

**WORLD: SINO-RUSSIAN SPIRIT P.18 | BUSINESS: SHALE GAS EXPLOITATION P.36**

# BEIJING REVIEW

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Shanghai Free Trade Zone one year on



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## EDITOR'S DESK

**02** Reflections on the Free Trade Zone

## THIS WEEK COVER STORY WORLD

**22** Searching for a Consensus

Seeking answers to the China-Japan standoff

**24** Abe Administration Needs to Change Its Stance

Japanese leader's approach provocative

**26** A Heavy Issue

Choosing our ecology over the economy

## NATION

**28** Business Incubator

Tech startups flourish in China's Silicon Valley

**30** A New Player in the Medical Field

Foreign-funded hospitals get the go ahead

**Cover Photo:** The Waigaoqiao area of the China (Shanghai) Pilot Free Trade Zone (FAN JUN)

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# 14

COVER STORY

**The Frontline of Reform**  
Shanghai's trail-blazing economic innovations

## NATION

**P.32 | The Wealthy Get Wealthier**  
Income gap calls for reflection

## BUSINESS

**P.36 | Breaking New Ground**  
Digging deeper in the search for shale gas

## WORLD

**P.18 | An Evolving Partnership**  
Sino-Russo relations at all-time high



## BUSINESS

**38** A Thirst for Change

A barren land transforms itself

**40** Market Watch

## CULTURE

**44** Sheer Awe

Shanxi's majestic mountain retreat

## FORUM

**46** Should Rarely Used Chinese Characters Be Revived?

## EXPAT'S EYE

**48** Traditional, but Timeless

Preserving medical culture

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# EDITOR'S DESK

## Reflections on the Free Trade Zone

The achievement of the Shanghai Free Trade Zone (FTZ) during the past year is not only shown through the numbers—from how many companies have been set up there to how big the trade volume is. Rather, as the first pilot FTZ in China, it should be judged on whether its management system is complete and applicable to other locations.

The FTZ was established as an experimental field for China's next round of reform and opening up. In its approval letter for the establishment of the zone, the Central Government stressed the need to transform government functions, improve the registration and approval procedures for foreign investors, and explore ways of managing the "negative list" system, under which foreign investment is barred only from listed areas, as opposed to the previous system where investment was limited to approved industries. It must also try to coordinate law enforcement between different supervision departments. All these explorations have been unprecedented and need new rules to facilitate them.

The Shanghai FTZ has not only established a series of new rules and regulations in the past year but also improved existent rules in investment management, trade supervision and financial opening up.

From this perspective, the development of the FTZ in the past year is satisfactory.

Although China has made remarkable economic achievements since reform and opening up began in the late 1970s, it has not fully adjusted to the free market system. At present, the United States is building the Trans-Pacific Partnership in a bid to construct a new set of global trade and investment rules. Some rules are beneficial to China while some may not be so. It is imperative that China try to adapt to a wider and profounder level of opening up. The FTZ therefore assumes the mission of attempting to further open up the service sector and improve the management of the negative list.

The FTZ still has many problems. The most criticized is the negative list being too long. It is understandable that Chinese administrators are cautious in opening up domestic industries out of concerns for the country's economic security. However, in order to shorten the list, more efforts need to be made to improve the list's management.

The FTZ is a test field for China's next round of reform and opening up. As the new round of development is faced with multiple challenges, the next step should be carried out steadily and not rushed. ■

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# DEVASTATING EARTHQUAKE

Villagers from Yongping Township in Jinggu County, southwest China's Yunnan Province, sift through the debris of his home on October 8 after a 6.6-magnitude earthquake hit Yunnan on the night of October 7, with its epicenter in Yongping. As of October 8, the quake had left one dead and 324 injured.



## Xi's Speeches Chronicled

A book containing Chinese President Xi Jinping's remarks on governance makes its debut on October 8 at the Frankfurt Book Fair in Germany. Cai Mingzhao (left), Minister of the Information Office of China's State Council, Gerhard Schroeder (center), former German Chancellor, and Shi Mingde, Chinese Ambassador to Germany, attended the launch ceremony.

