Introduction

What the mind of man can conceive and believe, it can achieve.
Napoleon Hill

The mind is everything. What you think you become.
Buddha

There are no constraints on the human mind, no walls around the human spirit, no barriers to our progress except those we ourselves erect.
Ronald Reagan

China began to open its doors to business with Western nations around the 1840s. Since that time the West’s precedence over China in natural and social sciences has resulted in a limited drive for the West to study Chinese strategy – or anything else, for that matter. After three decades of economic reform and development, under Deng Xiaoping’s policies and principles, China has gradually emerged to become a global power and a leading challenger of the West in many areas, talking about the ‘Chinese Dream’, with an emphasis on national rejuvenation. There is now a realisation that the knowledge and understanding of China by Western policy makers, business leaders and academics has been either inadequate or wide of the mark. Understanding Chinese strategy has become imperative.

Much has been written about the paramount importance and nature of strategic thinking, which is predominantly based on Western tradition. Yet the West has often misread or misunderstood Chinese economic, military and political policies and decisions because of its tendency to see them through an essentially Western lens and to try to fit them into Western strategic frameworks.

The cry that ‘the Chinese are coming …’ has increasingly been heard in the West over the past decade, and the publications addressing the strategic implications of Chinese international presence in various areas have mushroomed, conspicuously in economics, business, international politics and relations, and military studies. Among the studies in these areas, the link has been missing: how and why the Chinese think
inherently differently from occidentals in business, economic, political and military strategies, leading to the strategic impacts that have often bewildered Western decision makers.

This book addresses the fundamental issue: does the Chinese strategic mind have its own idiosyncrasies that differ considerably from those of the West? The issue of whether the cognitive process of people from different cultures varies is of long standing and has been common. The research shows that there are indeed dramatic differences in the nature of Asian and European thought process. The literature in strategic management generally recognises the paramount importance of strategic thinking in shaping firms' strategies and performance. Despite this recognition, there has been no consensus on the definition of 'strategic thinking'. A large number of studies have focused on the characteristics of (Western) strategic thinking. It is described as the 'strategists' way-of-thinking', the identification of 'alternative viable strategies or business models that deliver customer values', a synthesising process with intuition and creativity, a creative and divergent thought process, a 'strategic reasoning process' and 'thinking strategically', or the ability to think strategically. In this study, 'strategic thinking' or 'the strategic mind' is defined as a cognitive process through which decision makers acquire and analyse information about a strategic problem and formulate a solution.

To date, studies on cross-culture cognition or thinking in the areas of business and strategy, particularly on Chinese strategic thinking, have been few and far between. This book is aimed at drawing the attention of Western academics and practitioners to the missing link of Chinese strategic thinking or the Chinese strategic mind, building a bridge to help Western readers to pass through the gate to the island of the Chinese cognitive world relating to strategic decision making, and arousing, in the West, a general interest in research and educational efforts towards the comprehension of Chinese strategic thinking. It is hoped that, as a result of this book, directly or indirectly, a proliferation of publications will follow in the academic world, focusing on the Chinese strategic mind and strategic thinking.

Since China's economic reform, initiated in 1978, economic momentum has continued unabated for over three decades. The reform has opened up the Chinese market as a mega-arena in which there are all kinds of players, international and domestic, with advanced technology and products of superior quality. Domestic Chinese companies were initially weak and small players in terms of resources and technology. Gradually they have grown stronger and larger, and, among other factors, the strategies deriving from Chinese strategic thinking have played an
important part in their growth and success. However, to date, these strategies have not been fully understood by Western scholars and practitioners.

The past three decades have witnessed China’s remarkable economic development and increasing presence in international arenas such as business, politics and the military. China became the world’s second-largest manufacturer in 2006 by overtaking Japan, and the world’s largest manufacturer in 2010 by surpassing the USA. Recognised as the world’s second-largest economy based on purchasing power parity (PPP) since 2010, China has been poised to become the world’s largest economy in the near future. The rapid economic growth in China has been in large measure ascribed to foreign direct investment, generally reflecting the outcomes of competition and cooperation between Chinese and Western (European, North American and Australasian) businesses. The competitive advantage of a nation stems from its industrial competitiveness, which derives from firms’ competitive advantages. If the interactions (competition and/or cooperation) between Western and Chinese organisations are seen as games, it would be fair to say that the Chinese players have now become reasonably competent. To be in an advantageous position in competing against or cooperating with Chinese players, it is imperative for foreign players to understand thoroughly the strategies and organisations of Chinese players. Strategic thinking or the strategic mind of Chinese players is key to attaining such knowledge, as it plays a vital role in organisational leadership and strategy.

