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# BEIJINGREVIEW

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# A JUMP START

First-quarter slowdown will not ground China's growth for 2014







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

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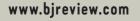
Tragic events give ancient phrase new meaning

World

Economic cooperation Down Under



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### **EDITOR'S DESK**

### 经水质温

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# **Restructuring a Priority**

The decline of China's economic growth in the first quarter of this year has cast shadows over the market. People are worried that China's slowdown of economic growth might affect that of the world at large. Some economists have even suggested China issue certain stimulus policies, like the govemment's 4-trillion-yuan investment in 2008.

Now is a crucial moment for the adjustment of China's economy. Before any largescale impacts are further imposed on the Chinese economy, it's more important to adjust our economic structure and ensure sustainable economic growth than to issue new stimulus packages.

The worry about the slowdown is understandable, but it should not affect the market's sentiments. The slowdown in the first quarter is not necessarily evidence that the Chinese economy is encountering problems, but instead, may indicate that the quality of China's economic growth is higher than before.

The proportion of the added value of the service sector to overall economic growth surpassed the secondary industry for the first time in 2013, and this momentum has continued in the first quarter this year. This is also the target of China's economic restructuring. In addition, the gross production of the middle and western regions to the country's GDP continued to rise, which implies a more coordinated economic growth across the country. Major indicators of physical outputs like the growth of society's electric power consumption and freight volume match the current pace of economic growth. All

of these prove that the economic structure adjustment has already seen results.

Statistics show that the registered unemployment rate in cities and towns in 2013 was kept at a relatively low level of around 4.1 percent. Small and micro-businesses are the most active job providers. Small and medium-sized businesses of fewer than 500 employees show the biggest demand for new employees, higher than the national level. Particularly, the demand for employment in small and micro enterprises of fewer than 20 employees has grown by 35 percent over the same period last year.

The current economic growth slowdown has resulted from the government's active economic structuring, and does not mean that any problems exist in the Chinese economy. Apart from giving priority to the development of new industries like information technology, new materials, etc., the country's economic restructuring also covers the reducing of social investments and credit scale and eliminating outdated industrial capacity.

At the beginning of 2014, the Central Government anticipated the slowing pace of economic growth and set this year's economic growth target at around 7.5 percent. The government will not adopt short-term strong stimulus measures due to temporary economic fluctuations, but is instead trying to prevent economic growth from excessive credit expansion and overdependence on investments, as well as surplus production capacity.

WRITETOUS

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## **CULTURAL RELICS DISPLAY**

A visitor appreciates terracotta cows in an exhibition showcasing relics unearthed from the tomb of the last emperor of the Sui Dynasty (581-618) in Yangzhou, east China's Jiangsu Province, on April 16. Opening on that day, the exhibition will last three months. This is the first time relics from the tomb have been exposed to the public. The unearthing of these relics was listed as one of China's top 10 archeological discoveries in 2013.

### THIS WEEK SOCIETY



### Discount Drugs

A consumer buys medicine at a drug store in Taiyuan, capital of Shanxi Province, on April 11.

A multi-departmental effort has been introduced to give the public better access to commonly used medications at a more reasonable price. A list of such drugs is expected to be publicized by June, and manufacturers will be entitled to the right of pricing according to production costs and the market situation.

The initiative comes in response to a series of shortages of commonly used and low-priced drugs. Under the new initiative, producers of the listed drugs will enjoy more freedom to price the medicine.

### **Purified Seawater**

Construction of a desalination project that will deliver purified seawater to Beijing from its neighboring Hebei Province's coast will start at the end of the year, local authorities announced on April 16.

The project will be located in Caofeidian, the second largest port in Hebei, with a daily desalination capacity of 1 million tons of seawater, said Wang Xiaoshui, director of the seawater desalination department of Beijing Enterprises Water Group Ltd.

After the project goes into operation in 2019, Beijing will receive more than 300 million cubic meters of desalted Bohai seawater annually, about 10 percent of its current water consumption volume.

"Beijing residents will be able to enjoy desalinated seawater," said Wang.

The project will include a facility and a 270-km-long pipeline extending to Beijing.

### **University Cooperation**

Duke Kunshan University (DKU), a Sino-American joint venture university in east China's Jiangsu Province, will officially open in August, local authorities said on April 15.

DKU, in the city of Kunshan, was jointly created by U.S.-based Duke University and Wuhan University in China's Hubei Province. The Ministry of Education formally approved its establishment last September.

"We plan to enroll the first 100 students, including 50 Chinese, offering master's degree programs in global health, medical physics and management studies. Graduates will be granted degrees from Duke University," said Liu Jingnan, chancellor of DKU.

In addition to academic degree programs, the university will provide non-degree courses for undergraduate students. Students who successfully complete the program will receive Duke

### **RUN TIME**

Ann, a three-legged dog, ranks third in a dog competition held by China's largest Internet company Tencent in Beijing on April 12



University course credit that can be transferred to other degree-granting institutions.

China currently has about 1,500 Sino-foreign joint institutions and programs, including Shanghai New York University, Wenzhou-Kean University and DKU.

