



Where They Will Be Fought And How They Will Be Won

The Coming China Wars

THE SUMMARY IN BRIEF

China's breakneck industrialization is placing it on a collision course with the entire world. Tomorrow's China Wars will be fought over everything from decent jobs, livable wages and leading-edge technologies to strategic resources such as oil, copper and steel ... even food, water and air.

In this summary, best-selling author Peter Navarro previews all of these potential conflicts — and reveals the urgent, radical decisions that must be made to avoid catastrophe.

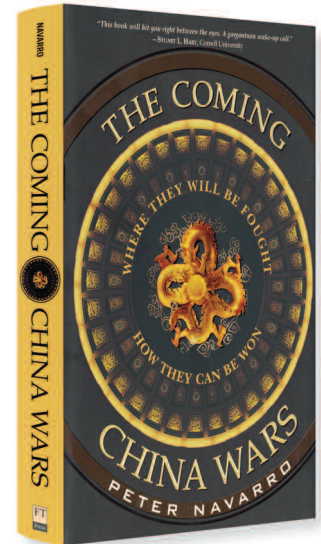
You'll discover China's shocking role in the drug trade and how its mega-dam projects are displacing millions of rural peasants. You'll learn how China uses foreign aid and the promise of capital investment to leverage one-sided "joint ventures" for massive resource extradition operations, and how the country's environmental pollution serves as a deadly catalyst for an explosion of diseases.

Navarro also reveals how China has become the world's most ruthless imperialist, how it is promoting global environmental disaster and how this nuclear superpower and pirate nation may be spiraling toward internal chaos.

The Coming China Wars is not just about how China's emergence as the world's "factory floor" is affecting you and your pocketbook; it is also about the larger view of the eight major China Wars already well underway and the urgency to understand the complexities of their economic origins in order to achieve peaceful resolution.

IN THIS SUMMARY, YOU WILL LEARN:

- The real story behind China's "weapons of mass production."
- How China's counterfeit drugs and products can literally kill you.
- How China's fouling of its air and water represents a source of competitive economic advantage that is helping to put millions of people out of work.
- The reasons for the coming U.S./China showdown over oil.
- The urgency to understand the high stakes of the China Wars.



by Peter Navarro

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THE COMPLETE SUMMARY: THE COMING CHINA WARS

by Peter Navarro

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Introduction

The best of economic times for China are fast becoming the worst of times for the rest of the world. China's "cowboy capitalism" and amoral foreign policies are triggering a whole range of economic, financial, environmental, political and military tsunamis that threaten to engulf us — as well as the Chinese people. The ever-growing dangers lay in a model of rapid, unsustainable economic growth, coupled with a wanton disregard for both human life and intellectual property.

There are eight major China Wars already well underway:

1. The Not-So-Swashbuckling Piracy Wars. China has become the world's largest pirate nation.

2. The 21st Century Opium Wars. China has emerged as one of the world's biggest dope dealers.

3. The Air-Pollution and Global-Warming Wars. China has been dubiously crowned as the most polluted nation on Earth.

4. The 'Blood for Oil' Wars. China has emerged as the world's second-largest petroleum consumer behind only the United States.

5. The New Imperialist Wars. After unwitting countries are driven ever deeper into China's debt, China's imperialistic quid pro quo is the rapid extraction of the country's raw materials.

6. The Damnable Dam and Water Wars. Upstream, China is constructing a phalanx of mega-dams on the Mekong River despite the strong protests of the downstream countries of Cambodia, Laos, Thailand and Vietnam.

7. China's Wars From Within. Over the past decade, the number of protests and riots in China has risen to

nearly 100,000 annually.

8. China's Ticking Time Bombs. China is now facing a pension crisis. It is also a nation getting increasingly sick. Environmental pollution serves as a deadly catalyst for an explosion of myriad cancers and an epidemic of respiratory and heart diseases.

The radical remedies and reforms that will be required to avoid the chaos, casualties and hardships of the Coming China Wars — both within China and beyond its borders — will never occur unless we gain a much better understanding of the basic economic forces driving these political, financial, energy and environmental conflicts. Hopefully, a better understanding of the complexities of the economic origins of the Coming China Wars will help lead to their peaceful resolution. ●

The 'China Price' and Weapons of Mass Production

China's hyper-rate of economic growth is export-driven, and the ability of the Chinese to conquer one export market after another derives from their ability to set the so-called "China Price."

