

# THE SECRET OF CHINA'S SUCCESS



by REN XIAOSI



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# Preface

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Is China Number One?

Boasting a vast land of 9.6 million sq km, a rich cultural heritage and a strong bond among the 1.3 billion Chinese people, we are resolved to go our own way. We have a big stage to display our advantages on, a long and rich history to draw benefit from, and a powerful impetus to push us ahead. We Chinese people — every single one of us — should draw confidence from this.

Xi Jinping

Using purchasing power parity (PPP) as a measure, the World Bank International Comparison Program (ICP) said on April 29, 2014, that China would overtake the United States as the world's largest economy in 2014. Taking into account the real cost of living, PPP is considered the best measurement of economic scale. *Financial Times* says that these figures are the most authoritative estimates of what money can buy in different countries and are used by most public and private institutions, such as the International Monetary Fund.

The ICP findings were followed by various reports and commentaries in international media.

In an article published on May 1, 2014, *Financial Times* compared economic data of China and the United States: China is the world's supplier of cheap goods, taking the global lead in trade from the U.S. last year. The renminbi is the seventh most used currency, and in 2013 China was sitting pretty on a current account surplus of

about \$200 billion, compared with a U.S. deficit of roughly \$400 billion.<sup>1</sup>

With these “most authoritative estimates” by the World Bank and having compared economic data of the two countries, U.S. media have drawn similar conclusions: However it is measured, it is highly likely that the United States will be overtaken economically by China. *The Washington Times* said, “The World Bank says within a matter of months, China will be the world’s most powerful economic force, greater than the United States. This would be yet another downgrade to U.S. prestige comparable to the recent embarrassment in losing our perfect AAA credit rating.”<sup>2</sup>

*Catholic Online* (catholic.org) said, “It’s an extremely humbling moment for the United States. For the first time, since 1872 — the U.S. must relinquish the crown of the World’s Largest Economy to China,” and “Chinese President Xi Jinping is certain to place the ‘world’s biggest economy’ title front and center in the trophy cabinet dedicated [to] his campaign for the “great rejuvenation of the Chinese nation.”<sup>3</sup>

In *America the Shrunken*, written by Frank Bruni, a story illustrated the sense of crisis of the American public:

Not long ago I asked a good friend of mine — one of the smartest men I know, and one of the most devoted dads — if he thought that his children would live in a more prosperous America or at least enjoy the same bounty of opportunities that we had. His response was instant and unequivocal. “No.” “How do you make peace

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1 “China’s sorpasso is a numbers game,” *Financial Times*, May 1, 2014.

2 “So what if China grows? The Middle Kingdom takes on America’s economic supremacy,” *The Washington Times*, May 5, 2014.

3 “Not since 1872! China to topple U.S. as world’s largest economy,” *Catholic Online*, April 30, 2014.





Huawei Technologies Co. Ltd. promotes its products at the China (Nanjing) International Software Product and Information Service Expo held in Nanjing, Jiangsu Province, on September 12-15, 2014.

with that?" I asked. He shrugged, laughed bitterly and answered, "I'm hoping to leave them a lot of money." I was reminded of my conversation with him when I read last week about a fresh projection, from a branch of the World Bank that the Chinese economy might overtake ours by the end of this year, finishing our century-plus reign as the world's wealthiest nation. What a run we had! It was great while it lasted. And it will probably not last much longer than another few months. The projection relied on disputed arithmetic. These matters are not neat and clean. But our slide to No. 2 nonetheless seems inevitable, so much so that most Americans think it has already happened. For the last six years, when the Gallup Poll asked them which country was the world's "leading economic power," more answered China than said the United States. This year, the spread was an astonishing 52 to 31 percent. Fewer than one in three Americans puts us on top, even though we actually remain there.



A train running at trial speeds up to 322 kph arrives in Shangrao Station on August 22, 2014 – Shangrao is the intersection of the Shanghai-Kunming high-speed railway, Hefei-Fuzhou high-speed railway and the old Shanghai-Kunming railway.

“My friend isn’t alone in his worry for his kids,” Bruni wrote. “The ‘Heartland Monitor Poll’ by the Allstate/*National Journal* last September showed that only 20 percent of Americans expected today’s children to have more opportunities to get ahead than their parents had, while 45 percent expected them to have fewer. That was the most downbeat finding since the poll first broached the question in 2009.”<sup>4</sup>

Despite intense coverage from international media and concerns of the American public on their status as the world’s largest economy, Chinese have remained low-key on the World Bank’s prediction, because they are fully aware of China’s reality as a developing country. Measured by per-capita GDP, China ranks only 99th in

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4 Frank Bruni, “America the Shrunk,” *The New York Times*, May 4, 2014.



the world. Moreover, in terms of many other indicators, such as trade volume, foreign exchange reserves, science and technology as well as cultural soft power, China still falls far behind developed countries. Becoming the world's largest economy does not mean China has become the most powerful economy in the world.

First, although China is a super trading nation, which exported 14 percent more goods than the United States did in 2013, its imports were 31 percent lower than the United States. China has not been the largest importer in the world, while the size of an importing market decides the bargaining power of a country in the global market.

Second, by March 2014, China's foreign exchange reserves had surpassed \$4 trillion. This is an advantage and a disadvantage. It is true China can sell these assets, but by doing so China itself will be the biggest loser. In a world of excessive savings, it is easy for the United States to find new buyers.

