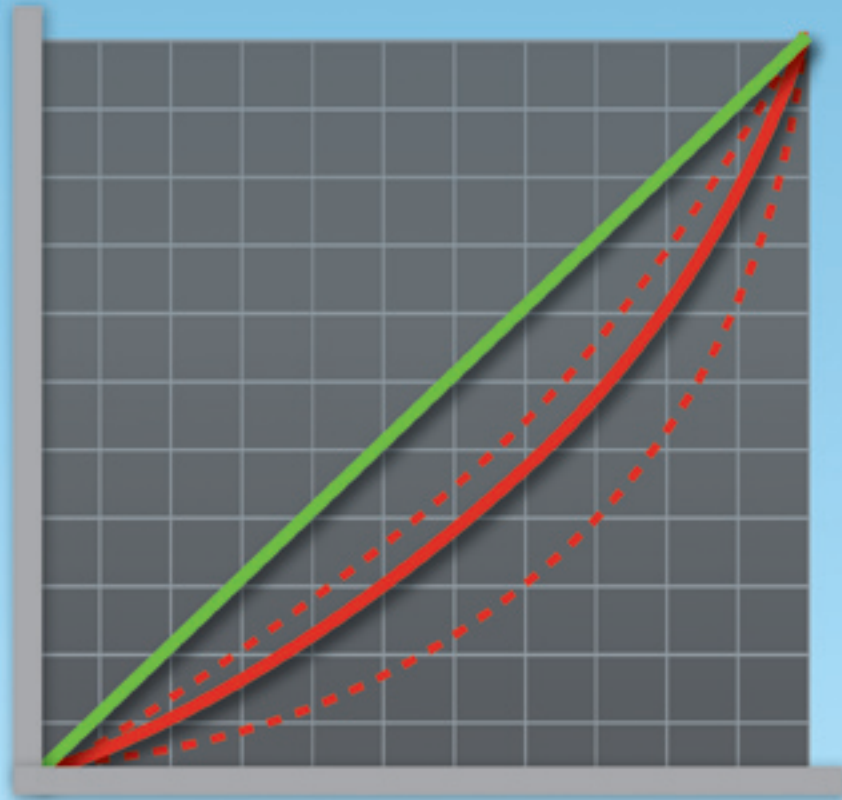


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A CRITICAL CURVE

Charting China's growing wealth divide

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A New Starting Point

At a recent press conference in Beijing, the National Bureau of Statistics (NBS), China's highest authoritative agency in charge of collecting and analyzing data concerning national economic and social development, disclosed for the first time since 2000 the country's Gini coefficient between 2003 and 2012. Also known as the Gini index, the figure is commonly used to measure the disparity of wealth among a country's citizens.

The NBS statistics show that the Gini coefficient averaged 0.482 during the past decade, hitting 0.491 at its highest point in 2008 and last year's figure standing at 0.474, higher than the global average of 0.44 published by the World Bank for 2010, and well above the warning threshold of 0.4 set by the UN. The finding serves as yet another confirmation that income inequality is on the rise in the country.

Admittedly, along with China's booming economic development, widening wealth disparities have emerged between different regions and industries, as well as among various groups of the social stratum. The NBS data suggest that the urban income level is generally three times higher than that of rural areas, while the gap between individual citizens in the highest paid positions and their lowest earning counterparts shows another stark difference, with as much as four times greater wealth. Such a scenario will not only affect the overall healthy development of the nation, but also deviates from a "fundamental principle of socialism with Chinese characteristics" as laid down at the 18th Communist Party of China (CPC) National Congress last November—the pursuit of common prosperity for all Chinese.

The NBS announcement of the disheartening Gini coefficient does offer one piece of good news for the country of over 1.3 billion people: At the very least, it has once again sounded the alarm about the widening wealth divide in China, while demonstrating that the ruling CPC is paying appropriate attention to this critical issue. More importantly, the publicized data may be taken as a new starting point for the long overdue reform of a nationwide income distribution system, as they will form the basis of consensus and help bring out the reform scheme as soon as possible. ■

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ON THE ROAD

Passengers contend with rain at the Nanning Railway Station in south China's Guangxi Zhuang Autonomous Region on January 26, the start of the 40-day Spring Festival travel rush.

The Spring Festival, marking an important occasion for Chinese families to reunite, falls on February 10 this year.

Weather Alert

A taxi travels on a Beijing street shrouded by fog on January 28.

Several consecutive days of thick smog affected a 1.3-million-square-km area in north and central China in late January, according to the Ministry of Environmental Protection.

The National Meteorological Center has introduced a three-tier color-coded weather warning system to alert the public to the severity of smog. The system uses yellow to indicate moderately smoggy weather, orange for severe conditions and red for extremely severe levels of smog.

The system not only measures the density of fine particulate matter less than 2.5 microns in diameter (PM2.5), but also takes into account visibility and relative humidity to better reflect air-quality conditions, according to the center. PM2.5 is a major component of smog and a serious threat to health as it can penetrate lung tissue.



Land Protection

China's State Council, or Cabinet, on January 28 published a circular on soil pollution, setting out a plan to contain the increasingly severe problem by 2015.

The circular ordered a thorough survey into soil conditions by 2015 and a system to be established to

rigorously protect arable land and land where drinking water originates.

It proposed building a soil environment monitoring network to cover 60 percent of all arable land and land of drinking water sources that serve over 500,000 people, so that regular surveillance will be possible for these regions.

