

PROMOTING ORGAN DONATIONS P.22 | GOING ORGANIC FOR FOOD SAFETY P.26

BEIJING REVIEW

VOL.55 NO.16 APRIL 19, 2012

北京周报 WWW.BJREVIEW.COM



SHIFTING SPEED

Q1 economic growth slows but remains steady

RMB6.00
USD1.70
AUD3.00
GBP1.20
CAD2.60
CHF2.60
JPY188

ISSN 1000-9140



9 771000 914123

邮发代号2-922 · 国内统一刊号: CN11-1576/G2

CHINA AFRICA

中國非洲
A news monthly covering China & Africa



An Africa-oriented English monthly covering China and Africa published by BEIJING REVIEW, ChinAfrica is the only one in China featuring news, views and analysis for an African audience.

12 issues a year at a subscription rate of 180 yuan

Subscription hotlines: (8610) 6831 0644, 6899 6223, 6899 5808

Postal Distribution Code: 2-916

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BEIJING REVIEW

A News Weekly Magazine
Published Since 1958

iPad APP

http://www.bjreview.com

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Published every Thursday by

BEIJING REVIEW, 24 Baiwanzhuang Lu,

Beijing 100037, China.

Overseas Distributor: China International Book Trading

Corporation (Guoji Shudian), P. O. BOX 399,

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E-mail: fp@mail.cibtc.com.cn

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General Distributor for Hong Kong, Macao and Taiwan:

Peace Book Co. Ltd.

17/FI, Paramount Bldg, 12 Ka Yip St, Chai Wan, HK

Tel: 852-28046687 Fax: 852-28046409

Beijing Review (USPS 2812) is published weekly in the United States

for US\$64.00 per year by Cypress Books,

360 Swift Avenue, Suite 48, South San Francisco, CA 94080

News Postage Paid at South San Francisco, CA 94080

POSTMASTER: Send address changes to *Beijing Review*,

Cypress Books, 360 Swift Avenue, Suite 48,

South San Francisco, CA 94080

Development Under Control

Before the outbreak of the 2008 global financial crisis, the Chinese Government had already begun to practice macro-control on the economy in the hope of transforming China's economic mode. The government wanted to avoid high pollution and energy consumption and stimulate domestic demand. These adjustment measures are now taking effect. In the first quarter of 2012, China's economic growth rate was stable while inflation dropped on the whole.

This momentum further proves that the Chinese economy is coming for a "soft landing," not the "hard landing" some had predicted. This is good news to the world economy. When the Chinese economy takes a healthier way of development, it will contribute more to the world economy.

Chinese entrepreneurs appear to be more optimistic about China's upward economy. According to the Chinese SME Confidence Index issued by Standard Chartered Bank on April 9, in the first quarter of 2012, SME Confidence Index is 57.63 percent, up by 3.06 percentage points over the previous quarter. China's official purchasing managers' index for March is 53.1 percent, up by 2.6 percentage points over the beginning of this year. The new order index for March is 55.1 percent, a jump of 4.1 percentage points over the previous month.

It's good to see China developing with a high economic growth rate, a successful transition in accordance with the Central Government's macro-control plan. Meanwhile, relevant departments should always keep alert to various problems in economic development, particularly new situations erupting under macro-control, to avoid deviation of the control policies.

The macroeconomic statistics released in March revealed that the country's macroeconomic control is faced with huge pressures. On one hand, the Producer Price Index (PPI) dropped for the first time in 28 months; on the other hand, the Consumer Price Index (CPI) rose by 3.6 percent over the same period of time. The gap between PPI and CPI is expanding.

This is an abnormal phenomenon. The drop in PPI shows insufficient demand from real economy, which makes it difficult for businesses to transfer the pressure of rising upstream costs. The unexpectedly high CPI increase tells that the shadow of inflation is retreating reluctantly.

