Certain Issues on China Countering Future Economic Sanctions

By Jiang Luming, The (Chinese) National Defense University

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Synopsis: *Warfare in the future is going to be fought mainly through economic means. It is, therefore, of great strategic significance to study effective countermeasures against economic sanctions in order to win the war. The article analyzes the main determinants influencing the effectiveness of countermeasures against economic sanctions and the present state of China's preparation against possible economic sanctions.*

Key words: *countering economic sanctions, elements* and *countermeasures*

Modern warfare is going to be an all-out confrontation and power showdown, and economic means is absolutely imperative to all sides in achieving their goal. The close global economic integration of today's world makes it even more crucial for economically weaker countries to study ways to effectively break the economic sanctions possibly imposed by a more powerful enemy and its close allies.

Main elements affecting a country's ability to counter economic sanctions

Wartime economic sanctions generally refer to the total economic measures and means used by an economically stronger nation and its allies against an economically weaker opponent prior to the breakout of war. The economic measures and means could include embargo, blockade, transportation restrictions, withdrawal of investment and freeze of assets. The direct aim of economic sanctions is to cause damage to the opponent's economy and thus its ability to provide for its war efforts. The aim is also to cause damage to the general living condition of the people of the opposing country to fan up popular antagonism against its government, which eventually will have to succumb to the public pressure and economic pressure and give up the war.

In the modern warfare, there are many complex determinants influencing the effectiveness of economic sanctions. From the perspective of the country under economic sanctions, its ability to withstand such sanctions is decided by the following elements.

1) The size of the national economy:

Generally speaking, while other elements remain unchanged, the greater the size of the economy, the more flexible the economy is and therefore the greater the ability to withstand economic sanctions, and vice versa. Of course we are talking about the size of the economy as well as the geographical size, not the general economic scale defined by a country's GDP or GNP. The same GDP of a larger country will provide a different tolerance level for economic sanctions from that of a much smaller country. The scale of the economy also includes the relative size difference between the opponents. The greater the difference, the lower the tolerance level, and vice versa.

2) The availability of resources and strategic provision reserves:

For instance, if a country relies mainly on import for its energy supplies, foods, steel and nonferrous metals where its self-sufficiency level is below 60%, then this country will become vulnerable during an economic war. And if this country has not systematically been building up its military provision reserves, its prospect of holding out against economic sanctions will be even grimmer.

3) The level of foreign capital dependency:

This refers mainly to the percentage of total foreign investment in a country's total state assets. Of all forms of foreign investment, loans, which are under contractual protection of agreed repayment terms, are least likely to be an effective economic tool, while other forms of foreign direct investment (FDI), e.g. sole foreign ownership or joint ventures, will have a direct impact on warfare. Naturally the higher the level of foreign capital dependency, the more likely it is for the sanctioning country to want to suspend business agreements or completely stop all forms of investment. At the same time, the turmoil in the country will force investors to pull out capital, which will in turn further add to the weakening of the country's productivity.

4) The degree of dependency on foreign trade:

This generally refers to the percentage of the total import and export volume in a country's GDP or GNP. It is often used as a yardstick for measuring a country's degree of foreign trade dependency in its economic development. Assuming that other conditions remain unchanged, the higher the degree of dependency on foreign trade from the sanctioning country and its allies, the greater the economic damage, and the smaller its ability to withstand economic sanctions, and vice versa. While over-dependency on import will produce serious shortages of the forward elements in an economy, e.g. raw materials, technology and equipment, over-dependency on export will result in extreme difficulties in the circulation of the follow-up products, and thus normal business cycles will be interrupted when export of such products discontinues. Iraq paid a heavy price in this way during the Gulf War. Prior to the war, Iraq's import and export volume stayed at a level as high as 44% of its GDP with most of its economic sectors heavily dependent on export. When the Gulf War broke out in 1991 and the United States started imposing economic sanctions, Iraq's GDP lost 2/3 of its value, and the average per capita income slipped from $5,500 in 1980 to less than $300 in 1995.