### **Crop Insurance**

China will intensify its efforts to promote crop insurance, with insured farm produce expected to cover 60 percent of the country's cultivated land by 2020, the country's top insurance regulator said on April 14.

The country will improve its crop insurance mechanisms, especially services for the animal husbandry and planting sector, in a bid to guarantee food security, said Wang Zuji, deputy head of the China Insurance Regulatory Commission.

Insurers will be encouraged to cover farm produce prices, rural houses and infrastructure, according to Wang.

The bureau is also considering subsidies for insurers to promote agriculture-related business, he said.

China had 1.11 billion *mu* (74 million hectares) of crops insured last year, accounting for 45 percent of the overall seeded area. A total of 33.67 million rural households received combined compensation worth 20.9 billion yuan (\$3.4 billion).

### **Robot Replacement**

Guangzhou, south China's economic powerhouse, has set a goal of having 80 percent of the city's manufacturing production done by robots instead of human labor by 2020.

According to an industrial development guideline issued by the Guangzhou Municipal Government on April 15, the use of industrial robots will be encouraged in mechanical and automobile manufacturing, food processing and the manufacturing of pharmaceutical, electronic and dangerous products.

The document says that there will be subsidies of up to 30,000 yuan (\$4,800) for those who purchase or rent a robot, and a maximum one-off subsidy of 500,000 yuan (\$82,000) for companies that introduce a complete set of automation equipment in

Guangzhou, capital of Guangdong Province.

The municipal government believes the rising human resource costs and increased demand for sophisticated manufacturing have provided an opportunity for an accelerated roll-out of robots.

### **Electricity on Everest**

The base camp at Mount Qomolangma, also known as Mount Everest, which is located at 5,200 meters above sea level, now has access to reliable electricity, the Tibet Branch of the State Grid Corp. of China said on April 16.

More than 160,000 people in the four counties at the foot of Mount Qomolangma will benefit from the project, which cost 570 million yuan (\$92.7 million).

The Chinese Government and the State Grid will invest 8.1 billion yuan (\$1.3 billion) to bring power to places without electricity in Tibet and upgrade the existing rural grid between 2013 and 2015, according to the Tibet Branch of the State Grid.

An additional 440,000 Tibetans will have access to electricity when the projects are completed.

### **Bear Welfare**

A black bear farm in south China's Guangxi Zhuang Autonomous Region, where bears are raised for their bile, will be turned into a rescue center under an Animals Asia project.

The animal welfare group made the announcement jointly with the Nanning-based Flower World Bear Farm "Electricity reaching the base camp is as great as humans ascending to Qomolangma's summit."

Gonpo, one of the first mountaineers to climb to the top of Mount Qomolangma in 1960



### Flighty Fun

A contestant flies a kite shaped like a Peking Opera figure during a kite-flying contest in Weifang, Shandong Province, on April 16. Over 1,100 kites were flown during the event.

in Beijing on April 15.

Bear farms profit from taking bile from live bears and selling it for making medicine. The practice, which inflicts pain and damages the health of bears, has drawn criticism from animal rights activists and the public.

Under the Animals Asia project, the organization will invest \$5 million to send 28 sick bears raised on the farm to Animals Asia's Bear Rescue Center in southwest China's Sichuan Province for treatment. Over the next three years, it will also transform the Flower World Bear Farm, where 130 bears live, into its second rescue center in China.

There are an estimated 10,000 bears being raised in pens for their bile. According to Animals Asia, they are living in cages with damp floors.

Animals Asia, founded in 1998, is devoted to ending the "barbaric practice of bear bile farming." According to its figure, the organization has rescued 285 black bears from Chinese bear farms thus far.

### Spam Crackdown

A policeman in Shanghai checks a computer used to spam cellphone users on January 15.

Chinese mobile users received over 300 billion pieces of SMS spam last year, based on analysis of 270 million complaints, the *People's Daily* reported on April 12.

Sales promotions accounted for 65 percent of the total, while real estate advertisements took up 15 percent. Beijing mobile users received an average of 2.22 junk messages each day.

The messages are sent via fake base stations—unlicensed telecommunications installations that allow criminals to send spam to nearby mobile users with fake phone numbers or disguised as communications from government departments, telecoms operators or banks.

The report said that a campaign against spam at the end of last year successfully reduced such messages by over 50 percent in November and December 2013.



### THIS WEEK ECONOMY

### Financing SMEs

China will provide better support for small and medium-sized enterprises (SMEs) by simplifying how funds are allocated, the Ministry of Finance (MOF) said on April 14.

The ministry, along with the ministries of industry and information technology, science and technology, and commerce, issued a notice to improve the efficiency in the way funds are allocated to SMEs.

According to the notice, funds will be allocated to SMEs to help improve technological innovation, financing, services, and international cooperation.

The notice also highlighted more support for SME innovation in information technology, resource saving, new energy development, the biomedical industry and modern agriculture.

A subsidy for each new innovative project will stand at no more than 3 million yuan (\$487,560), or 40 percent of the research and development cost at most, according to the notice.

