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# Introduction

To relieve the present exigency is always the object which principally interests those immediately concerned in the administration of public affairs. The future liberation of the public revenue, they leave to the care of posterity.

(Adam Smith, *The Wealth of Nations*, Vol. II, p. 534)

In our first book *China Calling: a foot in the global door* we describe how reforms over the past centuries have shaped modern China, allowing it to open doors in global trade and finance. With Western governments frantically trying to meet the financial exigencies of today, posterity will note that China's foot is now well and truly wedged into those doors. The global credit crunch and recession of 2008 and 2009 reduced the value of Chinese investments in the West, yet paradoxically strengthened Chinese influence across the world, changing the balance of power.

Balancing that paradox highlights change in Western global authority. The *Financial Times* (the FT), a global financial newspaper and commentator, noted in the early summer of 2009 that the US authorities 'conclusively lost the boom-and-bust war'. The FT still fails to grasp the metaphorical nettle by not continuing its preliminary logic and stating that the West – the US and Europe – have thus lost the authority to wage *any* political or economic war. The Western leaders of the modern world are trapped in their precarious paradigm of liberal democracy and its 'running dogma' of capitalism. The poverty of Western political decision-making is best encapsulated by Premier Wen Jiabao, who said in March 2009 that he was 'a little worried' over the security of Chinese assets held in the USA. We pointed out in *China Calling* that an Asian 'yes' means 'maybe', and an Asian 'maybe' means 'no'. Take it as read, therefore, that 'a little' means 'a lot'.

This book aims to explain, therefore, how China's worries affect the West and how the West lost its way in the social and economic

maze. China is starting to count its debtors and its dues. We get behind that inscrutability and parade the global winners and losers. In doing so, we provide a context not previously understood, an opinion that differs from most, and predict a difficult future direction for a world now dictated by Chinese decisions.

## **Western greed and Chinese fear**

Opinion in the West tends towards China having had a free ride on the back of Western consumerism. This book attacks that opinion by demonstrating how China has in truth subsidized the West. China has watched a debt-driven spree of consumer spending infect the majority of developed countries. Western governments gained from increased collections of direct and indirect taxation; Western bankers helped investment portfolios to switch from low-interest savings into stock and housing markets; Western finance houses packaged debt into collateralized obligations (now you see it, now you don't) and Western taxpayers are now paying the bills of the bankers. China did not have a free ride – it was exhorted, constantly, to join the financial merry-go-round but its pragmatic principles held it back.

China should therefore gain from the enormous burden placed on the Western taxpayer. China has seen, quite recently, economic disaster under communist edicts of centralization. It has also felt the power of economic growth from partial capitalist decentralization. It is therefore better placed, with trillions of US dollars to spend, and with a people better prepared to weather economic recession than those in the impoverished West. But China still has cash to count.

China's sovereign funds were persuaded to enter capitalist transactions in 2006 and 2007, and its people were persuaded to follow the capitalist model. Its politicians were persuaded to follow liberal democratization, to forgo central authority and regulatory control in the name of 'human rights'. Its fear of being wrong is now tempered by a belief in one-party control with people's 'human obligations' more important than their rights. The Western taxpayer who has to pay for his or her government's banking bailout will tell you that human rights do not apply to the internal Inland Revenue

services – those tax bills are obligations. Welcome to the Chinese way of doing things. As the ancient Emperor said to his taxpaying peasants – tremble and obey!

Western economic theory is thus challenged in its pervasive failure to govern markets. Chinese pragmatic theory is working and its success is global. We must not forget that it is the people on Main Street who suffer when economies go wrong, while the ‘fat cats’ rise above the wrath of the populace. Western democracy is touted as wonderful, but votes do not fill the belly and China cannot afford such a miserly repast. Asian poverty is much more radical. There is a mandate from below in China; the Party will make sure it continues in its national dream by serving its non-democratic people, using force if necessary, knowing that revolution is the default response to political failure.

So how will the Chinese begin to behave under the changing rules of a global game? Will the West be forced to obey, to kowtow and tug its forelock, cap in hand, asking for a bail-out? Probably. Cash is king and, as the US Treasury knows, most of it is held in the East. Asian thrift is more common than Asian profligacy. So do not expect Chinese cash to be spent in the West; China will use it for internal stability and external control. This book explains why and where.

