British education made it possible for him to speak "as equals" with the elites of the West.

Japanese economist Yoshihara Kunio observes that these "new Chinese" relied almost exclusively on the European institutional-legal order to set the stage for their economic advance. In the new European-dominated world, the Chinese filled critical economic niches as artisans and traders, often serving as middlemen between the dominant elite—European merchants, plantation owners, and colonial officials—and the masses of native farmers. "They had no choice but to become active in business, in trade," notes Rustam Sani, a senior fellow at the Malaysian Institute for Strategic and International Studies. "Malays could retreat

CHINA WILL BLOOM

BY MURRAY WEIDENBAUM

Whether Napoleon really said it or not, the forecast attributed to him is likely to be essentially correct: "China is a sleeping giant. When it wakes, it will move the world." China's 1.2 billion people automatically make it a force, and its record-breaking 20 years of double-digit growth have recently made it a pace-setter in national development.

Depending on the statistical measurement used, China's economy is already either the third largest (just behind Japan) or number eight. When contrasted with the plodding 2-3 percent long-term growth the more mature economies have averaged, the "Middle Kingdom" has a good chance of becoming a dominant economic power during the opening decades of the twenty-first century.

China's arrival as a world power is reminiscent of the way the United States elbowed its way into the "club" of advanced nations in the middle of the nineteenth century. Europe's monopoly was broken with little chance of its ever being re-established. Though the European share of the international economy was never regained, nonetheless each member of the "club" enjoyed a substantial expansion in its absolute levels of income, production, and trade.

More recently, Japan went through a similar experience. We can still recall the difficult adjustments on the part of many industries, companies, and workers in Europe and North America in response to the transformation of Japan into an Asian powerhouse. Yet again, the resulting increased competition raised economic standards all across the globe. China's debut is likely to follow a similar pattern.

There is no assurance that the current upward trend in China will endure. Straight-line extrapolations are fraught with risk. The recent experiences of the Southeast Asian nations—most of whom had two decades of 6-8 percent annual growth—provide cases in point. And China has a history of self-inflicted woundings, most recently Mao Zedong's Great Leap Forward (which only succeeded in depressing Chinese living standards) and his Cultural Revolution (which almost destroyed a generation of intellectual leadership).

There are festering problems that could darken China's economic outlook. Limitations of energy quickly come to mind. The western part of the country contains vast reserves of petroleum, but China's ability to develop those reserves is woefully inadequate. Western corporations could solve that problem, but they are not being embraced because of a reluctance among the national leadership to see them reap financial benefits in the process. So instead of following the Arab path to great oil wealth via collaboration with foreign companies, China will instead rely heavily on coal, becoming the world's largest source of air pollution in the process.

Other potential stumbling blocks include China's poor roads and infrastructure, her inefficient large state-owned enterprises, her tradition of favoritism and bribery unchecked by a modern legal system, possible social instability from the estimated 100 million rural people roaming around the major cities looking for work, and bureaucratic resistance to change.

Overall, though, China's economy seems likely to continue with its existing forward momentum. While Korea and other adherents of the Japanese model of Asian development have been suffering huge financial losses, China has been more closely following the Singapore approach of giving entrepreneurs substantial discretion in business decision making, while closely controlling personal liberties. The result has been much less trauma in the current Asian turmoil.

And there is a special reason to believe in future Chinese economic leadership: the unique economic power of the ethnic Chinese who are dispersed across Asia. Members of that "bamboo network," many of whom fled the mainland in 1949 when the Communists gained control, have been a major factor in the swift development of the Southeast Asian economies. Their large, family-run enterprises now dominate the business sectors of Malaysia, Indonesia, Thailand, the Philippines, Singapore, and Taiwan. And they have recently invested heavily in their ancestral homeland, becoming by far China's largest source of "foreign" capital.

And "bamboo network" entrepreneurs invest more than money. Their special contribution to ventures in the People's Republic has been the entrepreneurial and managerial effectiveness they lend to such efforts. This has been a vital factor in China's recent economic surge, complementing well the nation's underutilized natural resources and huge but raw labor force. And the combined strengths of overseas and mainland Chinese are likely to tell as China emerges as a vibrant world power keenly influencing the course of the twenty-first century.

Murray Weidenbaum, chairman of the Center for the Study of American Business at Washington University, is a member of AEI's Council of Academic Advisors.

to the land because they owned the land. They could go back to the villages. But the Chinese had no choice except in business."

Their success brought problems that haunt relations with their indigenous neighbors to this day. The Chinese in Malaysia, whom one British official described as "indefatigable in the pursuit of money," became so entrenched that they seemed to force the native people into the economic background. With Chinese incomes twice those of the average Malay, and their control of corporate assets at least six times greater, today's Malaysian Prime Minister Dr. Mahatir bin Mohammed has openly espoused policies to fight "the menace of Chinese economic hegemony."