In a Chinese maxim, the marketplace is seen as a battlefield, and strategic thinking in Chinese business is intrinsically associated with traditional military thought, which also exerts a great influence in other areas, such as politics, diplomacy and sports. It can never be overstated that the late Chinese leader, Mao Zedong, one of the greatest Chinese strategists in purely military and political senses, utilised the essence of Chinese strategic thinking to the letter, and has been seen as an ‘invincible Chinese general’. Now Mao’s strategic thought and approaches have been found to be still effective in the Chinese business arena. It is observed that, for many Western executives who have returned from China burned out by the experience, much of the burnout originated in their inability to ‘read’ the competition or their Chinese business partners.

Since the early 1980s, several entrepreneur-led firms have emerged to become industry leaders in China, and some of them have attained an eminent position internationally, such as Huawei, Haier, Wanxiang and Lenovo. These entrepreneurs have started off their ventures with limited resources and limited exposure to Western management knowledge and
techniques, and have relied on ethos and experiences that are embedded in Chinese culture and values to achieve their success.

Ren Zhengfei, who founded Huawei Technologies Co. Limited in 1987 as a private Chinese company, initially acted as a sales agent for private branch exchange (PBX) switchers for a Hong Kong company. He worked as a technologist and officer in the Chinese Liberation Army (PLA), with a bachelor’s degree in engineering from the Chongqing Institute of Civil Engineering and Architecture. Starting off with limited capital and technology, as a small player in the field, Huawei is now the world’s largest multinational networking and telecommunications equipment and services company, a formidable international player in the information industry. Ren has encouraged his senior executive team members to study military and historical literature, de-emphasising the role of MBA knowledge, and has cultivated a unique organisational culture with military characteristics. His strategies have been seen to be guided by the works of Mao Zedong, the ancient Chinese philosophy found in the classic literature of the I Ching and the philosophical/ethical principles of Daoism.

In 1971, Xu Jingren founded the Yangtze River Pharmaceutical Group (YRPG), headquartered in Taizhou, Jiangsu Province. YRPG started as a small township firm providing drugstores and hospitals with Chinese herbal medicines and painkillers. It is now one of the largest pharmaceutical companies in Asia, and ranked in 2015 as China’s largest pharmaceutical manufacturer. YRPG has more than 20 subsidiaries, with over 9300 employees, and its sales network extends throughout China. Xu Jingren, a former low-ranking army officer, has kept a military style of work ethics and management. He is a total believer, admirer and follower of Mao Zedong, and many of his strategies bear the marks of Mao Zedong’s military thought.

In 1984, Liu Chuanzhi founded Legend, the predecessor of Lenovo, which became the world’s largest computer company by unit sales in 2014. He has been named as one of the 25 ‘Most Influential Worldwide Business Leaders’ by Time Magazine, ‘Asian Businessman of the Year’ by Fortune Magazine, one of the ‘Best Asian Business Leaders’ by Forbes and one of the ‘Stars of Asia’ by BusinessWeek. He graduated from the People’s Liberation Army Institute of Telecommunication Engineering (1961–66), with an additional two years of service in a military establishment. He acknowledges openly that the army experience has shaped his thinking, personality and working style, which have greatly assisted in his business success.

Zhang Ruimin was the innovator who made the Haier Group one of the world’s largest white-goods companies. Notably, he had not attended
college before he took over, in 1984, responsibility for the predecessor of Haier, the Qingdao Refrigerator Plant, a company that was small and nearly bankrupt. Surprisingly and swiftly he has turned the company around with his unique management philosophy, shaped directly or indirectly by the thinking of ancient philosopher Lao Tzu, by ancient military strategist Sun Tzu, by Confucianism and by Mao Zedong; Zhang Ruimin became a guest speaker at Harvard Business School.

