How Can China "Subdue Its Enemy Without Fighting"? -- On the Significance of Readjusting Economy and Culture for the War of National Unification

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Both China's domestic and foreign affairs have entered a new era. National security has become China's most intense issue over the course of the past twenty-two years because it has enforced reforms and an open policy. National security issues will continue to intensify, possibly to a level where a war across the Taiwan Straits could erupt. Regardless of whether it is possible to avoid such a war, safeguarding our national security is far more important than economic development, and therefore should obviously become the number one priority in our strategic goals. This aim should not interfere with economic development, however, because all the contingent measures important in securing national safety (such as strengthening defense and other related industries and streamlining land reforms and urbanization) are at the same time a significant stimulus to our national economy. However, ensuring national security would involve a wide range of integrated mechanisms. It should not become an appendix to economic development, nor should it be restrained by goals that a free economy aims to achieve, such as entry into WTO, hosting of the Olympic Games, more export and increased consumption. The United States has been using these targets as incentives that would leave us little choice but to compromise our national interests. We can never rule out the possibility of Taiwan declaring a war of independence in the future, the possibility of a U.S. military presence right at our front door, combined with the forces of Japan surrounding China from the other side, which could result in China breaking apart. Instead of being forced into war, we might as well actively prepare for war. To maintain our sovereignty in the face of a joined siege by the United States and Japan, a war might be inevitable, and if we are prepared for it, then we will win the war.

At the same time, I do believe that a war could be avoided. The key is whether we could completely revamp our domestic economic and cultural strategies in the next five to ten years, reduce our economic dependency on foreign countries and eliminate our cultural fear and worship of the United States. If successful, China will be extremely powerful and, aided by good diplomatic tactics, a destructive war could be avoided, and national unification through peaceful means could be achieved. Even if we did need to resort to military channels, the war would not have to be on a large scale and a victory could be more or less guaranteed. On the other hand, if we continue in our present pursuit of a free economy, we will become even more dependent on the United States both economically and culturally, and eventually will have to pay a hefty economic price too.

Most Chinese people are somehow fearful of the United States and have been influenced deeply by Western values. If we allow this trend to continue, five years from now we will no longer have the will power or ability to fight a war. By that time, even if we were not afraid of U.S. military weapons, we would be fearful of economic sanctions from the West. The so-called principle of "subduing your enemy without fighting" *[from Sun Zi's the Art of War]* is a hard truth. This is because, five years from now, either we will be subdued by the military power of the Americans, Japanese and Taiwanese combined, or the Americans, Japanese and Taiwanese will be overpowered by our military strength. A real war does not happen in the military, it happens outside the military. Losing a "soft war" would make it difficult to win a hard war. A hard war would either last for a short time, or not materialize at all. The key is who will have prepared themselves most effectively in ideological and economic terms in the preliminary soft war: whoever manages to do best on this front will win the upper hand in the war.

1. The degree of our nation's openness to the outside world needs to be readjusted and focused on ensuring our national security. The level of a country's economic openness is measured through the following yardsticks.

- The degree of investment dependency (for instance, the percentage of direct foreign investment in total investment figures, and domestic industries' dependency on imports, etc.).
- The degree of technological dependency (core competitiveness of enterprises, control of industries, key industrial components, development capacities of new technologies, etc.).
- The degree of dependency on external energy resources.
- The degree of financial dependency (the level of dependency on U.S. dollars, foreign currency market, stock market, foreign debts).
- The degree of dependency on foreign trade (percentage of import and export in GNP).

Extensive external dependencies while opening to the outside world have a significant impact on China's economic security. First, new technological standards and key components from developed countries will inevitably control a new economy that advances too rapidly. At present, most of the chips used in the world, the core component of computers, are manufactured in the United States. If, years after the widespread use of the Internet in China, we still cannot independently produce computer chips, then I am afraid that the problem will be larger than the current complaint that too much money is going to foreigners. The modernization of our industries so far has largely relied on equipment imports that amount to 30% or higher.