We do so by rehearsing ‘POEMS’, as an acronym or mnemonic for the central issues that form the focus of this book. The political, opportunistic and environmental behaviors of the Chinese are coupled with their present might and societal habits to fix the context in Part I. Then, in Part II, we develop our opinion on how China’s power base, its opportunities to modify its economic model for equilibrium in energy supply and consumption, its rising military muscle, and its improved scientific development are dependent on China’s views of the West. Finally, in Part III we forecast how China’s potential will lead to futuristic outcomes evolving from a masterly use of strategic global positioning. Poetical but practical!

### **Fixing a context**

There have been many demands of an ‘if only’ nature made in the West. If only the Chinese had democracy, if only they had a proper taxation system, if only they had a better legal system, if only their

military was not quite so strong, if only they had open government, if only they would be more like us. But they have not and are not. They behave differently. They solve problems differently. They are, in body and soul, quite different. Just how different is addressed in Part I.

There are three fixed stars to follow if Chinese behavior is to be understood. First, China is a low trust country. Second, China is not used to dealing with foreigners. Third, China is a vast nation of different tribes and dialects. Thus suspicion of anyone outside a local group or community is almost paranoid in its nature. Unlike the Western republics and monarchies, the Chinese traditionally sheltered from the Emperor's guards and spies through a strictly controlled network system. This system of connections is a protection, a defence, a bunker from the authorities, from foreigners, from the world's uncertainties, and from themselves. The Chinese will never give it up, so we must place it in its context.

Relational networks and connections control Chinese practices and behavior. In the West, unfortunately, the network concept has become confused with social connections. Chinese networks are systems, systems for exchange of knowledge and goods without internal waste but with maximum future gain. The systems, the networks, are called *guanxi*. They also call their transactional and information system *guanxi*. There is a cost associated with *guanxi*. Try uttering the word while rubbing your forefinger and thumb together – it helps to emphasize the cost of connections. Better still, think mobile phone networks: there is both a cost of using a network and a cost of linking to another.

These networks therefore generate internal trust to counter external uncertainty. Benefits are enjoyed when trust is high and costs are low within a network. To expand power and gain resources, each network increases its links to other networks – including foreigners – but this takes time and a great deal of 'getting to know you'. To maintain this link across communities and different tribes, there is a demand for future reciprocity. Within *guanxi* there is both trust and resources, but also always a future return or obligation called *renqing*.

The context is clear. Politically, do not trust the system unless you are part of it (just connect to the Party bosses); forget democracy

(why vote for someone you do not know); and forget about filing taxes (just pay the fine). Practice opportunistic behavior by taking advantage of those who are not connected. Damn the environment unless it affects the personal network. Expand the military and do not respect any treaties signed under duress. China is a society tied down by its lack of trust. It will not take the lead in global affairs but will respond to positive and negative behavior – it will reciprocate in kind.

What implications for international behavior arise from such a brief introduction to the Chinese context? First, any reliance on legal controls implies that the terms should be as simple as possible (law schools, please note). Second, a long-term agreement is a short one kept open. Agreements are uncertain unless a trusting relationship of mutual reciprocity exists. Therefore, in global terms, the guardians of the cultural and mineral resources of Africa and the Middle East should prefer a Chinese relationship to a North American contract. The former suits cultural preferences for relational deals, while the latter does not.

Chinese practices and their network dynamics need to be viewed as a group control and interpreted in a holistic fashion. Unfortunately, there is no unified thinking in the West. Westerners are too individualistic. There are many alternatives open to challenge in Western formal problem solving. The Chinese, on the other hand, are practical people and seek action. The expansionary nature of China's political, economic and military governance can be explained by transacting simply for what you want, by increasing your overall resources and by keeping options open. It works.

## **Forming an opinion**

The important Western question, however, is not how China behaves, but how that behavior affects the West. This selfish question will be answered in Part III. Explaining how the Chinese context affects China's view of the West is the purpose of Part II. If China's own ways of doing things are such that Western theory is useless, then how can we work out what China believes? Unfortunately, Chinese society makes for a distrustful and complex reading of itself, of its neighbors and of foreigners.

