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# BEJINGREVIEW

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# **GEARED FOR GROWTH**

Regional economic forum seeks renewed vigor for common development





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

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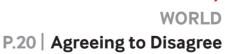
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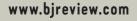
Chinese Internet a shopaholic's dream

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Navigating Sino-U.S. military relations





















## **EDITOR'S DESK**

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# **Brainstorm for the Future of Asia**

The Boao Forum for Asia (BFA) 2014 was held in Boao in China's southern island province of Hainan from April 8 to 11, with Asia's New Future: Identifying New Growth Drivers as the theme. More than 3,000 officials, scholars and entrepreneurs from around the world held 60 formal discussions centering on the three topics of reform, innovation and sustainable development.

The annual BFA is one of the most important platforms for Asian countries and emerging economies in conducting highend dialogues, helping to raise the influence of participating countries on development and cooperation around the globe. Given the backdrop of a sluggish global economy, particularly China's economic slowdown, this year's BFA appears to have greater importance. It is hoped that by exchanging ideas, people from all walks of life will find new growth drivers to support sustainable economic growth for Asia and the whole world

Reform is among the hot topics of this year's BFA. As most emerging economies and Asian countries experience the slowing down of their growth, reform is important to create the driving force needed to support sustainable economic growth. China has accelerated the transformation of its economic growth structures and growth modes. Meanwhile, emerging economies like Russia and India are all trying to push forward their own reforms. Promoting development through reform has become a matter of consensus between developing countries. As a

result, there is more to discuss for this year's BFA participants, and the forum has been able to harvest more ideas for economic reforms, such as how emerging economies can avoid the risk of an economic stall.

Compared to previous years, the worries over economic slowdown overshadowed formerly key topics like trade. Other relevant economic topics, like online finance. 4G wireless Internet, electronic business and traditional business. were also discussed during the forum.

The forum was held against the background of the United States speeding up its return to the Asia-Pacific region. Therefore, sensitive topics related to regional security, such as public diplomacy, international relations, international strategy and cooperation in the South China Sea, were also raised. Guests reached a general agreement that intelligence support and strengthening cooperation in various areas and reducing disputes in the Asia-Pacific region would be beneficial.

The United States' so-called "pivot to Asia" overemphasizes its political and military influence, and thus inflames regional tensions and frictions. Instead, BFA stresses communication and exchange. As Zhou Wenzhong, secretary general of the forum said, Asia and the world as a whole need to focus their attention on common development. The forum provides an excellent platform for Asian nations to seek common points of interest, overcome differences and achieve mutually beneficial cooperation.

WRITETOUS



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## **READING CHINA**

A man leafs through a new book at an exhibition booth of China during the London Book Fair 2014 on April 8. The three-day book fair opened that day, attracting nearly 1,500 publishing houses from over 100 countries and regions.



## Saviours

Emergency responders conduct a rescue operation at the flooded Xiahaizi Coalmine in Qujing City, southwest China's Yunnan Province, on April 7. Twenty-two miners were trapped underground by a flood early on that day.

## **Healthcare Rules**

Chinese authorities unveiled a barrage of new measures on April 9, which consisted of relaxing price controls covering non-public hospital services and encouraging the private sector to build healthcare institutions.

The measures were announced in a joint circular by the National Development and Reform Commission, the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security.

The measures are aimed at giving private organizations more leeway to charge what they want for medical services and to encourage competition, according to the circular.

Authorities want private capital to enter the healthcare sector as soon as possible to increase the supply of medical services, and in turn to help ease the problem of inadequate health provisions available to the public.

The circular also specified that all provincial governments have to

publicize a directory listing all public hospitals within their regions before the end of June.

## Language Protection

Authorities in southwest China's Tibet Autonomous Region are enacting a new legally-binding regulation to safeguard the heritage and development of the Tibetan language, local authorities revealed on April 7.

The Tibetan Language Work Committee and other authorities in Tibet have finished drawing up a draft regulation, according to Chodrak, the committee's deputy director.

The regulation, which has gone through four amendments, is expected to come out in September.

According to the committee, the new regulation will provide legal protection for the rights and freedom of the people of Tibetan ethnic group to study, use and develop their language. In Tibetan areas, most classes are taught in Tibetan, though Mandarin and English classes are also on the curriculum.

## SEED OF KNOWLEDGE

Elementary school students observe specimens during a migratory bird awareness campaign in Yanshan County, Hebei Province, on April 9



## **Smog Forecast**

An air-quality early warning system that will forecast smog two or three days in advance is to be put into use, the Ministry of Environmental Protection announced on April 3.

At a meeting on environmental monitoring, Vice Minister Wu Xiaoqing said that an air-quality forecast and early warning center covering the whole country is already in operation with an accuracy of 60 to 70 percent.

China began air-quality forecasts in 47 major cities in 1998. The new system covers all prefecture-level cities in the Yangtze River Delta, the Pearl River Delta, as well as the areas surrounding Beijing and other capital cities of provincial regions.

Wu called for improvements through remote sensing and other cutting-edge technology, as well as innovations in publicizing air-quality information. China currently has around 1,200 automatic air-quality monitoring stations across 252 cities.

## **Nurseries**

Southwest China's Guizhou Province is to establish 800 nurseries for "left-behind" children, to ease their psychological problems caused by the absence of parents.