Third, since United States financial markets and financial companies make up the core of the global financial system, the United States can exercise a huge influence on the global financial structure. Such a situation may continue for some time. Now the Chinese financial system needs to withdraw from the credit boom, but there will be various challenges during this process.

Fourth, in terms of science and technology, the average productivity of the Chinese economy is only one-fifth that of the United States. More importantly, besides Huawei and a few other companies, China still has no world leading science and technology companies. In contrast, there are a large number of such companies in the United States.

Fifth, due to technological advantages and huge military



HSBC Trade Forecast Report released in September 2014 says China is projected to account for an ever increasing share of world trade, and its share of world exports is projected to climb from 18 percent in 2013 to 29 percent by 2030. Pictured is Xiamen port in southeast China's Fujian Province.

expenditures, the United States has military influence and power covering the whole world. This may also continue for some time.

Sixth, the United States has tremendous soft power advantages: It has popular culture of global influence, world-leading universities, unparalleled foundations for scientific research, as well as persistence in freedom and democracy. Although the United States itself often fails to practice its ideal of freedom and democracy, it still attracts numerous people from across the globe. To the outside world, the Chinese political system is far less appealing than that of the United States, and Chinese history and culture are also much stranger to a global audience.

In the long run, China's economic scale will continue increasing, and its scientific and military capabilities will grow correspondingly





Harvested terraced fields in Jiabang, Congjiang County, Qiandongnan Miao and Dong Autonomous Prefecture of Guizhou Province

to its national strength. The growing Chinese influence will certainly be recognized, especially in global governance. However, this rising giant may need 10 years or even longer to exercise the same influence as the United States does now.

Chinese leaders are fully aware of the country's development conditions. President Xi Jinping once said that in modern times, the great renewal of the Chinese nation has been the biggest dream cherished by the people of China. History will demonstrate that the pursuit of the Chinese dream will bring to the world opportunities rather than threats, peace rather than turmoil, and progress rather than retrogression. To realize the Chinese dream, China has set out two centennial goals, namely, to double the 2010 GDP and people's income and finish the building of a moderately prosperous society in all respects by 2020, and to turn China into a modern socialist country that is strong, prosperous, democratic, culturally advanced

and harmonious and realize the great renewal of the Chinese nation by mid-21st century. To realize this Chinese dream, we must comprehensively deepen reform, further emancipate people's minds, unleash and develop social productivity, and unlock and enhance social vitality.

In the past three decades, China has overtaken the former Soviet Union, the United Kingdom, France, Germany and Japan, becoming the second largest economy in the world. More commendably, during the process of economic growth, China has raised more than 400 million people out of poverty. According to figures from the United Nations, 80 percent of the world's poor are lifted out of poverty in China. Robert Fogel, winner of the 1993 Nobel Prize in Economics and a professor at the University of Chicago, predicted, "In 2040, the Chinese economy will reach \$123 trillion, or nearly three times the economic output of the entire globe in 2000. China's per-capita income will hit \$85,000, more than double the forecast for the European Union, and also much higher than that of India and Japan. Though China most certainly is not an open democracy, there's more criticism and debate in upper echelons of policymaking than many realize."<sup>5</sup>

China's performance during the global financial crisis also attracted widespread attention from the world, resulting in a challenge to the capitalist system. When the global financial crisis first broke out, a *Time* article once alleged that "China has entered a recession, and it may end up being deeper than the one in the U.S." "China no longer has the economic core to continue the 'miracle.' China has just become another big country in trouble."<sup>6</sup> Another article of the magazine predicted that China would not see its GDP rise more

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5 Robert Fogel, "Why China's Economy Will Grow to \$123 Trillion by 2040," *Foreign Policy*, 2010 (1).

6 Douglas A. McIntyre, "The Last Pillar of the Chinese Economy Falls," *Time Magazine*, January 12, 2009.

than 4 percent in 2009.<sup>7</sup> However, such predictions were crushed by facts just 10 months later. Ahead of the crisis, the Chinese government vowed that the biggest contribution China could make to the world was to run its own affairs well. It adopted a series of measures, maintaining sound and stable economic growth, much to the astonishment of an impressed world. The Chinese economy has recovered faster and better than those of developed and other emerging economies. *The Wall Street Journal* said, "Asia, led by China with its large government reserves and broadly solvent banking system, avoided the leverage problems that ignited the financial crisis in the West and is in a better position to take advantage of the global rebound."<sup>8</sup>

After the end of the Cold War, China underwent various trials in its development. Western countries are not in favor of China's political system, and when international or domestic situations become volatile, various views criticizing China will rise. When the former Soviet Union collapsed, Deng Xiaoping died, Hong Kong returned to China, SARS broke out, China joined the WTO, and the 2008 global financial crisis broke out, Western countries had expected China to collapse into disorder. However, over two decades have passed since the end of the Cold War, and such disorder never materialized. The theory of the "China Collapse" had collapsed, while China has risen beyond expectations of the West. Using concrete facts, China has shown the unfairness of the Western concept of history, proving that countries can choose their own paths of development suitable to their national conditions.

Where then does the key to China's success lie? How can China create a miracle of world interest within just three decades?

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7 Michael Schuman, "Pundit: China's Economic Growth Could Stop," *Time Magazine*, February 3, 2009.

8 Alex Frangos, "Asia is in prime spot to ride the recovery," *The Wall Street Journal* (Asia), January 4, 2014.



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# Chapter One

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Why Does Thomas  
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