5) Whether products for import and export can be easily replaced by other substitutes:

If the country under economic sanctions has many substitute products for imported items, then, when sanctions occur, it can organize its own production lines or import these products from a third party, although at a higher cost. If, on the other hand, the country being sanctioned has a high dependency on imported products and export of its own products, then economic sanctions will inflict a much stronger negative impact. In the modern economic era when economies are overwhelmingly controlled and defined by technology, the products that used to be easily replaced by substitutes, e.g. oil by coal, can no longer be replaced or regenerated that easily, and the foundation of a country's economic security becomes brittle.

6) The status of the international monetary assets:

The amount of a country's international monetary assets is in direct proportion to its ability to withstand economic sanctions imposed by an opposing country. However, the security of the international assets is a precondition for such an equation. If the country under sanctions has most of its international monetary assets sunk in the monetary system of its opponent or its allied countries, then in the case of war, those assets are likely to be frozen by its enemy nation. In fact, since World War II, especially since the end of the Cold War, more and more countries have overlooked the security element in seeking the best monetary returns from their investments by all possible means available in the world. For example, many nations have invested heavily in U.S. long-term bonds, tempted by the 5% annual return rate. As a result, shopping around the globe for the highest monetary profits have put these countries in a potentially vulnerable position, where their economic security and asset safety may be at risk in the case of war.

7) The mobilization mechanism of a country's economy

The mobilization mechanism of an economy is the safeguard of its economic security and has a special significance in a future anti-economic-sanction war. In the modern high-tech warfare, the basic requirements for countering economic sanctions in a nation's economic mobilization mechanism include its capabilities for a rapid start, swift and mobile response, orderly operation and close coordination. In waging a counter-war against economic sanctions, the country will need to mobilize all possible economic and social resources, which is a complicated process. Whether the country's mobilization mechanism works effectively and efficiently will directly impact the result of the war.

The determinants analyzed above can be divided into three broad areas: the size of the economy and resources, degree of dependency on foreign countries and the ability of a country's economic system to support the war efforts. The three aspects form the basis for assessing a country's wartime economic security and its ability to resist economic sanctions.

The general status of China's anti-economic-sanction preparation

Although China's economy has grown considerably since the reforms, the prospect of China's economic security remains grim in the case of an economic war against a strong power.

Although the absolute size of China's economy is large enough, the relative size is still modest. In 2000, China's GDP was 8.9404 trillion *yuan*, or $1.081 trillion at the current exchange rate, worth 1/8 of the U.S. GDP in 1999 ($8.7089 trillion). But the actual gap is not that big. According to statistics based on purchasing power parity published in the World Bank's *World Development Report 2000/2001*, China's 1999 GNP was $4.1122 trillion, the second largest in the world, or 1/2 of the U.S. GNP of the same period. In fact, the index of purchasing power parity cannot fully measure a country's economic strength. In light of the difference in the two countries' economic structures and management systems, the actual gap between China and the United States is probably 1:3. The "Study Team on Composite National Strengths" under China's Research Institute of Modern International Affairs published a report entitled "Assessment System of Composite National Strengths". It also concluded that China's composite economic strength is just under 1/3 of that of the United States. This means there is an enormous economic distance between China and the United States and its military allies.