Second, a rapidly developing economy, which will give China a considerable edge as a world power in controlling international markets, also leads to increasing dependency on imports. The technological gap between our nation and other advanced countries has widened. Compared with Japan, our energy consumption unit for GDP was 6 times that of Japan in 1981, and now has jumped to 15 times.

In developed countries, the share of the contribution by scientific and technological advances in economic growth averages between 50% and 70%. But in our country, that share was 32% during the "Sixth Five Year Plan Period," and has now dropped to 24% during the "Seventh Five Year Plan Period." During the 1990s, the rapid growth in infrastructure construction and heavy chemical industry's machinery manufacturing has led to urgent and expanded needs for energy and mineral products.

At the present, China is capable of producing internally around 80% of its iron ore needs, 70% of aluminum oxide, 40% of concentrated copper, 40% of ferrochrome, but only 6% of sylvite. By the year 2010, a population of 1.4 billion will need to consume 5 billion tons of standard coal (including 2.9 billion tons of crude oil), 800 million tons of steel and 1.7 billion tons of iron ore. The existing reserves of about 45 types of mineral products in China will have dwindled by 2010 to 24 types that will have sufficient consumption quantities, at which point 200 million tons of mineral products will have to be imported.

By the year 2020, the demand for mineral products will be doubled, which will lead to a shortage of 250 to 300 million tons. In addition, only 6 types of the needed mineral products are available within China itself. Dependency on imports of mineral products such as iron, copper, manganese and chromium has continued to climb. By the middle of the 21st century, apart from coal, the majority of our mineral requirements will need to be supported by foreign imports. The annual shortage of timber will be 60 million cubic meters, and 50 million tons of grains will have to be imported. Vast imports will have to be supported by vast exports, and while the annual percentage of export cannot sink below 12%, the percentage of China's exports in the world will increase from 3% to 18%, forcing many countries to give up their share of the market.

The structural defect in energy versus mineral products has become more prominent. We have a vague idea of the severe shortage of our current oil and gas resources, which made China a net energy importer in 1993. Our annual oil import has gone up to 10 million tons, and more energy resources will have to be imported in the future. In percentage terms the degree of dependency on oil import was 6.6% in 1995, 25% in 2000. It will be 30% by 2010 and over 50% by the year 2020. In 2001, we have already imported more than 70 million tons of oil, at a cost of $ 20 billion. By 2005, the shortage will be around 100 million tons. In 2010, our own oil output will be 150 million tons, and to produce 350 million tons of steel, we will need to import 800 million tons of crude oil and 300 million tons of iron ore. If our oil imports exceed 50 million tons, then our domestic economy will be at the mercy of the international market.

If oil imports go above 100 million tons, we will have to consider taking necessary diplomatic, economic and military steps to ensure oil supply. With the monopoly of the international oil market in the hands of multinational oil corporations, Western nations' business interests are certainly consistent with their political and military interests. But the security of China's oil supply is at stake.

At present, China's dependency on foreign trade is 47%, and will probably climb up to 65% to 70% in five years time. We are heavily dependent on the international market, and without strong national power, we cannot adequately influence it. This is the reason that globalization will not dissolve national sovereignty.

Thirdly, our national security will be compromised by excessive foreign investment. To increase tariff rates or actual protection tariff as a way to protect domestic industry will result in vast injections of direct foreign investment. For instance, according to WTO regulations, by the year 2006, we will reduce tariffs on imported cars from 100% to 20%, but the import duty on automobile parts is 10%. In this way, the increased actual protection will encourage foreign investment in joint venture automobile production with domestic firms and discourage the import of finished cars. This method of attracting direct foreign investment becomes the best way toward "globalization."

At the end of December 1999, the actual use of foreign capital was US $307.6 billion. The VAT of enterprises with foreign investment was $420.1 billion, or 20% of the total; their industrial output value was $1.7696 trillion, which was 27% of our GDP. Our tax revenue from business with foreigners or foreign companies was $164.8 billion, accounting for 15% of the national total. In the next five years, we can attract 60 billion dollars worth of foreign investment every year, at the expense of our domestic market.

