

# BEIJING REVIEW



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## FROM ADVERSITY TO PROSPERITY

The CPC celebrates nine decades  
of serving the people

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NEW IMF HEAD FACES TOUGH CHALLENGES Page 12

WEST LAKE ADMITTED TO UNESCO HERITAGE LIST Page 44

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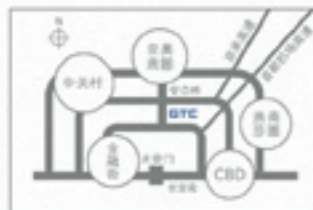
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GTC's map



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# 16 Cover Story

## The Communist Party of China turns 90

# Serving the People

By ZHANG ZHIPING

On July 1, 2011, the Communist Party of China (CPC) celebrated its 90th birthday.

Hu Jintao, President of China and General Secretary of the Central Committee of the CPC, delivered a speech at a grand gathering marking this momentous occasion. In his speech, the word "people" was used 136 times, demonstrating the importance of the people in the Party's construction and development.

In the past 90 years, the Party carried out a new-democratic revolution, winning national independence and liberating the Chinese people, which allowed China to enter a new era of development and progress. The Party also completed the socialist revolution, established the basic socialist system and pressed ahead with reform and opening-up policies. It developed socialism with Chinese characteristics, and achieved remarkable progress in the socialist modernization drive.

The CPC accomplished these major achievements by firmly relying on the Chinese people.

Since the founding of the People's Republic of China in 1949, the national strength and well-being of the people have constantly improved, pushed along by the concerted efforts of the Party and the people. In 2010, China's GDP totaled 39.8 trillion yuan (\$6.15 trillion), the second largest in the world, up from 364.5 billion yuan (\$56.35 billion) in 1978. That represented an average annual growth rate of 9.8 percent. China's fiscal revenue totaled 8.3 trillion yuan (\$1.3 trillion) in 2010.

In 2010, the per-capita disposable income of urban residents was 19,109 yuan (\$2,940), compared with 343 yuan (\$53) in 1978. The per-capita net income of farmers increased from 134 yuan (\$21) in 1978 to 5,919 yuan (\$911) in 2010. In addition, China has pushed through nine-year free compulsory education in both urban and rural areas, and built a social security system covering urban and rural residents.

In its 12th Five-Year Plan (2011-15), China set 24 indicators measuring its development in the next five years, nine of which were related to the well-being of the people. The budget on the livelihoods of the people has also been increased. That means the country has put more emphasis on improving welfare and lives of its people.

The CPC has 62 years of governing experience, and it is well aware that China is undergoing unprecedented social transformation and facing a lot of difficulties, challenges and dangers, including insufficient governance capacity, lack of initiative, divorce from the people, extravagance and waste, as well as corruption. Among them, divorce from the people poses the biggest danger to the Party. It is necessary to strengthen moral construction within the Party, enhance intra-Party democracy and combat corruption. Only those efforts can truly reflect the Party's basic principle of "putting people first and governing for the people," and the Party's fundamental purpose of serving the people wholeheartedly.

The Party's 90 years proves the people are the root force driving the development of the Party. Its goal is to improve the well-being of the people and allow them to live with dignity. The Party must always place the people's interests before everything else, and "serving the people" is the ultimate yardstick to guide, assess and test all governance activities of the Party. That is the most important message sent out by Hu's speech. ■

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## Neurosurgeon Honored



**Wang Zhongcheng**, China's distinguished neurosurgery expert, has been selected as one of the 50 outstanding members of the Communist Party of China (CPC).

Wang, 86, is now director of the Beijing Neurosurgical Institute and academician of the Chinese Academy of Engineering. As the pioneer of Chinese neurosurgery, he initiated the examination of cerebral angiography in the 1950s, making great improvements to diagnostic techniques in neurosurgery. In the 1980s, he took the lead in clinical and basic research on brain stem tumors and then in the therapy of intramedullary tumor, both advanced global achievements.

Wang had been honored with countless national and international awards for his outstanding contributions to the rapid development of neurosurgery in China. He was awarded the top State Science and Technology Award in 2008.

## Football Sponsor

**Wang Jianlin**, Board Chairman and President of Dalian Wanda Group Corp. Ltd., has signed a contract with the Chinese Football Association, promising sponsorship of at least 500 million yuan (\$76 million) in three years to revitalize China's football industry. The sponsorship is the biggest in the history of China's sport industry.

The money will mainly be used to recruit new young talent, said Wang.

Wanda Group is not new to the football scene in China. In 1993 the group established a professional team, called Dalian Wanda Football Club, the most successful one in China. But in 2000 the group withdrew from football games out of disappointment at the development of Chinese football.

Wang, 57, ranks 16th on *Forbes'* magazine's 2010 China Rich List.

He is also known for his generosity and devotion to charity. The website of Wanda Group says, over the past 20 years, 2.7 billion yuan (\$410 million), either from Wang's personal wealth or company profit, has been given out in philanthropy. In November 2010, Wang donated 1 billion yuan (\$152 million) from his personal finances for the restoration of the Dabaoen Temple in Nanjing, Jiangsu Province, the all-time largest donation from an individual on the Chinese mainland.



## Goodwill Ambassador

**Peng Liyuan**, a famous Chinese soprano, has been appointed as a Goodwill Ambassador for Tuberculosis and HIV/AIDS of the World Health Organization (WHO).

"Peng has long worked in areas ranging from the care of AIDS orphans to advocating the importance of HIV testing and taking appropriate protective precautions," said Margaret Chan, Director General of the WHO.

Peng is China's first master in national vocal music. With numerous honors bestowed on her nationally and internationally, Peng is a star with a huge and respectful audience of admirers.

Besides being a successful singer, she is also devoted to social welfare and charity causes. At the beginning of 2006, Peng became a volunteer of the Chinese Ministry of Health for advocating the importance of preventing AIDS. She was also appointed National Ambassador for Tuberculosis Control and Prevention in March 2007.



**"Big lenders should develop financial products and increase support for small businesses, while city commercial banks, rural banks, rural credit cooperatives and small-loan firms should try to focus their efforts on serving small businesses, rather than focusing on expansion."**

Chinese Vice Premier Wang Qishan, at a symposium on financial services to small businesses during an inspection tour in Shijiazhuang, capital city of north China's Hebei Province, on July 1-2

**"The social insurance system is a crucial part of the country's social security net, and the Social Insurance Law has established a social insurance system which encompasses the old-age pension, basic medical care insurance, work-related injury insurance and unemployment insurance as well as maternity allowances."**

Hua Jianmin, Vice Chairman of the Standing Committee of China's National People's Congress, speaking at the launching ceremony of a week-long national campaign to promote the new law in Beijing on July 4

**"Anti-corruption is not simply the internal affair of a single country, but an issue that requires the attention and active response of all countries and their anti-corruption agencies."**

Chen Lianfu, Director of the General Bureau of Anti-Embezzlement and Bribery with China's Supreme People's Procuratorate, calling on the international community to actively push forward bilateral and multilateral cooperation in the prevention and fight against trans-border corruption during an interview with Xinhua News Agency on July 5

**"China has been both more pragmatic and balanced. Given China's increasing role in the global economy, it's time for China's voice to be more strongly heard."**

Joseph Stiglitz, a Nobel laureate in economic sciences and a professor at Columbia University, in an interview with Xinhua News Agency on July 5 when attending the 16th World Congress of the International Economic Association held at Tsinghua University in Beijing

## OPINION

## University Recruitment

Hong Kong's universities are continuing their attractive scholarship policy to compete with prestigious universities on the mainland for outstanding high-school graduates this summer.

It is reported the three students in Beijing who attained the highest scores in liberal arts in this year's college entrance examination have chosen University of Hong Kong (HKU). Each of them will receive a huge scholarship for each year they study. In addition, this year's top students of arts of Yunnan Province and Anhui Province also chose HKU. It is believed more top students will leave for Hong Kong this year.

The competition for top students with Hong Kong has affected mainland university recruitment in recent years. Greater numbers of high school graduates are applying for Hong Kong universities, and this is especially noticeable among the better students. How can Hong Kong attract so many top students from the mainland? In short, there are two reasons. First, Hong Kong universities offer incomparable scholarships to the best students; second, Hong Kong has an open international education environment, which helps students attain better qualities and abilities for work and future development. In fact, it's a tradition among top universities around the world to put in place scholarship policies to attract top students. It provides students from poor families with equal education.

Most mainland universities, however, spend too much money on infrastructure, buildings and campus expansion, rather than on scholarships or education itself. Thus, high tuition fees and increasing difficulty in finding a job after graduation further push many top students of the mainland to Hong Kong's universities.

*Beijing Youth Daily*

## Income Tax

Raising the individual income tax cutoff point from 3,000 yuan (\$460) to 3,500 yuan (\$538) was a highlight of the second reading of an amendment to China's individual income tax law. The raised threshold means a lower taxation burden on many low and middle-income earners. More importantly, this time public opinions played a tangible role in the top legislature's decision on the adjustment.

More than 230,000 opinions were collected after the draft of the law. Of those, only 15 percent were supportive of the 3,000 yuan cutoff point while the majority appealed to raise the threshold. The public wanted to let their opinions be known through official channels and this showed their support of and hope for transparent legislation.

Behind every opinion is a different individual's expectation for the amendment. The response to these expectations and opinions

was a test of the legislature's wisdom.

The result in deciding the new tax cutoff point shows the top legislature fully respects the people's opinions and therefore their enthusiasm for participating in matters related to their immediate interests is protected. Meanwhile, the result is also based on a kind of balance reached from a wide variety of opinion. It's hoped the tax cutoff point reform will set up a good example for other departments, so the public voice will be better heard.

*Changjiang Daily*

## High-speed Train

The Beijing-Shanghai high-speed railway officially opened on June 30.

Although China was not the inventor of high-speed rail, the Beijing-Shanghai railway is the world's first long-distance high-speed one in the real sense. Meanwhile, China is working on the world's first large-scale high-speed rail network.

People can benefit a great deal from this railway. It is another artery added to the stressed transportation between Beijing and Shanghai. It will undoubtedly pose a threat to air transportation.

Railways were invented in Europe, but history will prove they will find a promising prospect in China. The country will continue to push forward the development of railways. Problems of inter-city transportation in China are facing excellent opportunities to find a good solution.

High-speed rail technology is a perfect combination of learning and innovation. China is managing to run to the front from far behind in this field.

*The Global Times*

## Charity Cause

Recently, a young woman who called herself "Guo Meimei Baby" showed off her extravagant lifestyle on her microblog, including several luxury sports cars and dozens of designer handbags. She claimed to be the general manager of a company named Red Cross Commerce. Guo's young age, her lavish lifestyle and her verified title of Red Cross Commerce general manager aroused curiosity among microbloggers.

The Red Cross Society of China made a public statement on June 22 saying there was no Red Cross Commerce in the organization and Guo was not its employee. Despite that, it is still hard to stop the spread of rumors that there is corruption inside the organization. Before the "Guo Meimei" case, the Red Cross Society has already been hit by some negative reports about it, such as extravagant dinners, which has greatly damaged the image of the organization.

Charity organizations such as the Red Cross Society are supposed to be totally transparent. A statement alone, without hard evidence, is not enough to remove people's doubts. More importantly, the Red Cross Society should examine itself and make improvements, so as to restore its credibility among the public.

The result of an online survey shows after the "Guo Meimei" incident, many people say their enthusiasm in donating has been hit. The "Guo Meimei" case is not only hurting China's charity cause, but also the public's enthusiasm for charity.

*People's Daily*



**HIGH-SPEED RAIL:** The operation of the Beijing-Shanghai high-speed railway marks China's pioneering steps in this technology

XINHUA





XINHUA

## Marking Ping Pong Diplomacy

Former table tennis players from China and the United States play a game during a reception commemorating the 40th anniversary of Sino-U.S. Ping Pong Diplomacy in San Francisco, the United States, on July 5.

A series of activities were held on the day in the city for the event. Cai Zhenhua, Vice Minister of the State General Administration of Sport of China, led a Chinese delegation to participate in the celebrations.

In 1971, nine American table tennis players were invited to Beijing for exhibition games with Chinese players, which helped break the ice between China and the United States and laid the groundwork for the eventual establishment of diplomatic relations between the two nations.



## SOCIETY

## Oil Spill

China's State Oceanic Administration (SOA) said on July 5 U.S. energy giant ConocoPhillips was responsible for an oil spill in the country's northern sea area.

The leaks, which occurred in June in the Penglai 19-3 oilfield in the Bohai Bay, contaminated an area of 840 square km and caused "a certain level" of damage to the nearby ocean environment, said the administration.

The field is being drilled by ConocoPhillips China, a subsidiary of ConocoPhillips, under a joint development agreement with the China National Offshore Oil Corp., the country's largest offshore oil producer.

SOA said oil seepage was first reported to its North China Sea Branch by ConocoPhillips on June 4, with another incident reported on June 17. The leakage was brought under control by June 21.

The administration said the seepage from platform-B was caused by drilling using hydraulic pressure, while the leak from platform-C was due to a surge in the well.

## Land Reserves

China has 7.34 million hectares of "reserve land" that can be developed into arable land, the Ministry of Land and Resources said in a research report published on July 4.

The report said this reserve land is mainly in dry areas in the northern and western parts of the country.

But Yan Zhiyao, head of the Arable Land Protection Department of the ministry, said it would be a mistake for China to rely on large-scale development of the reserve land.

"China should improve the quality of arable land rather than increase the quantity," he said.

To ensure grain security, China has set a "redline" to guarantee its arable land never falls below 120 million hectares. It is edging close to the redline, with just 121.73 million

hectares available, government data showed in February.

## Old-age Allowance

China's old-age allowance system had expanded to 14 provincial-level regions, up from six one year ago, said the Ministry of Civil Affairs.

Recipients of the old-age allowance, which is available for people aged above 60 years, now number 8 million.

Minister Li Ligu said the ministry would continue to push other provincial-level regions to introduce the system, so as to better support elderly residents to meet their daily needs.

China currently has a total of 18.99 million residents older than 80 years.

## Dinosaur Museum

China's first tyrannosaurus museum opened in east Shandong Province on July 1.

Construction of the museum, covering 30,000 square meters, began in early 2010 after Asia's largest and China's only tyrannosaurus was unearthed in Zhucheng in the province.

The museum features hi-tech facilities to exhibit the skeletons of the tyrannosaurus and other dinosaurs.

A large number of dinosaur fossils has been found in Zhucheng since 2008. The city is home to several dinosaur museums, including the Cretaceous Dinosaur Geopark, Huanglong Valley Dinosaur Footprint Museum, the Zhucheng Dinosaur Museum and the Dinosaur Egg Museum.

## Opening-up Pledge

Northwest China's Xinjiang Uygur Autonomous Region has pledged to accelerate its development by further opening up.

The regional government was drafting a development plan that focuses on "westward opening up," said Nur Bekri, Chairman of the regional government, at a symposium on Xinjiang's economic policy on July 4.

Xinjiang has forged economic and trade relationships with 160 countries and regions. It has 29 open ports to neighboring countries and 12 national-level industrial zones. The Sino-Kazakhstan oil pipeline and the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline have been completed and are now operational. Altogether 308 enterprises that rank among the world's top 500 companies and China's 500 leading enterprises had entered Xinjiang by the end of 2010, an increase of 113 from 2009.



**CULTURAL EXCHANGES**  
He Guoqiang, a member of the Standing Committee of the Political Bureau of the Communist Party of China, and former French president Valéry Giscard d'Estaing inaugurate the Chinese Language Year in France in Paris on July 4



XINHUA

**GREAT MOMENT**  
International students at Tianjin Medical University celebrate at their graduation ceremony on July 4



LWEN

**INTO SPACE**  
China's SJ-11-03 experimental orbiter, boosted by a Long March 2C rocket carrier, lifts off from the Jiuquan Satellite Launch Center in northwest China's Gansu Province on July 6

## ECONOMY

### WTO Report Response

China's reinforced administration of certain resources products is in line with the objective of the WTO, the Chinese Permanent Mission to the WTO said on July 5.

For the purpose of protecting the environment and exhaustible natural resources, the Chinese Government in recent years has reinforced its administration on certain resource products, especially "high pollution, high energy-consuming and resource-dependent" products, the Chinese Mission said in a statement.

Although these measures have an impact on domestic and international users, they are in line with the objective of sustainable development promoted by the WTO and they help to guide the country's resource industry toward healthy development, said the statement.

The statement came after the WTO Dispute Settlement Body issued a panel report, making its preliminary judgment of the dispute around China's measures related to the exportation of various raw materials.

### Insecticides Banned

China plans to ban 10 types of highly toxic insecticides by the end of 2011 in an effort to ensure farm produce safety and protect the ecological environment, the Ministry of Agriculture (MOA) said on July 5.

The MOA and four other ministries have drafted a scheme on banning the use of highly toxic insecticides and the scheme has been submitted to the State Council for approval, said Zhou Puguo, Deputy Director of the Department of Crop Farming Administration of the MOA.

The government will conduct further research and evaluation related to the economic impacts of the ban on the use of a further 12 insecticides, as currently there are no suitable substitutes for them, he said.

