HOW CHINA'S LEADERS THINK

THE INSIDE STORY OF CHINA'S REFORM AND WHAT THIS MEANS FOR THE FUTURE

ROBERT LAWRENCE KUHN
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Robert Lawrence Kuhn
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About the Author

Dr. Robert Lawrence Kuhn is an international investment banker and public intellectual. Since 1989, he has worked with China’s senior leaders and advised the Chinese government. He works with multinational companies on China strategies and with Chinese companies on capital markets transactions. He is senior adviser, Citigroup, and partner in CCTV-IMG Sports Management Company in China.

Dr. Kuhn writes and speaks about China’s politics and economy and the philosophies and policies of its senior leaders (e.g., BusinessWeek). He has visited more than 40 cities in over 20 provinces and regions in China and is said to be the first foreigner to lecture on President Hu Jintao’s Scientific Perspective on Development. He is the author of The Man Who Changed China: The Life and Legacy of Jiang Zemin, the first biography of a living Chinese leader to be published on the Chinese mainland and China’s best-selling book in 2005. The author or editor of more than 25 books, including Dow Jones-Irwin’s seven volume Library of Investment Banking and China’s Banking and Financial Markets: The Internal Research Report of the Chinese Government, he is featured essayist in Chief Executive magazine; senior international advisor of Global People magazine published by People’s Daily; and senior international commentator on China Central Television (CCTV).

Dr. Kuhn is chairman of The Kuhn Foundation, which sponsors projects facilitating communications between China and the world, particularly the United States. The Kuhn Foundation produces Closer To Truth, the American public television/PBS series on the meaning and implications of state-of-the-art science and new knowledge (which Dr. Kuhn hosts)—www.closertotruth.com. He has a B.A. in human biology, Johns Hopkins University; a Ph.D. in anatomy/brain research, University of California at Los Angeles (UCLA); and an S.M. in management (Sloan Fellow), Massachusetts Institute of Technology (MIT).

Endnotes

1 Personal Note: After the Tiananmen crackdown on June 4, 1989, I determined not to return to China. Over a year later, during the summer of 1990, I co-chaired a conference at UCLA on “Generating Creativity and Innovation in Large Bureaucracies” and invited Professor Kong Deyong of the State Science and Technology Commission, whom I had met in early 1989 on my first visit to China. It was Professor Kong, who later became Science and Technology Counselor at China’s Mission to United Nations, who convinced me to come back to China to support those, particularly in the science communities, who sought reform and opening-up. I returned in the fall of 1990.
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When China celebrated the 30th anniversary of reform and opening-up in December 2008, I was about to celebrate the 20th anniversary of my first coming to China in January 1989. The invitation had come from Dr. Song Jian, state councilor and chairman of the State Science and Technology Commission, who asked a small group of American investment bankers to advise Chinese research institutes in their first, fledgling efforts to adapt to the market economy. A scientist and a gentleman, as well as a senior leader, Dr. Song is an inspiration to all who know him and it is my honor to acknowledge him first.

I was hooked from the moment I arrived. The Chinese had a fresh, if naïve, enthusiasm; they were eager to learn, and ready to improve their civic and material lives. I knew then that China’s culture, history, politics and economics would soon come to matter a great deal to the world. What I didn’t know then was how much China would come to matter to me.

There are many people to whom I give credit for this book, but one stands above all, my long-time friend and partner, Adam Zhu. I met Adam on my first trip to China when Adam was assigned by the State Science and Technology Commission to be my guide. It has been Adam’s vision, acumen, creativity, intensity, perseverance, commitment, dedication, and all manner of innovative ideas that has made my work in China and this book possible. His understanding, insight and special sensitivities are appreciated at the highest levels in China. His political knowledge and savvy instincts make things happen, even “impossible” things. If books like films, had “producers,” Adam Zhu would be credited as this book’s “producer.”

