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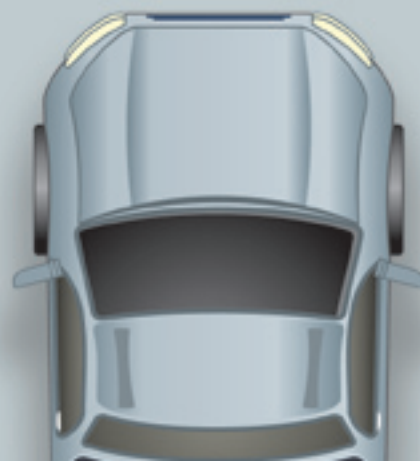
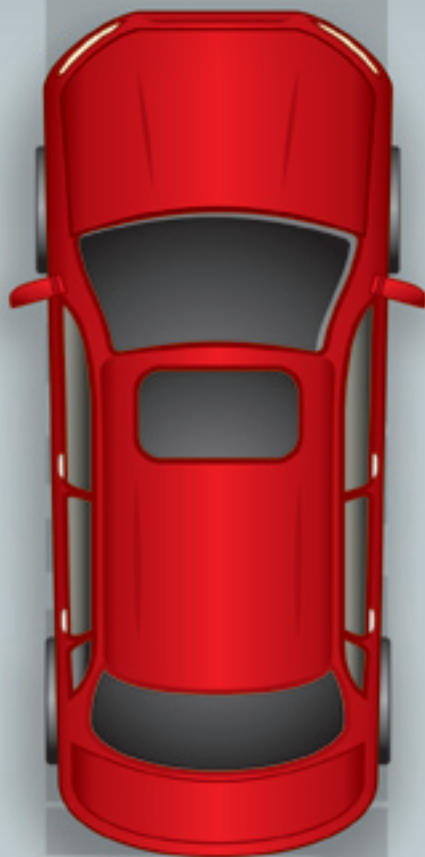
# BEIJING REVIEW

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## THE FAST LANE

Consumption overtakes  
investment and exports



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## EDITOR

# Quality Over Speed

In 2012, China's economic growth rate reached 7.8 percent, higher than the set goal of 7.5, which shows the economy landed softly. With the commencement of 2013, we believe, in terms of economic development, more attention should be paid to stability and quality, instead of focusing on speed of growth alone.

From the fourth quarter of 2010, the growth rate of China's economy began to decline and dropped to 6.9 percent in the second quarter of 2012. Since then, various economic indexes stabilized and slowly climbed.

While the Chinese economy contracted over seven quarters, the world economy was slowly recovering, with trade protectionism in some countries raising eyebrows. Against this backdrop, achieving a 7.8 percent economic growth rate is no mean feat.

However, the upturn lacks a solid foundation and strong driving force, so we will have to wait and see whether the upward trend can be maintained in 2013. The current world economy still finds itself in a post-financial crisis period, while the Chinese economy experiences changes to its growth mode and looks for new development force. Old economic competitiveness is retreating in the face of new avenues. At this juncture, overall operation remains relatively weak.

China will maintain a proactive fiscal and prudent monetary policy. In addition, it's necessary to balance policies related to demand and supply and make policies flexible and effective. It's also important to adjust growth pace, nurture new competitive points and promote transformation of the economic growth mode.

The growth for 2013 is expected to top that of the previous year, but risks remain, including the negative impact of the European sovereign debt crisis and the deteriorating China-Japan relationship. Also, many local enterprises are still experiencing difficulties. Low expectations on China's employment and income growth also cast a shadow on economic operations.

Reforms should be strengthened to create conditions for the transformation of economic growth mode and structure adjustment, and lay a foundation for the improvement of quality and efficiency. ■

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# BOX BED BASICS

Tourists experience “capsule” rooms in a hotel in Qingdao, east China’s Shandong Province, on January 14.

There are more than 100 “capsules” in the hotel, the largest of its kind in the country.

A 20-square-meter room hosts six capsules, each priced at 45 yuan (\$7.23) per night.



## Temporary Home

Landslide-affected villagers in Gaopo Village in Zhenxiong County, southwest China's Yunnan Province, wash dishes as they receive relief in a temporary tent settlement on January 14.

The landslide, which killed 46, hit Gaopo on January 11.

More than 500 villagers have been moved to makeshift tents near the village. Others have gone to stay with relatives and friends in other villages.