### **Corporate Defaults**

Chinese banks have the means to deal with corporate bond and trust defaults, Deutsche Bank said in a research note on April 15.

A study by the bank found that listed Chinese banks hold 37 percent of outstanding debts in China's corporate bond market and have provided 36 percent of the funding for the country's trust sector.

That puts 88 billion yuan (\$14.14 billion) worth of bank assets at risk. But according to Deutsche Bank, they are well covered by the 819 billion yuan (\$132 billion) the banks have set aside to cover bad assets.

The bank said its study covers 2,400 corporate bond issuers and 13,000 trust products, with a total credit balance of 237 billion uuan (\$38 billion).

The bank said only 22 out of 2,400 bond-issuing firms are highly risky. Sixty-five percent of these firms are from industries saddled with overcapacity, including the steel, mining, metal



### FERTILE INDUSTRY

Farmers harvest vegetables in Yongxiu County, Jiangxi Province. The province is home to 8.3 million mu (553 hectares) of vegetables, with an annual production of 12.25 million tons

and solar sectors.

China also witnessed the first onshore corporate default in March when a Shanghai-based solar firm failed to pay 89.8 million yuan (\$14.4 million) in interest

Meanwhile, authorities and banks have shown growing reluctance to bail out troubled assets, which analysts said could help correct distortion in risk pricing but could also stoke fear of more defaults to come.

Deutsche Bank said while May and June could see a peak number of bonds and trust products come due, investors could learn that actual defaults are less than they thought, regaining confidence in Chinese banks.

The report also added that it is normal for defaults to rise steadily as a way to correct distortions in pricing credit risks and improve the efficiency of capital allocation.

### Simplifying Approval

The review and approval process for foreign-funded enterprises to operate telecom value-added services in the Shanghai Free Trade Zone (FTZ) has been simplified, the Ministry of Industry and Information Technology (MIIT) announced on April 15.

The review and approval authority has been delegated from the MIIT to the Shanghai Communications Administration, said the MIIT in a document.

The length of time from submission of application to approval has been shortened to no more than 60 days down from five months.

Telecom value-added service providers refer to those using public telecom network infrastructure and providing value-added services including call centers and smartphone app stores rather than traditional voice telephony services.

### **IPO Market**

China's securities regulator on April 11 denied rumors that the country's initial public offering (IPO) market has been shut down.

The clarification came after the China Securities Regulatory Commission (CSRC) in late March



### Canton Fair Kicks Off

Visitors attend the 115th Canton Fair held in Guangzhou, capital of south China's Guangdong Province, on April 15.



### **Positive Reaction**

A staff member from the China Nuclear Energy Scientific Research Institute introduces a nuclear reactor model to visitors at the 2014 China International Nuclear Industry Expo in Beijing on April 15.

The expo, lasting from April 15 to 18, attracted over 200 exhibitors from 40-plus countries to showcase their latest nuclear energy technologies and products.

suggested companies planning an IPO should "choose a reasonable timing" for IPO application.

The CSRC urged the companies to go to the New Third Board, a national share transfer system for SMEs to transfer shares and raise funds, or seek IPOs overseas.

"This is just a suggestion by the CSRC in response to questions raised by the market. This is neither mandatory nor does it mean the IPO application window is shut down," said Zhang Xiaojun, spokesman of the CSRC.

The suggestions were made in March because, in the words of the regulator, "a large number of IPO applications were still pending approval and new applicants would have to wait for a relatively long period."

New rules governing IPOs would also result in stricter requirements for

### COMPETITION BREWING

Tea farmers compete for the "king of tea production" at the 2014 China Tea Conference in Xinchang, east China's Zhejiang Province, on April 15



information disclosure and more responsibilities for the issuer and sponsor, the CSRC said.

Zhang said the CSRC was just reminding issuers and sponsors of the current special circumstances and suggesting they choose the right equity trading market.

"This would help avoid worsening the already crowded IPO channel. For those companies who have decided to file an IPO application, they should time it reasonably to avoid extra cost and burden on themselves."

China imposed a moratorium on IPOs in October 2012 as the country worked to reform a market featuring a pricing system that had led to consistently excessive offering prices. The authorities reopened the market for IPOs at the end of 2013.

### FTA Talks

China and Australia on April 12 voiced hopes to hasten negotiations on a Free Trade Agreement (FTA) and strike a deal as soon as possible.

Meeting with entrepreneurs together with visiting Australian Prime Minister Tony Abbott, Chinese Vice Premier Wang Yang said economic and trade cooperation between the two countries is now on the fast track.

"It is a common aspiration of businessmen from both countries and also an important consensus reached by leaders of the two countries to speed up the FTA negotiations," Wang said.

The role of the government, Wang said, is to "build roads and bridges" for enterprises and provide them with convenient, safe and efficient services.

Wang called on both governments to meet halfway and show flexibility in the FTA negotiations to make tangible progress at an early date.

For his part, Abbott said development of economic and trade relations between Australia and China had moved rapidly in recent years and he expected an FTA deal at the earliest possible opportunity.