This reminds us China should not be too optimistic in maintaining stable economic growth and curbing inflation. When demand-pull inflation, currency-related inflation and imported inflation are retreating, cost-push inflation is approaching. The Central Government may have already been aware of this and set out to address it. ■

WRITE TO US

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Please provide your name and address along with your submissions. Submissions may be edited.

北京周报 英文版 2012年 第16期 ISSN 1000-9140 广告许可证 0171号
北京市期刊登记证第733号 邮发代号2-922 国内统一刊号: CN11-1576/G2 国内零售价: 人民币6.00元

CHINA...RMB6.00 U.S.A....USD1.70 AUSTRALIA....AUD3.00 UK....GBP1.20 CANADA....CAD2.60 SWITZERLAND....CHF2.60
JAPAN....JPY188 EUROPE....EURO1.90 TURKEY....YTL5.00 HK....HKD9.30 NEPAL....RS40



Unexpected Snow

Flakes of snow whirl in the sky in Harbin, northeast China's Heilongjiang Province, on April 12. Many cities in the province experienced unusually cold weather this spring.

Heavy snow in April is rarely seen in Heilongjiang, the northern tip of China. The heavy snow affected local transport and people's outdoor activities.

“China hopes the next president will further enhance developing countries’ rights to speak and represent themselves at the World Bank, and, therefore, make contributions to global poverty reduction and development.”

Chinese Foreign Ministry spokesman Liu Weimin, commenting on the election process for the next World Bank president, at a regular press briefing in Beijing on April 11

“My team and I will be people-oriented, introducing policies and measures to meet people’s need. We will continue to go and visit the general public, listening to people’s concerns, enhancing the level of policy studies, and strengthening investigations on social and economic issues.”

Leung Chun-ying, newly elected Chief Executive of the Hong Kong Special Administrative Region, telling Xinhua News Agency in Hong Kong in an exclusive interview published on April 11

“Iran’s representatives will participate in the negotiations with new initiatives and we hope that the G5+1 countries will also enter talks with constructive approaches. We are ready to hold progressive and successful talks on cooperation.”

Iran’s chief nuclear negotiator Saeed Jalili, in an interview with the local satellite Press TV on April 11

“This means that our economy has fully overcome the consequences of the recession registered in 2008, 2009 and even 2010.”

Russian Prime Minister and President-elect Vladimir Putin, commenting on Russia’s 4.8 year-on-year GDP growth in February 2012, in his annual address to the lower house of parliament in Moscow on April 11

Bo Under Probe

Bo Xilai, former Party chief of southwest China's Chongqing Municipality, has been suspended from membership of the Political Bureau of the Central Committee of the Communist Party of China (CPC) and the CPC Central Committee, the CPC Central Committee said in a statement on April 10.

Bo is suspected of being involved in serious discipline violations, according to the statement.

The statement said that the suspension is in line with the CPC Constitution and the rules on investigation of CPC discipline and the Central Commission for Discipline Inspection of the CPC will file the case for investigation.

Xinhua News Agency said in a separate report that Chinese police have set up a team to reinvestigate the death of British citizen Neil Heywood who was found dead in

Chongqing on November 15, 2011.

The existing evidence indicates that Heywood died of homicide. Bogu Kailai, Bo's wife, and Zhang Xiaojun, an orderly at Bo's home, are suspects and have now been transferred to judicial authorities on suspicion of having committed intentional homicide, said Xinhua.

Population Targets

China has pledged to maintain the country's low birth rate so as to limit its population to 1.39 billion by 2015.

"From 2011 to 2015, the country's working-age population will peak, while the aging population will grow at an unprecedented rate. And the urban population will remain greater than that in rural areas," said a guideline on the country's population development in 2011-15.

According to the document, issued on

April 10 by the State Council, China's cabinet, the overall population growth rate will be kept below 0.72 percent per annum.

School Bus Regulation

China's long-awaited regulations on school bus safety finally came into force on April 10, including an extensive list of measures aimed at reducing the risk of tragedy.

Local governments above the county level should organize licensed bus companies to provide commuting services to students and supervise their operations, the regulation says, adding that security staff should accompany students in school buses.

