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BEIJINGREVIEW

VOL.57 NO.30 JULY 24, 2014

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

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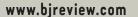


P.20 A New Pole of **Global Finance**

BRICS nations to rival World Bank



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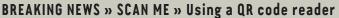












EDITOR'S DESK

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BEIJING REVIEW

A News Weekly Magazine **Published Since 1958**

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Published every Thursday by BEIIING REVIEW, 24 Baiwanzhuang Lu.

Overseas Distributor: China International Book Trading

Tel: 86-10-68413849, 1-416-497-8096 (Canada)

Fax: 86-10-68412166

E-mail: fp@mail.cibtc.com.cn Website: http://www.cibtc.com

General Distributor for Hong Kong, Macao and Taiwan:

17/FI, Paramount Bldg, 12 Ka Yip St, Chai Wan, HK

Tel: 852-28046687 Fax: 852-28046409

Beijing Review (ISSN 1000-9140 USPS 2812) is published weekly in the 360 Swift Avenue, Suite 48, South San Francisco, CA 94080 POSTMASTER: Send address changes to Beijing Review,

Macro 'Likonomics'

Amid both warm hopes and quiet concerns about downward pressures on growth, the National Bureau of Statistics (NBS) recently released some key economic indexes for the first half of 2014. With the release of these indicators, many were relieved to see the country's economy has managed to put up

China's first-half GDP, the combined market value of all final goods and services produced during the year's first six months, grew a healthy 7.4 percent year on yeararguably the best possible figure given the economic difficulties the country faces both at home and abroad. Foreign trade totaled \$2 trillion, registering \$102 billion in trade surplus, while the agriculture and manufacturing sectors and the services industry all grew, with the share of services in the GDP rising up to a stunning 46.6 percent. However, the consumer price index—a main gauge to measure inflation—grew 2.3 percent, necessitating that authorities take tougher action against the destabilizing factor in the nation's second-half economic outlook.

Over the past decades, China has registered phenomenal economic growth, which quite often came at a two-digit pace. This has enabled the country to quickly overtake some of the world's leading economies within a relatively short period of time, and eventually edged itself into the ranks of global powerhouses with growing strength.

In the meantime, however, the develop-

ment model that China largely relied upon for its legendary success has come under fire. A wide array of pressing issues—ranging from mounting overcapacity to an excessive reliance on resources, from unbalanced and outdated industrial structures to the continually worsening environment—have all prominently surfaced following the dazzling growth figures. Overall, this has rendered China's growth less vital and its development model highly unsustainable.

Taking into account the grave situation, the Chinese leadership has decided in recent years to adopt drastic measures with an eye to bettering the prospects for future development. Since Premier Li Keqiang assumed office in March last year, a slew of reform measures have been carried out across the country, many of which centered on deregulating the market, tightening credit grips, and upgrading development patterns. These are some of the core elements of what has been dubbed "Likonomics," aimed at bringing the Chinese economy back onto a healthier and more sustainable track.

During a briefing to the press, an NBS spokesman described the economy in the first half as "stable," and the industrial structural readjustments and upgrading as "gaining good momentum." Hopefully, more widespread effects derived from Likonomics will appear in the second half and beyond, as more and deeper market reform endeavors are carried out.

WRITETOUS



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北京周报 英文版 2014年 第30期 ISSN 1000-9140 广告许可证 0171号北京市期刊登记证第733号 邮发代号2-922 · 国内统一刊号: CN11-1576/G2 国内零售价: 人民币6.00元

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ILL-FATED AIRLINER

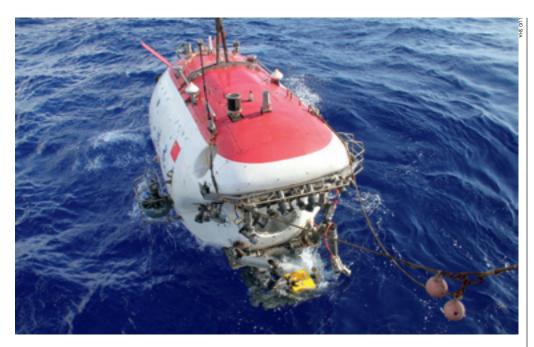
On July 17, Malaysia Airlines flight MH17 was shot down and crashed in east Ukraine near the Russian border, with all the 283 passengers and 15 crew members on board perishing in the accident.

The Malaysian airliner, a Boeing 777, en route from Amsterdam, Holland, to Kuala Lumpur, Malaysia, began to descend 50 km from the Russian border. It was subsequently found burning on the ground on Ukrainian territory.

It is believed the aircraft was hit by a missile fired from ground below. Authorities in Kiev, Ukraine's capital, and separatists from east Ukraine have traded accusations over the responsibility.

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THIS WEEK SOCIETY



Deep Dive

China's manned submersible Jiaolong gets ready to dive into the sea for scientific research on July 16. Jiaolong and its support ship, the Xiangyanghong 09, are exploring the northwest Pacific Ocean to research cobalt-rich portions of Earth's crust as well as life forms living at the bottom of the sea.

Judicial Reform

Shanghai, China's main financial hub, initiated a pilot judicial reform program on July 13 to make judges more accountable while also curbing government intervention in court.

