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Inside China's pursuit of health care reform

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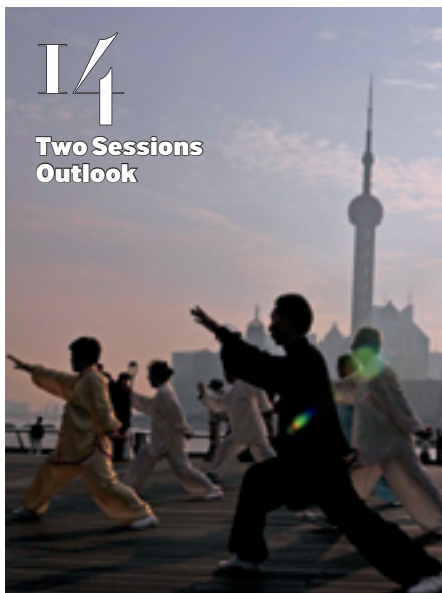
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# All for Good Health

The task of providing the largest population in the world with decent and affordable medical services has always been a challenge for the Chinese Government.

Chinese urban residents enjoyed nearly free access to basic medical resources for almost 40 years after 1949, until a reform was initiated in the 1980s amid the country's transition from a planned to a market economy. The vast rural population had no medical insurance during the four decades. In 2003, China started the New Rural Cooperative Medical Scheme to offer affordable medical services to its rural residents.

In March 2009, a new round of reform was launched with a focus on providing equal access to basic medical services in different regions.

In the following three years, the government invested more than 1.5 trillion yuan (\$241 billion) in various programs. By the end of 2011, more than 95 percent of the Chinese population had been covered by basic medical insurance programs—5 percentage points higher than the preset target. In that year, patients made a total of 6.27 billion visits to hospitals, 1.4 billion more than the figure before the start of the new reform.

Meanwhile, the proportion of private spending in total health care costs dropped 20 percentage points compared with a decade ago to 34.77 percent in 2011, while that of public expenditure rose more than 10 percentage points. Patients can now expect 70-90 percent of their medical bills to be reimbursed according to different conditions.

Starting in 2012, the focus of China's medical reform has shifted from laying foundations to boosting the quality of services. Recently, the State Council, China's cabinet, unveiled new policies to consolidate community-level medical reform to further lower patients' financial burden.

According to research by the World Health Organization, only when the proportion of individual payments for healthcare is reduced to 15 to 20 percent of a country's total healthcare bill will it be possible for residents to avoid being dragged into poverty by serious diseases. In China, the proportion is expected to be reduced to less than 30 percent by 2015.

Medical reform is a tough task worldwide. China, though already on the right track, will still require much more effort to accomplish it. ■

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# EXPATS' FORTUNE

A foreign correspondent writes the Chinese character *fu* (meaning "good luck") with a calligraphy brush at Laoshe Tea House in Beijing on February 22.

Around 150 foreign journalists and their families were invited by the Press Office of the Beijing Municipal Government to attend festivities for China's traditional Lantern Festival, which fell on February 24 this year.

## Home Port

China's first aircraft carrier, the *Liaoning*, anchors at its home port in Qingdao, east China's Shandong Province, on February 27.

The carrier base in Qingdao has become operational after four years of construction, according to a People's Liberation Army Navy statement.

Qingdao is ice-free throughout the year for berthing civilian and naval vessels. The city is also the base of the PLA Navy's Beihai Fleet headquarters.



WU DENGJING

## Pension Coverage

China's pension system covered 484 million people at the end of 2012, according to figures revealed by the Ministry of Human Resources and Social Security on February 27.

Vice Minister Hu Xiaoyi said at a national conference on social insurance funding that 304 million urban Chinese were covered by the

pension system, 50.9 percent higher than the number registered in 2007.

Gross revenues for social insurance funds totaled 2.85 trillion yuan (\$458 billion) and gross expenditures reached 2.21 trillion yuan (\$355 billion) last year, respectively 2.63 times and 2.8 times those of five years ago.

Basic endowment insurance per capita has increased 86 percent compared with five years ago, Hu said.

## Organ Donation

A trial human organ donation project has brought in 1,804 human organs since March 2010, according to a statement from the Ministry of Health and the Red Cross Society of China (RCSC).

Nineteen provinces are participating in the program, according to a statement issued at a joint press conference on February 25.

Zhao Baige, Executive Vice President of the RCSC, said that the program should be extended to all provincial-level regions before the end of the year.

Zhao said that relevant departments will build an information

platform for organ donations, revise related laws, train staff, regulate donation funds and establish a sound supervision system.

China is facing a shortage of human organs for transplantation. About 300,000 patients are waiting for undergoing transplant surgery each year, but only 10,000 can receive such operation.

## Aging Society

China will have 202 million elderly people in 2013, accounting for 14.8 percent of the total population, the China Research Center on Aging said on February 27.

According to a report released by the center, there were 194 million Chinese people aged 60 and over at the end of 2012, making up 14.3 percent of the country's total population in 2012. The age group added 8.91 million people last year.

The report said that a bigger proportion of the population will require aid. It estimates that 45.94 percent of the total population will need to be supported by other people in 2013, compared with 44.62



CHINA



## BAMBOO BOOK

*The Charm of Bamboo—100 Selected Ancient Chinese Poems on Bamboo*, the first anthology of poetry praising the perennial evergreen plant, which includes a preface written by former Chinese President Jiang Zemin, debuts in January in both Chinese and English





## INK WORLD

People attend a media preview of *The Moment for Ink* at the Chinese Culture Center in San Francisco, the United States, on February 22. The joint exhibition features 150 ink paintings by 50 painters from China, the United States, Germany and Nigeria



percent in 2012. The elderly with chronic diseases will exceed 100 million this year from 97 million a year earlier, it added.

In order to cope with an aging society, 3.1 billion yuan (\$498 million) has been allocated to a pilot program to set up the social service system for the elderly, said the report. China has also revised relevant laws to guarantee pension insurance for people in both rural and urban areas.

## Poverty Relief

The National Bureau of Statistics announced on February 22 that 2012 saw some 23.39 million rural dwellers edge above the poverty line, currently set at 2,300 yuan (\$370) in annual net income per capita.

The decrease brought the total number of impoverished rural residents to 98.99 million at the end of 2012.

In 2012, however, China boosted its rural residents' average per-capita net income to 7,917 yuan (\$1,272), up 10.7 percent in real terms, according to data released earlier by the bureau.

## Rare Disease Alliance

Seventeen medical institutions launched China's first national organization against rare diseases in Jinan, east China's Shandong Province, on February 27.