Should major school bus accidents occur as a result of government dereliction, responsible officials will be held accountable, the regulation provides.

The regulation also specifies stricter requirements for the technical conditions of school buses, bus drivers' qualifications, the responsibilities of security staff and penalties for those who violate the regulation.

Homeowners Protection

The Supreme People's Court (SPC) has issued a judicial interpretation ensuring that homeowners' legitimate rights will be protected in government-led land expropriation and housing demolition practices.



LIN HONGYUAN

WOW A visitor looks at a painting at the China International Gallery Exposition 2012, which kicked off in Beijing on April 11

Master Artist

Luo Pengpeng, a renowned seal cutting artist in China, holds an exhibition in the Royal College of Art in London, from April 14 to 22, expanding the influence of the art worldwide.

Making her first seal at the age of 7, Luo is one of the few outstanding female seal cutting artists in China. Luo's carving career began when she was chosen to become a seal cutter for Rong Bao Zhai, a prestigious traditional art gallery with a history of 300 years, in 1980.

In the past 32 years, Luo has created more than 10,000 seal cutting works, most of which have been exhibited in various seal cutting exhibitions in China and other countries. Her seals feature a combination of traditional style and contemporary living.

Besides artistic creations, Luo has devoted the majority of her time and energy to teaching and promoting the seal cutting art. In 2006, she founded the Academy of Seal Cutting Art of China, the first high-level seal cutting art research institute in China. In 2007, the academy enrolled its first student as a seal cutting major for a master's degree, also the first postgraduate studying the art form in China. Luo also gives lectures on seal cutting in universities and on TV, and has published several books on the art.



WANG JIULIN

PRETTY SPRING Visitors take pictures of cherry blossoms in a park in Qingzhou City, east China's Shandong Province, on April 9



MEMORIAL CEREMONY A worshipper touches a horse believed to have special spiritual power to bring good luck during the memorial rites honoring Genghis Khan, the 13th-century Mongolian warrior, at the Mausoleum of Genghis Khan in Ejin Horo Banner, north China's Inner Mongolia Autonomous Region, on April 11

Local courts can reject government housing demolition requests if the compensation for homeowners is deemed unfair, according to the new legal interpretation posted at the SPC website, and effective from April 10.

The rule specifies circumstances under which courts should reject government requests for forced relocation, including where the proposed compensation “violates the principle of fairness” and where land expropriation “obviously lacks factual or legal basis” or has “severely violated the procedures provided by law.”

The rule supplements the existing regulation on housing expropriation, which was promulgated by the State Council in January last year and forbids local governments from executing their administrative rights to demolish housing without residents’ consent, unless approved by a court.

Aerospace Medical Lab

China has established its first key national lab for fundamental and applied studies of aerospace medicine. The lab is set to provide significant research support for astronauts’ health during space missions, according to the Ministry of Science and Technology.

Construction of the lab began in September 2009.

Built in the China Astronaut Center of Beijing Aerospace City, the lab is the country’s first facility dedicated to aerospace medical research.

Joint University

New York University Shanghai (NYU Shanghai), the first university jointly operated by China and the United States, will enroll its first undergraduates in 2013, said the preparatory council of NYU Shanghai on April 5.

The assessment of student applications will be based on both their performance in China’s national college entrance examination

and an NYU-style student screening process, the council said.

Of the first 300 undergraduates, it is expected that 51 percent will come from the Chinese mainland, and 49 percent will be international students.

NYU Shanghai is an independent entity authorized to grant degrees. NYU and Shanghai-based East China Normal University will operate the institution. Its campus, located in the Lujiazui Financial and Trade Zone in Shanghai’s Pudong New Area, is under construction.

Health Benefit

Southwest China’s Tibet Autonomous Region will offer free surgery for more than 6,000 children with congenital heart diseases this year, according to a medical aid program launched in Lhasa on April 6.

The aid program is aimed at treating patients aged from 0 to 18, said Phubu Drolma, Director of Tibet Regional Health Department, at the program’s launching ceremony.