The Wanxiang Group, a Chinese conglomerate with operations in real estate, finance and automotive components manufacturing, was co-founded and run by Lu Guanqiu, who was born into a farming family, and who did not even finish his high-school education. The company has now grown into not only the largest auto parts manufacturer in China, but also a successful multinational with operations in developed countries. Since Lu embarked on his venture, he has been known as a bookworm – on average he spends five hours daily reading books, journals, magazines and newspapers, and has acquired the reputation of ‘farmer theorist or entrepreneur’. His initial entrepreneurial idea about entering China’s auto parts business was based on the Chinese concept of shi, an inherent potential power or trend in favour of the development of an industry, business or a situation (a concept that will be examined in depth in later chapters), by which, reading between the lines in mass media, he sensed the advent of China’s coming auto era, stimulating and expanding the auto parts business.

The list of such Chinese entrepreneurs or business leaders is potentially extensive, suggesting that many leading Chinese companies have strategic thinking and organisational structures that are substantially different from those in the West. It is time to look into China’s development from a Chinese perspective, rather than through a Western lens. Most existing initiatives and efforts to understand China’s strategic and managerial issues have been carried out using Western frameworks, logics and assumptions. We should now start to delve into how and why Chinese strategists have succeeded from their perspectives, rather than imposing our own explanation, interpretation and rationale.

It should be emphasised that this book does not imply any superior or inferior nature of strategic thinking in either China or the West, but merely reveals dissimilarities between the two hemispheres. As Andrew Roberts (2011) puts it in the *Art of War*: ‘To say that Homer is greater than Shakespeare or Shakespeare than Goethe is absurd.’ Although China is now a formidable economic powerhouse, and Chinese companies are becoming competitors against their US and European counterparts, many of them are mainly seen as ‘large’ but not ‘strong’, and only a handful of Chinese companies may be regarded as truly international
top players. Some peculiarities of Chinese strategic thinking may have been considered by Western business executives as unprofessional or amateur. Bearing in mind that, 30 years ago, Chinese companies were almost unheard of internationally, and now more and more of them are emerging to join the international competitive arena, we should understand that the idiosyncrasies of the Chinese strategic mind can have great implications for those doing business in China or with Chinese companies. It is part of the Chinese hard-core philosophy that everything has two sides, or *yin* and *yang*, which are interrelated and interchangeable. Chinese strategic thinking has both its weak and strong sides. Players about to enter a game need to know the strengths and weaknesses of their opponents.

Chinese strategic thinking is embedded in Chinese tradition. Among those who have been instrumental in raising such strategic thinking to its current high point of development we may number adopters and developers such as Lu Shang, Sun Tzu, Zhuge Liang, Liu Bowen, Mao Zedong and Deng Xiaoping, and other Chinese political and business leaders who absorbed and applied, as well as enriched and developed, the reservoir of Chinese strategic thinking. Running through the thinking of many prominent Chinese leaders or elites, ancient or current, is a common ‘thread’ of Chinese strategic thinking or ‘strategic mind’. This book addresses this commonality, enabling Western decision makers at least to understand the decisions made or to be made by their Chinese counterparts. Readers of this book may find some Chinese wisdom to be useful or beneficial in their strategy formulation.

Up to the present day, the thoughts and theories of Mao Zedong have remained a major inspiration for decision makers in China’s politics, business and military. One study has suggested that the strategies of many Chinese business leaders have been greatly influenced by Mao Zedong’s thought. It is said that the Chinese leader, Xi Jinping, is a follower of Mao Zedong, and he has thoroughly embraced Mao’s dialectic logic or approaches in grappling with domestic and international affairs. The advent of this adherence is a new era for China in which Mao Zedong’s influences will be revitalised. The obvious evidence is China’s assertive stance in the South China Sea and other international affairs, such as dealings in its relationships with Japan and North Korea, which have greatly departed from the styles of previous leadership. The importance of understanding Mao Zedong’s style of thinking can never be over-emphasised by those who are involved in Chinese politics, international relations and business.