The alliance is committed to establishing treatment centers nationwide, researching cures, publicity and medical education of rare diseases, said Han Jinxiang, an official with the Shandong Academy of Medical Sciences.

The academy is a founding member of the alliance, and the 17 medical institutions are from 13 provinces on the Chinese mainland.

The alliance will assist in data collection of rare diseases, carry

out epidemiological studies and improve treatment, Han said.

According to the World Health Organization, a rare disease is one that affects a small percentage of the population, ranging from 0.65-1 in 1,000. More than 6,000 rare diseases have been confirmed so far.

## Ecosystem Evaluation

China on February 25 launched a pilot gross ecosystem product (GEP) evaluation system in Hobq Desert in northern Inner Mongolia Autonomous Region.

The scheme was introduced by the International Union for Conservation of Nature (IUCN) and the Inner Mongolia-based Elion Green Foundation. Hobq, China's seventh largest desert, will be the first pilot area.

The GEP, created and advocated by the IUCN, is an account system that corresponds to the GDP and measures the status of an ecosystem.

It will reflect ecological conditions by tallying the gross product of both natural ecosystems, including forests, deserts and wetlands, and artificial ones such as farmland, pastures and aquaculture farms.

The pilot is significant in testing whether the GEP is scientific and feasible, and the trial paves the way for integrating the GEP into the national account system and introducing it globally, said Zhang Xinsheng, President of the IUCN.

## Homemade Centrifuge

China's largest atomic energy developer on February 23 announced the successful installation of a domestically produced uranium enrichment centrifuge for industrial use.

The centrifuge was built in a uranium enrichment plant in Lanzhou, northwest China's Gansu Province, said the China National Nuclear Corp.

Uranium centrifuges are necessary to obtain concentrated U235, which is used as fuel for nuclear power plants.

## Top Maker

The total industrial output value of China's agricultural machinery industry reached 338.2 billion yuan (\$54.35 billion) in 2012, ranking first globally, a senior official said on February 26.

Zhang Taolin, Vice Minister of Agriculture, said that the sector has been growing by about 20 percent annually for the last six years.

The sector's output surpassed that of the EU and the United States for the first time in 2012, according to the China Association of Agricultural Machinery Manufacturers. China produced more than 2 million tractors and 1 million harvesters in 2012, more than any other country.

China needs to improve quality, safety and technology in the sector and produce more mid- and large-sized high-end agricultural machinery, according to the official.

## Press Center

Journalists check data at the Telecom & Network Service Room of the press center for the 2013 sessions of the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC) at the Media Center Hotel in downtown Beijing

on February 26.

The CPPCC National Committee, the country's top political advisory body, convened its annual session on March 3, followed by the NPC, China's parliament, on March 5. They will elect new state and government leaders of China.



## Living Outside The Mountain

Suo Qian, a migrant from a village in the mountainous areas of Ningxia Hui Autonomous Region to Jinling Village in Lingwu City, works for a textile company in the village and earns over 1,000 yuan (\$160.52) a month.

Since the end of 2010, the region has begun to see the migration of mountainous residents from the central and southern parts of Ningxia. To date, over 121,000 have moved out to start a new life.



WANG PENG

## Largest Foreign Takeover

China National Offshore Oil Corp. (CNOOC) announced on February 26 that it has closed the deal to acquire Canada's Nexen Inc.

CNOOC, China's largest offshore oil and gas producer, said the company paid about \$15.1 billion for Nexen's common and preferred shares.

Wang Yilin, Chairman of CNOOC, said the company is delighted to have acquired a leading international platform through the

acquisition of Nexen.

Kevin Reinhart will continue to serve as CEO of Nexen, which will operate as a wholly owned subsidiary of CNOOC.

Li Fanrong, CEO of CNOOC Ltd., a listed subsidiary of the group will chair the new Nexen board.

The deal was first announced in July 2012. It is the largest overseas acquisition ever made by a Chinese company.

## China-ASEAN Link

A railway linking southwest China's Yunnan Province with the ASEAN

countries came into operation on February 23 after seven years of construction.

The railway between Yuxi and Mengzi, both in Yunnan, is part of the eastern line of the planned Pan-Asia Railway network, an international railway project that will bring China closer with Southeast Asia.

The 141-km railway has a designed maximum speed of 120 km per hour. It passes through 35 tunnels and crosses 61 bridges, which together account for 54.95 percent of the eastern line's total length.

The eastern line also consists of the Kunming-Yuxi Railway, already in operation, and the Mengzi-Hekou Railway that is under construction and scheduled to be operational at the end of next year.

## Petrochemical Cooperation

Sinopec Sichuan Vinyon Works Group and South Korea's SK Chemicals Co. Ltd. signed a joint venture contract on February 25 in southwest China's Chongqing Municipality to build a butanediol (BDO) facility with an annual production volume of 200,000 tons.

The project, which includes production facilities for acetylene, formaldehyde and BDO, as well as other support projects, will cost 3.8 billion yuan (\$605 million).

Located in the Changshou Economic-Technological Development Area, the project is expected to be completed by the end of 2015.

Upon completion, the project is expected to realize an annual sales volume of 4 billion yuan (\$642.4 million) and pay 1.4 billion yuan (\$224.8 million) in taxes each year.

The BDO project is a milestone for Chongqing in becoming a global natural gas industrial base, said Huang Qifan, Mayor of Chongqing. The petrochemical industry, especially the natural gas chemical industry, is one of the six pillar



ZHANG JING



## LOWER PRICES

Consumers select vegetables at a food market in Shijiazhuang, north China's Hebei Province. According to the Ministry of Commerce, food prices in 36 monitored cities fell after the Spring Festival





## FASTER CONNECTION

The electrification system of the high-speed railway connecting Hangzhou to Ningbo, both in east China's Zhejiang Province, fulfills one-time success in transmitting electricity and will be put into use in June, cutting travel time to 36 minutes

industries in Chongqing.

Sinopec is China's top oil refiner. SK is the third largest conglomerate in South Korea, with energy and communications as its two major businesses.

## ICBC's Move

Industrial and Commercial Bank of China (ICBC), the country's biggest lender, said on February 24 that its Middle Eastern unit in 2012 saw pre-tax profits of \$54 million, up 69 percent year on year, while its total assets increased 29 percent to \$3.96 billion.

Tian Zhiping, regional CEO of Dubai-based ICBC Middle East, said that 2012 was another year of strong growth because the company continued to benefit from its regional franchise and unique position as a bridge for trade and investment between the Middle East and China.

ICBC said its branches in Dubai and Abu Dhabi of United Arab



TAN JIN

Emirates and in Doha of Qatar contributed to the strategic expansion of the bank's Middle Eastern business.

