

Chapter 1

The China 2.0 Express Has Arrived

The term *2.0* in the title of our book comes from the increasingly used concept of Web 2.0, defined as a service-oriented architecture that encourages, explicitly or implicitly, human interactions and participation, through which knowledge and content are generated, disseminated, shared, and used over network applications. The success of Web 2.0 technologies is based fundamentally on what is known as network effects: the utility of a network rises as the number of users of the network increases. Initially, it was believed that the value of a network is proportional to the square of the number of users. The success of Web 2.0, however, suggests that the intrinsic value of a network is much higher if it is used in a social fashion. In other words, the number of subgroups or communities within a network that have a high degree of interaction among users contributes more to the utility of the network than the sheer number of individual users of the network as a whole.

Technically, Web 2.0 is nothing new. It is more a new way of leveraging the fundamental strengths of the Web to turn applications into platforms that encourage users to interact with one another, exploiting the potency of network effects

in a social mode, and taking advantage of networks as service architecture.¹ Therefore, Web 2.0 is about people, not technology. The applications on Web 2.0 have been evolving constantly even though the backbone technology stays more or less the same. According to Tim O'Reilly, the Internet guru, in the Web 2.0 era, successful business models embrace a number of key principles: harnessing collaboration surrounding common interests regardless of location of users, controlling user interface rather than software, leveraging customer self-service, and delivering services instead of software packages over multiple levels of devices. All these features, in essence, enable mass collaboration that can be stored and channeled into human intellectual capital. In the Web 2.0 era, innovation in business models is obviously the key to success.

Economic reform and the so-called opening up (*kai fang*) policy have transformed China from an agricultural economy into a relatively mature industrial one in fewer than 30 years. In the process of this particular transformation, there have been two significant changes. First, China has been, to a large extent, urbanized, marketized, and globalized. Second, perhaps more important, people in China have changed their mentality from one narrowly focused on farming to the more open and cooperative mentality required in industry and commerce. Chinese propaganda has always put reform ahead of opening up to highlight the country's economic policy in the past three decades; however, judged by the impact of the two—if they can be separated from each other—opening up should be put ahead of reform. The opening-up policy has opened people's minds and induced a major change in mentality.

In whatever sequence one puts them, China's economic policy in the past 30 years has clearly been outstandingly successful. It has lifted more than 400 million people out of poverty. It has achieved the largest urbanization in the shortest space of time in human history. About 300 million people migrated from rural to urban areas, reducing the proportion of China's agricultural population from more than 80 percent to 56 percent in the past two decades. China has integrated itself into the global economic community. Indeed, this globalization of

the economy highlights China's economic achievements. Foreign direct investment (FDI), for instance, has been an important driving force for China's export-oriented economy. Export volumes from FDI-backed sectors accounted for less than one percent of the country's exports in 1985; this rose to about 45 percent by 2006. FDI contributed to China's economic growth in two ways: it provided much of the capital required for industrialization, and it resulted in considerable improvements in industrial productivity through introducing advanced technologies, business models, and management practices to China. The Chinese manufacturing sector—one of the greatest achievements of China's export-oriented economic policy—has become an interconnected component of the worldwide manufacturing supply chain.

If China was able to weather the impact of the Asian financial crisis 10 years ago because of the relative independence of its economic and financial systems, today it has proven almost impossible for China to avoid the impact of the global financial crisis, which started in the last quarter of 2007 and quickly evolved into a major global economic downturn. The credit crunch in the United States caused people there to watch their spending more carefully. The resulting decrease in demand for Chinese manufactured goods drove many factories out of business and millions of workers out of employment; this has the potential to challenge the political stability of the country. This time, China has certainly felt the blow of the financial tsunami and has been hurt by the economic slowdown in the West.

One thing that is now eminently clear is that the transformation of China was greatly accelerated by advances in information and communications technologies (ICT), especially by the penetration of Web 2.0 in the past five years. Developments in ICT have fundamentally changed how people almost everywhere in the world live, study, work, and conduct businesses. The victory of U.S. President Barack Obama was facilitated (in part, at least) by his campaign's success in mobilizing voters through the emerging social media. The impact of "2.0-ness" globally has been to create a level of interconnectedness and interdependence across national

boundaries, potentially between all people around the world, on a scale never seen before. The rather hackneyed notion of the global village is at last becoming a reality. The impact of 2.0-ness in China, characterized by the emerging power of the social media and large-scale mass collaboration, has been more evident than anywhere else in the world simply because of the sheer scale and scope of the interconnectedness of the users of modern ICT in China today. In contrast to other technology-savvy nations, China finds the development of Web 2.0 manifested in its scale and scope (supported by its massive population); and it has facilitated the emergence of China's new era.

The emergence and development of any networked application (applications dependent on the availability of other compatible components in a networking system) requires creating and implementing network standards that enable the components to work together compatibly and with interoperability in a system. The sheer size of China's market means a solid user base for network standards to grow, thereby facilitating the rise of networked applications. The rapid deployment of fiber-optic networks for cable TV services and data communications in China has been a hotbed for innovations and experiments for new applications, platforms, and business models of Web 2.0.

Development of online social networks in China has created interconnections among Chinese people that were unimaginable even three or five years ago. The collective intelligence created by mass collaboration on those social networks has had a profound impact on China, in almost every respect: technological innovation, the economy, society, and politics. Interconnection and collaboration among hundreds of millions of Chinese is real and, among other things, will be one of the most important means of creating the political transparency and institutional accountability China has thus far lacked in its economic development. A completely new era in China's 5,000-year historical development—China 2.0—has arrived.

This book is about the transformation of China in the context of 2.0-ness: how its society is evolving to embrace both

the opportunities and the challenges of moving forward in the new era; and how the rest of the world can react to this transformation, bracing itself for the changes, perhaps, but more optimistically identifying and capitalizing on the new opportunities. China 2.0 signifies a new phase in China's development and the need for completely revamped thinking about what China is and how it works.

China's Digital Revolution

A digital revolution—the result of more than half of China's 1.3 billion people being connected via mobile phones, the Internet, or both—is having a profound impact on China's modern development, socially, culturally, politically, economically, and globally. To put it into perspective, by the end of 2008 China had nearly 300 million Internet users (about a 40 percent increase over 2007) and more than 660 million mobile phone users (about a 20 percent increase that year). These numbers are still growing significantly.²

In 2008, the overall rate of Internet use in China was 22.6 percent, slightly higher than the world average of 21.9 percent. It is necessary to understand that there is a major digital divide separating urban and rural residents, though the gap is narrowing at a fast pace. Although nearly 80 percent of urban citizens have access to either the Internet or a mobile phone or both, only about 20 percent of people in the rural areas have such luxury, explaining why China still has very high growth potential in both the Internet and mobile markets. The magnitude is, in fact, staggering: in 2008 about 88 million Chinese became first-time Internet users and more than 100 million acquired their first mobile phone.

The infrastructure of China's digital networks is modern and sophisticated, thanks to the boom in the ICT market in the past two decades. For example, more than 90 percent of Chinese "netizens" have broadband access to the Internet because of massive rollouts and competitive prices of DSL (digital subscriber line) networks and nearly 20 percent of mobile phone users had access to the Internet via their mobile phone. With

the approved plan to roll out 3G (third-generation) wireless networks in China, many more consumers will jump onto the wagon of broadband connection through their handheld devices, bypassing the bottleneck of the “last mile” of broadband access to households. The activities occurring in this cyberspace in China include digital entertainment, social networking, personal communications, online news, and e-commerce.

The Internet has already experienced several distinctive stages in its short history. At the Web 1.0 stage, the Internet was fresh from experimental labs and comprised read-only material. All that normal users could do was browse—or “surf”—the Internet to look for relevant content. In the Web 1.0 era, companies using search engines or mass portals as their key business model became the most important players, and some of them made a lot of money. Web 2.0 brought a completely new experience for normal users; it enabled users not only to read but to write on the Internet. To keep it short and simple, the most essential difference between Web 1.0 and Web 2.0 is that the latter empowers normal users to participate in the World Wide Web. At the Web 1.0 stage, Internet users played a less significant role. One can argue that they did contribute to Web page rankings and spending through e-commerce, but their role was rather passive and their collective actions could not have much visible impact. The fundamental elements of the Internet, such as the function of linking all URLs (uniform resource locators), have been carried into the Web 2.0 era. To a large extent, Web 2.0 is regenerating the Internet. Users are more actively contributing to construction of the Web by means of all sorts of innovative applications. In particular, it has opened a brand new chapter of Web services based on virtual social networking. In essence, then, Web 2.0 is not just about linking URLs; it is about linking *people*. Typical Web 2.0 applications are the blogosphere, Wikipedia, bulletin board services (BBS), and social networking services (SNS), among many others.

Contrary to the commonly held view that China trails behind the developed world in the digital revolution, the country is actually leading many developments of applications on

converged digital networks, including the Internet, communications networks, and media. China embraced the Internet and mobile communications late but is catching up rapidly. Chinese consumers are quickly adopting Web 2.0 applications on converged networks, enabling them to obtain and contribute to digital content in creative ways. The Chinese equivalents of MySpace and Facebook, once niche applications, are becoming social interaction platforms for hundreds of millions of people in China. Online social networking has become an integral part of many people's lives and a natural extension of personal communications. Connecting with friends is cited as one of the most important reasons for people to visit social networking Websites; furthermore, these sites are becoming an interactive platform for people to create, exchange, and share ideas.

In many ways, Chinese users are international trendsetters largely because of the youthfulness of its digital community compared to developed countries: more than two-thirds of China's netizens are under the age of 30, and the majority grew up in a digital world that benefited greatly from China's economic reform and opening-up policies. The rise of the so-called digital natives in China has formed a powerful force in the society today. Interestingly, and importantly, the demographic distribution of China's netizens is edging toward the country's overall demographics; to illustrate, the number of male and female users is more balanced in cyberspace today than when the Internet was first introduced into the country.

Chinese digital natives are primarily from the generations born after China adopted its one-child-per-family policy in the mid-1970s. They are looking for friendship and social engagements in cyberspace to compensate for their lonely (and sometimes isolated) childhood. This largely explains the rapid take-off of social networking services, including the blogosphere, community-based forums, and online entertainment, in China. Today, more than 160 million netizens (more than half the total) have a personal blog or space online. Several successful local companies have greatly benefited from China's digital revolution. Compared with their global counterparts, they won the digital market by a large margin by offering local-tailored

solutions. For example, Tencent, by making its free instant messaging application QQ available to more than 400 million Chinese users, has become one of the most successful Internet companies in China and is listed on the Hong Kong Stock Exchange. The key success factor for Tencent is that it offers customized solutions catering to local tastes, unlike its multinational competitor Microsoft.