Initiated in 2005, talks between Australia and China on the FTA have gone through 19 rounds so far. If a deal is signed, it would be the first FTA between China and a major developed economy, giving Australian agricultural produce easier access to the enormous Chinese market.

China is Australia's largest trade partner and biggest export market, while Australia is Chinese enterprises' largest overseas investment destination country.

According to statistics from the Chinese Ministry of Commerce, bilateral trade reached \$136.4 billion in 2013, up 11.5 percent from 2012.

Abbott said Australia would like to be a long-term, stable provider of energy, resources and food to China, adding that he hopes to see more and more Chinese enterprises invest in Australia and promising to facilitate their business.

### THIS WEEK WORLD





Rescuers search for missing passengers near a South Korean ferry after it capsized off South Korea's southwest coast with more than 470 people on board on April 16



### THE UNITED STATES

Two girls light each other's candles during a candlelight vigil for the one-year anniversary of the Boston Marathon bombings, in which two pressure cooker bombs killed three and injured more than 260 others, in Boston on April 15







### **PAKISTAN**

Models present Pakistani creations during the PFDC Sunsilk Fashion Week in Lahore on April 13



### **BRITAIN**

A gallery assistant sits in front of a paper cutout by French artist Henri Matisse (1869-1954) at an exhibition in London on April 14









### HUNGARY

A one-week old camel, named Ilias, is pictured at the Budapest Zoo and Botanic Garden on April 15



### CHILE

Volunteers help after a massive fire devastated a huge swath of the historic port city of Valparaiso on April 14

### THIS WEEK PEOPLE & POINTS

### $\psi$

#### ACCI AIMED DIRECTOR

Hong Kong film director **Wong Kar-wai**'s hit *The Grandmaster* became the biggest winner at the 33rd Hong Kong Film Awards, taking home 12 prizes, including best film, best director, best actress and best supporting actor.

Wong, 58, was the first Chinese director to win the Best Director Award at the Cannes Film Festival for his work *Happy Together* in 1997. Wong was the president of the jury at the 2006 Cannes Film Festival, which makes him the only Chinese filmmaker to preside over the jury at the festival.



# Reinforcing Entrepreneurial Confidence

### Caijing Magazine April 14

Entrepreneurs always play an important role in driving the economic prosperity of a country. Outstanding entrepreneurs have emerged in large numbers in China since the country issued the policy of reform and opening up in the late 1970s.

Today, people have increasingly realized that the development pattern dominated by giant state-owned enterprises and huge governmental investments has been declining. What economic growth needs is the pioneering spirit of entrepreneurs. However, only when private property rights are completely protected by laws, can the spirit of entrepreneurs produce a strong driving force.

A robust economic system should protect the free development of private properties. But the private sector is still weak in China. In the last 10 years, private enterprises have been squeezed out of many businesses by state-owned enterprises (SOEs). The rapid strides of SOEs have caused many problems and led to a rigid development pattern.

China is preparing to launch a new round of reform. It is hoped that comprehensive reform measures may help establish an inclusive system in which all parties of the society, including numerous private entrepreneurs, have legal rights and clarified approaches to growing their businesses. It is the only way to make China a thriving and prosperous country.



### Healthcare Reform *Oriental Outlook* April 17

China has been trying for years to reform the current healthcare system. Despite many measures issued by the medical authorities, the reform has not had much effect

Both patients and doctors complain of current medical care conditions. For patients, it is difficult to obtain excellent medical care in prestigious hospitals that are mostly located in large cities and the treatment is often unaffordable. For doctors, they have to bear heavy work stress to give treatment to a long line of patients every day. Moreover, being a doctor has become a dangerous occupation because of intensified conflicts between doctors and disgruntled patients or family mem-

bers of patients—some doctors have even been wounded or killed in such conflicts.

At present, a large portion of doctors' income relies on commission on drug sales. In fact, the salary system has underestimated the value of doc-

"Years of research and practice show that a lifestyle change could reduce people's chances of developing the more common cancers like that of the lung, breast, stomach, esophagus and colon."

**Zhang Jianshu**, Deputy Director of Beijing Health Campaign Committee, commenting on his committee's study showing that cancer has been the primary cause of death in Beijing for seven consecutive years "It's a good story and a good play.

Despite being a Chinese story, I found it very close to us, and I thought, let's do this one."

**Oriol Broggi**, director of a play adapted from the Chinese tale *The Orphan of Zhao*, which is currently being shown at the Teatre Romea in Barcelona, Spain, talking about his inspiration

东



tors. Furthermore, the registry system for certified doctors hinders the free flow of doctors between different hospitals.

Therefore, upcoming medical care reform must resolve these problems and free doctors from the state of heavy work stress and low salary.

#### Polluted Tap Water The Beijing News April 14

Veolia Water in Lanzhou, capital city of northwest China's Gansu Province, has been in the media spotlight due to an incident of tap water contamination. On April 10, the tap water supplier announced its water was contaminated by excessive levels of benzene. In fact, local residents had reported the strange smell of tap water a month earlier, but the company and the local government did not take any prompt measures to inform the public or troubleshoot. Excessive levels of benzene in the water affected more than 2.4 million local people. Benzene is known to damage the human hematopoietic system.