Rigorous controls on newly

polluted soil were also demanded by the State Council, which set soil protection priorities as nipping in the bud the environmental risks accompanying soil pollution, and treating contaminated land.

Heavy metal pollution alone results in the loss of 10 million tons of grain and the contamination of another 12 million tons annually, in-

curing 20 billion yuan (\$3.17 billion) in direct economic losses each year, the Ministry of Land and Resources estimated.

Missile Interception

China again carried out a land-based mid-course missile interception test within its territory on January 27.

Xinhua learned the news from the Information Bureau of China's Defense Ministry.

"The test has reached the preset goal," said an official with the bureau, without giving detailed information.

"The test is defensive in nature and targets no other country," he said.

It was the second time China announced such kind of missile test. A similar anti-missile interception test was successfully conducted on January 11, 2010.

Before the test, China's first domestically built jumbo air freighter made its maiden flight on January 26.

The Yun-20 is a huge, multi-function airfreighter which can perform various long-distance cargo



MAKING FORTUNE

Women of Dong ethnic group make embroidery works at Tongle Village in Sanjiang Dong Autonomous County, southwest China's Guangxi Zhuang Autonomous Region, on January 26



AWARENESS CAMPAIGN

A staff member from a local center for disease control and prevention dressed like a leprosy patient with bandage holds a cardboard written with the slogan of leprosy prevention on the square of the Hefei Railway Station in Hefei, east China's Anhui Province, on January 27, the 60th World Leprosy Day



and passenger air transportation tasks, Xinhua reported, saying that the successful test flight is significant in promoting China's economic and national defense buildup as well as bettering its emergency handling such as disaster relief and humanitarian aid.

The giant aircraft will continue to undergo experiments and test flights as scheduled, Xinhua said.

Farmers' Insurance

China will include more serious diseases in its existing rural medical insurance system in 2013, the Ministry of Health said in an annual work agenda published on January 25.

According to the agenda, pilot programs will be launched to ensure that rural children with two types of severe urological disorders—among other diseases that the plan did not elaborate on—have their medical expenses reimbursed under the rural cooperative medical cooperative program.

China launched the rural insurance scheme in 2003 to ensure that the country's vast number of rural residents have access to affordable medical treatment and to reduce disease-triggered poverty. Under the program, both governments and individuals contribute funds.

As of 2012, the scheme covers 20 serious diseases, up from two in June 2010, when serious diseases

were first included in the reimbursement plan.

According to the ministry's agenda, the annual government subsidy for participants in the rural healthcare scheme will be raised by 40 yuan (\$6.43) to 280 yuan (\$45.02) in 2013.

Participants will have 75 percent of their inpatient expenses reimbursed under the rural cooperative medical program and coverage for outpatient costs will be increased, it said.

In 2013, individuals will each pay a 60-yuan (\$9.65) premium, bringing the total funds pooled for each person to 340 yuan (\$54.66), up from 290 yuan (\$46.62) in 2012. In 2003, the average fund pooled for each person was 30 yuan.

Official statistics show that the number of people covered by the program skyrocketed from 80 million in 2003 to nearly 900 million in 2012.

Emissions Targets

China has set a new emissions reduction target for 2013 by promoting an aggregate indicator budget control system for major pollutants, the minister of environmental protection said on January 24.

Emissions of organic water pollutants and sulfur dioxide in 2013 will be reduced by 2 percent year on year, while that of ammonia nitrogen and nitrogen

oxides will fall by 2.5 percent and 3 percent, respectively, said Minister of Environmental Protection Zhou Shengxian.

The emissions of four major pollutants—sulfur dioxide, nitrogen oxides, organic water pollutants and ammoniacal nitrogen—dropped at least 2 percent in 2012, Zhou said at a national meeting.

Zhou said that PM2.5 will be included in the country's major pollutant monitoring and measuring system.

This year the country will start

monitoring six major pollution indicators, including PM2.5, in 113 cities on the state environmental protection list, he said.

Medical Awards

A total of 85 Chinese research findings in medical and health fields have received the country's most authoritative scientific awards for their inventions in the field, Chinese Medical Association (CMA) announced on January 27.

The Chinese Medical and Technology Award, approved by the Ministry of Health and the Ministry of Science and Technology in 2001 and set up by the CMA, was the highest annual award in the medical and health field.

Among the eight first prize winners was a micro-invasive treatment research and its clinical application for bone fractures, which will be qualified to pursue higher prizes such as the national awards for natural science or technological invention.

Twenty-five findings, including the application of proteomics in the treatment of critical illnesses, took second prize, with the rest being awarded third prize.

Hard Battle

Chinese tennis player Li Na rises to her feet during the women's singles final match against Victoria Azarenka of Belarus at the 2013 Australian Open tournament in Melbourne, Australia, on January 26.

Li, the French Open title winner in 2011, hurt her left ankle in her first fall. After a 10-minute break for Australia Day fireworks, she fell a second time and hit her head on the ground.

Azarenka claimed the title with a 2-1 win.



Keeping Talent at Home

Migrant workers check on machines in a factory in Zouping County, east China's Shandong Province.

As the Spring Festival, or Chinese Lunar New Year, approaches, over 80,000 migrant workers have come back to their hometown in Zouping County for the holiday. Local companies have hired them to fill staff shortages during the holiday.



Bank Assets Surge

Chinese banks saw their total assets rise 17.7 percent to 131.27 trillion yuan (\$20.9 trillion) at the end of 2012, said the China Banking Regulatory Commission (CBRC).

The growth was slightly slower than the 18.3-percent growth rate recorded in 2011.