Plans to relocate and rebuild a village for 629 residents went into effect on January 12, just after rescue operations completed. Relocation will be completed within half a year.

The government has allocated 55 million yuan (\$8.06 million) for disaster relief.



CHEN HANING

## Family Planning

A senior official has said that China's family planning policy should be unswervingly adhered to.

The policy should be long-term and its primary goal is to maintain a low birthrate, said Wang Xia, Minister of the National Population and Family Planning Commission, at a national conference on January 14.

The authorities will expand pre-pregnancy check services to reach all county-level areas across the country and ensure migrants' equal access to related public services this year, according to Wang.

At present, such services are available in about 60 percent of county-level areas in the country, covering more than 80 percent of the target population.

Wang also pledged that efforts

should be made to rectify the imbalance in gender ratio.

## GHG Bulletin

Greenhouse gas (GHG) emissions in China in 2011 increased to their highest level since networked stations began collecting data in 1990, according to China's first Greenhouse Gas Bulletin.

Released by the China Meteorological Administration (CMA) on January 14, the bulletin showed carbon dioxide levels measured at 392.2 parts per million at Waliguan Station in sparsely populated Qinghai Province in northwest

China, the highest since the station began operating in 1990.

The figures, revealed in Shenyang, capital of northeastern Liaoning Province, were also slightly higher than the global averages in all GHG components including at-

## Power From The People

Xu Pengfei (left), China's first individual user of grid-connected photovoltaic (PV) power, introduces PV solar panels to his friend atop his flat in Qingdao, east China's Shandong Province, on January 13, 2013.

As Xu's "personal power plant," the eight pieces of PV solar batteries have a total installed capacity of 2 kw, with a grid-connected voltage of 220 v.

It not only provides electricity for Xu's family, but also sells surplus electricity to the state grid, the first unit to successfully do so in China.



YI HENX



## HARSH COMPETITION

Job seekers inquire recruiters for information at a job fair in Shenyang, northeast China's Liaoning Province, on January 12. A total of 168 companies provided some 3,000 job vacancies at the job fair

atmospheric carbon dioxide, methane and nitrous oxides.

The bulletin was based on data collected by seven atmospheric background stations established and operated by the CMA. Four of the stations have been listed in the World Meteorological Organization's Global Atmosphere Watch Program directory.

The bulletin showed that the annual average GHG emissions observed by three regional stations set up in northeast China's Heilongjiang Province, Beijing and eastern Zhejiang Province were all higher than figures collected at the Waliguan Station.

## Gun Crimes

Chinese police uncovered about 670 sites involved in the illegal production and distribution of guns last year, according to the Ministry of Public Security.

Statistics released by the ministry on January 15 show that police authorities across the country investigated around 14,000 cases involving a range of illegalities in 2012, including the production, trade and possession of guns and explosives.

More than 20,000 people were apprehended for suspected involve-



SHEN ZHANG



## NO PANTS IN SUBWAY

A "No Pants" tornado sweeps Shanghai subway on January 13. "No Pants Day" originated in New York City



CFP

ment in weapon violations and some 360 criminal organizations were busted, the ministry said.

## Cross-Straits Cable

A submarine communication cable directly linking the two sides of the Taiwan Straits opened on January 18.

The cable makes it much easier for people on the two sides of the straits to communicate and is another important achievement in developing the "three direct links" of cross-straits mail, trade, and air and shipping services, said Yang Yi, a spokesman for the State Council Taiwan Affairs Office.

With a length of 270 km, the cable connects the city of Fuzhou in Fujian Province on the mainland and Taiwan's Tamsui.

According to Yang, several telecommunications operators on both sides of the Taiwan Straits have jointly invested in the project, which incorporates the most advanced transmission technologies.

## Tip-off Rewards

China's food and drug watchdog announced on January 15 that it will reward people and organizations for reporting violations to authorities.

Whistleblowers could receive up to 300,000 yuan (\$48,256) per

case, according to a circular publicized by the State Food and Drug Administration (SFDA).

The move aims to "encourage the public to report illegal activities so as to determine, control and eliminate potential safety risks concerning food and medicine," the SFDA said in the circular.

Depending on the accuracy of information provided and intensity of a whistleblower's engagement in the investigation, the organization or individual behind a tip-off could receive 1 to 6 percent of the value of the food or medicine involved as a reward, according to the circular.

The new reward rule will replace the one released on November 27, 2003, which only set down conditions for rewarding those who report illegalities concerning medicine and fixed the award ceiling at 50,000 yuan (\$8,043).