The plateau region, with an average altitude of over 4,000 meters, has a much higher reported incidence of congenital heart disease than other parts of China.

“The incidence rate is 1.11 percent among newborn babies in Tibet, compared with 0.8 percent elsewhere in China,” said Phubu Drolma.

With financial and technical assistance from China’s interior regions, free heart surgery has cured more than 2,900 Tibetan children of the disease since 2008. Another 6,235 children are still awaiting surgery, he said.

WELCOME BACK China’s research vessel *Xuelong* at port in east China’s Shanghai on April 7, after returning from China’s 28th antarctic expedition



Economic Forecasts

The World Bank's latest *China Quarterly Update* released on April 12 predicts that China's GDP growth will stand at 8.2 percent in 2012 and 8.6 percent in 2013.

"China's gradual slowdown is expected to continue to 2012, as consumption growth slows, investment growth decelerates more pronouncedly and external demand remains weak," said Ardo Hansson, World Bank's lead economist for China. "The risks of overheating are moderating, increasing the prospects to achieve a soft landing," he said.

The report notes that key risks confronting China include the weak and uncertain growth prospects of high-income economies and the evolution of the ongoing correction in China's property markets.

The update points out China's long-term outlook will depend on structural adjustment.

As the traditional drivers of growth weakened over time, sustaining strong per-capita income growth requires productivity improvement and redefining China's competitive advantage from low cost to higher-value products based on technological innovation.

Looking forward, China will focus on the quality of development rather than just the speed, said the report.

Auto Gloom

China's auto sales totaled 4.79 million units in the first three months of 2012, down 3.4 percent year on year, according to data from the China Association of Automobile Manufacturers (CAAM).

Auto output in the first quarter hit 4.78 million units, down 1.83 percent from last year.

The once-booming auto market is losing momentum as domestic demands weaken, and the government rolls back some policy incentives. Meanwhile, retail fuel prices are increasing, pouring cold water on buyers' enthusiasm.

The CAAM expected sales to grow 8



BRIDGING HANGZHOU Engineers work on the project of Subway Line 1 in Hangzhou, capital of east China's Zhejiang Province, which is scheduled to begin trial operation in June 2012

percent this year. "It's too early to revise the estimate, and the market is still likely to see modest growth in 2012," said Dong Yang, Secretary General of the CAAM.

Going Public

The online news portal of government-backed *People's Daily* plans to raise 527 million yuan (\$83.7 million) in its initial public offering (IPO) in Shanghai.

People.com.cn will sell 69.1 million shares, of which 19.97 percent will be reserved for offline subscription for institutional investors, according to its filing to the Shanghai Stock Exchange.

The proceeds will be used to upgrade

technology, deliver news on mobile platforms and strengthen its editorial team.

People's Daily is people.com.cn's controlling shareholder, with a 79.54-percent stake. Its other stakeholders include other state-owned giants like China Mobile, China Unicom, China Telecom and Sinopec.

M&A Falls

Chinese companies were involved in a total of 204 merger and acquisition (M&A) cases in the first quarter of 2012, down 22.4 percent from a year ago, said the Beijing-based research firm Zero2IPO, in a recent report.

Of this total, there were 165 domestic M&A cases, 28 cases of Chinese enterprises

Numbers

453.25 million

China's railways transported around 453.25 million passengers during the first quarter of the year, up 0.7 percent from a year earlier, according to data from the Ministry of Railways.

7 million

China UnionPay, the country's sole bank card transaction firm, said it has established payment networks at more than 7 million overseas merchants.

buying overseas businesses and 11 cases of foreign companies taking over Chinese ones.

The transaction value of the 28 overseas M&As by Chinese companies totaled \$11.6 billion in the first quarter, up 78 percent from the same period last year, Zero2IPO data showed.

Most of the completed M&As are in the sectors of energy and mining, industrial raw materials and processing as well as construction and engineering.

“The Chinese economy has achieved stable growth, which encouraged the need of Chinese companies for overseas energy,” said the report.