## More EU Investment

Europe has attracted twice as much investment as the United States from Chinese investors in the past two years, U.S. consulting firm Rhodium Group said in a report on February 25.

Annual flows of Chinese direct investment to the EU increased from less than \$1 billion before 2008 to an average of \$3 billion in 2009 and 2010, before tripling to more than \$10 billion in the past two years, according to the report.

In the United States, China's

direct investment surged from less than \$1 billion in 2008 to \$5 billion in 2010, before dropping to \$4.7 billion in 2011 and reaching a record high of \$6.5 billion in 2012, which remained below the levels seen in the EU in the past two years.

This was mostly driven by commercial opportunities resulting from the fiscal and economic crisis in the eurozone, according to Thilo Hanemann, Research Director of the Rhodium Group and the author of the report.

"Chinese investors seized opportunities to buy into cash-strapped European industrials and assets promising stable long-term returns such as utilities and other infrastructure," he noted.

## Numbers

### 13,227

Number of Jimny vehicles that Japanese carmaker Suzuki Motor Corp. will recall in China to fix flaws that may pose safety risks

### 87.2 bln yuan

Main business revenues that China's telecom sector registered in January 2013, up 6.8 percent from a year earlier

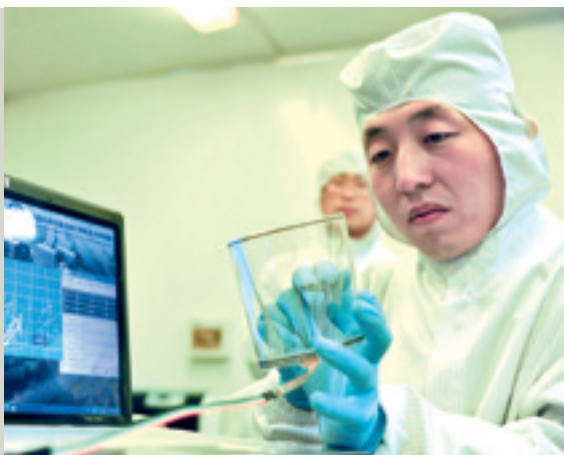
### 403.1 tons

China's gold output in 2012, up 11.66 percent

## Hi-Tech Solution

A researcher with the Chongqing Institute of Green and Intelligent Technology under the Chinese Academy of Sciences demonstrates the special features of single-layer graphene.

The institute signed a cooperative agreement with the Shanghai Nanjiang (Group) Co. Ltd. to develop the commercial use of single-layer graphene in digital products to make them cheaper, lighter and less energy-consuming.



LIU CHAN

### 1.4%

GDP growth of Hong Kong in 2012, much lower than the previous year's 4.9 percent



# THIS WEEK WORLD



## THE UNITED STATES

A mother feeds sheep at the Houston Livestock Show and Rodeo on February 25. The event is the world's largest livestock exhibition and expected to draw more than 2 million visitors

SHUTTERSTOCK



SHUTTERSTOCK



## EGYPT

Egyptians inspect the site where a hot air balloon crashed near the ancient temple city of Luxor on February 26. The balloon caught fire and exploded during a sunrise flight, killing 19 tourists, including nine from China's Hong Kong



## SPAIN

An Ascend D2 smart phone produced by Chinese telecom company Huawei on display inside a fishbowl at the Mobile World Congress in Barcelona on February 25

SHUTTERSTOCK







## MYANMAR

Contestants participate in the Miss Myanmar International competition in Yangon on February 24. The contest was held to promote the nation's tourism industry



## INDIA

An Indian vendor arranges devil masks, believed to ward off evil if hung outside homes, at his roadside stall in Hyderabad on February 23, two days after twin bombing attacks struck the city



## CUBA

Cuban President Raul Castro and Russian Prime Minister Dmitry Medvedev talk to journalists at the Soviet Soldier Monument in Havana on February 22. Medvedev met with Castro for trade and energy talks during a visit to the island country

**“If the brothers are of the same mind, their sharpness can cut through metal.”**

Xi Jinping, General Secretary of the Central Committee of the Communist Party of China, speaking at a meeting with visiting Honorary Chairman of the Kuomintang Lien Chan, on February 25, suggesting the two sides can overcome any difficulty if they work together



**“Although the whole industry is still mired in gloom, we still plan to raise workers’ salaries by 10 percent this year.”**

Tian Chengjie, Vice President of Silverman Holdings Ltd., a textile company in Zibo of Shandong Province, speaking to *China Daily* on February 26. The country’s labor force aged between 15 and 59 shrank by 3.5 million last year, forcing many low-cost manufacturers to raise salaries to retain employees



**“A lack of transparency and high procurement prices will invite public suspicion.”**

Tian He, a researcher with the Chinese Academy of Social Sciences who led a survey of government procurement prices, on February 25. The study showed that nearly 80 percent of government procurement was purchased at a price much higher than market figures



**“Local governments need political incentives and fiscal support if they are to turn the country’s 260 million migrants into urban citizens.”**

Feng Kui, a researcher at the China Center for Urban Development under the National Development and Reform Commission, speaking on February 27



## KMT HONORARY CHAIRMAN



Lien Chan, Honorary Chairman of the Kuomintang (KMT), along with a delegation from Taiwan, visited the mainland from February 24 to 27. Top leaders of the Communist Party of China (CPC) Xi Jinping, Hu Jintao and Jia Qinglin met Lien during his stay in Beijing. The trip was aimed at strengthening cross-Straits ties. From April 26 to May 3, 2005, Lien, then KMT Chairman, led a Party delegation to visit the mainland, the first by a top KMT official since 1949. During that trip, Hu, then General Secretary of the CPC Central Committee, met Lien on April 29, marking the first meeting between top leaders of the two parties in 60 years.



## OSCAR WINNING DIRECTOR



Chinese director Ang Lee won the Oscar Award for Best Director for his 3D movie *Life of Pi* on February 24 at the 85th Academy Awards.

The movie won three other awards including those for original score, cinematography and stunning visual effects.

Hailing from Taiwan, the 59-year-old filmmaker won the Oscar Award for Best Foreign Language Film in 2001 for *Crouching Tiger, Hidden Dragon* and another for Best Director in 2006 for *Brokeback Mountain*. He is the first Asian filmmaker to win the Oscar for Best Director.





## Focus on Cultural Soft Power *Outlook Weekly* February 18

A remarkable trend has emerged recently in the development of Chinese culture. In the past, locals were eager to chase Western traditions, but today they are paying more attention to native culture, combining the old with modern elements.