Pioneering China's judicial reform, the program will improve management and job security for judicial staff, increase the accountability of judges and unify the personnel and finance management of local courts, according to an office in charge of the reform.

In an effort to improve professionalism, a clear division will be set between judges and procurators, other judicial staff, and administrative personnel, who will be placed under separate management, according to the reform plan.

The reform also targets the decision-making power of the judicial council, limiting its use in complicated cases on which the collegial panel shows major splits.

The plan also requires the

judges and procurators at district- or county-level courts to be nominated by provincial-level judicial authority. Funds of local courts will also come from the provincial, rather than the local finance.

China has been pushing for deeper judicial reform to address public complaints over issues regarding the impartiality and competence of courts.

On July 9, the Supreme People's Court published a guideline for judicial reform over the next five years. The guideline includes 45 major measures across eight key judicial issues such as personnel management as well as finances and judicial selection, most of which are included in the Shanghai reform plan.

HK Election Method

China's top legislature has received a report from Leung Chun-uing, Chief Executive of Hong Kong Special Administrative Region (HKSAR), on possible revisions of how the region's chief executive and local legislature will be

Postal Perfume

A stamp collector smells the fragrance of a newly released set of stamps on July 15. The stamps, featuring various fruits such as apples and peaches, were printed with scented ink that corresponds with the fruit



elected in the future, it was announced on Julu 15.

Under the Basic Law of the HKSAR. the Standing Committee of the National People's Congress (NPC) has final say on whether to revise the election methods of the HKSAR's chief executive in 2017 and its Legislative Council in 2016, a statement from the NPC Standing Committee read.

The report from Leung is based on the results of a public consultation by the HKSAR Government from December 4 last year to May 3, the statement said.

The NPC Standing Committee will make the decision according to law, it added.

The current chief executive was elected by an election committee in 2012. Hong Kong plans to introduce universal suffrage in the election in

Pollution Fine

Ten thermal power plants across China had been fined for attempting to evade supervision of their sulphur emissions, said the National Development and Reform Commission (NDRC) on July 15.

Penalties totaling 519 million yuan (\$83.66 million) were handed down after investigations into the operation of sulfur-removal devices in coal-fired plants, according to the NDRC.

The commission said that some thermal plants were found to have deliberately shut down their sulfurremoval devices to reduce costs or avoid pollution monitoring.

To try to bring air pollution under control, China encourages coal-fired power generators to install devices to remove sulfur and other pollutants. Plants equipped with such devices receive government subsidies and are allowed to sell their electricity at higher

Among those punished, Yangcheng International Power Generation, a Shanxi-based Sino-U.S. joint venture, faced subsidy cuts or fines to the tune of 125.6 million yuan (\$20.25 million).

Fake IDs

China's police forces found 271,000 fake or duplicate ID records in the first

4 BEIJING REVIEW JULY 24, 2014 http://www.bjreview.com half, all of which have been nullified, the Ministry of Public Security announced on July 12.

A total of 149 cases of counterfeiting and selling fake ID cards or household registration documents have been solved and 46 members of police officers have been punished for their involvement, the ministry said in a statement.

Last year, China found and nullified 790,000 fake IDs. By the end of this year, a system to check ID information through image-matching technology will be set up across the country, according to the ministry.

Changing Wheels

On July 16, China's central authorities released a guideline to reform the supply and use of government vehicles in an effort to cut spending.

China will stop giving vehicles for use in regular government affairs, while keeping those for special services such as law enforcement and emergencies, according to the quideline.

The Central Government will instead allocate a "proper amount" in subsidies to public servants to allow them to choose their own means of transportation.

The aim is to finish reform in central government organs by 2014 and in local governments by the end of 2015, said the quideline.

In China, officials above a certain level have usually been provided a driver and car for their work, but many have used the vehicles for private purposes, effectively wasting public funds and drawing complaint.

"Reform concerning government vehicles should be regarded as a crucial part of further reducing officials' expenditures covered by public funds."

Ye Qing, Deputy Director of the Hubei Provincial Bureau of





Heavy Rain

Rescue workers on rafts come to the aid of people stuck in a flooded street in Fenghuang Ancient Town in central China's Hunan Province on July 15.

Severe rainfall and the ensuing floods hit Hunan and southwest China's Guizhou Province in mid-July, affecting more than 5.5 million people and leaving at least 11 dead.

Government on WeChat

China's government agencies are opening more and more accounts on WeChat, an instant messaging application, to increase their online presence in a fast-changing age of social networking.

According to a report released on July 13 by the Communication University of China, there were 3,600 governmental WeChat accounts at the end of 2013, and the number was nearly 6,000 at the end of March 2014.

The report said that governmental WeChat accounts have mushroomed in

the past year, as both central and lowerlevel government agencies have been using WeChat to interact with netizens on public issues.

Police departments hold 30.3 percent of total governmental accounts, the largest portion, the report revealed.

It listed several cases in which governments are using innovative measures to interact with netizens. For example, police in Shouguang County, east China's Shandong Province, even issued an order for arrest on WeChat.

However, problems still remain in operation, such as timely information disclosing, the report said.