The nurseries, to be built in rural boarding schools, are expected to be completed before the end of 2014, the Guizhou Education Department said in a statement on April 4.

The facilities will help create a better environment for healthy growth by providing good physical conditions as well as sufficient psychological intervention, according to the statement.

The provincial education authority will award 20,000 yuan (\$3,220) to each nursery that operates well in the future, it added.

"Left-behind" children are those who remain in rural homes while their parents go to work in cities. The children are usually taken care of by their grandparents or other relatives.

Guizhou had about 2.4 million "left-behind" children in 2013 due to the large number of outbound local laborers, a report by the Guizhou Academy of Social Sciences showed.

## **Government Microblogs**

The number of microblog accounts operated by government departments and individual officials increased by 46 percent in 2013, according a report issued on April 8 by the E-Government Research Center with the Chinese Academy of Governance. It has issued the report annually since 2011.

The growth rate was mild compared with the 249 percent recorded in 2012 and 776 percent in 2011, the report noted. It attributed the slowdown to users shifting to new social network tools such as WeChat, an instant messaging application claiming to have about 400 million active users.

Verified government accounts on the four top microblog services in China—Sina, Tencent, People.com. cn and Xinhuanet—totaled around 258,700 at the end of 2013.

About 70.8 percent of them were operated by government departments and the rest were individual users whose identities were verified to be officials.

Governments in richer regions and bigger cities have proved more inclined to communicate with the people through microblogging, according to the report.

Among various government departments, police have been the most active, according to the report. Four out of the top 10 government microblog accounts were operated by police departments.

## **Cloned Tree**

A 5,000-year-old cypress tree said to have been planted by the Yellow

"We saw a notable tendency in 2013 that government microblog accounts became much more interactive with Internet users than previous years."

Wang Yimin, Director of the E-Government Research Center with the Chinese Academy of Governance





## **Bookworms**

A reader picks books in Beijing's Sanlian Taofen Bookstore on the early morning of April 9.

The bookstore launched a 10-day trial of 24-hour opening on April 8. If the trial goes smoothly, it may never close again. Some 3 million yuan (\$483,600) have been invested in the operation, according to the bookstore's management.

According to a survey by the Chinese Academy of Press and Publication, the average Chinese person read 4.39 books in 2013.

Emperor, the mythological sovereign considered the common ancestor of all Chinese, has been cloned, scientists said on April 5.

The 20-meter-high tree is in the Xuanyuan Temple near the Mausoleum of the Yellow Emperor, also known as Huangdi, in Huangling County, northwest China's Shaanxi Province.

Created using asexual reproduction methods such grafting, eight saplings from the ancient tree are growing well, said Jiang Zeping, a researcher with the Chinese Academy of Forestry.

The project started in April 2013 when scientists from the academy ob-

tained samples and cultured more than 1,500 clones.

Aging has put the ancient cypress in danger, said Peng Hong, deputy head of the Forestry Department of Shaanxi. "It is important to preserve the genes of millennial cypress trees," Peng said.

"Luckily, we have been successful and a second clone can be made from the saplings after three to five years," Jiang said.

The project is of great significance in conservation of genetic resources and protecting rare ancient trees, according to scientists.

## Bon Voyage

China's most sophisticated research vessel—*Kexue*, which means "science"—left for the West Pacific on April 8 from the port city of Qingdao in east China's Shandong Province, beginning its first ocean expedition.

Its research will focus on the currents in the Pacific, regional climates and deep-sea ecology.

A total of 46 scientists and technical staff are on board. The staff will carry out marine geophysical surveys and biological sampling. The ship is expected to return in the second half of Mau.



## THIS WEEK ECONOMY

#### **Trade Decline**

China's exports went down 6.6 percent to \$170.11 billion in March, customs data showed on April 10.

Imports went down 11.3 percent to \$162.41 billion and total foreign trade volume declined 9 percent to \$332.52 billion, the General Administration of Customs (GAC) said.

Trade balance returned to a surplus of \$7.71 billion in March after a surprise deficit of \$22.98 billion in the previous month, the GAC said.

Total trade volume of the first quarter stood at \$965.88 billion, down 1 percent year on year. Of the total, exports declined 3.4 percent to \$491.31 billion while imports grew 1.6 percent to reach \$474.57 billion in the first quarter.

"Judging from data, China's foreign trade has encountered some difficulties. But we should never overestimate those difficulties," said Zheng Yuesheng, spokesman of the GAC.

"The decline in foreign trade data

will be temporary and short-term. China's foreign trade will regain growth from May this year and then enter a mild growth period."

China's foreign trade still has several advantages, including global economic recovery, China's efforts in comprehensively deepening reforms and Chinese companies' surging overseas investment, Zheng said.

"It's likely that China will realize its 7.5-percent foreign trade growth target," he predicted.

#### **Fconomic Circle**

China's top economic planner, the National Development and Reform Commission (NDRC), announced on April 9 that it is drawing up a plan for the coordinated development of a Beijing-centered "economic circle."

The Beijing-centered circle is one of three economic growth poles in east China, and its progress will push forward the economic transformation



**CULTIVATION** 

Cao Naishui, a farmer from Jiujiang County, Jiangxi Province, waters rice on April 7 and upgrading of the area surrounding the Bohai Sea. the NDRC said.