The China Price refers to the fact that Chinese manufacturers can undercut significantly the prices offered by foreign competitors over a wide range of products and services. Today, as a result of the China Price, China produces more than 70 percent of the world's DVDs and toys; more than half of its bikes, cameras, shoes and telephones; and more than a third of its air conditioners, color TVs, computer monitors, luggage and microwave ovens. The country



1-800-SUMMARY
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Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: \$209 per year in the United States, Canada and Mexico, and \$295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2008 by Soundview Executive Book Summaries.

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has established dominant market positions in everything from furniture, refrigerators, and washing machines to jeans and underwear.

Nine 'Drivers' of the China Price

How has China been able to emerge as the world's "factory floor"? The answer lies in China's primary "weapon of mass production" — the China Price. The nine major economic "drivers" of the China Price are:

- **Low-wage, high-quality work by a highly disciplined, educated and nonunion work force**
- **Minimal worker health and safety regulations**
- **Lax environmental regulations and enforcement**
- **The supercharging, catalytic role of foreign direct investment (FDI)**
- **A highly efficient form of industrial organization known as "network clustering"**
- **An elaborate, government-sanctioned system of counterfeiting and piracy**
- **A chronically undervalued, "beggar thy neighbor" currency**
- **Massive government subsidies to numerous targeted industries**
- **"Great Wall" protectionist trade barriers, particularly for "infant industries."**

Of the nine key economic drivers, only one — network clustering — is truly legitimate from the perspective of a global economic system that is supposed to be based on free and fair trade. Each of the other eight China Price drivers violates one or more of the many "rules of the trading road" that have been established by organizations such as the World Trade Organization and treaties such as the General Agreement on Tariffs and Trade.

Unprecedented Export-Driven Economic Growth

By engaging in unfair trade policies and by wielding its primary "weapon of mass production," the China Price, China enjoys unprecedented rates of export-driven economic growth — and is trouncing the competition in global markets. In the process, China is effectively sowing the economic seeds of the Coming China Wars with the rest of the world. And, in the worst "wars from within" scenario, China is also setting itself up for its own environmental, political and social destruction. ●

Significant Safety Issues:

One of the biggest and most lucrative sectors of China's knock-off economy is that of replacement auto parts. Chinese pirates account for 70 percent of all counterfeit auto parts in the world, and more than half of all Chinese vehicles contain counterfeit components.

There are significant safety issues for an industry that depends on equipment reliability. In some cases, the quality and appearance of the fake auto parts is so good that it is difficult to distinguish between a fake and original product. In many other cases, the parts are of such poor quality they are doomed to early and often dangerous failure. As reported in *Automotive News*, some of the "many horror stories" include "brake linings made of compressed grass, sawdust or cardboard; transmission fluid made of cheap oil that is dyed; and oil filters that use rags for the filter element."

China's Counterfeit Economy and Not-So-Swashbuckling Pirates

Piracy refers to the unauthorized production, distribution or use of a good or service. The goal of a pirate is to create a look-alike "knock-off" that can be sold to a customer as such.

Counterfeiting ups the piracy ante by pawning off pirated products as those of the real, branding corporation. Thus, a golf club that looks just like a Callaway driver but has a name like "Hallaway" is a pirated knock-off, whereas a knock-off sold as a "Callaway" club is a counterfeit.

The World Customs Organization estimates that counterfeiting accounts for fully 5 percent to 7 percent of global merchandise trade and represents the equivalent in lost sales of around \$500 billion. Such counterfeiting costs the pharmaceutical industry alone close to \$50 billion a year, the auto industry more than \$10 billion annually and the software and entertainment industries billions more.

China is the largest pirate nation on the planet. As worldwide production of counterfeit goods has leaped by 1,700 percent since 1993, China accounts for two-thirds of the world's pirated and counterfeited goods and fully 80 percent of all counterfeit goods seized at U.S. borders.

The 'Get Tough on Pirates' Shell Game

Every year, the Chinese government increases the number of raids it conducts, and every year Chinese

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counterfeiting and piracy grows ever larger. Behind this phony “get tough on pirates” shell game is a system of laws and regulations that, through the fundamental laws of economics, encourages rather than deters the tens of millions of Chinese pirates. In doing so, this system of government-sanctioned piracy blatantly violates the rules of the World Trade Organization and many other treaties and agreements.