Although tap water supply fully resumed in the city on April 14, the public called for a

thorough investigation to hold those responsible for the accident accountable.

Investigators later found crude oil in soil along a ditch between two water plants of Veolia. It is believed the pollutants have leaked from a pipeline of Lanzhou Petrochemical, a subsidiary of the China National Petroleum Corp., China's oil giant.

The polluted underground water ditch had been used for nearly 60 years. It was built in the 1950s. In 2007, Lanzhou Government sold the tap water utility to Veolia at a high price. But both parties did not revamp overused pipelines, sowing the hidden trouble underground. People hope the local government and water suppliers as well as Lanzhou Petrochemical can remedy their mistakes and safeguard the safety of tap water.

### SCREENWRITER CLAIMS RIGHTS



In an open letter posted online on April 15, renowned Taiwanese scriptwriter **Chiung Yao** claimed that mainland scriptwriter and director Yu Zheng's latest TV drama plagiarizes her 1993 work.

Earlier in April, Yu found himself in an online argument with actress Dai Jiaoqian after Dai said in an interview that the show's plot had been inspired by Chiung's work.

The 76-year-old Chiung began her writing career back in the early 1960s. Famous for her romantic love stories, she has influenced many other writers of modern Chinese literature. Almost all her books have been adapted into TV series or films.

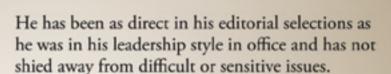
"Every time I got kicked out when the bookstore closed, I felt frustrated. Now, I finally have a place to read to my heart's content. My husband and I will invite friends to read together at night."

**Li Ying**, a customer at the Beijing-based Sanlian Taofen Bookstore, the city's first 24-hour book store "We hope that, via this sequel [to our previous documentary], more people around the world can have a better understanding of Chinese tradition and its changes. The audience will get to see the traits of the Chinese people: frugality and tenacity."

**Chen Xiaoqing**, chief director of *A Bite of China*, a popular documentary series on Chinese culinary arts, at the premier of its sequel on April 15







—— Henry A. Kissinger

It is a unique historical document of China's unprecedented economic evolution over the past few decades. And it gives a fascinating insight into the political work of Zhu Rongji—an exceptionally gifted statesman and a dear friend.

——Helmut Schmidt

## Zhu Rongji on the Record

ZHU RONGJI ON THE RECORD

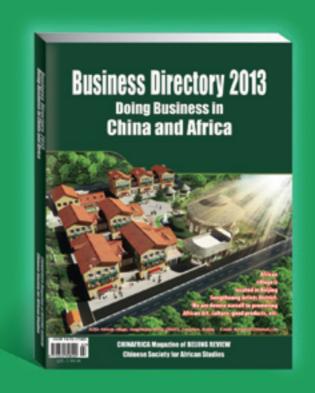
THE ROAD TO M

1991-1997

Zhu Rongji on the Record is a compilation of Zhu's writings. It covers China's reform, opening up and modernization drive. It includes important speeches, articles, letters, and directives. Zhu Rongji is a key Chinese reformer and statesman, and served as Vice Premier of the State Council from April 1991 to March 1998. He later served as Premier, from March 1998 to March 2003. Most of the materials in the book are being published for the first time. The Chinese edition of the book was published in Chinese mainland in 2011, and was very well received. The two-volume English edition includes 112 speeches, articles, letters, and directives selected by Zhu himself from the 348 articles in the four-volume Chinese edition. The English edition of the book is published by the Foreign Languages Press of the CIPG and the Brookings Institution Press in the U.S. Both Henry A. Kissinger, former U.S. secretary of state and Helmut Schmidt, former chancellor of West Germany wrote prefaces.

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COVER STORY

# OFF TO A GOOD BEGINNING

China doubles down on reform and consumption as future drivers in the wake of declining growth By Zhou Xiaoyan

hina's economic growth slipped to 7.4 percent in the first quarter, signaling more downward pressure for the world's second largest economy. However, authorities have ruled out the possibility of major stimulus to fight short-term dips in growth and plan to seek growth momentum in deep-seated reforms and promising domestic consumption.

The first-quarter growth rate marked the lowest quarterly growth level since the third quarter of 2012. But even so, the figure still far outperformed the 6.6-percent growth in the

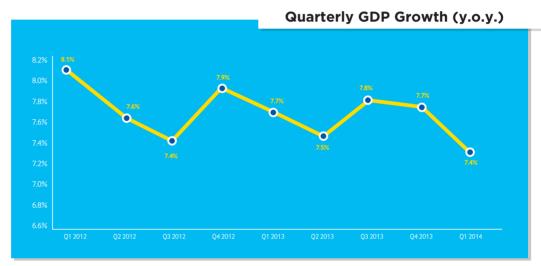
first quarter of 2009 when the global financial crisis was wreaking havoc.

"The figures suggest growth in the world's second largest economy in the beginning of the year 2014 was stable and that the economy was generally in good health, as Chinese authorities are more focused on reforms, restructuring and the improvement of people's wellbeing," said Sheng Laiyun, spokesman of the National Bureau of Statistics (NBS) when releasing first-quarter economic figures at a press conference on April 16.