With China experiencing a lag in development since the late 19th century, many locals lost their pride in native customs. With the country's rapid growth over the past decades, however, it has counteracted the trend to again enjoy much influence globally.

Recently, movies and TV series have been forerunners in promoting Chinese culture, with overseas yearly earnings of more than 1 billion

yuan (\$160.52 million). Local artists have also traveled to various well-known theaters around the world to perform Peking Opera, Chinese folksongs and dances.

However, the booming Chinese culture still has a long way to march, as its strength and international competitiveness is not yet sufficiently developed. In particular, innovation remains weak compared to that in developed countries. China's export of cultural products reached \$14.39 billion in 2010, less than 1 percent of total exports in that year.

Only through the efforts of multiple generations will a world cultural power be established.

## Moral Education

[www.people.com.cn](http://www.people.com.cn)  
February 25

The son of famous singer Li Shuangjiang has been detained along with four others for suspected involvement in a gang rape. The news has widely spread on the Internet and become a major topic of discussions. As the son of a prestigious artist, Li junior, who is not yet 17 years old, is easily noticed and talked about when a scandal is disclosed. Usually, society sets a relatively high expectation on them in terms of morality. For this reason, future celebrities must remember that education is not just a matter of family, but also involves social responsibility.

It's true that good environments for growth make it easier for celebrity families to produce excellent offspring compared to ordinary families. However, nowadays, education of children from wealthy families is proving to be an increasingly thorny problem, with many kids taking their social position for granted. They do whatever they want because they know their celebrity father or mother can bail them out when the going gets tough. Guided by such misjudgment, they tend to indulge in harmful behavior.

On the education of their son, the Li couple once said in an interview that they did not put expectations on their child to achieve much success or become a celebrity, but want him to grow up happy and free. There is nothing wrong with such an education concept. However, parental guidance remains an urgent task. Parents and society retain an important role of teaching children proper values and moral standards.

## Groundwater Pollution

[www.chinrailway.com](http://www.chinrailway.com)  
February 25

Recently, the news that enterprises in east China's Shandong Province pumped polluted water into the ground, contaminating large areas, has attracted public attention and triggered much

anxiety.

According to an investigation conducted by the Ministry of Land and Resources 10 years ago, more than half of the shallow groundwater in the country's 1.97 million square km plain areas was already beyond use. Polluted water is posing an increasingly serious threat to public health. Polluting elements such as arsenic and chromium in water have increased the incidence of cancer.

In most cases, water pollution is caused by illegal wastewater discharge from factories. In order to save costs, some facilities do not have treatment equipment. They even pump wastewater into the ground.

Lack of supervision is another reason for

the rampant direct discharge of wastewater. Particularly, in rural areas, there is no sewage treatment equipment or supervision. In order to achieve better economic performance, some local governments turn a blind eye to polluting enterprises and sometimes even collude with them to cope with upper-level environment watchdogs.

Environmental problems are directly related to sustainable development. It will be a tragedy if the health of future generations is thus damaged by pursuit of immediate interests. As for the many polluting enterprises, relevant authorities must strengthen punishment and shut down some of the offenders if the situation becomes too serious.

## Dispute Over Oil Standard

*Caixin Century Weekly*  
February 4

Many cities in China have been blanketed with heavy fog during the past winter. Apart from weather factors, people blame air pollution on the low quality of gasoline consumed by millions of automobiles in big cities like Beijing. Environmental experts say car emissions produce 34 percent of PM 2.5, including particles of sulfur and manganese, a major component of smog.

Consequently, the public has urged oil suppliers to improve standards and quality as well as reduce pollutant additives in gasoline as soon as possible. However, more environmentally friendly gasoline will increase costs for oil giants and auto makers who need to improve cars to use new fuel.

Currently, the government, oil giants and car producers are contending sharply over the new oil standard National V. Their arguments mainly focus on whether to prohibit manganese additives in gasoline. The final draft is expected to be submitted to the State Council after a series of discussions and experiments prior to the end of this year.

However, many oil industry insiders say new standards cannot cure air pollution. China's oil refining industry relies on heavy crude oil that contains high levels of sulfur. Thus, fuel quality is not easy to improve in the short run.

Besides, there are worries that consumers will play no part in the process of establishing new oil standards. Moreover, additional costs associated with new oil standards will ultimately affect millions of drivers to balance out the rise in oil prices.





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**DECISIONMAKING:** Members of the Standing Committee of the Political Bureau of the 18th Central Committee of the Communist Party of China attend the committee's Second Plenary Session in Beijing on February 28

# CHANGING GEARS

Full meeting of Party's core paves the way for China's most important political sessions By Xinhua

**T**he 18th Central Committee of the Communist Party of China (CPC) concluded its Second Plenary Session in Beijing on February 28. A total of 204 CPC Central Committee members and 168 alternate members attended.

The three-day session adopted a list of candidates for state leadership positions and a government restructuring plan.

A communiqué issued after the plenary session announced the list would be recommended to the presidium of the First Session of the 12th National People's Congress (NPC), China's national legislature. The 12th NPC kicked off its first annual session on March 5.

According to an agenda suggested by the 11th NPC Standing Committee last December, the 12th NPC will elect a chairperson, vice chairpersons, secretary general and members of its Standing Committee, as well as the country's president and vice president during its first annual session.

The NPC session will also decide the pre-

mier and vice premiers of the State Council, or China's cabinet, as well as state councilors, ministers for government departments, ministers in charge of commissions of the State Council, governor of the People's Bank of China, auditor general and secretary general of the State Council.

In addition, the NPC session will determine the chairperson, vice chairpersons and members of the Central Military Commission of the People's Republic of China (PRC), as well as the heads of the Supreme People's Court and the Supreme People's Procuratorate.

The CPC Central Committee also adopted a list of candidates for the leadership of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), the country's top advisory body, and decided to recommend it to the presidium of the First Session of the 12th CPPCC National Committee, which opened in Beijing on March 3.

The CPC Central Committee session adopted a plan on institutional restructuring and the functional transformation of the State Council

and suggested that the State Council submit it at the national legislature's session.

The meeting's participants vowed to push forward the reform of China's administrative system and further separate government administration from enterprises, investment, social programs and communal management, the session's communiqué said.

They stressed the importance of building a public service-oriented government featuring better functions, improved structure, cleanness and high efficiency.

The government restructuring plan aims at simpler and decentralized administration, as well as improved administrative efficiency. To achieve that end, the CPC Central Committee agreed that the government will steadily press ahead with "super-ministry" reform, reduce bureaucracy in administrative examinations and approval and transfer some responsibilities to lower levels.