One major problem is that the fines the Chinese government imposes on counterfeiters and pirates are absurdly small.

A second major problem is that most cases are handled by administrative enforcement bodies rather than by the criminal justice system. The enforcement powers of many of the relevant agencies are limited to confiscating the fakes and imposing monetary fines rather than imposing any jail terms.

A third problem is that in China’s relatively young free-market economy, there is a lack of adequate resources and training for criminal enforcement and intellectual-property protection. ●

Killing Us (And Them) Softly With Their Coal

As an example of the severity of China’s self-inflicted air-pollution crisis, it would be hard to top the northeast city of Benxi — one of the 20 largest cities in China. At one point, this heavy-industry center, which burns roughly 7 million tons of coal per year and produces more steel per capita than any other city in China, literally disappeared from satellite images because of the dense cloud of haze and soot that enveloped it.

China’s extremely lax environmental regulations and weak enforcement allow Chinese manufacturers to produce at an unfair cost advantage over competitors. China’s wanton fouling of its air and water thus represents an important source of competitive economic advantage that is helping to put millions of people out of work and depressing wages in other countries.

China’s prodigious pollution is now spewing well beyond its environmentally porous borders. Some of the fallout is regional — such as increased acid rain in neighboring Japan, Korea and Taiwan. Some of China’s environmental fallout is global — such as an increase in a particularly virulent brand of Chinese smog known as “chog” reaching as far away as Canada and the United States. Some of the effects of the China Air-Pollution Wars are long range and more

speculative, such as an increase in coastal flooding and hurricanes that may result from China’s contributions to global warming.

High-Sulfur, Low-Quality Coal

At the root of many of China’s air-quality problems is its heavy dependence on relatively high-sulfur, low-quality coal for everything from electricity generation and industrial production to cooking and space heating in the home. China relies on coal for almost 75 percent of its energy needs. The result of this heavy coal dependence, coupled with a woeful lack of pollution-control technologies, is that China’s air-quality problem is a different one from that of developed countries such as the United States and Germany in at least three ways.

First, unlike in the United States, Germany or Japan, where sophisticated pollution-control technologies are deployed, much of what Chinese power plants and factories spew in the air is not just sulfur dioxide but also a high percentage of fine particulate matter, the most damaging airborne pollutant.

Second, small cities in China are no better off than large cities in terms of ambient air quality because small cities are as likely as large cities to depend on coal in both their residential and commercial sectors.

Third, unlike the developed world where the automobile is the single-largest source of air pollution, China’s current problem is primarily a “stationary source” one. These stationary sources range from large coal-fired power plants in huge factory towns to small coal-fired stoves and heaters in peasant homes. ●

The ‘Blood For Oil’ Wars — The Sum of All Chinese Fears

On the economic front, China’s rapidly increasing oil demand is creating persistent and significant oil price shocks and increasing volatility in the world’s oil markets. These shocks destabilize the global economy.

On the foreign-policy front, China’s oil thirst is accelerating the global arms race and the further spread of weapons of mass destruction — from long-range, inter-continental ballistic missiles to the nuclear warheads that ride atop them.

Finally, on the “hot-war” front, the China Oil Wars may also spill over into a dangerous array of ugly military confrontations. One possible trigger may be the discovery of large oil reserves in the South and East China Seas. China has been engaged in long-term territorial

The Mongolian Grapes of Wrath:

China is one of the most desert-plagued nations on Earth. Fully one-fourth of its land mass, primarily in the northwestern part of the country, is desiccated dust. Within another 20 years, some experts predict that almost 40 percent of China's land will have been ground into sand.

Today, roughly 1,500 square miles of Chinese real estate are being lost to desertification annually and that number continues to rise despite massive efforts of the central government to contain it. According to the China Meteorological Administration, the frequency of the sand and dust storms that represent the environmental fallout from it is also increasing.

China's overcultivation, overgrazing and deforestation are the three major contributors to its desertification. China is also draining dry its lakes, streams, rivers and groundwater aquifers. To the extent that this has created water shortages in the desert areas, even more topsoil has shriveled into dust.

disputes with Japan, Indonesia, the Philippines, Vietnam and other neighbors in these areas, and has already used military might to seize several islands in dispute and assert its claims.

