

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.

dustrial parks, and high-rise towers all the more appealing. According to the accounting firm Kenneth Leventhal, from 1994 to '95, real estate investment into the United States from Chinese-dominated Asia increased by over 40 percent, while investment from virtually all other foreign sources, including Japan, was either unchanged or decreasing.

Chinese entrepreneurs have also stepped up their banking activity. Since 1986, the assets of Chinese-owned banks in California alone have soared from barely \$3 billion to almost \$10 billion. Jack Rodman, who supervises Leventhal's Asian investment survey, thinks these numbers represent only a fraction of the diaspora activity, most of which operates through hard-to-track family enterprises.

These new investments have brought in their wake a new group of citizens. As many as 90 percent of Chinese immigrants come not simply to make money but to find a permanent home, contends Marty Shih, who tracks Chinese-American opinion at his Asian American Survey Center. U.S. Census studies recently confirmed that three-quarters of recent Chinese immigrants are seeking to naturalize as soon as possible. "Most people will remain here if they can," says Shih, himself a Chinese immigrant. "The environment is better here, and deep down, everyone is really worried about China."

IN THE NEXT DECADE, this immigrant Chinese community will greatly increase the intimacy between China, the diaspora, and the United States. With a quarter-million students attending American universities since the mid-1980s, the Chinese have already achieved high positions inside America's top academic, high-tech, and scientific institutions.

The Chinese come to America with a unique cultural inheritance developed over millennia and deeply impressed on younger generations. But in contrast to the Jews, who base their identity largely on their unique religious and historical experience as a wandering people, the Chinese inspiration stems from the enormous material accomplishments of what is arguably the world's greatest imperial tradition. For China is not merely a country like France, Germany, or Britain. It is also a civilization that confidently refers to itself as "The Middle Kingdom," meaning the center of the world. Unlike many non-Europeans, the Chinese do not see themselves as newcomers to the world stage but as inheritors of the largest, most powerful civilization on earth.

This common memory unites the Chinese, and their world has been further animated by a broad network of intimate social relations, linked by an intricate web of *guanxi*, or "relationships," that connect various families. Like the Jews in their dispersion or the Calvinist entrepreneurs of nineteenth-century Britain and America, the Chinese rely heavily on networks of friends, relatives, and business associates who provide capital and other assistance for entrepreneurial ventures—even under the harshest economic conditions.

This social network, expanded over the sprawling Chinese-based economies that stretch from Shanghai to Queens, provides an extraordinary degree of flexibility that almost guarantees survival, even if Southeast Asia's economic downturn continues for several years. In this system of "utilitarian famil-

ism," as author Siu-kau Lau calls it, concern for the family and its long-term assets, not company or country, is the first priority. In one 1980 survey, for example, Hong Kong Chinese ranked their families as more important than society by a margin of better than five to one.

Yet these cross-national ties also bring great risks, as seen in families like the Riadys of Indonesia. Their ambition to serve as intermediaries between America and the growing economic might of China has resulted in a widening series of scandals tied to Clinton-Gore campaign contributions. The ambivalence of the family's position in advancing Chinese interests has raised questions of "divided loyalties" and even charges of possible treason. Chinese tradition puts "great importance on personal relationships, and there is a tendency to mix that up with public policy," notes Vincent Diau, former city editor of the Los Angeles-based *Chinese Daily News*. "*Guanxi* dominates everything in Taiwan, China, here."

In part, Diau believes the scandals reflect the danger of transferring *guanxi* culture—where "gift-giving" and open bribery are a way of life—into an inhospitable, more legalistic American setting. Los Angeles banker Henry Hwang agrees. "There's an old Chinese saying that if you have money you could buy God," he observes. "Back in Shanghai, my dad would burn money in front of the idol and hope that would influence the powers above us." Hwang says he met many non-citizens at one Clinton fundraiser who could not legally give money to an American presidential candidate. But these Chinese thought paying money to Clinton was no different from giving "gifts" to Indonesia's President Suharto or a corrupt Thai general.

This, Hwang suggests, does much to explain the particularly active role played by the Riadys' Jakarta-based Lippo Group and its longtime political point man, John Huang, in the Clinton scandals. "The Indonesian Chinese are particularly sensitive," he observes. "In Indonesia, the only way they can grow is to make political ties. If not, they are dead. The Chinese are hated in these countries, and they know if things go wrong, they'll get killed."

Yet whatever happens in the coming months, neither the significance of America's human link to China nor the economic ascendancy of the Chinese across the globe is likely to diminish over the long term. Some Americans may infer from these scandals and Asia's current recession that the Chinese are an ebbing power in the world economy. But that assumption could prove costly, even fatal, given the powerful cultural and economic forces surging in the Pacific Basin.

No matter what the America-celebrators may hope, the Chinese Century will not be shelved. California banker Chris Leu speaks for many when he insists that the current setbacks will actually help by forcing his counterparts to put away the champagne glasses and go back to work. "I think this will end up as a temporary situation," says Leu, as he rises to go pick up his kids from Chinese school. "This is a good lesson, but ultimately it will only make us more efficient. There are still 1.3 billion people out there who want to change and thrive—and that will not be stopped by one crisis."



Fighting in class? Mrs. Shurtz insists on it.



Recreating Pickett's Charge is just one of the innovative ways Jane Shurtz gets her fifth-grade social studies class into the spirit of American History. After the battle, her student "soldiers" write letters home describing what it's like to fight in the Civil War.

Mrs. Shurtz takes a very different approach when it comes to the Colonial period. She taxes student essentials like pencils and shoelaces so her class can understand the frustration the colonists must have felt.