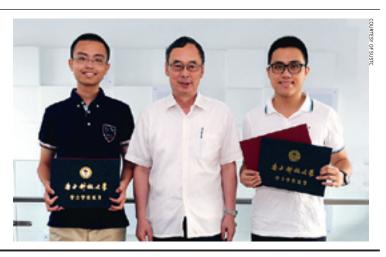
First Graduates

Zhu Qingshi (center), President of the South University of Science and Technology of China (SUSTC) in Shenzhen, Guangdong Province, poses with the first two graduates Wang Jiale (left) and He Minghao after they received diplomas issued by the university.

The two students passed their dissertation defense and graduated from the school one year earlier than 43 other students who enrolled together during the school's opening year in 2011.

In China, diplomas are issued by the Ministry of Education. The SUSTC, which has been designed by its founders as China's first professor-led and bureaucracy-free university, is the first to break with the practice.

It is typical for the world's top universities to issue their own diplomas, Zhu said.



THIS WEEK ECONOMY

SOE Reform

Six large state-owned enterprises (SOEs) will pilot reforms in ownership, management and supervision, Chinese authorities announced on July 15.

The companies are the State Development and Investment Corp. (SDIC), China National Cereals, Oils and Foodstuffs Corporation (COFCO), China National Building Materials Group (CNBM), China Energy Conservation and Environmental Protection Group (CECEP), Xinxing Cathay International Group (XXCIG) and China National Pharmaceutical Group (Sinopharm), according to the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The SDIC and COFCO will be "reorganized" to establish "state-owned asset investment companies" on a trial basis. Mixed-ownership pilot reforms will be carried out at Sinopharm and CNBM,

said SASAC spokesman Peng Huagang at a press conference.

A more effective board of directors system will be set up at XXCIG, CECEP, Sinopharm and CNBM, and disciplinary inspection teams will be sent to another two or three unnamed SOEs, said Peng, who is also in charge of reform issues at the SASAC.

The "state-owned asset investment company" has been designed to make the "state"—the SASAC in this case—a stakeholder instead of a manager of a SOE so as to raise the company's management and operation efficiency.

For mixed-ownership reform, SOE giants like China National Petroleum Corp. and China Telecom have carried out their own plans to diversify corporate ownership and attract private funds.

The new board of directors system is meant to allow the board to act as the company's decision-making center while reducing the management entitlements of investors.



BIDING TIME

More than 1,700 ships wait at the Gaoliangjian ship lock in Huai'an, east China's Jiangsu Province, on July 15, as the water level of the Hongze Lake on the lower reaches of the Huaihe River has declined to a historical low



Land Finance

The total land transaction fees collected by local governments in 2013 soared to an all-time high of 3.91 trillion yuan (\$630 billion), up 1.2 trillion yuan (\$193 billion) from the year earlier period, according to new figures from the Ministry of Finance (MOF).

Transaction fees for the use of state-owned land, an important gauge of local governments' dependence on land finance, reached 4.13 trillion uuan (\$666 billion), an increase of 45 percent. MOF said 35 percent of all local revenues were generated by fees associated with the right to use stateowned land.

Official statistics show local governments' land transaction revenues reached 3.1 trillion yuan (\$500 billion) in 2011 and dropped to 2.7 trillion yuan (\$435 billion) in 2012.

The MOF attributed the soaring revenues to the price increase for land transactions, which was in lockstep with local governments' increased dependence on fiscal income from the selling of land use rights.

Green Push

China unveiled a plan on July 13 that encourages government organs to buy more new-energy vehicles, which has been hailed as an important move in fighting pollution and driving the slowly growing new-energy car market.

From 2014 to 2016, new-energy vehicles will account for no less than 30 percent of newly purchased cars in state organs, according to the plan jointly released by the National Government Offices Administration (NGOA), National Development and Reform Commission, Ministry of Finance, Ministry of Science and Technology, and Ministry of Industry and Information Technology.

The plan also applies to government organs and public service institutions in regions where controlling fine particle emissions has become a challenging task in the fight against pollution, an NGOA spokesman said.

The number of new-energy vehicles will account for at least 15 percent of new cars in 2014 for local government departments and institutions in the



Auto Feast

Visitors view a display model manufactured by Tianjin FAW, an automobile manufacturer in north China's Tianjin, at the 11th China International Automobile Expo in Changchun, Jilin Province, on July 11.

The expo, lasting for 10 days, attracted 152 companies from home and abroad to showcase their latest models.

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Reaping the Benefits

A farmer harvests rice in Shixia village, Jing'an County in Jiangxi Province, on July 14.

China's summer grain output hit a record high of 136.6 million tons in 2014, up 3.6 percent from last year, said the National Bureau of Statistics on July 14.

Beijing-Tianjin-Hebei region in north China, the Yangtze River Delta in the east, and the Pearl River Delta in the south.

That percentage will be raised year by year in government organs, public service institutions and organizations that are wholly or partially supported by government funds, according to the spokesman.

To implement the plan, the Central Government promised to offer subsidies for new-energy vehicles priced less than 180,000 yuan (\$29,000) and ordered local governments to build more facilities for the use of new-energy vehicles.

Tourist Destination

South Korea is poised to overtake Thailand as the largest outbound destination for Chinese tourists this year, said a report from China's leading online travel agency Ctrip.com.

Ctrip predicts the number of Chinese visitors to South Korea will jump 40 percent from a year ago in

CLOSED FOR MAINTENANCE

A repair project on the Sichuan-Tibet National Highway is underway in Qamdo, Tibet Autonomous Region, on July 13



2014, thanks to a visa-free policy for Chinese visitors to Jeju Island, the most popular tourist attraction in South Korea.