In fact, digital entertainment from online music, online video, and online games accounts for the majority of cyberspace activities among China's youths and is the driving force behind the growth of China's digital community into the future. Online entertainment is a good substitute for millions of young netizens seeking to enjoy themselves where little entertainment in real life is available. For example, more than 53 percent of online game players participate in massively multiplayer online role-playing games (MMORPGs). In 2008, the total number of MMORPGs reached 78 million.

Instant messaging (IM) has developed much faster in China than in the United States or South Korea, both of which are leaders in cyberspace. More than 75 percent of Chinese Internet users have one or more IM accounts, compared to only 39 percent in the United States and 48 percent in South Korea. IM has surpassed email as the more important and intimate personal communications tool for Chinese netizens. Only 56 percent of Internet users in China use email as a communications tool, and then mainly for business purposes. China's locally born QQ holds the lion's share (more than 80 percent) of the IM market in China. Applications of IM have extended to online chatting, file sharing, information exchange, interactive entertainment, and even business transactions such as presale consultations and real-time after-sale customer support. In recent years, IM has reached mobile space. Fetion, the mobile version of IM furnished by China Mobile, the dominant mobile communications operator there, has overtaken Microsoft's MSN to become the second largest IM application in China. In fact, IM applications in China have taken online communications to a new level. Subgrouping by background, special interest, social

community, and so forth is an important feature of IM communities in China.

Internet media, including online news and information sharing through social networking and instant messaging tools, is the second most popular Internet application after online music in China. Events such as the Olympic Games can often drive a sudden spurt in Internet media usage. Electronic commerce, including e-shopping, e-banking, and e-payments, lags behind other online activities compared to the West. This is due to lack of trust in the security of a virtual world in China and the general underdevelopment of a personal credit system (the base for e-commerce). However, the Internet remains a trustworthy place to search for information on products and services, which consumers then buy offline. The most popular C2C (consumer-to-consumer) Website, *taobao.com* (*taobao* literally means treasure hunting in Chinese), has built a strong brand and business, supported by its own trustworthy online payment application similar to PayPal. Still, many Chinese are skeptical of using their money to buy things they cannot touch. Other Internet applications such as online trading of stocks, online job hunting and recruitment, and online education, are emerging rapidly in China.

Technologies in this area evolve so fast that before we have fully embraced Web 2.0, Web 3.0 is already making inroads into our life. Web 3.0 will be a platform for computers to have dialogues among one another and for humans to have dialogues with computers, all based on open application programming interface (API). In other words, in the Web 3.0 era the whole Internet will become a giant operating system on which programmers can create new applications by wiring various functions into what are called Web services.³ Web 3.0 is perhaps not far away. However, its impact on a social scale—at this stage, despite the fact that Microsoft and Google are both actively advocating the concept of next-generation computing, so-called cloud computing—is still limited. The core of Web 3.0 is still confined to the programming community. It may suggest, though, new models of large-scale collaboration to bolster innovation, because people are using Web 2.0 anyway.

Socially, the digital revolution has broken down the traditional Chinese walls that used to confine Chinese people within certain boundaries. It offers Chinese unprecedented freedom to voice and mobilize their opinions and demonstrate their individuality, which was not previously possible in China. Cultural values in Chinese society are also changing, perhaps supplying a deeper explanation for all of these transformations China is experiencing today, and more is to occur in the coming decades. For more than 2,500 years, Confucianism has dominated all aspects of Chinese society, from individual to family, from group to community, from organization to government. However, the influence of these values is diminishing, and these cultural changes are most evident among China's digital natives, whose value system is greatly influenced by modern Western culture. The cultural divide between this group and their Western counterparts is becoming blurred. Once they become a more significant social force in China, the old Confucian-based philosophies will be seriously challenged.

Traditionally, the Internet played the role of a channel to distribute content to a largely decentralized audience. With the boom in Web 2.0 technologies, the Internet has gradually transformed into playing a central role in creating as well as distributing content, either through professional newsmakers or through the collective intelligence of the crowd. On the evening of February 9 (January 15 according to the Chinese lunar calendar), when China concluded its 2009 Lunar New Year celebrations by setting off fireworks, the tower attached to the landmark headquarters of the China Central TV (CCTV, the state-owned central broadcaster) station⁴ was in flames—and, ironically, CCTV was reporting the wild bush fires in Australia that killed more than 200 people and destroyed hundreds of homes. It was Hong Kong's Phoenix channel (a Chinese language channel featuring current affairs) that first broadcast the fire that consumed the CCTV building, using video images captured on mobile phones by onlookers. This incident illustrates the dual role of the Internet and mobile communications as both content maker and content distributor. Of course, this

dual role has also called into question the authenticity of news, information, and stories in cyberspace. In November 2008, Baidu, a NASDAQ-listed China concept firm holding more than 70 percent of the market share of Internet search engines in China (compared to Google's 25 percent), was exposed as having manipulated the rankings of its search results. Baidu was first blamed for accepting bribes from the dairy giant Sanlu to block any negative reports and comments on the impact of melamine-tainted baby formulas. Later on, a series of reports by CCTV revealed that Baidu manipulated ranking results of Internet searches based on the bidding price advertisers were prepared to pay. This exposure saw Baidu's share price plummet 25 percent overnight, amid the financial crisis on Wall Street. The business model Baidu is built on and the relevant regulatory framework of the Internet in China have been seriously challenged by the public. Fundamentally, the public is asking a simple question: Who is accountable for the authenticity and accuracy of information online?

The scale and speed of these developments have pushed forward the digital revolution that is having such a significant influence in so many ways on modern China. For anyone who wants to gain a deep understanding of the transformation China is undergoing, it is imperative that they understand the aspirations, behaviors, and expectations of China's digital community.

The digital revolution in China also has vast implications for many others, not least the companies aspiring to sell to China's billion consumers. Creating innovative ways to reach and build connections with the Chinese digital community is essential not only in relation to business but also in politics. Every company doing business with China and every country building diplomatic links with it must understand the nature of digital activities there, or put itself at risk.

The Collective Power of the Chinese Public

In May 2008, when China's Olympic torch relay was interrupted in Paris, the French retail giant Carrefour suffered

a boycott by millions of consumers in China. The attack on China's wheelchair-bound retired fencer, a beautiful young woman, by a French pro-Tibet activist during the torch relay in Paris shocked and angered countless Chinese citizens. An angry public used the Internet as an interactive platform to organize a massive action against Carrefour, which the public considered a representative of France. The action moved from protests in cyberspace to real action. It is not difficult to understand that people might transfer their anger or other emotions to some kind of iconic target if the original one is out of reach. Being a cultural icon (and a familiar one) of France, Carrefour became a substitute outlet for venting Chinese public anger, triggered by anti-Chinese activists in France. The company's failure to address the issue of public anger immediately induced even more negative feelings among the Chinese public. Though the boycotts were relatively short-lived, the financial and public relations consequences for Carrefour were large. The incident graphically demonstrated the collective power of Chinese consumers. It could be argued that their actions were somewhat irrational and perhaps unfair insofar as their victim was not the perpetrator of the crime; that they could be mobilized so quickly and massively was a revelation. Among other things, it suggests that multinational companies operating in China should take public opinion more seriously than they have and devise strategies to deal with the Chinese public in a more culturally sensitive fashion.

Nationalism was triggered and running high among Chinese people in reaction to Western media coverage of the Tibetan crisis and the unexpected mass protests against the Olympic torch relay in several Western cities in April 2008. Back in China, a young programmer in Beijing designed a program that allows users to enter a simple text-based input to display a red heart next to the word *China* (Red Heart China) on Microsoft's MSN (an instant messaging application), meaning "love China." It started with a strong patriotic reaction against France following the torch relay incident. But within a few days, millions of MSN users (there are more than 17 million in China) added Red Heart China to their virtual signatures. The fact

that Chinese people worldwide use the red heart to express their love for China and to support Beijing's Olympic Games reached the masses through word-of-mouth communication. Once the number of users who accepted the message and added the red heart to their signatures reached critical mass, distribution of the message became self-sustaining, like other products and services with network effect. Everybody had his or her reason to follow suit whether to show unity in support of the Olympics in China or purely as an action taken under peer pressure because of the network effect; whatever the reason, again it impressively demonstrated the rise of the collective power of the Chinese public.

In the past decade, especially since the advent of Web 2.0 technologies, Chinese consumers have obtained freedom to speak and freedom to interact with others (albeit in cyberspace) in a way that none of their ancestors did. This mass collaboration marked a colossal shift in information flow and opinion mobilization in China, which has changed many fundamental aspects of China's society. From selection of a fashion item to discussion of a topic online and emergence of a consumer brand, the Internet has overridden many of the traditional rules that used to dominate political, economic, and social lives in China.

As we discussed, the more people are connected online and the more online communities are formed in China, the more valuable this interconnected network of Chinese people becomes. This network is composed of hundreds of millions of Chinese who are connected by the Internet, mobile phone networks, TV and radio networks, and even display screens for commercial advertising. For example, SMS (short messaging service) over mobile communications networks has become an important interactive communications tool to complement voice traffic to link consumers with merchants as the former respond to programs on TV or radio. Beijing Communication Radio (103.9 FM) uses SMS to encourage listeners to send real-time traffic information, as well as participate in discussions about general social trends. The collective voice of social media on such platforms has

formed a powerful force for aggregated public opinion. In fact, FM103.9 has become a significant media brand, attracting many advertisers and listeners, especially drivers during rush hour in Beijing.

China is moving ahead of the West in large strides, both technologywise and businesswise, embracing many new applications of information and communications technologies. China's manufacturing capability in ICT has made impressive progress as well. In recent years, China has overtaken the United States to become the world's leading exporter of information and communications technology products such as mobile telephones, personal computers, and other digital devices.

