the overall U.S. indebtedness.

There may be some of you old enough to remember when the late Senator Everett Dirksen (R-Ill.), carping about excessive government spending said: "A billion here, a billion there, sooner or later you're talking about real money."

Since the senator's days the billions have turned into trillions. To help put the U.S. debt into focus consider the following statistics:

This year's U.S. indebtedness is estimated to be 477 billion dollars.

US public debt increases at the rate of 1.74 billion dollars per day.

To personalize that figure, consider that the U.S. population (estimated to be 298 million people) splits up this debt by everyone owing 28 thousand dollars to a variety of creditors.

Or go to the [this website](#) and you will find a clock unwinding to let you see the debt growing.

I watched for a few seconds and then estimated that U.S. indebtedness is growing at about 20 thousand dollars every five seconds.

What has all this got to do with China and Hu Jintao's visit to George Bush?

Everything.

China and Japan together daily buy 40% of the U.S. debt in the form of United States Treasury Bonds. There is little doubt that both countries could have been doing better until recently when the return on Treasuries increased, but diplomatic niceties and a globalized economy being what they are, Japan and China seem content to be primary lenders -- or looked at another way: Bankers -- to the United States. That was an important and little noted aspect of the Chinese President's visit to President Bush.

President Bush's banker was paying a call.

Those of you with debtor relationships with banks will understand that a visit from the banker is when you make nice. Therefore there was little surprise when Mr. Bush once again reiterated the US support for the "one China policy." The U.S. President generally has a slightly grim, or at best wan, look on his face when he makes these public statements. But when the banker to whom you owe a large percentage of your assets asks, you tend to comply.

In addition, the aforementioned Vice Minister Wu Yi came to the U.S. with a delegation of 150 Chinese businessmen in the weeks before the Presidential visit for a shopping spree.

The Chinese fanned out across the United States to large and medium-sized cities where they bought everything from heavy machinery to software to airplanes. Billions of dollars worth. Some of those deals had already been made and were months old. Others were in the works, and still others are yet to be completed. But the overall impression, carefully orchestrated, was to impress on the United States the buying nature of China; not just the sale of Chinese made goods in the U.S. There were about 20 cities on the Chinese tour.

Imagine the headlines in each of those local papers, and the local news on TV and radio?

The Chinese had come to town to make multi-million dollar deals with local U.S. companies. A very different image than the imbalance most Americans see in the commercial relationship between the two countries. And if you subscribe to the late Tip O'Neill's mantra that "all politics is local" then the Chinese shopping spree had an impact far beyond the D.C. visit.

Hu Jintao's first stop on his tour was another case in point. His Boeing-made 747 could have easily made the Beijing-D.C. trip non-stop. Instead the Chinese delegation spent a few days in Seattle, (where the airplane was manufactured) and where China's newfound best friend Bill Gates makes his home. Mr. Gates invited the Chinese President to dinner. His host and his city had a love fest. The impression was that they couldn't get enough of the Chinese President. The Seattle Times and the Post-Intelligencer became virtual single-subject newspapers for three days.

The biggest story: the menu for Mr. Gates dinner.

The most important stories: Chinese airlines bought 42 Boeing aircraft worth about 5-billion dollars retail. (The Chinese got a big discount, and at least 20 of the airplanes had been ordered months before.) Once again the public impression was a huge order. Most of the aircraft were 737s, Boeing's best seller but also its smallest and cheapest airliner.

Air China, the major state airline, held off the announcement of a 24 aircraft order from the European Airbus consortium until June, 2006, well clear of the Chinese President's US visit. (The order is worth about 1.7 billion dollars retail – and given Airbus' recent problems the

discount may have been huge.)

After visiting the Boeing plant and watching them make airplanes and speaking to production line workers, the Chinese President announced a deal with Microsoft which will expand the companies already sizeable research facility in China. Microsoft all but became the preferred software company of the Chinese government.

Put it all together and what does it mean?

1. The Chinese have gained a level of sophistication in spin and public relations that can match any government anywhere.
2. The economic strength of the world's most populous country can be seen at least two ways. By purchasing power, China is second only to the United States, and will likely become number one within the next decade. By more traditional measures China is the world's fourth largest economy behind the U.S., Japan, and Germany, but may soon surpass Germany. Catching up to Japan and the U.S. may take a good deal more than the next decade or even two.
3. When the Chinese President, or a Chinese Vice Premier travel, wherever they go, governments listen. (When President Bush and President Hu Jintao had overlapping visits to Australia in October of 2003, the U.S. President was greeted with anti-war demonstrators, and polls that showed the U.S. far less popular in Australia than China. The Chinese President was met with smiles, accolades, and a rare invitation to address the Australian Parliament where he was given an unprecedented standing ovation.)
4. While the United States accumulates debt at the rate of 20 thousand dollars every 5 seconds, and the gap between rich and poor in the U.S. grows; China spends its growing tax base to create at least 1.4 million new jobs annually just to keep up with its growing work force. More than 200 million Chinese have been raised out of poverty, the largest economic shift by any country in history.

Statistics can be encouraging, depressing, revealing, maddening, they can even occasionally be accurate. What is generally more accurate are trends, and the numbers I have thrown around in this report point to trends that are best troubling for the United States.