China has a history that has outlived all other great empires in Eurasia, including the Egyptian, Roman, Byzantine, Arabian, Ottoman and
Tsarist-Soviet.22 From a historical point of view, China’s economic development has gone through an evolutionary process. China was the world’s largest economy until 1840, accounting for an estimated 32.9 per cent of global GDP,23 while that of the whole of Europe amounted to about 20 per cent.24 From the mid-1800s to the early 1950s, China witnessed an economic deterioration and downward trend. As a result of the founding of the People’s Republic of China under the leadership of Mao Zedong in 1949, China’s economic decline was halted, and per capita GDP rose 3 per cent annually during the period from 1952 to 1978.25 However, in 1978,

China was one of the poorest countries in the world. The real per capita GDP in China was only one-fortieth of the U.S. level and one-tenth the Brazilian level. Since then, China’s real per capita GDP has grown at an average rate exceeding 8 percent per year. As a result, China’s real per capita GDP is now almost one-fifth the U.S. level and at the same level as Brazil.26

As a result of the economic reform initiated by Deng Xiaoping in 1978, China has experienced the world’s fastest economic growth in the past three decades, with a momentum to enable it to become the world’s largest economy.27 The changes that have taken place in contemporary China have mainly been brought about by, among others, two great Chinese leaders: Mao Zedong, to whom China’s independence is primarily attributable; and Deng Xiaoping, who is instrumental in leading China’s economic transformation in terms of laying out the nation’s reform policies and blueprints. As a saying in China goes: ‘If there had not been Mao Zedong, there would not have been the People’s Republic of China; if there had not been Deng Xiaoping, there would not have been today’s happy life of the Chinese people.’

The nature of Mao Zedong’s thought is typically rooted in Chinese tradition, as Kissinger notes: ‘In pursuit of foreign policy agenda, Mao owed more to Sun Tzu than to Lenin’.28 ‘Contrary to Marxist doctrine, he [Mao Zedong] was the first communist leader to express the view that revolution must come from the peasantry rather than the urban proletariat.’29 Mao’s theories have proven to be particularly suited for coping with conflicts, battles or warfare, both internally and externally, rather than for constructing or building. Therefore, in both internal and external warfare and political conflicts, Mao has predominantly come out as the winner. Even after the founding of the People’s Republic of China, Mao still placed great emphasis on ‘power struggle’ as a matter of policy, launching political campaigns one after another, such as the Anti-Rightist Movement of 1957–59 and the Cultural Revolution of 1966–76. That
Mao Zedong was a strategic genius indicated not only by his masterful leadership during wartime periods, but also by his accurate predictions of a number of international and domestic affairs when he was still a young man. Such predictions include:

1. On 25 July 1916 he foretold that there would be a war between Japan and China in 20 years, and on 7 July 1937, Japanese armies invaded China through the Lu Gou Bridge, also known as the Marco Polo Bridge.
2. On 21 July 1919 he predicted that, in 20 years, France would suffer from a disastrous incident, and this corresponded with the French surrender to Germany in 1949.
3. On 29 July 1919 he predicted that Japan and Germany would work together to bring about catastrophic consequences for the world, a forecast tragically fulfilled by the events of the Second World War.

Because of his strategic genius, Mao’s theories have proven to be effective in a conflict setting. However, unfortunately he never shifted away from the focus on ‘class struggle’ as his policy priority, without developing workable theories for ‘socialist’ construction or development.

In contrast, Deng Xiaoping was able to transform the Chinese economy principally because he masterfully combined Chinese thinking with Western economic (development) theories and experiences. His thinking, embedded in Chinese tradition, was receptive to the Western economic theories and practices that have proved effective. His openness is attributable to his exposure to the Western world and its people. From 1921 to 1925, he worked in factories in France, where he had first-hand experience of Western life and working systems, with an additional year in Russia. In 1973 he was reinstated as vice premier working closely with Zhou Enlai, who delegated the responsibility for foreign affairs to Deng, engaging him in international affairs. In 1974, he attended a United Nations conference in New York as the representative of China, followed by two visits to France in 1974 and 1975, giving him opportunities to see the developed world. Furthermore, the successful experiences and practices of the Asian ‘Four Tigers’ (Hong Kong, Singapore, South Korea and Taiwan) in the 1960s were exemplary, providing him with policy inspiration. In a nutshell, in comparison with Mao Zedong, Deng Xiaoping’s approaches to economic development were pragmatic and efficacious.

