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DYNAMIC ECONOMY SPOTLIGHT

Summer Davos in
Dalian calls for
imperative innovation

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Increased connectivity creates global

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EDITOR

Embracing Innovation

The Annual Meeting of the New Champions 2013, also known as Summer Davos, opened in northeast China's port city of Dalian on September 11, with the theme of Meeting the Innovation Imperative.

History tells us that crisis always calls for innovation. The economic crisis in the 1920s and 1930s, which swept up the whole world, was solved by reform and innovation among major economies. Innovation is inseparably connected with reform. Developments in technology, business models, systems and mechanisms are also reforms.

Since the international financial crisis erupted in 2008, the Chinese Government has carried out a 4-trillion-yuan (\$654 billion) economic stimulus plan. Such a big driving force helped the Chinese economy recover soon. However, such investment-driven economic growth is not sustainable. After the fourth quarter of 2012, China's economy once again slowed. Many China watchers even predicted a hard landing for the Chinese economy.

This year, China has resorted to reform and innovation to stabilize its economic growth. Just as Premier Li Keqiang said at the opening ceremony of the forum, when the economy goes down, enhancing growth through short-term stimulus policies is a good solution; however, this cannot solve in-depth problems. Therefore, China has chosen a strategy that both benefits the present and favors the future to keep macro policies stable.

The Central Government now is carrying out a series of policies that would achieve economic upgrading through economic transformation. Recent economic figures have proved the effectiveness of such measures, as the Chinese economy has regained its momentum and has probably entered a sustained and stable growth stage.

China's economic recovery may provide a lesson for other economies in the world that reform and innovation remain the driving force behind recovery and prosperity. ■

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MID-AUTUMN DELICACY

Children in Hangzhou, capital of east China's Zhejiang Province, learn how to make mooncakes on September 14 to welcome the coming Mid-Autumn Festival, which falls on September 19 this year.

Highest Airport

The world's highest-altitude civilian airport is put into use on September 16 in Daocheng County, southwest China's Sichuan Province.

Located 4,411 meters above sea level, the airport is 159 km from Yading Nature Reserve that lies on the eastern part of the Qinghai-Tibetan Plateau. Inside China, Yading is known as "the last Shangri-La" and "the last pure land on the blue planet" for its scenery.

The airport will initially run a daily route between Daocheng and the Sichuan provincial capital of Chengdu, with a one-way ticket fare of 1,600 yuan (\$261).

Routes connecting Daocheng with Chongqing and Maerkang County, capital of Sichuan's Aba Tibetan-Qiang Autonomous Prefecture, are expected to open before October 1.



JANG HONGJING

Investment Plans

The State Council, China's cabinet, encouraged private investment in care services focusing on the elderly as part of a program announced on September 13. China currently has the largest population of senior citizens in the world.

China aims to complete a social care network for its elderly by 2020, when the total number of senior citizens is expected to reach 243 million, according to the program.

Of the 44,000 retirement care institutions in China, an estimated 75 percent are sponsored by the

government. Non-governmental institutions are having difficulty finding land and investment opportunities.

The new program marked breakthroughs in the areas of land allocation, tax and government subsidy policies, said Dang Junwu, Deputy Director of the China Research Center on Aging.

According to the new program, non-profit retirement care institutions sponsored by private investors will enjoy land use policies equal to their state-owned counterparts and be exempt from all administrative fees.

Expat Permits

Last year, China granted 1,202 permanent residency permits to foreign nationals, up more than 83 percent from 2011, *China Daily* reported on September 16.

More than half of the recipients came for reunions with family residing in China, while the rest were mostly professionals, executives and professors, according to the Ministry of Public Security's Bureau of Exit and Entry Administration.

People with higher education backgrounds and business experience are more likely to get the permits.

Female Pilots

China's State Oceanic Administration (SOA) recently began recruitment procedures in the search for two highly skilled female pilots to operate its deep-sea submersible.

The administration said that it had received nearly 100 applications and most are recent graduates holding master's degrees or doctorates.

The SOA will choose two female graduates with bachelor's degrees or higher between the ages of 22 and 30, with a height between 1.6 to 1.7 meters and good eyesight.