## Mapping Diaoyu

China is to survey the Diaoyu Islands in the East China Sea as part of a program of mapping its territorial islands and reefs, it was revealed on January 15.

The first stage of the island surveying and mapping was launched in 2009 and has finished the monitoring of islands located within 100

km of the coastline, according to a statement released by the National Administration of Surveying, Mapping and Geoinformation.

The second stage will cover islands including the Diaoyu Islands, the statement said.

It added that this program is part of the country's efforts to safeguard its maritime rights and interests.

As of the end of last year, China has completed charting about 6,400 islands and more than 4,900 island maps of three different scales.

## Standardizing TCM

China will accelerate the establishment and revision of traditional Chinese medicine (TCM) standards in order to promote the tradition overseas, a health official said on January 10.

Wang Guoqiang, Vice Minister of Health and Director of the State Administration of TCM, said at a national TCM work conference that the standardization of TCM will enhance its development and guarantee its quality.

Wang said that the Chinese Medical Association has established 195 standards regarding TCM thus far.

Official statistics indicate that the Central Government spent 3.34 billion yuan (\$537 million) to support TCM development in 2012.

TCM originated in China more than 2,000 years ago. Practitioners use herbs, acupuncture, massage and other methods to treat a wide range of illnesses.

## Art Bridge

The Second Seminar on China-U.S. Cooperation on Performing Arts kicked off in New York on January 11.

Zhu Kening, Executive Vice Chairman of the Association of China Performing Industry, said at the forum that China has become one of the biggest performance stages in the world with 2 million to 3 million performances each year, including thousands by foreign troupes.

The association is open for more troupes from the United States.



## A Long-Awaited Platform

An inauguration ceremony for the National Equities Exchange and Quotations is held in Beijing on January 16.

The National Equities Exchange and Quotations is a securities trade center that will offer services relating to equity sales, financing issues and merger and acquisitions for de-listed stock companies.



## Private Investment

China is planning to allow privately owned companies to enter the mobile telecommunications sector in a bid to promote competition.

The Ministry of Industry and Information Technology said it will seek opinions on a pilot program for private enterprises to buy mobile telecom services from operators and resell them to customers.

The program aims to allow

private capital to further enter the telecom industry, give full play to the flexibility and creativity of private firms, as well as promote market competition and improve mobile telecom services.

At present, China's mobile telecom sector is dominated by three giants: China Mobile, China Unicom and China Telecom.

According to the plan, Chinese-funded private companies will be

able to buy basic mobile telecom services from the three major operators, add their own services and then sell to customers through their own brands.

The companies will not have to build a mobile telecom infrastructure but only set up a customer service system and other supporting networks if necessary.

The pilot program has a series of clauses to ensure the successful accession of private capital into the sector, including requirements on service quality, phone number allocation, as well as the wholesale prices for contracted services.

Telecom giants must not include any exclusive clauses in the contract with private enterprises.

The pilot program is designed to last for two years. Private enterprises can send applications to telecom authorities within the first year of the program.

## ODI Boom

The country's outbound direct investment (ODI) in non-financial sectors grew 28.6 percent in 2012, accelerating from a year earlier, said the Ministry of Commerce on January 16.

The annual growth rate was higher than the 1.8-percent rate recorded in 2011.

China invested a total of \$77.22 billion in 4,425 overseas enterprises in 141 overseas countries and regions in 2012.

But foreign direct investment in China in 2012 declined 3.7 percent to \$111.72 billion, according to the ministry.

## Rail Investment

The Chinese Government plans to



## A BETTER EXPERIENCE

An operator tests an advanced excavator in Langfang, Hebei Province. The excavator features air conditioning, a global positioning system and USB ports to charge cellphones





## LINKING MORE AREAS

The Lhasa-Shigatse railway is under construction. Started in 2010, the extension of the Tibetan railway covers 253 km and is estimated to be completed in 2013



invest 650 billion yuan (\$103.56 billion) in railway construction in 2013, nearly equivalent to the amount spent last year.

New railways with a combined length of 5,200 km will go into operation this year as well, said Sheng Guangzu, Minister of Railways, at a work meeting on January 17.

The amount is slightly up from the 630.98 billion yuan (\$101.52 billion) spent in 2012, but it is significantly down from 2010's record of 842.65 billion yuan (\$135.58 billion).