The CPC Central Committee pledged to reform the social organization management system, improve and enhance macro-management, build basic systems and strengthen administration by law.

According to the communiqué, market and social forces will be given a greater role in allocating resources and managing social affairs, respectively. ■



# FOR A HEALTHIER

**The three-year reform to reaffirm government's role in financing health care yields considerable results** By Tang Yuankai

**A**s early as 10 years ago, basic medical insurance was virtually nonexistent for China's vast rural population. Back then, farmers had to pay every cent of their medical bills out of their own pockets.

According to a nationwide survey on medical services conducted by the Ministry of Health (MOH) in 2003, 45.8 percent of Chinese farmers refused to seek treatment and 30.3 percent refused hospitalization when necessary simply due to financial difficulty. The Chinese Government announced a plan to install the New Rural Cooperative Medical Scheme in

October 2002.

The word "new" in this title of the reform indicates five characteristics that distinguish it from previous schemes: mainly financed by government subsidies; family-based voluntary participation; county-based fund pooling and management; mainly supporting treatment of critical illnesses; and supplemented by a medical aid system.

So far, 80 percent of the funds for the New Rural Cooperative Medical Scheme come from government investment. Last year, the annual premium paid by farmers was 60 yuan (\$9.64) per person, which was subsidi-

dized by the government at 240 yuan (\$38.54) per person. For the last three years, pilot programs on the coverage of critical illnesses, such as congenital heart diseases, childhood leukemia, end-stage renal diseases, severe mental illnesses, breast cancer and cervical cancer, have been carried out in many places and are still expanding. More than 70 percent of hospitalization expenses for the treatment of these diseases are refundable, compared with 48 percent in 2008.

More than 805 million people participated in the scheme in 2012, covering more than 98 percent of the total rural population and making



**TIME-HONORED EXERCISE:**

Local residents practice *taichi*, a traditional Chinese art of shadow boxing, at a public square in Shanghai on the morning of October 3, 2012

# CHINA

DANA HADAD

it the largest basic medical insurance program in the world in terms of the number of participants.

"The Chinese Government has pooled a huge amount of money to ensure that more people, especially those in the countryside, have access to medical services. This is a remarkable achievement," World Health Organization Director General Margaret Chan told China Radio International in May 2012.

China's urbanization rate reached 51.27 percent in 2011, when China's urban population surpassed its rural population for the first time. The accelerating urbanization process entails innovative research and new policies so that social changes won't affect health care provisions and the whole population can benefit from coordinated disease prevention and control efforts.

"The New Rural Cooperative Medical Scheme has become the original model for China's medical programs for people without stable employment, which has accumulated precious experience in promoting social reforms," said Jiang Zhongyi, a senior research fellow at the Research Center for Rural Economy under the Ministry of Agriculture. He said that this scheme inspired designers of other social security systems, such as urban resident medical scheme and rural pension plans, and laid a solid foundation for the building of an all-inclusive basic medical insurance system in China.

The Chinese Government in April 2009 unveiled an 850-billion-yuan (\$136 billion) three-year program for health care reform. With the funds, the government promised universal access to basic health insurance, the introduction of an essential medicines system, improved community-level health care facilities, equitable access to basic public health services and pilot reforms of public hospitals.

According to a white paper on medical and health services in China issued by the Information Office of the State Council last December, the Chinese population's general health conditions have been ranked the best among developing countries. The report said that from 2002 to 2011 the country's maternal mortality rate went down from 51.3 to 26.1 per 100,000, the infant mortality rate dropped from 29.2 to 12.1 per 1,000, and the mortality rate of children under the age of 5 dropped from 34.9 to 15.6 per 1,000.

## A pioneering reform

"At the beginning, I was driven more by determination and courage than confidence in pushing forward the health care reform," said Vice Premier Li Keqiang at a conference last April. At the beginning of his speech, he recalled his anxiety when presiding over the conference to kickstart the reform three years ago.

Li was entrusted with the daunting task of designing and promoting a health care reform program with the largest number of beneficiaries ever in 2008. On October 14 of the same year, a draft reform plan was publicized to solicit public opinions, which drew around 36,000 suggestions and comments from across the country within just one month.

"Health care reform is no easy task for any country, especially one with 1.3 billion people," said Minister of Health Chen Zhu.

Between 2009 and 2012, the Central Government issued 14 documents on health care reform and more than 50 supplementary documents were issued by various government departments, which have formed a policy framework. China's achievement of universal coverage of basic medical insurance has been spoken highly of by the international community.

"China's health reform process, solutions and lessons will provide evidence to inform debate and, ultimately, enhance global health care outcomes," wrote an editorial on China's health system published by renowned medical journal *Lancet* in March 2012.

"Reform is China's biggest dividend and we must make sure that ordinary people benefit the most from the reform. This goal has guided health care reform for the last three years," said Li at a meeting of the Leading Group for Health Care Reform of the State Council, China's cabinet, on January 5.

Before the initiation of the latest reform, the public's complaints about the medical sector were mainly directed at difficulties seeking and paying for health care and the enormous gaps in quality of services between different regions as well as between urban and rural areas. While designing the reform, policymakers decided to strengthen the government's role in providing basic health care and enhance the fairness in its provision. The birth of this guiding principle was significant as it symbolized a reversion for the market-based resources distribution that dominated the medical sector for more than 20 years.

Between 2009 and 2011, the government invested about 1.52 trillion yuan (\$244 billion) into health care, an increase of 1.24 trillion yuan (\$199 billion) over the figure before the reform started. In 2011, private medical spending accounted for 34.77 percent of total health care expenses, the lowest proportion in nearly 20 years. Last August, six ministries jointly issued a policy to promote critical illness insurance among urban and rural residents so that the sick won't lose everything because of an illness.

The Central Government also set goals for local health care reforms, which are mainly evaluated by local governments' investment into these initiatives.

"China is a big country with a large population and unbalanced development in different regions. The poor conditions in China's community-level facilities particularly affected ►►



ordinary people's access to quality basic health services. These conditions required us to choose a reform path that was tailored for the country," said Sun Zhigang, Vice Minister of the National Development and Reform Commission.

Zeng Yixin, President of Peking Union Medical College, who participated in the drafting and revision of the health care reform program, said that ensuring the provision of basic health services, improving community-level medical facilities and instituting stronger regulatory systems are the critical success factors for China's health care reform. China has more than 50,000 publicly funded community-level medical facilities across the country.