In the meantime, four male pilots aged 22 to 35 with heights ranging between 1.65 to 1.76 meters are being selected, according to the SOA.

Aside from the physical requirements, potential candidates must also have an academic background in mechanical or electrical engineering.

Occupational Hazards

China reported a total of 24,206 new cases of pneumoconiosis in 2012, down 2,195 from the previous year, the National Health and Family Planning Commission said on September 16. Pneumoconiosis



CHEN WENJUN



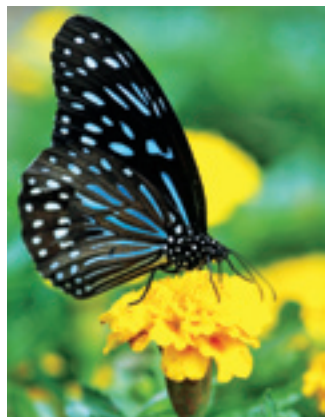
FISH SEASON

Fishermen unloading their haul at a harbor in Sanya, south China's Hainan Province, on September 15



FLUTTERING WINGS

A butterfly pictured during a showcase of rare species at the Hunan Forest Botanical Garden in Changsha, central China's Hunan Province, which was opened on September 16



is a disease caused by the excessive inhalation of dust, usually during mining.

Cases of pneumoconiosis accounted for more than 88 percent of the country's total reports of new occupational disease cases, which also included around 600 cases of acute poisoning, more than 1,000 cases of chronic poisoning and 1,500 others cases of occupational diseases.

Nearly 50 percent of the new occupational disease cases were from the coal sector, while reports from the coal, railway, nonferrous metals and construction material sectors combined accounted for 72 percent of the annual total.

Eco-fragility Record

The Ministry of Environmental Protection announced on September 16 that it will be marking China's ecologically sensitive and vulnerable zones before the end of 2014.

Guidelines will also be issued to

clarify the specifics of demarcation of these areas, as well as related procedures and requirements.

The area of ecologically vulnerable zones in key regions, such as the Inner Mongolia Autonomous Region that is dominated by grasslands and deserts, should be no less than 20 percent of its total area, according to the statement.

It said that the Central Government will form policies and regulations regarding the management of ecologically vulnerable zones in 2014 to define the obligations of communities, individuals and levels of government in protecting them.

Organ Procurement

South China's Guangdong Province is establishing organ procurement organizations (OPOs), local health

authorities said on September 14.

The Department of Health of Guangdong said that 80 medical personnel are to receive training and become coordinators working at the newly established OPOs.

Information on organs collected by the new OPOs will be recorded in the OPOs system, and hospitals in the province will be given priority in obtaining the organs, officials said.

Rules effective nationwide on September 1 stipulate that organs shall be donated to OPOs authorized by provincial health authorities, and distribution of the organs must be done through the China Organ Transplant Response System (www.cot.org.cn).

Relocation Award

The Chinese Government has recently allocated 3.68 billion yuan (\$597million) for people relocated over the construction of large or medium-sized reservoirs, according to a Ministry of Finance statement issued on September 16.

This allocation follows the making of a policy stating that each relocated person shall receive 600 yuan (\$98) every year for 20 years from July 1, 2006 and that funding payments should be given out quarterly.

The Central Government has spent a total of 134.28 billion yuan (\$22 billion) in supporting reservoir relocatees, the statement said.

The funding allocated has grown at 11.3 percent annually, it added.

Laser Innovation

A deep ultraviolet (DUV) solid-state laser device, invented by the Chinese Academy of Sciences (CAS), has recently passed testing, making China the only country in the world in possession of such technology. Deep ultraviolet light waves are light waves whose wavelength is shorter than 200 nanometers, far outside the light spectrum observable to the human eye.

The use of potassium beryllium fluoroborate (KBBF) had previously created a setback for the project. KBBF is a non-linear optical crystal that can transform laser light into DUV for use in solid state lasers. Before, China lacked the proper technology or equipment to cut it into the sophisticated prisms needed.