Metaphorically, the strategic mind of Mao Zedong may be seen as an overwhelming manifestation of Chinese culture and tradition, while that
of Deng Xiaoping may be regarded as a mixture of Chinese thinking incorporating Western theories and practices. Therefore, in this book, attention is primarily focused on Mao Zedong’s strategic thought and approaches as representative of the Chinese strategic mind.

The logical questions that the book addresses include:

1. Is there an idiosyncratic Chinese strategic mind that differs from that of the West?
2. Why has such a strategic factor not received sufficient attention in the West? Alternatively, what have been the consequences of failing to appreciate the Chinese strategic mind?
3. What are the idiosyncrasies of the Chinese strategic mind?
4. What are the strategic implications of these idiosyncrasies?

The strategic mind or cognition is culture-bound, and Western thinking would often be unworkable in China, and vice versa. Even in the early period of the founding of the Communist Party of China (CPC), there were struggles or battles between domestic or home-grown CPC members and those from the Communist International (Comintern), also known as the Third International. All the military campaigns under the guidance of Comintern turned out to be unsuccessful. For instance, Otto Braun (otherwise known by his adopted Chinese name of Li De), a graduate of the Frunze Military Academy, was a representative from Comintern engaged to advise the CPC. In late 1934, the CPC army was predominantly led by Braun, together with Zhou Enlai and Bo Gu, making all military decisions. Harrison Salisbury (1985) notes:

Braun was picked for China because of his knowledge of languages (German, Russian, and English) and his experience in street fighting during the German revolution. Street fighting was said to be the key. The Comintern expected the Chinese Revolution to be a reply of the Russian … Moscow did not then and was never to gain much understanding of China, but it placed a considerable stake on the Chinese Revolution.32

Having employed an ‘orthodox’ Western approach, Braun instigated the CPC army to engage in a direct attack on the Kuomintang army, which was larger and better equipped. As a result, the CPC army suffered a critical blow, and the number of its battle forces was reduced from 86,000 to about 25,000, within a year. Harrison Salisbury writes:

Braun had the Comintern behind him and the total support of the ‘Bolsheviks,’ and the Bolsheviks ruled the Chinese party … they now controlled the ‘Soviet Republic of China.’ Now, as autumn in 1933 gave way to winter 1934,
Chiang Kai-shek’s Fifth Campaign chewed into Communist territory. The Soviet Republic contracted and then contracted again. By autumn of 1934, the Communists had lost 58 percent of their territory and were down to six counties.\(^{33}\)

Shortly after that, Mao Zedong took over the CPC leadership and the fate of the CPC started to turn. Such a turnaround indicated that ‘foreign thinking’ did not seem to be working on Chinese soil – Chinese affairs had to be dealt with by Chinese thinking. Most of the early CPC leaders had overseas study or working experiences, including Bo Gu, Zhang Wentian, Chen Yun, Wang Jiaxiang, Liu Shaoqi and Liu Bocheng and so on, all of whom spent time in Russia, and Zhou Enlai, Li Fuchun, Nie Rongzhen and Deng Xiaoping, all of whom studied and worked in France.\(^{34}\) However, they were no match for Mao’s knowledge and skills, which had grown out of the home soil.\(^{35}\) Under Mao Zedong’s theories and directives, the CPC had grown from strength to strength. Even up to today, although the number of Chinese returnees, those who have studied in developed countries such as North America, Europe, Japan and Australia, has become quite significant, particularly making contributions to China’s development in the areas of high-tech, foreign or multinational business and education, few of them have been able to attain China’s political or state-owned institutional leadership positions.\(^{36}\) This has arguably been attributable to the fact that ‘China’s political system is neither open enough nor bold enough to accommodate a large number of returnees.’\(^{37}\) This may have some bearing on China’s political system, but has more to do with their thinking and knowledge backgrounds. To be able to get a foot on China’s political or state-institutional ladder, first and foremost one must have the knowledge embedded in Chinese philosophy, history or strategic thinking in order to become, at least, one of the inner-circle members of the system, from which position it would be possible to climb the ladder. However, most returnees are strong in the knowledge of natural sciences and technology but relatively weak in the social sciences associated with Chinese history and philosophy or traditional Chinese thinking, with inadequate experience in dealing with human interactions or leadership in the state political and institutional system. Therefore, when foreign politicians or business leaders have to grapple with Chinese counterparts of state political or commercial organisations, they probably have to deal with those who are immersed in the sea of Chinese tradition and well versed in Chinese strategic thinking.