The NDRC said the draft will make use of the region's comparative advantages and bring about specific measures in infrastructure construction, industrial layout and innovation in the three areas.

It also vowed to strengthen ecological building practices and environmental protection, promote widely beneficial public services, and deepen reform and opening up. A mechanism for regional cooperation can also be expected in the plan.

The NDRC did not unveil when the plan will finally come out, saying it depends on the drafting progress.

The economic circle is home to over 100 million people and boasts a combined GDP of over 6 trillion yuan (\$967.2 billion) with a total area of 216,000 square km.

## Railway Investment

China will increase railway fixed asset investment to 720 billion yuan (\$117.09 billion) in 2014, said Sheng Guangzu, General Manager of the China Railway Corp. (CRC).

Sheng said the corporation was increasing investment to meet demand. Forty-nine new projects and over 7,000 km of new railway lines will be put into operation this year.

The former plan set at the beginning of the year targeted 700 billion yuan (\$113 billion) of fixed asset investment, 44 new projects and 6,600 km of new railway lines, according to the CRC.

Sheng said that 78 percent of all construction investment will go to the central and western regions, which will be the site of 86 percent of this year's newly operated railways.

According to a five-year plan from 2011 to 2015, 230,000 km of new railway lines will be built in central and western regions, with an investment of 1.85 trillion yuan (\$300 billion).

Sheng said from 2011 to 2013, 1.15 trillion yuan (\$190 billion) had been invested in the regions.

## Wider Acceptance

China UnionPay announced on April 9 that it had signed deals with two Australian banks to cooperate on



## Ship Fair

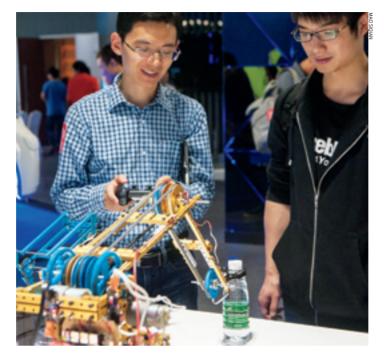
Visitors observe a ship model at the 2014 China International Marine, Port and Shipbuilding Fair on April 9.

The fair, lasting from April 9 to 11, was held in Nanjing, east China's Jiangsu Province. It attracted over 400 companies from 12 countries to display their latest technologies, products and services.

## I, Robot?

People try smart hardware products at the inauguration ceremony for the Huaqiang Yugu Industrial Park in south China's Shenzhen, Guangdong Province on April 8.

The park aims to promote development of the smart hardware industry.



UnionPay card business in Australia, New Zealand and some island countries in the south Pacific.

China UnionPay said it had signed the agreements with Westpac Banking Corporation and Australia & New Zealand Banking Group Ltd.

Su Ning, Chairman of China UnionPay, said the deal would make the UnionPay card more acceptable in Australia and New Zealand. China UnionPay and the two banks will expand the card business together, especially in the field of "innovative payments."

They will also speed up acceptance of UnionPay cards by all ATMs and POS terminals of the two banks in Australia, New Zealand and other countries.

## **Duty-Free Shop**

South China's tourist island province of Hainan is to build the world's largest duty free shop (DFS).

Hainan plans to relocate an existing DFS downtown in the resort city of Sanya, in a 60,000-square-meter complex at Haitang Bay, said vice provincial governor Tan Li on April 9. Sanya's current DFS is only about 10,000 square meters.

The Sanya Haitang Bay

## **TEMPTING**

A cake tower is on display at the 2014 Beijing International Baking, Icecream and Food Packaging Expo on April 8



International Shopping Mall will attract international brands and fashion labels and combine duty-free shopping with hotels, restaurants and entertainment.

Hainan also plans to expand and transform another DFS in the provincial capital of Haikou from 3,650 to 4,880 square meters.

The State Council gave Hainan permission to run a duty-free program on a trial basis in April 2011 to promote the province as an international tourist destination.

Offshore duty-free shopping in Hainan's two DFS stores in 2013, hit 3.29 billion yuan (\$530.6 million), up 40 percent year on year.

## More Tax Breaks

More small businesses in China will enjoy tax breaks as part of the government's efforts to address the pressure on economic growth.

Any company with annual taxable income under 100,000 yuan (\$16,000) will have its business income tax halved starting from January 1 till the end of 2016, said a joint statement of the Ministry of Finance and the State Administration of Taxation (SAT) released on April 8.

This means the tax breaks apply to more small businesses. China's State Council decided in 2011 that any company with annual taxable income under 60,000 yuan (\$\$9,670) will have its business income tax halved during the 2012-15 period.

The move aims to promote economic growth and create jobs, said the statement.

Small and micro-firms serve as the foundations for continuous and steady economic growth, said a latest report by SAT.

By the end of 2013, there were about 11.7 million small and micro companies in China, accounting for 76.6 percent of the total number of firms in the country, the SAT report showed.

Taking small family businesses into account, small companies accounted for 94.2 percent of the total number and created about 150 million jobs.

## Big Buy Goes Ahead

Alibaba, China's e-commerce leader, has continued acquisitions aiming to sharpen its cutting edge ahead of an expected initial public offering (IPO) in the United States.