The created device is capable of taking the output from a diode-pumped solid-state laser device and shortening its wavelength through frequency multiplication. The laser used at the CAS had an original wavelength of 1,046 nanometers which, through the use of the KBBF prism coupling device, was successfully shortened to 177.3 nanometers. The CAS experiments mark the first time that such short wavelengths have ever been recorded.

Popular Destination

Tourists pose at Tiananmen Square in Beijing on September 15.

Beijing topped the ranking of the top 100 most competitive cities in domestic tourism, according to the latest Report on Chinese Cities' Tourism Competitiveness.

The rankings, first recorded in 2006, measure the comprehensive strengths and competitiveness of 293 Chinese cities across several areas relating to tourism, including their resources, products, marketing and management.



Exotic Boxes

Several craftsmen from Kuwait make traditional iron boxes that are designed to store clothes and shoes during the First China-Arab States Expo in Yinchuan, capital of northwest China's Ningxia Hui Autonomous Region, on September 15.

Kuwait was the country of honor at the expo, which was held from September 15 to 19. The Kuwait pavilion, covering an area of 1,000 square meters, showcased the country's distinctive handicrafts, food and apparel.



PENG ZHAOZH

Anti-Subsidy Duties

China's Ministry of Commerce (MOFCOM) on September 20 began imposing provisional anti-subsidy duties on some U.S. exports of solar-grade polysilicon, a major material for making solar cells.

MOFCOM said a preliminary investigation found that some solar-grade polysilicon imports from the United States were subsidized, which had caused substantial damage to Chinese producers.

Chinese importers of the product from U.S. companies, including Hemlock Semiconductor Corp. and AE Polysilicon Corp., are required to pay a deposit rate of up to 6.5

percent.

Other companies, including REC Solar Grade Silicon LLC, REC Advanced Silicon Materials LLC and MEMC Pasadena, Inc., would not be subject to such duties because they had not been subsidized or the rates were too low.

The decision comes after MOFCOM slapped anti-dumping duties of 53.3 percent to 57 percent on U.S. solar-grade polysilicon imports in July.

Production Cuts List

On September 16, China unveiled a list of 58 companies that should cut their excess production capacity by

the end of the year as a part of the country's economic restructuring drive.

The enterprises are from 13 industries with overcapacity, mostly energy-consuming and highly-polluting, including steel, coke, cement, printing and dyeing sectors, according to the Ministry of Industry and Information Technology.

Local authorities must ensure that overcapacity of the companies is thoroughly eliminated, rather than transferred to other regions.

This is the third batch of enterprises that are required to cut overcapacity by the end of 2013.

The move is part of government efforts to adjust and upgrade industrial structures and push forward energy conservation and emissions reduction.

Tencent Investment

Tencent Holdings Ltd., China's leading Internet firm, has invested \$448 million in Sogou, the search engine arm of Internet company Sohu.com Inc., the companies announced on September 16.

As part of the strategic cooperation, Tencent also merged its Soso search related businesses and other assets with Sogou.

Tencent holds 36.5 percent of Sogou's equity capital on a fully-diluted basis, which could increase to approximately 40 percent in the near future, the companies said.

The move will expand Sogou's market presence and "significantly elevate its position in the highly competitive PC search market, and even more so in the rapidly evolving mobile search market," said Charles Zhang, Chairman and CEO of Sohu.

Sohu, together with its affiliates, remains the controlling shareholder of Sogou, which will continue to operate independently as a subsidiary of Sohu.

Tencent and Sogou have agreed to jointly develop, cross-promote and integrate their respective products and services, while collaborating in areas of search technology, user insights and data sharing, according



ZHENG YONG



FINE CHINA SHOW

Xue Xinglin, a researcher on china, demonstrates a nonopaque, super-thin ceramic bowl during the China Ceramic Expo held in Tangshan, Hebei Province, on September 16. The five-day event attracted over 300 ceramic companies from 20 countries



GREEN BUS

An aerodynamic energy-saving bus is on display in Tianjin on September 14, attracting a lot of attention from passers-by



to the press release.

Sogou's products include the No. 1 Chinese character *pinyin* input method on PCs and mobile devices, the No. 3 PC browser and No. 3 PC search engine in China by page views, according to market research institutions.