China is shifting gear in terms of growth

rates, adjusting its economic structure and digesting the aftereffects of previous stimulus packages. To shield its economy from the torrents of the global financial crisis, a 4-trillion-yuan (\$644.4 billion) stimulus package was launched in November 2008, which pushed up asset prices and resulted in severe overcapacity.

"A slower growth rate represents a conscious choice on the country's behalf. Local governments at various levels have expedited the phase-out of outdated capacity. They have sacrificed growth rate for greener and more sustainable development. There is certainly a



(Source: National Bureau of Statistics)

price to pay. But this shift in thinking should definitely be encouraged," said Sheng.

China's macroeconomy will inevitably come under downward pressure in 2014. However, the ostensibly weak data also contains positive factors, bolstered by many achievements in economic restructuring.

Traditional industries such as steel and cement are experiencing an obvious fall, while hitech industries show accelerating growth. The share of gross investment in the service industry and private investment continues to rise.

Along with slowed industrial production growth, the service sector continued to grow in the first three months and make a larger contribution to GDP growth.

NBS spokesman Sheng said the trend indicated the Chinese economy is shifting from an industry-led growth to a service-led one. "We should adopt a new perspective on viewing the changes in the Chinese economy," said Sheng.

### Target achievable

The Chinese Government has set a target of around 7.5 percent for economic growth in 2014. It has said that a figure slightly above or below the target would be acceptable because its main focus is on creating jobs and improving people's wellbeing.

Earlier, when addressing the Boao Forum for Asia annual conference in south China's Hainan Province, Chinese Premier Li Keqiang emphasized that the Chinese Government will not opt for a massive short-term stimulus because of temporary volatility.

"A growth rate under the 7.5-percent target is acceptable so long as sufficient creation of employment is ensured," Li said.

"With all the principles established and policy options at our disposal, we can handle all possible risks and challenges," the premier said. Streamlining administration and further tax reforms are two of the options on the agenda. "The Chinese economy has got off to a stable and good start."

A slew of more targeted pro-growth measures, including tax cuts for small and micro enterprises, greater support for shantytown renovation and more investment in railways construction in underdeveloped regions, have been adopted in an attempt to steady growth around its target without disrupting plans to restructure the economy.

On April 16, the State Council also announced a string of financial and tax moves including cutting the reserve requirement ratio for some rural financial institutions, with a view to providing more support for the rural economy and bolstering job creation.

Wang Jun, a senior researcher at the China Center for International Economic Exchanges (CCIEE), said the recently adopted pro-growth measures will definitely lift the Chinese economy.

"These measures aim to stabilize growth. I think the economic momentum will increase from the second quarter and there's no need to worry that the economy will slide out of control," Wang said.

Lu Zhengwei, chief economist with the Industrial Bank, said the GDP data are better than expected.

"Considering the government's supportive measures that have just been announced in April, we expect growth to rebound to around 7.5 percent in the second quarter," Lu said. "Going forward, further monetary policy loosening may not be needed as the central bank has kept money market rates relatively low."

Zhou Hao, China economist with the ANZ Bank, said growth momentum has stabilized in March, despite the lackluster first-quarter figures.

"China's industrial output of enterprises above the designated size—annual principal business revenue of 20 million yuan—expanded by 8.8 percent in March from an average growth of 8.6 percent in the Jan-Feb period. Retail sales grew 12.2 percent in March, up from the last reading of 11.8 percent," said Zhou.

"In addition, port throughput data and our field study also suggest that China's foreign ▶▶





(Source: National Bureau of Statistics)

trade may have bottomed out, and will become more resilient than what the current headline numbers suggest," he said.

Ma Yao, a macroeconomy researcher with research institute CIConsulting believed the first-quarter figures don't necessarily represent the trend for the rest of the year and cannot be used to predict the whole-year growth data.

"Many policies had been just formulated in the first quarter. Major reform measures have yet to be fully implemented. The macroeconomy is bound to pick up in the following quarters after those policies take effect."

### Reform-driven growth

The Chinese Government intends to prop up the economy through reforms, rather than by the traditional means of eased monetary policy and progressive fiscal policy.

During his keynote speech at the Boao Forum for Asia, Premier Li Keqiang identified

reform as one of China's growth engines for driving the Chinese economy.

If massive stimulus is an instant painkiller, reform is like minimally invasive surgery.

In 2013, a total of 416 administrative approval items were cancelled or delegated to lower governments by the Central Government. Other reform measures, such as business registration system, replacing turnover tax with value-added tax and mixed-ownership reform among the bloated state-owned enterprises (SOEs), are underway to inject more vigor to the market.

China's reform efforts have already paid off, as the number of newly registered companies surged by 27.6 percent last year.

The government promised to cancel or delegate over 200 administrative approval items in 2014 and to provide more tax cuts for small and micro-firms.

Tian Guoqiang, Dean of the School of Economics with Shanghai University of Finance and Economics, said SOEs can hardly serve as the backbone of the Chinese economy.