Exploring China

Samsung Electronics Co., Asia’s largest consumer electronics maker, announced on April 10 that it will build a memory chip factory valued at \$7 billion in Xi’an, capital of northwest China’s Shaanxi Province. This would

be its largest ever overseas investment.

The move signals Samsung’s expansion in the Chinese market, and the project is the largest foreign investment by value in west China.

The factory is expected to become operational at the end of 2013, with a monthly output of 100,000 units of chips. It will also be the company’s second largest memory chip production base worldwide.

China is now Samsung’s largest overseas market. So far, the South Korean electronics maker has 23 companies in China.

Disney Deal

The Walt Disney Co. recently inked an agreement with the China Animation Group and Tencent Holdings Ltd. to jointly build an animation creative research and development platform in the country.

“The initiative is focused on nurturing local talent and recognizes the importance of

developing original local animation content,” said Andy Bird, Chairman of Walt Disney International.

“Disney’s involvement builds on our expertise and long-term commitment to nurturing the local original animation industry,” he added.

Tencent will provide online marketing support. “Tencent’s massive user coverage in China could be a great platform for Disney to promote its brand and animated characters in the country,” said Zhao Xufeng, an analyst at iResearch Consulting Group based in Shanghai.

Charitable Entrepreneur

Xu Jiayin, Board Chairman of Evergrande Real Estate Group, ranked first on the 2012 China Charity List in the Chinese version of *Forbes* magazine. Xu donated 387.9 million yuan (\$61.56 million) in 2011.

In May 2011, Xu donated 245 million yuan (\$38.88 million) to mountainous areas in the northern part of Guangzhou, Guangdong Province. In June 2011, Xu donated 18 million yuan (\$2.86 million) to improve people’s livelihood in the city of Qingyuan in Guangdong Province.

Xu, 54, founded Evergrande in 1997 and turned it into China’s leading property developer. In 2011, it sold a total of 12.2 million square meters of homes nationwide, the highest in China and a 54.7 percent year-on-year increase. The total sales revenue of Evergrande stood at 80.3 billion yuan (\$12.74 billion).



GOING ELECTRIC The first electric taxi recharge station of Yinchuan, capital of northwest China’s Ningxia Hui Autonomous Region, comes into operation on April 10

12,429

Chinese carmaker Chery Automobile Co. Ltd. said its overseas shipments rose slightly by 5.2 percent year on year to 12,429 units last month.

14.87 billion yuan

Poly Real Estate Group, China’s second largest property developer by market value, said its home sales rose 6.07 percent year on year to reach 14.87 billion yuan (\$2.36 billion) in the first quarter of 2012.



TURKEY

UN and Arab League envoy and former UN Secretary General Kofi Annan (center) is welcomed by Syrian refugee children upon his arrival at the Yayladagi refugee camp on the Turkish-Syrian border on April 10



AP/WIDEWORLD

Joyce Banda is sworn in on April 7 in the capital Lilongwe as Malawi's new president, becoming the country's first female leader

MALAWI





XINHUA/AFIP



XINHUA/AFIP

An artifact on display in Lima on April 10. The United States has recently handed 208 Peruvian pottery and textile artifacts in its possession back to Peru

PERU



XINHUA/AFIP

A man breaks the world's biggest Easter egg in San Carlos de Bariloche, a town in the foothills of the Andes, on April 8. The 8.5-meter-high egg was certified by the *Guinness World Records* as the world's largest

ARGENTINA



XINHUA/AFIP

Banda Aceh residents seek higher ground after a powerful earthquake hit the western coast of the Sumatra Island on April 11. The earthquake prompted an Indian Ocean-wide tsunami alert

INDONESIA



ZHANG/CFP

The Unha-3 rocket set to launch the *Kwangmyong-song-3* satellite is prepared on a launch pad in Cholsan County, North Phyongan Province, on April 8. The earth observation satellite was launched five days later but failed to enter orbit

NORTH KOREA



COVER STORY

SOLID FOUNDATION

China's first-quarter economy continues to grow but challenges lie ahead By Hu Yue

The Chinese economy remains on solid footing, though a string of economic indicators have brought back talks of a downturn.