Infrastructure Boost

The State Council issued a guideline to improve urban infrastructure on September 16.

As one guiding rule, underground construction should come before construction above ground.

Besides government input, non-government capital will be encouraged to partly join construction or management of the projects so as to improve the ecological environment and safety of cities.

The guideline specifies key tasks to upgrade urban infrastructure.

One is to improve construction and renovation of underground pipe

networks, including pipes for water, sewage, rain, gas, heat and communication.

By 2015, 73,000 km of sewage pipes should be added, and 80,000 km of old urban gas and 92,800 km of old urban heat piping should be renovated.

Another aim is to boost infrastructure for urban sewer works and flood-fighting. A relatively complete system on drainage and flood-fighting should be built in about 10 years.

To boost urban transport, China will add 1,000 km subway tracks across the country by 2015.

Joint R&D Center

A European research and development center jointly built by Swedish carmaker Volvo and its Chinese

owner, Geely Holding Group, began trial operations on September 13, according to Geely.

The center, based in Gothenburg, Sweden, will develop a new modular architecture and components for future C-segment cars, addressing the needs of both Volvo and Geely.

The center will allow Geely to improve its product quality and functions, while Volvo can tap into Geely's supply network in Asia, according to An Conghui, CEO and President of Geely Holding Group.

Currently, about 70 engineers have started work in the center. It is expected to employ about 200 engineers in the last half of 2014.

The joint research center will see Geely focus on medium and low-cost cars, while Volvo focuses on the luxury car market.

Numbers

\$22 bln

Personal wealth of Wang Jianlin, Chairman and President of Dalian Wanda Group, who tops the Hurun Rich List 2013

1.2 tln yuan

Amount of money that Chinese audit agencies have saved by recovering losses or trimming superfluous spending in three decades

27%

Year-on-year growth rate of trade between the Chinese mainland and Taiwan in the first eight months of 2013

80 bln yuan

China's planned investment in exploration of oil and gas resources in 2013

Sheet Metal Hub

A worker assembles a metal box in Xianghe, Hebei Province.

After 20 years of development, Qukou Township of Xianghe has become a major hub for sheet metal products in north China. By the end of 2012, the township had 350 sheet metal factories, with sales reaching 640 million yuan (\$104.58 million).





BULGARIA

An artist from the Balloonic dance troupe performs during the official opening of the annual Sofia Dance Week festival on September 14

GETTY IMAGES



AP/WIDEWORLD



THE UNITED STATES

Emergency vehicles and law enforcement personnel respond to a shooting at an entrance to the Washington Navy Yard on September 16, which left 13 dead by September 17



MEXICO

A couple wades across a flooded street in Acapulco following tropical storm Manuel, which landed on the Pacific coast of the country on September 15

GETTY IMAGES





JAPAN

A new solid-fuel rocket carrying a telescope for remote observation of planets launches at Japan Aerospace Exploration Agency's Uchinoura Space Center on September 14



ITALY

The wreck of the *Costa Concordia* cruise ship begins to emerge on September 16 near the harbor of Giglio Porto. Thirty-two people died when the vessel, with 4,200 passengers onboard hit rocks in January 2012

XINHUA/APP



XINHUA/APP



XINHUA/APP



HOLLAND

Dutch cavalry horses and their riders are exposed to smoke on September 16 as they undergo a stress test

“Currently, the biggest factor hindering the combat of air pollution caused by vehicle emissions is the scarcity of high-quality fuel. Domestically refined fuel has failed to keep up with vehicle development.”

He Kebin, a professor of environmental science and engineering and the Executive Dean of Tsinghua University's graduate school, on September 13



“Print is dying, but children's books are still popular. Many profit-driven publishers rush into the market without the slightest consideration for quality.”

Zhao Ping, a children's publishing industry insider in Shanghai, in response to a circular released by the Central Government on September 12, which called for stricter supervision on reading material for children, in both print and digital media



“Hong Kong doesn't need Britain or any other country's help in carrying out political reform. The region has the determination to elect its top leader by universal suffrage in 2017 and reform its political system on its own.”