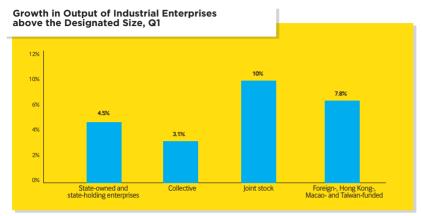
"Whether or not China can realize long-term high-speed development depends on whether the country can deepen reforms," said Tian.

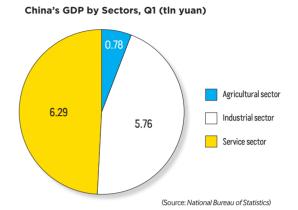
Decisions made at the Third Plenary Session of the 18th Central Committee of the Communist Party of China held last November said the market should play a decisive role in allocating resources. This is a very good sign, said Tian.

China's competitiveness can be strengthened only when private firms can play a leading role and a modern market system is established. The government should stop micromanaging, limit its functions, and mainly focus on maintaining market order, establishing a society ruled by law, solving market malfunctions and providing services, he said.

#### Eyes on consumption

Upbeat consumption data are the biggest highlight among the first-quarter results.





The designated size means annual principal business revenue of 20 million yuan (\$3.2 million)

Consumer spending against the country's GDP was 64.9 percent in the first quarter, up 1.1 percentage points from the same period last year.

"Exports contributed less to GDP in the first quarter than the same period last year. Meanwhile, the growth in investment is slowing from the previous quarter. Therefore, consumption's contribution to GDP is on the rise, although the specific percentage is still under calculation" said NBS spokesman Sheng.

"It's premature to say the Chinese economy has already been transformed from investmentdriven to consumption-driven. But it's definitely happening," said Sheng.

People's willingness to spend is directly connected to a stable job market and their deeper pockets.

Disposable income of urban residents increased 7.2 percent in the first quarter and rural residents' cash income surged 10.1 percent during the period.

Zhao Ping, Deputy Director of the Consumer Research Department under the Chinese Academy of International Trade and Economic Cooperation, said boosting investment alone will inevitably lead to overcapacity. Only by combining boosting investment and expanding domestic demand can the problem be solved. "It's quite necessary to release some incentives to boost consumption."

Wang Jun, the CCIEE researcher, said previous short-term incentives will no longer be adopted. Instead, a long-term mechanism will be established to stimulate consumption.

"For instance, tax related to the circulation of commerce and trade will be reduced to lower logistics costs. Also, the threshold of e-commerce will be lowered and infrastruc-

ture construction, such as broadband, will be strengthened."

China's ongoing drive toward urbanization boasts the biggest potential for boosting consumption.

The State Council released the National New-Type Urbanization Plan (2014-20) on March 16. According to the plan, by 2020, 60 percent of the population will be urban residents, while 45 percent of the total population will be residents with urban hukou, permanent residential registration.

According to the NBS, at present, 260 million migrant workers are living and working in cities. From now to 2020, about 100 million migrant workers will move to cities.

Liu Yuanchun. Vice Dean of School of Economics at the Renmin University of China, said the key to unlocking the consumption potential in the urbanization process lies in a stable job market, continuous increase of migrant workers' income and granting such workers equal access to public services, such as education, medical treatment and affordable housing.

"As more farmers become urban dwellers, cities should not only invest more in roads, bridges and buildings, but also earmark more funds on projects related to people's wellbeing so that those new urban dwellers can have equal access to public services as traditional urban residents," Liu said.

"Urbanization drive will bring about an increase in investment and consumption and provide continuous momentum for China's economic growth in the years ahead."



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### **Major macroeconomic** indicators in 01

- Consumer price index (CPI), the main gauge of inflation, rose 2.3 percent year on year.
- Foreign trade declined 1 percent year on year to \$966 billion. Exports declined 3.4 percent to \$491 billion while imports increased 1.6 percent to \$475 billion.
- Industrial output grew 8.7 percent year
- Fixed assets investment rose 16.3 percent year on year to 6.83 trillion yuan (\$1.11 trillion).

- Retail sales expanded 10.9 percent year on year to 6.2 trillion yuan (\$1 trillion).
- The per-capita disposable income of urban residents stood at 8,155 yuan (\$1,311), up 7.2 percent year on year.
- The per-capita cash income of rural residents stood at 3,224 yuan (\$518), up 10.1 percent year on year.
- New yuan-denominated loans amounted to 3.01 trillion yuan (\$488.9 billion).
- M2, a broad measure of money supply that covers cash in circulation and all deposits, increased 12.1 percent year on year.

(Source: National Bureau of Statistics)

**COVER STORY** 

# STEADY PATH AHEAD

Despite a number of challenges, China's economy is manageable with no crisis on the horizon By Jin Zhongxia



The author is director of the Financial Research Institute of the People's Bank of China

s China faces risks through upgrading the structure of its economy, the general consensus is that these risks are in the main manageable. More specifically, China's current debt level is under control and the U.S. tapering of quantitative easing (QE) is not likely to trigger a financial crisis in the country. Looking further ahead, the challenges of overcapacity are being addressed and the possibility of economic turbulence brought about by the real estate bubble is slight.