'Shopping' China's U.N. Veto

One of the most potent weapons in the China Wars is China's ability to veto any U.N. Security Council resolution. China's top business and political leaders regularly "shop" China's U.N. veto to countries with which they seek to strengthen ties. China's activities in the Sudan provide a chilling example of the kind of crass Chinese commercialism that is being shopped under the U.N. banner of peace and humanitarianism.

China has given the Sudan a complete package of economic and diplomatic incentives in exchange for access to its oil reserves. A key part of that incentives package has been China's brazen willingness to use its diplomatic power and permanent veto in the United Nations to protect Sudan from U.N. sanctions. During Sudan's campaign of genocide in its Darfur region, China repeatedly thwarted U.N. attempts to stop the ongoing rape, massacre and systematic starvation of non-Arab Sudanese at the hands of Arab Janjaweed militia forces armed and controlled by the Sudanese government. According to estimates by the World Health Organization and the United Nations, this "ethnic cleansing" has led to the

deaths of several hundred thousand people and the displacement of almost 2 million refugees. ●

The 'New Imperialist' Wars and Weapons of Mass Construction

Throughout Africa, Latin America and Asia, China is using the Trojan horse of a "South-South" message that allies China in a workers' coalition with other developing countries against "northern hemisphere" imperialists such as the United States, France, Russia and Great Britain. Under the cover of this South-South diplomacy, China is deploying a potent mix of state-subsidized capital, managerial expertise and skilled labor, and rapidly gaining economic control of a lion's share of the world's metals, minerals, raw materials and agricultural resources.

The unwitting developed countries now ensnared in China's South-South imperialistic web are starting to have an increasingly rude and painful awakening. At the root of China's new imperialism is an economic appetite for resources and raw materials that is voracious.

The China Wars for Minerals and Raw Materials

In choosing to be the "factory floor" of the world, China has hitched its star to a heavy manufacturing model that, in less than three short decades, has transformed the country from a quiet agricultural backwater into one of the world's largest consumers of metals, minerals, lumber and other raw materials.

Pursuing its heavy manufacturing model, China has already overtaken the United States and Japan as the world's largest steel consumer. It is the largest buyer of copper, the second-largest buyer of iron ore, and the third-largest buyer of alumina, which is used in smelters to produce aluminum.

Massive Resource Extradition Operations

China's strategy for securing supplies of all these various production inputs is to gain as tight physical control of these resources as possible. The way China gains ownership control is by first ingratiating itself to foreign governments and then encircling the country's economy with virtually every imperialistic strategy.

China is using foreign aid and the promise of capital investment to leverage one-sided "joint ventures" for massive resource extradition operations. In the process, it systematically strips nations of their raw materials and natural resources while recovering the costs of these resources and materials by dumping cheap finished goods

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into these same countries — often driving out local indigenous labor and driving up the local unemployment rate. This scenario is playing out with chilling effectiveness, particularly in Africa and Latin America. ●

The 21st Century Opium Wars

No single country plays more of a key role than China in the global production, transportation and distribution of all four illegal hard drugs — cocaine, heroin, methamphetamine and Ecstasy — and their “precursor chemicals.” Consider the following:

- China annually produces more than 100,000 metric tons of acetic anhydride, with much of this precursor chemical diverted to transform the poppies of the Golden Triangle and Golden Crescent into pure “China white” and the more pedestrian “Afghan heroin.”
- China is the world’s second-largest producer of potassium permanganate, the key precursor chemical used in the oxidation and separation process to turn the coca leaves of South America into cocaine.
- China and India are the world’s largest producers of bulk and synthetic ephedrine: a key precursor used in methamphetamine labs.
- China is emerging as a highly efficient production center for “finished goods” — including heroin, Ecstasy and speed.
- China’s banking system is becoming an important hub for global money laundering.

Imperialism with a Taiwanese Twist:

In Latin America, as in Africa, China is pursuing its imperialistic agenda with a Taiwanese twist. Almost half of the remaining 25 countries that now diplomatically recognize Taiwan are in Latin America, and China is aiming to pick off each of them with promises of lavish aid.

One of the first defectors since the onslaught of China’s Latin America offensive was the tiny island of Grenada. The triggering event for Grenada cutting Taiwan loose was the donation by China of \$50,000 to a hurricane relief fund. This money promptly found its way not into Red Cross coffers where it was supposed to go but rather into the “pockets of Grenadian Prime Minister Keith Mitchell’s government,” according to the *Taiwan Times*.