### Upgrading Water Facilities

Investment in water facilities in Chinese cities from 2011 to 2015 is estimated to be no less than 500 billion to 600 billion yuan (\$77.4 billion-\$92.8 billion), said Shao Yisheng, Vice President of China Academy of Urban Planning and Design in Singapore on July 6.

During the 12th Five-Year Plan (2011-15), China will upgrade about 2,000 water plants with a combined capacity of treating 64 million cubic meters of water every day, he said.

In addition, 2,358 water plants with a combined capacity of producing 40 million cubic meters will be built, in part to meet the demand of growing towns and cities as urbanization speeds up. China will also

upgrade and build a total of 150,000 km of water pipe over the next five years.

### VW Plants Approved

German carmaker Volkswagen recently announced that its two new plants have been approved by the National Development and Reform Commission.

The two new plants will boost the auto giant's annual production capacity in China to 3 million units, said Karl-Thomas Neuman, president and CEO of its China operation.

The new plants are located in Foshan, Guangdong Province and Yizheng, Jiangsu Province and each has a planned production capacity of 300,000 units.



WANG HUIYU

#### BONDED WAREHOUSE

Construction of the bonded oil warehouse of Sinopec (Hong Kong) began on July 6 in the Yangpu Economic Development Zone of Hainan, China's southern island province. The warehouse is expected to have a storage capacity of 2.05 million cubic meters of refined oil



GAO JIANUN

#### DUSTY FIGHT

A car competes in the 2011 China Rally Championships in Zhangye, Gansu Province, on July 2



XINHUA

#### FEELING HANDS

A man with visual loss touches a statue of Socrates in the newly opened Chinese National Library for the Blind in Beijing on June 30



### 1. THAILAND

Yingluck Shinawatra, the soon-to-be first female Prime Minister of Thailand, attends a press conference in Bangkok on July 4



LU XIAOMEI

### 2. THE UNITED STATES

Fireworks light up the sky over the Hudson River in New York City in celebration of Independence Day on July 4



SHEN HONG

### 3. SPAIN

Uyungqing, Vice Chairwoman of the Standing Committee of China's National People's Congress, speaks at the Sixth China-Spain Forum in Barcelona on July 5



3



XINHUA/AF



#### 4. KENYA

Refugees wait in line to receive aid at the Dadaab refugee camp in northeastern Kenya on July 5. Continuous drought has caused food and water shortages in the region



CHEN HAITONG

#### 5. VENEZUELA

Venezuelan President Hugo Chavez gestures to supporters at the presidential palace in Caracas on July 4 after returning from Cuba, where he had a cancerous tumor removed



XINHUAAP

#### 6. POLAND

Polish Prime Minister Donald Tusk (left) greets his visiting Hungarian counterpart Viktor Orban in Warsaw on July 1. That day, Poland took over the six-month rotating presidency of the EU from Hungary



XINHUAAP

# Stronger Ties With Chile

Chile was the first South American country to establish diplomatic relations with China. It was also the first Latin American country to support China's entry into the WTO, recognize China's full market economy status and ink a free trade agreement with China.

Currently, China and Chile are making efforts to strengthen their bilateral economic and trade relationship. During his recent visit to China, **Juan Andrés Fontaine Talavera**, Chilean Minister of Economy, Development and Tourism, sat down with *Beijing Review* reporter Yu Yan to share his views on this issue. Edited excerpts follow:



**Juan Andrés Fontaine Talavera**

**Beijing Review: Chinese Vice President Xi Jinping visited Chile in June. What impact has his visit had on the two countries' economic and trade relationship?**

**Juan Andrés Fontaine Talavera:**

We were very happy to meet the vice president. He left a good impression on Chile. This visit was an important way of allowing the two countries to grow closer together.

Chile and China have a very strong trade relationship, largely due to the help of the free trade agreement we signed in 2006. China is currently Chile's No.1 trading partner, and Chile is China's No.2 trading partner in Latin America.

Now it's time for us to go further and expand our cooperation to other fields, including investment, and scientific and technological exchanges.

**During Xi's visit, the two countries signed a series of cooperation agreements for agriculture, mining, banking, telecommunications and other areas. How do the two countries complement each other in these fields?**

Chile exports a lot of copper and other raw materials to China. We think, with the increase of consumption, China is going to be increasingly interested in buying our food products. We have already started to export fresh fruit to China, including apples and grapes. We also export fish. And Chilean wine is becoming popular among Chinese

people because of its good quality.

These show we will move along the direction of expanding our exports to China.

We import consumer appliances from China, such as cars and machinery. China is producing goods with increasing scientific and technological sophistication. In the future, we will import more of these goods from China, especially from the IT and biotechnology industries.

**In 2006, the China-Chile Free Trade Agreement (FTA) came into effect followed by the Supplementary Agreement on Trade in Services of the FTA in 2010. What benefits has the development of free trade brought to the two countries?**

We are very happy with the way that the trade relationship between Chile and China has developed. Trade between the two countries has

## China-Chile Economic and Trade Relationship

In 2010, trade volume between China and Chile reached \$25.8 billion, up 44.8 percent compared to the previous year. China's export to Chile reached \$8.03 billion and import from Chile reached \$17.8 billion, up by 62.9 percent and 37.9 percent, respectively.

By the end of 2010, Chile's investment in China was \$70 million and China's investment in Chile was \$440 million.

Currently, China is Chile's largest trading partner, largest export destination and second largest source of import. And Chile is China's second largest trading partner in Latin America.



been strong and has grown quickly. And it has expanded to cover other goods and services.

We think now it is time to further strengthen investment in each other. Chinese companies can invest in Chile and Chilean companies can invest in China.

**Which areas in your country are suitable for Chinese investment?**

Chile aims to achieve a sustained 6-percent growth in GDP per year from now to the end of this decade. Chile will be the first Latin American country to achieve a per-capita income equivalent to that of a developed nation. In order to reach this goal, we need to increase investment. That's why Chilean President Sebastián Piñera said he would inject \$120 billion to boost the Chilean economy, and welcomes Chinese companies to invest in Chile.

There are many areas suitable for Chinese investment, not only in the development of mines, but also in providing Chilean mines with raw materials, machinery, technology and services.

We also have opportunities in agriculture, including wine and fruit. Chile is now the world's top exporter of fresh fruit. We are able to provide good-quality food at low prices. We are starting to export pork and milk products to China.

Also, concerning economic development, we need to expand investment in energy, especially in electricity generation and transmission



## China and Japan

The Diaoyu Islands in the East China Sea are China's "inherent territory," said Chinese Foreign Minister Yang Jiechi at a meeting with Japanese Foreign Minister Takeaki Matsumoto in Beijing on July 4.

The two sides should work together to implement their principled consensus on the East China Sea through practical activities, he said.

A day earlier, about 10 Japanese fishing boats left a port in Ishigaki, Okinawa Prefecture, to operate in waters near the Diaoyu Islands, known as the Senkaku Islands in Japan. The fishing boats left the waters after China's protests.

"Any measure adopted by Japan in the waters off the Diaoyu Islands is illegal and invalid," said Foreign Ministry spokesman Hong Lei.

Matsumoto paid his first visit to China since taking office in March from July 3 to 4 at Yang's invitation. During the visit, he also met Chinese Vice President Xi Jinping and State Councilor Dai Bingguo.

"The development of Sino-Japanese relations conforms to the basic interests of the two peoples," Xi said.

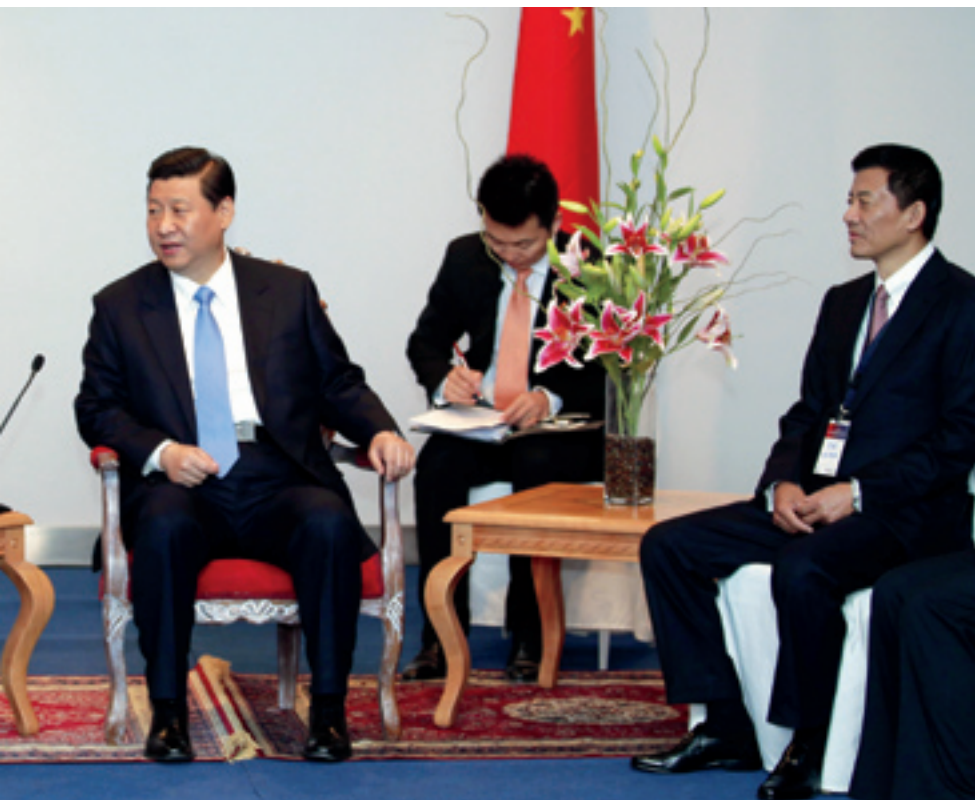
As major trade and economic partners, China and Japan have become increasingly dependent on each other, he said.

Japan is China's third largest trade partner after the EU and the United States. Official Chinese statistics show bilateral trade reached \$297.8 billion in 2010, up 30.2 percent over the previous year. China's imports from Japan and exports to Japan totaled \$176.7 billion and \$121.1 billion respectively.

While sharing broad common interests on international and regional issues, China and Japan bear important responsibilities in safeguarding and promoting peace and development in Asia and the world at large, Xi said.

Talking about Japan's rebuilding efforts following the devastating March 11 earthquake and tsunami, Xi said, "I believe the Japanese people, through their unremitting efforts, can overcome difficulties, rebuild their homes and achieve new economic and social progress."

Matsumoto said Japan hoped to enhance cooperation with China in various fields, including post-disaster reconstruction, to push forward the two countries' mutually beneficial strategic relations.



JULI PENG

**BOND BETWEEN ENTREPRENEURS:** Visiting Chinese Vice President Xi Jinping (center) meets with Chinese and Chilean chairmen of the China-Chile Entrepreneur Committee before the fifth annual conference of the committee in Santiago, Chile on June 10

capacity. We also welcome investment in infrastructure, such as ports and airports.

As a stable country with an open economy and foreign-friendly environment, Chile's doors are open to Chinese investors. From Chile, they can reach out to our neighboring countries. Many Latin American countries are starting to grow, providing even more opportunities for China to expand and invest.

**As you mentioned, many Latin American countries are starting to grow. China is also an emerging economy. What are your ideas on economic cooperation between China and Latin America?**

Chile already has a strong relationship with China. China is Chile's biggest trading partner. And 45 percent of Chile's exports now go to Asia. Of them, 25 percent come to China and the other 20 percent to the rest of Asia.

Currently, much of the world's economic growth comes from Asia. And Latin America is also starting to grow. The connection between the people of these two continents is going to get stronger.

The prospect for the cooperation between China and the Latin American region is very good. People from the two sides get to know each other. And their cooperation is growing very fast.

Trade is growing quickly between the

two sides. The next step will be for Chinese companies to invest in Latin America, and Latin American companies to invest in China. Chile is growing and probably will become the first country to reach the level of a developed nation in Latin America.

My visit this time has two main purposes. One is to explore ways of expanding bilateral investment between Chile and China. We have been gathering information, talking to government officials and meeting companies to see how to go about that. The other is to look for ways to diversify our relationship through scientific and technological cooperation.

**How many tourists travel between China and Chile each year? What cooperative programs in tourism have the two countries carried out?**

The number of Chinese tourists traveling to Chile is quite small. There are only about 7,000 Chinese tourists each year. The two countries are too far away and flights are limited.

Chinese tourists can have a very fascinating experience in Chile. We have a good natural environment, abundant wildlife and different kinds of cuisines. And they can also go to Argentina and Brazil through Chile. ■

(See video at <http://www.bjreview.com>)





ZHANG JUN

**FIRST DAY:** First Deputy Managing Director of the IMF John Lipsky (right) welcomes new IMF chief Christine Lagarde on her first day of work at the headquarters of the IMF in Washington, D.C., on July 5

# IMF Changes Leader

How far can the IMF's new chief push the organization?

By **WEI LIANG**

**O**n July 5, former French Finance Minister Christine Lagarde took the oath as the new managing director of the International Monetary Fund (IMF), becoming the first woman to take the organization's top job since its inception in 1944.

The world's most important international economic and financial organization finally ended a leadership crisis following the arrest of its former chief Dominique Strauss-Kahn on May 15 on rape charges.

Lagarde's selection as the IMF's new leader solves this problem. Now, Lagarde

will face other problems as the IMF's future seems clouded.

## Reputation

The IMF has carried a birthmark of political compromise since its establishment. It long maintained the Bretton Woods system of pegged exchange rates that was centered on the U.S. dollar. After the system collapsed in 1971, it continued to center on the U.S. dollar and supervised the exchange rates of countries through consultation as well as fiscal and monetary policy guidance. All these make people question its independence as an international organization.

What's more, if its independence issue has historical reasons, then the sequelae of Kahn's management is a realistic problem.

Eliminating Kahn's style leftover in the organization is a severe challenge for Lagarde.

The IMF has been known for frequent failures to warn the world economy of impending doom. In June 2011, it was surrounded by another scandal involving presupposition of research results. According to a report of the IMF Independent Evaluation Office, IMF researchers often face the pressure of being forced to change their research results to support the IMF's existing opinions. When people link the early warning failures with the presupposition scandal, they cannot help suspecting the IMF's value orientation.

Although this speculation has not been verified, for a long time the bad feelings have produced a negative impact on the development of the organization. As a result, despite its fame as a world first-level organization, it could only play the role of a second-level one in international economic governance.

Another challenge is that the organization has never been successful in crisis governance. It should be one of the basic functions of the IMF to save countries in

The author is an assistant research fellow of world economic studies at the China Institutes of Contemporary International Relations

crisis. But in the past 60 years, few of its member states overcame any crises under its guidance. The reason lies in the intention of its aid. The organization regulates when a member state receives aid, it must accept attached conditions on economic system reform. These conditions embody a strong sense of the Washington consensus. They are mostly incompatible with the national conditions of the developing countries waiting to be rescued, and therefore it is difficult for them to be insisted on.

Now the IMF is faced with the European debt crisis, and the crisis in Greece is representative. After being nominated as the new chief, Lagarde still insisted on a tough stance against Greece. She requested Greece to realize an internal compromise in exchange for IMF aid. This is exactly the same as the organization's previous practice.

The problem is the aid for the EU this time bears much bigger risks than before. On the one hand, the possibility of a successful rescue for Greece is quite slim. So it is difficult for the IMF to save its reputation through this crisis. On the other hand, to save Greece means a high price will have to be paid. Given the poor financial situation of the IMF, Lagarde will soon find this rescue mission is actually a dilemma.

## Reform

If re-establishing credibility is a long-term strategy, then internal reform is an urgent task for the IMF. As early as Kahn's taking office in November 2007, reform was put on the agenda. For a long time, the various suspects of the world on the IMF's independence, executive ability and credibility have all stemmed from its backward governance structure.

Objectively, after World War II ended, of the 44 founding members, the United States was the only victorious country not damaged by the war. At that time, Europe was weak, and developing countries were even worse off. In that case, the IMF's system featuring the United States paying more, working more, and the U.S. dollar dominating the financial regime was above reproach.

However, more than 60 years have passed, and the world has undergone great changes. Emerging countries and other developing countries are growing with more influence. But these changes have not been reflected in the IMF's governance structure. Even after the realignment of quotas at the end of 2010, the emerging economies only accounted for 20 percent of the total source of funds, less than that of oil-producing countries and less than half of that of developed countries as a whole.

What's more, the selection of senior management staff is more fixed. For a long time, figures from developing countries have

been seldom seen at the top management level.

Can such a fixed governance structure be improved in the future? The answer is, probably not. The first challenge is quota reform. Lagarde promised to continuously increase the representation of emerging countries as well as other developing countries, during her travels around the world after her nomination. But it is worth noting that until now the quota realignment agreement made at the end of 2010 has not been carried out.

During this adjustment, the United States and Europe fought fiercely about who should give up certain quotas to developing countries. Although in the end Europe agreed to transfer two seats in the IMF Executive Board to developing countries, this process will be slow. And it needs the approval of other member states. These difficulties make Lagarde's promise seem like the moon in the water. One can only appreciate it rather than truly obtain it.