Its GDP grew 8.1 percent year on year to reach 10.8 trillion yuan (\$1.71 trillion) in the first quarter of 2012, slowing from 8.9 percent of the fourth quarter of

2011 and 9.2 percent of the whole year of 2011, said the National Bureau of Statistics (NBS).

"China has left the worst of liquidity shortages behind it, and there is a time lag before the pro-growth policies gain traction," said Ba Shusong, Deputy Director of the Research Institute of Finance at the

Development Research Center of the State Council.

"The economy is likely to bottom in the second quarter before rebounding in the fourth quarter this year," said Ba.

"Renewed concerns of an economic hard landing in China are unjustified, as the country's service sector remains quite resilient," said Lu



BUILDING SPREE: A low-rent housing project in Jinjiang, southeast China's Fujian Province. China is accelerating the pace of affordable housing construction. Those investments are expected to help shore up the slowing economic growth



PHOTO: SHENZHEN

Ting, an economist with the Bank of America Merrill Lynch. “The faltering manufacturing industry is part of the whole economy and susceptible to changes.”

The manufacturing sector accounted for 47.6 percent of the first-quarter GDP, while agriculture and services accounted for 6.4 and 46 percent, respectively, according to the NBS.

While export growth is expected to further decelerate, China's consumption will remain relatively resilient, driven mainly by stable income growth, stable confidence in domestic demand and an increase in pension payouts in 2012, said a report by Bank of America Merrill Lynch.

Lian Ping, chief economist with the Bank

of Communications Ltd., said the Chinese economy is set for a bright future due to deep growth potential.

“Massive urbanization, industrialization and market reforms will continue injecting fresh life into the economy,” he said.

“Meanwhile, the less-developed central and western regions are catching up quickly by receiving industries transferred from east coastal regions,” he said.

Inflation eases

Now it seems that inflation is no longer an acute headache for the Chinese economy as the consumer price surge has showed signs of cooling down, but the possibility of a comeback in inflation cannot be ruled out.

The consumer price index (CPI), a barometer of inflation, grew 3.6 percent year on year in March, 0.4 percentage points higher than in February. But the figure represented a remarkable decline from 5.4 percent for the entire year of 2011.

The biggest driver of CPI was still food prices, up 7.5 percent from a year ago in March. Pork prices, in particular, skyrocketed 11.3 percent.

The producer price index (PPI), an effective gauge of inflation at the wholesale level, declined 0.3 percent in March, hitting a 28-month low. The index climbed 6 percent last year.

“Inflation will surely taper off markedly this year as powerful government measures to increase food supplies and reduce market speculation are taking root,” said Zuo Xiaolei, chief advisor to president of the Beijing-based China Galaxy Securities Co. Ltd. “The CPI is expected to stay at 3.5 percent this year, well below the government-set target of 4 percent,” she said.

But Cao Fengqi, Director of the Finance and Securities Research Center at Peking University, said China will face long-term inflation pressures due to land and labor cost inflation. “In addition, a short-term factor pushing up CPI is rapid increase in international crude oil prices,” he said.

In line with international market development, the National Development and Reform Commission in March raised the retail gasoline and diesel prices by 600 yuan (\$95) per ton, the second hike this year.

Though fuel only takes a small weight in the CPI basket, the pass-on effect may filter through consumer prices by forcing up logistics costs. ▶▶

Zhao Xijun, Deputy Director of the Financial and Securities Institute at the Renmin University of China, said the ripple effect will soon be felt when squeezed enterprises begin to pass the increased logistics costs onto consumers.

Zhao also struck a note of caution about possible risks of imported inflation, adding that the biggest uncertainty lies in oil prices if the situation in the Middle East worsens.