To describe all the challenges that Adam and I have faced since 1989, and all the adventures we’ve shared, would require another book. We are committed to China and its future—to help in our small way China’s historic reform and development; to tell the true story of China to the world.

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I am proud to be considered an old friend (lao pengyou) of China, a high compliment indeed, achieved after these two decades of learning and living. I dedicate this book to those good people, particularly my friends and colleagues, whose commitment, foresight, persistence, and courage are helping to strengthen economic, social and political reform in China and to help China understand the world and the world understand China.

Those who have taught me to understand and appreciate China come from all walks of life. They include farmers, soldiers, policemen, drivers, waiters, janitors, students, graduate students, factory workers, office workers, migrant workers, retired workers, laid-off workers, children, teenagers and grandmothers, as well as leaders, ministers, officials, executives, managers, scientists, professors and scholars. I have had the privilege of visiting more than 40 cities in China, from Guangzhou to Harbin, Shanghai to Lanzhou, Qingdao to Kunming, Tianjin to Chengdu. My activities in China have been an overwhelming life experience.

Some years ago, after finishing a late-night meeting in Beijing, I was asked when do I take vacations, since my Chinese friends knew that I had intense business and media lives in the U.S. “This is my vacation!” I said.

I wasn’t kidding. To me, working in China, is energizing and exhilarating, even when frustrating and challenging. There is an infectious enthusiasm among the Chinese that is refreshing. Some may call my zest naïve, but I am invigorated by the Chinese spirit. The fact that personal relationships, not just business competitiveness, still play a role in commerce I find satisfying—and
I hope that these Chinese ways will not fall fast victim to the market economy. Perhaps those special “Chinese characteristics” can continue to embed respect for traditional values such as honoring old friends.

To conclude, I would like to express my appreciation to some of these who, over the years, have helped me to learn and love China and to understand the Chinese people. They are friends, colleagues, and associates; some I have interviewed formally, others informally. Others I have appreciated their insights, whether in person or in writing. Still others have facilitated and supported my work, which was not always simple or risk free. Although the list is long—and I fear I am forgetting some people—I am pleased to thank all who have assisted Adam and me, in our limited way, to communicate the real China to the world: Xi Jinping; Li Keqiang; Liu Yunshan; Li Yuanchao; Wang Yang; Zhang Gaoli; Wang Huning; Meng Jianzhu; Zeng Peiyan; Sun Jiazheng; Sheng Huaren; Song Jian; Chen Jinhua; Yan Mingfu; Wang Chen; Leng Rong; Cai Wu; Liu Binjie; Zhao Qizheng; Teng Wensheng; Zheng Bijian; Liu Mingkang; Wang Guangya; Li Zhaoming; Quan Zhezhu; Wu Jichuan; Tie Ning; Huang Jiefu; Li Bing; Lu Zhangong; Zhao Hongzhu; Yuan Chunqing; Lu Hao; Xu Guangchun; Han Zheng; Feng Guoqin; Li Hongzhong; Zhou Qiang; Wu Xinxiang; Wang Weiguang; Li Yining; Wu Jinglian; Lu Baifu; Wang Huijiong; Gao Shangquan; Xing Bensi; Chen Yuan; Sun Zhijun; Wei Dicun; Zheng Hongfan; Wang Yibiao; Shi Rende; Zhao Xuewei; Ye Xiaowen; Cai Mingzhao; Wang Guoqin; Qian Xiaojian; Jiang Weiqiang; Liu Zhongrong; Li Xiangping; Xu Ying; Wu Jianmin; Zhou Wenzhong; Zhang Yan; Lan Lijun; Cong Jun; An Wenbin; Xu Lin; Zhang Jingjun; Jin Xiaoming; Zhao Shaohua; Ding Wei; Dong Junxin; Jia Tingan; Liu Yongchao; Xiong Guangkai; Wang Yongsheng; Li Zhen; Yang Guohua; Bao Guojun; Guo Zhigang; Bao Bing; Wen Bing; Wu Xiaoling; Zhao Shi; Zhang Haitao; Tian Jin; Zhang Pimin; Zhu Hong; Shao Ning; Ni Di; Du Dazhe; Jiao Li; Zhao Huayong; Zhang Changming; Hu En; Li Xiaoming; Gao Feng; Sun Yusheng; Li Jian; Zhu Tong; Jiang Heping; Wang Wenbin; Guo Zhenxi; Zhang Haichao; Jiang Mianheng; Wang Luolin; Yang Yang; Cheng Enfu; Wu Enyuan; Lu Xueyi; Zhang Xiaoshan; Li Yang; Wang Tongsan; Zhuo Xinping; Jin Chongji; He Chongyuan; Liu Aichen; Qin Zhigang; Gu Xia; Jiang Zehui; Shen Yongyan; Tong Zonghai; Song Ning; Cai Fuchao; Yin Yicui; Wang Zhongwei; Song Chao; Jiao Yang; Xue Peijian; Li Ruigang; Hu Jinjun; Wang Jianjun; Ren Zhonglin; He Lifeng; Huaiyuan; Gou Lijun; Duan Chunhua; Ren Xuefeng; Wang Hua; Chen Min; Bayin Chaolu; Li Qiang; Huang Kunming; Ding Minzhe; Zhang Baogui; Qiu He; Huang Yunbo; Xie Xinsong; Zhu Qing; Wang Min; Sun Yongchun; Liu Baoju; Zhang Xiqi; Liu Changyun; Zhu Xiaodan; Gan Lin; Ge Changwei; Li Shoujin; Wang Jingsheng; Mo Gaoyi; Liu Geli; Huang Xiaodong; Yang Xingfeng; Li Weiwei; Liu Lianyu; Mo Dewang; Ouyang Changlin; Huang Qifan; Li Xiaojie; Jiang Jianqing; Yang Chao; Zhang Jianguo; Gao Xiqing; Fu Chengyu; Ren Jianxin; Liu Chuanzhi; Zhang Ruimin; Yang Mianmian; Zong Qinghou; Zhu Jianghong; Li Rucheng; Liu Lefei; Fan Yifei; Pan Gongsheng; Li Xiaowei; Hu Wenming; Wang
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To all I say, Xie Xie.

