

THE HERITAGE LECTURES

363

**Chinese Water
Torture:
Subversion
Through
Development**

By Andrew B. Brick



The Heritage Foundation was established in 1973 as a non partisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and strong national defense. The Foundation's research and study programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

Heritage publishes its research in a variety of formats for the benefit of policy makers; the communications media; the academic, business, and financial communities; and the public at large. Over the past five years alone The Heritage Foundation has published some 1,500 books, monographs, and studies, ranging in size from the 927-page government blueprint, *Mandate for Leadership III: Policy Strategies for the 1990's*, to the more frequent "Critical Issues" monographs and the topical "Backgrounders," "Issue Bulletins," and "Talking Points" papers. Heritage's other regular publications include the *SDI Report*, *Business/Education Insider*, *Mexico Watch*, and *Policy Review*, a quarterly journal of analysis and opinion.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a continuing series of seminars, lectures, debated, briefings, and conferences.

Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Section 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
U.S.A.
202/546-4400

Chinese Water Torture: Subversion Through Development

By Andrew B. Brick

Tracking China-related issues in Washington these days can be an exasperating occupation. A newspaper reporter recently asked me to comment on an American presidential candidate's claim that Deng Xiaoping, China's paramount leader, was "an 85-year-old chain-smoking communist dwarf." Deadpanned the reporter: "Is Deng the world's only dwarf leader or the only *communist* dwarf leader?" (And that's not the half of it: the "85-year-old" Deng, size notwithstanding, has long since enjoyed his 87th summer.)

A new low in U.S.-China policy has thus been reached. The "dwarf factor" apparently has entered into Washington's continuing struggle over how best to deal with one of the world's least pleasant, least cooperative, and most enigmatic regimes. Name the issue and it probably plagues the Sino-American relationship. Beijing has its own international agenda, not necessarily consistent with any other international agenda, nor with any consensus of international interests. Its human rights record is appalling, from Tibet to Tiananmen, and beyond. It peddles missiles to Middle East thugs and underwrites some of the world's most reprehensible juntas, like that of Burma.

Obviously, these are not trivial matters—no matter how one evaluates the implications of Deng Xiaoping's diminutive stature. Problems in the U.S.-China relationship have enormous weight and reach, affecting vital personal, commercial, and national interests around the globe, not to mention (insofar as U.S. policy makes any difference) China's own future.

Doing Business. The impact of the burgeoning Washington-Beijing trade deficit on Taiwan's commercial interests is a case in point. Yes, you read that right: on *Taiwan's*. Of course, they do not have official relations, so the poor communist Chinese on the mainland and the rich capitalist Chinese on Taiwan today do business only indirectly. But do they do business! So much so, in fact, that possible U.S. retaliation against China for accruing to itself a \$13 billion trade advantage, the probable imbalance in 1991, would end up doing substantial injury to the some 3,000 Taiwan-owned factories on the mainland producing goods for export.

So what does Taipei do? It makes provision for the import of semi-finished goods from the mainland into Taiwan, where they will be completed and then exported to the U.S., labeled "Made in Taiwan."

One of the beneficiaries of that end run is a man named Tony Chen. When it comes to matters involving China, Tony Chen of Taiwan has plenty of advice for American policy makers. "You want to give Beijing a hard time?" he always asks me, rhetorically. "Then adopt policies that help break the so-called iron rice bowl"—communism's welfare state. "We Chinese are by nature economic animals, you know."

Andrew B. Brick is Senior Policy Analyst for Chinese studies at the Asian Studies Center of The Heritage Foundation.

He delivered this lecture at Florida State University, Tallahassee, Florida, on January 22, 1992.

ISSN 0272-1155. © 1992 by The Heritage Foundation.

Forceful Entrepreneur. Tony Chen is a big, beefy guy and forceful as a bulldozer. His lecture continues: “Encourage Chinese to make lots of money, then proselytize democratic virtues. It worked that way on Taiwan. Businessmen like me are the revolutionaries you seek.” Mind you, this comes from an unabashed go-getter—an oriental Sammy Glick—who has a sign on his office wall that demands, “Why aren’t you a millionaire yet?” He runs a clothing factory on an industrial estate outside of Xiamen in mainland China’s Fujian province. His workers sew hideous clothes—stone-washed denim mini-skirts trimmed with sequins—and then he ships them to trendy fashion mongers throughout Eastern Europe.

Against the backdrop of cold war, it is downright perverse to think of Tony Chen as a revolutionary. He scarcely seems ideological, much less anti-communist. But revolutionary he is. Dealing in everything from snake oil to widgets, he claims to “peddle futures on the frontlines of Greater China’s new world order.”

Washington policy makers could do worse than to heed his advice.



Businessmen from Taiwan act as if they have found the keys to a long-locked treasure chest. The treasure in this case: breaking communism’s hold on mainland China, and releasing its vast reserves of assets and opportunities.