In 2013, Chinese tourists made nearly 4 million trips to South Korea, the largest among foreign visitors, according to Ctrip. Chinese airline companies have started to increase the number of flights between the two nations to meet the growing demand.

New Rules

The China Securities Regulatory Commission (CSRC) released a new set of rules governing major asset restructuring by listed companies on July 11, with the market playing a larger role.

Under the new rules, major asset restructuring such as asset purchases, sales and swaps can proceed without approval from the CSRC.

But restructuring involving stock issuance and backdoor listing still need to be examined and approved by the commission.

The CSRC also clarified the tightened oversight of backdoor listings, stating that requirements for a backdoor listing will be the same as those for an initial public offering.

Transport Ties

The county government of Nairobi, Kenya, on July 14 signed a memorandum of understanding (MOU) with Chinese automaker Foton Motors to upgrade the commuter transport system in Nairobi.

Under the MOU, Foton Motors will provide 260 buses for the project. The Beijing-based vehicle manufacturer will also extend financial support to enable the county government to secure soft credit from international lenders to buy the buses and repay the loan at a rate of 15 percent.

Rapid population growth in Nairobi has exerted pressure on the region's public transport system. Nairobi County Governor Evans Kidero noted 2.5 million people in Nairobi depend on public service vehicles.

"We require a mass public transport system to ease congestion on our roads and reduce carbon emissions," Kidero said.

Senior executives of Foton Motors revealed that it will assist Nairobi in developing a cashless payment system accompanying modern terminals.

Booming Sales

Sales of Chinese-brand smartphones have skyrocketed to 33.8 percent of the world's total in the past year from almost zero in 2010, according to a report published at the 2014 National Electronic Information Industry Symposium in Ji'an, east China's Jiangxi Province, on July 14.

Homegrown brands dominated the domestic market in 2013, accounting for 72 percent of all the handsets sold in the country, up from a mere 16 percent in 2010.

China produced 870 million smartphones in 2013, a year-on-year increase of 74 percent, the report shows.

By January, 838 million Chinese, nearly two thirds of the country's population, were using mobile Internet, according to official statistics.

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THIS WEEK WORLD





ISRAEL

The Israeli army fires shells from a 155mm M109 Dores toward the Gaza Strip on July 14



SOUTH KOREA

Medical responders gather around the wreckage of an emergency rescue helicopter that crashed near an elementary school in Gwangju on July 17, killing five people on board







BRITAIN

The Royal Air Force Red Arrows perform during an air display at the Farnborough Airshow in southern England on July 14, the opening day of the international aerospace exhibition

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JAPAN

About 400 Japanese protesters demonstrate against Japan's conservative leader Shinzo Abe and his move to lift a ban on collective self-defense, near the parliamentary building in Tokyo, on July 14









SPAIN

Shepherds run with leading oxen during the seventh bull-run of the San Fermin Festival in Pamplona, northern Spain, on July 13. The festival has been a symbol of Spanish culture since its debut in 1591



RUSSIA

Paramedics treat passengers injured after several subway cars derailed in Moscow, killing three and injuring dozens on July 15

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THIS WEEK PEOPLE & POINTS

POPULAR ANCHOR DETAINED

Rui Chenggang, a financial news channel anchor with the state-owned China Central Television (CCTV) network, was detained by prosecutors on July 11, according to Century Weekly magazine.

Rui's much-talked-about detention came after the Supreme People's Procuratorate's announcement on June 1 that the channel's Director General, Guo Zhenxi, and producer, Tian Liwu, were both being investigated on corruption charges. The investigation of Rui is reportedly related to Guo's fall.

Rui was born in 1977 in Hefei, east China's Anhui Province. He joined CCTV's English news channel after graduating from China Foreign Affairs University. In 2008, he transferred to the financial news channel.

The anchor has raised eyebrows before, most notably at a news conference on the sidelines of the 2010 Group of 20 Summit. When U.S. President Barack Obama gave reporters from host country South Korea a chance to ask the last question, no South Korean reporters rose. Rui seized the chance, saying: "I'm actually Chinese, but I think I get to represent all of Asia."



Chinese sailors recently celebrated International Day of the Seafarer on June 25 and China Maritime Day, which fell on July 11. However, these two holidays have not received much attention from the public, much like Chinese seafarers, who remain an obscure group and have not received adequate attention.

Every Chinese citizen benefits from the work of the nation's seafarers. For example, many resources crucial to the economy and people's livelihoods such as crude oil are imported by sea.

In order to build itself into a great maritime power, China must improve its shipbuilding ability and upgrade its marine engineering equipment. Seafarers have become the driving force in achieving this

national goal. However, in the past few years, though the number of Chinese deep-sea sailors has more than doubled to over 570,000, there is still a labor shortage. Fewer and fewer graduates from navigation colleges are willing to work at sea, with less than 20 percent of bachelor's degree holders in navigation still on the waters five years after graduation. Additionally, advancements in navigation technology have raised the standard for recruiting sailors. Being of sound health is a prerequisite, but many more qualifications must be met.

To make up for China's lack of seafaring personnel, better treatment is needed. Only by showing more respect to these sailors will future navigation college graduates be inclined to devote themselves to the country's success at sea.