The culmination of the year is The 20th Century Project. Students gather oral histories from family members and bring in heirlooms for class discussion. This project helps students feel more personally connected to this century's major events such as immigration, fighting in a World War, and living through an economic depression because they learned from those who experienced them first hand.

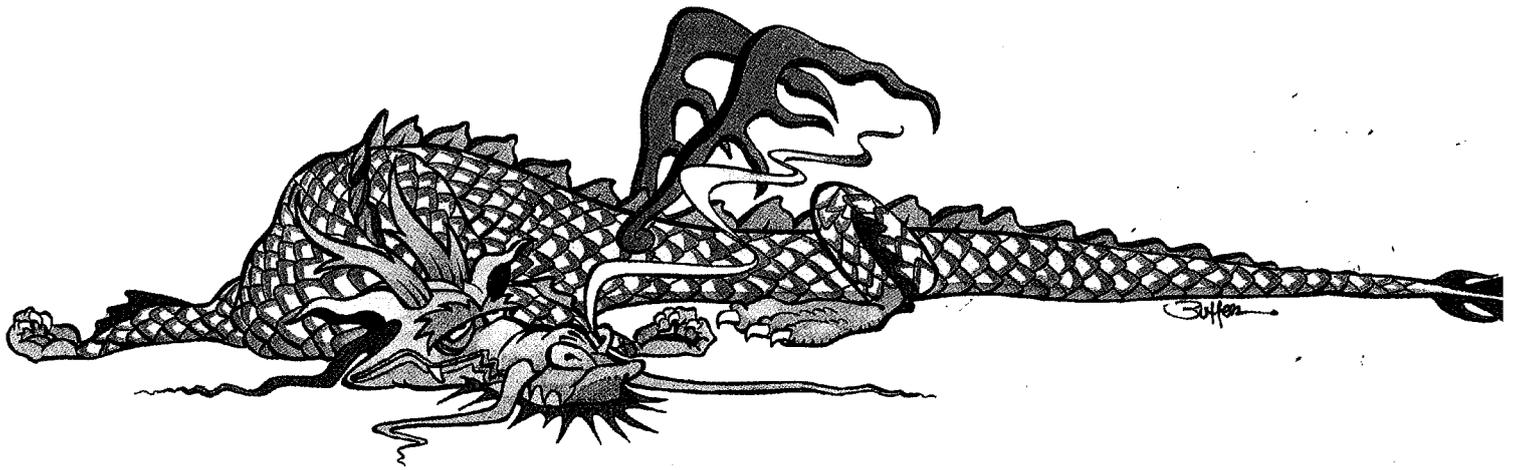
For showing that you can't change history but you *can* change the way it's taught, State Farm is proud to present Jane Shurtz with our Good Neighbor Award and to donate \$5,000 to her school, Gray Elementary, in Springfield, Missouri. Hopefully it can help defray battlefield expenses.



**Good
Neighbor
Award**

STATE FARM INSURANCE COMPANIES
Home Offices: Bloomington, Illinois
www.statefarm.com





Dragon Droop

WHY CHINA'S ECONOMIC FUTURE MAY BE
LESS SPECTACULAR THAN YOU THINK.

BY MARK A. GROOMBRIDGE

THE ECONOMIC PROGRESS IN CHINA since the launching of its market-oriented reform program 20 years ago is remarkable. Now the world's seventh largest economy (bolstered by the return of Hong Kong), China has averaged 9.8 percent annual growth since the early 1980s.

Even with the "Asian Miracle" turning into the "Asian Meltdown," China is weathering the regional economic storm better than most of its neighbors (with the notable exception of Taiwan). While growth rates are zero in Japan and negative in South Korea, Thailand, Malaysia, and Indonesia, China continues to expand, if more slowly.

One big factor helping insulate China from today's Asian crisis, however, is a negative one. Beijing's heavy controls on capital insulate the country from the currency attacks and investment flight experienced by freer economies. But this short-term advantage produces serious long-term costs. Being disconnected from financial market signals and pressures means serious weaknesses in China's economy are masked, and solutions deferred.

The important question is whether China is learning from the troubles of other Asian nations so it can adopt the right economic order to propel its economy into superpower status in the twenty-first century. And so far the answer to that question is mostly "no."

DESPITE HAVING THE OPPORTUNITY to observe her neighbors' errors, China is following much the same industrial path trod by several other Asian nations to their sorrow. Specifically, China is copying too much of the "Asia Inc." model made popular by Japan and South Korea.

The guiding theme in these countries was a strong role for government in the affairs of business. Their bureaucrats tried to "pick winners" by giving subsidies to select firms in the form of preferential tax, tariff, or loan policies, or sometimes direct cash payments. "The allocation of subsidies has rendered the government not merely a banker...but an entrepreneur, using the subsidy to decide what, when, and how much to produce," summarizes Alice Amsden of MIT, a booster of Asian-style industrial policy in the years before it collapsed. In return, Amsden asserts, "the state exacts certain performance stands from firms."

So the theory goes. The reality proved less attractive. In substituting political judgments for market signals, the Asia Inc. model fostered misinvestment, unbalanced production, and ultimately overcapacity. Because the government finaglings usually took place out of the public eye, the system's accumulating problems were not widely appreciated for many years. But eventually the bubble burst on government-industry "crony capitalism."

Unfortunately, China is now attempting to "pick winners" by targeting subsidies to roughly 1,000 or so state-owned super-conglomerates. The official line of the Chinese leadership is that forcing mergers of "inferior enterprises with superior ones" is "an effective way to improve efficiency and erase the number of enterprises suffering a deficit for years running." Chinese Premier Zhu Rongji asserts that "the mergers will allow the injection of enough funds into these unprofitable state-owned enterprises to revive them."

Mark Groombridge is Abramson Research Fellow and associate director of Asian Studies at the American Enterprise Institute.