Traditionally, China retained its integrity by rejecting barbarian intrusion. The old imperial ways were initially challenged by Dr Sun Yat-sen and then officially swept away by external interference and internal strife. China has suffered remarkably during the twentieth century and into the twenty-first. The movement from imperial Chinese values through foreign occupation and domestic civil wars to communism and then capitalism would turn the heads of most. Without a central governing control, a defense against practical, theoretical and ideological change, any nation would have been split apart.

The central control is necessarily strong and often defends itself by copying the West. The democratically elected Senator McCarthy in the USA was allowed an autocratic pursuit of anyone with apparent communist connections, and hurt many in his zeal. Turn that practice on its head, and China's pursuit of those who apparently threaten government control, such as the Falun Gong, is understandable. What appears right at a certain time may be proved wrong later, but China is still testing the waters. In the modern United Kingdom (UK), the British police are using anti-terrorist legislation to extend powers into autocratic surveillance and the arrest of non-terrorists. Even Icelandic bank assets were seized in the UK during the credit crunch, using anti-terror laws. China happily copies such totalitarian examples of democratic penal law.

Within the legal framework of the European Union (EU), Chinese fleeing from the government are able to gain UK residency very simply. First, by any means (for example, with a visitor visa), get into the UK and go to Northern Ireland. Have a baby and apply for its citizenship under Republic of Ireland regulations (UK refuses citizenship in such visitor cases). An Irish passport, however, will be issued. Under EU regulations, the carer can apply for UK residency to look after an EU child, as any EU child may reside anywhere in the EU. China watches this in wonder and thinks to itself – no way would we let that happen, these legal human rights issues are absurdities.

The Chinese opinion of the West is therefore mixed. It sees certain democratic actions as being useful in its desire to improve itself and maintain its control over a growing and more demanding population. It also sees legislative attempts, designed to ensure that Western

political desires are met, as creating unforeseen loopholes actually detrimental to those desires. The Chinese answer is to maintain flexibility in its penal law by ensuring that edicts are vague. Fit the law to the context and decide which Kafkaesque penalty to apply and when. Ignorance of the law is not a defence, but avoidance of the law, through *guanxi* connections, is quite acceptable.

The perceived authority of the West is now insufficient to command anything beyond that demanded by manners, mutual respect and reciprocity of action. China views the legislative demands of the West by, first, viewing them all with suspicion, and second, choosing only those that suit the general aims of the ruling Communist Party. Even as a signatory to the Universal Declaration of Human Rights, there is a 'pick-n-mix' attitude to its Articles. In Iraq and Guantanamo Bay, the USA seems to ignore Article 5 on torture. In China, most of Article 19 on freedom of information is subject to scrutiny. There is a 'get out' for China as a developing country – the Declaration allows for progress towards these rights. For the USA and other Western countries, the war on terror appears a regress rather than a progress.

It is poor Western behavior that quickly transforms the relationship between developed and developing nations into mutual distrust and subsequent retaliatory action. This is exemplified in the failures of Kyoto and Copenhagen to control global warming. The developed nations protected their own desires, not to control warming, but rather to retain democratic power. To place a burden on voters, such as limiting fossil fuel usage, is seen as political suicide. Just tax voters claim it is a green tax but do not otherwise limit their freedom to spend. Democracy could save the planet, but elected politicians would rather have power and taxation revenue in their pockets.

The Chinese therefore generally have a very skeptical opinion about the West and its 'holier than thou' attitude to global interaction. Now that China is a major creditor nation, it has a much stronger power base to challenge the West. It can take up opportunities to improve the lot of its people by expanding domestically, through the present recession, and can ignore demands for international change, claiming that internal affairs are its own business. Fossil fuel – coal – will continue to be a major source of its energy

needs. External resource requirements will be protected by military strength and further expansion of its naval power will protect its seaboard and shipping routes. Finally, advances in its science and technology will ensure a lessening demand for US and EU assistance in health, infrastructure and computing.