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Overview

How China’s Leaders Think

October 1, 2009—the 60th anniversary of the People’s Republic of China. Surprising itself as well as the world, China had transformed itself into an economic superpower involved with every major issue in foreign affairs and competing in every important area of human endeavor. From trade, business and finance to diplomacy, defense and security; from science, technology and innovation to culture, media and sports—China’s growing strengths have global implications.

Two statistics, telephones and Internet users, say it all. In 1980, there were barely two million phones in China, all fixed line of course. In 2009, less than 30 years later, China had over one billion phones, about two-thirds of them mobile. During 2008, the Chinese people sent 700 billion short messages via mobile phones, and during 2009 the number of Internet users in China exceeded 350 million, well overtaking America as the world’s largest Internet-user market.

This book marks New China’s 60 years by focusing on China’s past and current leaders during three decades of reform and opening-up, and on China’s future leaders for the coming decades of great opportunity and high uncertainty. I highlight President Hu Jintao’s philosophies and policies, and look to the next generation of China’s leaders. Who are China’s future leaders? What are they doing today? What’s their way of thinking about China’s place in the world? How about prospects for political reform and democracy?

“The change China has undergone is the greatest China and the Chinese people have experienced in thousands of years,” Li Yuanchao told me, soon after his 2007 elevation to the Politburo and appointment as head of the powerful Organization Department of the Communist Party of China (“CPC” or “Party”). “It may also be the greatest sustained change in human history.”