China’s rapidly emerging role as the world’s “factory floor” for precursor chemicals and, increasingly, as a hard-drug producer in its own right has come despite apparently sincere and severe attempts by the central government to control the trade. China’s failure, however, to curb its drug trade portends great conflict with other nations. ●

The Damnable Dam Wars and Drums Along The Mekong

At more than 85,000 dams and counting, Chinese leaders boast of having the tallest dams, the largest by reservoir capacity, the dam with the highest ship lift, and the most powerful electricity producer. From arch dams, earthen dams and gravity dams to cascade and concrete-faced rockfill dams, China has it all.

If ever there were a double-edged sword, a large-dam strategy would be it. On the beneficial edge of that sword, large dams generate significant amounts of cheap electricity. Among other positive uses, they store water when there is a surplus for use in irrigation during times of scarcity and protect arable land from flood and erosion.

On the other far more costly and dangerous edge of the sword, large dams are quite capable over time of destroying the very waters they harness as well as the agricultural lands they are trying to improve. Because dams tend to slow down river flows, they decrease the ability of rivers to rejuvenate and cleanse themselves of pollutants naturally. They interfere with, and often destroy, natural habitats and fish reproduction. The reservoirs created by large dams displace significant population segments when they inundate villages and towns.

Perhaps the worst aspect of large dams is their relatively short useful shelf life. As silt builds up behind a dam and the reservoir becomes shallower and shallower, less electricity is generated, less water for irrigation is stored and flood control becomes increasingly more difficult.

Most environmentalists now believe that large dams often represent an unacceptable risk, particularly over the long term. China’s leadership is hip-deep in the construction of an ever-larger and larger set of dam projects. These projects will be built on one of the most highly polluted and heavily dammed set of river basins in the world. The result of this dam strategy is a set of great risks not just for the Chinese people but for all of China’s downstream neighbors. ●

The Bread and Water Wars

Much of China's fresh water in its rivers, lakes, streams and wells is simply too polluted to use in irrigation, much less for drinking, and this pollution contributes greatly to a growing water scarcity problem. Here are a few statistics:

- Seventy percent of China's seven major rivers are severely polluted.
- Eighty percent of China's rivers fail to meet standards for fishing.
- Ninety percent of China's cities and 75 percent of its lakes suffer from water pollution, and 700 million Chinese "have access to drinking water of a quality below World Health Organization standards."
- Almost half of China's total population is exposed to contaminated water supplies and one in three countryside dwellers lacks access to safe drinking water.
- Liver and stomach cancers related to water pollution are among the leading causes of death in the countryside.
- All of China's coastal waters are moderately to highly polluted.

The pollution is caused not just by massive industrial dumping and indiscriminate industrial burning of toxic wastes: An avalanche of excess fertilizer and pesticide runoff and a mountain of animal and human waste stand equally tall as culprits. ●

China's Wars From Within

Economic reforms and industry privatization in China have created a "reserve army of the unemployed" numbering more than 100 million. The Chinese countryside has become both a slave-labor camp and a dumping ground for every imaginable air and water pollutant, while the rural peasantry is being sucked dry by government tax collectors. China's aggressive dam projects have displaced more than 2 million rural peasants.

As part of the long march of "progress," corrupt local government officials seize land on behalf of developers, pocket the monies that are supposed to compensate villagers, and then enlist local gangsters to quell protests. In the big cities, wages that go callously unpaid to poor migrant workers number in the staggering billions of dollars. Unpaid construction workers leap to their deaths in protest.

Industrial Burning and Dumping

China's manufacturers not only flood the world with low-cost products, they flood China's waterways with pollution. The worst industries include paper and pulp, food, chemicals, textiles, tanning and mining.

The most common toxic pollutants being unleashed by the indiscriminate burning of industrial waste and wanton industrial dumping include dioxins, solvents and PCBs; various metals such as mercury, lead and copper; and highly persistent pesticides ranging from chlordane and mirex to DDT.