Hangzhou Yunxi Investment Partnership Enterprise, owned by Alibaba founder Jack Ma, Shi Yuzhu, founder of Giant Interactive Group Inc. and Simon Xie, co-founder of Alibaba, has bought a 20-percent stake in Wasu Media Holdings Co. Ltd. for 6.5 billion yuan (\$1 billion), according to a statement from Wasu on April 8.

Alibaba and Wasu Digital TV Media Group, dominant shareholders in Wasu Media Holding Co. Ltd., signed a strategic cooperation agreement on April 8.

Capital raised will be used to develop original content and expand Wasu's Internet TV terminals.

Alibaba, keen to expand out of its core online retail business, has expanded its reach to include shopping malls, home appliances, mapping services and financial services through a series of acquisitions in the past year.

"Alibaba's recent investments are still a multi-access strategy," said Hu Yanping, founder of Data Center of China Internet.

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## THIS WEEK WORLD





Demonstrators rally outside the Donetsk regional administration building, held by pro-Russian activists, on April 8 in support of their declaration of independence from Kiev



Britain's Prince William and his wife Catherine, carrying baby Prince George, arrive in Wellington on April 7 for a 10-day tour of New Zealand







## **ITALY**

A visitor looks at Missoni furniture creations on April 8 during the Milan Furniture Fair, a leading venue displaying new home-furnishing products





## HAITI

Drought-affected people await the distribution of food by the World Food Program in northwest Haiti's Port de Paix on April 3









## **GERMANY**

Robots play a ball game during the RoboCup German Open 2014 in Magdeburg on April 4. The robots participating in the tournament are programmed to master a variety of disciplines, including communication, soccer, rescue and dance



## **FRANCE**

French acrobat Denis Josselin performs a balancing act over the Seine River in Paris on April 6, taking 30 minutes to walk 150 meters of tightrope suspended 25 meters above the river

## THIS WEEK PEOPLE & POINTS

 $\Psi$ 

#### **COLLEGE PRESIDENT**



**Li Peigen**, former president of Huazhong University of Science & Technology, ended his nine-year tenure recently.

Li, 66, a member of Chinese Academy of Engineering, received his Ph.D. from the University of Wisconsin-Madison in the 1980s. As a popular president, he was given the nickname Uncle Gen by students, which he pleasantly accepted.

In his departure speech, he said he should have done more to nurture the university's academic atmosphere, improve students' education on citizenship and improve the payment and working conditions for faculty.

# About Headquarters Oriental Outlook April 10

In February, Beijing declared that it owned 48 headquarters of the world's top 500 enterprises, surpassing Tokyo for the first time, which owns 47.

For China's first-tier cities, especially its two metropolises of Beijing and Shanghai, the competition in attracting headquarters has been a demonstration of the cities' comprehensive strength and development strategy. It is not about the fame but about the future of the city.



Secondly, the transnationality index of the transnational companies in China is low. The index for individual companies is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment. This index is as high as 60 percent in advanced countries, while in China it is less than 20 percent.

Also, the innovation ability is a short board for China's transnational companies. Take Beijing for instance—the transnational enterprises there are mostly central enterprises, whose development relies greatly on the government's support and monopoly. With the deepening of marketization, these two factors will decrease. And the lack of innovation will become the biggest obstacle of their future development.



## Production Overcapacity

### Caixin March 31

Production overcapacity is now a much discussed topic in Chinese society. Recently, Miao Wei, Minister of Industry and Information Technology talked about this problem. The blind expansion of five industries—namely, steel, cement, electrolytic aluminum, flat glass, and shipbuilding—should be resolutely stopped. In the next few years, no more such projects will be approved. The projects that have already been completed and that are illegally under construction will be properly handled.

In the meantime, measures on capacity substitution should be studied and carried out. Capacity substitution doesn't simply mean shutting down a number of factories. In the steel industry, for instance, it means turning some steel factories into ones that produce other products.

In this way, China can reduce the overcapacity of steel without causing a large number of bankruptcies or unemployment. Neither will the government see a sharp drop in the general tax revenues. Also, the big resistance derived from the fear of the shutting down of the steel factories can be resolved. This policy should be carried out in the environmentally sensitive areas, such as Beijing-Tianjin-Hebei region, the Yangtze River delta,

"This is an opportunity for Chinese enterprises to develop our own operating system, which should be Internet-based and support a triple play service."

**Zeng Jianqiu**, a professor of the School of Economics and Management of Beijing University of Posts and Telecommunications, commenting on Microsoft's termination on extended support for Windows XP "Former coal mine owners have become modern agriculture trailblazers with their capital, technology and marketing skills."

**Guo Weidong**, a senior research fellow at the Shanxi Academy of Social Sciences, commenting on coal miners' enthusiasm in investing in modern agriculture



and the Pearl River delta.

Also, the Central Government encourages local governments to establish a capacity substitution quota-trading system in which the government takes the lead and enterprises participate in voluntarily.

Then the existing production capacity will be optimized, through strict law enforcement and full market competition. Environmental protection, energy consumption and safety will all be strengthened as standards. Differentiated prices and punitive prices of electricity and water will be implemented as economic means for creating a market of fair competition.