It is evident that the advancement of technologies in the ICT sector in China has been a major driver in transforming the country from the rather closed and isolated society it was 30 years ago into the much more open and dynamic one that it is today. Introduction of a cluster of new technologies over the last 20 years has brought dramatic changes within the IT and telecommunications sectors, and the economy as a whole. Significant technological breakthroughs, culminating with the Internet and mobile networks, have created a new environment characterized by the convergence of knowledge and competencies, as well as industries and users, previously belonging to separate sectors. This has also seen the emergence of a new ecosystem combining communications, computing, entertainment, and media. The convergence of technologies and industrial sectors has encouraged innovation and called for major regulatory changes in China. The foreign venture capital community has invested heavily, and some are harvesting handsomely from their investment in the value-added applications around the Internet, mobile communications, and Web 2.0 technologies. The fact that the administrative agency looking after China's information and communications sector has gone through six major structural changes in a relatively short period attests to the sector's economic and industrial dynamics.⁵

It is obvious that the development of the Internet has made it one of the mainstream personal communications tools in China; it links people across continents easily and instantly, through the blogosphere, social networking services, and instant messaging services. It is not difficult to foresee that the next stage of Web development, instead of inserting computers more into the equation, is to expand more into people's business and personal lives.

First, technological advancement in ICT has transformed how people communicate with one another; as said earlier, more than half the Chinese population is now interconnected via mobile phones, instant messaging, email, VoIP (voice over Internet protocol), and the like. The free flow of information and mobilization of public opinion challenges the long existence of "Chinese walls" that defined clear boundaries among organizations, communities, social groups, and individuals.

Second, beyond being communications tools, applications of Web 2.0 have brought profound changes to China's social landscape. Most evident, the increasing connectivity and interaction of the Chinese people enabled by the technological advancement of the Internet and mobile communications has empowered millions of Chinese to form a collective power, in business and in politics, that becomes too important to ignore. As a result, this collective power has caused paradigm shifts in China's role in technological innovation, business and financial systems, social and cultural values, and international affairs.

The interconnection of millions of Chinese empowers them as a group, as consumers, and as social members in a political regime to form a collective power to interact with merchants and policy makers in a way they never experienced before. Formerly, the Chinese public was a passive receiver of messages from the top of society or within very confined boundaries; today everyone can be a newsmaker and broadcaster. This collective power is only getting stronger and more sophisticated by the day. To understand what the public is thinking and to identify the directions of Chinese public opinion and mass movements is very important for Western business and political bodies.

Chinese consumers have been transformed from the price-sensitive group they were 30 years ago, buying only government-allocated products, to many diversified and dynamic groups of consumers. Some of them are not only quality-conscious but also brand- and design-conscious consumers who develop strong brand loyalty on the basis of embedded cultural values. This rise of Chinese consumers has profound implications for multinational companies in the country. The emerging power of consumers may well decide the success (or failure) of a consumer goods company globally. Further, this power may make the best business practices in China also best global practices.

Multinationals are competing not just with one another or with domestic firms. They are competing with a group of emerging “China concept” startups, operating in China but listed on foreign capital markets. These foreign-venture-capital-backed companies are following an almost singular model: the business relies on a network effect, either real or virtual, which generates almost endless revenues thanks to the emerging consumption power in China. These groups of successful entrepreneurs are leveraging resources from various sources and are not just a group of multimillionaires, but one of the most important driving forces behind China’s sustainable growth. This emerging group of business forces represents a new power that knows Chinese culture and understands the subtleties of dealing with the Chinese public, as well as being masters of modern management practices and corporate governance.

Conflict of Civilizations

The public backlash in China against foreign critics of the government and people—for example, in Western media reporting the antigovernment riots in Lhasa, Tibet, in the spring of 2008 and the subsequent crackdown by Beijing—shocked the world. Some even remarked that this nationalism was the result of a “victim mentality,”⁶ claiming that because the Chinese people had suffered imperialism at the hands of several Western powers a hundred or so years ago, and are still arguably

enduring the hostility of the West toward China's recent economic rise, China cannot take any criticism from the West. Certainly, there is extreme sensitivity to such matters in China. For instance, when French President Nicolas Sarkozy, despite strong protests from the Chinese government, met Tibet's spiritual leader the Dalai Lama in Poland in November 2008 just before the scheduled Asian-European Summit, the Chinese government delayed the summit, protesting against Sarkozy's "anti-China" decision. The French ambassador in Beijing was called for an "emergency meeting" with the vice minister of the Ministry of Foreign Affairs in China. Sarkozy's actions elicited wide condemnation by Chinese netizens, whose comments focused on the "arrogance of anti-Chinese" elements abroad. That the flags of both France and the EU were in the background of the meeting also attracted much adverse comment. Sino-French relationships were, once again, strained. It would be easy to dismiss such public backlash as protests orchestrated by the Chinese government; more likely, they represent spontaneous expression of Chinese nationalistic sentiments.

The extreme level of pent-up frustration, or even anger, that the Chinese public feels about the West has its foundations in a history of abuse over the past century and a half. There are deep misunderstandings based on real differences in culture, language, ideology, ways of thinking, and even civilization that divide the Western media and the Chinese public. From a Chinese perspective, the Western media report affairs in China through a very narrow lens, to cater to the tastes of their local audiences. The interpretation that the Chinese public puts on such media coverage is that the West expects all nations and cultures to follow in Western footprints in seeking to achieve social and economic progress. The Chinese consider that theirs is a very old civilization that overshadowed the West for about 2,000 years, but the West often forgets this history mainly because in the past 150 years China suffered international humiliation, political chaos, and economic collapse. As a result of the economic revival of China in recent decades, Chinese are gaining pride as a nation and the

country's international status is improving. This is perhaps the core source of nationalism among the public. It should be said that the misunderstandings creating this nationalism have the potential to be very destructive.

There are, undeniably, significant differences between traditional Chinese values rooted in Confucianism and core Western cultural values. Chinese cultures respect seniority and superiority in the social hierarchy (that is, China has a power-based social structure) and emphasize collectivism, compared to the West's more merit-based social structure and individualism. In China, for example, unity of country has been a widely shared cultural value for thousands of years. In fact, the term *country* in Chinese means "country" plus "home" (*guo jia*). Chinese people's strong sense of motherland and national belonging—no matter where they choose to live—is sometimes not easily appreciated by Westerners for whom country is where your citizenship is, or simply where you choose to live.

There are various dimensions for measuring how people relate to one another in different cultures.⁷ Among others, the individualism versus collectivism dimension is one that differentiates Chinese quite clearly from Westerners. Individualism is described as "a prime orientation to the self," and collectivism as "a prime orientation to common goals and objectives."⁸ China has by all assessments been a country (not just since 1949 but for thousands of years) in which collectivism was a dominant cultural value. This explains why, with growing power globally, the Chinese public has regained its national pride and patriotic feelings toward the country. Even so, it is common to see Chinese netizens, especially intellectuals, criticizing their government and pointing out the dark side of Chinese society. However, the Chinese perspective is that the West should respect that it is central to Chinese culture to make these criticisms and expose domestic or internal shortcomings. External pressure has only triggered Chinese nationalism, which, if not handled carefully, could quickly grow into potential conflict between the West and China. It has been claimed that the virulent outburst of anti-Western fervor and the protests by overseas Chinese communities over the

West's bias against China all demonstrate a worrying spread of Chinese nationalism.

Historically, the unity of the country has been highlighted during wars and natural disasters. Such unity the people was the base for the Communist Party of China in fighting the anti-Japanese war. However, unity was substantially broken during the seemingly endless class struggles that occurred during the Cultural Revolution. Now, unity is reemerging in dealing with the devastating earthquake in Sichuan that killed about 80,000 people in May 2008, the government responded in a timely and transparent way for the first time in modern history. This significantly impressed the world. The Chinese people, perhaps for the first time since the foundation of the PRC in 1949, showed great strength, courage, unity, tenacity, and cooperation in rescue and restoration efforts. This change indicates a channel for discharging the accumulated frustration of losing long-embedded social values during rapid economic development.

The advancement of the Internet, especially through deployment of Web 2.0 technologies, which has made mass collaboration and collective intelligence possible on a large scale, has changed many fundamental things in China. The sense of being hurt emotionally by Western media coverage is amplified in the Web 2.0 era. Anti-Western feelings, which are sometimes compounded by what Chinese believe are rather arrogant attitudes demonstrated by some Westerners, have grown profoundly and become widespread in China. This is occurring not only among the older generations who were "brainwashed" to be deeply suspicious of the West and what they were told was their rotten capitalism, but also among digital natives, the generation that has grown up in the new information age and that, to a large extent, has been immunized against old communist values. This is, no doubt, alarming for the West because more than two-thirds of the Internet users in China are members of this younger generation; yet it is they who, in the name of national pride, are forming the strongest force in confronting what they see as another Western assault. Further, although collectivism remains strong, especially in the ties of family members, there is evidence of a discernible and significant movement among

younger generations to a more individually focused set of values. It is therefore hard for Westerners to comprehend this nationalistic sentiment; Chinese youth has demonstrated that, first and foremost, it cares about the unity of the country. This takes precedence over demands for a more transparent political regime, greater government accountability, and increased freedom of expression and political participation.

Nevertheless, many events have somewhat changed the lens that Western media use to observe China in recent years. Naturally, the views are still mixed. On the one hand, the West was amazed to see considerable changes in how the Chinese government dealt with natural disasters and organized and hosted the Olympics and Paralympics in Beijing. On the other hand, the Western media tagged Chinese citizens' unified efforts to protest against the threatened boycott of Beijing's games and the disruptions to the Olympic torch relay in the West as aggressive nationalism. Among other things, China's political regime, its alleged abuse of human rights, its treatment of Tibet, and its supposed potential threat to world order and peace have been the cause of much Western criticism.

For most people in the West, their media are among the few windows through which to observe China. In the second half of the twentieth century, many mainstream Western media outlets reported on China critically or even negatively, in large part no doubt because world views on China were dominated by the United States's anticommunism during the Cold War era and, after the Cold War, by concerns about China's increasing economic and military power, which supposedly would upset the existing world order. Though they enjoy a relatively high degree of freedom of speech, Western media are predominantly profit-driven businesses. It is hardly surprising, then, that they are looking for angles that can increase their sales domestically. Critical and negative news attracts more attention than good-news stories. Furthermore, as Samuel Huntington argues in his book *The Clash of Civilizations and the Remaking of World Order*, the developed world maintains a sense of superiority, and as a result,

at least some Westerners are still reluctant to accept China's increasing role in international affairs and hesitate to partner with China on equal terms.