Indeed, when it comes to treasure chests, few compare with Taiwan itself. Think about it: Some 20 million people on an island the size of New Hampshire traded almost \$250 billion worth of goods with the rest of the world in the last two years. The island is so rich that the annual interest earnings on its \$80 billion of foreign currency reserves—the world’s largest, by the way—add at least 2 percentage points each year to Taiwan’s gross national product.

That an increasing amount of this economic success is driven by the island’s commercial contacts with mainland China is both intriguing and revealing. Indeed, with cheerful indifference to officialdom on both sides of the Taiwan Strait, the mainland and Taiwan are being bound together ever more tightly. Some in Taipei worry that these growing contacts form a kind of dependence on trade that will make the island hostage to the old men in Beijing. But who really is hostage to whom?

In spite of a ban on direct dealings across the Strait, indirect trade through Hong Kong between Taiwan and the mainland has expanded almost 40 percent annually each of the last four years. Some \$7 billion worth of raw materials and intermediate products passed through Hong Kong last year headed for mainland China’s southern provinces. And investment by Taiwan’s businessmen is rising, too. Official estimates say it exceeds a cumulative \$2 billion; but this seems unduly modest, and especially so if travel takes you to some mainland cities these days.

Businessmen’s Boast. Indeed, travel with me, briefly, to the town of Xiamen in Fujian province. For all intents and purposes, Xiamen might as well be part of Taiwan. Fully a third of the \$3.5 billion total investment in Xiamen since 1986 is from Taiwan. Taipei businessmen swarm over the place like bees to honey. In a bar at a local hotel, one businessman boasts of renting land in the city for 35 cents a year on seventy-year leases and hiring locals at a tenth the going rate in Taipei. Throughout southern China, the barflies repeat the essence of this boast. Whether they are Chinese from Taiwan, Hong Kong, Thailand, Indonesia, Malaysia, the Philippines, or Singapore, it is their factories that daily work around the clock and make southern China one of the most dynamic Asian tigers of them all.

Just consider: A Republic of South China that extended from Guangdong to Fujian provinces and included Hong Kong and Taiwan would have a population of 120 million, a combined gross domestic product of \$320 billion, and would be an economic force roughly comparable to Brazil—only with much brighter prospects.

Ask almost any Chinese—or even Asian—businessman, and he will tell you that this is his revolution, and that of thousands like him. Put simply, the mainland's commercial development constrains the leadership in Beijing more than any American sanction ever could. China's economic explosion, and the forces impelling it and released by it, are eclipsing Beijing's influence on and leverage over the nation's periphery.

The implications of all this are yet unclear and frequently overstated—warlordism, for instance, seems unlikely. But the logic driving the commercial contacts is compelling: the momentum seems irresistible. To hear the Tony Chens of the world tell it, political change can insinuate itself into a society as a *consequence* rather than as a *determinant* of economic growth.

It is an idea worth considering, this idea of a revolution without borders.



Perhaps it should not come as a surprise that Asians—especially Chinese from Taiwan—would offer Americans this kind of advice for dealing with Beijing's doddering old guard. Few know better the travails of dealing with the Chinese communists. Few understand as well that hints of change in Beijing come infrequently and tantalizingly, and almost always prove illusory—ounces on one side of a scale outweighed by pounds on the other.

Unlike Americans, who tend to approach China as if the ties that bind must be all or nothing, Asians relate to and work with China because they have to. For one thing, China simply cannot be ignored. Geostrategically it is so obviously important—as a brake to North Korean nuclear ambitions, as a conduit to the murderous Pol Pot in Cambodia, as a buffer to the twin specters of Soviet disintegration and Japanese expansionism, the latter well under way. And for another, Asians have drawn a lesson from the global democratic revolution that many Americans have not yet even begun to learn: Specifically, that there are two ways to bring about the downfall of totalitarian communist regimes.

Pent-up Demand. One way, the method used by America on Moscow and its satellites, is a four-decade struggle of containment, isolation, and confrontation. It is geopolitics to the extreme. It is what used to be known as cold war. But cold war need not be the only way. Subversion through development works too. It may work better.

The notion here is simple: When communists engage in *perestroika* or *glasnost*—as China has done since the inception of its so-called “open door” policies in the early 1980s—they implement, by definition, meaningful market reforms. These reforms, even if only partial, open a communist country to outside influences, and in the end create political grievances that undermine the extant regime. This pent-up political demand cannot forever be contained; certainly it cannot be readily channeled. When all is said and done, reform communism proves to be communism's last stage.

To hear some businessmen tell it, the violence in Tiananmen, though terrible, is the price of change and evidence that the subversion is working. So Asians continue the revolution. They do not discriminate, they do business with everybody: communist China, Vietnam, Cuba, North Korea, you name it.

Political consciousness and totalitarian rule prove such an unstable combination in conditions of modernity, it is no wonder that the concoction dwarfs Deng Xiaoping's worst nightmares. Beijing runs scared in the new world order, warning its minions against the so-called "peaceful evolution" of the socialist state. It is trapped by capitalism.