Banks' liabilities reached 122.63 trillion yuan (\$19.7 trillion), up 17.5 percent, compared with an increase of 18 percent a year earlier.

Smaller lenders, including joint-

stock commercial banks and city commercial banks, posted annual growth of more than 20 percent for both assets and liabilities, more than double the expansion rate of large lenders.

Large banks accounted for 44.1 percent of the banking industry's total assets and 44 percent of its total liabilities at the end of last year, both down from 46.6 percent a year earlier.

Five banks were categorized as large banks in the CBRC's calculations, namely the Industrial

and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank and the Bank of Communications.

Oversight on IPOs

China's securities regulator has begun to act on initial public offerings (IPOs) violations that occurred last year.

Since September 2012, the China Securities Regulatory Commission (CSRC) has sent eight warning letters to six brokerage firms that failed to disclose information in a timely manner after their newly listed clients reported profit plunges, according to a report from the *China Securities Journal*.

According to relevant regulations, the CSRC can impose penalties

on sponsors and issuers if listed companies post profit declines of 50 percent or greater in the same year that their shares became available for trading on the stock market.

The intensified monitoring efforts are intended to punish sponsors who spice up a company's financial performance to facilitate the process of going public, which may result in a marked profit slump in their annual reports after an IPO is issued.

China's stock market experienced major turbulence last year. The benchmark Shanghai Composite Index dipped to 1,959.77 points on December 3, its lowest reading since 2009.

The poor market has dented the confidence of smaller investors, who attributed their losses to excessive IPOs that allow companies to maliciously take money from the market.

Chinese investors have urged authorities to improve the way new stocks are issued and establish a delisting mechanism. In response, the CSRC has slowed the pace of IPO reviews and rolled out a string of measures to strengthen supervision and crack down on illegal activity.

Free Trade Zone

Shanghai on January 27 officially announced plans to set up a pilot free trade zone (FTZ) that would meet international norms in its Pudong New Area, the city's financial and commercial hub, in 2013.

FTZ refers to an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of customs authorities.

Shanghai has applied for a permit to build the FTZ on the basis of its existing comprehensive bonded zones.

If the application is approved, it would become the first FTZ on the Chinese mainland, said sources with the government of Pudong New Area.

Building the FTZ is one of the Shanghai Municipal Government's major tasks in 2013, said Yang Xiong,



A PUMP EMPIRE

Residents observe a wide range of pumps at Grundfos Pump's concept store opened in Shanghai on January 28



POWER ON

Staff from the State Grid Corp. examine ultra-high voltage transmission equipment on December 2, 2012

Acting Mayor of Shanghai, at the first session of the city's 14th Municipal People's Congress.

It will take about three years to build an FTZ that meets international standards, said Wan Zengwei, Director of the Pudong Academy of Reform and Development in Shanghai.

SMEs Rebound

An index measuring the growth of small and medium-sized enterprises (SMEs) in China rebounded in the fourth quarter of 2012, the first increase in eight quarters.

The SME development index rose 3.3 points from the third quarter to 90.8 in the last quarter, the China Association of Small and Medium Enterprises (CASME) said on January 28.

The index remained at a low level and was expected to continue to stabilize, but a strong recovery was hard to realize, said CASME.

The recovery trend is evident in China's economy, but companies



UTRANOV

still face a difficult business environment and are particularly troubled by overcapacity, the CASME said.

Higher costs, especially labor costs, have exerted great pressure on SMEs.

Auto Cooperation

China's homegrown carmaker Dongfeng Motor Corp. signed an agreement on January 26 with Sweden-based AB Volvo to jointly develop commercial vehicles.

Under the agreement, Dongfeng and Volvo will set up a jointly owned company to launch a new

brand of commercial vehicle named Dongfeng.

The new agreement will see Volvo become the largest heavy truck manufacturer in the world.

Branded products of the new jointly owned company will cover medium- and heavy-duty trucks, passenger cars and special purpose vehicles, as well as auto parts including chassis, engines and gear boxes.

Dongfeng Motor, a major auto manufacturer in China, has cooperated with many world-leading carmakers like Renault Group and Nissan Motor.

Numbers

3.2 mln

The number of faulty vehicles that were recalled in China in 2012, up 75 percent from a year earlier

32

The number of Chinese mainland cities that are authorized to issue travel permits to Taiwan residents

2,500

The number of shore sea ships that Indonesia will import from China to improve the country's logistics and distribution performance

Colorful Holiday

Consumers shop for flowers at the Chuanhua Garden Center in Hangzhou, east China's Zhejiang Province.

As the Spring Festival approaches, Chinese are decorating their homes with fresh flowers.



DNX

48.6 mln

The number of tourists who visited northwest China's Xinjiang Uygur Autonomous Region in 2012, up 23 percent

THIS WEEK WORLD



ISRAEL

Groom Moshey Chaim approaches his bride, the first granddaughter of Rabbi Zalman Leib Teitelbaum, inviting her to dance during their wedding in the Israeli town of Beit Shemesh on January 24. Some 5,000 guests attended the traditional Jewish wedding



BRAZIL

Residents gather to mourn the victims of a nightclub fire in Santa Maria on January 28. The deadly fire killed more than 230 people



BELARUS

A participant competes in an international dog-sled race in the suburbs of Minsk on January 27





SWITZERLAND

Ballerinas perform at the Prix de Lausanne, an international ballet competition for dancers aged 15-18, on January 28 in Lausanne. Many of the event's former prizewinners are now leading stars with ballet companies around the world



MALAYSIA

Malaysians write the Chinese character for snake at a calligraphy contest in Selangor on January 27 as part of celebrations for the advent of the Year of the Snake



XINHUA



EGYPT

A protester shouts slogans during a demonstration near Cairo's Tahrir Square on January 28. Egypt's main opposition bloc rejected an invitation from President Mohamed Morsi for talks on the violence and political turmoil sweeping the country, calling instead for fresh demonstrations

“The idea of ‘getting some people rich first’ was put forward by former Chinese leader Deng Xiaoping. It’s the right path, but lagging political reforms have led to income inequality.”