Consequently, stereotyped views about China and the Chinese people have prevailed in the West for a very long time. For example, it was widely believed that as the result of poor breeding and inappropriate education, many Chinese lack graceful manners, that Chinese lacked the courage to pursue what they believed was true, that Chinese like shortcuts and accept cheap or free things, that China was never a society with a strong legal system and robust institutions, that Chinese do not like to obey laws and follow rules, and so on.

There may be a kernel of truth in some of these stereotypes, which perhaps reflect certain aspects of China's recent history. Road traffic behavior in any of China's megacities such as Beijing or Shanghai may suggest, for example, that some of these observations are correct; many road users, especially private automobile drivers, choose not to obey traffic rules and traffic controlling devices, preferring shortcuts despite the dangers posed to other road users. However, such selfish behavior has nothing to do with traditional Chinese cultural values. If one is searching for an explanation for such behavior, it is much more relevant probably to focus on the past 40 or 50 years. During the Cultural Revolution, class struggles deprived people of their rights to access material goods—and not infrequently their basic human dignity. Citizens were forced to say things they did not believe were true. The rapid economic development that followed the Cultural Revolution liberalized the minds of hundreds of millions of Chinese. Deng Xiaoping's proclamation that “getting rich is glorious” became a motto for many Chinese, especially during the first two decades of the reform. During this period, when people sought frenetically to pursue personal wealth, the traditional ideologies and moral grounds that had constrained and guided people were, to some extent, trampled upon.

It is common, of course, for Western media to report on their own countries' policies in a critical fashion; they cannot understand why they should not do the same in relation

to China. In the West, the media can significantly shape the political landscape; they are believed to be an outlet for public opinion. Western criticism of human rights issues in China has been based on their perceptions and beliefs that the spiritual and political rights of Chinese citizens have been transgressed. Yet, until the advent of China 2.0, the majority of the Chinese public were oblivious to spiritual and political satisfaction.

It might be argued that happiness comes from satisfaction in three main areas: material, spiritual, and political. People can pursue spiritual and political satisfaction even before they are satisfied at a material level; however, most Chinese are content to achieve material satisfaction. Contrary to the views of much of the Western media, normal Chinese “feel happy” even without Western democracy and political freedom. In fact, it is worth reflecting that the pursuit of spiritual and political satisfaction on such a massive scale during the Cultural Revolution, without substantial material satisfaction, proved highly destructive, obliterating trust among people and driving them to extremes of selfishness.

China used the Beijing Olympic Games to showcase its emerging power before a rather skeptical world. Beijing presented to the world a futuristic airport terminal and state-of-the-art stadiums, spectacular shows at the opening and closing ceremonies, and the outstanding performance of Chinese athletes; it also amazed the world by the sheer scale of modernization that the city has achieved in the past 30 years. The *Economist* described the Beijing games as having achieved an effect similar to Tokyo’s in 1964 and Seoul’s in 1988 in yelling to the world “the coming of age of an economic power.”⁹

Many people in China took great pride in the new face of Beijing presented during the Olympic Games. For example, contrary to what some Western media reported, most Beijing citizens did not take the government’s actions in mobilizing the necessary resources to prepare for the games as an abuse of their human rights. It may be a disappointment for some Western observers that the Beijing Olympics did not turn out to be the turning point for China’s government in

the way that the Seoul Olympics did in South Korea in 1988. China's gradual and careful embrace of political reform is warmly welcomed by the vast majority of people, because sustainable economic development relies on a stable regime, something not easily achieved given the size of the country and the diversity of interest groups. It would be very easy to overturn the apple cart just as it begins moving. For instance, after the government initiated reforms to privatize urban housing in 2001, it not only greatly stimulated the consumer market for housing supplies and related goods but also triggered demands for private property rights. This explains why the middle class in China objects to any regime change that might put its precious new assets in jeopardy.

The *Economist*, as one of the world's leading newspapers, stands at the front line in reporting insightful and timely social, economic, and business issues on a global scale. Sometimes, however, it can be very critical of both China- and non-China-related issues. After it published several articles criticizing the Beijing Olympic Games, the comments, especially from ethnic Chinese readers (obviously, readers with proficient English, who can afford the not-inexpensive subscription and most of whom live outside China), severely counterattacked such criticism, suggesting that Chinese nationalism is not confined to China's turf but is widely shared by ethnic Chinese living overseas.

China recently became the third country in the world, behind the former Soviet Union and the United States, to have an astronaut walk in space, another achievement on its road to modernization and another manifestation of the dramatic transformations it has been undergoing. Such changes are not just reflected in Beijing's motorway rings and Shanghai's skyline—of course, those changes are legendary themselves—but are more subtly reflected in the shifts in people's lifestyles and mind-sets. For example, a dozen or so black-and-white newspapers and magazines on the back of bicycles peddled by staff of the state-owned post office have been replaced by newsstands on the corner of almost every street displaying four-color glossy magazines richly

covering everything from fashion and healthy living to stock market analysis and interviews with high-technology gurus. Up-market night clubs, bars, and restaurants attract the bulk of their customers from among normal Chinese, in stark contrast to the handful of Western restaurants open only to foreigners 30 years ago.

Along with its modernization, China is gaining influence in global affairs. The rise understandably causes as much anxiety as applause. Western governments have expressed concern about their national security, their economic interests, and cyberspace safety, which they fear might be threatened by an emergent China. Commercial organizations worry about whether Chinese firms with global ambitions may ignore basic legal, ethical, and environmental standards in their desire to secure access to limited natural resources.

In fact, China is learning hard lessons in presenting itself on the global stage. I still vividly remember, on a hot night in July 1993, the devastating disappointment among students on the campus of Peking University when the announcement was made in Monte Carlo that Beijing lost to Sydney, by two votes, the opportunity to host the 2000 Olympic Games. Though it was speculated that Sydney's delegates may have "bribed" the International Olympics Committee (IOC) voters, the reality was, first, that Beijing was not ready to host such an international sports event, and second, the bidding presentation about China at that time was not impressive at all. Beijing's first bid to host the Olympic Games happened not long after the end of the Cold War, and the quelling of the student-initiated democratic movement, the so-called Tiananmen Incident, in 1989. At that time, China's bid to join the GATT (the General Agreement on Tariff and Trade, which was later expanded to cover intellectual property, services, capital, and agriculture and became the World Trade Organization or WTO) failed for the sixth time. Clearly, China had little influence over international affairs then.

Eight years later, in July 2001, millions of Chinese spent another sleepless night waiting for the announcement that Beijing would be the host city for the twenty-ninth Olympic

Games in 2008. Accordingly, in August 2008 Beijing welcomed the world with red lanterns and colorful posters. The air was unusually clear and clean because of special pollution control measures. The dazzling opening and closing ceremonies decorated the city with lavish fireworks. China won more gold medals than any other country attending the games. Beijing presented a brand new image of China to the world. "China didn't just walk onto the world stage. It soared over it," the Associated Press reported of Beijing's stunning opening ceremony for the games.

It seems that China is now more comfortable with its presentation in front of the world than ever before. In the seven years during which Beijing was preparing for the games, China made a lot of progress in integrating itself into the global arena; the country was awarded membership in the WTO after decades of hard negotiations and demonstrated its economic might during the Asian financial crisis at the end of the twentieth century by holding the value of its currency, the *renminbi* (RMB).

While the success of the Beijing Olympic Games changed the world's perception of China temporarily, it did not last. Once the dust settled, the world reverted to its old critical way of looking at China, only with elevated expectations. The world recognized that China had turned itself into a global power. However, as China's global impact expands, so do the anxieties from the West, especially the United States.

It is, perhaps, true that adopting a critical approach to China's human rights issues and to a variety of other policies of the Chinese government may help Western media buy support from their domestic audiences. However, negative coverage of China on the part of mainstream Western media is taken very adversely by the Chinese public and may have a disruptive impact on the world's understanding of China and therefore on cooperative relations with China. Indeed, as Susan Shirk points out in her book *China: Fragile Superpower*, even though Washington's typical approach to human rights issues in China buys support from domestic American audiences, it is in fact counterproductive in solving China's problems.¹⁰

The Chinese ambassador to the United Kingdom, Fu Ying, put it this way: “Some Westerners are deeply biased against socialist China and simply incapable of being objective when it comes to China. . . . The pool of information about China is relatively short on truthful accounts and suffers from a serious imbalance.”¹¹ This information gap is caused by multiple and profound social, political, and cultural differences between the West and China.

It is evident that Western perception of China, or the public presentation China gives to the world, cannot reflect what China really is today, good or bad. It is not just a matter of biased perceptions by the Western media; it is the lack of a bridge between the Western media and the Chinese public. The nub of the problem is that the world still has surprisingly little idea of the country that will inevitably increase its influence and, quite likely, have a dominant impact in the global arena. It is not easy for Western audiences to change their perceptions, especially about something they do not have enough insightful information on. No matter how much China trumpets its ancient civilization and cultural values or its recent achievements, Sarah Palin, the U.S. Republican Party’s nominee for vice president in the 2008 elections, made for more interesting reading (or watching) than the landmark rural reform in China announced at the same time although it affected 730 million people’s lives. The Chinese government needs to put together a presentation about the country that should aim at gradually changing perceptions in the West about China. The image of fierce-looking dragons against the background of a five-star red flag, which has long been associated with the Western media’s critical opinions about China, should be replaced by a more benign image of a global citizen taking its responsibilities as an emerging superpower seriously, especially when the collapse of the credit-based financial system has greatly shaken the fundamentals of the free market system in the West. It needs to get across the message that being red does not necessarily mean being aggressive. There can be no doubt that China’s new global role—China 2.0—is here.

Enacting and presenting this role in a nonthreatening, positive fashion is a task yet to be tackled.

The conflict of civilizations cannot be resolved merely by artful diplomacy. Nonetheless, assurances of respect and esteem from the West can certainly help channel the nationalism of the Chinese public in the right direction. China needs the West to respect its cultural heritage and its choice of how to develop itself. It requires a responsible and respectful press in the West to have an open-minded and flexible view about how development can be achieved and the reality of the magnitude and range of issues that confront China in getting there.

Neither Black Nor White, But Gray: China's Unique Business System

According to the 2008 *Hurun* Rich List, a ranking of the wealthiest individuals in China, the boss of the electric and electronic products retail giant Gome, Huang Guangyu, was the richest man in the nation. However, like some of his predecessors—Yang Rong, Yang Bin, and Gu Zhijun, among others—Huang did not stay in the top spot for very long. In late 2008, it was reported he was under investigation for “economic crimes.” *Hurun*'s Rich List has now accurately “predicted” on many occasions who could tumble into a cell in a Chinese prison fairly soon. Little wonder, then, that it is known colloquially in Chinese as the “butcher's list”!