The reform of the personnel system serves as another big challenge. The appointment of Lagarde is the most transparent one. But she is, again, a European that satisfies both the United States and Europe.

With the surge of emerging countries, people from developing countries will have a greater participation in the operation and management of the IMF. They are afraid the organization will only favor those with highly similar U.S. academic backgrounds and a U.S. way of thinking. The current personnel system seems diversified and not confined to nationality, but in fact it is quite rigid.

It may be still too early to conclude on

the future role of the IMF. But at least, under the leadership of Lagarde, it is difficult for the organization to become the ruler of the world economy.

As is known by all, the United States has the final say in coordinating the global economy, issuing super-sovereign reserve currency and other major issues. Therefore, at the current stage, if the IMF wants to manage the world economy, it has to fight with the United States. This is impossible.

It could have played the roles of a coordinator and a consultant. Over the past decades, the IMF has failed to do a good job in this regard. In most cases, it carried out one-way coordination according to U.S. intentions. Possibly, Lagarde can improve this situation with her unique advantages, including a European face, U.S. mindset and unanimous support. Maybe she can promote the organization's job in coordinating international economic policies and push the world to reform current international financial and monetary systems that are incompatible with the current economic situation.

The reality is, after the outbreak of the international financial crisis, the G20 has risen to be a major platform of economic policy coordination across the world. Under the guidance of the G20, the IMF has done much work in providing technical support and consultation on creating a strong, sustained and balanced growth. To some degree, its work in this regard has been recognized by the world. Therefore, maybe the best role for the IMF in the future should be an assistant in coordination of the world economy. ■

## Lagarde's Agenda

- **Connectiveness:** The IMF must keep track of the growing interconnectedness of the global economy and warn about possible spillovers from one economy to another.

- **Credibility:** For the IMF to be credible, its analysis and work need to be candid, credible and evenhanded.

- **Comprehensive:** The IMF should look at a country's economy not only by traditional macroeconomic measures, such as fiscal deficits. Other factors such as employment and social issues need to be taken into account as well.

- **Legitimacy:** Lagarde said the IMF's members must complete 2010 reforms designed to improve the fund's governance and provide major emerging markets and low-income countries with a greater say in the institution.

- **Diversity:** As the first female head of the IMF, Lagarde said diversity was not just about gender. "It is about engaging, about breaking down the barriers, removing the obstacles, so that all participants can actually be at the table."

(Source: [www.imf.org](http://www.imf.org))



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# GLORIOUS PAST, C

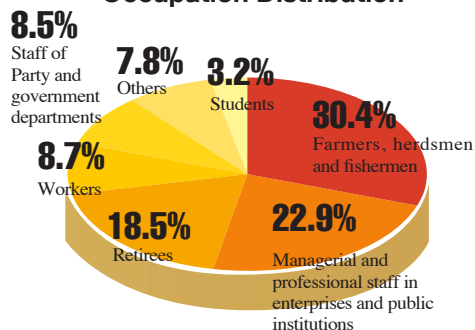
Ninety years after its founding, the Communist Party of China pledges to lead the nation into a new era



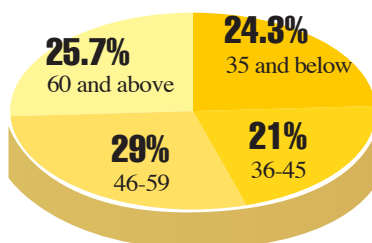
XIE HUANCHI

**BIRTHDAY CELEBRATION:** A grand gathering marking the 90th anniversary of the Communist Party of China is held in Beijing on July 1

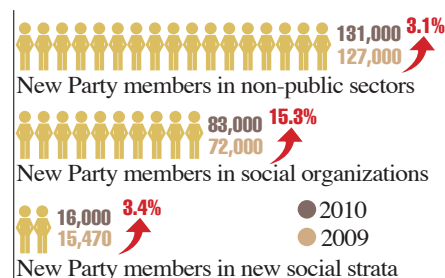
## Occupation Distribution



## Age Structure



## Growth of Party Members in Non-Public Sectors and Social Organizations





# CONFIDENT FUTURE

By YAN WEI

**W**hen a handful of delegates proclaimed the founding of the Communist Party of China (CPC) in a two-story brick dwelling in Shanghai's French concession nine decades ago, the Party had about 50 members nationwide. That small band of like-minded men has since grown to become a driving force for change in China.

Today, the CPC, with a membership of more than 80 million—larger than the total population of France—takes the reins of the world's second largest economy.

After the CPC's founding, the Chinese “embarked on the bright road of striving for independence and liberation,” President Hu Jintao said at a conference on July 1 commemorating the 90th anniversary of the Party's founding.

“What has happened shows that in the great cause of China's social development and progress since modern times, history and the people have chosen the CPC, Marxism, the socialist road, and the reform and opening-up policy,” said Hu, who is also general secretary of the CPC Central Committee.

The Chinese people turned to the CPC for leadership after suffering repeated setbacks in their quest for national renewal, analysts said. Hu's speech not only underlined the critical role the CPC has played in



LI TAO

**COMMEMORATIVE ADDRESS:**  
Hu Jintao delivers a speech  
at the CPC anniversary  
gathering in Beijing on July 1

China over the past decades, but also charted the course for the Party's development as well as China's economic, political, cultural and social programs in the years to come.

## History

China's adoption of the CPC-led socialist system was not a coincidence, but based on the Chinese people's long-term struggle

for national rejuvenation following the outbreak of the Opium War in 1840, said Wu Yin, Vice President of the Chinese Academy of Social Sciences (CASS).

The Opium War (1840-42), fought between the Qing Dynasty (1644-1911) empire and British colonists marked the beginning of China's modern era when the country was mired in a series of social crises because of foreign aggression coupled with political turmoil. Ensuing wars, such as the Second Opium War (1856-60), the Sino-French War (1884-85) and the Sino-Japanese War (1894-95), heightened the risk China would be carved up by colonists.

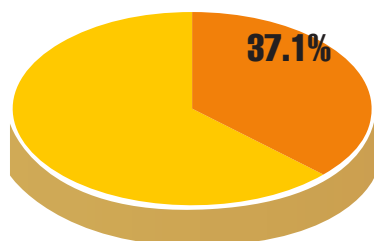
While resisting foreign invasion, the Chinese people began to explore a way to lift the nation out of the devastating crises, Wu said in an interview with People.com.cn.

For instance, in 1898, reformists introduced wide-ranging reforms with the support of the emperor. The short-lived campaign, known as the Hundred Days' Reform, ended in a coup by powerful conservative opponents.

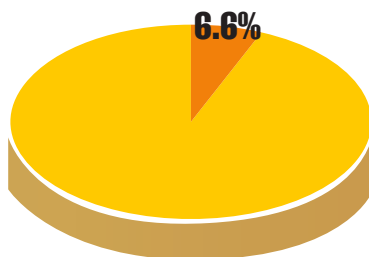
The failure of the Hundred Days' Reform awakened the Chinese people to the fact that they must seek the overthrow of the monarchy through a revolution, Wu said.

The bourgeoisie-led Revolution of 1911 brought the Qing Dynasty, China's last feudal empire, to an end. But it did not result in the establishment of a Western-style republic in China. Following the ►►

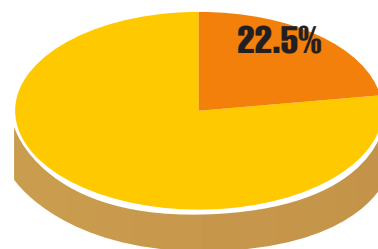
**Members With a Junior College Education and Above as Percentage of Total Membership**



**Minority Ethnic Members as Percentage of Total Membership**



**Female Members as Percentage of Total Membership**



The CPC has a membership of more than 80 million.

revolution, warlords seized state power, plunging China into a period of military rule. Armed conflict persisted as warlords competed for dominance.

On the diplomatic front, at the Paris Peace Conference in 1919 following the defeat of Germany in World War I, Western powers decided to transfer Germany's concessions in Shandong Province to Japan rather than returning sovereignty to China.

Outrage over this decision caused massive student demonstrations in China, giving rise to the anti-imperialist and anti-feudal May Fourth Movement. Li Dazhao (1889-1927) and Chen Duxiu (1879-1942), professors with Peking University, played a pivotal role in the movement. They were among the first to introduce Marxism to China and would later become two of the CPC's leading founders.

"When it was founded, the CPC represented the interests of the Chinese nation on the international stage with a pledge to fight foreign aggression," Wu said. "Domestically, it also aimed to serve the interests of the people and lead them in efforts to end their miseries of being oppressed and exploited."

The Chinese people identified with the CPC's positions and actions, and were willing to follow its leadership, she said.

## Breakthroughs

In his speech, Hu summarized the CPC's achievements in the past nine decades as "three earthshaking events"—breakthroughs that enabled the Chinese people to bid farewell to national humiliation since the Opium War and led to profound social transitions in the country, said Gao Xinmin, a professor with the Party School of the CPC Central Committee.

First, the CPC "completed the new democratic revolution, winning national independence and liberation of the people," Hu said. The CPC-led new democratic revolution culminated in the founding of the People's Republic of China in 1949, after

28 years of fighting, including wars against Japanese aggressors and the Kuomintang regime.

Second, shortly after the founding of the People's Republic, the CPC "completed the socialist revolution and established the basic socialist system," Hu said. This was done largely by changing private ownership in different sectors of the economy into public ownership.

Third, the CPC "carried out a great new revolution of reform and opening up, creating, upholding and developing socialism with Chinese characteristics," Hu said. The reform and opening-up program was initiated in the late 1970s to boost China's modernization drive by unleashing market forces and open the country to the rest of the world.

China's economic miracle in recent decades is widely acknowledged. The country's GDP skyrocketed from 364.5 billion yuan (\$56.35 billion at current exchange rates) in 1978 to 39.8 trillion yuan (\$6.15 trillion) in 2010, its total imports and exports soared from \$20.6 billion in 1978 to \$2.97 trillion in 2010, and products made in China can now be found almost everywhere, from stylish stores in New York to bustling bazaars in Islamabad.

Even by UN standards, China's rise has been meteoric. It has fulfilled several of the UN's Millennium Development Goals (MDGs) ahead of schedule. China is the first developing country to achieve the MDG poverty reduction target of halving the proportion of people whose income is less than \$1 a day between 1990 and 2015. It also met the MDG target of universal primary education in advance, as the net primary school enrollment rate in China had reached 99.4 percent by the end of 2009.

These achievements explained why the CPC has remained in power, said Huang Weiding, a scholar on CPC studies and former associate editor in chief of the Red Flag Press. The Party has been able to do so be-

cause it won people's support while leading them in establishing the People's Republic of China, he said. Moreover, since it came to power in 1949, it has continued to keep up with the times and has always represented the people's fundamental interests.

Over the past nine decades, the CPC has attached great importance to theoretical innovation, said Xin Xiangyang, a CASS research fellow. Before Marxism was introduced to China, the Chinese people did not have an advanced theoretical system to look at the outside world, he said.

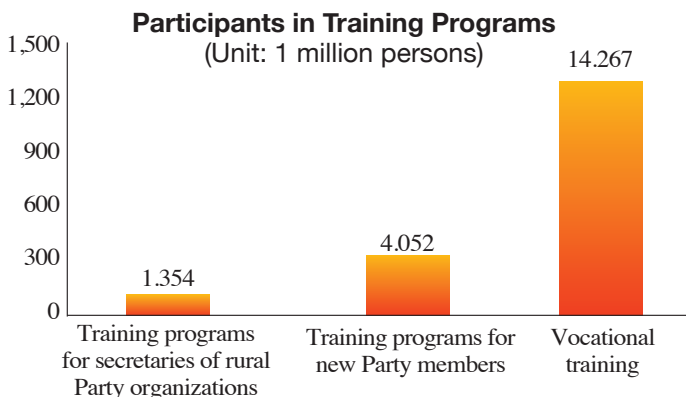
As the CPC applies Marxism in the country in an innovative way, the Chinese have gained a clearer understanding of the development of China and the world at large, Xin said. With this understanding, the Party has formulated and implemented policies for the people's benefit.

The CPC has made two major theoretical achievements by adapting Marxism to China's conditions, Hu said. One is the Mao Zedong Thought—strategies and principles on the CPC-led new democratic revolution as well as socialist revolution and construction.

The other theoretical achievement is the "system of theories of socialism with Chinese characteristics." This system includes the Deng Xiaoping Theory, the important thought of the Three Represents and the Scientific Outlook on Development. These theories have been developed since China adopted the reform and opening-up policy in the late 1970s.

For instance, the Scientific Outlook on Development, advocated by President Hu, calls for comprehensive, balanced and sustainable development. The CPC put forward this concept to address problems in the wake of China's explosive growth in recent decades, such as resources depletion, environmental degradation and a widening wealth gap.

As part of its efforts to promote development in a more sustainable way, the CPC has called on local governments to focus on environmental protection and further



## Number of Primary Party Organizations

**Urban neighborhood-level: 6,869**

**Town- and Township-level: 34,000**

**Community-level: 82,000**

**Village-level: 594,000**



improvements in residents' living standards, rather than seeking growth at all costs. It has also seen to it that China's social safety net, including medical insurance, unemployment insurance and old-age pensions, continues to expand and improve.

## Challenges

A large part of Hu's speech was devoted to clarifying the CPC's policies on boosting progress of the nation, and in this regard, it gave prominence to the reform and opening-up policy, said Lin Shangli, Vice President of the Fudan University based in Shanghai. In keeping with this policy, China will promote economic, social, cultural and political development in an all-round way.

"On the way forward, we must firmly carry out the central task of economic development and stay committed to pursuing scientific development," Hu said.

Moreover, China will continue to promote the development of socialist democracy, facilitate the development and enrichment of socialist culture and improve people's well-being.

Hu's remarks showed the CPC has a comprehensive plan for China's economic and social development. This makes people confident about the country's future, Lin said.

At the same time, the CPC is fully aware of the daunting challenges it faces today, when the nation is undergoing a major social transition and addressing difficult issues, including social tensions, as its reform and opening up deepen.

How the Party copes with difficulties to accomplish development goals is essential to China's future development, Lin said. In this sense, Party building—efforts to develop and improve the CPC itself—is of paramount importance.

The CPC faces challenges in governing the country, in implementing reform and opening up and in developing the market economy, as well as in the external environment, Hu said.



**OATH TAKING: New Party members take their oath at the site of the First CPC National Congress in Shanghai on July 1**

"And the whole Party is confronted with growing danger of lacking in drive, incompetence, divorce from the people, lacking in initiative, and corruption," he said.

In a bid to improve itself, the CPC will emphasize the development of human resources—from leading officials to intellectuals and innovators, which it considers a strategic asset, Lin said. Moreover, it will continue to optimize the institutions through which it exercises state power.

"China, under the leadership of the CPC, is a people's democracy where the people are the masters of the country," Lin said. "Power comes from the people, and the people have entrusted the Party with providing leadership for society. The Party's mission is to serve the people, create happy lives for them and work for the realization of national rejuvenation."

Since the people are a decisive force in

China's social and national development, the CPC must put people first by representing and upholding their interests.

The CPC has long pursued a populist approach that underlines close ties with the people. It must adhere to this approach as it serves as the ruling party of the world's most populous nation, Lin said.

The exercise of political power always entails risks for the ruling party, such as corruption, he said. While the Party has put in place an anti-corruption system, other institutions, including the economic system, the social governance system and the system of democracy, are also at stake. But this should not be an excuse to tolerate corruption.