It was an extraordinary period that radically changed the mission of the Communist Party, from ideological purity and class struggle to political pragmatism and economic growth. It ushered in not only national development, but ultimately a greater change: the transformation of the spirit of the Chinese people and the increasing scope and depth of their personal freedoms.
It was evening, and Minister Li and I were sitting, with only Adam Zhu, my long-time partner, as translator, in Li’s office building just off Chang’an Avenue, the main East-West thoroughfare in Beijing that unevenly bisects Tiananmen Square, closer to Mao Zedong’s portrait on the rostrum to the north than to Mao’s Mausoleum farther to the south. Surrounded by a Beijing skyline festooned with cranes and new construction, his assessment seemed apt.

As Li put it, “the tremendous progress in the freeing and emancipation of the minds of the Chinese people” has been central to China’s transformation. “The very first step was to eliminate the obstacles of ‘leftist’ ideas which had constrained people’s thinking,” he explained. “We call this the ‘liberalization of thinking’, which took place in all areas, including education and culture as well as economics and politics. This was the starting point of China’s reform.”

Above all, China is a story of challenge and exploration, risk-taking and caution, a spirit which has informed three generations of China’s leaders. The career of Li Yuanchao, a “rising star” in Chinese politics and a long-time colleague and confidante of President Hu Jintao, China’s most senior leader, epitomizes this transformation and presages deepening reform to come. “To be honest,” Minister Li told me, “if I hadn’t carried out such risky reform experiments, I wouldn’t be sitting here today. But I was reflecting the policies of the central government’s spirit.”

Li was referring to his five years as Communist Party secretary, the highest official, of Jiangsu Province, one of the most advanced in China with about 75 million people and a GDP (2008) of about 3 trillion RMB ($440 billion), larger than Austria, Greece or Argentina. As Jiangsu Party secretary, Li introduced a procedure for soliciting public opinion (gong shi) of candidates who were selected for official positions, a procedure which made appointments less opaque to the public.

Li and his team developed what for China was such startlingly fresh transparency in close coordination with CPC General Secretary Hu Jintao who, in his report to the 17th National Party Congress in 2007, alluded to this “oversight role of public opinion” as a model that should be applied to the entire country. But when Jiangsu’s initiatives in political reform were first introduced they were experimental, daring, and controversial.

I told Li that at the time when he introduced these political reforms some Party insiders thought they could damage his political career and they “worried” about his personal future.

Li responded with a laugh. “Worry,” he said, “may be considered as an expression of acceptance or the highest level of sympathy or empathy.” But, Li stressed, “Reformers must take risks.”

As a senior leader focused on political reform, Li Yuanchao has the vision, experience and can-do charisma that characterize China’s future leaders (Chapter 39). * * *
The best way to know China—the best way to do business with China—is to know what motivates China’s leaders and what drives their policies. This book is founded on my discussions with China’s leaders. I speak with them about economic development, political reform, domestic difficulties and international conflicts. I engage them in private companies, state-owned enterprises, banking, foreign affairs, military, science and technology, law, agriculture, healthcare, religion, education, culture, media, press, Internet, film, literature, ideology and more. I invite readers to question the validity of the so-called “China threat” and to consider the relevance of an emerging “China model.”

I do not shirk from confronting China’s leaders with China’s problems. I target economic imbalances, environmental pollution, unsustainable development, human rights, democracy, rule of law, media censorship, corruption, crime, unemployment, migrant workers, minorities, ethnic conflicts, religious tension, social instability, protests and demonstrations, ideological shake-up, shifting moral and family values, death penalty, organs from executed prisoners, global confrontations, resource competition, military expansion, and the impact of the worldwide financial crisis. I find frank acknowledgement of the long road that China must still travel in order to realize President Hu Jintao’s vision of a Harmonious Society. There is a deep conviction that China must never repeat its errors of the past and a fervent expectation that the country’s long future is bright and ascendant.