Making Vocational **Education Work Outlook Weekly** June 30

More than 8 million students have graduated from vocational schools, at secondary and tertiary levels alike, around China this year. They will apply skills learned at school to their work and make contributions to the country's economy.

After decades of effort, it's apparent that China's vocational education system has made remarkable progress. Vocational students have played a significant role in the development of small and medium-sized enterprises, with 60 percent of those working in such companies in 2012 being tertiary vocational school graduates.

Since most students attending vocational schools come from low-income families and showed weak academic performance at school, technical education has improved their work skills and enabled them to begin a decent career. In 2012, 90 percent of tertiary vocational school graduates were able to land a job and registered an average monthly salary of 2,731 yuan (\$440) half a year after graduation. For most of them, their income could be doubled three years after graduation.

In spite of the progress being made,



"There has to be an active engagement. It cannot be one where one side takes on the role which the other used to play. It cannot be one where you are dividing the world into a G2 [Group of Two]."

Singaporean Prime Minister Lee Hsien Loong, speaking about the China-U.S. relationship at the Future China Global Forum in Singapore on July 17

"There is a possibility that China will host the World Cup in the next 20 years, as its fast-growing economy appeals to FIFA."

Adam Zhang, founder of Beijing-based sports consultancy firm Key-Sports, in a recent interview with China Daily on China's participation in the global soccer event

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THIS WEEK



technicians are still lacking. The All China Federation of Trade Unions predicts that the country is in need of a minimum of 22 million-33 million more technicians in order to meet the labor demand fueled by ongoing urbanization.

Additionally, vocational schools are faced with continual problems like inadequate funds and weak teaching faculties, which should be addressed by carrying out structural reforms. Most importantly, technical education should be included as a criterion for judging local governments' performance so that they can put this sector at the top of their agenda.

Banquets Fuel Bribery Guangming Daily July 14

Every year, during graduation season, many parents and students in China hold lavish banquets to express gratitude to their teachers. This year, however, such banquets have been banned by the educational and disciplinary inspection authorities in a number of cities in a bid to crack down on corruption and extravagance.

It is a traditional Chinese virtue to respect teachers and attach great value to education. Admission to a high school or university is considered a joyous occasion. That's why Chinese families host celebratory banquets to thank former teachers. However, in reality, such feasts are turning into nothing short of extortion for all parties involved.

Originally, the graduation banquet was a way to show gratitude. What mattered was not the cost of the meal, but the emotions and respect conveyed during it. These days, restaurants have created various meal packages with alluring names to attract

customers. Better advertising has sent the price of these celebratory feasts soaring. This increased price, in turn, constitutes a huge financial burden for some parents, believing a more expensive banquet is equivalent to more respect.

Normally, such appreciation meals are held after students take their school entrance exams. However, some parents now treat teachers ahead of these examinations, believing that it will lead to more attention and better education for their children at school. This practice harms equality between students and puts pressure on educators to avoid showing bias.

Perhaps most depravedly, some officials holding banquets for their children's teachers have even had their bills paid by those seeking to offer them bribes. In this case, corruption, extravagance, and favoritism have all been fostered.

In lieu of those banquets, there are many other ways to express gratitude to educators. A thank-you card or a bouquet can just as easily convey a student's appreciation, but studying hard and achieving success in one's career are definitely the best reward for teachers.

◆) FIRST FEMALE UYGUR NAVAL OFFICER

Dilihumal Ablet, who graduated from the Dalian Naval Academy in northeast China on July 11, has become the first female Uygur officer in the People's Liberation Army (PLA) Navy.

Born in 1989 in Kashgar, northwest China's Xinjiang Uygur Autonomous Region, Ablet joined the PLA Navy six months after finishing her undergraduate studies in electric engineering at the Xinjiang University. Due to her outstanding performance during nearly two years' service on China's first aircraft carrier, the *Liaoning*, she had the rare opportunity to attend a one-year training program at the Dalian academy in 2013. During the program, she completed 25 courses and page 1989.



academy in 2013. During the program, she completed 25 courses and participated in trainings on warships at sea. With her new skills, Ablet will continue to serve on the aircraft carrier.

"More Chinese people are acquiring the adequate language skills to read books as originally written. The increasing internationalization of business also requires business people to read the latest information firsthand."

Roc E, project manager of Blue Fountain, an online bookstore specializing in the selling of imported books in China, on July 15 "It's a better way for the public to supervise court work. When residents leave messages on our microblogs, our judges are required to answer as soon as possible."

Wang Mingda, Vice President of the Beijing High People's Court, commenting on the use of Sina Weibo in Beijing's court system, on July 17

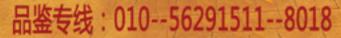
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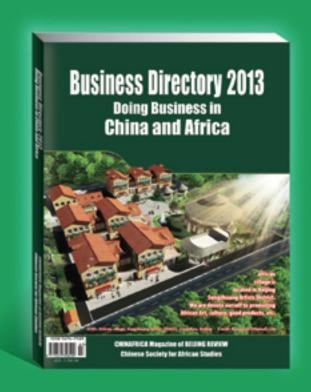
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Jointly published by: CHINAFRICA Magazine of BEIJING REVIEW Chinese Society for African Studies

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BEIJING REVIEW JULY 24, 2014 http://www.bjreview.com



hina's economic growth rebounded to 7.5 percent in the second quarter of 2014, signaling a steady recovery for the world's second largest economy. In the first six months, the Chinese economy expanded 7.4 percent.