Zhao Qingming, a finance professor of the University of International Business and Economics, raised worries about falling PPI. "The PPI declines reflect fragility of the real economy as many domestic enterprises, especially smaller ones, leave their machines idle."

Growth incentives

To provide a floor under the slowing economy, policymakers have cautiously handed out pro-growth incentives on a selective basis, including favorable policies for small enterprises in terms of taxation and credit support. In December 2011, the Ministry of Finance announced to cut corporate income tax by half for small and micro-enterprises from January 1, 2012 to December 31, 2015.

On February 24, 2012, the central bank decreased the reserve requirement ratio by 0.5 percentage points, following the reduction in December 2011, which was the first cut since November 2008. It also required commercial banks to bump up lending to cash-starved smaller businesses and the weak agriculture sector.

"Since inflation is not a main concern at the moment, the policy stance could be more pro-growth than 2011. But it could be quite incorrect to assume that China is facing strong headwinds similar to the collapse of exports at end of 2008 and then to predict a massive stimulus," said Lu.

"The central bank may further cut the reserve requirement ratio in the rest of this year, but we see no chance for interest rate cuts unless the European debt crisis worsens," Lu said.

"We expect no major easing on property tightening, but Beijing could allow eased enforcement of home purchase restrictions in lower-tier cities," he said.

"As inflation pressures continue to ease, weaker export growth is likely to prompt further easing measures," said Qu Hongbin, a Hong Kong-based economist for HSBC Holdings Plc. "Once the easing measures filter through, growth is likely to rebound."

Qu added that he expects further efforts



to stimulate the economy through tax breaks. Government spending and eased credit would help the economy to rebound in the second half of the year after "bottoming out" in the April-June quarter.

Lian suggested China retain the current prudent monetary stance and closely monitor the external economic environment.

The central bank could encourage lending to SMEs, affordable housing projects and strategic emerging industries, and further lower the reserve requirement ratio, said Lian. "But there is no need to lower the interest rates, and the economy would otherwise suffer negative interest rates in real terms," he said.

Paul J. Heytens, country director for China of Asian Development Bank (ADB), said China's GDP growth in 2012 is forecast at 8.5 percent, with the priority of macro-policy expected to shift from fighting inflation to stabilizing growth.

China's fiscal policy is expected to remain broadly expansionary, with higher spending on social security programs like education, health care, pensions and public housing, said the ADB in a recent report.

The bank said the Chinese Government may carry out further fiscal and financial reforms to ease the tax burden on consumers and small and medium-sized enterprises.

The main risks for China would be uncertainty over external demand among the country's largest trading partners, and potential increases in non-performing loans of local government.

But it pointed out that progress in diversifying export markets and re-balancing sources of growth toward domestic demand

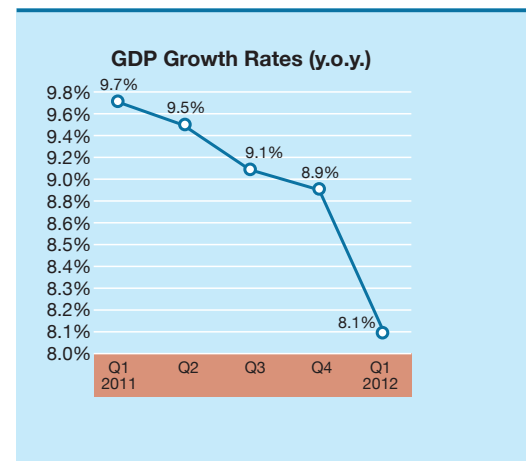
should help maintain economic growth momentum, and that the country's financial sector is sound overall.

Risks remain

While an overall weakness in the world economy drains steam out of China's export sector, domestic worries proliferated about withering real estate investments and financial woes of small businesses.

During the January-to-March period, China's exports totaled \$430.02 billion, up 7.6 percent year on year, while imports edged up 6.9 percent to reach \$429.35 billion. The trade surplus stood at \$670 million.