Huang Zongliang, a Peking University politics professor, speaking to Xinhua News Agency on January 27



“If the country’s grain output will not speed up, a possible food shortage will threaten the progress of urbanization.”

Chen Xiwen, Deputy Director of the Leading Group on Rural Work under the Central Committee of Communist Party of China, warning on January 26. Although China produced 159 million additional tons of grain last year compared to 2003, the country’s grain imports hit a record high of 72.3 million tons last year



“I suggest the government set up regulations and policies to classify wasting food as a crime.”

Yuan Longping, an academician of the Chinese Academy of Engineering and a hybrid rice expert, speaking to the media on January 23. According to research by China Agricultural University, 8 million tons of food protein and 3 million tons of fat were wasted in China during 2007 and 2008



“More students are becoming interested in China every year. If you put the number of scholars studying Chinese and the country’s GDP on a graph, they match perfectly.”

Guy S. Alitto, a professor at the University of Chicago, speaking to *China Daily* on January 24. According to a report from the National Research Center of Overseas Sinology in Beijing, in 1963 there were 33 people in the United States with a doctorate in Chinese studies. However, by 1993, there were more than 10,000 China specialists working for the government or universities, or in business and the media



“I’m so thrilled when I meet someone who can understand my dialect.”

Deng Chengying, 55, from Jingzhou, Hubei Province, who moved to Shanghai to look after her grandson, relating the difficulties of adapting to a new environment on January 26. In China, grandparents are migrating from their homes to take care of their grandchildren



PUBLICIZING FAMILY ASSETS



Fan Songqing, Deputy Secretary General of the Guangzhou Committee of the Chinese People’s Political Consultative Conference, south China’s Guangdong Province, who proposed that governmental officials declare their family assets, has reignited public debate over the issue. Calling on Guangzhou to first implement the policy, Fan recently publicized his own family assets, the first to do so in the country. He said the current official asset declaration policy is imperfect, only requiring officials to declare their salaries and service income and not their family assets and non-service income. Fan added that publicizing such information is necessary for effective supervision.



SOCCER CHIEF



Zhang Jian, 47, former Director of Policy and Regulation at China’s General Administration of Sport, formally replaced Wei Di as the Chinese soccer chief on January 25.

Zhang has accompanied Cai Zhenhua, Vice Minister of the General Administration of Sport, on a visit to Japan to research soccer, and then went to South America to do soccer-related research. He also delivered a speech on the problems facing Chinese soccer at a sports forum last May.

Correction
Beijing Review regrets an error on page 10 of the issue No.5 of 2013. The person above should be Wang Xiaomo, and the one below should be Zheng Zhemin.



Social Welfare System *South Reviews* January 16

According to a meeting of the State Council, chaired by Premier Wen Jiabao on January 9, retiree pensions were increased for the ninth consecutive year to 1,900 yuan (\$301.6) per person a month. However, aimed at improving social welfare, the move has triggered calls for ending the twin-track pension scheme.

Under the system, effective from the early 1990s, government and institution employee contributions are paid from the fiscal budget, while enterprise workers are responsible for their own fees.

An article by Wen published in April 2012 in *Qiushi*, a Central Committee of the

Communist Party of China (CPC) publication, called for a unified social security system. A subsequent report to the 18th CPC National Congress additionally stressed the need for improved social welfare.

A system that treats everybody equally is essential. All people, no matter their occupation, should be incorporated into one social welfare scheme. A system that favors only certain privileged groups is at risk of failure.

Whether improved social welfare can be realized will be a test to see just how far China's deepened reform is willing to stretch.

Fireworks Pollution *The Beijing News* January 29

Recent incidents of smog have caused serious air pollution in Beijing. If such conditions persist during the coming Spring Festival, should fireworks be banned? Environmental experts suggest that if the problem continues, the government should reduce and even prohibit setting off fireworks.

On the eve of the previous Spring Festival, the entire city was blanketed by the smell of fireworks set off by celebrating citizens. PM2.5 data from the air-quality monitor in downtown Chegongzhuang revealed the presence of 1,593 micrograms per cubic meter of air, far exceeding the maximum pollution level of 500.

To curb widespread use of fireworks, the government could alert citizens via text message, microblog, radio or TV. When air pollution reaches high levels, fireworks should be banned in downtown areas and sales outlets closed.

In 2005, the government lifted the ban on fireworks, with respect for traditional Chinese culture and people's rights. However, eight years since the ban was lifted, it has become increasingly clear that fireworks disturb citizens and cause air pollution, contradicting the city's efforts to reduce PM2.5.

The city's current firework policies need to be revised according to new circumstances. In a word, the government and law making organs should actively work together to restrain firework use in line with the air pollution issue.

Multiple Identities *Beijing Youth Daily* January 28

Gong Aiai, former deputy chief of Shenmu County Rural Commercial Bank in northwest

China's Shaanxi Province, recently grabbed nationwide attention for holding four *hukou*, or permanent resident permits. Accordingly, Gong allegedly bought 12 properties measuring thousands of square meters and invested tens of millions of yuan in different enterprises.