The book, containing 18 chapters by Xi from November 15, 2012 to June 13, 2014, is available in a multitude of languages including Chinese, English, French, Russian, Arabic, Spanish, Portuguese, German and Japanese.

## Most Polluted Province

Hebei, north China's worst-polluted province, set a string of ecological restoration goals for rivers, lakes, mines, forests and groundwater.

The province, which surrounds Beijing and Tianjin, will plant 530,000 hectares of forest by 2017 and raise forest coverage from 28 percent in 2013 to 32 percent, according to a recently unveiled plan.

By 2017, no rivers or tributaries should have water quality below Grade V, said the document. China grades water quality according to six levels: grades I to V and "inferior to Grade V." Water below Grade III is unsafe to drink.

Hebei will address 664 open-pit mines close to railways, highways or towns within two years. In 2014, 10 illegal mines, 46 licensed mines and 32 mining firms are to be shut down. Another 251 mines that have failed to meet environ-

mental protection requirements will halt production for restoration. By 2015, ecological restoration will be completed for 325 more mines.

Total investment in the projects will be more than 60 billion yuan (\$9.7 billion).

Hebei is under heavy pressure to cut emissions and treat pollution. It had seven of the 10 most polluted cities in China as of the first half of this year, according to the Ministry of Environmental Protection.

## Better Urban Living

The Central Government hopes to offer more quality jobs to migrant workers to help ease them into urban living.

To do so, the State Council plans to provide professional training to 20 million surplus rural labor workers per year until 2020. The goal is to boost work conditions, ensure pay schedules

## LEGENDARY ARTIST

An exhibition of the works by Liu Kaiqu (1904-93), a pioneering Chinese sculptor and educator in the 20th century, is being held at the National Museum of China on September 30 in Beijing



and make sure they are covered by social security, a policy guideline published by the State Council stated on September 30.

Official data showed that, at the end of June, China had 174 million migrant workers, defined as those who come from rural areas and work low-skilled jobs not requiring profession qualification somewhere in a city.

According to the guideline, migrant workers will enjoy the same treatment as urban residents in terms of social security.

By 2020, migrant workers and families will also enjoy equal access to basic public services in cities, including education, community hospitals and public housing.

## Military Info Security

China's central military authority has issued guidelines to enhance management of military information and crack down on illegal online activities involving military affairs, a military newspaper said on October 8.

The circular was issued by the Central Military Commission (CMC) to strengthen military information security of the Chinese People's Liberation Army (PLA) and armed police, according to the *PLA Daily*.

Efforts should be made to promote domestically developed information infrastructure, including Chinese-produced software, to innovate and improve information security defense, and to offer personnel support for information management, the circular said.

Comprehensive management and control measures should be carried out to ensure security of important personnel, core data and key devices, the guidelines said.

Calling increased information security "a bottom-line project" for improving combat readiness, the document said pragmatic measures should be adopted to solve conflicts and other pressing issues.

## Repairing the Ecosystem

Over 7 million rare fish have been released into the upper reaches of the Yellow River, China's second largest, since 2009 to help to repair its



ecosystem, according to local fishery authorities.

Qinghai Province in the northwest, where the Yellow River and Yangtze River originate, plans to release around 900,000 rare, captive-bred, native fish this year in order to replenish stocks, Wang Guojie, Deputy Chief of the province's fishery environment supervision office, revealed.

The Ministry of Agriculture, which is also in charge of fishery affairs, announced in 2007 that one third of the 150 fish species in the Yellow River were believed to be extinct due to human encroachment and low rainfall.

Over fishing, dumping and hydropower projects degraded the environment and led to a shrinking fish population. In Qinghai, there are 22 fish species native to the rivers there, with many of them being found only on the Qinghai-Tibet plateau.

Qinghai has plans to build more fish farms and expand the project's release area.