"The trade data show the global economy is recovering, albeit slowly," said





LABOR SHORTFALL: Recruiters of many small and medium-sized enterprises wait for job hunters at a job fair in Yiwu, east China's Zhejiang Province. Labor shortage has become an acute concern for small businesses in the country

Zhou Hao, an economist with ANZ Bank in Shanghai.

“Given that China had a trade surplus in the first quarter versus a deficit in the same period of last year, it indicates a positive contribution to GDP growth,” he said.

“But the export prospect looks dim due to clouds gathering over the world economy and souring domestic business environment,” Zhou said.

Meanwhile, uncertainties are hanging over the cooling property markets, with home price growth softening and developers offering discounts to bump sales.

“The nation’s home prices may decline 10 percent by June from a year earlier, while sales volume is expected to be little changed

or may even slip in 2012,” said Bei Fu, a Hong Kong-based analyst with the S&P. “Many developers may be at increased risk of refinancing due to weaker property sales, high funding costs and tightened liquidity.”

“A major cause for the ongoing slowdown is a stringent clampdown on the real estate industry,” said Ba.

“But policymakers are less likely to take their foot off the brake as they attempt to bring soaring house prices back to a reasonable level,” he said.

Slower property investment is likely to cut into growth for 2012 in the world’s second biggest economy, Bei said.

Industrial enterprises above designated size—sales revenue exceeding 20 million

yuan (\$3 million)—generated 606 billion yuan (\$96.2 billion) in profits for the first two months of 2012, dropping 5.2 percent year on year, said the NBS.

Woes of small businesses are no less acute, as capital strains, labor shortages and lackluster demand make a dent to their competitive edge. Newspapers are constantly filled with reports of factories in Guangdong and Zhejiang provinces operating on slim profit margins or failing to hire enough workers.

“The small and medium-sized enterprises may face more daunting challenges than in 2008 when China felt the ripple effect of the financial crisis,” said Zhu Baoliang, a research fellow with the State Information Center.

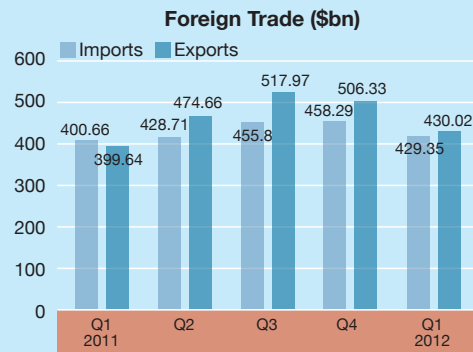
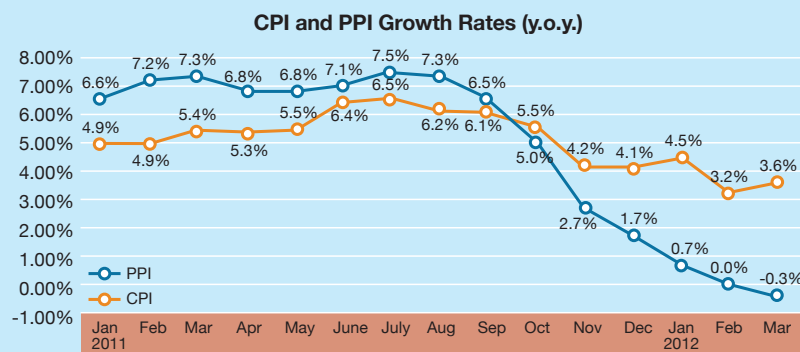
“In addition to that, the country will have to properly deal with simmering dangers of waning property investments, piling debts of local governments, as well as financial risks caused by private lending,” he said.

Bank of America Merrill Lynch expects China’s economic growth to slow from 9.2 percent in 2011 to 8.6 percent in 2012.

The major risks are the euro-zone debt crisis and the falling property fixed-asset investment under the current tightening measures, said the bank in a recent report.

“Over the long-term, China could experience a gradual slowdown due to an aging population, falling returns on capital investment and lack of gains from institutional reforms,” it said. ■

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(Source: National Bureau of Statistics)

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