In terms of resources and war provisions, the output levels of China's industrial and agricultural products are among the highest in the world, and the industrial structure has improved greatly. (The percentage of primary, secondary and tertiary industries in the overall economy in 1999 were 17.7%, 49.3% and 33.0%) But the structure of resources has room for improvement. For instance, China's steel output in 2000 was 131.46 million tons, of which 7.75 million tons were of ten kinds of nonferrous metals. The quantity is sufficient but a certain percentage of top-grade steel still has to be imported, e.g. China imported 14.86 million tons of top-grade steel in 1999. At the same time, of nonferrous metals, there is a serious shortage of copper and aluminum. In 1999, China imported 1.1797 million tons of non-incinerated copper, copper products and copper alloy. China also needs to import large numbers of ore sand and other mineral products. For instance, in 1999 China imported 55.27 million tons of iron ore sand, 1.06 million tons of manganese ore sand, 1.25 million tons of copper ore sand, 0.82 million tons of chromium ore sand. The total import of ore sand and mineral products in 1999 was worth $13.776 billion, while export of similar products was only $5.931 billion. At the same time, China's resource efficiency is low, which requires a high minimum quantity of resources required for the survival of the population. This also weakens China's resistance against economic sanctions. In terms of war provisions, there is enough grain reserve - the state warehouse has 250 million tons in stock, while the total grain stock by individual farmers amounts to no less than 250 million tons, which together equals one year's grain output. However, the oil reserve is extremely low, resulting in a serious "bottle-neck" effect in the energy structure. During China's "Ninth Five Year Plan," net oil import has been going up consistently. In 2000, China imported 88.32 million tons of oil, or about 40% of that year's oil consumption. Experts predict that by 2010 China will be importing 100 million tons a year. The discovered oil reserve in China is limited, the exploitation capabilities are low and the potential for purchasing huge quantities of oil on the international market in a short time is also limited. At the same time, the domestic oil consumption has been going up steadily. The result is a severe imbalance between demand and supply.

The weakest link in China's resistance against possible economic sanctions lies in the degree of dependency on foreign capital and trade. By the end of 1998, there have been

26,581 U.S. investment projects in China - with a total investment of $46.38 billion under contract and the actual investment of $21.41 billion already in place. EU countries have 9,933 investment projects in China, with a total agreed investment of $36.35 billion and $17.4 billion already in place. This indicates that if and when economic sanctions are imposed on China, the withdrawal of foreign capital will have a considerable negative impact. Foreign trade is an area of more concern. In 2000, China's total import and export volume was $474.3 billion, or 40% of its GNP, in which export was $249.2 billion, or 43.92% of the GNP of that year. Most of China's export partners are Western countries. For instance, of the $360.6 billion in import & export in 1999, $168.7 billion was with G-7 countries, or 46.77% of the annual total. Most of China's import is concentrated in energy, transportation, telecommunications, electronics and chemicals. High-tech areas where import is significant include nuclear power, mobile telecommunications, satellite stations, compound materials and computer software. High-tech partners are also mostly Westerns countries including the United States, Russia, Japan, Germany and Italy. Also, the flexibility of China's need for these products is small; economic dependency is high and the possibility scope of finding substitute products is rather limited. Once under economic sanctions, China will be in a most vulnerable position, lacking high-tech resources and equipment and certain chemical products while accumulating huge surplus of textile products, electric household appliances and processed products.

China's international monetary assets will also be at high risk when economic sanctions occur. According to the latest statistics, China's total foreign currency reserve is as high as $180 billion, ranking the second largest in the world after Japan. This pool of wealth will no doubt give China strong support in its fight against economic sanctions from the West. But a high percentage of China's foreign capital is being invested in the form of long-term, high-interest U.S. bonds. Once a war breaks out, the United States will most likely freeze China's assets on its market to weaken China's purchasing power for imported goods. During the 1950, the United States did exactly that and froze China's monetary assets in the U.S. accounts. China must be vigilant about this possibility.

From the perspective of the economic mobilization mechanism, it is true that China has achieved much since the reforms and instituted "National Defense Law," "Military Service Law", "People's Air Defense Law" and "National Defense Traffic Regulations". Another series of related laws are also being drafted including "National Defense Mobilization Law." All the laws and regulations regarding the national defense have served to set up a good legal framework for future military campaigns. However, many problems remain and many areas need improvement, such as the lack of proper defense education programs and missing links in the overall operation systems.

To sum up the points analyzed briefly: if Western powers imposed economic sanctions on China, China's GNP growth rate would plunge 3-5% in the first year and, although it would improve gradually in the following years, the general economic development would suffer immensely. Rand, a U.S. military think-tank, even predicted that if a large-scaled war and ensuing economic sanctions occurred between China and the United States, China's economy would be set back by 50 years.

Certain countermeasures on strengthening anti-sanction capabilities

To ensure wartime economic security, the most important rationale is to work out how to minimize the economic benefits to the sanctioning country enough for it to think twice before imposing sanctions.