The Ministry of Railways will diversify financing channels by encouraging local governments, enterprises and private investors to participate in railway construction, Sheng said.

A national railway develop-

ment fund will be established as an investment platform for social and private capital, he said.

## Alibaba's New Era

Jack Ma, Chairman and CEO of China's biggest e-commerce company Alibaba Group Holding Ltd., said on January 15 that he will step down from the CEO post in May and stay on as chairman.

Ma said he was already "old" in the context of Web companies, which require energy and creativity. As chairman he will focus on Alibaba's corporate strategy and culture.

He believes that it is vital to pass on the baton to people born in the 1970s and the 1980s, given that Alibaba deserves to thrive in a new

environment.

Ma expressed optimism about finding the ideal candidate for the CEO position before May 10.

On the financial front, it completed an initial repurchase—worth \$7.6 billion—of its own shares from Yahoo Inc., which had once held the largest number of Alibaba's shares.

The company achieved yet another milestone last year after two of its major units—Taobao and its business-to-customer arm Tmall—reached 1 trillion yuan (\$160 billion) in combined sales at the end of November 2012.

## Profits Plunge

The total net profits of China's securities brokerages slumped 16.4 percent in 2012 because of the country's lackluster stock market.

According to the unaudited financial reports of 116 brokerage firms, profits stood at 32.93 billion yuan (\$5.25 billion) last year, said the Securities Association of China on January 16.

In 2012, 99 of these brokerages made profits, accounting for 86.84 percent of the total.

The sharp decline in profits is partly due to the weak performance of China's stock market in 2012, as the benchmark Shanghai Composite Index rose only 3.17 percent over the year.

## Numbers

### 72

The number of trade probes that targeted Chinese exports in 2012, according to China's General Administration of Customs

### 33.5 bln yuan

The sales volume of China's traditional book market in 2012, down 1.05 percent, according to the 2012 Report on China's Book Retail Market

### 4.96 tln kwh

Power consumption in 2012, rising 5.5 percent, according to the National Energy Administration

### 11.07 tln yuan

Tax revenue in 2012, an increase of 11.2 percent, according to the State Administration of Taxation data

## Seed Bank

A staff member shows off seeds stored in the Jiangsu Academy of Agricultural Sciences.

Over 4,000 types of seeds are stored in the academy at a temperature below minus 4 degree Celsius



# THIS WEEK WORLD



## MALI

A French soldier stands in an armored vehicle at a military airbase near Bamako on January 15 before leaving as part of an operation aimed at combating Al Qaeda-linked rebels in northern Mali

AP/WIDEWORLD



WANG LIE



## THE UNITED STATES

A staff member works at a pharmacy in New York City on January 15. The United States is experiencing one of the worst flu seasons in a decade with more than 20,000 cases reported in New York state alone



## ITALY

The flanks of an active volcano on the Italian island of Stromboli spew lava toward the sea on January 14

AP/WIDEWORLD







## ARGENTINA

Two racers compete during the 2013 Dakar Rally between the cities of Salta and Tucuman in Argentina on January 12. The rally stretched across Peru, Argentina and Chile from January 5 to 20



## INDIA

A wandering monk carries his possessions across a vast area set to host millions of Hindu devotees in the next couple of months for the Kumbh Mela celebration in Allahabad on January 13. Worshippers believe a dip in the holy waters of the Ganges cleanses them of their sins

XINHUA/AFIP



XINHUA/AFIP



XINHUA/AFIP



## JAPAN

Models hold the latest youth smartphones at a press preview in Tokyo on January 10. The smartphone enables parents to control voice calls and usage by setting time restrictions

**“The weakness in high-income countries is dampening developing-country growth, but strong domestic demand and growing South-South economic linkages have underpinned developing-country resilience.”**

Hans Timmer, Director of Development Prospects at the World Bank, after the Washington-based bank released its baseline economic forecast on January 15, predicting that the global economy would grow at a rate of 2.4 percent in 2013



**“We are finding that people born under the one-child policy are less likely to be working in risky occupations, in self-employment or in the financial market.”**

Lisa Cameron, an economics professor at Australia's Monash University, revealing on January 11 the results of a study involving 420 people, half of whom were born in the few years before China implemented the family planning policy in 1979 and the rest after



**“In a transformative period when an old system of trust is broken in the absence of a new one, people's trust in others diminishes.”**

Yang Yiyin, a researcher with the Chinese Academy of Social Sciences, expounding on a survey that reveals the Chinese public as having a trust score of 59.7 against the total of 100, on January 12



**“I would have no privacy when it comes to my salary, which would inevitably lead to quarrels.”**

Xia Tong, a 29-year-old married man in south China's Guangdong Province, responding on January 11 to China Merchants Bank's “capital accumulation” service, by which the wife can check the husband's account periodically and transfer any funds exceeding a previously designated amount to the wife's account



## NOMINATED DIRECTOR



Director Ang Lee's 3D fantasy film *Life of Pi* received 11 nominations ahead of the 85th Academy Awards, including for best film and director, as announced on January 10 by the Academy of Motion Picture Arts and Sciences.