For three decades, from Mao Zedong’s founding of the People’s Republic in 1949 to the beginning of Deng Xiaoping’s reforms in 1978, China’s economy had largely stagnated: the state owned all the means of production and people had to live and work where they were assigned. Citizens had virtually no rights, civil or human, and even expressions of personal beliefs were restricted. In today’s market economy, people live as they want and work as they please. On the crowded shopping streets of China’s cities, there is movement and choice—expressed by the brisk pace of pedestrians, dazzling arrays of products, latest fashions, and ubiquitous mobile phones ringing constantly. People pursue personal goals and satisfy personal wants. They own private property and start private businesses. And they think what they like—even criticize the government—with the single caveat that they do not threaten the leadership of the Communist Party.

Little wonder then that, for many, the 30th anniversary of reform and opening-up was the most meaningful event of 2008, even more than the Beijing Olympics.

Yet the astonishing pace of reform, which generated growth rates that averaged almost 10% per year for three decades, has naturally also brought with it challenges and contradictions. For all its spectacular development, today’s China has accumulated a host of seemingly intractable problems
which would have been unthinkable in the perennial poverty of its past, including severe income disparity, endemic corruption, and widespread industrial pollution.

Furthermore, the global financial crisis, with its sudden onset and severe impact, threatened China’s stability. “Of course, the world keeps changing,” Li Yuanchao noted. “We have a metaphor in Chinese that the world is like the clouds in the sky, always changing. In some places, the sky turns from menacing with thick black clouds to sunny with no clouds in sight, while in other places it’s the opposite. On Chinese soil, 1.3 billion people are progressing with confidence to a better and brighter tomorrow under the leadership of the Party.”

* * *

New China’s 60th anniversary in 2009 provides my organizing framework for understanding *How China’s Leaders Think* with three periods of (roughly) 30 years each:

- The first, from the founding of the People’s Republic in 1949 to the death of Mao Zedong in 1976, embedding the early idealism followed by two decades of political extremism, mass movements and ideological oppression that culminated in the horrific, decade-long Cultural Revolution (1966–1976).
- The second, from Deng Xiaoping’s seminal “Emancipate the Mind” speech at the 3rd Plenary Session of the 11th CPC National Congress on December 18, 1978 to President Hu Jintao’s “Scientific Perspective on Development” at the 17th CPC National Congress in 2007 and the international financial crisis of 2008.
- The third, beginning in 2009, after all the struggles and accomplishments and with all the problems and challenges, going out into the middle decades of the 21st century.

Each period should be understood in light of its predecessor period: the first in terms of ancient and modern Chinese history; the second in reaction to the traumas and tragedies of the first; and the third in response to the complications, opportunities and responsibilities generated by the second.

The thrust of this book is the future, the third 30 years, the period in which China plays an increasingly central role in world affairs, the period commencing right now. In forecasting this future, understanding *How China’s Leaders Think* is central.

* * *

This book is not a comprehensive description of China, nor a history of the past three decades. It is more an exploration of the present and a forecast of the future in light of the inside story of the past. As the title declares, China’s
leaders are my focus, and I seek to examine how they think as well as what they say and do.

Since 2005, when my biography of former President Jiang Zemin, *The Man Who Changed China: The Life and Legacy of Jiang Zemin* was published in China, the first biography of a living Chinese leader on the mainland, I am asked why did I, a scientist by training and an investment banker by profession, write such a book. Similarly, when my interviews and articles about President Hu Jintao’s philosophy and policies appear in the American and international media, often in opposition to the views of China experts, I am asked why do I, with a doctorate in brain science and expertise in mergers and acquisitions, allocate such time and effort to explain a Chinese leader’s political vision?

The answer to both questions is the same. The reason why I wrote former President Jiang’s biography, and the reason why I explain President Hu’s policies, is because I feel it essential for international readers to understand the true story of China.

Many Western media have a certain slant in their coverage of China and a built-in assumption about the motivation of China’s leaders. It’s not so much that such coverage is overtly or demonstrably wrong, it’s that Western media largely stress the real problems but ignore the real successes; for example, emphasizing the continuing limitations on certain freedoms in China (i.e., no competing political parties, no public political dissent, no free media) while downplaying the enormous advances in personal and social freedoms (i.e., where to live, work, travel; what to study, believe, say; diversity of entertainment, and the like).