## Strictest Traffic Rules

## People.com.cn April 2

A new set of traffic rules of China have earned a flood of attention since they were implemented on January 1, 2013. And it has proved a big success backed up by concrete facts.

In the past year, traffic accidents caused by new drivers decreased by 16.3 percent, and the number of people killed in traffic accidents dropped by 14.9 percent. Also, in 2013, the number of traffic violations detected by monitoring equipment across the country dropped by 9.3 percent, compared to the previous year. This is a big victory against the backdrop of the surging number of cars in China.

The reasons for this big success are as follow. First of all, the exams of getting a driv-

ing license become more difficult, resulting in a dramatically lower pass rate. The exams attach more importance to the safety awareness and the practical driving ability of the students.

Secondly, along with the new traffic rules becoming a heated topic, discussions have been launched around the Chinese society. The traffic knowledge that was once unfamiliar with the public became well known after the discussions.

Thirdly, the new rules are very strict, forcing the drivers to abide by the rules strictly. For instance, the points deducted for running the red light are increased from three points to six points. According to the new rules, when a driver is deducted 12 points, he or she has to go back to the driving school to take the exams again to regain the driving license. These measures have proven effective.

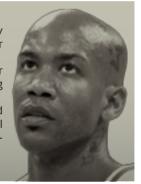


#### **HONORARY CITIZEN**

Former NBA star **Stephon Marbury** was granted Honorary Citizenship of Beijing on April 2 for leading the Beijing Ducks to their second consecutive Chinese Basketball Association (CBA) title.

The two-time NBA All-Star has found his footing in Beijing after first joining the CBA Shanxi Zhongyu Brave Dragons before moving to the Beijing Ducks in 2011.

"Thank you Beijing for the key to the city. I'm truly blessed and favored for your love and respect. I will always give nothing but my all on and off the court in Beijing," Marbury said on his official microblogging account.



## "Chinese travelers' passions for outbound tourism are insatiable."

Jiang Yiyi, Director of Institute of International Tourism
Development of China Tourism Academy, commenting
on her academy's new statistics that show Chinese
people's outbound travel trips increased 18 percent to
reach 98 million in 2013 and could reach 114 million
this year

"Chinese writers' rising international recognition is partly attributed to the overall economic development of the nation. More and more people around the world resort to contemporary literature as a gateway to Chinese culture."

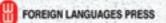
Acclaimed Chinese writer **Bi Feiyu**, on the sidelines of London Book Fair 2014 held from April 8-10

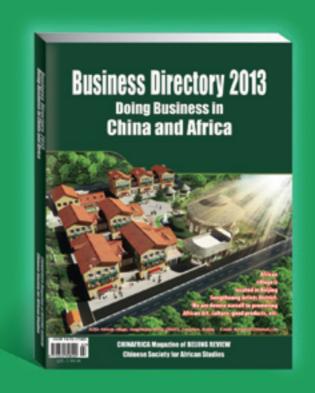


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A PHOTOGRAPHER'S PERSONAL EXPERIENCES







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**COVER STORY** 

# **REVVING A NEW ENGINE**

China should let its consumers and entrepreneurs play a larger role in driving economic growth By Deng Yaqing





very April, thousands of government leaders, business magnates and world-famous scholars gather at Boao, a small town that was once a fishing and agricultural village, to attend the Boao Forum for Asia Annual Conference (BFA), discussing pressing global and regional issues in white tent-style halls with a tropical pacific flavor.

With the theme of Asia's New Future: Identifying New Growth Drivers, the 2014 conference included 60 panel discussions, with an emphasis on reform, innovation and sustainable development.

The speedy growth of Asian countries and emerging countries over the past few years has largely been attributed to globalization and industrial relocation. Yet, most Asian economies, especially China, seem to have been losing steam in their economic growth.

Uncertainties and destabilizing factors in the world are increasing, and the spillovers of the international financial crisis are still affecting Asia, said Chinese Premier Li Keqiang at the opening ceremony of the BFA annual conference held on April 10.

Meanwhile, some Asian countries have been crippled by economic slowdown, rising inflation, capital withdrawal and currency depreciation. Pessimistic views about the prospects of emerging economies have resurfaced, Li said. To sustain its development momentum under the new conditions, Asia needs to find a fresh source of development drivers.

China will make efforts in deepening reform, adjusting economic structure and improving people's livelihood to seek new growth engines, said the premier.

## Source of growth

As population dividend and cost advantage gradually fade away, and external demand from the West remains fragile, China's investment-and-export-led growth model has hit the rocks.

In 2013, China's gross domestic product (GDP) was a mere 7.7 percent, the lowest level since 1999, bidding a farewell to the explosive economic expansion to which the country has

become accustomed. "It's predictable," said Martin Jacques, an economic commentator from the University of Cambridge, arguing that China invested much more in its economy than the United States in proportion to its GDP.

After years of rapid economic expansion, China is now focused more on ensuring steady economic development, adjusting the structure of the Chinese economy and advancing reform, rather than blindly pursuing high-speed GDP growth.

"We will pay more attention to sound development in the medium and long run," said Premier Li, claiming that China would not resort to short-term stimulus policies just because of temporary economic fluctuations.