However, more direct foreign investment does not necessarily mean more benefits. We can hardly draw high technology into our market through joint ventures, and to introduce too much foreign equipment will shatter domestic machinery manufacturers. In addition, domestic key industries such as aircraft industry, numerical controlled machine tools and computer chips will not have a chance to develop independently because they will be merged and controlled by multinational companies. It is the multinational companies in developed countries that are controlling the structural readjustment and distribution of investment of our global industries, in the form of mergers, buy-outs and joint ventures. It is only a matter of internal division of labor where their overseas joint venture companies are still under the direct control of their headquarters.

The foreign company that has the biggest presence in China is the German firm BASF. It has nine chemical companies in China with their own separate production and distribution network covering nylon, carpets, industrial alcohol, paints, vitamins, ethylene, dyestuffs, emulsion, all the way down to their dispersing agents. Chinese enterprises, however, are fragmented by compartmentalized management systems, lacking any inherent links by way of technology or production. Even if the companies control the majority of the company shares, they will present no competition in the face of foreign transnational companies' technological, commercial and financial control.

Furthermore, the yielding of the "domestic market" is not as simple as it may sound. To foreign investors, the ultimate goal in taking over the market is eventually to take back foreign currency, not r*enminbi*. By giving up our market, we will have to promise foreign investors that their r*enminbi* profits will be freely exchanged into foreign currency. At present the annual total of foreign companies' *renminbi* profit is about 200 billion yuan, out of which only about 10% has been exchanged into foreign currency and transferred out of the country, while the rest of the profit has been reinvested in China. In a few years time, this total will amount to 2 trillion yuan, or 200 billion U.S. dollars, which could serve as our foreign currency reserve. However, if, under extreme circumstances, all the foreign companies decided to request that this reserve be exchanged into foreign currency at the same time, it would inevitably trigger a foreign currency crisis. In the coming five years, while we continue our open policy, especially in the financial sectors, we should actively prepare compensatory measures for a likely Western economic blockade in the event of a war.

2. If a war broke out across the Taiwan Straits and a Western blockade materialized, how much economic loss would China suffer?

In 2000, China's GNP was 8.3 trillion yuan which, at the exchange rate of 1 dollar: 8.3 yuan, equals 1 trillion U.S. dollars. Revenue from foreign trade was $474.3 billion, a gain of 31.5%, in which export took up $249.2 billion, an increase of 27.8%. Imports were worth $225.1 billion, up 35.8%, which represents a favorable trade balance of $24.1 billion.

Within foreign trade, general trade export earned $105.2 billion, an increase of 32.9%, while import was $100.1 billion, an increase of 49.3%. Export of machinery and electronic products was $105.3 billion, up 36.9%; export of high tech products was $37 billion, up 50%; import of primary products was 46.7 billion U.S. dollars, gaining 74%; import of crude oil, soybeans, machinery, electronic and high tech products increased by 30%. The degree of foreign trade dependency, calculated by dividing the total amount of foreign trade by GNP, therefore was 47%. If we take out the twice-calculated processing trade figures, the degree of foreign trade dependency was 35%, and if we take out all the revenue from processing trade, then the degree of dependency was 23.5%. According to the average purchasing power, if we say the exchange rate of U.S. dollar to a *renminbi* is 1:5, then our GNP will be $1.66 billion, and the degree of foreign trade dependency will be 28.6%, and becomes 14.3% if we minus processing trade figures.