## **Forecasting a global future**

In the first decade of the twenty-first century, it is clear that the global rules have changed. The past acceleration of Chinese overseas investment is noted by the United Nations as being dominant in two areas, Africa and the Asia-Pacific region. In Africa, the advances and resource acquisition by the Chinese place China second only to South Africa; in the Asia-Pacific region, it is second only to the USA. This diversification can be looked at strategically – resource control in Africa and border control in Asia-Pacific. In other words, China is taking the opportunity to increase its overseas influence and to extend options in both areas.

It is doubtful if Chinese influences will have an adverse effect on Africa. There has been general acceptance by Africans that Chinese loans and infrastructure development are beneficial in that they are unconditional, not tied down by demands for repayment or the imposition of cultural changes. This does not mean that there is no reciprocity; quite the opposite, in fact. There is an obligation from Africa, a debt due to China. The problem for Africa is that the Chinese obligation never goes away. It remains unspecified in terms of size and timing. The future behavior of Africa will be closely monitored in Beijing. If we were to give Africa any advice it would be to repay that obligation as fast as possible. China is tying in Africa and it is cheaper to cut those ties sooner rather than later. If done quickly it would even be possible to change their nature; after all, when unspecified, an obligation is not necessarily in kind.

For the USA, however, we fear the worst. China is intent on binding relations with the richest resource hubs on the planet: close to home is Siberia, with its largely untapped treasure trove of oil and minerals; Mongolia, still a vassal state rich in copper and coal, straddles the borderlands; and somewhat further afield is the

'Irabian' Gulf with its abundant oil stream. To the south, Australia and Indonesia are key sources of minerals and liquid natural gas. Hydroelectric stations (fed by Himalayan glaciers) and coal (from dangerous pits) will provide the bulk of home-grown power generation into the 2030s. But China's greatest resource by far remains its vast population – with its energy and industry – in the realization of its global security.

The US people may be revitalized for a time by the arrival of President Barack Obama, but the factional infighting before and after the election is likely to weaken them. The fighting in Iraq and Afghanistan – the foreign wars that the US traditionally tried to avoid – have become a political means to an end. The UK's former prime minister Tony Blair may have entered Iraq hoping that Mrs Thatcher's pedestal from the Falklands would soon be under his feet – but his efforts failed. In the USA, George Bush may have entered Iraq to show that the attack on the Twin Towers of 9/11 would be avenged – but he failed. President Obama may leave Iraq claiming that Afghanistan is the final frontier – and he too will fail. Europe, of course, will argue internally and, unless it can make common cause, will also fail.

To put it bluntly, China is afraid of the democratic process, and the resulting attitude to foreign wars and domestic protection. To use domestic voters' emotions as a democratic tool to generate further domestic political power is not unusual. To use external strife to generate political power is not unusual. To create external strife to regenerate voters' emotions merely to stay in power is unforgivable. But it is not unusual.

The fear for China is that the creation of hostility against it, a simple political ruse and matched by emotional outbursts, is a clear and present possible future. The recession is the key. The emotions of the German people following the hyperinflation of the 1920s, which killed any savings, and the recession, which killed their livelihoods, were real and were manifested through the democratic process in the election of Adolf Hitler. The rest is history – but that dreadful history resulted in the invention of the nuclear bomb and its terrible use against humanity. The next war, when it comes, is already preceded by the invention and use of the bomb but also, regrettably, by its forgotten effects.

Is the future that bleak? Do we forecast China versus the USA in a nuclear shootout? ‘Yes’ to the first question and ‘No’ to the second. The future is bleak because the West has let the market run ahead of its social needs. Look again at the Declaration of Human Rights. It does not focus on preserving market economies, it concentrates on preserving society and the peoples of the world. The Declaration followed a major world war, and the war’s consequences were the driving force behind it. The Declaration has now had sixty years of deadly skirmishes, with failures in Burma and Zimbabwe, in North Korea and Sudan, in North and South America, in Europe and Asia. The democratic market took over, bubbles were blown – and burst.

The global recession, however, can be a force for good by turning people away from market consumerism. And here, China should be invited to advise rather than follow – but too late. Governments in the USA and Europe have decided to encourage more spending rather than less. Market forces will fail, just as they fail regularly; capitalism is essentially destructive. These failures will force the West into a debtor position under China’s sovereignty. And that will spark the China versus USA standoff already prefigured by Premier Wen.