Analysts expect GDP growth to further edge up in the second half of the year and say the whole-year growth target of 7.5 percent is still within reach. Meanwhile, they warn of some potential risks including property market correction, stubborn overcapacity and mounting local government debts.

China now has to walk a fine line between stepping up credit support for the economy, especially cash-starved smaller firms that are vital for job creation, while avoiding new local debt and property risks. In the long run, reforms are badly needed when it comes to arresting economic slowdown, they say.

"The Chinese economy showed good momentum for stable and moderate growth in the first half," said Sheng Laiyun, spokesman of the National Bureau of Statistics (NBS) at a press conference on July 16.

Sheng highlighted a pick-up in economic growth in the second quarter, encouraging job data and improvements in structural adjustment.

However, he also warned against blind optimism, citing complicated domestic and international economic conditions.

"Traditional industries are in a period of adjustment and such 'growing pains' could continue for some time, so the economy still faces some downward pressures," he said.

Part of that pressure has stemmed from the housing market adjustments, he added. Sheng said China will pursue growth momentum in reform, innovation, and the adjustment of its economic structure as well as the transformation of the nation's growth model.

A report released by Beijing-based Renmin University of China forecasted that the Chinese economy can meet its growth target of 7.5 per-

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cent this year, driven by mini-stimulus measures and a favorable international environment.

Xu Hongcai, a senior economist at China Center for International Economic Exchanges, said GDP growth will further pick up in the third quarter and predicted that realizing the full-year target won't be a problem.

Jia Kang, Director of the Institute for Fiscal Science Research, forecasted that China's ongoing urbanization will support the country's growth for at least two decades.

"The Chinese Government now has more tolerance for slower growth. On the premise of stable employment situations and consumer prices, the government wants to wipe out outdated capacity with the force of the market amid economic slowdown. Improvement in the quality of growth is more important than the speed," Jia said.

Improved structure

A positive change in China's industrial structure and consumption was one of the most encouraging signs in the first-half growth data.

It appears China's restructuring efforts have paid dividends. The country's industrial structure is further optimizing, as the proportion of the service sector in total GDP is continuously increasing.

In the first half of 2014, service sector output accounted for 46.6 percent of the GDP, 1.3 percentage points higher than the same period last year. The proportion is 0.6 percentage point higher than the manufacturing sector, signaling

a shift toward an economy driven by the service sector.

Meanwhile, domestic demand is playing a larger role in driving growth.

In the first half of this year, consumption contributed 4 percentage points to the GDP growth, ahead of 3.6 percentage points from investment, the NBS said. This trend is in line with China's pledge to reduce dependence on investment and exports in favor of consumption. Exports, on the other hand, dragged down GDP growth by 0.2 percentage points.

This was boosted by a rise in resident income, said Sheng, the NBS spokesman. He also pointed out that the income gap between urban and rural households was further narrowed in the first six months.

During the first half, retail sales grew 12.1 percent year on year to 12.42 trillion yuan (\$2.02 trillion), quickening from the 12-percent growth registered for the first quarter, the NBS said. The actual growth rate was 10.8 percent with inflation deducted.

Acceleration of retail sales growth was enhanced by a strong performance in the online sector. In the first six months, online sales witnessed strong growth, surging 48.3 percent year on year to 1.14 trillion yuan (\$183.8 billion).

Shen Jianguang, chief economist at Mizuho Securities Asia Ltd., said consumption has played a greater role in lifting the economy than investment.

"This is a major highlight of the half-year data. Consumption is gradually becoming the biggest driving force of GDP growth. China's restructuring efforts in past years have paid off."

Keeping watch

A report from Bank of China's Institute of International Finance said China still faces much downward pressure from the adjustment of the property sector, local government debts and overcapacity.

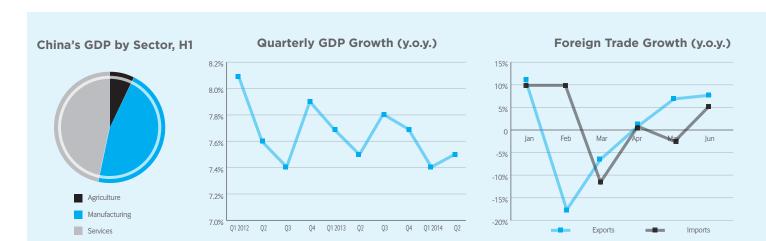
"In the future, China's fiscal policy will be more proactive to maintain stable growth while focus will be put on areas that can lift the economy in the short run and also help adjust economic structure in the long run. China's future monetary policy will be steady and yet appropriately loose, but not too loose. The scope of targeted monetary loosening may be broadened," read the report.

Many economists believe the slowing property sector poses the biggest risk to the economy.

Following a strong performance in 2013, China's real estate market has shown signs of cooling down.

Average real estate prices in the country's 100 biggest cities fell 0.5 percent in June from May, the second consecutive monthly drop this year, according to the China Index Academy Ltd., a Beijing-based research institute wholly owned by SouFun Holdings Ltd. In May, average prices edged down 0.32 percent from April.