Let's suppose China will continue in the pursuit of a liberalized economy without any significant readjustment of interest priorities, then the existing domestic and foreign resources will sustain our economic growth for another five years. If we have an annual GDP increase of 8%, which will be 11.1553 trillion yuan of *renminbi,* or 1.3604 trillion U.S. dollars at a rate of 1:8.3, total foreign trade will be 919.6 billion U.S. dollars, making a 67.5% rate of foreign trade dependency, or 39% without processing trade. If we calculate it at the rate of 1:5 according to the average purchasing power, then our GNP is 2.2311 trillion U.S. dollars, representing a 41.2% rate of foreign trade dependency, or 21% without counting in processing trade figures. If we depreciate *renminbi* to the rate of 1:10, then the GNP will be 1.1155 trillion U.S. dollars, making a historic high rate of foreign trade dependency of 82.4%, which is reduced to 41.2% minus processing trade. With inflation in China in mind, if we calculate our GNP according to the purchasing power parity of 1:7 (U.S. dollar to yuan), then it will be 1.5936 trillion dollars, making it 57.7% rate of foreign trade dependency, that is 26% without processing trade. Therefore, we can predict that the year 2005 will witness the peak of China's pursuit of a free economy. In 2005, annual export increase will be 15% achieving $435.8 billion; annual import will go up 20% to $466.8 billion, resulting in $31 billion of trade deficit.

Processing trade will go up 15% to $240.8 billion, and business operation fees from processing trade companies will be $50 billion. Direct foreign investment will be at the same level of $60 billion, helping with a favorable balance in foreign income and expenses. Our foreign currency reserve will be maintained at 200 billion U.S. dollars. The Chinese stock market will be open to foreign traders, which will increase the degree of our financial dependency.

Our foreign currency reserve will exceed $200 billion by 2005. If we dramatically increase imports of strategic provisions during 2001 - 2004, spending 20 billion dollars more on annual imports, by the end of 2004 total imports will have gone up 60 billion dollars, making a total of $526.8 billion. The trade deficit will accelerate to $100 billion, and our national foreign currency reserve will drop to $140 billion.

Suppose we are faced with a comprehensive Western economic blockade in 2005 and we will have no processing trade of any kind. In 2000, export of processing trade was $137.7 billion, or 55.2% of $249.2 billion, the total foreign trade volume that year. Import of processing trade is $100.1 billion, representing 44.5% of the total import figure of $225.1 billion. The total processing trade volume of that year was $247.8 billion, which is 52.2% of the entire import & export volume of $474.3 billion. In 2004, if we assume an annual growth rate of 15% in processing trade, then we will have reached the amount of $240 billion in exports. If all processing trade ceased to exist, our losses would be:

- A drop of $450 billion in total foreign trade, a drop of $280 billion in exports, and a 50% drop in the degree of foreign trade dependency;
- 400 million people would lose their jobs;
- Our national foreign currency revenue would be reduced by $50 billion.

As processing trade involves imported raw materials for export only, it has little stimulus impact on domestic industries. So the disappearance of processing trade would only lead to the loss of about 20% in business operation fees, which should be $50 billion in 2004, calculated at a compounded rate the real loss would be about $100 billion.
China's GNP in 2004 is $1.3604 trillion, if continuing to grow at an annual rate of 8%, it will be $1.4693 trillion by 2005. Assuming a reduction of $1.3693 billion, which means a growth rate of only 0.6 - 1%, our GNP growth rate will experience a drop of 7% in 2005.

Most of our exports to the United States, Japan and Europe will be cut off. In 2004, our national export total will be $435.8 billion, out of which there is $200 billion of general exports, of which 60% are exports to the United States, Japan and European market totaling $120 billion. The United States is our second biggest trade partner covering more than 20% of our total export volume, or up to 30% according to the U.S. statistics. But exports to China only account for around 2% of the U.S. export total. We rely considerably on imports of U.S. capital and technology, most of which are in technology intensive machinery and electronic products (worth $9.418 billion in 1998, or 55% of total export from the United States), and it would be hard to find substitutes for some of those products. Japan is our biggest trade partner – exports to Japan took up 17.9% of our total export volume in 1998. Japanese capital and technology are also extremely important to China. The European Union is our third largest trade partner -- export to EU countries occupies 15.1% of China's total exports in 1998. Hong Kong represents the fourth largest trade partner with China, and China's largest export market - 14.1% of our export went to HK in 1998. 64.3 % of China's foreign trade in 1998, worth about $207.1 billion, was trade business with the United States, Japan and Europe (including trade between mainland and Hong Kong), giving us a favorable trade balance of $62.9 billion. Without this substantial business, we would land in a trade deficit of $19.3 billion. Hypothetically speaking, if in 2005 all export to the United States and Japan and parts of export to Europe should cease, we would endure the following consequences.