Leung Chun Ying, Chief Executive of Hong Kong Special Administrative Region, on September 15



“In the process of China's reform and opening up, the twin track system in certain areas has sustained stable economic growth, but at the same time has caused much social discontent. Therefore, an important task of China's future economic reform should be eliminating such a system.”

Justin Yifu Lin, former chief economist and senior vice president of the World Bank, at a private economy forum held in Jilin Province



FALLEN BLOGGER



Xue Biquan, a 60-year-old micro-blogger known as Xue Manzi on Sina Weibo, a Twitter-like blogging service, was detained for alleged group sex with prostitutes. His detention sent ripples across Chinese cyberspace as he was a star blogger with 12 million followers. The Chinese American issued about 85,000 posts via his Weibo account, including unverified information later proved to be rumors, while also posting various advertisements to make money. Police said they are investigating many netizen reports that Xue's activities on the Internet involved crimes.



PROFESSOR IN VILLAGE



Yu Jianrong, a professor at the Rural Development Institute of the Chinese Academy of Social Sciences, has been named assistant of the local committee director at a village in southwest China's Guizhou Province. He is considered to set an example for Chinese scholars by choosing to work at the grassroots.

Yu, 51, was elected as one of the nine most outstanding Internet figures by over 300,000 netizens in 2010. In 2011, he launched an online movement to fight child abduction.



Stalemate of Genetically Modified Food

Caijing Magazine
September 9

Ever since the production of a bug resistant cotton was approved in 1997, China has never okayed the commercial cultivation of any important genetically modified crops.

There are several reasons for its hesitance in promoting such food:

First, although no safety incidents are confirmed to have been caused by genetically modified food so far, the public still believes that such food is unnatural and will harm their health. Their concern over the safety of genetically modified food has detained the approval and promotion of related crops.

Second, if the government allows genetically modified food cultivation to be industrialized, foreign companies, which are more competitive, will enter the Chinese market, threatening performance among domestic seed companies.

Third, in China, scientific research institutes and universities responsible for developing genetic modifying technology directly sell newly developed seed to the market. However, such seeds are difficult to shift because scientists often lack market knowledge.

Last, as the inadequate protection of intellectual property has reduced the incentive for creating new seeds, most companies resort to the shortcut of improving seeds, hindering progress in genetic modification technology.

Detained Cruise Ship

Beijing News
September 16

The 1,659 Chinese tourists would have never expected the cruise liner they took, the *Henna*, to be detained half way to Jeju Island, South Korea. And it was cruel mockery that the local court did so upon the request of another Chinese company.

No matter the dispute, a Chinese company clearly targeted another via the law outside the country's borders. More than 1,000 Chinese tourists suffered financial and mental anguish due to the incident.

It is said that during detainment, staff members withheld crucial information from passengers, directly impacting their rights.

Planes have since been sent to retrieve those concerned. Upon their return to China, passengers will have the opportunity to demand relevant compensation.

Subway Culture

China Youth Daily
September 16

It is reported that Shanghai Railway Line 2 has fully implemented a book borrowing activity. A passenger can borrow his favorite book in the subway station at 1 yuan (\$0.16), read on the subway and return it at the station where he gets off.

According to a survey, 47 percent of subway passengers play with cellphones, game boys and other electrical products. But few read books. The initiator

hopes to create a brand new subway culture through this activity.

Currently, subway construction is well underway across China. Such infrastructure has become an important part of urban culture. However, this

should be presented by citizens' cultural impulse and mental pursuits. Therefore, it is essential to strengthen the building of a subway culture. Hopefully, such a culture can be developed and become an integral part of our cities.

Development of Southwest and Central South China

Oriental Outlook
September 2

Since China and ASEAN established a strategic partnership 10 years ago, their relationship has been continually developed and consolidated, with bilateral cooperation yielding fruitful results. China and ASEAN are now the world's fastest developing and most dynamic regions.

The China-ASEAN Expo initiated 10 years ago has grown into an important platform for political, economic and cultural interchange between China and ASEAN countries. As the host of the expo for 10 years, southwest China's Guangxi Zhuang Autonomous Region has benefited considerably.