Zeng said that ensuring basic health services was to make them affordable and build a cost-sharing mechanism. He explained that when people complained about the difficulties of receiving treatment, they mainly referred to seeing renowned doctors in top-rate facilities. "What motivates patients to queue up all night to make an appointment with prestigious doctors is their lack of faith in the quality of community-level medical services," he said, adding that for the last three years, the government has put improving community-level facilities high on its reform agenda by investing generously in upgrading their equipment and training their doctors.

In 2010 the Chinese Government released a plan to train up to 300,000 general practitioners within 10 years to satisfy the needs of community-level medical facilities. Under the plan, community-level general practitioners will provide primary care, treating acute and chronic illnesses. They will also provide preventive care for local residents.

"Once community-level medical institutions are equipped with qualified general practitioners, people would not all flood into large hospitals to treat even a mild condition," Zeng said. He suggested the government come up with more incentives to encourage qualified medical personnel with five years of training in a medical school and three years of clinical general practitioner training to work at community-level facilities.

Zeng said that an important measure for



**FARMER'S INSURANCE:** Wang Shichang, a farmer in Miaojia Village, Zhouping County in Shandong Province, receives reimbursement from the New Rural Cooperative Medical Scheme for his medical expenses at the village clinic on June 1, 2012

instituting stronger regulatory systems is the increased supervision on large hospitals to make sure their services are adequate and efficient. Health authorities in recent years have launched campaigns against rampant breaches of ethics codes, such as accepting bribes from patients or kickbacks from pharmaceutical companies, which contributed to the establishment of stronger regulatory systems. "The two initiatives of strengthening primary care and regulatory systems are mutually complementary, which are both indispensable to the success of China's health care reform," he said.

## Cutting off interest chain

Hospitals making money through drug sales has long been regarded as a root cause of expensive medical bills and poor quality of medical services in China. Due to insufficient government funding, public hospitals have been allowed to supplement their expenditure by selling medicines with profit margins of less than 25 percent. However, in practice the markup often surpasses 40 percent or even 60 percent. Sometimes, physicians even prescribe unnecessary drugs for patients simply to meet a prescription quota set by their employers. Pharmaceutical representatives have also become infamous for lubricating the channels so that certain drugs are sold in hospitals and maneuvering profits that are distributed among doctors, hospitals and themselves.

To solve this problem, on August 18, 2009,

the MOH and other government departments concerned jointly launched policies on essential medicines.

The state essential medicine list contains 307 varieties, including chemicals and finished products of traditional Chinese medicine. More importantly, they are all covered by the country's basic medical insurance program and enjoy a reimbursement rate remarkably higher than that of non-essential medicines.

Different provinces, autonomous regions and municipalities have added an average of 210 varieties of medicines to their own regional lists.

Provincial-level platforms for the centralized procurement of essential medicines have been established to seek procurement tenders from producers, while all essential medicines are required to be purchased directly from pharmaceutical firms.

Although the prices of essential medicines have been reduced by 30 percent on average after the reform, it has harmed the interests of many pharmaceutical companies, drug wholesalers and some local governments that rely on these companies for taxes.

A State Council Executive Meeting in February 2012 decided to complete the reform of county-level public hospitals and start an overall reform on public hospitals in cities in 2015, with the aim of eventually wiping out hospitals' reliance on medicine sales while their services are undervalued.





All the essential medicines are sold at zero profit by community-level medical institutions run by the government, and most of these facilities find it hard to make ends meet as government funding remains insufficient. "More reforms must be conducted to ensure the normal operation of township-level clinics without the profits from medication sales. Otherwise, the essential medicines system will not be soundly implemented," Sun said.

## Governance restructuring

A strategy report titled *Health China 2020* was released at the China Health Forum 2012 last August. The report, which was initially prepared by the MOH in 2008, suggested the establishment of a health and welfare ministry by merging related departments under the MOH, the National Population and Family Planning Commission, the Ministry of Environmental Protection and the General Administration of Sport.

The report said that issues related to public health fall under the jurisdiction of multiple government departments, which hinders work efficiency. It also called for setting up a cross-department coordinating organization headed by a central government leader and a national health commission based on the Leading Group for Health Care Reform of the State Council.

The report predicted that China's average life expectancy will increase to 77 years by 2020

from 74.83 years in 2010 and national health care input will account for 6.5 to 7 percent of the country's GDP by 2020.

"With the progress of health care reform, we have to address more and much complicated concerns," said Minister Chen at the forum. He said that in the future reform, key issues involving health insurance, drug supplies and medical services will require better coordination between concerned government departments, such as further reforms of public hospitals.

Professor Winnie Chi-Man Yip at the Department of Public Health, University of Oxford, expressed a similar opinion in a paper he co-authored, which was published in *Lancet*. The paper reviewing China's health care reform stated that governance restructuring for public hospitals is the key to the success of the overall health care reform in China.

## Preventive care prioritized

"What makes a good soup for the common cold are the white part of green onions, ginger and dark brown sugar." This is one of the messages on a public billboard of health tips in Yuanming Village, Weiyuan County in northwest China's Gansu Province.

Such billboards containing information on how to prevent and treat common illnesses, which are maintained and updated by local health authorities in every community in Gansu, are part of the province's year-round program of educating the public on staying healthy.

In 2012, the Chinese Government allocated a total of 238 million yuan (\$38 million) to support local governments' similar educational programs, which include public awareness campaigns and lectures.

Chang Cuiqing, Director of the Research Division of Sports Nutrition and Biochemistry of the Peking University No.3 Hospital in Beijing, spends a considerable amount of her time every year touring the country and giving speeches on what to eat to stay healthy.

In 2007, Chang was invited by the China Nutrition Society to participate in the drafting of Chinese People's Dietary Guidelines. "We tried to spread nutritional knowledge with the simplest language and an honest attitude," Chang said.

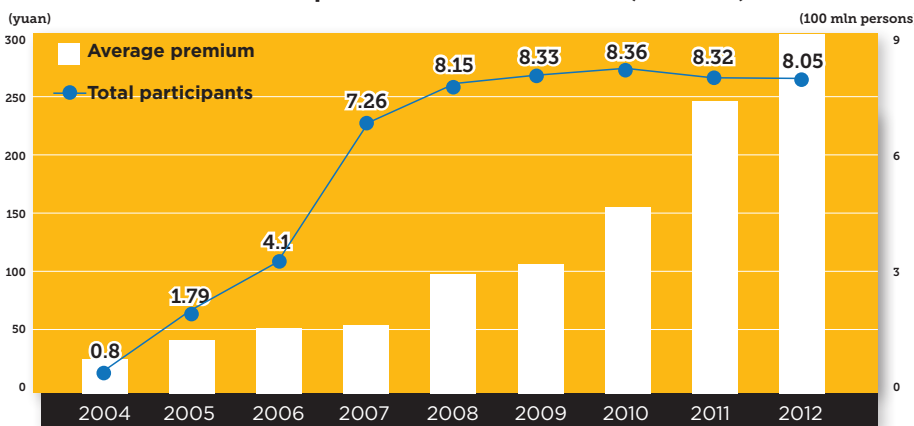
Chen wrote in the preface of this publication, "The next 10 to 20 years are a strategic period for the shaping of Chinese people's dietary habits. With proper guidance, people will adopt healthy diets and reap the benefits for a long time to come. If not, the health of several generations of people will be put at stake and the increased health care costs will eat up the fruit of economic development."