Eton-educated Englishman Rupert Hoogewerf (his name translates as “Hurun”) came to Beijing to learn Chinese in 1990 and then went to work as a chartered accountant for Arthur Andersen back home for seven years before he moved to live in Shanghai in the late 1990s. He began compiling a list of China's richest people as an independent researcher using his accounting knowledge and experience, and the list made the cover of *Forbes* magazine in 1999. *Forbes* had created its own “China's Rich List” in 1995 but aborted it after experiencing certain “difficulties.” The rather raw list was hit

by skepticism and criticism after it was published; people who were on the list criticized its invasion of privacy and threatened to take legal action against the publisher, and people who were not on the list challenged its methods and credibility, criticizing overestimation of the wealth of others. In any event, the list has certainly made for Hoogewerf quite a reputation in China.

From the late 1990s to around 2005, the attention to and pursuit of wealth pushed *Hurun's* lists to the center of attention among China's rich community. The practice of accumulating wealth in "gray areas" among Chinese entrepreneurs, especially at the start-up stage, was an open secret in China. For as long as there was no publicity, those who had benefited were safe. After they were exposed in a magazine such as *Forbes*, however, Chinese officials were induced to take action against them by means of tax audits and corruption investigations. It was not hard to understand that some fell because of malpractice.

Hoogewerf left *Forbes* in 2003 (or the other way around) and started his own independent publication, the *Hurun Report*. He is famous in China's superrich community, ranking not only their wealth but also their art collections, philanthropic behavior, and social responsibilities. His lists extend to specific business sectors such as retail, real estate, IT, energy, and finance. Whether he really understands how the wealth he documents has been created and accumulated is not important any more. The *Hurun* reports are a unique phenomenon in China. His bold, perhaps unintended, actions have opened a window through which the world can have a glimpse inside the black box of wealth in China.

The achievement of China's economic reforms in the past 30 years has proven the wisdom of what Deng Xiaoping, China's pioneer reformist, said about the approach of "crossing the river by feeling the stones." Indeed, the essence of any reform is to replace an old order (rules, structures, people, institutions) with a new one. The consequence was inevitably that the vested interests of groups that had benefited from the old order would be hurt. Historically, social reform in

China has occurred from the bottom up; people were jammed into predicaments so that only reform could save them. Many specific economic reforms in the past 30 years took place from the bottom up. These informal reforming practices initiated by grassroots people that eventually reached the top and called for institutional and regulatory changes. This has been a powerful driving force behind China's economic development.

Along with the fast economic development during the past three decades, China has formed a unique business system. Bottom-up implementation of economic policies, especially at a micro level, implies that any changes brought about by reform are challenging the existing system and shaking vested interests in the system. This has led many business "adventurers" (reformers) to explore new areas of business by circumventing old laws and rules. In the void created by the time lag between removal of old laws and rules and enactment of new ones, there emerge gray areas in the business system.

Gray areas are an important feature of the business system and have uniquely Chinese characteristics. There are many unwritten codes in this system. A lack of transparent rules, and the absence of respect for such rules, masks both success and failure in this system. Therefore, private entrepreneurs and enterprises face enormous challenges in finding an optimal position and managing the distance between their businesses and the government in this business system. Opportunity often means temptation. Abundant opportunities in the early years of the economic reforms lured many people to take risks, sometimes at the price of business ethics. Some others chose to take shortcuts by ignoring basic principles of business and fundamentals of management. It is not surprising that some of them ended up serving many years behind bars.

In this system, the optimal distance between private enterprise and government has been a hot topic for nearly 30 years. Yet it is still too mysterious for many to grasp. In fact, to a large extent the business system reflects a game between government and private business. This is also a game between China's

state capitalism and emerging private capitalism and can be seen at three levels.

First, macroeconomic readjustment is a periodic activity in China. Since 1981, the Chinese government has imposed macroeconomic readjustments every five years. Almost every time, such policies targeted reforms for private enterprises and the vulnerable private capitalism that lies behind them, hardly touching (until the late 1990s) the state-owned enterprises concentrated in pillar industries the government believes have strategic significance for the country. In such an unstable macroeconomic environment, some bold entrepreneurs tested the water in state-controlled industrial sectors but quickly found themselves exposed to even tighter control. In fact, the greatest risk faced by private enterprises in those years was from fluctuation in policy.

Second, 30 years of reform largely separated the ownership of enterprises from government, marking the end of an intimate and unclear relationship between government and business under the centrally planned economy. From 1998, the state-owned-enterprise (SOE) reforms forced state-owned capital to withdraw from market competition. Large-scale ownership reform wiped about 40 percent off the value of state-owned or state-held enterprises between 1998 and 2003, according to statistics of the SASAC (State-owned Asset Supervision and Administrative Commission). The reforms resulted in an evident divide between local governments and local enterprises that used to be linked by economic benefits (prominent local enterprises, for example, were under the protection of local governments).

Third, China's economic development caused huge disparities between rich and poor individuals, as well as between rich and poor regions. Each region has its own vested interests to protect. Therefore, enterprises seeking to integrate their advantage across regional boundaries often find they fall victim to the conflict between interest groups across those different regions. Facing state-owned capitalism, private capitalism can only cooperate with it rather than compete, and support it rather than replace it.

It is a very hard task for private capitalists such as Gome's Huang to find the right balance and dance gracefully within the finely defined boundaries of business ethics. At the beginning of the economic reform process, those entrepreneurs who challenged the existing system and pioneered new practices often made a fortune. In those days, they were considered mavericks and heroes. The traditional Chinese value of respect for knowledge and seniority quickly gave way to admiration of wealth and business success. With the deepening of globalization and emergence of mass interaction and collaboration through Web 2.0, many long-accumulated problems such as the disparity of wealth between the rich and the poor, the imbalance in development among regions, and the divide between urban and rural citizens started to surface. The public began to challenge the justice of concentrating wealth in a small segment of society and demanded changes in wealth distribution mechanisms. Private entrepreneurs are largely no longer worshiped by people; more frequently, they are regarded as greedy and corrupt people who have taken advantage of China's gray business areas. The recent awful stories of fraud by the country's dairy firms may be just the tip of the iceberg of the gray practice in China's business system.

“A Harmonious Society”: Political Slogan or Imperative for Sustainability?

Thirty years of economic reform have transformed China from a typical agricultural economy into a relatively mature industrial one. Apart from lifting more than 400 million people out of absolute poverty (defined as an expenditure level of US\$1 per day),¹² the reform has greatly liberated people's thoughts and invigorated productivity, which are the foundation of China's economic success in the past three decades. As a result, the country has accumulated wealth and greatly improved living standards. China does not need to struggle with the widespread poverty that was prevalent for so many years although the problems of the impoverished countryside

remain a concern. However, today it is dealing with an emerging problem of an imbalance in development. The high costs paid for economic development in the past three decades, especially social costs, largely come from an unhealthy institutional environment that challenge the sustainability of China's development. It is obvious that progress in developing the social, legal, and political systems required for constitution building and institutional accountability lags behind the rapid progress in economic development. To overcome this developmental imbalance, reform of China's institution building—political reform—is imperative.

From the agendas of China's top political meetings over the past 30 years, it is not hard to decipher that China's economic reforms went through three distinctive stages. In the first stage, between 1978 and 1991, the reforms focused on reestablishing the "standards of truth"—restoring the Marxist ideology of practice being the sole criterion for testing truth; in the second stage, between 1992 and 2005, the reforms focused on establishing a socialist market economy and building the necessary institutional and legal frameworks; and in the third stage, beginning in 2005, the reforms have focused on constructing a socialist, harmonious society.

The construction of a harmonious society is not a reversal of the development of a market economy. Institutional accountability and legal enforceability are critical for construction of a harmonious society aimed at eliminating unharmonious elements in China's society, such as unfair wealth distribution mechanisms for the outcomes of economic development, large disparities in income between rich and poor, insufficient investment in public sectors such as public health and education, and pervasive corruption, to name just a few. Core to a harmonious society is a separation of the functions of government from the market mechanism. Only a clear-cut boundary between the two can eradicate the roots of long-lasting *guan xi*—through which government abuses its power in the market to trade for special interests. Only in a sound institutional and legal environment, without much interaction between government and market, can China's market economy

become more transparent and more efficient. In summary, an efficient economic mechanism, including institutional accountability and legal enforceability with clear-cut roles for government and the market, is a necessary condition for construction of a harmonious society. This is the core task for China's political reform in the next stage.

In moving from a centrally planned economy to a socialist market economy, China experienced great economic success despite the fact that its social, legal, and political systems and institutional accountability lagged behind its economic achievements. As the chief economist of the World Bank, Justin Lin argued in his book *Economic Development and Transformation: Trends, Strategy and Self-Sustainability* (in Chinese) that political regimes are not a sufficient or necessary condition for economic development. Indeed, compared to the destructive institutional reform that the former Soviet Union and other communist regimes in East Europe underwent, China's gradual but stable institutional reform, following the pioneer reformist Deng Xiaoping's theory of crossing the river by feeling the stones, has brought more prosperity for a billion Chinese.¹³

With the size and diversity of China's geographic coverage, it is unavoidable for local and regional governments to compete with one another, and sometimes to compete for power with the central government. This is especially true in those regions or provinces that contribute disproportionately more to the country's economic growth. Regional or provincial governments are often major stakeholders in influential local enterprises. In such cases, local governments sometimes act contrary to central government policy in order to protect local interests, such as maximizing economic output and employment. However, as long as the central government maintains its control to appoint and remove top officials at the local level, it will still hold tight control over local governments. The dismissal in September 2006 of Chen Liangyu from his post as secretary general of the Shanghai CCP constituted an important lesson to other regional or provincial heads that China is still far away from being reorganized along federal lines, and it is essential that central government policies be followed.