The award ceremony will be held on February 24. Lee won the Academy Award for best foreign language film for *Crouching Tiger, Hidden Dragon* (2000) and won the Oscar for Best Director in 2006 for *Brokeback Mountain*, becoming the first Asian to palm the title.



## TAI CHI MASTER



Chen Xiaowang won an award for spreading Chinese culture abroad on January 11.

Chen, born in 1945, is the 19th generation lineage practitioner of Chen-style Tai Chi. He first learnt the style at age 7 under his father's tutelage and later under that of his uncles upon his father's death. Chen was crowned the Tai Chi Champion at the First International Martial Art Competition in 1985. He moved to Australia in 1990 and established the Chen Xiaowang World Tai Chi Association. With 100,000 current members, the association has over 50 branches in more than 30 countries, dedicated to spreading the philosophy of Tai Chi.





## 3D Printing Poses Challenges *Caijing Magazine* January 7, 2013

Printing in 3D, also referred to as additive manufacturing, is a process of making three-dimensional solid objects from a digital model. Accordingly, an object is created by laying down successive layers of material. It is distinct from traditional machining techniques (subtractive processes), which mostly rely on the removal of material by cutting and drilling.

The fast development of 3D printing has posed challenges to China's traditional manufacturing industry. The process needs much less labor than traditional manufacturing, causing foreign factories, which came to China for its low-cost labor, to return to their own countries.

Not wanting to fall behind, China has also started researching and applying 3D printing technologies. Over 20 factories in affluent east China's Jiangsu and Zhejiang

provinces are also using this technology at present.

Printing in 3D has greatly reduced production costs. For example, a doll that looks exactly the same as you might cost 10,000 yuan (\$1,587) if made at traditional factories, but it only costs 100 yuan (\$15.87) via 3D imagery.

Although the traditional manufacturing industry has not been replaced by 3D printing for its large-scale production advantage, the latter is gradually grabbing a sizeable market share.

Su Bo, Chinese Vice Minister of Industry and Information Technology, said late last December that China will accelerate research and industrialization of 3D printing technology, indicating the process has drawn attention from the government.

## The Anti-Social Network?

<http://fcw.com>  
By Steve Kelman

Will this new generation of young people, who eschew telephone conversation in favor of texts, social media and the Internet, change as they enter the workforce? Or will they simply change professional communication as we know it?

I somewhat addressed this question last August when I discussed my decision to transition from teaching using only words to a method that includes a significant visual component—namely, PowerPoint slides.

Everyone over a certain age has noticed how talking over the telephone—as opposed to texting—is becoming rarer and rarer. When I was in the government 15 years ago, I made and received probably 20 calls a day. Now I probably make and receive 20 calls in two weeks (and, because I'm old-fashioned, most of those are ones I make, not ones I get).

I found some interesting evidence on this issue from an unlikely source—the weekly Chinese English-language magazine *Beijing Review*. This publication recently ran an article called *The Anti-Social Network* on the impact of texting and social media on the behavior of young people. My guess is that work similar to that discussed in this article has

also been done in the United States—and, if anything, the consistency of the findings in two very different cultures actually is quite powerful.

The article reported on a poll by a big Chinese Web portal on smartphone use by people under 35. The survey found that fully half the respondents preferred communicating on texting or social media sites to talking face to face! The article cited an example, apparently widely discussed online in China (where respect for parents and grandparents has historically been very high), in which “a grandfather arranged a dinner party for two grandchildren, who spent the entire evening staring at their phones. The old man became irritated and left before the meal ended.”

Note that since these were children, they didn't even have the excuse that they needed to deal with messages or requests from their boss or subordinates.

I think—I guess I should say I fear—that the new technology is really changing, and in partly problematic ways, the way people interact with each other. I

myself value the ability social media such as Facebook give to keep in touch in a low-cost way with lots of people; for example, you can spend 20 seconds writing a birthday greeting to a Facebook friend and make that person feel really nice. This is good.