The *Health China 2020* report identified a transformation of development models for China's medical sector from focusing on treating diseases to preventing them.

Preventive care is where the strength of traditional Chinese medicine lies. The State Administration of Traditional Chinese Medicine launched a three-year program on promoting preventive care in 2008, which successfully raised the awareness of disease prevention among the public and medical personnel. Preventive care with traditional Chinese medicine has been listed as a basic health care service in Gansu. The government in Qingdao, east China's Shandong Province, has earmarked 10 yuan (\$1.6) per person for medical facilities to give a basic health evaluation of senior citizens over 55 years old based on traditional Chinese medicine.

Many medical experts suggest that the philosophy of traditional Chinese medicine for preventing major diseases is in line with the cost-effective guidelines for China's health care reform. ■

**New Rural Cooperative Medical Scheme (2004-12)**



(Source: [www.farmer.com.cn](http://www.farmer.com.cn))

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# Narrowing the Wealth

The time has come for the government to act on China's growing income gap

By Mei Xinyu



The author is an op-ed contributor to *Beijing Review* and a researcher with the Chinese Academy of International Trade and Economic Cooperation

**'C**ommon prosperity"—an aspiration deeply rooted in the Chinese people—is key to the sustainable economic and social development of the country. Fair and equal income distribution will help inspire a majority of laborers instead of a small coterie of company owners and managers. There's no doubt that fair income distribution is more conducive to increasing production and supplies and maintaining social stability.

### An urgent task

Consumption is the purpose of production. Today's China faces the dual pressures of expanding consumer demand and transforming the country's economic growth model. In terms of consumption and demand, fair and equal income distribution plays a significant role in economic growth and the sustainable development of developing countries.

The market economy is a demand-oriented one, which is highlighted by the modern economy featured in mechanized large-scale production. In any country, a more equal income distribution is conducive to expanding effective demand, and in developing countries, this will benefit domestic-oriented industries

instead of export-oriented ones. The reason is that high-income earners tend to spend less than low and middle-income groups when the same amount of income is raised. A fair and equal income distribution helps expand overall effective demand.

Moreover, a developing country with a huge wealth gap will have most of its demand concentrated in luxuries, since the poor have little money left over after paying for food and accommodations. Cars and other luxury goods are either imported or produced by foreign-invested enterprises, because domestic enterprises or investors have neither enough capital nor the technologies to produce such high-end products. As a result, local enterprises lose out, and national economic and social development cannot be sustained.

On the contrary, if a developing country has a comparatively balanced income distribution structure, more of the country's purchasing power will be spent on domestic products instead of the more expensive imported ones. Therefore, once there is demand for a certain product, such demand will grow explosively, further strengthening the scale advantage of the domestic market and make domestic enterprises—that are more swift in responding to domestic demand—more competitive. For example, after World War II, Japan had the most balanced income distribution among developed countries. Such balanced income distribution fueled the rapid consumption growth of major commodities with domestic enterprises playing a leading role.

In China, so-called "equalitarianism" after



the socialist revolution offered adequately balanced consumption in the early period after the People's Republic of China was established in 1949. Also, the foundation for domestic industries was established during this period. Between the late 1970s and the 1980s, the above scheme along with trade barriers inspired the upsurge of home



# Divide



**MY MONEY:** A migrant worker in Yangzhou, Jiangsu Province, counts his salary

appliance makers in China. The Chinese home appliance industry, which started from nothing, rapidly spawned giants capable of competing with their Western counterparts. Today, China is the world's largest home appliance producer and exporter, none of which would have been possible without a legacy of equal income distribution from the

early days of New China.

For these reasons, greater attention must be paid to China's growing income gap over the past 20 years. Narrowing the wealth divide must be a top priority for the Chinese Government. According to figures from the National Bureau of Statistics, China's Gini coefficient was between 0.473 in 2004 and 0.491 in 2008, higher than the levels in developed countries such as Canada (0.33 in 2000), the United States (0.41 in 2000), Japan (0.25 in 1993) and Germany (0.28 in 2000), while the internationally recognized warning line of this income inequality index is 0.4. It is no surprise that China has been discussing for years ways to narrow its wealth divide and realize common prosperity. After the 18th National Congress of the Communist Party of China last year, the issue came to the fore, and the Chinese Government has also issued a document on income distribution reform.

## Action principles

The government realizes it must narrow the country's wealth gap, but the question is how.

To begin with, a better redistribution of the country's social welfare safety net will produce an immediate effect. However, we should be mindful of the experience and lessons of the welfare system in Western countries. Excessively high social security can impair economic and social development in a country.

Furthermore, a high social security and welfare standard may make people less inclined to work hard. A high income tax rate,

a necessity to fund a generous social safety net, will also hurt laborers. After World War II, the proportions of social welfare spending compared to total GDP in Britain and other developed countries grew rapidly, and even the anti-welfare "Reagan-Thatcher Revolution" did not reverse this tendency. In 1960, 1980 and 1993, the proportion in Germany stood at 18 percent, 25.4 percent and 24.7 percent respectively; in France, 13 percent, 23.5 percent and 28.7 percent; in Italy, 13 percent, 18.3 percent and 25 percent; in the United States, 7 percent, 12.4 percent and 15.6 percent; in Britain, 10 percent, 18.3 percent and 23.4 percent.

Since spending for social security and welfare comes from the taxes paid by workers, a growing social safety net will inevitably lead to over-taxation. In the 1950s, when Britain and other European countries began to adopt the policy of the "welfare state," high income tax rates frustrated laborers who wished to work overtime since those extra earnings would be greatly diminished.

From a broader point of view, we see that excessive social security has accelerated the breakup of the traditional family structure and reduced the fertility rate in Western countries, intensifying an aging population and further weakening the vigor of social development. ■



# Taming an Overheated Market

A rebound in housing prices fuels speculation over more curbs By Lan Xinzheng

China's home prices took an upward swing since the last quarter of 2012 despite government-imposed measures to cool the market. In light of this, the State Council unveiled five new policies to reaffirm its stance on tightening the housing market. However, the new policies were questioned for their lack of originality and for not including long-anticipated rules to tighten loans for second home purchases.