"Entrepreneurs rather than government can create real demand, and then sustain healthy economic expansion," said Zhang Weiying, professor of economics at Peking University.

In the past few years, China has been focusing on the role of government in keeping the economy running via large-scale investment. To shield its economy from the torrents of the global financial crisis, a 4-trillion-yuan (\$644.4 billion) stimulus package was launched to finance programs covering almost all sectors.

But the package only yielded short-run effects, and has even incubated an array of potential problems down the road, like macroeconomic imbalance, government debt and shadow banking.

"If we hadn't slowed down steps this year, the economy would most definitely have suffered a calamitous collapse within one or two years from now," said Zhang, who insisted that immediate stimulus plans would only undermine the long-term economic stability and contribute little to real benefits, for the massive stimulus plan failed to make a dent in the unemployment rate.

Thus, it's time to make a change. China's policymakers are realizing more and more that the investment-led model doesn't fit China's current situation anymore, and what the country can now count on is domestic demand.



According to an analysis by the World Bank, China's household consumption only accounts for 35 percent of its GDP, 25 percentage points lower than the global average. If China can elevate this ratio to 50 percent by 2020, a total of \$1.4 trillion needs to be spent, which is equivalent to the combined GDP of Mexico and Spain. In other words, there is huge potential to boost domestic consumption.

Mitch Barns, CEO of Nielsen, a leading global information and measurement company, believed the loosening of the one-child policy and the aging population would help create tremendous market demand. As Barns pointed out, 2 million-3 million babies would be born every year due to the policy change, and another 5 trillion yuan (\$805.5 billion) would be consumed on education and baby products.

The country is heading toward an aging society. "China would be the world's most aged society by the year 2030, with a higher proportion of people aged over 65 than in other countries," said Barns.

Urbanization will also advance domestic consumption. Premier Li said that narrowing the gap between urban and rural areas and among different regions would also unleash huge potential for growth.

Now, rural people spend more on food and housing while urban households spend more money on transportation, communication and recreation. As more and more of the rural population migrates to cities and towns, there is considerable room to reduce this gap.

"Each year, millions of rural consumers become first-time brand buyers," said Barns, who noted that huge business opportunities would be discovered among the group of new consumers.

The question now is how to turn these new urban residents into real consumers. Despite the fact that China has gone all out to push for urbanization in recent years, the ratio of consumption against the GDP hasn't been remarkably raised.

Many rural people who have migrated to urban areas are not included into the social security network, and some of them even don't own a house to live in or have a job to support their family.

As Barns noted, only when people feel secure about their future well-being, can they show a strong willingness to spend their money.

To enhance people's sense of security, China's urbanization should shift its focus from blindly expanding the size of the city to lifting people's living standards, such as allowing these who migrate to cities and towns equal access to social security, medical treatment and education with urban residents, said Zhang Xike, Greater China President of private equity investment group Apax Partners.

"Each year, over 10 million people settle down in urban areas, and most of them are in their 20s and 30s. This will inject great vigor into the consumer market." he said.

## Spark entrepreneurship

Some participants pointed out that reforms should be carried forward in the public sector, and state-backed companies need to be more professional and innovative. They also argued that the private sector should be allocated with more resources and be allowed to compete into more areas.

"The government should make clear companies' ownership, protect entrepreneurs' property rights and enhance judicial transparency and equity, as well as reduce its stake in state-owned enterprises. In this way, business owners will feel free to expand and innovate," said Zhang Weiying.

Compared with large state-owned enterprises, small and medium-sized enterprises (SMEs) are under greater pressure to innovate, and some of them even spend more on this front than their counterparts in the West.

"The development of SMEs, which make up the bulk of the private sector, is largely affected by the banking and credit system," said Edmund Phelps, American economist and winner of the 2006 Nobel Memorial Prize in Economic Sciences.

"Most of them feel frustrated by competing for loans from state-backed commercial banks, and have to seek private loans with an-

nual interest rates as high as 20 percent to 30 percent, which pose great challenges to small and micro-businesses," said Huang Rong, Vice Chairman of the All-China Federation of Industry and Commerce.

"The government should encourage entrepreneurship in the private sector, which will also stimulate domestic consumption, because profit earned by these companies mainly goes into the pocket of consumers, while that of state-owned ones always goes straight into the hands of the government," said Phelps, who advocated that supply management would help realize sustainable growth.

In February, the China Banking Regulatory Commission unveiled the first batch of licenses for private banks, which will broaden SMEs' access to loans and provide low-income families with more long-awaited financial services.

"The move will enable those being refused by state-owned banks to grow with more financial support," said Chen Zhiwu, professor of finance at Yale School of Management, who highly praised the success story of China Minsheng Banking Corp.

Aside from financial support, Chen argued tax reduction could also facilitate economic restructuring and foster points of growth.

In fact, the Central Government has kicked off pilot programs to replace the business tax with a value-added tax in some sectors and regions, reducing a tax burden of 120 billion yuan (\$19.33 billion).

Since August 1, 2013, the Central Government has further exempted 6 million small and micro-businesses from business tax and value-added tax. At the same time, progress was also made in improving financial support for them.

According to statistics from the People's Bank of China, loans for small and micro-enterprises extended by major financial institutions, small rural financial institutions and foreignfunded banks posted an outstanding amount of 13.21 trillion yuan (\$2.13 trillion) at the end of December 2013, up 14.2 percent year on year.