I do not believe that, overall, Western media are malicious or deliberately distort the truth (as some in China suppose). There is a common assumption in the West that unless a nation’s political system has multiple political parties that compete legitimately in free elections, a one-person-one-vote democracy, and a free media, that nation is a dictatorship. Furthermore, giving apparent credence to the assumption, there was a time, when Mao still ruled and before the 30 years of reform began, when China was indeed such a dictatorship—a chaotic, self-destructive one at that—and the consequences to the Chinese people were devastating. Thus the common perception in the West is that China’s leaders are authoritarians—not as brutal as was Mao, of course, but coercive nonetheless—and that their primary, if not their sole interest is perpetuating their own power. China’s leaders, it’s assumed, are dictators.

This common perception is untrue. I know some of these leaders personally and they are not dictators. This parody of reality is detrimental to China’s development and corrosive to world stability, because it enables attributions of dire and dastardly motivations to Chinese leaders, and a twisting of the meaning of Chinese pride and patriotism, which, when combined with China’s growing economic and military strength, can give rise to the so-called “China threat” syndrome.

A case in point occurred in 1999, when an American aircraft accidentally bombed the Chinese Embassy in Belgrade during the NATO military
campaign against ethnic cleansing in Yugoslavia. When the Chinese government organized buses to transport students from college campuses across Beijing to the U.S. Embassy, for the specific purpose of protesting, the American media assumed that China’s leaders had orchestrated the demonstrations to whip up nationalistic fervor in order to divert attention from domestic problems. Chinese leaders, however, say they felt that the students could not be stopped, and they were worried that if marauding students were allowed to march across the city their ranks would swell with workers and citizens, creating an even larger, less manageable problem. So busing the students contained, rather than exacerbated, the volatile situation (Chapter 32).

The bombing revealed another dichotomy: More than 90% of Chinese, including highly educated professionals often critical of their own government, saw the American bombing of their Belgrade embassy as deliberate and provocative. The vast majority of Americans, on the other hand, believed that the bombing had been, as U.S. officials maintained, an accident due to “old maps.” Why such disparity? The Chinese have an idealized picture of America as so technologically advanced that it would have been seemingly impossible to have made such a stupid mistake. Americans are quite used to their government making stupid mistakes.

Such gulfs in perception run deep: Many Chinese believe that America seeks to “contain China” and thwart its historic resurgence as a great nation. This is the real reason, many Chinese imagine, why America supports Taiwan—not as a worthy democracy, but as an “unsinkable aircraft carrier” by which the U.S. can assert its dominance over China and keep the “motherland” divided. These Chinese people see America encircling them through military alliances with Japan, Taiwan, and perhaps India; forcing open their markets to control China’s industries and exploit Chinese consumers; fomenting “extremism, separatism and terrorism” in the violent riots or “mass incidents” (or uprisings) in Tibet and Xinjiang (Uyghur Muslims); and introducing Western culture to overwhelm Chinese culture, thereby eroding China’s independence and sovereignty.¹

Many Americans, meanwhile, believe that China is not only a voracious economic competitor but also a looming political and military challenger, an emergent superpower whose opaque intentions grow threatening. The perception is that China acts solely in its own interests, even to the detriment of the international order (e.g., selling weapons to Iran and supporting rogue states like North Korea). China is seen as a mercantile predator which keeps its currency artificially low to boost exports and steal jobs; as a repressed society that tramples human rights to maintain Communist control; and as a potential military force that harbors expansionist ambitions.

China’s leaders, of course, do not deny that their policies benefit their own people. But they assert that, in an integrated global economy, China’s stability and development is essential for world peace and prosperity. Disturb the former, they warn, and you disrupt the latter. One-party rule, they insist, is essential to maintaining such stability and development.