The media and netizens exposed Gong's misdeeds, forcing disciplinary inspection and public security departments to conduct an investigation into her case.

Although the Supreme People's Procuratorate has intervened and public security departments in Beijing, Shanxi and Shaanxi have carried out investigations into police of-

ficers who helped Gong to obtain her *hukou*, relevant government organs have given no clue as to the culprit's current situation or punishment. Even Gong's whereabouts are unclear.

The lack of information had brought the government's determination to deal with the matter into question. Some netizens worry that Gong will escape abroad before her trail reaches court.

Public concern over Gong's case has spread fears that other top ranking officials might be up to the same tricks. To ease such concerns, information must be made more available.

Urbanization Barriers

Caixin
January 7

The speed of China's urbanization is picking up. The national development and reform conference held on December 28, 2012, vowed to improve the quality and level of urbanization and ensure basic public services to all permanent residents.

In 2011, China's urbanization rate reached 51.27 percent, which meant that for the first time urban residents outnumbered rural dwellers in the country. However, at the same time, people realized that urbanization meant not only large-scale expansion of city territories and the erection of industrial parks, but also the massive migration of rural inhabitants.

The rural population is mainly drawn to cities in search of more opportunity, higher income, and richer educational, medical and cultural resources. The annual net income per capita in rural areas in 2011 was 6,977 yuan (\$1,121), while the per-capita disposable income for urban residents reached 21,810 yuan (\$3,504) that year.

In 2011, the number of migrant workers hit 253 million. Whether they can be well settled in cities will determine if urbanization stays on right track.

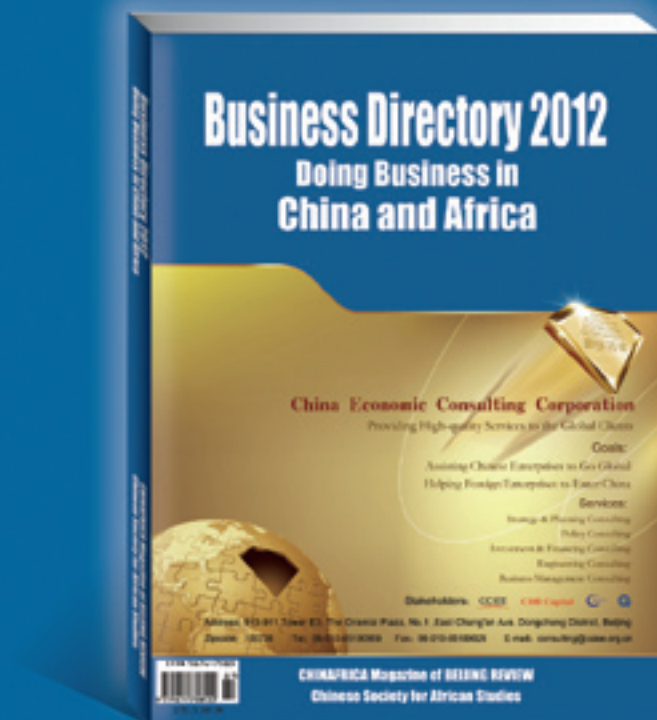




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COVER STORY

WHAT'S THE REA

Gini coefficient figures arouse calls for reforming the income distribution system

BRAVE NEW WORLD: Migrant workers relax on a street in Nanjing, capital of east China's Jiangsu Province, on April 4, 2012



L INCOME GAP?

By Lan Xinzheng



'A journalist called me asking for comment on the macroeconomic figures released today. Am I crazy to say anything based on false facts? For the Gini coefficient, even fairy tales dare not be so bold."

This statement was written on January 18 by Xu Xiaonian, a famous Chinese economist and professor with the Shanghai-based China Europe International Business School, via Weibo, a Twitter-like microblog website. On that day, the National Bureau of Statistics (NBS) released various figures on the country's economic operations in 2012.

Xu has more than 5.5 million followers online, many of whom are media insiders who quickly forwarded and shared his post. "Even fairy tales dare not be so bold" also became a popular phrase for scoffing at the authenticity of statistics.

This is the first time the NBS has released Gini coefficient figures since 2000. For years beforehand, it regularly revealed such information, but subsequently stopped because the "Gini coefficient is said to be unsuited to the conditions in China."

At a press conference on January 18, in addition to the Gini coefficient information for 2012, the NBS also released annual figures from as far back as 2003. Ma Jiantang, Commissioner of the NBS, provided no reason for the move, causing widespread queries. Whether the figures truly reflect income inequality among Chinese residents has become the focus of much argument.

Government figures

According to the NBS, China's Gini coefficient reached its highest level in 2008, standing at 0.491, but began to drop after that. In 2012, the coefficient reached 0.474.

Ma says that to calculate the Gini coefficient, China previously only had figures related to the per-capita net income of rural residents and the per-capita disposable earnings of those in urban areas, but no information based on comparable indicators.

Thus, for the past two years, the NBS has made reforms to the statistical system on resident income. As of December 2012, 400,000 households in both urban and rural areas are incorporated into a new scheme by which salaries are registered in uniform comparable standards. Accordingly, household earning figures have been recalculated to yield China's Gini coefficient from 2003 to 2011.

According to Ma, after the 2008 global financial crisis, local governments at various levels adopted powerful measures to improve people's livelihood, which serves as the major reason for the drop in the country's Gini coefficient from 0.491.