China will certainly suffer from the recession but not, for example, as badly as Japan did in the 1990s. One market defence, and a benefit, is the *lack* of democracy in China – buying votes through overstimulation of the economy is unnecessary. Another defence is the strong family value system in China, so that mere obedience to the government or its institutions is unlikely. Domestic and regional expansion will ease the recessionary chill – warmed by a military overcoat. The recession may be a problem for some but it is the solution that will be a problem for many. Will the world move to protect society, or will politicians move to protect their power?

# Glossary and Index

We have not put in place a keyword index as we have used executive style summaries at the beginning of each part of the book. We believe that this is preferable for the modern reader. From an academic perspective, the structure of the book is holistic, with the word *guanxi* constantly cross-referencing with other concepts, thus making any index overly long and very complicated.

We do, however, present a brief introduction to Chinese pronunciation and several important and useful concepts in this glossary. The glossary provides a brief explanation of concepts discussed in the text and indexes where they are first used.

To aid the reader, we should explain that Chinese pronunciation is linked to the Roman spelling more directly than English (think about the difference in pronunciation between cough and bough). Thus *ch* is as in ‘cheese’, *q* is as in ‘job’ and *x* is as in ‘she’. *Qingdao* is thus pronounced ‘Jingdow’.

The vowels form the tongue and mouth movements (*xiao* equals *shyaow*). Vowels are more French-sounding than English (*u* is ooh rather than you). Tones are very important — *mai* with rising and then falling vowels means to buy, *mai* with a distinct falling tone is to sell. We do not go into detail but merely warn the reader to be careful lest the transaction goes the wrong way.

Term	Meaning	Page
<i>ba bao</i>	literally ‘save eight’, ensure an 8 per cent growth rate.	154
<i>balinghou</i>	the generation born after 1980.	140
Boxer Rebellion	the 1900 uprising by the ‘Righteous Fists of Harmony’ fighters against invading European armies.	189

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<i>bujun</i>	the inequality or income gap between rich and poor.	137
CCP	The Chinese Communist Party.	95
Cheng Ho	Chinese admiral, diplomat and expeditionary leader of voyages to the 'Western Ocean' and countries of East Africa and the Arabian Peninsula in the fifteenth century.	64
Chiang Kai-shek	President of China from 1928–31, and 1943–9. Leader of the Kuomintang, the Chinese Nationalist Party. Retreated to Taiwan in 1949 after defeat by the Chinese communists to set up a separate nationalist Chinese state.	57
Confucianism	The practical, worldly moral precepts and philosophy of K'ung-fu-tzu (c. 500 BC), determining the norms of behavior in Chinese society.	71
Cultural Revolution	A period of extreme social unrest and political upheaval, most intense from 1966–8, resulting in the persecution of intellectuals and bourgeois elements, purges in Party posts and a Mao Zedong personality cult.	144
Darwin	Charles Darwin, naturalist and geologist, proponent of the theory of evolution and author of <i>On the Origin of Species</i> (1859).	181
David Hume	Scottish moral philosopher, historian and economist (1711–76), whose legacy has most influenced twentieth-century empiricist philosophers.	11

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Deng Xiaoping	Chinese Communist leader and prime mover of economic reform and opening up of relations with the West from the late 1970s.	30
<i>fa</i>	Rules, laws and strict principles.	142
Falun Gong	Chinese spiritual discipline, based on meditation and breathing exercises, outlawed by the CCP.	6
<i>fa zhi</i>	Rule by law, rather than rule of law (as opposed to <i>ren zhi</i> , rule by humankind).	85
<i>feng shui</i>	Chinese geomancy, the art of siting buildings auspiciously.	77
G20	Group of twenty finance ministers and central bank governors from Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the USA and the EU. Main forum for cooperation and co-ordination of the global financial system.	133
<i>guanxi</i>	Literally ‘relationship’, but used to mean ‘connections’ or the network of relationships formed and used by Chinese individuals to achieve their ends, based on mutual obligation and common understanding.	4
Han Dynasty	The period of rule by the dominant ( <i>Han</i> ) ethnic group (206 BC to 220 AD), which later dynasties took as a model for the ordering of society.	75
<i>hukou</i>	Chinese household registration system, based on residency permits.	138