Agriculture and farmers have been at the center of economic development in China's modern history. Mao Zedong and his comrades founded the People's Republic of China adopting the philosophy of "countryside surrounding city." In fact, the participation of millions of farmers helped the Communist Party win battles with the Japanese invaders and the Civil War against the National Party (*Guomindang*). The land reform in 1978 invigorated agricultural productivity and as a result significantly reduced the disparity in income of urban and rural residents between 1978 and 1984. However, during the past 20 years agricultural development has given way to commerce and business. Through acquiring farmers' land at lower-than-market prices and exploiting millions of migrant workers, billions of dollars of wealth has been channeled from rural to urban areas. The income gap between urban and rural residents reached 3.33:1 in 2007, the largest disparity since 1978. Chinese farmers did not have any legal guarantee for their land-use right until October 2008, when the government finally confirmed a roadmap for China's new land reform. The reform would grant 730 million farmers *de facto* "ownership" of land through long-term land-use rights. The new policy allows farmers to gain profits from their land if it is acquired for commercial purposes, or to sell—transfer—their land-use rights to other farmers or organizations for purposes of large-scale agricultural production.

The huge disparity in wealth is not only an issue between the urban and rural citizens; it is a much more widespread social problem that China is facing today. China is on its way to being the world's largest market for luxury goods, but the huge underclass—including migrant workers, employees laid off from state-owned enterprises, university graduates who cannot find jobs, and millions of farmers whose wealth has been stolen to support urban infrastructure but from which they are excluded from benefiting under China's special "resident permit" regime—is still struggling with daily life. Although their absolute wealth has greatly improved, their relative well-being, compared to the richest in the country, is diminishing at a surprisingly high pace. China's *Gini*

coefficient is moving toward an alarming level of 0.50, according to the estimate of some nongovernmental research institutes in the country. The underclass in China, the poorest group, does not care how poor they are; but they do care how rich the elite class is. Relative wealth is a significant instability factor that could become the last straw overturning the imbalances that have largely been disguised by the surface glory of China's economic success.

The global financial crisis and economic recession that hit in 2008–09 is having an impact on China. The export-oriented enterprises were hit hard first. This sector won global market share at the cost of exploiting workers and damaging the environment in China. Facing an increasingly complicated global business and geopolitical situation, Chinese manufacturers began to lose their competitive cost advantage in recent years. Their profits started to drop when the costs of raw materials, environmental protection, social responsibilities, and labor went up. To squeeze out more profit, the manufacturing value chain transmitted the losses from high end to low end: the unskilled labor force, which does not have much say in society. However, this marginalized low-cost labor force would fight to survive if pushed too far. Serious unrest among this group could challenge China's social stability, and perhaps the viability of China's political regime. Mass protests of factory workers who lost their jobs in southern China and strikes by taxi drivers in several cities may be just the tip of an iceberg of social unrest facing China.

Political regimes decide what wealth distribution mechanisms will be used in a society, and the wealth distribution mechanism in turn heavily influences the economic structure. The distortion in China's wealth distribution mechanism is holding back overall economic development to a large extent. Some Chinese have argued that the country does not need Western-style justice and democracy. This argument had validity, perhaps, when the country was restoring so many broken elements in its value network after the Cultural Revolution. Today, however, China has entered the new era of China 2.0, in which Chinese citizens can freely obtain

information and mobilize public opinion. The current reality is that the public in China is demanding greater rights and more justice. As President Hu Jintao noted, China is at a critical point in its reforms now, facing a scale and scope of complications never experienced before.

In actuality, equality and efficiency should not be in conflict with each other. Equality can boost efficiency because it can enhance the trust between people that is missing in China today. Without basic trust, cooperation (and even competition) involves high transaction costs. If the majority of people in a society feel they cannot get a fair return for what they do, the social order will be challenged; people will lose trust in such social order, unless they are under a central planning regime or blackmailed by some special political mechanism. In the era of China 2.0, neither situation can prevail; the potential damage from trying to maintain the two is both immense and alarming. The government understands this potential danger very well and is trying to resolve the problems—in ways that (like everything else) have Chinese characteristics.

Balancing the rich and the poor is just one of the challenges China is facing in relation to its sustainable growth. The largest challenge China has to overcome to achieve sustainable economic development lies in the huge need to restore and protect its deteriorating environment. In this new era, China's mode of development cannot afford to repeat its old polluting and energy-wasting ways. With the country's industrialization and urbanization, now energy efficiency, environmental protection, and climate change are creating huge problems and, arguably, an irreversible impact on China's sustainability. In his keynote report to the Seventeenth National Congress of the Communist Party of China (CPC) in October 2007, President Hu said construction of an "ecological civilization" is one of the requirements for China to become an affluent society.

In early 2008, China enacted two important new laws. The Labor Law imposes mandatory measures on employers to provide minimum protections such as labor contracts, overtime pay, paid annual leave, social welfare, and public health care

for all employees. The Environmental Protection Law imposes mandatory requirements to ensure enterprises follow strict regulations for environmental protection. In the short run, enactment of these laws may damage the interests of an already glissading manufacturing sector, especially small and medium-sized enterprises (SMEs). However, in the long run these measures will benefit China's overall economy. Put bluntly, the fittest will survive. If an enterprise can strengthen its core competence and competitiveness through tough times, it will have a better chance to become a competitive world player. China's sustainable development relies on such enterprises.

Only when a country is rich enough does it start to care about the consequences of inefficient production and externalities such as pollution.¹⁴ Along the coastline that is home to China's most developed regions, sustainability has grown into a real concern for local governments and for business communities. Establishment of the Environmental Ministry in 2008 was an acknowledgment by the government that there are serious problems, and a clear indication of its determination to tackle the issues surrounding environmental protection. However, it may take years or even decades to deal significantly with the problems.

The market for resources is a global issue. Besides criticism from the West about China's low efficiency in the use of natural resources (measured by the volume of raw materials consumed per unit of output), as the world's largest consumer of many commodities China is inevitably facing fierce competition with the West for natural resources.

In the long run—most probably in the next 30 years—China will face a major demographic challenge. As a result of the one-child policy, in coming decades a relatively small base of younger people will have to look after the increasingly aging population. The issues of social security, retirement, public health care, and aged care will be a significant challenge to China's sustainable growth. The large ratio of nonworking population to working population will surely create severe social problems.

“Mountain Village Version”: Can China Be Truly Innovative?

Joseph Needham, the English biochemist who became the world's leading expert on Chinese scientific history, spent almost his entire life investigating and documenting the scientific achievements China made before the seventeenth century. The nation takes great pride in its ancient inventions of paper, gunpowder, movable printing templates, and the compass. Those inventions were cleverly and proudly embedded in the stunning performance of the opening ceremony of the Beijing Olympic Games by the director, Zhang Yimou. Yet these are only the best known; for almost 2,000 years China generated more inventions than any other society in the world. However, since the seventeenth century, China has failed to produce more such inventions to amaze the world. Needham's famous Grand Question asks why China was left behind after that century; it has engendered much discussion and debate, with explanations focusing on history, civilization, culture, ideology, society, and politics, among others. The important question now is whether China can regain its place among the most inventive and innovative of nations.

“Mountain village (*shan zhai*) version” has doubtlessly become a hot phrase in China in recent years. It is from the Cantonese dialect and means a copycat version; it describes products that are cheaply produced copies of originals (say, mobile phones) that are expensive and beyond the reach of the mass market in China. In the past 10 years, the overall technical advancement of Chinese manufacturers, especially in Guangdong, enabled many factories to produce low-cost copycats that unfairly steal the design of original products. They are manufactured, obviously, without approval from the authorities, saving hundreds of thousands of yuan in license fees. Mountain village products are often packaged similarly to the originals yet are of poor quality and sold at low prices. For example, mountain village mobile phones carrying the brand name hiPhone—clearly resembling Apple's iPhone—flooded into the mass market at a fraction of the Apple iPhone price, yet offering similar functions such as multitouch screen, orientation-sensitive display, music and movie players, games, and Internet access among others.

Indeed, many of those copycat products offer users more functions than products with big brand names, because the producers are constantly making improvements in functions, incorporating the timely feedback of the Web 2.0 communities. According to the China Internet Network Information Center's (CNNIC) 2009 report, more than 150 million fake mobile phones were sold in China in 2008. In fact, the spread of mountain village mobile phones, especially among rural users, is given as a major reason for the fast growth of Internet users in rural areas in China in 2008.

The mountain village smart phones narrow the digital gap between urban and rural residents, but the copycat activity is a serious infringement of intellectual property rights of the original products. Recently, mountain village products have expanded to other electronic product categories, notably digital cameras, GPS (geographic positioning system) terminals, and laptop computers. In fact, there has emerged a "mountain village culture" in which everything that evolves out of the grass roots or is homemade can be called a "mountain village version" of the originals. For example, a mountain village version of CCTV's Spring Festival Annual Gala, which attracts at least a half billion viewers both inside and outside China, appeared online to compete with the original one.

Many argue that mountain village culture is not necessarily a bad thing in China because it popularizes high-tech, expensive products to the mass market and challenges the market-dominant players. But the downside is pretty obvious: it encourages fake products, from protein used in baby formulas to complex drugs, causing the firms that originally developed the products to lose millions, if not billions, of dollars in China. Further, the copy culture hinders Chinese enterprises from engaging in serious R&D, given that copying is easy, and also for fear that their inventions will be copied by others if they are successful in developing breakthrough products. Lack of innovation in China has become a big concern in terms of sustaining the country's development.

Innovation involves development and implementation of new ideas by people who over time engage in transactions

with others within an institutionalized order. Regaining the power of invention and innovation in technologies, products, services, and business models will help China achieve sustainability in its economic development at the next stage. There are three layers of elements that shape a nation's innovation capabilities: the cognitive pattern of people and society, market mechanisms, and the institutional framework. They interact in the national cultural values in a society.

The cognitive pattern of the Chinese is somewhat different from that of Westerners.¹⁵ The cognitive pattern of a nation comes from its history and is shaped by its social structure, languages, and cultures. The traditional Chinese cognitive pattern is dominated by "customary thinking" and manifests in people's decision making and action. Four aspects are relevant here:

1. Pursuit of equality (harmony) in a society and in an organization in the name of collectivism. When reflected in innovation, it is hard for an individual to take the initiative to make a change, which is the basis for innovation, though cooperative team work is essential for the success of any modern innovation.
2. Respect of status quo. This is driven by inertia, instead of creative destruction, which is the core to innovation.
3. Pursuit of "feeling" rather than "fact." This rather metaphorical way of thinking often leads people to extremes, using oversimplified, formula-based, fixed modes of thinking to solve dynamic and complex problems.
4. Obeying higher powers or personal relationships instead of rules. This often discourages merit-based innovative activities.