Protests, Riots and Strikes

For all of these reasons, none of the Coming China Wars outside China's borders are likely to be as sudden, wrenching and violent as the wars from within. Hundreds of thousands of skirmishes have already been fought. Over the past decade, the number of protests and riots has risen almost exponentially to nearly 100,000 annually, with both their scope and scale increasing. What is perhaps most alarming to the Chinese government about these protests, riots and strikes is the diversity of causes and their broad geographic sweep. Consider this sampling of major confrontations over the past several years:

- In Xianyang City, more than 6,000 workers strike after a textile factory is privatized and the new owner seeks to fire and then rehire them as "inexperienced workers" at lower wages and "without accrued retirement or medical benefits."
- In metropolitan Shenzhen, factory workers producing audio speaker parts take two of their Hong Kong bosses hostage out of fear that the bankrupt company will not pay them back wages. In a separate incident, hundreds of workers clash with security guards and police during a protest against layoffs at an electronics company.
- In the city of Chizhou, a student on a bicycle collides with the sedan of a wealthy businessman whose bodyguards kick and beat the student. Fueled by cell phones and instant messaging, this turns into a "rich versus poor" conflict involving more than 10,000 people, the smashing of the sedan and a police car, and the looting of a supermarket owned by another wealthy businessman. ●

Of 'Bloodheads,' Gray Dragons, and Other 'Ticking Time Bombs'

China is a nation rapidly graying. Looming dead ahead is a pension crisis the severity of which will make the Social Security woes of equally graying countries such as the United States, Japan and Germany look like strolls through the park.

China is also a nation that is getting increasingly sick. Environ-mental pollution is proving to be an all too deadly catalyst for an explosion of a myriad of cancers and an epidemic of respiratory and heart diseases. This rapid rise in ill health is coming precisely when China's once-vaunted public health-care system has totally unraveled under the weight of China's ongoing privatization of social services and a host of other sweeping economic reforms.

HIV/AIDS Epidemic

Adding to the extreme pressures on China's health-care system now comes an HIV/AIDS epidemic that many experts believe will become the worst in the world. This is an epidemic that began with the worst HIV/AIDS blood-donor scandal on the planet. It is now being rapidly fueled by rampant and rising intravenous drug use, a late-blooming sexual revolution, and the re-emergence of China's once-infamous flesh trade.

For all these reasons, time is running out on the Communist Party, and perhaps even the Chinese economic miracle. Any one of these ticking time bombs — pension deficits, a shredded health-care net, and an impending HIV/AIDS catastrophe — is capable of triggering severe bouts of economic, social and political instability. Taken together with the various wars from within, these ticking time bombs threaten to trigger what ultimately the Chinese fear most — chaos or luan. ●

How To Fight — And Win! — The Coming China Wars

If all the major stakeholders in the Coming China Wars come to understand the high stakes involved, appropriate steps can be taken, all of which are difficult. What is missing from the current political and policy calculus is any real sense of urgency about this mission.

Many of the policy prescriptions to fight the Coming China Wars are straightforward. They have been discussed in numerous policy circles and featured in debates and

negotiations in the U.S. Congress, both Asian and European parliaments, and bilateral negotiations between the Chinese and many other countries.

For example, consider the problem of rampant Chinese counterfeiting and piracy. The obvious "hard line" policy here is for the United States, the countries of Europe, and other nations to adopt a "zero-tolerance" policy toward intellectual property theft. Countries that violate this policy should be held to full account in bodies such as the World Trade Organization and punished.

All policy prescriptions require the economic and political will to stand up to China, along with the military might to back up the prescriptions. The policies also, in many cases, entail significant short-run economic costs. For example, raising global environmental standards will raise the cost of manufacturing goods, tightening border security puts further pressure on an already strained budget, and reducing oil dependence would require a fairly massive industrial realignment.

Political Will

In less than a decade, China has vaulted to the top of the U.S. creditor heap and will soon surpass Japan as the single largest holder of U.S. debt. As China acquires more U.S. securities, it has an increasing ability to destabilize U.S. financial markets and plunge the United States into recession. All China has to do to send U.S. interest rates and inflation soaring is to stop buying new U.S. government securities. If China wants to trigger a crash in the U.S. stock and bond markets — say, to back off the United States from protectionist tariffs — all China need do is start dumping large amounts of its current U.S. holdings.

The United States will never be able to credibly and effectively challenge China until it gets its own house in order. Every U.S. citizen — as well as consumers and voters around the world — will have to understand the real and dangerous hidden costs that are embedded in the purchase of cheap Chinese goods.

Military War Triggers

Several possible "hot" military war triggers — including China's tensions with Taiwan, its competition with Japan and its support of North Korea — together with the various cold economic wars previously mentioned add up to one of the most dangerous situations the world has ever faced. We must move forward with the facts in hand and with all due speed toward the common goal of resolving the many differences both peacefully and prosperously. ●