Zeng Peiyan, Vice Chairman of the BFA, believed there are still a plenty of opportunities for China to exploit. "This year will be a year of reforms in the economic sector as well as the fiscal and tax system. When all these measures and policies are completely put in place, China's economy will make further progress."

(Reporting from Boao, Hainan Province)



## Key Points of Premier Li Keqiang's Speech at the Boao Forum for Asia Annual Conference 2014

## Building a community of shared interests, common destiny and shared responsibilities in Asia

Asian countries need to work together to further liberalize trade and facilitate investment, as well as upgrade regional and subregional cooperation. While the World Trade Organization should take a leading role in the development of global trade, the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership should become important supplements to the multilateral trade mechanism.

Asian countries should facilitate infrastructure construction including railway, highway, aviation and water transport. They should cooperate in the upstream, midstream and downstream of the industrial train, make progress in sci-tech and talent training, and promote growth of the "new economy" sectors, including green energy, environmental protection and the Internet. China is ready to intensify consultations with relevant parties on the preparations for the Asian Infrastructure Investment Bank.

Asian countries should build consensus, make active efforts and jointly fulfill their due responsibilities to achieve peace and stability in Asia. They should promote security dialogue and consultation, strengthen cooperation on non-traditional security issues, including disaster management, maritime search and rescue, counter-terrorism and combating transnational crimes, and actively explore the establishment of a regional security cooperation framework in Asia.

## Seeking new growth engines for driving the Chinese economy

—Deepening reform

China will further streamline government administration and delegate more power to lower-level governments, introduce a system of listing government powers, consider the adoption of a management model based on a negative list approach, accumulate useful experience through the development of the China (Shanghai) Pilot Free Trade Zone and spread it to other areas.



China will carry out a new round of opening up at a high level and an important part of this endeavor is to further open up the service sector, including the capital market. It will actively create conditions to establish a Shanghai-Hong Kong stock exchange connectivity mechanism.

China will narrow the gap between urban and rural areas and between developed and underdeveloped areas and improve industrial structure. China will implement a new type of people-centered urbanization and invest more in shantytown renovation. The service industry will be promoted and the trial to replace turnover tax with value-added tax will be expanded to more service sectors. China will support the development of green, new-energy, energy-saving industries and phase out outdated capacities.

—Improving people's livelihood

To increase residents' income, China will provide more fiscal and financial support and services for college graduates and the unemployed to find jobs or start businesses. It has expanded tax breaks to more small and micro companies so that they can provide more jobs. The government will continue improving its social security system in order to make people more willing to spend.

**COVER STORY** 

# REACHING CONSENSUS TO ASIA-PACIFIC PROSPERITY

Is an Asian version of the EU possible? With China's help, it just may be By Zhou Wenzhong



The author is secretary general of the Boao Forum for Asia

n the past few decades, Asia has been the region with the world's most dynamic and fastest growing economic development. Since the global financial crisis broke out in 2008, Asia has once again become an important engine driving global economic recovery and growth.

During this amazing period of growth, the contribution of the Chinese economy has been obvious. The rapid growth of the Chinese economy has benefited from the open and inclusive nature of economic globalization and the country's deep efforts in reforming its own economy.

Various changes taking place in China and other emerging economies in Asia will have far-reaching significance to the future of the Asian and world economy. Asian nations, including China, are now undergoing vital economic rebalancing and are faced with a dilemma of maintaining economic growth while embarking on structural ad-

justment. How Asian nations address these new challenges will indicate the directions of future reforms across the continent.

## **Accelerating integration**

As the opening-up policy has gradually been adopted by most Asian nations, the investment and trade relations between them have become closer, and bilateral, regional, sub-regional and trans-regional cooperation has been initiated. Exchanges and cooperation in the areas of industry and commerce, finance, science and technology, as well as culture, are intensifying. Concrete progress has been made in the building of a cooperative relationship between the Association of Southeast Asian Nations (ASEAN) and China, Japan and South Korea, and sub-regional cooperation, such as economic integration of the ASEAN, Great Mekong economic cooperation and South Asia Association for Regional Cooperation, is also underway. On a larger scale, trans-regional cooperation is in progress as exemplified by Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting and the Forum for East Asia and Latin America Cooperation.

An analysis from the Asian Development Bank shows that by 2050, Asia's GDP may account for 51 percent of the world's total. The report states that regional cooperation and integration will be crucial for the future prosperity of Asia.

As distinct from the politically driven route to integration taken in Europe, Asia's integration process over the past three decades has mainly been spurred forward by the market. Since trade barriers impose a largely negative impact, Asian economies have a strong desire to eliminate them. A series of bilateral free trade agreements have also accelerated economic cooperation among Asian countries.

In 1993, there were only 14 free trade agreements between Asian countries, but at the end of 2013, that number totaled more than 100. Trade has played a key role in the most dynamic economic region in the world.

"Asia still does not have a common market, equivalent to the EU or NAFTA. As a result, the flow of capital and labor within the continent is not as smooth as it could be. Indeed, in many Asian countries, the domestic capital and labor markets suffer severe restrictions and the movement of capital and labor faces many policy barriers. A significant reduction in the cost of moving capital and labor across Asia can provide a strong source of growth and economic integration in the years to come," wrote Nobel Prize winner Ronald Coase.