Although it is unrealistic to expect the Party to root out the problem in a short time, Hu's speech reaffirmed the CPC's determination to combat corruption, he said. ■

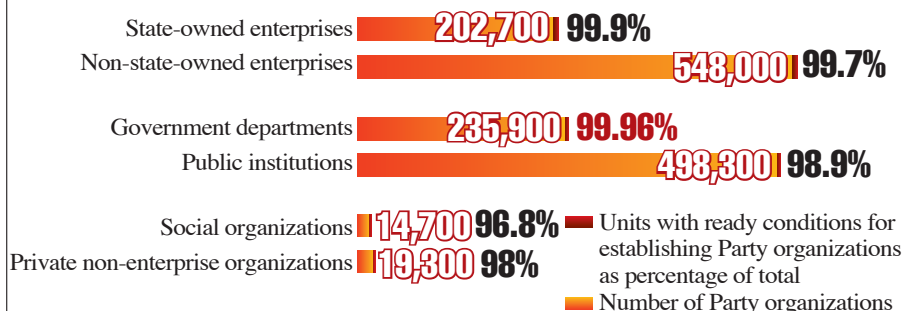
## Number of Local CPC Committees

**Provincial-level: 31**

**Municipal  
(prefectural)-level: 396**

**County  
(city, district)-level: 2,975**

## Presence of Party Organizations



# EIGHT MAJOR CHALLENGES FOR THE CPC IN THE 21ST CENTURY

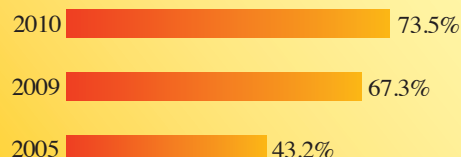
# EFFORTS OF THE POLITICAL BUREAU OF THE CPC CENTRAL COMMITTEE (SINCE THE 16TH CPC NATIONAL CONGRESS IN 2002)

# RESULTS

**Economic growth  
at an excessively  
high cost of  
resources and  
the environment**

**Meetings 18**  
**Group Studies 11**

Percentage of Key Cities With Annual Average  
Atmospheric Pollutant Concentration Meeting  
Grade II National Air Quality Standard

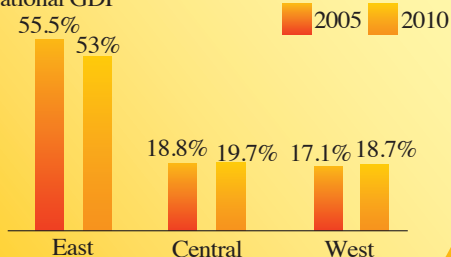


(Source: Ministry of Environmental Protection)

**Imbalance in  
development  
between urban and  
rural areas, among  
regions and between  
the economy and  
society**

**Meetings 32**  
**Group Studies 10**

Shares of East, Central and West Regions of  
National GDP

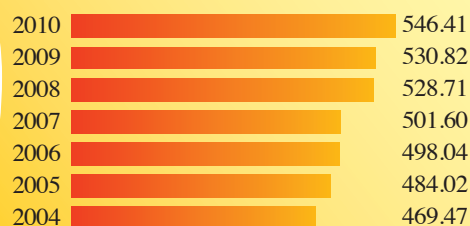


(Source: National Bureau of Statistics)

**Sustaining  
agricultural growth  
and increasing  
farmers' incomes**

**Meetings 23**  
**Group Studies 5**

Seven Consecutive Increases in Grain Output  
(Unit: 1 million tons)

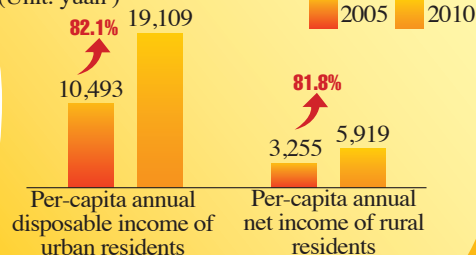


(Source: National Bureau of Statistics)

**Improving people's  
livelihoods,  
especially  
low-income citizens'**

**Meetings 27**  
**Group Studies 20**

Growth of Urban and Rural Residents' Income  
(Unit: yuan)



(Source: National Bureau of Statistics)



Promoting  
ideological  
and ethical  
progress

Meetings **4**  
Group Studies **5**

Increase in the Number of Registered Volunteers  
(Unit: 1 million persons)



(Source: The Young Volunteer Department of the Central Committee of the Communist Youth League of China, Chinese Young Volunteers Association)

Strengthening  
the Party's  
governance  
capability

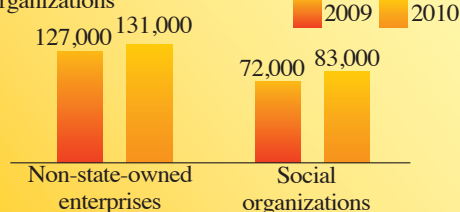
Meetings **13**  
Group Studies **7**

From 2001 to June 25, 2011, members of the Party's central leadership made more than **1,600** inspections and visits to various places in the country.

Weakness and  
laxity of some  
primary Party  
organizations

Meetings **5**  
Group Studies **3**

Increase in the Number of New Party Members  
in Non-State-Owned Enterprises and Social  
Organizations

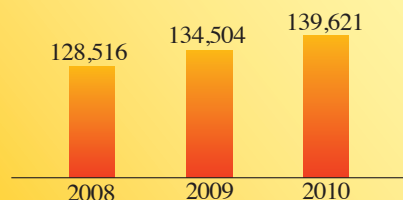


(Source: The Organization Department of the CPC Central Committee)

Fight against  
misconduct,  
bureaucracy and  
corruption

Meetings **18**  
Group Studies **3**

Number of Investigated Cases Involving  
Violations of Party Discipline and State Laws



# CPC TIMELINE



**July 1921:** The Communist Party of China (CPC) was founded.

**April 1927:** The KMT broke up the alliance by staging a coup, during which many CPC members were killed.

**August 1927:** The CPC launched an uprising and formed its own armed forces.

**January 1924:** The CPC formed an alliance with the Kuomintang (KMT) to fight local warlords supported by imperialists.



**September 1954:** The first Constitution of the PRC was enacted.

1930

**January 1935:** The CPC elected a new leadership, with Mao Zedong playing an important role.



**September 1956:** The CPC re-oriented its political line to focus on national economic construction.



**September 1982:** Deng Xiaoping called on the Party and the country to build socialism with Chinese characteristics.

1960



**June 1989:** The CPC elected Jiang Zemin as its general secretary.

**November 1993:** The CPC adopted the Decision on Issues Concerning the Establishment of Socialist Market Economic System.

1990





**1937-45:** The CPC and the KMT joined hands again in an eight-year war to resist Japanese aggression.



**October 1, 1949:**  
The CPC won the war and founded the People's Republic of China (PRC).

**June 1945:** The CPC established Mao Zedong Thought as its guideline.

1940



**October 1971:** The UN General Assembly restored the PRC's seat at the world organization.

1970



**December 1978:**  
The CPC shifted its central task to economic development and adopted the reform and opening-up policy. Deng Xiaoping became the core of the Party's central collective leadership.

1950

**1946-49:** The CPC led the people to fight against the KMT troops in the civil war launched by the KMT.

1980

**1966-76:** Mao Zedong launched the "cultural revolution" which put the whole country into political turmoil and pushed the national economy to the brink of collapse.

**August 1980:**  
Special economic zones were established in the coastal provinces of Guangdong and Fujian.



**July 1, 1997:**  
China resumed sovereignty over Hong Kong.

**December 20, 1999:**  
China resumed sovereignty over Macao.



**November 2002:** Hu Jintao was elected as the Party's new general secretary.

**October 2010:** The CPC made its proposal on the nation's 12th Five-Year Plan (2011-15).

2000

2010

(Compiled by *Beijing Review*)

# Success Comes From Political System

Exploration of a China-style development path has paid off

By HU AN'GANG



The debate over the “China Model” is currently a topic of intense interest. In a recent written interview with foreign media, Chinese President Hu Jintao responded by praising China’s political model. His affirmation, reiterating China’s commitment to socialism with Chinese characteristics, demonstrated a level of confidence fitting for a large country. It also served to address the concerns of the academic world and the public in explicit terms.

But what has made the Chinese political model so successful? What defines it as a successful model? And how will it evolve?

## The benchmark for judgment

There is no such thing as the best political system. Likewise, the world will never be totally dominated by a universal political system. Political systems come in a diverse range of forms. They coexist, borrow from each other and compete with one another. The emergence of this dynamic situation is closely related to several major changes that took place in the world’s population and the layout of nations after World War II. First, the world’s population has increased significantly since the end of the war, from around 2.4 billion to nearly 6.8 billion at present. Second, the number of countries and regions in the world has increased substantially, shooting up from 45 to more than 200. There are two principal reasons for this: the successive independence of colonial countries after the end of World War II and the disintegration of East European countries like the Soviet Union and Yugoslavia after 1990. Third, as the average population per country has dropped from 53 million to 35 million,

the difficulty of running a state has decreased comparatively, and national economies have become more dynamic as a result. Fourth, the rapid integration, regionalization and globalization of the world economy have brought about increasingly intense competition between nations throughout the world. In the midst of such fierce international competition, slow movers are as likely to fail as those who do not progress at all. In essence, the market competition and technological competition that ensue between states boil down to competition between the different systems that they employ. It should be noted the outcome of this competition is not decided by the inherent merits of any given system alone, but by how well a system performs in relation to its competitors.

China’s population has risen from almost 500 million in 1945 to 1.3 billion today. In the same time, China has changed from a poor, backward and disunited nation into a vibrant, prosperous and united global power. But how has China been able to govern itself so successfully? And how should we view China’s success in an international context in order to further demonstrate the suitability and success of its political system?

We cannot rely on our own subjective judgment to do this, nor can we turn to Western values to make such a judgment for us. Instead, we must let the numbers and the facts speak for themselves. By “success” we mean something specific—the term is not being used in its abstract sense. We cannot gauge success on the basis of a single standard, and respective issues, examples and indexes must be viewed specifically in their own contexts. Moreover, “success” cannot be proclaimed on the basis of self-appraisal. It must be confirmed through a process of comparison with other countries.

Our discussion will revolve around two aspects: The first is a long-term developmental comparison between more than 100 countries and regions over the past 30 years (1978-2008), while the second is a short-term comparison that will look at how G20 countries have coped with the international financial crisis over the last three years (2008-10). These comparisons will endeavor to show China has done better than any other country and its performance is not be matched anywhere else.

China’s political system is not without its shortcomings. Despite this, both historical facts and international comparisons have demonstrated it is suited to China’s basic national conditions and to its current stage of development. Likewise, China’s political system has also proven its adaptability to an increasingly open internal and external environment. It is able to cope with various external challenges and demonstrates clear developmental advantages and a unique edge in the course of fierce international competition. This has been achieved by China’s efforts to restructure and reform its political system over the past 30 years. First, China has developed a set of codes, regulations and processes to govern the transition between its national leaders, which has ensured the stability and continuity of its political leadership. Second, China’s leaders have adhered to the line of “seeking truth from facts.” Third, China has developed a democratic, scientific and regulated approach to public policymaking. These are the fundamental



The author is director of the Center for China Studies at Tsinghua University. This article is reprinted from issue No.2 of 2011 of *Qiushi* (English version), organ of the Central Committee of the Communist Party of China



reasons why China has been so successful.

## Reasons for development

An international comparison reveals China's miracle is by no means an accident, nor is it a matter of luck. We can see it is, in fact, founded on the approach that China has taken toward development. There is nothing complex or mysterious about this approach. On the contrary, it is a straightforward approach that follows a natural grain of logic.

We have selected three indices with which we will conduct a comparison of more than 100 countries and regions on the basis of data from the World Bank and the UN Development Program. The first is average annual growth rate of GDP, which reflects performance in terms of economic growth. The second is the coefficient of relative variation in the average annual growth of GDP, which reflects the state of macroeconomic stability. The third is improvement of the human development index (HDI), which reflects the extent of social progress and social equality. Through our comparison, we found all of the 20 fastest growing economies during the period from 1978 to 2008 were developing countries and regions. Of these countries and regions, a total of 13 implemented five-year plans. Moreover, as many as eight of the top 10 fastest growing economies carried out five-year plans (See table). This is no coincidence. Late Chinese leader Deng Xiaoping once said planning and market forces are both means of eco-

nomic growth. Five-year plans, as a "visible hand," serve to promote social progress through the provision of public services, while the market economy, as an "invisible hand," promotes economic growth through the creation of a sound environment for investment. This is essential to understanding the Chinese miracle.

Numerous entrepreneurs and scholars familiar with the situation in China have given their full affirmation to this practice. In November 2009, James McGregor, former Chairman of the American Chamber of Commerce in China, told *The New York Times* "one key thing we (the United States) can learn from China is setting goals, making plans and focusing on pushing the whole country ahead as a nation. The Chinese have five-year plans. They devote themselves to their objectives." Moreover, in his book *China's Megatrends*, futurist John Naisbitt identifies "framing the 'forest' and letting the 'trees' grow" as one of the eight pillars of a New Society (in contrast to Western countries). He writes, "The vision and the goals are being shaped in a top-down, bottom-up process. The government frames the policies and priorities within which citizens create their own roles and their own contributions to the whole, forming a structure that allows and benefits from diversity while sustaining order and harmony."

During a recent economic forum in Taiwan, I cited the formulation of China's 12th Five-Year Plan for National Economic and Social Development (2011-15) to give

a detailed illustration of how the Chinese mainland has realized a democratic, scientific and regulated mechanism for decision making. The plan's research and formulation process can be roughly divided into 11 steps. It took around two and a half years, during which the opinions of the people were solicited first and then researched centrally. Following this, the views of the people were sought again, which was followed by another round of central research. This process is not secretive in any way. In effect, it has made decision making on the Chinese mainland a public process. In other words, it has "swapped a black box for a see-through box" as we say. The next day, a Taiwanese scholar criticized Taiwan's policymaking mechanism in the *Want Daily*. One of his core views was "it is time for Taiwan to learn from the mainland."

## Crisis response

The international financial crisis that originated in the United States in 2008 dealt a severe blow to the global economy. As the crisis spread, a number of the world's major economies were thrown into turmoil. China can be viewed as something of an exception. As a global challenge, the financial crisis put the response mechanisms of all countries to the test.

We have chosen four major macroscopic economic indicators to conduct a comparison between G20 countries. They are economic growth, inflation rate, unemployment rate and budget balance as percentage of GDP.

Judging from the results, it is evident China delivered the best macroeconomic performance of all G20 countries in 2009. China registered the highest rate of economic growth in 2009, reaching 9.2 percent. In addition, China was one of only seven countries in the world that managed to avert the onset of negative growth. According to the figures, the economic growth rates of the United States, EU countries (on average) and Japan in 2009 were -2.5 percent, -3.9 percent and -5.3 percent, respectively. Moreover, China's economic growth rate was also as much as 2.7 percentage points higher than its closest competitor—India.

Ironical in retrospect are the seemingly smug predictions that an influential U.S. publication proceeded to make at the beginning of 2009, the like of "China has already begun an economic decline and perhaps will be worse off than the United States," "China will not be able to continue its miracle," and "it (China) is but a caged giant." Furthermore, on March 2 of the same year, the same magazine openly predicted China's GDP growth in 2009 would not exceed 4 percent. This prediction was soon (just 10 months) to be smashed by the facts. In what can be considered a global test, China stunned the world by spearheading the ►►



**RISING SKYLINE: The Lujiazui Financial District in Shanghai**

PEI XIN

economic recovery, achieving steady growth and meeting its main macroeconomic targets. While this was happening, it was the United States that went into genuine economic decline. During this time, China also closed the gap between its GDP and that of the United States, narrowing the difference from four-fold at the beginning of the crisis to roughly 2.5-fold after the crisis.

So why is China able to cope with the international financial crisis so successfully in comparison with other countries? What have we come to realize? And what lessons can we learn? First, China has gained a full insight into the economic laws of the socialist market economy and the political superiorities of the socialist system. Second, China succeeds in balancing the relationship between government and market forces. In other words, it asserts the leading role of the government while giving full play to the basic role of market forces in the allocation of resources. For example, the stimulating effect of the government's 4-trillion-yuan (\$586 billion) investment in 2009-2010 helped gen-

erate more than 10 times this amount in non-governmental investment. The country's total investment in fixed assets during this two-year period reached 50.3 trillion yuan (\$7.76 trillion), which effectively ensured the rapid economic growth of the country.

Different nations exhibit different capacities for development and different levels of national strength. They have also demonstrated different levels of performance in their respective responses to the international financial crisis. We can attribute China's ability to coping successfully with the crisis to five aspects: first, the ability of the Chinese people to study as a whole, respond flexibly to unfavorable situations and excel in competition; second, the highly efficient decision making mechanism of the government; third, the government's huge capacity for political mobilization; fourth, China's constantly growing fiscal power; and fifth, the country's ability to give full reign to the initiative of both central and local governments.

The essence of the international financial crisis, which originated in the United States

and later spread across the world, is an unprecedented crisis of capitalism. China's success in coping with the international financial crisis has captivated large numbers of American scholars, and encouraged them to engage in self-reflection over this capitalist crisis. One of the most eye-catching instances of this type of self-reflection is a recently published article by American scholar Francis Fukuyama, in which the author says China's success in navigating the economic crisis was based on the ability of its political system to make large, complex decisions quickly, and make them relatively well, at least in economic policy. In comparison, the United States lacks the capacity to respond rapidly to a crisis. Compelled by fact, Fukuyama's words can be construed as a partial correction or even a negation of the theories he published 20 years ago in *The End of History*.