An educational system that emphasizes learning by memorizing existing knowledge instead of inquiring by creative destruction in thinking also helps to explain why China lags behind the West in technological innovation. For example, traditional Chinese education is biased toward theoretical learning. This leaves many university graduates with insufficient creative and practical skills, which are critical for innovation.

In fact, many of the most innovative individuals in China are those with less education, such as Huang Guangyu, Gome's fallen star, who merely finished primary education.

Culture has different facets and is manifested in a broader social context, such as the business system, the institutional structure, and even managerial behavior within organizations, as discussed above. National culture has a strong influence on entrepreneurial and innovative activities in every society. Given China's long history, it would be a gross oversimplification to say that the influence of Chinese culture on innovation is one way or another. Chinese culture has gone through several distinctive stages, especially regarding its influence on innovation. Presently, the gap between Chinese and Western cultures is narrowing as the country becomes more engaged in globalization.

Those Asian cultures with strong roots in Confucianism have many things in common, among them respect for elders, respect for knowledge and learning, the pursuit of harmony, a strict social hierarchy with large power distance, and collectiveness. However, such core cultural values are found in various national institutional frameworks, business systems, and industrial structures that have differing impacts on each nation's innovation capability.

In the past 50 years, Japan, Korea, and Taiwan have gone through developmental paths similar to China's, from simple imitation to creative imitation to innovation. (In fact, the distinction between innovation and creative imitation is blurred.) It is government policies, institutional frameworks, and business systems that cause these countries to differ in how innovation occurs. For example, the business system in Taiwan is mainly based on family-oriented businesses. Nimble and small Taiwanese enterprises enable changes to be made quickly that help them to be innovative. In Japan and Korea, conglomerate-based industrial structures rely on government policies and "national innovation systems" to become competitive in innovation.

In Western society, the market mechanism and institutional environment often facilitate commercialization of the creative

destruction of innovation. In China, the institutional order makes transaction costs so high that any individual or organization would not live to see the result of an innovation that challenges the status quo.

Since 1998, the number of R&D personnel in China ranked among the top three in the world. In 2004, in fact, China overtook Japan to become the top country in terms of the absolute number of technical and R&D personnel. Not only the sheer numbers but also the age structure (more than 50 percent are below the age of 35) and educational level (45 percent have a postgraduate degree) make China stand out as one of the world's leading countries, measured by its R&D capabilities. However, the output is rather disappointing. Patent numbers in China (2.7 patents per 100,000 people) are among the lowest in the world. The abundant human capital in innovation has attracted many multinational companies, such as Microsoft, IBM, Google, GE, BP, and a multitude of others, to set up R&D centers in China. With sufficient financial support, modern management systems, commercialization channels, and efficient market mechanisms, the R&D centers have played an important role in those companies' overall strategy in China, as well as their technological strategy globally. As a McKinsey study suggests, best practice in China can be the best practice worldwide. The development of such multinational firms has made national cultures less critical in management, especially in innovation. In fact, many practices in innovation are universal.

Factors other than national cultural values can influence a nation's innovative capability, notably business models, technological learning capabilities, regional and national innovation systems, organizational culture, technology trajectories, industry maturity, and fiscal and financial systems. As globalization permeates into every corner of the earth, we do see some consolidation in many practices, from education and innovation to business. In this sense, multinational companies play an important role. These firms may not necessarily change the entire social order in a country (and indeed have to adapt to their local environment), yet organization wide there

are many unified norms of employee behavior. The development of an organization whose culture, design, and human resource policies foster the sharing and use of knowledge is a complex endeavor, but a critical element in innovation. This can be illustrated by the fact that many young recruits change their behavior to conform with an organization's culture. This is not a phenomenon unique to China but is also true in Korea and Japan. At the macroeconomic level, the lack of an efficient market mechanism and suitable institutional framework that could facilitate diffusion and commercialization of innovation can also be blamed for China's lack of competitiveness in innovation. In the 30 years since China embarked on its economic reforms, government policies have been instrumental in the emergence and development of a multitude of collective and private enterprises, which are the home for many indigenous innovations in China. For example, preferential policies to support high-tech industries, such as establishment of high-tech parks across China, played a very important role in nurturing the growth of the high-tech sector. The policies, which were instrumental in restructuring state-owned enterprises, optimized industrial structures, relaxed government controls, and stimulated competition, which as a result boosted innovation.

There are several factors at the microeconomic level that are obstacles to innovation in China: insufficient financial resources, low management efficiency of R&D and innovation activities, technological infrastructure lagging behind the world average, and difficulties in knowledge transfer. For example, in Western societies it is very common to have a nonexpert as chief technology officer (CTO) or someone similar leading a team of experts engaging in innovative activities. This management system can work well, and the innovative efficiency can be high. In China, however, to be a leader in a technology-related function such as an R&D center one must usually be a technical expert to be accepted by other experts. The technically expert leader, however, often lacks management expertise, meaning that technology output may be low in relation to the input level.

There are several other factors that also inhibit innovative capabilities in Chinese organizations. Insufficient intellectual property (IP) protection, lack of trust and willingness to share knowledge, excessive importance given to seniority, and injustices in the reward mechanisms for innovation are often listed as reasons for inefficient innovation. An efficient management system is often missing in such organizations. The way many companies engage in innovation activities is like cooking Chinese food: the outcome relies very much on several star chefs and their secret recipes. However, the Western management system is perhaps more like a fast food chain such as McDonald's: it yields mediocre but acceptable food and doesn't rely on any individuals, with knowledge conveyed through systems rather than through human interactions, making the transaction costs much lower.¹⁶

In recent years, China has followed a rather different route in innovation. Foreign direct investment (FDI) has been attracted by China's rapid economic development. In recent years, FDI to China has outpaced overall economic growth. Along with the inflow of FDI, modern management systems and innovation capabilities have been introduced to China, which as a result is helping China leapfrog in its innovation and globalization. Many high-tech start-up firms are "born global," with global ambitions from their inception. Some of these firms arguably copied the business models of their counterparts in the United States, Japan, or elsewhere, but it is their local operational power and innovation skills that have impressed the capital markets.

Technological innovation has been a major determinant of national economic development. In industrialized economies, many studies show that more than 50 percent of long-term economic growth stems from technological innovations that improve productivity and lead to new products, processes, or industries.¹⁷ Technological innovation needs the right business capability and market before it can be translated into any commercial value. Innovation involves a pioneering activity to develop and introduce a new product, service, process, or business model to the market. Despite the presence of both

demand for innovation and supply of capabilities, few innovations can be realized unless there is effective management within firms and an efficient institutional environment for the market that links demand with supply.

Our modern life is heavily reliant on mature industries; competition is often centered on price advantage because the production process has become automated, especially in developed countries. China does not have a long history in industrialization. Most of its significant players (state-owned enterprises operating in the country's pillar industrial sectors) have a history of only 20 years and underwent an accelerated growth course with the support of the government. In the first 10 years of their development, most of those players obtained modern technologies from their counterparts in the West by helping them gain access to China's market. In the second 10 years, most of those firms went to the capital markets via partial privatization, which required them to build modern business capabilities and management practices.

In the emerging industries, however, many new players have entered. In these markets, beating the competition requires capabilities in innovation in products and services, production processes, and business models. Many radical innovations occur at the stage of emerging technologies. The risk is whether there is a mature institutional environment and market mechanism that can nurture the new ideas.

In a knowledge-based economy, not everyone with great ideas works within the particular firm that desires to benefit from them. In the Web 2.0 era, the next big ideas may come from a startup, or even an individual. In fact, startups or individuals are now an integral part of the innovation landscape. The growth of venture capital in the late twentieth century and early twenty-first century contributed to the erosion of traditional firms such as General Motors, which lost engineers and executives attracted by the opportunity of working in start-up companies. Of course, to be successful such "crowdsourcing"¹⁸ innovation needs the support of appropriate business models that can bring the innovative ideas to market.

Technological advancements have given everyone a communications toolkit that allows them to share, produce, and communicate their ideas at very little cost, and in theory with everybody else on the planet. Because there are more than 660 million mobile users in China, each of whom has the capacity to become an innovator, a newsmaker, or a broadcaster, mobile value-added applications have placed enormous power in the hands of Chinese consumers.

Indeed, many companies realize that consumers have become one of the biggest sources for innovation. Smart organizations start to build platforms to benefit from a process in which consumers or partners in the value chain cocreate products and services with their internal sources, as feedback and ideas from one to the other create new ideas or modifications to old ones. For example, companies that focus on customers in designing, testing, marketing, and the after-sale process can gain better insights into customer needs and behavior and may be able to cut the cost of acquiring customers, engender greater loyalty, and speed up development cycles. Harnessing the collective intelligence of consumers has the potential to create more customer value than ever before.

Fundamental collaboration among firms, guided by the collective social order of the region, within a country or across national boundaries, is highly important in innovation. Such collaborative behavior may develop over a much shorter space of time, and the pervasive applications on Web 2.0 may play a very important role in such processes.

Can China Save Capitalism?

Just as the world was celebrating Barack Obama's victory in being elected the first black president of the United States, the credit crunch that had hit Wall Street developed into a global "once-in-a-century financial tsunami"¹⁹ that led to a breakdown in the free market system. The crisis started when several bubbles—in the real estate market and the innovative financial services market in the United States—burst. It quickly spread to almost every component of the global economic

value chain. Consequently, people started to challenge the fundamentals of the credit-based financial system and free market mechanism as governments raced to inject trillions of dollars into the shaky system to restore collapsed consumer confidence. Pessimists compared today's crisis with the Great Depression of 1929 to 1933. However, the context of today's crisis is, in fact, very different from the Great Depression. We are living in the Web 2.0 era, and people are largely connected with one another across national, cultural, and language boundaries. We are living in a highly globalized and networked world. The world economy is more interdependent now than ever before. The network effect of globalization, as a result, can amplify or abate the scope, speed, and duration of any crisis. In the case of today's financial crisis, it quickly caused an explosive destruction in confidence in the global economy.

Globalization may be blamed for causing such a world-scale economic crisis. However, the crisis should not mark the end of globalization. The trust and cooperative mechanisms built in the international effort to restore worldwide economic confidence and to rebuild worldwide financial order will provide an institutional guarantee for deepening globalization in economic and financial cooperation. New waves of globalization will emerge amid the crisis. Indeed, it requires multilateral effort to solve the crisis in a global context.