But there is a role for deeper, more personal communication, and there is a role for the emotions, feelings, depth, and nuance that comes through face-to-face verbal communication. I fear that society will be worse-off if these skills and inclinations atrophy.

This also has implications for how politics and organizations work. Traditionally, speaking ability has been an important part of political skill—think of the “Great Communicator” Ronald Reagan. Will those skills start counting for less and, if so, what implications does this have for politics? What happens if

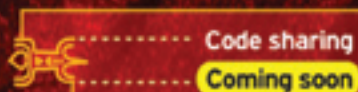
employees tune out verbal messages from bosses? Organizations use a lot of low-involvement written communication, such as memos, but will supervisors and managers need to get better at high-involvement visual communication?

(The author the Weatherhead Professor of Public Management at Harvard University's John F. Kennedy School of Government)



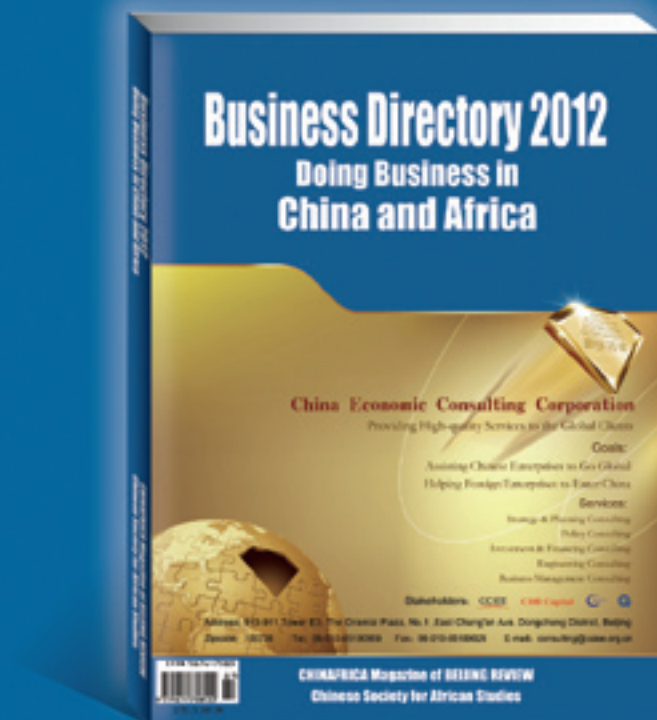


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**PEAK SEASON:** Tourists swarm to Nanjing Road, a famous shopping street in Shanghai, on October 1, 2012, the second day of last year's Golden Week holiday (September 30-October 7)

GUO CHANGAO



## COVER STORY

# CONSUMPTION TAKES THE LEAD

Buoyant domestic demand injects vigor into a slowing economy

By Zhou Xiaoyan

**A**mid economic woes at home and abroad, Chinese growth still hit a robust 7.8 percent in 2012, even though it's the country's slowest rate since 1999.

After dipping to a seven-quarter low of 7.4 percent in the third quarter of 2012, the economy has shown signs of stability while GDP growth rebounded to 7.9 percent in the last quarter, said Ma Jiantang, Commissioner of the National Bureau of Statistics (NBS) at a press conference on January 18.

"We've also made new progress in economic restructuring," Ma said.

Among the 51.93 trillion yuan (\$8.36 trillion) of the GDP in 2012, the service sector experienced a rise, its added value contributing 44.6 percent, 1.2 percentage points higher than the previous year.

While the export engine lost steam due to anemic demand on the global market, domestic consumption contributed 51.8 percent to China's economic growth in 2012, with investment adding 50.4 percent, and exports -2.2 percent.

In addition, achievements were made in energy saving and emission reduction. Energy consumption per unit of the GDP dropped by 3.6 percent in 2012, compared with 2011's 2 percent. Natural gas, hydropower, wind and nuclear power accounted for 14.5 percent of total energy use, 1.5 percentage points higher than the proportion in 2011, according to Ma.

The Central Economic Work Conference

held in December 2012 prioritized quality and efficiency of growth over its speed for the first time. The slowing growth rate and changes in growth patterns during 2012 indicate the country's economy is heading in this direction.

### New growth engine

As exports received a heavy blow from a sluggish global economy, domestic consumption has taken the baton to become a new lifesaver for a slowing economy.