## New Marine Satellites

China will launch a new "constellation" of marine surveillance satellites in 2019 to monitor ships, oil rigs, marine disasters and land-based resources.

According to Lin Mingsen, Deputy Director of the National Satellite Ocean Application Service, the HY-3 cluster will include a series of satellites that employ synthetic aperture radar technology, "capable of operating day or night... and in all

**"The satellites will play an important role in reinforcing China's marine rights protection, marine law enforcement and supervision, management of its offshore waters and marine disaster relief and reduction,"**

Lin Mingsen, Deputy Director of the National Satellite Ocean Application Service



## Red Moon

Combined photo taken on October 8 shows the process of a total lunar eclipse in Nanjing, capital of east China's Jiangsu Province.

A total lunar eclipse is sometimes called a blood moon because of the red color that is cast upon it by light refracting in Earth's atmosphere.

The phenomenon was seen world wide on October 8.

weather conditions." The satellites will be able to see meter-long objects from space and generate high-definition imagery of both land and ocean surfaces, Lin said.

He said the satellites would be used to monitor ships and drilling platforms, in addition to marine oil spills, sea ice, ocean waves and surface winds among other features.

## Glorious Corps

Chinese Vice Premier Liu Yandong urges the Xinjiang Production and Construction Corps (XPCC) to act as a stabilizer in the country's northwestern autonomous region.

Liu made the remarks when addressing the ceremony for the 60th founding anniversary of the XPCC on October 7.

Starting from scratch, the XPCC has reclaimed ecological oases from the desolate Gobi desert, initiated Xinjiang's modernization, built large-scale agriculture and industrial and mining enterprises, and established new cities and towns in cooperation with local people of different ethnic groups.



## Altered Forecast

The World Bank said on October 6 in Singapore that it has cut the growth target forecasts for China to 7.4 percent in 2014 and 7.2 percent in 2015, as China pushes forward structural reforms to address financial vulnerabilities and structural constraints.

“Measures to contain local government debt, curb shadow banking, and tackle excess capacity, high energy demand and high pollution will reduce investment and manufacturing output,” said a representative for the bank, regarding China’s outlook.

However, Sudhir Shetty, the World Bank’s Chief Economist in East Asia and the Pacific Region, claimed that China’s slowdown in economy will be gradual and this does not represent the bottom falling out of China’s growth. She added that the downward trend in China will not have a dramatic impact on other countries.

The World Bank proposed that China’s structural reforms in sectors such as state-owned enterprises and

services could help “offset the impact of measures to contain local government debt and curb shadow banking.”

As to the property market, the bank said that “a major nationwide correction in real estate prices in China remains unlikely, although there may be pressure on prices in several of the less rapidly growing provinces.”

## Loosening Credit

Second home buyers in China will face lower down payments due to relaxed restrictions.

Chinese citizens who wish to buy a second home will enjoy the same 30-percent down payment required of first-time home buyers if they have fully repaid their mortgage loans, the People’s Bank of China (PBC), the central bank, and the China Banking Regulatory Commission (CBRC) said in a joint announcement on September 30.

Prior to the announcement, second home buyers were required to set down at least a 60-percent down payment.

The move marked a turning point



## QUICK PICK

A machine harvests cotton in Korla, Xinjiang Uygur Autonomous Region, on October 7

in the nation’s restrictive home purchasing policies.

In 2011, skyrocketing home prices forced the government to roll out restrictive measures, such as requiring higher down payments and increasing the lending rate for second home purchases, as well as banning the purchase of a third home.

According to the latest announcement, first home buyers will have access to a maximum 30-percent discount on home loan rates offered by banks, while the minimum down payment remains at 30 percent. The PBC and the CBRC also said that they will require their regional branches to outline supportive home loan measures based on local government requirements.

## Unified Trading

Investors on the Chinese mainland can now trade securities through a single account at different brokerages and stock exchanges as the unified account platform—a mechanism designed to integrate different trading systems in the securities markets—was officially initiated on October 8.