In brief, the "Chinese Path" is not only unprecedented, but is also becoming more and more successful. The best thing we can do is go our own way despite others' skepticism. ■

### The Main Indices and Development Plans of the 20 Fastest Growing Economies (1978-2008)

Ranking	Country	Annual Growth of GDP (%)	The Coefficient of Relative Variation of the Average Annual GDP Growth	Improvement of HDI (1980-2007)	Number of Five-year Plans Implemented
1	China	9.92	0.28	0.238	11 (1953-2010)
2	Singapore	6.92	0.55	0.159	
3	Viet Nam	6.82 (1984-2008)	0.28	0.163 (1985-2007)	9 (1960-2010)
4	Malaysia	6.26	0.59	0.164	10 (1956-2010)
5	Republic of Korea	6.25	0.59	0.216	7 (1962-1996)
6	Thailand	5.71	0.72		11 (1961-2011)
7	India	5.68	0.50	0.185	11 (1951-2012)
8	Hong Kong (China)	5.47	0.71		
9	Indonesia	5.44	0.73	0.212	8 (1969-2010)
10	Pakistan	5.16	0.42	0.170	9 (1956-2010)
11	Jordan	5.15	1.07	0.139	3 (1976-1990)
12	Egypt	5.07	0.40	0.208	6 (1960-2012)
13	Chile	5.05	0.82	0.130	
14	Ireland	4.97	0.64	0.125	
15	Sri Lanka	4.88	0.37	0.109	(1960-1990)
16	Sudan	4.59	1.23		
17	Bangladesh	4.57	0.31	0.214	5 (1973-2002)
18	Burkina Faso	4.55	0.71	0.141	
19	Tunisia	4.52	0.52	0.164 (1985-2007)	11 (1956-2011)
20	Israel	4.40	0.54	0.105	

Note: Countries and regions with a population of less than 3 million are not included. Sri Lanka has carried out economic and social development plans, but not necessarily five-year plans. Bracketed numbers indicate starting and ending years.

Source of GDP growth rate and fluctuation coefficient data: World Bank, WDI 2010

Source of HDI data: UNDP, HDI Trends Components 2009

Figures for the number of five-year plans were compiled by the author.



# The King of Crabs

An innovative entrepreneur and Party member's tale of success amid hardships and obstacles

By HU YUE

**K**nowledge can change one's life. That is how 46-year-old Li Xiaodong describes his rags-to-riches story. Li's resume glows. He is chairman of Panjin Guanghe Aquaculture Co. Ltd. in northeast China's Liaoning Province and secretary of the Committee of the Communist Party of China of the company. The private company is China's largest supplier of crab larvae, with a market share of 10 percent in 2010. It is expected to generate net profits of more than 10 million yuan (\$1.54 million) in 2011, doubling that of last year.

Li started his road to success from scratch. After graduating from the Dalian Fisheries School in 1984, Li, then 21, gave up a decent job in Dalian, a coastal city in Liaoning, and returned to his hometown in Dawa County to work as a technician with the Bureau of Aquatic Products and later a subsidiary company.

"Born to a dirt-poor family, I always had the dream of helping fellow villagers get out of poverty," Li told *Beijing Review*.

In those early years, Li spent days and nights researching and experimenting with artificial cultivation of crab larvae. His dedication was so steadfast that even thoughts of food and sleep vanished. A breakthrough happened in 1992 when an innovative idea occurred to him: raising crabs in rice fields.

Li said the method could allow farmers to make better use of rice fields, which account for 70 percent of Panjin's farmland. Moreover, the crabs could loosen the soil and eat harmful insects. Crab excrement also acts as natural fertilizer.

Li shared his knowledge and techniques with local farmers and helped promote the new method across the province. This delivered a strong boost to farmers' incomes. For Panjin, the emerging breeding industry injected fresh life into the local economy as the city struggled with the exhaustion of its oil resources. Li was therefore dubbed the King of Crabs in the province.

On Li's career path, a turning point came in 1999 when the government began restructuring the local economy and closed down a batch of poor-performing state-owned enterprises, including Li's employer.

"I had the option to transfer to other government departments and remain in the civil

service," he said. "Still, I decided to quit a secure job and start up my own business."

Many of his friends and relatives argued against his decision.

"But I have never regretted it despite a lot of ensuing frustrating setbacks," Li said. "I have always been an optimist and seldom thought of what would happen if I failed."

Li's company moved downstream to develop processed crab products and quickly gained a solid market foothold thanks to a close tie-in with rural households. Contracted farmers buy crab larvae from the company and raise them on their own. After the crabs grow, farmers sell them back to the company at a set price, which allows the farmers to make some extra cash.

"This kind of business model ensures sustainable crab supplies to my company and at the same time safeguards farmers' interest," Li said.

At first, however, many farmers were reluctant to join the contract out of concerns over the survival ratio of the crabs.

"After all, it would cost almost their life savings as initial investment was at least 30,000 yuan (\$4,615) for each household,"

Li said. "In response, we improved the quality of the larvae and sent assistants to help farmers address technical problems."

As a few rural households generated handsome returns, more farmers rushed to follow suit. Now the company has teamed up with more than 9,000 rural households, around 40 percent of the total in Panjin.

In 2003, severe acute respiratory syndrome (SARS) swept the country, putting a dent in consumer confidence. The market prices of crabs nosedived to around 3 yuan (46 cents) per kg, well below the preset contract price of 12 yuan (\$1.8). Through negotiations, Li and the farmers reached an agreement under which his company purchased the crabs at 6 yuan (92 cents) a kg. The company suffered a painful loss of more than 4 million yuan (\$615,385).

"Inside the company, some people questioned the decision," Li said. "But I insisted our priority was to protect farmers' interests."

Li's efforts paid off. Because of its unselfish acts, the company established its reputation among farmers. When the market recovered a year later, the company raked in healthy profits of 5 million yuan (\$769,231).

Li said there are 68 Party members in the company, nearly 20 percent of the total employees, making significant contributions to corporate development.

"They have shouldered the most arduous tasks and set a good example for other colleagues," he said. ■



**HELPING LOCALS:** Li Xiaodong (second left), Chairman of Panjin Guanghe Aquaculture Co. Ltd. and secretary of the Party committee of the company, helps farmers grow crabs in their rice fields

COURTESY OF LI XIAODONG



**ON-SITE TRAINING:** Ma Zhaoqi gives a lecture on how to be a good Communist to students at CELAY in Yangjialing Village in Yan'an, Shaanxi Province, on June 17



**INTERACTION:** Lu Weidong and his students at CELAY exchange ideas in a class discussion on June 17

# Red Base, Red Training

Yan'an, a cradle of Chinese revolution, continues to inspire new generations of Communist Party of China members

By **YUAN YUAN**

**O**n June 17, a group of middle-aged people carrying small portable stools circled around a lecturer at Yangjialing Village in Yan'an, Shaanxi Province.

In Yan'an, the city famed as a cradle of Chinese revolution, such scenes are common. This group of people consists mainly of students from the China Executive Leadership Academy Yan'an (CELAY), a key training school established by the Communist Party of China (CPC) six years ago. They are mostly middle-ranking officials who visited the city to attend the academy's 10-day training sessions. Visits to revolutionary sites in Yan'an were an integral part of the training.

"That is the unique training method of the school," said Ma Zhaoqi, a lecturer at CELAY. "We take students to historical sites to experience the original environment of the revolution."

On June 17, Ma lectured his students on an article by Liu Shaoqi, President of the People's Republic of China (PRC) in 1959-68, on how to be a good Communist.

"In his article, Liu explains in detail how to get along with the masses," said Ma, who mixed stories from Liu's life into his lecture.

"He lived a very simple life. Especially after the founding of the PRC, he even distributed his food rations to other people."

In addition to Yangjialing Village, where Mao Zedong made his well-known remarks "all reactionaries are paper-tigers" to U.S. journalist Anna Louise Strong, trainees are also taken to other revolutionary sites. The Date Orchard, where the Secretariat of the Central Committee of the CPC operated in the late 1930s and early 1940s and the Pagoda Hill, a must-see landmark in Yan'an, are on most itineraries.

"This method is effective," said Lu Weidong, another teacher at CELAY. "Since most of the students in the school now are in their 40s, 50s or even 30s, it is necessary to show them how the Party triumphed over adversity."

In order to make its training programs more vivid, the school also invites some elderly residents in Yan'an to contribute.

Liu Yu is one of them. "I have been living in Yan'an for almost 60 years," Liu said. "I experienced almost every important event in the Party's history that happened here. I don't use textbooks in the class but students say my lectures are very interesting since I have a lot of stories to tell."

"It is my first time here," said Chen

Yingxian, Deputy Director of the Bureau of Culture and Science of the Ministry of Culture. "It feels really different when you stand at this former revolutionary base of the CPC. The old generations of revolutionaries lived in very shabby houses and didn't have enough food. It is a miracle that they were able to succeed under such conditions."

"It is quite a fresh new experience compared to my routine work," said Zhao Wei, Deputy Director of Insurance Regulatory Commission of Guangdong Province. "Visiting the former residences of Party leaders such as Mao Zedong and Zhou Enlai, I was astonished to see they used to live in such harsh conditions. Although I've learned about the early days of revolution from books and TV programs, it is still very different when you are really in there."

Living in the 10-square-meter dormitory in the school with simple meals every day, Zhao said he really enjoyed his stay at the academy. "Sitting in the classroom again makes me calm down and think clearly. It is a very precious experience. I always felt upset when I came across difficulties at work. But compared to the hardships that older generations of revolutionaries had to work through, our difficulties are minuscule."

"It is very important for Party members to have memories of history, as they are the treasure of the Party. But greater numbers of young people, with better and better living standards, tend to ignore that," said Lu. "Our spirit in the new era would be like water without a source or a tree without roots if we don't value revolutionary history and draw strength and inspiration from those days." ■





PHOTOS BY WEI YAO

**LEARNING VENUE:** Situated in the suburb of Yan'an, Shaanxi Province, CELAY is one of four major training schools of the Communist Party of China

## Major Training Schools of the CPC

### The Party School of the CPC Central Committee

The Beijing-based Party School of the CPC Central Committee is the Party's top training institution. It has trained 61,024 people through a wide range of programs since its establishment in 1933.

Provincial and ministerial-level officials usually undergo two months of training in political science, public management, economics and history. Young and middle-aged officials spend six months to a year at the school, usually followed by a promotion.

Since 1981, the school has also offered postgraduate and doctoral programs to non-official students. These programs focus on philosophy, economics, law, politics and the history of the CPC.

### China Executive Leadership Academy Yan'an

The China Executive Leadership Academy Yan'an, opened in March 2005. With its distinctive teaching content, the academy takes full advantages of its unique historical resources, and provides cadres with a profound education in revolutionary traditions, ideals and beliefs. The school specializes in teaching CPC history, Party building theory and revolutionary traditions



to leading Party and government officials, business executives, professionals and army officers.

### China Executive Leadership Academy Jinggangshan

The China Executive Leadership Academy Jinggangshan is a national training base in the field of CPC history, Party building theory and revolutionary traditions. Established in March 2005, the

school is open to Party and government officials, business executives, professionals and army officers.

The school describes its academic function as a base for instruction in revolutionary tradition and national condition education, which aims to raise the overall quality and governance capability of Party cadres. Teaching models such as long- and short-term workshops and learning-through-experience training programs are adopted.

### China Executive Leadership Academy Pudong

The China Executive Leadership Academy Pudong is a Shanghai-based international, contemporary and innovative leadership academy that stands at the cutting-edge of leadership training.

Opened in March, 2005 it strives to foster effective leadership for the coordinated development of the country's economy and society. The school's target students are middle- and high-ranking government officials, senior business executives and professionals. It is also open to the general public and provides MBA and MPA programs and other specific courses tailored for both domestic and international students.



## Kenya Airways Establishes New Routes to Ouagadougou



**Welcome to Ouagadougou.  
US\$55\* Return.**

From July 15th, KQ will take off every Monday and Friday for Ouagadougou, the capital city of Burkina Faso and our 55th global destination. To celebrate, we're offering great fare deals of just US\$55 return. But this incredible introductory price can't last forever. So don't miss out. Book your flights now at [kenya-airways.com](http://kenya-airways.com), KQ Sales Offices or call our Contact Centre on 020 3274747. \*Taxes included.

**Kenya Airways**  
The Spirit of Africa

Kenya Airways, one of the best and most respected airline companies in Africa, recently officially announced its intent to fly to Ouagadougou, capital of Burkina Faso, starting July 15, affirming its plans to grow its network across Africa. The new route, the 55th of the airline's global destinations, will operate twice weekly every Thursday and Sunday out of Hong Kong to Ouagadougou via Nairobi.

Ougadougou is the capital and the administrative, communications, cultural, and economic center of Burkina Faso. It also has the name the "film capital of Africa" with many headquarters of big African film makers there. As an ancient capital, the city has many scenic spots worthy visiting, such as the national museum of Burkina Faso and the ancient boulevard. The country is landlocked. Its primary economic activities are food processing and textile manufacture. With more than 60 tribes, mysterious traditional customs are also a great attraction.

At present, Kenya Airways is engaging in growing its network across Africa. In 2011, the global passenger flight stops of the company will reach 60. Including code share flights, Kenya Airways has in all 12 flights connecting China and Africa a week, providing Chinese passengers the most convenient airline service. There are five code share flights each week starting from Guangzhou, capital city of Guangdong Province, flying to more than 50 African destinations.

## Gloria Hotels and Resorts to Manage Second Hotel in Hefei



A signing ceremony was held recently at Kolam Gloria Plaza Hotel Hefei for the signing of the management contract between Gloria Hotels and Resorts and The Real Estate

Development Co. Ltd. of the CTCE Group. With this newly-signed management property, Gloria's portfolio of hotels has reached 30.

This property will be a four-star business hotel which is Gloria's superior class brand. It will be located in the city center of Hefei, Anhui Province. It is a 15-minute drive from the hotel to Hefei Luogang Airport.

The Gloria Plaza Hotel Hefei will have 170 well-appointed guest rooms with modern facilities. The building area of about 14,000 square meters also consists of numerous banquet rooms, a large Grand Ballroom, a Plaza Floor, a Chinese restaurant together with an all-day restaurant offering good quality facilities and services focusing on accommodating comprehensive business

needs. The Gloria Plaza Hotel Hefei is scheduled to open in mid 2013.

Gloria Hotels and Resorts is a Hong Kong-registered hotel consultancy, management and investment Company, which was formed in 1992. During the past 20 years, Gloria Hotels and Resorts has rapidly expanded its network of locations both domestically and globally through implementation of the company's effective development strategic plan. Apart from the existing hotels and resorts, various new hotel projects in Beijing, Shanghai, Sanya in Hainan Province, Inner Mongolia, Wuxi in Jiangsu Province, Hefei in Anhui Province, Guangzhou in Guangdong Province, Changsha and Jishou in Hunan Province, Chongqing, Deyun in Guizhou Province and Lushan in Jiangxi Province will also open in the next three years.

With a strong belief in its unique management module of "International Outlook with Chinese Flavor," it is able to cater to today's investors' demanding branding needs and operational requirements.

Gloria Plaza Hotels... A Good Place to Be!





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We firmly believe that top product quality and integrity are important guarantees of enterprise development. We make very effort to meet customers' personalized needs with flexibility and industriousness. Your suggestions and requirements are the driving forces behind our innovation and improvement. Comments and suggestions are always welcome!





# An Achilles Heel

State regulator tightens supervision over state overseas assets

By LAN XINZHEN

**T**he regulator of China's state-owned assets on June 27 announced new measures to supervise overseas assets of centrally administered state-owned enterprises (SOEs) amid what the State-Owned Assets Supervision and Administration Commission (SASAC) called "increasing complexities."

The newly announced pair of regulations aim to stop management loopholes and improve the safety of SOEs' overseas assets.

The Interim Regulations on the Supervision and Administration of Overseas Assets of Central SOEs concern central SOEs' overseas investment, management and various operating activities, both internal and external. The Interim Regulations on the Administration of Overseas Property Rights of SOEs regulate registration, assessment, examination and transmission of the overseas properties of central SOEs and set out requirements for the equity management of red-chip companies, mainland-based companies that are incorporated internationally and listed on the Hong Kong Stock Exchange.

The release of the two interim provisions is an important measure for SASAC to fulfill its responsibility as state-owned assets owner, complete the accountability mechanism for preserving and increasing the value of state-owned assets and enhance the management of SOEs' overseas assets, SASAC said. It is conducive to helping China's SOEs foster world-class competitive enterprises and accelerating the internationalization of their management strategies.

SASAC's new regulatory measures standardize individual equity holdings on behalf of SOEs, which used to lead to losses of assets overseas. Any transaction of equity holding that would change the holding status of SOEs must get the approval from SASAC, said the interim regulation. Those responsible for the loss of overseas assets and mismanagement will be held accountable by the SASAC in accordance with relevant laws and regulations on state-owned assets management.

## Costly lessons

Since China entered the WTO in 2001, its SOEs have been the major pioneering force in overseas investment. The global financial crisis in 2008 has been the catalyst

for the move. Official figures show 100 out of 120 central SOEs have established overseas branches or administrative organizations. The overseas assets of SOEs amounted to 4 trillion yuan (\$610 billion) at the end of 2010, accounting for 20 percent of their total assets.

Ironically, while Chinese SOEs were obsessed with outbound investment mania, their regulators seemed to be stood idle. The fact is the latest regulations on overseas state-owned assets could be dated back to 1999. China established the SASAC particularly for the supervision and management of SOEs, but it still failed to fulfill the responsibility of monitoring the overseas operation of SOEs as evidenced by a series of losses in overseas investment in recent years.

China Aviation Oil (Singapore) lost about \$550 million from ill-placed bets on oil prices in 2004. The Chief Executive Chen Jiulin was sentenced to 1,035 days in prison. This year China Railway Construction reported a loss of 4.153 billion yuan (\$63.89 million) from its light railway project in Saudi Arabia.