When Rama VI, king of Siam, first labeled the Chinese "the Jews of the East" back in 1914, it was not meant as a testament to their intelligence or industry, but to point out their less positive "Jewish" characteristics, such as over-competitiveness, greed, and double-dealing. The Chinese, the king lamented, "lived like rats" and ate "food not fit for human consumption" in order to undercut their competitors.

Worse, Rama and others complained, even if the Chinese became naturalized citizens, they remained loyal only to themselves and their native land. They were thus willing to cooperate with European colonialists or anyone else, no matter how unsavory, who promised them economic gain. As one Asian proverb put it, "The Chinese do not care who holds the cow so long as they milk it."

In addition to opportunism, the Chinese were also attacked, again much like the Jews, for their clannishness. In virtually every country of settlement, from the wilds of Borneo to the burgeoning commercial port of Singapore, Chinese schools sought above all to ensure the next generation would not forget their origins and Confucian ideals. The goal has been to shape good Chinese first, good citizens of the land of settlement second. For example, in the late '80s, Singapore and Thailand—where assimilationist tendencies had previously been most marked—saw a resurgence in traditional Chinese culture and the growing sense of racial "manifest destiny" I observed at the Paris celebration last year.

EVER SINCE THE DISCOVERY OF GOLD in California in the 1840s, the United States has held a particular fascination for the Chinese. Here lay a vast, resource-rich country (they called it "Gold Mountain") that by Chinese standards was underpopulated and underdeveloped. The Chinese swarmed into California, increasing their numbers from 1,000 in 1850 to 25,000 two years later and accounting for one-tenth of the state's non-native population. Most came as semi-slaves, selling their labor through subcontractors to large Chinese mining interests.

For nearly a century, the political climate for the Chinese in America was anything but inviting. As early as 1854, Chinese were barred from giving testimony against whites in California, and four years later the legislature tried to ban Asian immigration into the state, a measure later deemed unconstitutional. By the 1880s, the Chinese had lost most of their constitutional rights in California and were routinely harassed and occasionally killed in western states. Often forced from the mining towns into the fields, Chinese became half of California's rural labor force by the 1880s, while tens of thousands of other Chinese went to work building the railways.

Despite the back-breaking work and rampant discrimination, the Chinese managed to develop economic niches. As early as the 1870s, they had created a series of flourishing fishing villages, agricultural settlements, and trading businesses. Even as the community began to shrink after an 1882 ban on Chinese immigration, they established permanent ethnic enclaves in San Francisco, Sacramento, Seattle, and Los Angeles.

World War II, when China was America's primary Asian ally, engendered a change of attitude in the U.S. Pressured to relax restrictions on Chinese immigration, Congress repealed the Chinese Exclusion Act in 1943, ending restrictions on land-ownership a decade later and in 1965 scrapping racial-based immigration quotas. Once again the Chinese were able to immigrate in large numbers.

Like the previous wave of immigration, this one was largely motivated by economic opportunity. But two other factors became increasingly relevant: the desire for a first-class education and growing anxiety over the Communist takeover on the mainland, which forced many of China's most prominent citizens to move. Most went initially to Hong Kong and Taiwan, where they faced overcrowding and, often, poverty. For upper-class Chinese like the Ko family, America became the way out: "We went from one extreme to another. We had six kids, with nannies, with everything. We saw our parents once a week. Then we had nothing," recalls Denny Ko, who now runs a successful aerospace consulting business from Torrance, a heavily Asian suburb of Los Angeles. "Mother took it worst of all that we lived at a minimum standard. We had seven people to a room. It was very primitive, and Mother didn't even know how to boil water; she couldn't make tea."

Even as non-Communist East Asia began its economic ascent, many Chinese continued to migrate here. Some came for a better quality of life—crowded, smoggy Taipei can make the least appealing parts of New York or Los Angeles seem paradisiacal. Others were lured by the opportunities for education. Indeed, the Confucian emphasis on learning has benefitted the Chinese much as the Talmudic tradition aided the European Jews, spurring academic achievement.

By the end of the 1980s the number of Chinese-speaking college students in the United States was about 90,000, easily the largest number of any foreign ethnic group. The Taiwanese alone accounted for roughly one in every four candidates for doctorates in electrical engineering.

Another non-economic factor driving immigration and investment to America, especially from Taiwan and Hong Kong, is mainland China's assumption of sovereignty over the old British colony and its strident declarations of jurisdiction over Taiwan. After the People's Republic fired missiles at Taiwan last winter, nearly $200 million worth of deposits suddenly showed up in the accounts of Los Angeles-based General Bank, recalls president Li Pei Wu. Other Chinese banks across the country experienced similar up-ticks. "This is the safe haven in case they have to escape," observes Henry Hwang, whose Los Angeles-based Far East National Bank was recently purchased by Taipei's

Bank Sino-pac. "America is seen as still number one, the most prosperous and stable place. The opportunities are still here."