Anticipating that the figures might cause dispute, Ma emphasizes that World Bank and NBS figures correlate, with the latter's information even a bit higher. He adds that the Gini coefficient figures from 2003 to 2012 were calculated in accordance with new standards, but based on old statistics, making further revision likely.

Arousing dispute

Besides Xu, some other reputable economists and research institutes have voiced skepticism about the NBS Gini coefficient figures, arguing that it cannot fully reflect the reality of China's massive income inequality.

According to a report released on December 9, 2012, by China Household Finance Survey and Research Center, affiliated with the Southwestern University of Finance and Economics (SWUFE) located in Chengdu, Sichuan Province, in 2010 the Gini coefficient based on China's household income was 0.61, which is in clear contrast to the figure of 0.481 recently released by the NBS.

At present, Chinese prefer to believe the SWUFE figure. According to NBS figures, in 2012 the per-capita disposable income of urban residents was 24,565 yuan (\$3,911.62), which was 3.1 folds of the per-capita net earnings among rural residents of 7,917 yuan (\$1,260.67). For the 20 percent of urban residents with the highest incomes, per-capita income came to 51,456 yuan (\$8,193.63), while for the 20 ▶▶

percent with the lowest incomes, per-capita income was only 10,354 yuan (\$1,648.73).

Why is the SWUFE figure so much higher than that of the NBS? According to Ma, a standard non-governmental survey could be an important and valuable supplement to government information, based on a scientific statistical system and sampling method, a proper number of samples and a prudent attitude to release results.

Ma adds that urban incomes grew faster than the GDP, and that the earnings of rural residents outpaced that of their city counterparts in 2012. Such changes lead to the Gini coefficient drop.

However, public support for the NBS version of Gini coefficient findings does exist.

"The NBS says the income gap has narrowed in recent years and that the Gini coefficient is reducing. Why do some claim it's not true? To those who hire housekeepers, is your salary or your housekeepers' salary growing faster? Most low-income groups get higher salaries, but since the global financial crisis, how many large employers are powerful enough to significantly up earnings? The news that China's Gini coefficient is falling seems to make some people unhappy, but can't the country turn better?" said Hu Xijin, editor in chief of *Global Times*, after reading Xu's Weibo post.

Yu Bin, Director of Macroeconomic Research at the State Council Development Center, thinks that in recent years, income growth among rural residents has been higher

than in cities while the income gap is shrinking, creating good conditions for the decline of the Gini coefficient. From this point of view, the NBS figures could be true.

Since 2009, the Central Government has strengthened aid to urban low-income groups and farmers, raising minimum wages, increasing pensions for corporate retirees, upping the individual income tax cutoff point, exempting agricultural taxes, expanding input in rural education and expanding healthcare support. The annual growth of farmer incomes has been higher than that of urban residents for three consecutive years.

However, "middle-class" earnings across cities have shown little improvement. For this group, besides wages, income is derived from stock and real estate market investments. A continuing bear market, coupled with the government's control of real estate, has consumed most middle-class investments. In contrast, the earnings of low-income groups have risen remarkably, narrowing the Gini coefficient.

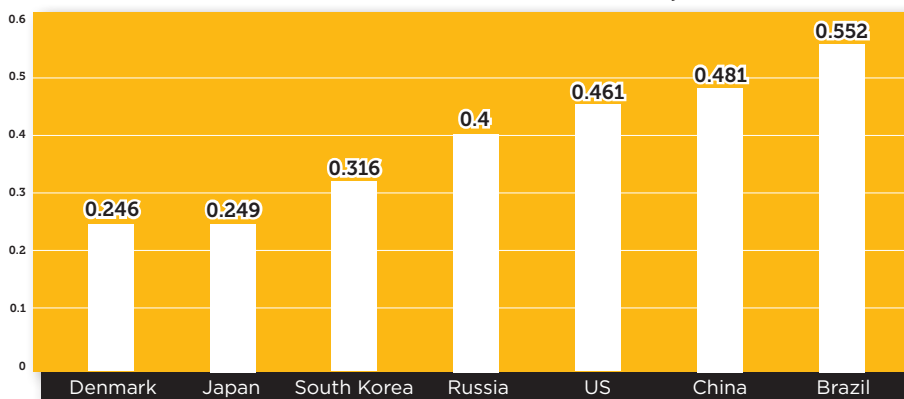
Liu Huan, a professor with Central University of Finance and Economics in Beijing, says calculating the country's Gini coefficient is a very complicated task. With a large population and a huge number of households, it is hard to get concise statistics on the distribution of income via census. Therefore, most countries adopt a sampling method by which surveyors ensure coverage and representation. This relies on a major amount of manpower and material input, as well as cooperation, making the process difficult. Even international organizations such as the United Nations and World Bank have insufficient channels and capabilities to independently calculate China's Gini coefficient. SWUFE's China Household Finance Survey claims to have analyzed 8,438 samples from 80 counties in 25 provinces. It is never easy to carry out such a survey, which is simply not enough to illustrate the Gini coefficient of a country with a population of 1.35 billion.

Liu thinks the accuracy of calculations by both government and non-state institutions needs to be further demonstrated, perhaps relying more on calculation methods.