That Asians understand the relationship between the marketplace and the peaceful revolution of steady attrition should come as no surprise. After all, they have lived with it and learned by experience.

Unprecedented Democracy. The case of Taiwan is instructive. There, the idea that political change can enter a society as a consequence rather than as a determinant of economic growth is of the nature of conventional wisdom, and wisdom that has been tested. As Beijing presses ahead with its repression, Taipei presses ahead with democracy. Taiwan's democratic example, in fact, is without precedent in Chinese history. It confounds glib Western pronouncements that the Chinese people do not understand democratic principles, and sets the standard for the future.

The locomotive that drove Taiwan's commercial development rapidly made the old politics on Taiwan obsolete. There actually *was* political subversion by economic development. As the island's economy grew, so did its middle class, and their typical concerns along with it. The commercial cadres demanded the same accountability from their government as was demanded of them by their businesses. Free market economics had become free market politics: People no longer accepted discrimination for reasons of ideology, religion, or ethnicity; they no longer accepted controls on an individual's movements or rulers who were not freely chosen.

To hear Tony Chen and his like tell it, the same locomotive could redefine both mainland China and Chinese civilization.

The key here is an ethnically based and entrepreneurially driven Chinese network that spreads throughout Southeast Asia. It is a diaspora stoked with masses of dollars. This Greater China is commercially (and even in some sense politically) borderless and ever more influential.

- ◆ In Indonesia, a Chinese minority makes up 5 percent of the population but controls 75 percent of the wealth.
- ◆ In Malaysia, three decades of politics have been dominated by a debate over the division of wealth between the Chinese minority and the Malay majority. The nation's biggest foreign investor: Taiwan, topping \$2.3 billion in 1991.
- ◆ In Thailand, half the nation's gross domestic product is produced in Bangkok, a Chinese city in Thai disguise.
- ◆ In the Philippines, Chinese families and businesses—family-based conglomerates—prosper amidst the country's continuing decay. As one U.S. trader expressed it in discussions with The Heritage Foundation: "Chinese Filipinos are tight-knit, understand the connections, and know how to manipulate their corrupt little world."
- ◆ In Singapore, some three thousand multinationals have set up shop and watch impressed as the Chinese city-state plans a so-called "growth triangle" with the Malaysian state of Johore and a handful of Indonesian islands off the coast of Sumatra.
- ◆ In war torn Indochina, most operating Cambodian factories, from distilleries to cement mills, have been sold or leased to Sino-Khmer businessmen and their overseas Chinese cousins from Hong Kong, Singapore, and Thailand. Question: Who is the largest investor in Vietnam? Answer: Taiwan.

- ◆ And in southern China, economies boom beyond all expectation. Hong Kong serves as the management and financial hub of a region where economic growth tops 13 percent a year. At this rate, an economy doubles every six years. Twenty percent of Hong Kong's bank notes circulate in Guangdong province, where some 16,000 Hong Kong-owned factories employ three million workers and export almost \$11 billion worth of goods a year. Guangdong's estimated GDP: \$78 billion, or \$1,230 per capita, roughly the equivalent of Thailand's and almost double that of Malaysia. By the year 2000, predicts the *Economist* magazine, the region could be as rich as southern Europe.

And you thought the emerging economies of Asia were *Japan's* back yard!



In such light, it is easy to see how China, on average, grew three times faster over the last decade than the wealthiest twenty countries in the world. It is also understandable that China is likely to be Asia's fastest growing economy in the first half of this decade.

But development on the mainland does not necessarily presage the peaceful evolution of that society. As it was in the months and years preceding June 1989, subversion by modernization could again bring turmoil and bloodshed in its wake. This is so because reform communism continues to fuel expectations that Beijing simply cannot meet—not and remain what it is.

Trying to reconcile the irreconcilable, Beijing's old men want the certainties of a centrally planned economy and the dynamism of free enterprise, but without the sclerosis of centralism or the uncertainties of freedom. The result is an economic reform program that spawns powerful centrifugal forces out toward the provinces and inherently undermines the Party's central control.

All the while, pressure mounts: Light and heavy industrial output continues to rise, but quality does not. Intellectuals remain scarred, and embittered, by years of persecution. A bloated bureaucracy continues to overregulate everything within its reach. A deep reservoir of discontent seethes among students and young workers. Corruption is endemic in the economy. And society increasingly is stratified between the haves and have-nots, the privileged and the vast majority of servitors.

Beijing Endgame. Stability is by no means assured (or even very likely), but the peaceful revolution has its goals and its agenda. For the Chinese around the world, with their remarkable business ties and commercial savvy, those intentions are sufficient reason to pursue constructive engagement with the incumbent communist regime. For make no mistake about it, this is an endgame. As the decrepit leadership in Beijing battles to forestall obsolescence in what's left of the 20th century, Chinese throughout Asia are carving their niche for the 21st.

A commercially borderless China? Try for size a Greater China Co-Prosperity Sphere.