Retail sales of consumer goods totaled 20.72 trillion yuan (\$3.33 trillion) in 2012, increasing 12.1 percent compared with 2011.

Chinese purchasing power was on full display in 2012, illustrating the potential for in-

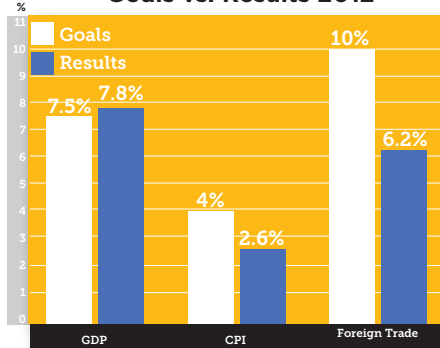
creased domestic consumption as the country attempts to shift its economy away from a reliance on investment and manufactured exports.

During the 2012 Golden Week holiday, which ran from September 30 to October 7, sales revenue for the retail and catering sectors totaled 800.6 billion yuan (\$127.3 billion), up 15 percent year on year, and a total of 425 million Chinese traveled during the period, up 40.9 percent, resulting in 210.5 billion yuan (\$33.47 billion) for the tourism industry, according to official figures.

November 11, dubbed Singles Day, is a time when millions of Chinese head online to take advantage of huge retail discounts.

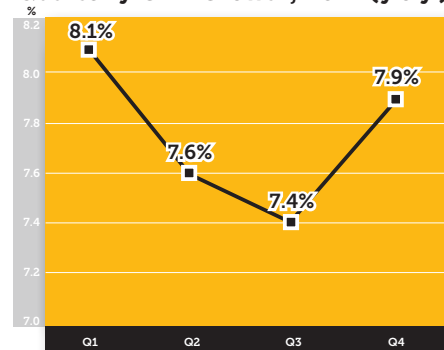
Last year's Singles Day saw over 213 million Internet users swarm Taobao and Tmall, ►►

Goals vs. Results 2012



(Source: National Bureau of Statistics)

Quarterly GDP Growth, 2012 (y.o.y.)



customer-to-customer and business-to-customer platforms operated by the Hangzhou-based Alibaba Group, for its 24-hour 50-percent-off carnival. Together the sites raked in a record 19.1 billion yuan (\$3.07 billion), up 260 percent year on year. Other major e-commerce players all reaped record-breaking profits, which marked the biggest e-commerce sales day on record.

More Chinese opened their wallets to spend simply because they have more money to spend.

The per-capita disposable income of China's urbanites increased 9.6 percent in 2012 to 24,565 yuan (\$3,953), while per-capita net income of farmers was 7,917 yuan (\$1,274), up 10.7 percent, said the NBS.

Growth in consumption was also due to government incentives.

The Chinese Government in August 2012 decided to lift highway tolls on roads and bridges nationwide for passenger vehicles with seven seats or less during the four major Chinese holidays—the Spring Festival, Tomb Sweeping Day, May Day and the National Day.

In May 2012, the State Council earmarked 36.3 billion yuan (\$5.78 billion) to encourage consumption by offering subsidies for energy-saving household appliances, efficient lighting products, greener vehicles and efficient electrical machines. Industry insiders predict that consumers will spend over 450 billion yuan (\$71.6 billion) as a result.

A total of 79.97 million units of home appliances were sold under China's rural subsidy program in 2012, up 22.6 percent from one year earlier. The sales volume amounted to 214.5 billion yuan (\$34.51 billion), increasing 18.8 percent, said the Ministry of Commerce.

The subsidy program, which was started nationwide in 2009 and will continue until January

2013, is part of the government's efforts to stimulate rural consumption. Under the program, farmers can receive subsidies equal to 13 percent of the price of the home appliances they buy.

Furthermore, money collected from personal income tax dropped 8 percent in 2012, while the individual business income tax declined 12.5 percent during the period, according to the State Administration of Taxation.

The government has stepped up tax reduction efforts over recent years in a bid to buoy the economy. In 2011, it raised the income tax exemption threshold for wage-earners and those owning individual businesses.

"China's growth opportunities have changed. Domestic consumption has replaced external demand to become a new means of economic growth," said Lian Ping, chief economist of Bank of Communications.

"Alongside the fast development of per-capita GDP, urbanization and the country's central and western regions, a new window has been opened for China's economic growth."