In 2003, the import and export value of

the region was \$3.19 billion and the trade value with ASEAN stood only at \$826 million. But the latter climbed to \$6.52 billion in 2010 and to \$12.05 billion in 2012.

As Guangxi connects central south and southwest China with ASEAN countries, and links Guangdong Province, Hong Kong and Macao with west China, it will assume a significant role in opening up the southwest region, promoting cooperation between west, central and east China and deepening the country's partnership with ASEAN.



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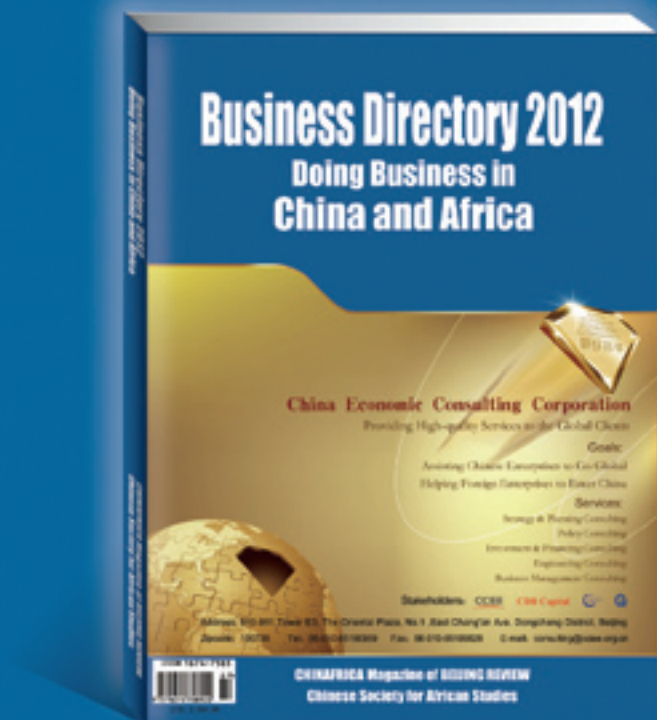
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COVER STORY

A CHANCE TO RENOVATE

After three decades of dramatic growth, China's economy needs a breather to refuel By Deng Yaqing



WRAPPING UP: Guests discuss the topic Innovating Into the Future on September 13, the closing day of the seventh Summer Davos

Inside a sea-wave-shaped building in Dalian, a coastal city in northeast China's Liaoning Province, political leaders, business elites and economists from around the world hardly exhausted the list of economic issues that have generated plenty of public concern. Among the many buzzwords thrown around was "reform."

It was the venue of the World Economic Forum's Annual Meeting of the New Champions 2013, or the seventh Summer Davos, which ran from September 11 to 13 at the Dalian International Conference Center. Under the theme Meeting the Innovation Imperative, the forum focused on China's economy as well as future measures by the new Chinese leadership.

"The new season of the Chinese economic miracle, one of better quality and higher efficiency, is unveiled," said Chinese Premier Li Keqiang at the opening ceremony on September 11.

Five years have passed since the eruption of the global financial crisis in September 2008. While the developed world is beginning to show signs of recovery, emerging economies now face the threat of slower growth. China's GDP growth declined from 7.9 percent in the fourth quarter of 2012 to 7.7 percent in the first quarter of 2013, and then further slowed to 7.5 percent in the second quarter.

"China is moving rapidly away from quantitative growth to quality growth. In the past, it heavily depended on a resource-intensive model," Martyn Davies, CEO of Frontier Advisory, a South Africa-based research, strategy and investment advisory firm, told *Beijing Review* at the sidelines of the forum.

Davies believes the rest of the world, especially export-dependent countries like Australia, Brazil and South Africa, to varying degrees, would be hit by China's slowdown.

"The current slowdown is largely policy-induced, and doesn't mean China is now in the midst of an economic contraction. The 7.5-percent growth target is quite reasonable for the next few years," said Adam S. Posen, President of Peterson Institute for International Economics, a Washington, D.C.-based private, non-profit think tank.