### A warning signal

The Chinese Government began its macro-control policies on the real estate market in 2003, with the aim of regulating overheated investment in the sector. Since the second half of 2007, the goal has shifted to curbing skyrocketing property prices. The 10 policies unveiled in 2010 introduced an array of tightening measures, ranging from raising the minimum down payment and higher interest rates for second home mortgages to putting a conditional ban on the buying of properties by non-local residents. The 10 policies were deemed the strictest control measures ever. In 2011, the State Council released another eight policies.

Hu Cunzhi, Vice Minister of Land and Resources, said on February 22 that tightening measures achieved good results in 2012, restricting home purchases for investment purposes and promoting supply-demand balance.

However, property prices didn't fall as much as people expected, and began to rebound after one-year stability, backed by the country's pro-growth policies, including two consecutive interest rate cuts and the lowering of banks' reserve requirement ratio.

Home prices keep rising at a quicker pace

WEIFENG



**HEATING UP:** Commercial residential along the Minjiang River in Fuzhou, capital of southeast China's Fujian Province

in major Chinese cities. Out of a statistical pool of 70 major cities monitored by the National Bureau of Statistics (NBS), 53 recorded that new home prices increased from the previous month in January, while only 10 cities saw declining prices and seven recorded the same prices.

New commercial housing prices in first-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen rose 2.1 percent, 1.3 percent,

2.0 percent and 2.2 percent, respectively, on a month-on-month basis, marking a quicker pace of growth than in December.

With a foreseeable recovery in the sector, some speculative home purchase capital rushed back into the housing market. Home purchases recorded faster-than-expected growth in many cities, fueled by strong demand, price discounts and home buyers' fear of further price hikes. Property developers resumed their



appetite for investment in the sector, resulting in surges in land sales, according to a report from the Standard Chartered Bank.

To tame the sizzling market, the State Council unveiled the five policies on February 22.

"But the five policies are the mildest in the history of property market controls. There is nothing new. They are mostly a reiteration of previous measures," said Yin Zhongli, a research fellow at the Institute of Finance and Banking of the Chinese Academy of Social Sciences (CASS).

Yin said that the new policies were milder than market expectations, as the anticipated tightening measures on loans for second home purchases weren't included. "Therefore, the new policies won't be able to contain fast-rising home prices," he said.

Liu Jianwei, a senior statistician with the NBS, thinks that an overall drastic rebound nationwide is unlikely due to an abundant home supply. "The new policies are not aimed at hurting the property market, but at sending a warning signal to the current rebound."

"The new policies set the tune for property controls this year. On the basis of maintaining continuity and stability, this year's macro-control on the property market will be appropriately tight," said Liu.

## Role of property tax

In the seemingly mild set of new policies, people found a stricter measure: property tax. In China's real estate market, property tax—while well-established and taken for granted in Western countries—is a relatively new phenomenon, and is viewed as a measure to restrict the buying of homes for investment purposes.

Wang Yong, an analyst with China Securities, thinks that government determination to expand property tax on a trial basis was the reason for plunging property-related stock prices.

Property-related stocks have witnessed robust growth in the A-share market since October 2012. However, immediately after February 22, when the new policies were unveiled by the State Council, those stocks nosedived and some of them fell by 40 percent. "The new policies brought panic to investors," said Wang.

Jia Kang, Director of the Research Institute for Fiscal Science under the Ministry of Finance, doubted the effect of property tax in curbing housing prices.

Expanding the scope of experimental

## New Control Policies

- Improving the system for stabilizing housing prices. Local governments in major cities should publish their annual targets for property price rises and improve accountability.

- Strictly curbing speculation in the housing market. Cities that have imposed restrictions on the housing market should maintain their grip in 2013, while other cities in which home prices have soared too fast will be asked to introduce curbing measures such as purchase limits. Experimental property tax reforms should be expanded to more regions.

- Ensuring land supplies for housing projects. In principle, land supplies

for home construction should not be lower than the average amount in the past five years. A greater supply should be allocated to medium-sized and small apartments.

- Boosting the construction of government-subsidized housing for low-income households. A total of 4.7 million units of subsidized housing will be completed this year while construction will start on another 6.3 million units.

- Intensifying housing market supervision promptly. Market monitoring will be strengthened and information will be released. Real estate agencies will be more strictly prohibited from activities against laws and regulations.

property tax has far-reaching significance in controlling the market and in deepening tax reforms. But housing price hikes are caused by many factors. Property tax is only one of many measures to regulate the market and won't lead to immediate housing price falls, said Jia.

Property taxes in Shanghai and Chongqing were introduced on a trial basis on January 28, 2011, in a bid to help cool the real estate market.

Nearly 20,000 units of residential homes were hit with property tax in Shanghai in 2011 and the number jumped to 37,000 in 2012, bringing in 2.46 trillion yuan (\$395.1 billion) in tax revenues last year, according to the city's finance and taxation authorities.

However, the implementation of a property tax failed to cool the housing market in Shanghai. In January 2013, new commercial housing prices in the city rose 1.5 percent from the previous year and 3.4 percent from the same period in 2010.

Property tax trials for now aim at regulating the market instead of raising revenue. Judging from trials in Shanghai and Chongqing, property tax can only be expanded gradually, said Jia.

Restricting home purchases for investment purposes is a long-term task for China's real estate controls, he said.

## Future trend

Over 20 cities, including Beijing and Shenzhen, said they would formulate housing price control targets as soon as possible, in response to the

Central Government's latest call.

Related ministries and departments are mulling over regulations as well. The Ministry of Land and Resources, a major participant in housing market controls, made specific plans for land supplies on the day that the five policies were unveiled.

The Ministry of Land and Resources will maintain a steady land supply. First, it will think ahead to ensure sufficient land supply when formulating this year's residential housing land supply plan. Second, it will accelerate releasing land inventories for sale in the market as soon as possible. Third, it will intensify efforts in utilizing idle land. Finally, different measures should be rolled out to balance land supply, according to Vice Minister Hu.

Yi Xianrong, a research fellow at CASS's Institute of Finance and Banking, said the housing market should be dominated by a need for accommodations instead of investment purposes. This is what the Chinese Government has continuously emphasized when introducing tightening measures to crack down on speculative home purchases.

"The key lies in how to shift demand to accommodation needs instead of investment. The government still has policy reserves that could be used to achieve that aim, such as taxation and mortgage policies," said Yi. ■

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