To unleash the potential of domestic consumption, the country should improve income distribution and its social security system, which would ease the effect of sluggish exports on China's economy, said Lian.

"China should make further reforms on its income distribution system to enhance the proportion of residents' income against national income," said Li Wei, Director of the Development Research Center of the State Council, at the Forum on China's Economic Outlook held in Beijing on December 29, 2012.

"This will lead to an increase in the purchasing power of the general public, especially among the middle- and low-income groups,"

Also, the government should establish a



better social security system that covers both rural and urban areas, to make people feel more secure about spending, said Li.

## Dim trade outlook

China's exports and imports totaled \$3.87 trillion in 2012, up 6.2 percent, according to the General Administration of Customs (GAC).

The growth rate slowed sharply from the



(Source: National Bureau of Statistics)





**FOREIGN TRADE SLOWDOWN:**  
The Lianglu Cuntan Bonded Port Area in southwest China's Chongqing

22.5-percent rise registered in 2011 and also missed the government's 10-percent target set for 2012.

"Although this number missed the government's target, China's foreign trade performance still tops the world and is the best among all economies in the world," said Zheng Yuesheng, spokesman of the GAC.

"During the first 10 months of 2012, Japan's imports and exports only expanded 1.1 percent, the EU's trade volume shrank 2.12 percent and that of the United States rose by only 4.2 percent. China's robust 6.2-percent increase is a hard-earned result and it has marked progress in the quality, structure and efficiency," said Zheng.

The slowdown of foreign trade growth is a result of sluggish external demand, rising production costs at home and increasing trade protectionism in other countries, Zheng said.

Four years after the onset of the global financial crisis, the world economy remains fragile and growth in high-income countries is weak, says the World Bank in the newly released Global Economic Prospects report.

"The economic recovery remains fragile and uncertain, clouding the prospect for rapid

improvement and a return to more robust economic growth," said World Bank Group President Jim Yong Kim.

The demographic dividends and the gains of China's entry to the WTO have been watered down, said Liu Ligang, an economist at ANZ National Bank Ltd. In the long run, foreign trade will no longer pump as much steam into the country's economic growth as it used to.

"Among the world's major economies, Chinese exports were the most targeted by trade protectionism. Emerging economies are also increasingly launching trade investigations against China, while the number of targeted industries is rising," said Zheng. Chinese exporters were targeted by 72 trade investigations in 2012.

December's exports rose by a seven-month high of 14.1 percent and imports increased by a six-month high of 6 percent, both higher than market expectations.

But the rebound in December was a result of a lower comparative base from 2011 and improving orders following holiday shopping seasons in foreign countries, said Liu Junyu, an analyst at China Merchants Bank. The trade out-

look for the first half of 2013 will remain dim, he said.

## Risks ahead

Inflation, which used to be an acute headache for the Chinese economy, was within government control in 2012. However, long-term inflationary pressure still exists. Monetary policies must be rolled out with full caution to avert the re-ignition of a price spiral.

The consumer price index (CPI), a main gauge of inflation, rose 2.6 percent in 2012, well below the government's annual target of 4 percent, said the NBS.

Inflation saw a moderate rebound in recent months due to surging food prices, which was the result of a 28-year-record cold winter.

Wang Jun, an expert with the China Center for International Economic Exchanges, said that China will face greater inflationary pressure in 2013 than in 2012.

"Inflation is likely to rise in the coming months as a result of rising food prices and higher labor and land costs, the quantitative easing measures in foreign countries and stabilizing domestic economic growth," Wang told Xinhua News Agency.

"Recently, lots of risks were exposed in China's trust and money management market. Also, with the outcome of the fourth round of quantitative easing in the United States and rampant liquidity in the world, China still faces lots of inflationary pressure," said Guo Tianyong, a professor at the Central University of Finance and Economics.

The government should stay alert against inflation, but hyperinflation in 2013 is unlikely to occur, Wang said. He predicts the CPI will stay 3-4 percent in 2013.

In order to prop up growth, the central bank cut the reserve requirement ratio twice in 2012 and also lowered its benchmark interest rates twice over the course of the year.

"The government should continue to keep a prudent monetary policy in 2013, and adopt a more proactive fiscal policy and extend tax cuts to stabilize economic growth," Wang said.

Overcapacity is another challenge, a persistent situation worsened by dwindling foreign orders, according to Lian.

"Continuous sluggish economic recovery in developed countries suppressed China's exports, adding to overcapacity in the country," said Lian. ■



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