A progress

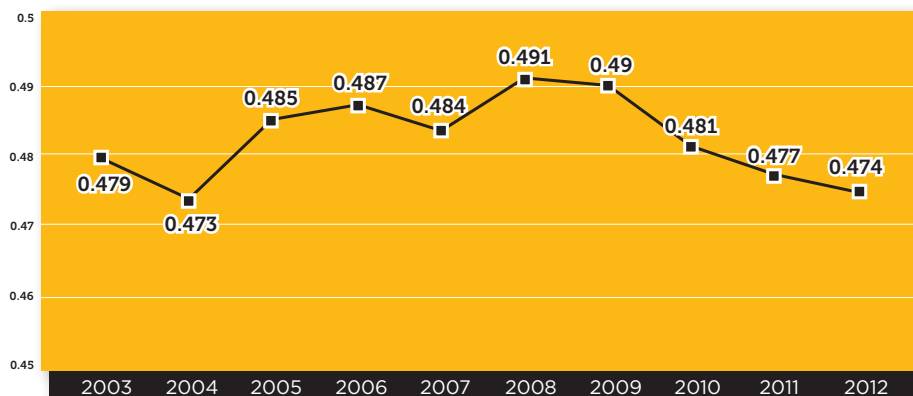
China's income gap has been a concern to many people. Each time figures are released, arguments ensue. In 2007, famous economist Li Yining said that according to his calculations, the country's Gini coefficient was lower than 0.2

Gini Coefficient in Selected Countries, 2010



(Data compiled by Beijing Review)

China's Gini Coefficient 2003-12



(Source: NBS)

and drew the conclusion that there was no polarization between the rich and the poor. The findings were subject to scathing censure, and his few supporters were submerged in criticism. During 2010, the resident income project group of the Chinese Academy of Social Sciences revealed that China's Gini coefficient was 0.382 in 1988, 0.455 in 1995, 0.454 in 2002 and 0.48 in 2007. The findings, which reflected an enlarged income gap, were widely accepted as accurate.

Subsequently, SWUFE's China Household Finance Survey and Research Center issued its own research report in last December, saying that in 2010 the country's Gini coefficient reached 0.61. Many people chose to believe the shocking figure.

However, conclusions drawn by scholars and non-governmental institutions lack authority. Therefore, some Chinese people prefer government figures on equal income, such as those given the NBS data.

"Putting aside arguments over the authenticity of figures, releasing Gini coefficient information illustrates the Chinese Government's concern over the issue," Yu said.

System reform

According to Yu, releasing NBS figures offers a powerful argument for the reform of income distribution. "It is time for China's income system to be adjusted."

Having established a market economy adaptive to globalization, the warning line of 0.4, based on the compensation system, income structure and social welfare in developed countries, is also applicable to China.

The NBS figures show the national Gini coefficient reached between 0.47 and 0.49 in the past 10 years. "This requires the government to acknowledge and solve the problem of income inequality," said Yu. Both governmental and independent information prove that China has indisputably exceeded the internationally accepted warning line.

Ma agrees. "The Gini coefficient reflects China's large income gap, indicating the urgency to accelerate reform," he said at the press conference on January 18.



The scheme of income distribution reform was initially drafted in 2004. Since the issue involves livelihoods as well as economic and social development, the draft remains incomplete.

The Gini coefficient is just as important as the GDP. If the latter reflects the size of the cake, the former reveals ways in which it is distributed. China's GDP has now exceeded 50 trillion yuan (\$7.96 trillion). If the country cannot properly distribute wealth, the Gini coefficient will continue to rise, threatening the sustainability of China's economic development and making the country fall into the "middle income trap."

According to Ma, the government should be rational in analyzing China's income inequality.

Gini Coefficient

The Gini coefficient measures income inequality. It is a number between 0 and 1, where 0 corresponds to perfect income equality, and 1 to perfect inequality. The internationally recognized warning line of income inequality is 0.4. The higher the Gini coefficient, the greater the inequality.

ity and formulate a proper scheme for reform, focusing on the relationship between the market and the efficiency of development as well as wealth distribution.

Su Hainan, Deputy Director of the China Association for Labor Studies, thinks the NBS data will serve as an assessment standard to deepen the reform of income distribution and highlight the government's resolution to address inequality.

Reform must entail not only the raising of wages, but also make up for the shortfall in housing, education, healthcare and pension funds, alongside readjusting unreasonable property distribution.

Su also believes in "upping low incomes" while "controlling high earnings." The former refers to realizing full social security coverage, properly raising the minimum wage, upping salaries in labor-intensive industries and further increasing farmer incomes.

Moreover, the government will offer more low-rent and affordable homes to low-income groups while helping depositors and individual stock investors enjoy reasonable interests and yields.

To "control high earnings," the government will keep tabs on the excessively high salaries associated with senior company management and monopolistic industries. On the other hand, the state will gradually change the unreasonable distribution of property proceeds. Based on such measures, China will also improve the collection of individual income tax, accelerate property tax reform and launch the estate tax at the proper time, strengthen management of the stock and real estate market as well as better manage the resource allocation system to ensure fairness.

"Only by making efforts along the above lines can the country gradually lower its Gini coefficient and realize common prosperity," Su said.

The target for reform remains unchanged—enlarge the middle class.

"As the most difficult task in China's development, progress in income distribution reform is expected," he added. ■

COVER STORY

AMBITIOUS AND PRACTICAL

The report to the 18th National Congress of the Communist Party of China (CPC), which outlines the country's development roadmap for the next five years, states that China's GDP and per-capita income for both urban and rural residents will double between 2010 and 2020. This goal has been widely discussed among the public since its announcement. **Zheng Jingping**, CIO with the National Bureau of Statistics, explains the plan's meaning and feasibility in detail in a January 14 essay in *Study Times*, a newspaper published by the Party School of the CPC Central Committee. Excerpts are as follows:



The plan to double income has at least four major implications.