Successful companies tend to grow out of the cultural milieu in which their strategies are developed. For instance, both (US) Cisco Systems and (Chinese) Huawei are multinational networking equipment makers. The
two companies took completely different paths to achieve their success, under different business environments. While Cisco started up by selling a product from the computer science department of Stanford University, which stands out among the best in the world, Huawei relied on acting as an agent selling products from a Hong Kong company and fought an uphill battle to achieve its success. In a particular case, Cisco was even engaged in a legal battle with Huawei. However, despite having an enormous pool of capital and some of the top brains in the world, Cisco has failed to get the upper hand against Huawei, providing a boost to Huawei’s international reputation and image. The outcome is a result of Huawei’s ‘combat’ approaches shaped by its founder’s unique strategic thinking, of which Cisco seemed to have insufficient awareness.

The idea about the differences in strategic thinking between Western and Chinese political and business leaders was initially inspired by the observation that there have been very many cases in which Western and Chinese politicians and business leaders have misunderstood each other, despite substantial efforts by Western academics and practitioners to bridge the cultural (communicational) divide. Then, the question arises: what are the fundamental reasons for such misunderstandings? I have gradually come to realise that it is the ‘mind’ or ‘thinking’ that tends to cause misapprehensions between different cultures. As Director of the Chinese Business Centre at Manchester Business School, I have had ample opportunities to talk to hundreds of Chinese senior executives and officials and a large number of senior executives from multinationals, resulting in my design and implementation of this project.

This book adopts a holistic approach to an analysis of Chinese strategic thinking, drawing on the fields of literature (including sources in both Chinese and English languages), military studies, political science, history, sociology, psychology, philosophy, linguistics and business strategy. It combines a detailed consideration of these disciplines with two case studies to elucidate the formation, nature and crucial managerial implications of the idiosyncratic Chinese strategic mind.

This book offers, for the first time, a comprehensive view of the Chinese strategic mind, providing frameworks for Western companies to improve their understanding of the intentions and meanings of Chinese decision makers and strategic documents. The book is written from a Chinese perspective but with ‘Western’ methodology. It can be used, most appropriately, as a textbook for undergraduate, master’s and executives courses at universities as part of a programme of international or Asian studies, as it incorporates fundamental knowledge from different fields such as history, language, philosophy and strategy to give its readers a comprehensive view of the nature of Chinese strategy. As it
The Chinese strategic mind

features both academic and practical perspectives, it should also be appealing to practising managers and executives with responsibility for businesses in China and elsewhere in Asia.

NOTES


Introduction


In 2014, it was officially announced in *The Financial Times*, that the IMF estimated the size of the US economy would reach $17.4 trillion, while that of China would reach $17.6 trillion. See Giles, C. (2014), ‘China poised to pass US as world’s leading economic power this year’, *The Financial Times*, 30 April; idem (2014), ‘Money supply: The new world economy in four charts’, *The Financial Times*, 7 October.


Ibid.


Ren, Z.G. (2013), *Wei Shen Mo Shi Mao Zedong?* (Why has Mao Zedong been Chosen: history cannot get around him, the present cannot pass around him, the future cannot go around him … ?) Beijing: Guang Ming Daily Publisher, p. 58.

In early June 1976, Mao had his first myocardial infarction (heart attack) and underwent emergency treatment. Recovering afterwards from the life-threatening incident, he called for a meeting with Hua Guofeng, his hand-picked successor, together with a few other Chinese leaders. At the meeting, he said that in his whole life, he had done two things: the first was that he had fought with Jiang Kai-shek for decades and driven him out of mainland China to several small islands, and engaged in an eight-year anti-Japanese war and sent the invaders back to their home, with which few people would disagree. The second thing was that he had launched the Cultural Revolution, which not many people would support and to which quite a few would object. Fighting is reflected in his whole life, and is embraced as his maxim.


Ibid., p. 42.
35. In the early days of the CPC, Zhou Enlai was Mao Zedong’s superior, but Zhou’s strategic wisdom and leadership could not match Mao’s; later, Zhou had to give up his leadership position within the CPC to Mao Zedong, leading to the further development of the CPC and the PRC.
37. Li (2005), op. cit., note 37.