The war in Libya has affected 50 proj-

ects undertaken by 75 Chinese enterprises involving \$18.8 billion, said the Ministry of Commerce.

A report released by the National Audit Office this May said Sinochem Group, China's biggest chemical trader, lost \$15.27 million in its three overseas oil gas projects and another two did not produce profits as high as expected.

While Chinese SOEs witness a dramatically growing outbound investment, the risks are also increasing, said Wang Yong, SASAC Minister.

Wang also summarized the reasons for the investment failure of SOEs. Some did not choose the right projects to invest in as the projects have too little correlation with their main business; some advanced their outbound expansion too fast, exceeding their own capital, management and talent capability; some lacked strict and complete regulations and rules on overseas investment; some were weak in risk management and in the ability to control risks; and some even entangled with mutual competitions.

The management of overseas assets was slack with insufficient risk-control measures





among SOEs, compared to their emphasis on overseas investments, Wang said.

With the acceleration of their going global, SOEs must enhance their risk control, he said.

### A timely decision

SASAC did, however, acknowledge the positive side of SOEs' overseas investment.

"In recent years, SOEs have seen a rapid growth in their overseas business scale and expansion in overseas business fields. Some SOEs have created lots of successful experiences in supervising overseas assets," said SASAC.

SASAC also acknowledged its weakness in supervising overseas state-owned property. "Some SOEs slack off when it comes to internal management and risk control, which may affect the security of overseas state-owned assets," it said.

In a bid to further strengthen supervision and protection on SOEs' overseas assets, the SASAC released the two interim regulations which were enacted with full consideration of the lessons and experiences SOEs have learnt from their outbound investment in recent years, SASAC said.

The oversight organization also gave the legal basis of the two regulations, namely, the Law on State-Owned Assets and the Interim Regulations on Supervision of State-Owned Assets released in 2003.

The two interim regulations were innovative in supervising state-owned assets

and property rights. The Interim Regulations on the Supervision and Administration of Overseas Assets of Central SOEs have set out detailed rules to regulate behavior that may easily cause losses of overseas investment, for example, the individual equity holding, offshore company management and salary of expatriate staff.

Despite the fact Chinese centrally administered SOEs have increasing outbound investment, they still lack systematic management measures to supervise overseas assets, said Zhang Hanlin, Director of the Center for WTO Studies at the University of International Business and Economics.

Due to the lack of a complete supervision mechanism, SOEs and their regulators often failed to see risks in overseas investment, especially in the field of financial investment, Zhang said.

The best way to regulate SOEs' overseas investment, shield investment risks and prevent losses of state-owned assets is to enhance legislation timely, Zhang said.

The release of the two interim regulations is the inevitable result of the country's efforts to enhance supervision on overseas investment, Zhang said.

### Risk management

Facing huge losses in overseas investment, it is time for SOEs to fulfill their own responsibilities.

SASAC has issued two preventive regulations, but the SOEs themselves

need to enhance risk management in their overseas operation, said He Liping, a professor with the School of Economics and Business Administration of Beijing Normal University.

A standard administrative structure and complete internal management mechanism are needed to enhance risk control, especially for overseas investment of SOEs, He said.

Wang Ying, an analyst with the Shanghai-based CBN Research Institute, echoed He's idea.

"At present, the domestic parent SOEs should be responsible for the supervision on overseas assets and properties. A daily mechanism to control risk should be set up and the decision-making procedure should be regulated," Wang said.

"Even though the SASAC has stipulated detailed rules, only the SOEs themselves can achieve their investment goals and risk control. The new regulations are just macro-level guidance," Wang added.

SOEs should look to protection of their overseas investment, said Wang Hai, an analyst with China Securities Co. Ltd.

If the host countries refuse to compensate the asset loss in exchange rates, nationalization and political turmoil, Chinese SOEs could claim losses to the insurance issuers, he said.

China should learn from the success of the United States and Japan in insurance for overseas investment and promote the launching of relevant insurance measures in China, he said. ■

JIANG SHUFAN



LU GUOQIANG

**(Left) HOLY BUT COSTLY:** A light rail train runs on a trial basis last November in Mecca, Saudi Arabia. The project caused China Railway Construction in charge of the project to lose \$63.89 million

**COPPER COOPERATION:** Xiao Yaqing (center), former Chinalco CEO, answers questions during a news conference held at the presidential office in Lima, Peru, on May 5, 2008, after Chinalco and Peru Copper Inc. signed an exercise contract for the Toromocho copper project

# Budgeting for Travel

Websites provide enhanced services as they look to profit from China's ballooning travel market

By DING WENLEI

For her college graduation, Hu Si received an iPad, a gift from her mother. Her father gave her something not so tech-heavy: a piece of paper with a travel agent's phone number. But the paper held promise—Hu's father said the family would be going on a vacation and Hu would be in charge of planning the trip.

Overnight, the father found the omnipresent Internet helped his daughter plan the trip, from booking the flight to making reservations at a highly recommended budget hotel. Hu even found interesting attractions and restaurants at every stop of the vacation.

When asked how she'd managed to organize the trip so quickly, Hu opened a number of websites on her iPad that her father had never heard of before. Daodao.com had helped Hu gather information for hotels; Qunar.com allowed her to find discounted fares and cheap hotel deals; Uza.com recommended travel routes; and Lvmama.com provided information on travel destinations.

Hu's father had previously only known of two online travel agencies, Nasdaq-listed Ctrip.com and Elong.com. Those two hotel reservation and flight booking sites have dominated the market for years but have had to make room as more companies enter the arena.

China's online travel market is heating up amid a national e-commerce investment boom. But online travel services didn't receive a decisive boost until about two years ago.

From 2009 to 2010, many start-up travel websites all finished two or three rounds of fundraising, said statistics from equity investment consulting company Zero2IPO Group. And major Internet companies, such as B2B marketplace Alibaba, instant messaging platform Tencent and search engine Baidu, either launched similar services or invested in major players for future cooperation based

on their complementary strengths.

Opportunities worth many billions of dollars lie ahead for Ctrip and its peers, but they have to prove their versatility in order to grab more customers.



## Explosive growth

China's tourism market is burgeoning. China became the world's third largest inbound tourism destination last year, said the latest edition of the United Nations World Tourism Organization annual report. The organization predicts China will surpass France as the largest tourist destination by 2015.

China also emerged as the world's third

biggest international tourism spender, with expenditures multiplying four times since 2000, said the report.

Domestically, Internet applications have continued to seep into the tourism industry. E-commerce solutions contributed to 3.3 percent of the entire Chinese travel sales last year and will reach 4.6 percent by 2012, said a report on China's travel e-commerce by entertainment and tourism consulting company Entgroup.

While some airline companies, hotels and travel agencies are reinforcing their direct sales efforts online, others are reaching more customers by opening stores at large e-commerce platforms such as Taobao.com and 360buy.com. Taobao, China's largest C2C marketplace, launched its travel channel in May 2010, allowing airline companies, hotels and travel agencies to sell tickets or hotel rooms directly from their stores.

Reservations made at official websites of airline companies, hotels or travel agencies stood at 32.5 billion yuan (\$5 billion), or 84 percent of all online sales, and those made with online distributors such as Ctrip and Elong amounted to 6.1 billion yuan (\$938.5 million), or 15.8 percent, said the Entgroup report.

In total, the travel e-commerce market reached a value of 39 billion yuan (\$6 billion) in 2010, up 42 percent year on year, and will grow 30 percent annually to reach 68 billion yuan (\$10.5 billion) by 2012, said the report.

## Major players

In June, China's search engine giant Baidu announced a \$306-million investment in Qunar, its largest investment to date, while the country's largest Internet company Tencent bought a 30-percent stake in Elong for \$84.4 million in May. This has inspired a lot of

discussion about who will rise to challenge market leader Ctrip's dominance.

Qunar offers a specialized search engine focusing on product and pricing comparison, presenting available options in its search results and redirecting users to other distributors or travel agencies.

Its revenue comes mainly from advertising and traffic redirection, unlike Ctrip, which makes profits largely on commissions



from selling air tickets and hotel rooms.

Baidu, China's largest portal to online content and services, controls nearly 80 percent of China's search traffic and boasts a diversity of applications based on that traffic.

"Qunar chose Baidu because of its unmatched resources and huge search traffic, which will allow us to cooperate in diverse ways," said Zhuang Chenchao, CEO of Qunar.

The partnership will get Qunar more traffic and advertising, and help Baidu improve its search results by leveraging Qunar's travel-related search technology and content.

But Morgan Stanley said the deal has had a limited impact on Ctrip and maintained Ctrip's stock "overweight" rating in its June 27 report.

"We do not view Qunar as a direct competitor to Ctrip," the report said. "Ctrip does not rely heavily on third-party search engines to win new customers, since nearly 60-70 percent of these are word of mouth and direct sales. In addition, Ctrip enjoys a loyal customer base and generates 70-80 percent of sales from repeat customers."

And Qunar targets price-sensitive customers, while 70 percent of Ctrip's sales come from business travelers and high-end personal travelers, said the report.

Ctrip critics focus on its high commission rate, which mainly comes from its high labor costs. Unlike its overseas counterparts which complete their sales mostly online, Ctrip has 80 percent of its 10,000 workforce answering calls to conclude a large portion of deals.

In contrast, Qunar has less than 700 employees. And Qunar is free from additional operating costs common for traditional B2C companies such as logistics burdens from goods transportation, storage and delivery.

"The fact Qunar as a light-asset company boasts of a gross profit rate of 85 percent makes it a best investment targets," Zhuang said.

Qunar may not compete with Ctrip directly, but Elong does, especially after Tencent partnered with Elong to make its first foray into the online travel market. Tencent, China's largest instant message service provider, has 674 million users.

While Ctrip is busy increasing stakes in hotels, Elong will use Tencent's investment to acquire small hotel reservation sites, said Elong's CEO Cui Guangfu.

Hotel reservations are Elong's core business, accounting for 68 percent of its total revenue in the first quarter of this year. For five consecutive quarters, Elong has grown faster than Ctrip in terms of hotel sales, and online reservations will exceed dial-in reservations in volume in the second quarter, becoming the major source of Elong's growth, said Cui.



**WISE OLD OWL:** Travel website Daodao.com shares the same owl logo with its parent company, Tripadvisor, the world's largest travel site that allows customers to gather travel information, post reviews and engage in interactive travel forums

Elong now boasts the largest hotel coverage in China. It had established a partnership with 20,000 hotels in 700 cities nationwide by May 31, according to its financial statements. Through Elong's platform, customers have access to more than 135,000 international hotels on Expedia, the world's largest online travel site, which is Elong's largest shareholder with a 56-percent stake.

### Key to success

Baidu and Tencent have chosen to invest in a market leader instead of launching similar services by themselves because "they don't have the genes to do e-commerce," said Chen Shou, an analyst with information technology consulting firm Analysys International in a *21st Century Business Herald* report.

Technology is a barrier too. A vertical search engine, like that used at Qunar, focuses on a specific segment of online content and is distinct from a general Web search engine, like Baidu, Hong Bo, an observer of the information technology industry, told the *National Business News*.

Even if Baidu can overcome technological barriers, there are operational costs—a team should be organized to collect and process all kinds of information to tailor products for airline companies and hotels, which will also demand coordination efforts between Baidu's departments, Hong said.

Smooth integration of both sides' complementary strengths and a distinctive business focus are the key to the success of these kinds of investments, Chen said.

But Chen said he didn't think it's possible

to surpass Ctrip in the near future because of "a lack of distinctive and diverse business models that are as successful as Ctrip's."

Usually there are four focuses of travel sites: hotel reservation and air ticket booking, travel-related search, travel information and travel sharing community.

And most of China's travel websites are crowded in the first two categories. "They provide solutions to questions like how to travel to the destination and where to stay, and seldom address issues like what to see and where to eat," said Lvmama's founder Hong Qinghua.

That's where small travel sites like Lvmama and Uzai began to innovate and challenge market leaders.

With extensive consulting experience in scenic attraction design and planning, Hong moved into the online travel business by helping managers of scenic attractions to do precise marketing. Lvmama has signed contracts with more than 3,000 scenic attractions, with several million registered users.

Uzai was designed as a travel planner. "We are not a flea market where customers are left on their own about what to buy. Instead, we select competitive travel routes and create different vacation packages to meet varied needs," said Li Daishan, founder of Uzai.com.

Innovation will help travel websites find a distinctive business model. But like technology, the business model is replicable and the ultimate answer to success is with the team's capabilities in executing projects, said Zhang Dian, CEO of online travel firm Hubs1. ■



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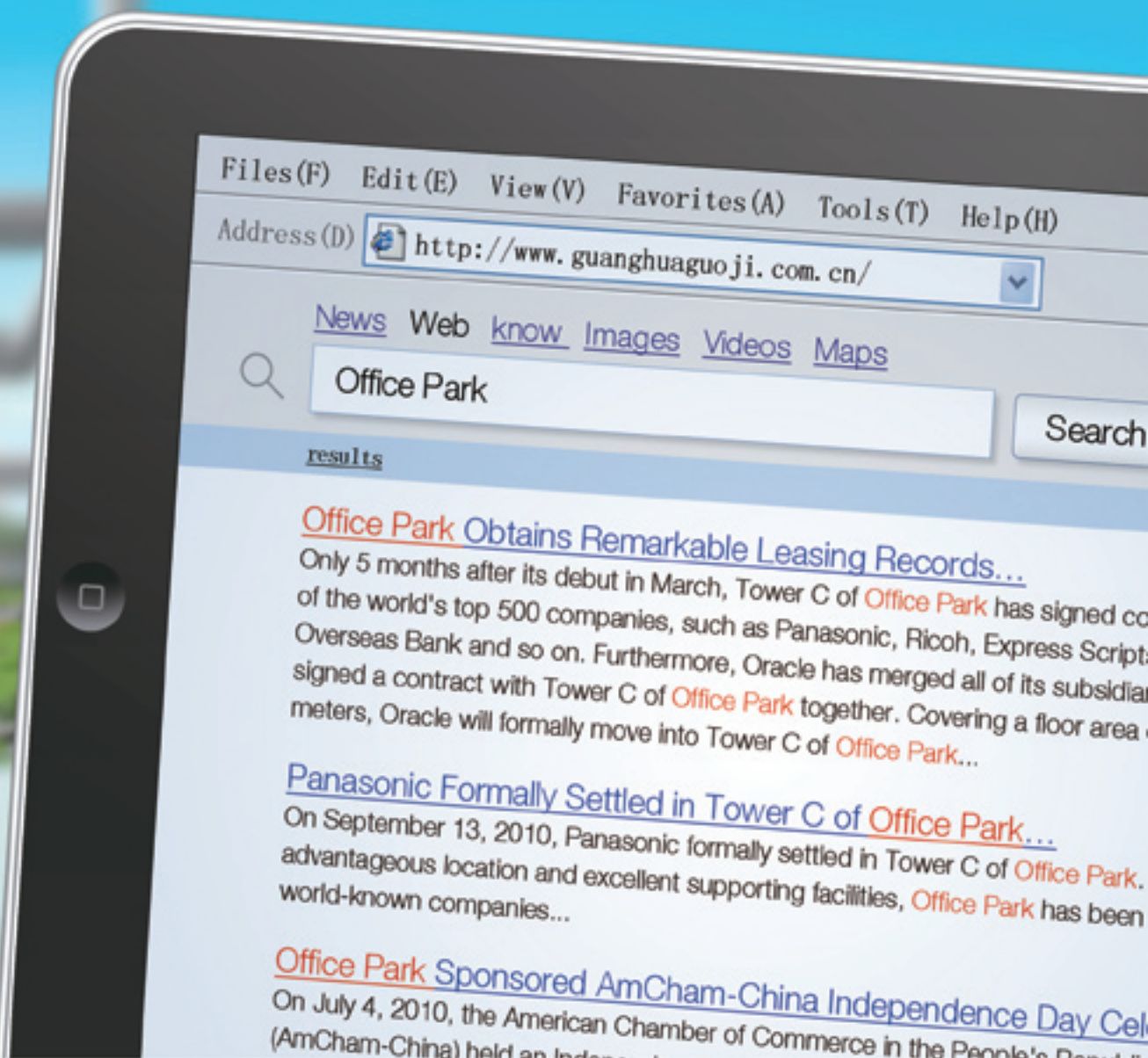




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# Is China Ready for Full Yuan Convertibility?

Although China has made headway in reforming the exchange rate regime of its currency, the yuan, and expanding the use of it in cross-border trade during the past year, the yuan is far from fully convertible. **Huang Yiping**, a professor at the National School of Development of Peking University, said in an article for *Beijing Review* that China has the conditions for capital account liberalization and should strive for basic convertibility within five years. Edited excerpts follow:



In December 1996, the governor of the People's Bank of China, the central bank, wrote to the then managing director of the IMF to outline China's goal of realizing current account convertibility. At that time, Chinese officials

planned to achieve capital account convertibility within a decade. But it was repeatedly delayed after the Asian financial crisis in 1997.