#### **Debts controllable**

China's debts include government debt, corporate debt and household debt. The overall debt level is 220 percent of the nation's gross domestic product (GDP).

Statistics by China's National Audit Office show government debt at all levels had reached 30 trillion yuan (\$4.8 trillion) by the end of June 2013. This figure was 60 percent of China's GDP, lower than the world average of 80 percent and the developed countries' average of 100-110 percent. China's household debt has amounted to 16 trillion yuan (\$2.6 trillion), 31 percent of its GDP, much lower than the developed countries' average of 80-100 percent and even lower than the world average. However, Chinese enterprises suffer heavier debt burdens, about 120-130 percent of the country's GDP, while the average level in developed nations is less than 100 percent.

China's overall debt ratio is also lower than that of the United States and the

euro zone, both exceeding 300 percent of their respective GDPs. Japan's overall debt level is as high as 500 percent of its GDP. Comparatively speaking, China has a high savings rate, a high growth rate and a low budget deficit. Meanwhile, China has a trade surplus, abundant foreign exchange reserves and a relatively low level of inflation. All of the aforementioned will play to its advantage in terms of future development.

Even if there are potential risks in regard to debts, China is capable of coping with them. By absorbing private investments and raising funds through the stock market to increase enterprises' capital, high corporate debt levels will be alleviated. Banks can securitize their credit assets. Companies can swap their debt into equity, thus lowering their debt ratio.

The National Audit Office estimates that China's local government debt had amounted to 20 trillion yuan (\$3.2 trillion) by the end of June 2013. Although this seems a large sum, the funds are mostly invested in constructing urban facilities and infrastructure, which will benefit the local economy in the long run. In addition, large sums are usually borrowed for specific projects, which are generally profitable. In addition, local governments can liquidate part of their assets to pay off the debts.

Local governments can also enhance their ability to pay for infrastructure debts by introducing the mechanism of public-private partnerships and establishing financing and developing banks. Therefore, the possibility of an overall debt crisis is slight indeed.

#### QE exit: no threat

There are worries that the U.S. withdrawal of QE may cause economic turbulence to China. Unlike other emerging economies whose current accounts are in deficit while their capital

accounts are in surplus, China has achieved a basic equilibrium in its balance of international payments and kept a low level of inflation as well as a low level of foreign debts. For other emerging economies, both the current accounts and the capital accounts would be in deficit if the QE was cut, which could result in a sharp decrease in their foreign exchange reserves and spur a currency crisis.



However, the withdrawal of QE will not trouble China, but means an opportunity to enhance the country's macroeconomic regulation. In the past few years, as both China's current and capital accounts were in surplus, excessive appreciation of the yuan posed a threat to the Chinese economy. Against the backdrop of excess liquidity in the domestic market, it is necessary for the central bank to hedge its risks, which will also inevitably bring unwanted side effects. If China positively reacts to the impact of the QE exit, its current account surplus will be balanced by its capital account deficit, realizing a balance of international payments, Besides, as international hot money leaves China, it is possible for the central bank to ride the wave and cut the reserve requirement ratio to increase liquidity and reduce the opportunity for regulatory arbitrage. It will also eliminate the threat brought by excessive yuan appreciation and stimulate exports at the same time.

### Overcapacity easing

Indeed, overcapacity in some industries is a problem China is suffering from. But there are signs that the problem can be alleviated through industrial restructuring. Loans to industries with overcapacity have been on the decline and loans to emerging industries are on the rise. As the developed economies are beginning to pick up, the productivity of some industries that were previously plagued by overcapacity will re-

cover, such as the shipbuilding industry. Strong demand for investment in emerging green energy industries, such as new-energy vehicle manufacturing, will see the excess production finding a way to be consumed. Besides, China's production capacity at the high end of the value chain is still seriously insufficient and the density of its railway and highway networks is lower than that in developed nations, leaving much room for more investment.

China's urban construction and management are still at a low level: Drainage facilities are poor, transportation from residential areas to business districts is inconvenient, underground space hasn't been fully utilized and development of megalopolises is slow. While increasing its urbanization rate, China needs to build better social facilities to improve care for senior citizens. All of these provide opportunities for industries with overcapacity.

#### No real estate risk

High housing prices in cities like Beijing and Shanghai are actually not creating a bubble. The limited land available in big cities cannot satisfy the demand for rapid urbanization. The housing price decline in third- and fourth-tier cities doesn't mean the real estate bubble is bursting and cold data alone cannot provide conclusions for the state of China's real estate market. For instance, when every household possesses more than one property on average, China's real estate market will be saturated. This argument actually does not measure up to the facts. As China has a large floating population, it is normal for people to have more than two properties—one in their hometown and the other in the city where they work. If they rent an apartment in city, it means that some urban households need to have more than one property. Financial risk in the property market is also not a worry, as the down payment sum of the mortgage is usually large and the mortgage loans are usually of high-quality capital for banks.



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