As a result, investors can switch among different brokerages without opening new accounts and closing their existing ones. They can also use the platform to operate multiple sub-accounts for different types of securities and investment purposes, according to the China Securities Depository and Clearing Corp. Ltd., a state-owned clearing service company.

Previously, individual investors had to pay separate account fees if they wanted to trade in Shanghai and Shenzhen stock exchanges. Under the new rule, they are only required to pay a one-time fee of 40 yuan (\$6.5) in order to trade in the markets.

Analysts said that the reform is likely to attract fresh capital to the stock markets.

## Private Banks

The China Banking Regulatory Commission (CBRC), the country’s banking regulator, said on September 29 that it had approved another two private banks, with one in Shanghai and the other in Zhejiang Province.



## A Fresh Approach

Closed coal transmission lines are in full swing at a port in Huanghua City, north China’s Hebei Province, on October 6.

The port is an important transport hub for shipping coal from north China. But loading and transporting coal used to cause severe pollution in the city. Since 2010, the port has invested heavily on the construction of facilities that can greatly reduce pollution.





## Diversiónary Tactics

Pictured is the Baoding section of the central line of the South-to-North Water Diversion Project on October 5. The first stage of the central line has been completed and will be put into use after the flood season this year.

The CBRC requires the banks to be established within six months from September 29.

A 30-percent stake of the Zhejiang-based bank will be funded by a micro-business financing company indirectly controlled by New York-listed Alibaba Group, China's largest e-commerce business. The Shanghai-based conglomerate Fosun Group will contribute 25 percent of funding, and China's largest auto parts supplier, Wanxiang Group, will hold an 18-percent stake in the new private bank.

The new Shanghai-based private bank will receive 30 percent of its funding from Juneyao Group, another Shanghai-based conglomerate, and 15 percent of its funding will come from Metersbonwe Group, a leading casual wear apparel company in China.

On July 25, the CBRC already approved the establishment of three private banks. Currently, China has

## AN ILLUMINATING EXPERIENCE

An Afghan businessman chooses lanterns at the China Small-Commodities City in Yiwu, east China's Zhejiang Province. The Sales revenue of Yiwu's consumer goods markets reached a historical high of 57.67 billion yuan (\$9.23 billion) during the first three quarters



only one private bank in service, China Minsheng Bank, which was founded in Beijing in 1996.

## PMI Data

The manufacturing purchasing manager's index (PMI), a key measure of factory activity, posted at 51.1 in China in September, unchanged from August's reading, according to data released by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP).

A reading above 50 indicates expansion, while a reading below 50 represents contraction. The NBS manufacturing PMI samples 3,000 enterprises of various sizes nationwide.

Among the sub-indices of the PMI, the production sub-index posted at 53.6, up 0.4 percentage points from August, and was the second highest reading this year, coming in just behind to the 54.2

reading in July.

"The September PMI remained above the 50 threshold, which indicated no change to the basic trend of steady economic growth in the future," said Zhang Liquan, an economist at the Development Research Center of the State Council.

The rise of the production sub-index suggested a rebound of industrial growth last month, he added.

In September, the PMI of non-manufacturing sectors stood at 54 percent, down 0.4 percentage points from the previous month, according to the NBS and the CFLP.

Cai Jin, deputy head of the CFLP, said that the data showed China's overall non-manufacturing business activity grew steadily in September. Satisfactory performance in the construction sector and overall optimism suggested that investment support stable growth in the near term, he noted.

## Budget Management

The State Council, China's cabinet, on October 8 unveiled an action plan for better budget management as part of efforts to build a more transparent and efficient fiscal and taxation system.

The long-awaited decision was seen as the first step in jump-starting a new round of broader fiscal and taxation reforms by 2020, as it tries to ensure all government revenue and spending is covered by the management system.

In the document, the State Council outlines seven reform tasks for the budget's drafting, implementation, transparency and supervision, ordering a clear division of roles between the government and the market.