As a major beneficiary of globalization, China has inevitably been involved in the global crisis. The initial impact on China was confined to the sectors with foreign investment and export businesses that were hit hard by shrinking global demand. However, the impact is far more profound than initially expected and has quickly expanded to the whole economy in China.

In the past 30 years, the West speculated that only capitalism can save China. To a large extent, it turned out to be true. After economic reforms for three decades, China has abandoned Marxism-Leninism and wholeheartedly embraced capitalism—of course, with Chinese characteristics. Today, as the global financial meltdown challenges the free market economy

in the West, the capitalists turn to China, praying that perhaps only China can save capitalism.

Ten years ago, when the Asian financial crisis hit most of the region's economies, China took the responsibility as an emerging superpower in the region to stabilize the shaky economic and financial systems. The Chinese government launched an enormous stimulus package that helped sustain domestic GDP growth at 7.8 percent²⁰ in 1998 and that in turn conveyed market confidence to other Asian economies. Actually, China was dealing with a much more severe domestic environment then. In 1997 and 1998, state-owned enterprises made a net loss of nearly one percent of the national GDP, as a result of which the government was forced to take dramatic action to reform this bleeding sector and put millions of employees, who had once depended on the state-owned "iron rice bowl," out of jobs. The banking sector then had more than 40 percent bad loans in their asset portfolio, which put state-owned commercial banks on the verge of bankruptcy.

At the end of 2008, China's economic fundamentals were much healthier compared to 10 years before. The combined profits from the state-owned enterprises contributed about 4 percent to GDP, and China's banking sector reduced its non-performing loans to only 6 percent by 2007. The government's fiscal stimulus package of 4 trillion yuan (nearly US\$600 billion) announced in November 2008 lifted hopes—for a time, at least—not only in China but also abroad. The *Economist* described China's economic stimulus package as a "New Deal, Chinese-style."²¹ The package included investment in infrastructure such as railways, roads, airports, and the power grid; public works, especially public housing projects for low-income households; social welfare spending on health and education, as well as social security benefits for low-income groups; a reform of the VAT (value added tax) system that would reduce companies' tax bills by allowing them to deduct the purchase of fixed assets; and speeding up rebuilding of earthquake-hit areas. The government also announced plans to bolster rural incomes by lifting the bar for the purchasing price for agricultural products and increasing farmers' subsidies.

The government's budget, together with funds from local governments and state-owned enterprises, would finance this ambitious new deal.

But fundamentally, can China save capitalism? As China's President Hu Jintao pointed out when he visited South Korea after the Beijing Olympics in August 2008 (before the global financial crisis hit the world), China is at a critical point in its history. In February 2009, China's Premier Wen Jiabao, when interviewed by the *Financial Times*,²² reiterated his view that "China remains a big developing country with a 1.3 billion population. We face arduous tasks, and our way ahead will be a long one." He said that the biggest contribution the nation could make at this time is running Chinese internal affairs well. He refused to be pushed into any expensive commitment that the West might want China to make, such as China using part of its huge foreign exchange reserves to recapitalize the International Monetary Fund, devaluing the Chinese currency, or meeting stringent requirements for carbon emission. According to Wen, China would continue to buy U.S. Treasury bonds during the crisis "to stabilize the current Treasury bond market," in the best interests of protecting China's sovereign investment.

The challenges China is facing today have been caused both by external factors such as the impact of the global financial crisis and the slowdown of the global economy, as well as by internal factors centered on unresolved conflicts embedded in the economic development mode China has followed and in its industrial structures. The global crisis is a wake-up call for China to continue its economic and political reforms. The government has realized that development, which relies on exports and investment, will not be viable for China's sustainable development in the future. From the viewpoint of economic reform, China has encountered a bottleneck of privatization and marketization. Without innovative reforms in institutional frameworks, reforms of private ownership and the free market may reach their limit and China's rapid economic development may well slow considerably.

As the world's largest developing economy and emerging market, China has long relied on exports and investment

for economic development. Facing the current challenges, China sees its immediate task as triggering domestic demand, especially domestic consumption, as the government's economic stimulus packages seek to achieve. The key economic tasks in 2009 are centered around "guaranteeing GDP growth, expanding domestic consumption, adjusting economic structures, deepening reforms and focusing on the well-being of the people." It is not hard to understand that this will be the focus of the country's mission in the coming years. The global crisis has exposed the deep conflict between weak domestic demand and oversupply of industrial output. However, accomplishing these tasks cannot rely just on macroeconomic policies; it requires adjustment of socio-economic structures. For example, the imbalance of development between industrialization and urbanization is perhaps the root cause of the weak domestic consumption that confines China's healthy development; industrialization has entered a relatively mature stage, but urbanization is still in its infancy. Compared to the world average of about 50 percent urbanization, China's real term urbanization (citizens with urban residential permits) is less than 30 percent. Given the huge disparity between the incomes of urban and rural residents, it is easy to understand that stimulating domestic consumption is a hard task. The full force of domestic consumption will not be released until social safety nets such as subsidized health care and pensions covering the entire population are implemented.

The biggest problem China is facing today is perhaps the lack of fairness and justice in its wealth distribution mechanism. Three decades of the opening-up policy and the resulting rapid economic development have greatly enhanced China's position on the world stage. However, the majority of its population still have very few personal assets and weak consumption power. In other words, the success of China's economic growth has not been fairly shared among all its citizens; it has been concentrated among the state-owned organizations and a small number of special interest groups that benefited immensely from the reforms. The huge disparities between urban and rural residents, between the rich and poor,

between the coastal regions and the inland regions, between the stated-owned and private enterprises are all becoming serious problems that, if not handled properly and promptly, will pose huge threats to China's social stability and long-term development. No wonder Premier Wen Jiabao always carries a copy of *The Theory of Moral Sentiments* by Adam Smith, one of the most prominent economists in modern history. Wen agrees with what Adam Smith said more than 200 years ago: if the fruits of a society's economic development cannot be shared by all the people, it is morally unsound and risky, because it is bound to jeopardize social stability. Wen understands the importance of justice and equity to the stability and sustainability of Chinese society: "If the wealth of a society is concentrated in the hands of a small number of people, then this is against the popular will, and the society is bound to be unstable."²³ Perhaps it is enough that China save itself, rather than taking responsibility for saving global capitalism.

Overall, China may be able to maintain a relatively high pace of economic growth compared to many other major economies which have officially claimed that they will be in recession in 2009. In facing the crisis, China needs to take the responsibility as an emerging superpower to work together in a coherent global effort to solve global challenges. That said, China is a developing country, and its role in the global effort is necessarily limited. It can best contribute to restoring global economic confidence and rebuilding the global financial order by boosting its domestic consumption and investment, continuing its urbanization, and upgrading its industrial structures.

Given the global financial tsunami and economic slowdown, it is very important for policy makers worldwide to take decisive actions that will help restore market confidence and thus world financial order. In the long run, a more comprehensive solution that tackles the root causes of the financial turmoil and the slowdown of the world economy is needed. To weather the current crisis and sustain the global economy, each country needs to think carefully about the growth pattern that has led its economy awry and adjust its pattern for sustainable growth in the future.

Notes

1. See more on <http://www.timoreilly.com>.
2. The statistics of Internet usage are from the annual report of “Statistics of China’s Cyberspace,” by CNNIC (China Internet Network Information Center), published in January 2009, and the number of mobile phone users is from CRC-Pinnacle’s industry tracking study on mobile phones in January 2009.
3. “So World Wide Web 2.0 Is Now upon Us?” by Dan Gillmor, *Financial Times*, Apr. 20, 2005.
4. The main building, which was designed by the Dutch architect Rem Koolhaas, remains controversial in China. The building was nicknamed “three-dimensional underpants” by locals; it features twin sloping towers bolted together 160 meters above the ground by a 70-meter long overhang. The attached tower, built to house the Mandarin Oriental Hotel (it was due to open in 2009), was largely consumed by fire.
5. The evolution of China’s ICT industry is analyzed in Chapter Two, “Chinese Walls Are Falling Down.”
6. “Ended Revels—The Olympics Will Not Change China’s Behavior.” <http://www.economist.com>, Aug. 27, 2008.
7. Trompenaars, F. *Riding the Waves of Culture: Understanding Cultural Diversity in Business*. London: Nicholas Brealey, 1993.
8. Parsons, T., and Shils, E. A. *Towards a General Theory of Action*. Cambridge, Mass.: Harvard University Press, 1951.
9. “China’s Dash for Freedom.” *Economist*, July 31, 2008.
10. Shirk, S. *China. Fragile Superpower*. New York: Oxford University Press, 2007.
11. “Peaceful Development Is Always Our Path.” *China Daily*, Oct. 15, 2008.
12. World Bank. “China: Promoting Growth with Equality.” Oct. 2003.
13. Lin, J. *Economic Development and Transformation: Trends, Strategy and Self-Sustainability*. Peking University Press, 2008 (in Chinese).
14. Emmott, B. “What China Can Learn from Japan on Cleaning up the Environment.” *McKinsey Quarterly*, 2008, 4.
15. See Nisbett, R. E. *The Geography of Thought: How Asians and Westerners Think Differently ... And Why*. New York: Free Press, 2003; and Bond, M. H. (ed.). *The Psychology of the Chinese People*. New York: Oxford University Press, 1986.
16. See Lang, L. *Illusions: Accessing the Developmental Strategies of Chinese High-Tech Firms*. Oriental Press, 2006 (in Chinese).
17. Kim, L. *Imitation to Innovation: The Dynamics of Korea’s Technological Learning*. Boston: Harvard Business School Press, 1997.

18. Howe, J. *Crowdsourcing: Why the Power of the Crowd Is Driving the Future of Business*. New York: Crown Business, 2008.
19. The former Federal Reserve Chairman Alan Greenspan commented on the financial crisis under questioning in the U.S. Congress on October 23, 2008.
20. Whether the figure reflected real growth in 1998 remains a controversial topic. The give-away information is that the growth rate of energy consumption in 1998 was below 8 percent compared to the double-digit growth required to sustain an 8 percent GDP growth given the energy efficiency level in China.
21. "Reflating the Dragon." *Economist*, Nov. 13, 2008.
22. See transcript of interview with Wen Jiabao conducted by Lionel Barber, editor of the *Financial Times*, published on Feb. 2, 2009 on <http://www.ft.com/cms/>.
23. See same transcript.

<http://www.pbookshop.com>

<http://www.pbookshop.com>