The latest data from the NBS show that growth in real estate investment slowed in the first half of 2014 while sales and new construction fell. Real estate investment grew 13.1 percent year



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on year with inflation deducted—2.7 percentage points lower than the first quarter. During this period, new construction in residential property declined 19.8 percent year on year. Sales of commercial residential housing fell 7.8 percent year on year in terms of floor space and fell 9.2 percent year on year in terms of value.

"Better-than-expected second-quarter data don't mean China is faced with fewer risks. A cooling property market is casting a shadow over the broader economy," read a report from Société Générale.

Wang Qing, President of Shanghai Chongyang Investment Management Co. Ltd., said China's property sector has lost its investment value.

"If home prices drop sharply, the highly leveraged property sector will suffer from capital chain break, ending with a burst in the real estate bubble and a hard landing for the wider economy," Wang warned.

Wang Tao, chief China economist at UBS, said this round of housing price drops was not triggered by policy changes but by market forces.

"Compared with other assets, property has lost its attraction as an investment channel. The turning point for China's property sector has come. Even if local governments lift home purchase curbs, it won't make much difference," she said.

Julian Evans-Pritchard, a China economist at Capital Economics, said the downward pressure from a cooling property market can be offset by government-led infrastructure construction and

(V) Major Macroeconomic Indicators in the First Half

- —Consumer price index (CPI), the main gauge of inflation, rose 2.3 percent year on year. Producer price index (PPI), which measures inflation at the wholesale level, contracted 1.8 percent year on year.
- —Foreign trade increased 1.2 percent year on year to \$2.02 trillion. Exports increased 0.9 percent to \$1.06 trillion while imports increased 1.5 percent to \$959 billion.
- —Inward foreign direct investment (FDI) into the Chinese mainland stood at \$63.33 billion, up 2.2 percent year on year.
- —Outward FDI from the Chinese mainland stood at \$43.34 billion, down 5 percent year on year.
- —Value-added output of industrial enterprises above a designated size—principal business revenue of more than 20 million yuan (\$3.15 million) a year—grew 8.8 percent year on year.
- —Fixed assets investment totaled 21.28 trillion yuan (\$3.43 trillion), up 16.3 percent year on year with inflation deducted.

- —Retail sales totaled 12.42 trillion yuan (\$2.02 trillion), up 10.8 percent year on year with inflation deducted.
- —The per-capita disposable income of urban residents stood at 14,959 yuan (\$2,410), up 7.1 percent year on year with inflation deducted.
- —The per-capita cash income of rural residents stood at 5,396 yuan (\$870), up 9.8 percent year on year with inflation deducted.
- —New yuan-denominated Ioans amounted to 5.74 trillion yuan (\$924.8 billion), 659 billion yuan (\$106.17 billion) more than the same period last year.
- —As of the end of June, M2, a broad measure of money supply that covers cash in circulation and all deposits, reached 120.96 trillion yuan (\$19.49 trillion), up 14.7 percent year on year.
- —China's fiscal revenue rose 8.8 percent year on year to 7.46 trillion yuan (\$1.21 trillion).

(Source: National Bureau of Statistics, Ministry of Commerce, Ministry of Finance)

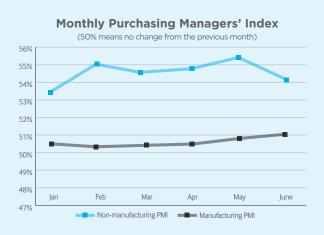
a healthier external economic environment.

Ren Ninghao, an analyst from ClConsulting, said traditional industries face many obstacles in upgrading their businesses while emerging sectors are hardly strong enough to act as the main pillar of the economy.

"The Chinese Government should force-

fully push forward reforms on state-owned enterprises, fiscal and taxation reform and the adjustment of government functions," Ren said.

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(Source: National Bureau of Statistics)

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COVER STORY

MINI-STIMULUS, MAXIMUM EFFECT

Measures targeting weak economic sectors have produced the desired results in boosting GDP growth By Deng Yaqing

arlier this year, in a bid to combat an economic slowdown, the Chinese Government launched several policies, such as cutting reserve requirement ratios for certain banks, increasing railway investment, reducing taxation on small and micro-businesses, and quickening renovation of shantytowns. Some in the media have begun to refer to these policies as "mini-stimulus" measures, because the government has reiterated its determination to steer away from stimulus efforts featuring massive investments.

These policies have yielded tangible results visible in some economic indicators. According to the latest figures from the National Bureau of Statistics, GDP growth accelerated to 7.5 percent in the second quarter from the 7.4 percent of the first quarter. The purchase managers' index, a gauge of manufacturing activities, reached 51 percent in June, a record high for the first half of the year. Exports increased by 7.2 percent in June, 0.2 percentage points higher than that in May, while imports reversed the declining tendency in the previous month to rise by 5.5 percent in June.

Analysts have predicted that the government will roll out more mini-stimulus measures in the second half of the year. In order to strike a balance between stabilizing economic growth and carrying forward reforms, more policies will be enacted to minimize the potential challenges the economy may be confronted with in the months to come.