As a matter of fact, since taking office, Premier Li has laid emphasis on ensuring steady growth, adjusting the structure of the Chinese economy and advancing reform, rather than blindly pursuing high-speed GDP growth. "As long as GDP growth doesn't fall short of 7.5 percent and the consumer price index is no higher than 3.5 percent, priority will be given to carry out reforms and restructure the economy," said Yang Shubing, head of the Information Research Department at the Research Office of the State Council, at a

briefing in Beijing on September 16.

To fend off shocks from the global financial crisis, China unveiled a 4-trillion-yuan (\$653-billion) stimulus package in November 2008. "Though appealing figures were registered, economic growth at that time was qualitatively low," said Davies.

"A short-term stimulus policy could be one way to drive up growth. But after weighing the pros and cons, such an option would not help address the underlying problems" said Premier Li.

China is at a critical stage of economic transformation and upgrading, said Li, and its prospects are promising. This was echoed by Fan Gang, Director of National Economic Research Institute under the China Reform Foundation. "The current slowdown marks the soft landing of China's economy. By going through two or three years of structural adjustments, contradictions will be basically eliminated," said Fan. He added that China was capable of maintaining steady growth in the second half year, but economic expansion at over 9 percent was impossible. "A growth rate floating between 7 percent and 8 percent is the new norm, while a 9-percent growth rate implies inflation and asset bubbles," said Fan.

So far, moves to steer the Chinese economy in a new direction seem to be working. Strong rebounds were also seen in major economic indicators in August.

Consumption-led growth

For years, China's economy has been underpinned by massive investment and foreign trade. Today, such a growth model is no longer feasible with rising local government debt and a gloomy external environment for exports. The 4-trillion-yuan stimulus package, though ►►

significant in helping China ride out the global financial crisis, has led to structural contradictions in the economy, which need an urgent solution. As Premier Li pointed out in his speech, expanding domestic consumption is now a top priority when it comes to restructuring China's economy.

Since the ultimate purpose of economic expansion is to improve people's livelihood, the leading factor in driving consumption should be the people, rather than the government. "China's economic growth has become too expensive. Due to large amounts of capital input into the economy through fixed-asset investment by the government, five to six dollars of debt is created per every dollar of growth. Inefficiency is a serious problem," said Davies.

Adam Smith's view that a country's economic growth is closely linked to the size of its market means that a bigger market allows for a more defined division of labor, giving birth to more advanced and innovative technology. With rising productivity, more value will be generated, which in turn will push market expansion, said Zhang Weiying, an economics professor of Peking University, at the forum.

"China's biggest strength consists in its huge population and market," said Zhang. "Entrepreneurs should be encouraged to

explore the new demands of consumers and create new growth points for the economy."

The question now is how to expand domestic consumption in a more moderate way. "From the perspective of both consumers and entrepreneurs, a sense of safety is a key issue," said Lin Yu, Co-CEO of NQ Mobile, a global Internet security service provider. For customers, only when basic public services are provided, such as education and health care, can they really release their consumption potential; for entrepreneurs, only when a problem like intellectual property rights infringement is tackled and a competitive but fair environment is established can Chinese entrepreneurs regain the enthusiasm to innovate and make long-term investments, Lin said.

Interest rate reform

"The removal of the upper limit on deposit rates is the last vital step to completely set the banking sector free," said Li Minxian, President of Guangdong Development Bank, at the forum. In July, China removed its floor on lending rates, but experts say removing the ceiling on deposit rates is more vital for the country to realize full interest rate liberalization. Removing the ceiling is widely

considered to be the more "risky" move, however.

Despite a promise to give full play to the role of the market, the Chinese Government has been very cautious in liberalizing interest rates. "Eliminating the ceiling on deposit rates too quickly may incur fierce competition among banks, with the result being that deposit rates would shoot up much faster than lending rates," said Hong Qi, President of China Minsheng Banking Corp. Therefore, the interest margin would substantially shrink, forcing banks to step into high-risk fields. If these banks fail in managing risks, bankruptcy would be inevitable.

To make sure the banking sector would face the challenge smoothly, a deposit insurance system, as seen in developed countries, is needed, said Hong. More specifically, an insurance institution needs to be set up to provide financial assistance and ensure depositors can get their money back when banks are caught in crisis or on the brink of bankruptcy.