Ten years later, the world was struck by the U.S. subprime crisis and global economic recession. The Chinese economy performed relatively better compared to other countries in terms of recovering. Clearly, restrictions on cross-border capital flows also helped shield China from external economic and financial shocks.

These raise an important question: Is an open capital account really what China needs? The Chinese experience during the recent global financial crisis suggests that certain degrees of state intervention might be useful for maintaining economic stability. So why liberalize what apparently already works?

Findings from empirical studies on the benefits of capital account liberalization are also inconclusive. Some found positive impacts, some revealed no effect and yet others yielded mixed results. Pooling international data also showed no clear correlation between openness of the capital account and growth performance.

These results cast doubt on the conventional wisdom that the capital account and financial liberalization should help increase investment returns, reduce financial risks and improve growth performance.

So should China pursue its long-planned agenda of capital account liberalization? I approach this question by looking into three broad issues.

First, given that the economy is becoming increasingly open, how effective are the remaining restrictions on cross-border capital flows? Second, while capital controls were probably useful for maintaining domestic economic and financial stability in the past, what are the costs of not liberalizing? Third, if capital account convertibility is the right policy direction, is China ready to pursue it and what liberalization strategy should China adopt?

China has steadily liberalized capital account controls in recent years and the effectiveness of remaining controls has declined. Our estimates of short-term capital flows, which are subject to most severe restrictions, grew exponentially during the past decade. Empirical analyses also indicate that the controls are ineffective in the long run.

Also, remaining restrictions on cross-border capital flows impact negatively on economic growth and affect independence of monetary policy. Although the restrictions helped shield the economy from external shocks, they actually contribute to domestic fiscal and financial risks by allowing irresponsible lending and borrowing behaviors to flourish.

Meanwhile, without capital account convertibility, it is impossible for China to achieve other goals, such as internationalization of the yuan, turning Shanghai into an international financial center and including the yuan in the IMF's special drawing rights basket.

China already possesses the necessary conditions for capital account liberalization and should push forward the reforms within the next five years. In fact, the macroeconomic and financial conditions in China

today are already much better than those in India and Russia when they opened up their capital accounts. Importantly, favorable conditions, such as healthy fiscal condition and external surplus, may disappear over time. The 12th Five-Year Plan (2011-15) provides a rare historic opportunity for China to accomplish this reform. The government should first establish market-based interest rates and exchange rates and then lift most restrictions on cross-border capital flows, although special schemes for portfolio investment could remain in place for a while.

## Ripe conditions

An open capital account promotes efficiency of capital allocation. But it could also bring about volatility. In some developing countries, capital account liberalization has sometimes been followed by a financial crisis. It is, therefore, important to emphasize the necessary conditions for liberalization and the proper order of reform.

During the past 30 years, China's macroeconomic and financial conditions have improved significantly, including macroeconomic stability, healthy fiscal positions, good financial asset quality, large current account surplus, gigantic foreign reserves and improved financial regulations. These conditions are probably much better than those of other developing countries when they liberalized their capital accounts.

First, macroeconomic conditions are quite stable. China has maintained an average 10-percent GDP growth during the past three decades. In the meantime, inflation rates were kept low, generally around 3 percent, with exceptions in 1988, 1994 and 2004. Unfortunately, this environment may not last forever. For instance, strong growth and low inflation during the past decades were at least in part contributed to by low factor costs, including labor cost. But these costs are already rising, which is likely to lead to slower growth but higher inflation pressure in coming years.

Second, the fiscal system is sound. China has experienced important fiscal reforms during the past 30 years. In the late 1970s, fiscal revenues accounted for more than 30 percent of GDP. This share dropped to around 11 percent in the early 1990s as a result of market-oriented reform and fiscal decentralization. After that, the government gradually raised the fiscal revenues, through improved tax collection, to 21 percent





**OFFSHORE MARKET:** Bank of China's New York branch (pictured) has allowed companies and individuals to buy and sell the yuan since January 2011

of GDP in 2010. Even if we include all the contingent liabilities, including nonperforming financial assets, deficits of the pension fund and local government liabilities, total debt burden is still only around 50 percent of GDP. The fiscal condition is very healthy. But this may also change over time. For instance, borrowing by local financing platforms and aggressive lending by the state-owned commercial banks could add significant potential liabilities, which could weaken the fiscal position.

Third, currently the banks have very low nonperforming loans but high capital adequacy. From the 1990s, the Chinese Government began to focus on the banking reforms, including reducing nonperforming loans, adopting modern risk control mechanisms, injecting state capital, introducing foreign strategic investors and listing the banks in domestic and foreign stock markets. Over the years, the banking sector's quality improved significantly. For instance, the average nonperforming loan ratio declined from 44 percent in 1999 to 2.4 percent in 2010. The banks are also adequately capitalized and highly liquid. Some of these features may change in the coming years, although the magnitude is likely to be limited. For instance, the massive lending during the global financial crisis and possible correction of housing prices might generate nonperforming loans.

Finally, the yuan is under pressure to appreciate. China is running a large current account surplus and the market expects the yuan to appreciate significantly in the coming years. Therefore, in the near term, we are not likely to see massive capital outflows even if all restrictions are removed. China holds more than \$3 trillion in foreign exchange reserves, which are likely sufficient to stabilize the financial markets even if uncertainties arise. Over time, however, current account surplus may narrow as China and

other countries work on global rebalancing. Pressures for currency appreciation may also disappear eventually.

All these factors suggest China already has the necessary conditions for capital account liberalization. Of course, not all the conditions are perfect. Some of them, such as regulation capability, have to be developed in the process of liberalization. An open capital account may enforce disciplines on domestic institutions and reduce future risks. It could also help discipline local governments' spending behavior.

### Proper order

So what are the main steps should China take to liberalize its capital account? U.S. economist Ronald I. McKinnon, the founder of modern financial theory, proposed the following order for developing countries in 1973: fiscal reform, financial and trade liberalization, exchange rate reform and capital account liberalization. China should probably follow the same order, although some steps could take place simultaneously.

China's overall fiscal position is strong, but there's certainly room for improvement. One is to shift the focus of budget expenditure from investment projects to public goods services. The government should also reduce its intervention in commercial banks' lending decisions in order to minimize future

Four factors suggest China already has the necessary conditions for capital account liberalization, which include stable macroeconomic conditions, a sound fiscal system, low nonperforming loans but high capital adequacy of banks, and the pressure to appreciate the yuan.

fiscal responsibilities. Another area is the state-owned sector. The government still intervenes in prices of essential input such as energy. It has to subsidize these state-owned enterprises for operating losses. Finally, it is important to discipline local governments' spending and limit their deficits. Local governments' borrowing has gotten out of control recently and could result in serious fiscal consequences in the coming years.

Further substantial reforms are still needed. These include reduction of state intervention in the operation of major financial institutions, implementation of deposit insurance scheme, entry of more non-state-owned institutions into the financial industry, introduction of market-based interest rates and improvement in central bank's monetary policymaking. Market-based interest rates are a critical condition for capital account liberalization and require the formation of a full government bond yield, further development of the inter-bank market and removal of the benchmark interest rates for commercial banks.

One most important task is to achieve conditional free floating of the exchange rate. China adopted the managed float for the yuan exchange rate in early 1994. After disruptions during the Asian and global financial crises, the government reintroduced the managed float regime in June 2010. The strategy of letting the yuan appreciate gradually caused some consequences, such as encouraged expectation of further appreciation, hot money inflow, large current account surplus, massive liquidity, high inflation pressures and rapid accumulation of foreign exchange reserves.

It is advisable the authorities implement a free floating exchange rate by quickly reducing the central bank's intervention in the foreign exchange market. Two-way fluctuation of the exchange rate, based on changing demand and supply relations, may be possible after a period of rapid currency appreciation. The government may wish to intervene in the market to avoid excessive volatility, possibly through a stabilization fund. But this kind of intervention should be two-directional.

Capital account liberalization can then take place alongside a floating exchange rate. Capital account convertibility does not necessarily mean that restrictions on capital flows will be completely done away with. Given China's current financial situation and regulatory capability, it is probably better for the country to aim first at basic convertibility. In particular, China should probably retain restrictions on certain types of volatile short-term capital flows, at least initially. This should help avoid excessive shocks to the financial system. It is also consistent with the IMF's recent decision to allow temporary use of restriction measures on cross-border short-term capital flows. ■

**TO THE POINT:** China orders another increase in interest rates as the country gears up to calm inflationary jitters. The purchasing managers index tumbles to a 28-month low, a reflection of weaknesses in the manufacturing industry. Chinese steelmakers reel from severe costs inflation. The government adds a new category of “micro-enterprises” in a move to help small businesses. The Swiss food giant Nestle launches a bid to acquire Chinese candy maker Hsu Fu Chi.

By HU YUE

## MARKET WATCH

### Growing Interest Rates

The People's Bank of China, the central bank, on July 6, announced a rise in interest rates for the third time this year in a bid to curb inflation and tame climbing property prices.

Effective on July 7, the one-year benchmark deposit rate rose to 3.5 percent from 3.25 percent, while the one-year benchmark lending rate grew by the same 25 basis points to 6.56 percent, said the central bank.

As inflation remains an acute concern for the economy, policymakers have taken steps to soak up market liquidity. The central bank has also raised the reserve requirement ratio six times so far this year.

The consumer price index (CPI), a main gauge of inflation, accelerated to 5.5 percent in May, the highest level in 34 months and well above the government's target ceiling of 4 percent.

“The move is expected since China's interest rates remain negative in real terms,” said Ba Shusong, Deputy Director of the Research Institute of Finance at the Development Research Center of the State Council. “It would also help fight inflation if China can further increase its currency flexibility.”

Lian Ping, chief economist with the Communications Bank of China, expected the CPI to peak in June before it tapers off in the latter half of the year.

“China's inflation battle is almost at an end,” said Frederic Neumann, an economist with the HSBC in Hong Kong. “Already, there are signs that price pressures are com-

ing off, and the latest rate increase may therefore have been the last in the cycle.”

### Manufacturing Falters

The purchasing managers index (PMI), a barometer of manufacturing activities, stood at a 28-month low of 50.9 percent in June, falling 1.1 percentage points from May, said the China Federation of Logistics and Purchasing (CFLP).

It was the third consecutive month of decline for the index, but it was still above the boom-and-bust line of 50 percent. A reading above 50 percent indicates economic expansion.

It shows that the broader economy remains on a steady track of growth, though an economic slowdown continues, said the CFLP.

The new orders sub-index, an effective gauge of domestic demand, stood at 50.8 percent in June, down from 52.1 percent in April. The input prices sub-index, a measure of how much factories pay for raw materials and other intermediary goods, slowed to 56.7 percent, compared with 60.3 percent in May.

“Inventory adjustment, the biggest factor draining steam out of the economy, is only temporary,” said Zhang Liquan, a researcher with the Development Research Center of the State Council, in the CFLP statement. “A deeper downturn is less likely given the three robust drivers of the economy—investment, consumption and exports.”

“Some policymakers might be more concerned about over-tightening and might

consider slightly adjusting their policy stance,” said Lu Ting, an economist with the Bank of America Merrill Lynch.

Tao Wang, chief China economist at the UBS, said the Chinese economy may rebound after July or August as companies stop destocking and domestic demand recovers.

### Steelmakers' Pains

China's steelmakers are struggling to make ends meet as acute costs inflation squeezes their profits.

The China Iron and Steel Association (CISA) said 80 large steelmakers across the country raked in combined profits of 42.8 billion yuan (\$6.6 billion) in the first five months of this year, falling 2 percent from the previous year. Their profit-to-sales ratio averaged 2.91 percent, down 0.67 percentage points from a year ago.

Surging iron ore prices have put Chinese steelmakers in a tight spot. China imported 280 million metric tons of iron ores from January to May, growing 8.1 percent from a year earlier. The average import prices stood at \$159.6 per ton, compared with \$108.1 per ton a year ago, according to data from the General Administration of Customs.

Meanwhile, because of lackluster domestic demand, three larger steel-makers have lowered their steel prices for July, including Baosteel, Ansteel and Wusteel.

“Downturn in the automobile and machinery industries has made a dent on



## Numbers of the Week

# 124.58 billion yuan

Sales revenues under the national program to subsidize rural purchases of home appliances totalled 124.58 billion yuan (\$19.28 billion) in the first half of 2011, surging 83.7 percent from the previous year, said the Ministry of Commerce.

# 141.5 billion yuan

Revenues of China's software industry grew 29.3 percent year on year to reach 141.5 billion yuan (\$21.9 billion) in May, said the Ministry of Industry and Information Technology.



**CLEAN AND SUN-POWERED:** Workers prepare solar photovoltaic power panels for operation in Xigaze, Tibet Autonomous Region. The first phase of the Xigaze Solar Photovoltaic Power Station, the largest in Tibet, came into use on July 5, and it has the capacity of generating 20.23 million kwh of electricity annually

demands for steel,” said Wang Zhaohua, an analyst with the Sinolink Securities Co. Ltd. “But massive construction of affordable housing will help cushion the blow.”

In response, the steelmakers are supposed to focus on costs control and tighten efforts to improve operation efficiency, said Luo Bingsheng, Deputy Director of the CISA.

## Shoring Up Micro-firms

China has subdivided small and medium-sized enterprises (SMEs) by adding a category of “micro-sized enterprises.”

According to a statement of four ministries including the National Development and Reform Commission and the Ministry of Industry and Information Technology, industrial companies with 20 employees or less or those with 3 million yuan (\$461,538) in annual income or less are included as micro-sized enterprises. In addition, the government also lowered the standard for SMEs.

The move is designed to better shore up the micro-businesses with more targeted favorable policies, said the statement. It is estimated that micro-enterprises account for nearly 40 percent of job creation in the country.

Zhu Hongren, chief engineer with the Ministry of Industry and Information Technology, said creating the new standard will make it easier for the government to roll out suitable support measures for micro-firms.

“Micro-enterprises” are not new to many foreign countries. The European Union, for example, defines micro-enterprises as those

that meet two of three criteria and have not failed to do so for at least 10 years—fewer than 20 employees, balance sheet total below \$800,000 and turnover below \$800,000.

In China, a string of incentives to stimulate the micro-businesses is already underway. South China's Guangxi Zhuang Autonomous Region plans to extend subsidies to micro-enterprises started by migrant workers and unemployed urban dwellers.

## Express Delivery Safety

An express delivery industry conference was held in Beijing on July 6. Nearly 100 researchers and industry insiders attended the meeting to discuss problems worrying the growing but fragmented industry, such as delayed deliveries and lack of compensation for missing packages.

Cui Zhongfu, Vice Chairman of China Federation of Logistics and Purchasing, said express delivery firms should make firm efforts to ensure safety of the packages and further improve their compensation systems.

Consumers should increase their awareness of risks and buy insurance for delivered packages, said Qiu Jianguo, Director of the Customer Complaint Department with China Consumer Association.

## A Win-Win Deal

The Swiss food giant Nestle is in acquisition talks to take over the Chinese candy

maker Hsu Fu Chi.

Hsu Fu Chi, based in Guangdong Province, leads the Chinese candy market with a market share of 6.6 percent in 2009. It has a market capitalization of 3.18 billion Singaporean dollars (\$2.59 billion) on the Singapore exchange. If the deal is finally realized, it will be the biggest takeover of a Chinese firm by a foreign company.

Hsu Fu Chi said it “has long been pursuing strategic talks with potential confectionery partners in the market. Interactive contacts have been conducted with counterparts from Japan, Europe and the United States for years including Nestle.”

“Buying Hsu Fu Chi would boost Nestle's product offerings and distribution networks in China, allowing it to accelerate forays into China's burgeoning confectionery market, especially those in smaller cities,” said Zhou Siran, a senior researcher with the Shenzhen-based industrial research institute CIconSulting.

Paul Bulcke, CEO of Nestle, said the company wanted revenues from emerging markets to comprise 45 percent of the total by 2020, up from the current 38 percent.

“Hsu Fu Chi could benefit from Nestle's deep pockets, technological expertise and management experience,” said Zhou. “The tie-up would also pave way for the Chinese company to expand overseas.”

But the deal still needs to receive regulatory approval from the Chinese Government. ■



## Dedicated Services Guarantee Owner Satisfaction

—Lexus launches Summer Refreshing vehicle maintenance program

Lexus' After-sales Services upgrade: From July 1 to August 31, Lexus introduces the Summer Refreshing vehicle maintenance program to owners across China. During the program, Lexus owners will be offered as many as four special services in summer: Free battery checks and discounted battery changes, exterior beauty package, interior cleaning package and navigation updates. Lexus' After-sales Services not only offer maintenance for Lexus vehicles, but also make customers' lives more hassle-free.

### Valuable Program, Superior Experience

From July 1 to August 31, Lexus owners can enjoy battery checks free of charge. If they need a battery changed, owners will receive a 20 percent or 30 percent discount depending on time-of-purchase.\* During the program, they are entitled to more cost-effective premium services, including the new exterior beauty and interior cleaning packages. The exterior beauty package includes coating on car body and glass, and cleaning iron powder away from the hub. The interior

cleaning package includes leather care, carpet cleaning, ceiling cleaning, among other services. All procedures are conducted by professional technicians who apply Lexus criteria strictly, offering high-quality services as well as reassurance to owners.