Stimulus vs. reform

The mini-stimulus measures have raised con-



INTERCITY CONNECTION: Workers lay track for the Chengdu-Mianyang-Leshan high-speed railway in southwest China's Sichuan Province

cerns over whether or not they will slow the pace of China's economic reform. Are stimulus and reform incompatible like fire and water? Of course not. When Likonomics, a phrase describing Premier Li Keqiang's economic reform agenda, was first coined by Barclays Capital in June 2013, the approach was summarized as no stimulus, deleveraging and structure reform. While this concept heralds China's resolution to shake off the old pattern of economic stimulus, it has also misled people to believe that stimu-

lus stands in direct opposition to reform.

Before the risks in shadow banking, property market and local government debts can be eliminated in the process of reform, China must ensure that the momentum of reform will not be dampened by the slowing economy. Therefore, the current mini-stimulus measures can provide a "leg up" on the initiative.

Wang Tao, chief China economist at UBS, noted that the mini-stimulus measures reflect the authorities' commitment to protecting the

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"lower bound" of the growth target, believed to be 7-7.5 percent for 2014 so that the target for new job creation (10 million for 2014) can be met, and other issues in the economy can be dealt with in a stable and sustainable macro environment,

Some mini-stimulus measures in themselves constitute reforms. For instance, measures to lower enterprises' financing costs can allow the capital market to play a larger role in allocating resources. Measures stabilizing foreign trade can also adjust the economic structure.

"This round of mini-stimulus policies shows that the Chinese Government has laid more emphasis on revitalizing the market by reducing governmental intervention and quickening the process of administrative approval, so as to foster more competitive growth points in the long run," said Shen Jianguang, chief economist of Mizuho Securities Asia Ltd.

A break with the past

Obviously, mini-stimulus measures have whetted local governments' desire to invest. According to rough calculations, investment projects planned by local governments have surpassed 10 trillion yuan (\$1.6 trillion), triggering public doubts over the Central Government's resolution to insulate the country from economic stimulus. Will mini-stimulus turn into strong stimulus?

Xu Yili, a financial commentator from China Central Television, said in his blog that there are fundamental differences between the current investment plan and the 4-trillion-yuan (\$640-billion) stimulus package undertaken in response to the 2008 global financial crisis.

In fact, the astounding figure represents an optimistic prediction local governments made in attracting investment, not their planned expenditure in the following years. In other words, the 10 trillion yuan is stock, not incremental. In contrast, the 4 trillion yuan was incremental investment made by the Central Government.

"The 10 trillion yuan, which may be invested in railway construction and renovation of shantytowns, doesn't come from the government, but from private capital," said Xu, adding that all the money raised will be used to improve people's livelihood rather than flowing to vanity

"From this perspective, these mini-stimulus

measures and investment plans can act as a boost to reforms," said Xu.

More to come?

In the second half of this year, more measures are likely to be unveiled to continue stabilizing economic growth. Guan Qingyou, Vice President of Minsheng Securities Research Institute, said that the central bank will continue the targeted reduction of reserve requirement ratios to increase money supply and supporting weak links and key sectors such as agriculture, small and microbusinesses, and the renovation of shantytowns.

In addition, the central bank may also relax credit limits and give more support to the real economy, paying attention to the area of housing mortgage loans in particular.

Zhou Jingtong, a senior researcher from Bank of China's Institute of International Finance, stressed the role of fiscal policies in stabilizing growth. He said that more fiscal expenditure should be committed to funding the construction of railways in central and west China, renovating shantytowns, encouraging scientific and technological innovation, advancing environmental protection and strengthening infrastructure construction.

While ensuring steady economic growth through these measures, economists suggested reform act as the engine.

"In the short term, the focus should be on stabilizing growth. But at the same time, attention should be paid to propelling reform," said Li Daokui, a renowned economist from Tsinghua University.

Reform on state-owned enterprises, the expansion of mixed ownership, breaking up monopoly and reducing governmental intervention should be carried out. Li said it's urgent to motivate the governments to forge ahead with the reform and streamline administration while combating corruption and bureaucracy, which is a key factor to inspire the vigor of China's economy in the coming years.



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♦ Major Mini-Stimulus Measures in the First Half

Investment

On April 2, the State Council decided to speed up railway construction in the central and western regions, with 6,600 km of new railway lines planned for 2014 nationwide, and establish a railway development fund worth 200-300 billion yuan (\$32-48 billion) a year.

On April 2, the State Council decided to facilitate the renovation of rundown communities in urban regions sell bonds to institutional investors to support the renovation and infrastructure construction in urban areas.

On April 23, the State Council decided to encourage social capital to participate in infrastructure construction by opening 80 projects to public bidding, such as the construction of railway, ports and information infrastructure.

Taxation

On April 8, the Ministry of Finance announced that small and low-profit enterprises with a taxable income not exceeding 100,000 yuan (\$16,110) should pay corporate income tax at the rate of 20 percent on only half of their taxable income. The preferential policy is effective from January 1, 2014 to December 31, 2016.

Finance

On April 25, the central bank trimmed the reserve requirement ratio for county-level rural commercial lenders by 2 percentage points and that for rural credit cooperatives by 0.5 per-

On June 16, the central bank lowered the reserve requirement ratio for commercial banks that issue a certain proportion of loans to small and micro-businesses and agricultural projects by 0.5 percentage points.

On July 1, the China Banking Regulatory Commission adopted a new method of calculating the loan-to-deposit ratio to allow lenders to extend more loans.

(Compiled by Beijing Review)

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