Coase's analysis points out where Asia has fallen behind in building its own economic community, and it confirms the importance of multi-dimensional integration policies in Asia-Pacific economic development. Therefore although

there is no common consensus on how to fully realize Asian economic integration, the policies of Asian nations and other related economies should all focus on reorganizing the process of economic alliance through free trade agreements.

Despite disagreements, there have been some common understandings: Any sensible free trade agreement should not only stress reducing tariffs, but also focus on more comprehensive trade norms on investment, services and intellectual property rights in order to ensure high-level international trade rules can be reached. The scope and comprehensiveness of a free trade agreement will decide whether or not it will bring benefits to Asian economies.

Wide participation in the process of integration, including making systematic arrangements on related cooperation, will be an important responsibility China may assume in future regional economic cooperation.

## **Enhancing connectivity**

At present, infrastructure in the Asia-Pacific region, particularly in the transportation and energy networks, needs improvement. In this region, most countries spend less than 3 percent of their GDP in the construction of infrastructure. In the private sector, the investment in infrastructure makes up less than 1 percent of the GDP. Infrastructure remains the largest bottleneck for the economic integration of Asia.

As Vice Chairman of the BFA Zeng Peivan says, exchange and cooperation in planning for the development of infrastructure between Asia's individual economies should be strengthened, so that individual infrastructure development plans and regional infrastructure connectivity promotion targets are closely coordinated. Asian economies should hold the discussions and exchanges necessary to attain a shared vision with regard to cross-border, cross-regional and inter-basin infrastructure networking. This would mean that a consensus or plan could be shaped in accordance with different areas of specialization. Medium- and long-term planning and arrangements could then be set out accordingly for the respective economies, so as to promote free flows in the Asian region within economic, cultural and human spheres, by means of more open and effective infrastructural networks.

By increasing investment in infrastructure construction, expanding domestic demand and creating new economic growth points, we can also remedy the shortcomings in past rapid development. Infrastructural improvements will promote structural adjustment, and drive forward the rapid development of certain emerging industries. In this context, economic structural adjustment, stable economic growth and employment protection will all be more effectively addressed.

The BFA sets store by the value in this field. We have held a seminar in Bali, Indonesia, on connectivity and inclusive growth in the Asia-Pacific region, sharing opinions and showcasing thinking in different fields and at different levels.

Financing difficulty represents another bottleneck for infrastructure construction in Asia. The ADB has estimated that, in the decade from 2010 to 2020, Asia must invest \$8 trillion in infrastructure construction overall if it is to maintain its current level of economic growth. It is thus clear that Asia's infrastructure has massive financing needs. To address this issue, Chinese President Xi Jinping said at the opening ceremony of the BFA Annual Conference 2013 that China will increase connectivity with its neighbors, actively explore the building of a regional financing platform, advance economic integration within the region and thus increase its competitiveness.

Underdeveloped infrastructure also presents enormous potential for the growth of emerging economies in Asia. In the past 30 years, China has made huge achievements in infrastructure, providing a valuable experience to other emerging economies in Asia. Increasingly powerful Chinese companies can also provide capital and technology for cooperation with other countries in infrastructure construction.

China proposes establishing an Asian Infrastructure Investment Bank and stands ready to offer financial support for infrastructure construction in developing countries in order to promote interconnectivity and economic integration in the region. The establishment of such an institution will, through a new regional platform for investment and fundraising, channel more funds into infrastructure, reduce capital flow out of Asia and ensure that capital is instead invested into Asia's vigor and growth. The bank will not only accelerate the development of Asian nations, but also stimulate global economic recovery.

## Joint development

In the 21st century, economic globalization and regional development require mutual exchange and cooperation between Asian countries, and in turn, Asia also needs to enhance its cooperation with other regions of the world. How to cope with the challenges brought by economic globalization, to maintain sound development of the region and to strengthen mutual cooperation have become a topic jointly faced by various Asian nations.

It is beyond all doubt that the economic development of China and other Asian countries together with Asian integration are playing an increasingly important role in the global economic structure.

The year 2014 is a critical period for reform in Asian and emerging economies. China, Japan, India and Indonesia are all making vigorous efforts to advance their new reform agenda. Asian economic growth cannot look to impetus from the external economy as it has in the past, but must now primarily rely on domestic forces to achieve growth. To nurture such domestic forces, communications, cooperation and mutual support between Asian countries will be particularly important.

The BFA is the first international organization that is led by Asians and guided from the perspective of Asian interests and views. It can thus dedicate itself fully to the discussion of Asian issues and aim to enhance cooperation and exchanges among Asian countries, and between Asian countries and other parts of the world.

The BFA is committed to serving Asia and opening it to the world and has closely followed and actively responded to both regional and global issues. It has become an important platform for political, business and academic communities from countries and areas in Asia to conduct dialogue and exchange views, increase mutual understanding, expand mutual trust and promote regional cooperation.

Moreover, the forum has built another type of "expressway" in the Asia-Pacific and related regions—it gathers opinions, thoughts and wisdom and then employs them to guide particular economic behaviors.





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