- Exports will be reduced by $100 billion. Under peaceful circumstances, exports in 2005 should reach the level of $501.2 billion, but if we take out $277 billion in processing trade and $100 billion in general trade, we would have a balance of $124.2 billion. If we add on the possible $150 billion expansion of trade with other areas, then the drop would be 75%, or probably back at the same level of 1997, a regress of 8 years.
- A reduction in general trade will have a much bigger negative impact on the domestic economy than on processing trade, because most of the raw materials come from within China, causing a negative chain reaction. This kind of retraction would result in a reduction of $300 billion (approximately 2.4 trillion yuan), divided by the 2004 GNP of $1.3604 billion, which means a negative economic growth of 22%.
- If we add the 7% negative growth caused by ceased processing trade, then we will be looking at a total negative economic growth rate of 29%, which will represent the total impact on China's economy by cutting off processing trade and reduced export. That is, GNP down by 29% in the first year, an additional drop the next year, maybe 30%, and moderate recovery in the third year.
- Domestic purchasing of export products occupies 40% of the national total volume of commodity retail sales. If reduced by 75%, then the total demand will be reduced by 30%. The multiplier effect will compound the already grim inflation and bankruptcy situation, making a further 40 million people jobless resulting in an additional unemployment figure of 80 million.

Supply channels of key components would be closed up. In 2000, the main imported products included: $24.5 billion worth of mineral products; $18.1 billion of chemical products; $16.4 billion worth of plastic and latex products; $16.6 billion of textile raw materials and products; $20.6 billion worth of basic metals; $85.2 billion of machinery and electronics; and $8.2 billion of optical medical equipment. The high volume of imported equipment has led to an equally high degree of import dependency in the most advanced fields of our industry such as equipment, raw materials and spare parts. In 1994, the rate of our industry's import dependency was as high as 30%, and now it has probably exceeded 50%, especially in key parts such as chips, numerically controlled machinery, aviation and space technology.

There will be an impact on energy supplies.

China's coastal areas will suffer severe economic losses. The 1989-1991 Western economic sanctions on China involved an embargo on China military products and the suspension of international loans. In 1989, China's foreign trade growth rate came down by 15.7%, and another 3.3% in 1990, within which imports dropped by 16.8%. During that period China's economic growth rate stayed relatively low, at 4.4% in 1989, 4.1% in 1990, and 7.7% in 1991. Economic sanctions by the West had a more significant impact on the coastal regions. The southeastern coastal regions include Fujian, Guangdong, Zhejiang Provinces, and Shanghai, the southern part of Jiangsu Province, Hong Kong and Macao. Apart from Hong Kong and Macao, all the other regions together have a total population of over 200 million, a cultivated area of 10 million hectares (7% of the national total). Their gross domestic production is worth nearly 3 trillion yuan, 37% of China's GDP. Their added fixed assets investment amounts to 900 billion yuan, 32% of the national total. Steel production is 28 million tons, which is 23% of the national total. Automobile production is 360,000, 20% of the total. Plastic production is 3.24 million tons, 40% of the total. Chemical fiber production is 3.85 million tons, 60% of the national total. Production of yarn is 1.84 million tons, 32% of the total. Refrigerator production is 5.3 million units, 40% of the national total. Washing machine production is 6.35 million units, 50% of the national total. Color television production is 27.7 million sets, 60% of the national total.