First, the doubling of resident income refers to real growth at constant prices, so concerns about inflation consuming income growth are unwarranted.

Second, if the plan is realized, China's GDP, and per-capita disposable income for urban residents and per-capita net income for rural residents will reach 80.3 trillion yuan (\$12.95 trillion), 38,218 yuan (\$6,164) and 11,838 yuan (\$1,909), respectively, by 2020. That requires the average annual growth rates for these three figures to stand at 6.86 percent, 6.86 percent and 6.3 percent, respectively.

Third, as the economic growth rate slows in the United States, the largest economy in the world, China's share of global GDP and average income level will rank higher in the world by 2020.

Fourth, the resident income will account for a larger share of China's GDP if the plan succeeds. Since China's population grows every year, if the average per-capita income doubles, the total resident income will have to grow by an extra 4.6 percent based on an annual natural population growth of 0.45 percent to offset the population growth. That means the proportion of resident income against GDP has to be raised by at least 4.6 percent.

The "income doubling" plan was set on

both a positive and prudent note. Achieving this goal requires enormous efforts that go against expectations. After sustaining rapid growth at an average annual rate of 9.9 percent for more than three decades, China's economy faces profound changes in internal and external environments and increasing constraints and challenges.

First, the international economic environment is worse than it was 10 years ago. The world economy will continue to see low growth amid possible fluctuations for the next five years or longer. In the short term, there are risks caused by European sovereign debt crisis, the "fiscal cliff" in the United States, the slowdown of economic growth in emerging economies and the unclear future of de-leveraging efforts carried out by governments, families, banks and enterprises in the West. In the middle and long term, it will take a long time for the world econo-

my to fully recover after a major crisis, for faulty systems to be fixed, for the establishment of a new global economic order, for the materialization of innovations in theories and technologies and for the reform of public spending policies to cope with population aging.

Second, China's economic growth is further restrained by environmental factors as well as energy and labor shortages. China's reliance on imported energy and minerals has risen for many years and is as high as 50 percent for some items. Meanwhile, China faces the problems of worsening soil, water and air pollution. The emissions of major pollutants in China have exceeded the capacity of ecosystems. Moreover, China's vast labor pool is shrinking. The proportion of the working-age population



A SWEETER LIFE: Shoppers select candies in a supermarket in Hohhot, Inner Mongolia Autonomous Region, on November 12, 2012. Urban residents' per-capita disposable income in the region grew by 14.2 percent year on year for the first three quarters of 2012

TICAL

(between ages 15 and 64) against the total population dropped to 74.43 percent in 2011, 0.1 percentage point lower than the previous year. Despite the minimal difference, it was the first time in many years that this ratio went down.

Third, the difficulty of realizing the “income doubling” plan increases against the background of growth model change in China. According to the report to the 18th CPC National Congress, the precondition for the plan is that “major progress should be made in changing the growth model and China’s development should be much more balanced, coordinated and sustainable.” Although the new development model will benefit economic growth in the long term and increase its sustainability, economic growth will have to slow down

during the transformation in the short term. In addition, between 1979 and 2011 China’s average annual economic growth and growth of resident income were 9.9 percent and 7.4 percent, respectively. If the ratio between the two figures stays the same, and GDP grows by 6.86 percent annually for the next eight years, the annual growth for resident income will only be 5.1 percent, falling short of the 6.5 percent growth needed to double income. Therefore, much effort must be put into adjusting the income distribution between state, enterprises and residents.

Fourth, problems surrounding the current institutions and mechanisms are still hurdles to development in a scientific way. The governance system, fiscal and taxation system, financial system and mechanisms on scientific and technological innovation are yet to be improved and finely tuned.

Fifth, China faces a rise of economic and social challenges as its economy transitions, including an underdeveloped labor market, widening wealth disparities, deficient social security systems, education inequality, environmental pollution and looming financial risks.

But the “income doubling” goal is attainable as China still enjoys a window of opportunity.

The overall international environment is favorable for China’s economic and social development. Peace, development and cooperation remain the trends of our times. Since the outbreak of the international financial crisis, the changes to the international political and economic structure

have improved the international environment for China’s development and have created new opportunities. Theoretical and technological innovations worldwide have shown great prospects.

Domestically, China’s economy still has enormous potential and room for growth.

First, China has political stability and a clear-cut roadmap for development with the election of a new top leadership at the 18th CPC National Congress. This eliminates the possibility of detours in future development.

Second, China’s economic development is still at a primary stage. Accelerating urbanization, integration of IT application, industrialization and agricultural modernization will all inject new vigor into its economic growth. Continuous improvement of the residential spending structure, development of infrastructure, and implementation of ecological protection and social welfare programs will also unleash huge potential for growth.

Third, China’s rapid economic growth over the last three decades has laid a sound foundation for future development. China is now the second largest economy in the world, with the globally largest manufacturing added value, foreign reserves and volume of exports of goods. China also ranks top in grain output and many other agricultural products. China is the largest producer of more than 200 varieties of major industrial products. Moreover, recent years have witnessed significant progress in China’s transportation and telecommunications infrastructure as well as municipal facilities and water resources projects. China’s research and development level and number of qualified research personnel are both higher than ever.

Lastly, our confidence comes partly from the recent successes in economic development. For the last decade, China’s average annual growth rates for GDP and resident income were 10.7 percent and 8.5 percent, respectively. ■



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