The method of economic sanctions is in effect a contest between two countries in terms of economic quality, economic strength and composite confrontational capacities. To the country that initiates economic sanctions, it will need to take into account the cost and benefit to both countries, what kind of means and measures and at what cost to the economy and resources. If, after considering the potential market and resources to be gained from the sanctions, this country believes that the cost exceeds the benefit, then it will not start the war. If the benefit is higher than the cost, this country will actively seek to wage a war and economic sanctions. There are nine possible scenarios regarding benefit as opposed to cost:

The anticipated cost is high and benefit is negative (sanctions will not be effective because its own economy will suffer)--there will not be sanctions.
The anticipated cost is high and benefit is low (sanctions will not produce remarkable strategic advantages)--it is unlikely that the country will impose sanctions.
The anticipated cost is high and benefit is significant (sanctions will help realize strategic goals or subdue the strong opponent)--there is a possibility of sanctions.
The anticipated cost is moderate and benefit is negative--there will be no sanctions.
The anticipated cost is moderate but benefit is moderate--there is generally no possibility of sanctions.
The anticipated cost is moderate and benefit is significant--there is a high possibility of sanctions.
The anticipated cost is modest and benefit is negative--there is no possibility of sanctions.
The anticipated cost is modest and benefit is moderate - sanctions are unlikely.
The anticipated cost is very small and the benefit is significant--sanctions will be actively advocated.

Then what are the ways to make sure the economic cost is maximized and benefit minimized for the sanctioning country?

Strengthen China's economic foundation, which provides the most important safeguard against possible sanctions. It is only by making China's economy strong can China raise the cost for imposing sanctions to the country in such a way that it will be in its own interest to give up the plan. In doing so China should focus on high-tech industries.
Actively pursue diplomatic campaigns with the aim of weakening or dismantling the Western alliance and minimizing the number of participating countries. At present and in the foreseeable future, China should focus on three big triangle relationships: China, the United States and Japan; China, the United States and Russia; China, the United States and Europe. It needs to create such an atmosphere where one individual power

will have to take into consideration the relations between China and other major Western countries before imposing sanctions unilaterally.

Quickly establish and improve China's system for war provisions especially oil reserves. China should take advantage of the peaceful times to purchase and stock up strategic resources. To institute a multi-level system for oil reserve should be the first priority. First of all, the amount of petrol and diesel oil stock used in air defense and military vehicles has to be greatly increased so that the troops can have enough emergency supplies to last through the initial period of war. Secondly, oil import should be greatly increased in the next one or two years to stock up enough oil supplies to last China for half a year. Also policies should be made to encourage all forms of oil saving measures to non-military oil dependency.

Readjust and lower the degree of dependency on foreign resources. At present, major countries such as the United States, Japan, Britain and France all have an average 20% foreign dependency, while China's degree of foreign dependency is as high as 40%. Considering China's present stage in its economic development and other countries' experience, we believe that China's foreign trade dependency level should be able to be gradually reduced to approximately 30%. At the same time, China should explore import and export potentials with the third world countries, rather than predominantly rely on the United States for foreign trade opportunities. On the other hand, the heavy investment by multinational corporations in China will serve to restrict the use of sanctions, simply because such sanctions will harm their own business interests.

Readjust the investment method of international monetary assets and gradually reduce the ratio of investment in the Western countries, especially on the U.S. market. Right now, in investing overseas, China has been paying too much attention to financial gains and not enough attention to the security risks. Therefore, a good investment strategy should be worked out to best balance different monetary products, different loan terms of the same products and different countries to invest in. If China does not quickly correct its over-reliance on Western countries and start readjusting its overseas investment policies as soon as possible, then China will be making a serious historical mistake on the life-or-death issue of its economic and national security.

Actively research and explore economic management systems and mechanisms suitable for supplying wartime provisions in the future. To ensure sufficient wartime supplies is a complicated process, which requires cooperation from all sides of the economy and society. How to guarantee the effective operation of China's mobilization system, when the country's security is under threat, is still an unsolved issue of great importance. China's priority in this regard is to quickly perfect the legal framework for the effective mobilization of all resources.

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