Furthermore, from July 1 to 31, all Lexus vehicles with original navigation systems will be entitled to navigation updates at a 50-percent discount. The maps have been strictly tested and verified against professional data, offering precision and stability, which guarantee safe trips.

### Attentive Care, Premium Services

Lexus' After-sales Services pay attention to every detail and care about consumer's subtle feelings, and try to make Lexus owners feel at home. Every customer who joins the vehicle maintenance program can enjoy careful and attentive after-sales services. At the VIP lounge neighboring the repair center, Lexus owners can relax with a quality beverage as they watch the entire maintenance procedure through French windows. The elegant VIP lounge features also a library, an audio-visual center, Internet, coffee

and refreshments to create an entertaining experience for owners.

Lexus regards after-sales service as a delicate art, and makes unwavering efforts to exceed customer expectations. So far, Lexus has created a number of people-oriented service programs for Chinese consumers, including four years/100,000 km (six years/150,000 km for hybrids) of free repairs and maintenance, Lexus branded insurance, 24-hour parts delivery, one-year/24-hour roadside assistance and the Lexus G-BOOK. The Summer Refreshing program, set to cover 66 authorized Lexus' dealerships across 50 cities, further supplements the brand's after-sales services.

Lexus cordially invites you to visit any authorized dealership to experience Lexus' services first-hand, including the new Summer Refreshing program. Enjoy a revitalizing summer with Lexus.

For more Lexus promotion plans, please visit Promotions.

**Note:** The service marked \* does not apply to LS600hL, RX450h, GS450h and SC430 Lexus models.

## Henan Lushan Fine Chemicals Co. Ltd.



Jia shuqian, Chairman of the board

Henan Lushan Fine Chemicals Co. Ltd. is mainly engaged in developing and producing high technology products, at present L-WCRNi quaternary alloy. Adopting advanced treatment technology, the company has greatly improved intensity and activity of its products. This has effectively reduced the unit consumption of the product. The quality of its product precedes that of the same kind of products of France and Japan.

In 2000, the product was rated as a national grade new prod-

uct by the Ministry of Science and Technology. In 2003, the product was also praised as a national reliable product. Last year it was authorized as an Asian famous brand.

For scientific achievement and contribution, Jia Shuqian, President of the company, was named as one of the top 10 contributors to technology innovation in Henan Province in 2007 and one of the top 100 entrepreneurs nationwide in 2008.



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# Natural Pearl Shines Worldwide

West Lake inscribed on UNESCO's World Heritage List as cultural landscape

By YU LINTAO

**T**he famous ancient Chinese poet Bai Juyi of the Tang Dynasty (618-907) could not imagine a thousand years later the West Lake that fascinated him would also win the hearts of people worldwide.

At local time 5:55 p.m. June 24 in Paris, the World Heritage Committee officially admitted the West Lake Cultural Landscape of Hangzhou to UNESCO's World Heritage List.

At the following press conference, Wang Guoping, team leader of the application program and Chairman of the Standing Committee of the People's Congress of Hangzhou City, said, "The application work started in 1999, and the whole process lasted more than a decade. We can say it is 10 years

of sharpening a sword." West Lake is the only lake named as a world heritage in China and one of the few lakes on the list in the whole world.

Located in the western part of the city proper, West Lake is both a natural lake and a cultural landscape. It is said it came from a shallow bay where the Qiantang River ran into the sea in ancient times. The total landscape of the West Lake covers 60 square km while the lake surface is 6.5 square km. Average water depth is 2.27 meters. Divided by causeways Baiti, Suti and Yanggong, as well as the Gushan Hill, the lake is partitioned into five—Outer West Lake, West Inner Lake, North Inner Lake, Little South Lake and Yuehu Lake. The Suti and Baiti

causeways run across the Outer West Lake, the largest. Gushan Hill is the largest natural island in the lake while the other three small man-made isles Xiaoyingzhou, Huxinting and Ruangongdun are scattered in its center. West Lake in total comprises a hill, two causeways, three islands and five lakes.

There is a saying that the beauty of Hangzhou is in West Lake, centered on which are more than 60 cultural sites at state, provincial and municipal levels and more than 100 attractions.

The most classic natural beauty of the West Lake is in the 10 best-known scenic spots that were mostly formed in the Song Dynasty (960-1279).

The 10 views represent the natural beauty



## The morning scenery of Baiti Causeway

CFP

Scurrying Over Jade Emperor Hill, Heavenly Wind Over Wushan Hill, Dreaming of Tiger Spring at Hupao Valley and Nine Greeks Meandering Through a Misty Forest.

The natural beauty of the lake has inspired famous poets, scholars and artists since the 9th century. Many poems are themed on the lake, and aspects of the lake are also related to some poets, such as Baiti Causeway and Suti Causeway. An exaggerating saying goes if there had not been poet Bai Juyi (772-846) of the Tang Dynasty and another famous poet Su Dongpo (1037-1101) of the Song Dynasty, West Lake may possibly have been merely a lake like thousands of lakes of the same kind but not a scenic spot embodying such great cultural significance. Though the two causeways, built separately under the charge of the two poets, have been restored time and again, they have passed down their ancient beauty dating back to the Tang and Song dynasties. They embody the historic Chinese philosophy that man is an integral part of nature.

West Lake has fully demonstrated oriental landscaping design ideas of poetic charm since the Song Dynasty. In 1982, West Lake was named as a national key scenic resort, and in 1985 it was elected one of China's top 10 national scenic spots.

The UNESCO Committee said the West Lake is an outstanding model of cultural landscape. Through ingenious setting of causeways, isles, pagodas and pavilion bridges, the big lake has formed a large park. It has influenced garden design in other parts of China as well as in East Asia over the centuries, and bears exceptional testimony to a cultural tradition of improving landscape to create a series of vistas reflecting idealized fusion between humans and nature.

The admission of West Lake to the UNESCO list has further enriched the value and types of China's world heritage, said Tong Mingkang, Deputy Director of the State Administration of Cultural Heritage. The distinguishing oriental features of West Lake and the cultural charm and aesthetic value it possesses have also added more oriental charm to the treasure house of world heritage. "That is also why West Lake received the unanimous approval of all 21 UNESCO Committee member states," Tong said.

"The title is an honor, but is also an obligation," Tong added. Protection work is now more important and more urgent.

The protection work of the site had already been underway before the application for admission to the list. Chen Tongbin, a member of the application program team, said more than 500,000 square meters of illegal building around the lake have been removed in recent years, 7,000 citizens have been relocated and more than 1,800 natural scenes have been restored. In 2007, a

## 10 Best-Known Scenic Spots of West Lake

- Three Pools Mirroring the Moon
- Spring Dawn at Suti Causeway
- Autumn Moon Over the Clam Lake
- Remnants of Snow at Broken Bridge
- Leifeng Pagoda in Evening Glow
- Twin Peaks Piercing the Cloud
- Orioles Singing in the Willows
- Viewing Fish at Flower Harbor
- Breeze-Ruffled Lotus at Quyuan Garden
- Evening Bell Ringing at Nanping Hill



of the lake during all four seasons and from sunrise to sunset. For example, Remnants of Snow at Broken Bridge features the beautiful scene at the lake during snow. When the sun comes out after snowfall, the snow on the sunny side of the bridge melts first, while the snow on the shady side lingers. Seen from a distance, the bridge appears to be broken. It is a favorite stopover. The famous Chinese folk story *The Tale of White Snake* also brings the broken bridge scene into the romantic imagination.

The charming scene Viewing Fish at Flower Harbor, dating back to the Song Dynasty, is located at the foot of Huajia Hill on the west bank of the lake where a big fish pond holds a few thousand red carp. Bending over the rails of the bridge and watching as the fish noisily scramble for food thrown to them is an unimaginable experience. The bank of the pond is planted with a rich variety of trees and flowers, enabling a fantastic reflection in the water.

In 1985, people nationwide voted for a further 10 new views at the lake, such as Inquiring About Tea at Dragon Well, Clouds



CFP

Leifeng Pagoda

67-meter-high building near the lake was demolished because it affected the landscape.

"Protecting the West Lake is an eternal theme and today marks a starting point for Hangzhou to continue the work," said Wang. He believes successful inscription on the list is not the end of the project, but rather the start of efforts for the well-being of later generations.

The West Lake is an organic body that has been living for 2,000 years. "We want to let it live for another 2,000 years," Wang said. Despite its World Heritage status, the lake, including all its scenic spots, would continue to be free to the public.

The UNESCO World Heritage Committee has suggested the city administration make sure any construction does not extend to hills around the lake as seen from the two causeways and pay attention to growing wear and tear on the site because of the inevitable growth in the number of tourists following the lake's inclusion on the list. ■

# Mamma Mia! Hits Chinese Stages

The Chinese version of Broadway's musical sensation set to run for six months



**EXCELLENT SINGERS:** Major actresses of the Chinese version of *Mamma Mia!* perform at a press conference in Beijing in June

By ZHOU XIAOYAN

The Chinese version of *Mamma Mia!*, one of the most popular musicals in the world, has come to China, to demonstrate the charm of the musical to Chinese citizens in three major cities in 2011.

The musical will be staged in Shanghai from July 8 to August 5, Beijing from August 12 to October 20 and Guangzhou from October 28 to November 24, bringing the joy of the musical to China with more than 200 performances.

The Chinese version will be staged in Hong Kong, Macao and Taiwan as well as Singapore in the next three to five years after its six-month tour in mainland cities of China.

## Popular musical

*Mamma Mia!*, the smash hit musical based on the songs of the band ABBA, is a musical that holds the record for the most performances in the world, with a total box office of more than \$1.6 billion. It has been performed in 24 cities around the globe in 13 languages and attracted audiences of

more than 42 million.

After the tragedy on September 11, 2001, the musical industry was deeply affected and in great depression, and no musical lasted for more than a week. Then *Mamma Mia!* stepped on stage, with its catchy songs, humorous style and positive attitude toward life, and immediately caused a sensation.

The story takes place on a romantic Greek island. One day, a young girl named Sophie is about to get married. She lived with her mother Donna and never knew who her father was. In order to find him and realize the dream of being walked down the aisle by her own father, she sent letters to three of her mother's former boyfriends. Those three men all accepted the invitation and came to the wedding. In the next 24 hours, great changes take place in Sophie's life and family. The whole musical is full of the 22 classic songs of the band ABBA, delivering joy and a positive attitude about life to every audience.

*Mamma Mia!* tells a story of love between mother and daughter, romantic love

and people's lives and careers. There is humorous dialogue as well as a moving plot that may bring audience to tears, coupled with superb production values. It's suitable for all the family to enjoy.

## Special features

On June 2, 2010, China Arts and Entertainment Group signed a contract with the producer and copyright owner of *Mamma Mia!* and after a year's careful preparation, the musical is now on show at the Shanghai Grand Theater, the first leg of its six months Chinese mainland performance tour.

The Chinese version successfully retains the original flavor of the classic musical with international highest-level stage equipment and the best local actors. Also, many Chinese factors have been added to make the show a more pleasurable experience for local audiences.

"Technologically speaking, *Mamma Mia!* has been far more difficult than any other musicals of similar scale in China," said Liao Weihang, technical director of the Chinese version. "Although it only has two acts, there are 25 scene changes. On average, the scene changes every five to eight minutes. The hotel on the Greek island, which weighs 200 kg, will be dragged on to and off stage 10 times."

In order to retain the original flavor of the classic musical, the technical team executes each detail to international standard.

Essential stage equipment has been imported from Australia; the stage curtain specially ordered from Britain; the costumes of actors are produced in France; the light and audio equipment is provided by South Korea. Chinese audiences are in for a Broadway-level visual and auditory experience.

"The stage cost more than 10 million yuan (\$1.5 million) to build, and it took 100 technicians from China, Britain and South Korea a week to complete," said Liao.

"From what I saw in the rehearsal, the stage design and costumes of the actors are almost the same as the original version that I saw in New York. The atmosphere is very close to that as well," said Dai Zhongwei, who has participated in creating many original musicals.

No matter what country it is per-



formed in and in what language, *Mamma Mia!* always uses the best local stage musical actors. The Chinese version is not an exception.

The main characters of the musical were carefully selected after half-a-year's consideration.

The heroine Donna, which is the most important role, is played by Tian Shui, an actress from the Shanghai Drama Art Center. She is the laureate of the White Magnolia Award for her outstanding performance, and the Cao Yu Drama Award. Years of accumulated acting experience made her the most suitable candidate for Donna. Her audition for the part won her the selective director's praise.

More than 1,000 young women competed for the part of Sophie. In the end, Zhang Fangyu, a girl from Taiwan, won the part as all members of the direction team thought she had a clear and bright voice and sweet appearance, quite in accordance with the role.

"Before watching it, I highly doubted this version. But after watching the first half of the show, I'm totally impressed by their performance," said Ye Zi, a student of Shanghai Conservatory of Music majoring in music, after watching one of nine preview shows in Shanghai.

The Chinese element is another highlight of the musical. For instance, on the night before the wedding, eight friends of Sophie's fiancé come to make fun of the couple. They have to attract her attention as much as possible.

"This scene has 14 different versions around the world," said Leah Sue Morland, dance director of the musical. "No matter in what country, we will ask actors to perform the most characteristic local dances, such as flamenco in Spain."

"In China, there will be traditional *yangge* and ethnic dances such as in Xinjiang Uygur Autonomous Region, Tibet Autonomous Region and Inner Mongolia Autonomous Region. Also, they add voices as Bruce Lee in scenes to add more humor to the musical," said Morland.

In Shanghai, some lines were spoken in local dialect, bringing immediate applause and laughter from audiences. ■



**SWEET DAUGHTER:** Zhang Fangyu, the actress in the role of Sophie, meets the media in Beijing in June



**FIRST SHOW:** The English-language version of *Mamma Mia!* being rehearsed for its debut in China on July 5, 2007

# A Magnet for Foreign Students

By **RAJIV KUMAR JHA**

In the last couple of years, China has moved to a different level in attracting foreign students, becoming one of the top six nations to host international students. New data show there are as many international students in China as there are in Australia or in Germany.

Studying in China is a unique experience no other country can create.

There are countless reasons to study in the country, and the affordable cost makes it possible for almost anyone.

China is a very safe country. Even urban areas are relatively crime-free compared to many American and European cities. China is distinct from its neighbors. Other Asian countries like Japan and South Korea do share some similarities with China, but their differences are much bigger.

The cost of living in China is much lower than in the United States, Canada, Australia and many parts of Europe. Food products and consumer goods are the least expensive items in China. Transportation can also be very cheap. Taxis are considered expensive by local standards, but even in big cities a trip across town is a fraction of what it would be anywhere in Europe or North America. Tuition fees in China are substantially lower as well. Private institutions are somewhat more expensive.

Prices for all things, especially housing, are much lower in smaller cities than in the large cities like Beijing and Shanghai. Foreign food and imported products are also quite expensive compared to local varieties. Overall though, the cost of living in China is much lower than in other popular overseas study destinations.

The modern world is globalized and interaction between people of different cultures is essential. Those who have gone abroad and learned how to interact with other cultures will have a distinct advantage over those who stay at home or choose to go to places more similar to their home country.

Living and studying in China brings you into contact with a unique culture that is vastly different from almost every other

country in the world. Even if you don't walk away an expert on Chinese culture, the ability to work, study and make friendships with those different from you is a valuable skill in today's world and can benefit any career.

Studying in China is an excellent opportunity to explore the world's most populous country, experiencing China's unique blend of ancient and modern civilization, as well as its scenic beauty and bustling nightlife. Visit new places with other students from around the world that you'll meet, and you'll find yourself opening your eyes not just to China, but to the whole world.

Following rapid economic development over the last 30 years, Chinese cities now boast eye-catching works of modern architecture—from the towering skyscrapers of Shanghai to Beijing's Olympic stadium Bird's Nest—in addition to impressive ancient structures like the Great Wall, the Forbidden City and the Terracotta Warriors and Horses. China's 5,000 years of history have bequeathed a seemingly endless amount of tourist attractions to visit, while natural wonders of breathtaking beauty are also scattered about the country.

China is striving to build more world-class universities, and investing heavily in higher education. Aside from China's unique Chinese language, calligraphy, martial arts and other cultural subjects, Chinese degree programs in majors such as engineering, sci-

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ence, medicine, economics and trade, MBA as well as finance are highly revered. And for those who don't know any Chinese, many universities offer degree programs taught in English, so you can earn your degree while learning the most widely spoken language in the world.

The academic qualifications awarded by Chinese universities are recognized by most developed countries. The Chinese Government has signed an agreement on mutual recognition of academic qualifications with a number of countries including the United States, Britain, France, Japan and 65 other countries.

Skills, knowledge and experience accumulated as a student in China will transfer into a career later in life, whether one chooses to work in China, at home or elsewhere. No matter whether one chooses to study advanced Chinese, business management or martial arts, studying in China creates advantages for any job search or career path. ■



**ART CLASS:** Foreign students at the Zhejiang University of Technology learn about traditional Chinese watercolor painting

The author is a Nepalese living in China





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