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KMT	Kuomintang, the Chinese Nationalist Party, led by Chiang Kai-shek.	19
<i>kowtow</i>	The old Chinese ritual of touching the ground with the forehead in submission to the emperor and high officials.	3
Legalism	One of the four main Chinese schools of philosophy (the others are Confucianism, Taoism and Mohism). A pragmatic code, based on rewarding those who obey the law and punishing those who break it.	101
Legge	The Revd Dr James Legge, Scottish Sinologist, first Professor of Chinese at Oxford University (1876–97).	161
<i>li</i>	Ritual, the conduct of relationships.	85
Lin Yutang	Twentieth-century Chinese writer of popular works such as <i>My Country and My People</i> , who did much to explain and interpret the East to the West.	196
Lu Xun	Best-known Chinese writer of the early twentieth century, something of a Chinese Rudyard Kipling in his capture of the spirit of the times in the demotic language of the new Republic.	200
<i>luan, da luan</i>	Literally, ‘great chaos’, much feared if as a result of a breakdown of civil society.	20
Mao Zedong	Chinese communist leader and Chairman of the Chinese Communist Party from 1949 to 1976.	30

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Marco Polo	Italian adventurer who travelled from Venice to China between 1271 and 1275, and was received by the court of Kublai Khan. His account of his travels awakened European interest in trade with the East.	196
Manchu	People originating in Manchuria, founders of the Qing Dynasty.	185
Meng Tzu	Mencius, the most influential philosopher and interpreter (around 300 BC) of Confucian ideas.	158
<i>mianzi</i>	Literally, ‘face’, but used to mean the individual’s sense of self-image and worth, and the respect shown to others in both word and deed.	80
Ming Dynasty	Chinese dynasty from 1368 to 1644, overthrown by the Manchus (see Qing Dynasty).	56
Needham’s Puzzle	Joseph Needham, author of <i>Science and Civilization in China</i> , was confounded by China’s failure to develop into a major power in the nineteenth century, given that it had the world’s largest economy in the eighteenth century.	70
Opium Wars	The first Opium War was fought between the British East India Company and the Qing Dynasty over access to opium trading from 1839 to 1842. The Second Opium War was fought between the British and French and the Qing Dynasty as imperialism reached its height between 1856 and 1860.	94
PLA	The People’s Liberation Army.	58
PRC	The People’s Republic of China.	130

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<i>qing</i>	Expression of feeling through appropriate response.	85
Qing Dynasty	Chinese dynasty founded by the Manchus, lasting from 1644 to 1912, when it was overthrown by Sun Yat-sen and his supporters to end imperial rule.	56
<i>qi gong</i>	The traditional Chinese practice of breathing exercises to energize the body.	145
<i>renqing</i>	Human feeling and sense of personal obligation expressed as an appropriate response.	4
<i>ren zhi</i>	Rule by humankind.	85
Sun Yat-sen, Dr	Chinese revolutionary leader who became the first president of the new Republic of China in 1912. Father of the modern Chinese state.	6
Sun-Tzu	Chinese general and military strategist (lived c. 4000 BC).	55
Taoism	The alternative, unworldly philosophy founded by Lao-tzu in the sixth century BC, focusing on inner contemplation and mystical union with nature.	200
Xinjiang	Westernmost province of China with an increasingly vociferous Muslim population.	19
<i>Yi Ching</i>	The Book of Changes, one of the five classical Confucian texts, which interprets the principles of <i>yin</i> and <i>yang</i> .	159
<i>yin</i> and <i>yang</i>	The active and passive principles and prime movers of the universe. <i>Yin</i> is the passive principle – female, sustaining, of the earth, dark and cold. <i>Yang</i> is the active principle – male, creative, of heaven, heat and light.	77

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- Zhao Ziyang Premier of the People's Republic of China (1980–7) and General Secretary of the Chinese Communist Party (1987–9), purged for sympathizing with students in the Tiananmen protests of 1989. 203
- Zhou Enlai Premier of the People's Republic of China (1949–76). His moderating influence with Mao Zedong brought the Cultural Revolution to an end and paved the way for *détente* with the USA. 30