A multi-year budget-balancing scheme will be introduced to better manage and control unused government expenditures in the fiscal year, while local government debt will be regulated more strictly to guard against fiscal risks, according to the plan.

Fiscal preferential measures need to be gradually withdrawn in sectors and areas where market forces can play their role, it said, adding that government expenditures outside the budget will be supervised in order to prevent corruption.





## JAPAN

Soldiers from Japan's Self-Defense Force search for missing climbers on the ash-covered summit of Mount Ontake on October 7, as the death toll from the volcano's unexpected eruption on September 27 rose to 55



## KENYA

Kenyan President Uhuru Kenyatta reviews honor guards before addressing a special legislative session in Nairobi on October 6. Kenyatta said that day that he would go to the International Criminal Court, where he faces charges of crimes against humanity, becoming the first sitting president to appear



## FRANCE

A car in Grabels near Montpellier among the aftermath of overnight flash floods caused by heavy rainfall on October 7





## SAUDI ARABIA

Muslims gather on Mount Arafat near Mecca as they perform one of the rituals of the annual pilgrimage, known as *Haji*, late on October 3



## GERMANY

Young women pose with their photos during the press presentation for the Bavarian and Austrian Farm Girls' Calendar 2015 at the Hofbraeuhaus beer hall in Munich on October 7



## SOUTH KOREA

Hwang Pyong So (left), Vice Chairman of North Korea's National Defense Commission and Director of the General Political Bureau of the Korean People's Army, alongside Choe Ryong Hae (center) and Kim Yang Gon, secretaries of the Central Committee of the Workers' Party of Korea, wave to participating athletes during the closing ceremony of the 2014 Asian Games in Incheon on October 4

## ↓ NATIONAL ICON ASSUMES GLOBAL ROLE

**Zhang Haidi**, Chairwoman of China Disabled Persons' Federation, was appointed as the new chair of Rehabilitation International, a worldwide network of people with disabilities founded in 1922, on October 6 in Poland. With member organizations across the world, the network advocates working to improve the quality of life of people with disabilities.



Born in 1955 in east China's Shandong Province, Zhang is a national icon for achieving self-improvement in the face of adversity. She became a paraplegic at the age of 5 and thereafter was unable to attend school. In spite of this, she educated herself to university level. She has learned several languages including English, Japanese, German and Esperanto, and has been awarded a master's degree. She also is well known as a writer and translator.

Zhang has been making efforts to promote work opportunities for people with disabilities in China and improve their access to buildings. She has also mounted campaigns on the right of disabled people to drive.

## Transporting Cars By Train

**Yangcheng Evening News**  
September 30

Beijing launched the country's first car-transporting train for tourists to Hangzhou, capital of east China's Zhejiang Province, on September 28. Travelers who shipped their cars that day left for Hangzhou two days later from Beijing South Railway Station and picked up their cars on October 1 at their destination. They were charged between 3,000 and 4,000 yuan (\$489-652).

This service was intended to meet the needs of tourists who wanted to drive their own cars at their destination. The move saved customers the exhaustion from driving a long distance and prevented them from

being caught in heavy traffic congestion on expressways during the week-long National Day holiday.

Some voiced concerns that the transported cars would add to congestion issues at the destination city and cause more pressure to passenger train transportation. However, tourists who chose this service would have driven to Hangzhou even if the service was not offered. Furthermore, the trains used for transporting the cars were freight trains that cannot be used for transporting passengers. In conclusion, such an initiative contributes to innovating railway services and satisfying the diversified needs of tourists.

The new service, however, is not free from inconveniences. Most notably, travelers were not able to use their cars during the two days before leaving Beijing. Despite this, the service proved viable, highlighting the inefficiency of the expressway system during national holidays when toll gates are free.

## Growing Film Investment Fervor

**Caixin Century Weekly**  
September 29

Financial institutions and Internet companies investing in films have upset some traditional film makers, who worry that the film industry is going to be changed.