Nor does this process seem to be slowing down. Indonesia's Chinese—3 percent of the population who control 110 of that country's 140 leading business conglomerates—have been watching in horror as rioting and anti-Chinese pogroms have broken out in the streets. The rise of populist and Islamic sentiment, appealing to the traditionally anti-Chinese majority, has sent shock waves through a Chinese community which remembers all too well the bloody attacks that accompanied the archipelago's last political upheaval 30 years ago.

Economic forces, especially a slowdown in growth, are also leading some Chinese capitalists to shift investments to America. Thailand's once-soaring economic growth has now fallen to nearly half 1995 levels, and the country's stock market has declined nearly 50 percent since January as interest rates have leaped as high as 20 percent.

These problems are spreading to mainland China. New investment there is falling for the first time in a decade, from $42 billion last year to something closer to $30 billion this year. A recent *Economist* survey of multinational investors in China found more than half are disappointed with doing business in a "socialist market economy" controlled by an increasingly corrupt and arbitrary Communist party.

These Asia-bred factors, as well as a buoyant U.S. economy, have made buying American banks, hotels, factories, in-

Our China Problem

By Patrick J. Buchanan

In his new book The Great Betrayal, *political commentator Pat Buchanan portrays mainland China as America's most threatening global rival. An extract:*

China is fast becoming America's number-one trade problem. In its drive for dominance in Asia, Beijing has exploited slave labor, consumed all the Western credit it could extort, stolen U.S. intellectual property, and strong-armed American companies like Boeing and McDonnell Douglas to manufacture in China as the price of a deal. "Forced technology transfers" are a routine demand in dealing with China. "When you invest in China," says one auto company executive, "China assumes it owns all of your intellectual property." The Manufacturing Policy Project puts the piracy rate of U.S. intellectual property in China at 98 percent. "Three days after Microsoft introduced Windows 95 in the United States for $89.95, copies were available throughout Asia for $4 or less."

Following the path to power laid out by Friedrich List, China treats the United States, the world's most advanced nation, like a colony, a source of raw materials and a dumping ground for manufactures. While China runs a trade surplus in manufactures with the United States of more than $35 billion yearly, prominent among U.S. exports to China are fertilizers, food residue and waste, ore slag and ash, wood pulp, animal and vegetable fats, meats, live animals, and cereals—the technology for which was given a while ago by Squanto to the Pilgrims. The one high-tech export for which America runs a large trade surplus is aircraft; but once China masters the U.S. technology it has extorted, Beijing will begin building its own planes. For that is the way of economic nationalists.

From 1991 through 1996, China piled up $157 billion in surpluses trading with the United States. Its 1996 surplus of $40 billion was almost as large as the Pentagon procurement budget. In October 1996 China invested $11.8 billion of its surplus in U.S. bonds, making China the third-largest buyer of U.S. debt, after Japan and Britain. By September 1997 China had amassed more than $130 billion in foreign currency reserves, the world's largest hoard after Japan.

For a century Americans have been transfixed by the great "China market"; it was one of the reasons business groups urged President McKinley to annex the Philippines. But the China market proved a mirage then, and it is a mirage now, a corporate illusion. If China vanished, the U.S. economy would not feel a breeze. Our sales to China in 1996 ($11.9 billion) were one-fifth of 1 percent of U.S. GDP. We sold more to Singapore. But China's sales to the United States—$52 billion worth of toys, textiles, shoes, bikes, computers, etc., in 1996—were a crucial share of its entire economy and were the primary source of China's hard-currency reserves.

America has the whip hand in this relationship, and it is time we used it. For China is not only a trade problem, it is a national-security problem. China is using the hard currency from its U.S. trade surpluses and international bank loans to buy submarines, destroyers, anti-ship missiles, and fighter aircraft from Russia and to build long-range missiles to reach the west coast of the United States. Yet, America permits China to launch U.S. satellites on Long March rockets, thus subsidizing the development of the Chinese strategic missile force.

America is taking a terrible risk feeding a regime the character of which may be seen in its treatment of dissidents, Tibetans, Christians, and women pregnant with any child conceived in violation of China's barbaric one-couple, one-child policy. While America should seek no confrontation with China, we should treat Beijing as the great power it has become.

We cannot practice true free trade with a nation that has no independent judiciary, where labor is conscripted, corruption is endemic, U.S. goods face a 17 percent value-added tax and a 23 percent tariff, and many of whose corporations are government fronts. The United States should cancel China's most-favored-nation status and negotiate a reciprocal trade agreement that recognizes our different societies and conflicting interests.