3. A war would cause immense economic losses to China, but this would not be as bad as some people suggest who said that China's economy would regress 20 years if a war broke out. If we do not assume that a war would actually happen within Chinese territory and only count economic losses if a Western economic blockade occurs in 2005, then we can say that China would sustain a negative annual growth rate of 30% for two consecutive years, pushing China's economy back to the level of 2000. If such economic disasters should occur all of a sudden and we are totally unprepared, then China would obviously not have the capacity to withstand it. But if China prepared itself, then it would not be that difficult to face such a scenario. The U.S. economic readjustment today has already impacted China's export. China's entry into the WTO will add a further shock from the world economy to domestic society. China's domestic social structure and system will clash fiercely with those of the international society. The single-track economic mentality in China shaped over the past 22 years cannot link up the economic interests of individuals, enterprises and the interest groups, with China's national geopolitical interests. This mentality cannot unify national economic development strategy with the national security strategy, and more often than not the latter strategy is neglected or overlooked. If China continues its present economic development priorities, and if a sudden economic blockade from the West was enforced, China would be caught completely off guard and lose the ability to confront the United States with any substantial balancing force. By that time, "avoiding a war through overwhelming military power" would really mean that China would be overwhelmed by their military power, as we would look on helplessly as Taiwan became independent but would not dare to counter-attack for fear of Western economic blockade. Consequently, we can say that in the next five years, readjusting China's priorities, economic strategies and value system is far more important than a future military war. An overly high economic dependency on the West compounded with an excessive worship of Western cultural values equals self-

destruction. It would make it hard for China to win any military victory, or China might even have to surrender without a fight.

The present compensatory measures include stimulating domestic demand, accumulating labor productivity, eliminating corruption, expanding imports of key strategic materials, improving strategic industries, and readjusting distribution of revenue. The key issue is not whether it is plausible technically, but whether it is possible to break away from the interference of interest groups and harness the enormous cohesive force of China as a nation. China in the 21st century will play its role as a leading world power in international competition, and will form a cooperative and yet competitive relationship with the United States. As the United States pursues its aim as the one and only supreme world power, China's influence in Asia has also gained considerably. The future of Asia will be decided by the result of the contending forces between China, the United States, Japan, and other southeastern Asian countries. There is no doubt that China's power is rising, and China would not hesitate to launch into a war if war should happen, and such action was required to break out of a blockade. Especially important is the Malaga Straits, which provides three-fourths of China's sea channels and oil transportation route, and China should not allow it to fall under the control of Taiwan's independence-minded forces. Behind those forces are the United States and Japan. China needs to assume a leading nation's image in the trend of globalization with independent views and a willingness to fight for its own interests.

Generally speaking, Western economic blockades are not that terrifying. Even if we lack any emergency measures, the blockade would only drag China back from 2005 to 2000 economic levels. Most losses would occur in coastal regions and in high-consumer-spending luxury items. If we can preempt the situation economically and ideologically, China would solve many problems in preparation for war that would otherwise be difficult to deal with in peaceful time, making the nation even stronger. Preparing for war while seeking peace would achieve peace; being peaceful while seeking peace would result in losing the peace.

If we use war as a way to seek unification, then we shall have unification; but if we use concession as a way to seek unification then we will never have unification. Military power is most important if China truly wants to maintain its unified sovereignty and break out of a blockade built by the United States, Japan and India. Yet at present, it is more vital to readjust China's economic thinking and cultural mentality. It is hard to imagine that a country that depends seriously on the Western economic order and leans heavily toward Western ideological values could really win a military war against the West. On the other hand, if we could readjust our economy and culture properly, we could avoid a war and achieve peaceful unification with Taiwan. Such a war would not be so terrible either. We would be fighting by our front door, which means that as long as we could control the United States military bases in their Asian ally countries, the United States would not be able to protect Taiwan and their aircraft carriers from Guam because of the high costs involved. The key thing is for China to sort out its internal problems and unite all possible forces, then a victory would be readily in hand.