Although interest rate liberalization is fraught with risks and dangers, both commercial banks and the government insist that it is an indispensable part of China's financial reform.

Less intervention

Premier Li also reiterated the need to transform government functions in order to create more efficiency and less bureaucracy.

In March, the Ministry of Railways was reshuffled to create the China Railway Corp., which took over its commercial operation. Before the reform was carried out, railway operation featured a combination of government functions and enterprise management. In other words, every link of the railway business was placed under control of the Ministry of Railways, which, at the same time, was entitled to deploy railway resources nationwide.

Now, the railway sector has been pushed toward marketization, with the China Railway Corp. shouldering its debts, marking the separation of government functions from enterprise operations in the sector.

Since the beginning of this year, the Chinese Government has lessened its involvement in provincial and municipal affairs and put



A SENSE OF SAFETY: Lin Yu (right), Co-CEO of NQ Mobile, presents a safety helmet to Zhang Weiying (left), an economics professor of Peking University, at the China's Consumer Nation session on September 12



EXCHANGING VIEWS: Chinese Premier Li Keqiang talks with Chinese and foreign entrepreneurs attending the Summer Davos on September 10

more decision-making power exclusively in the hands of lower level governments.

Excessive government involvement from all levels has given birth to an array of problems such as repeated construction, mounting debts,

and over dependence on the real estate market, Li Daokui, Director of the Center for China in the World Economy at Tsinghua University's School of Economics and Management, told *Beijing Review*. "Government involvement

should be reduced in order to spur economic growth," he said.

Li Rongrong, former Chairman of the State-owned Assets Supervision and Administration Commission of the State Council, believes, "Only when the government stops interfering in the business sector, can enterprises realize independent management and restraint." ■

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Premier's Keynote Points at Summer Davos

Keeping the macro economic policy stable with consideration given to both immediate and long-term needs

With respect to fiscal policy, we introduced policy measures that kept deficit from expanding, re-adjusted the expenditure structure, cut down administrative expenditures, accelerated spending, increased support for central and western regions as well as for structural adjustments and for improving people's wellbeing, and granted preferential tax treatment to small and micro businesses.

In terms of monetary policy, we stayed focused, responded calmly and met difficulties head-on. We did not relax or tighten the monetary policy in spite of the short-term fluctuation in the money market, and properly managed liquidity.

We supported the real economy mainly by making good use of both stock and increment.

We strengthened supervision and improved regulation to prevent and defuse potential risks in the fiscal and financial sectors.

Regarding the local government debt issue, which has become a source of concern, we are

taking pertinent measures to regulate and address it in an orderly fashion.

Steadfastly pursuing reform and opening-up with priority given to the stimulation of the market

We have abolished or delegated to lower levels the conduct of administrative review and approval for over 200 items. By streamlining administration and delegating power, the government aims to delegate power to lower levels as much as necessary and appropriate.

We have expanded the scope of business-to-value added tax pilot reform, and advanced reforms relating to market-based interest rates, the investment and financing system for the construction of railways and other infrastructure, pricing of resource products and government procurement of public services.

We have accelerated the reform of economic structure, endeavored to develop a mixed economy, relaxed market access in the financial, oil, electricity, railway, telecommunications, resources development, public facilities and the service sector, encouraged more investment of the non-public sector, and provided greater space for business of various ownerships.

Readjusting and optimizing the structure

with emphasis on transformation and up-grading

In readjusting the structure, the most important aspect is to expand domestic demand, and a major task is to pursue a balanced development between urban and rural areas and among different regions.

We will rely mainly on industrialization, new type of urbanization, IT application and modernization of agriculture and focus on developing the service sector.

We are cultivating new growth areas of consumption and implementing the Broadband China strategy. We will enhance the weak links and invest more in energy conservation and environmental protection, redevelopment of shanty towns, infrastructure in urban areas, and railways in the central and western regions.

We are stepping up support for contiguous and concentrated poverty-stricken areas. We have adopted special policy measures to promote old age care, health, cultural, educational and other services.

We are implementing the strategy of innovation-driven development at a faster pace, aggressively promoting technological innovation and deep integration of science and technology with the economy and building a social environment friendly to innovation and business startup activities.



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