China's movie making is still a relatively small business. The Chinese film industry raked in 20 billion yuan (\$3.26 billion) in box office in 2013, just under a third of the \$10 billion that of the United States reaped the same year.

However, financial institutions and Internet companies represented by Baidu, Alibaba and Tencent have considered the film industry a new investment channel at a time when other markets such as real estate are heading downward.

With financial institutions and Internet companies caring more about financial rewards, they are shifting the traditional Chinese method of filmmaking and orienting the industry toward commercial films. Films that have little money to advertise themselves, however, face difficulties amid competition from commercial films.

**"Investor confidence will be affected if the illegal gatherings continue."**

**Wang Jun**, an economist with the China Center for International Economic Exchanges, criticizing the "Occupy Central" protests that have taken place in some of Hong Kong's busiest commercial areas since September 28, on October 3

**"China is maintaining high growth, and its rebalancing is likely to imply slightly lower growth, but this must be seen as a healthy development."**

**Olivier Blanchard**, Chief Economist of the International Monetary Fund, at an October 7 press conference in Washington, D.C.





When financial institutions treat films as investments and Internet companies approach them as products, they both have their eyes set on box office revenue. When the artistic and cultural characteristics of films are laid aside, will Chinese films develop into the mature industrialized model of the Hollywood or relapse into the crudely made films of Hong Kong in the 1990s? Nobody knows the answer, and it's possible few care.

## Upholding the Constitution

**Outlook Weekly  
September 22**

The Fourth Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) to be held in October will discuss issues regarding the rule of law. The importance of the Constitution will again be highlighted. New requirements and arrangements are also expected to be made.

Since China has declared the establishment of a legal system guided by the Constitution, the country has shifted its focus from making laws to addressing problems in the implementation of the Constitution and other laws.

The ruling CPC has always pushed for the effective implementation of the Constitution. The Constitution says the National People's Congress (NPC) is the supreme organ of state power. The NPC has become increasingly competent to play its role over the past decades. In recent years, for instance, the NPC Standing Committee has passed resolutions on authorizing the Central Government to temporarily change foreign investment approval regulations in the Shanghai Free Trade Zone, abandoning the reeducation through labor system and adjusting the family-planning policy.

The upcoming session will detail measures to resolve issues that may hinder the all-round implementation of the Constitution. It may prescribe the principles and methods for increasing the number of bigger cities possessing local legislative powers. It may also contemplate creating a set of standards gauging progress in advancing the rule of law.



## MISSING VICE MAYOR DETAINED

**Guo Yipin**, formerly missing Vice Mayor of Luoyang, central China's Henan Province, was detained by police in a rented apartment in Changsha, central China's Hunan Province, on October 6.

Guo, 52, was elected vice mayor of Luoyang in February. He was in charge of the city's work safety, coal mining, environmental protection and transportation. Since late July, he had not been seen or heard of by other leading officials and the daily meeting he presided over had been halted.

The vice mayor went missing after asking for a leave of absence on the grounds that his mother had taken ill. A report in mid-September said police officers were searching locations where Guo might potentially be hiding. It was reported that Guo was suspected of taking a bribe of 5 million yuan (\$800,000) from a local real estate developer in 2012.

The case will now be handed over to the procuratorate in Henan's capital city of Zhengzhou for further investigation.



**"The risks of a dramatic housing market correction and an economic hard landing have been significantly lowered."**

**Liu Bo**, an analyst with China's top investment bank, the China International Capital Corp., discussing a recent resolution by the banking authorities that ensures a mortgage on a second home will be treated the same as that on the first if the buyer has no other outstanding mortgages, on October 7

**"We are confident we can build the Qinghai-Tibet Expressway."**

**Wang Shuangjie**, an executive with China Communication Construction Co.'s First Highway Consultants Co. Ltd., speaking on October 7 in Xi'an, capital of northwest China's Shaanxi Province, while acknowledging that extreme conditions on the Qinghai-Tibet Plateau pose challenges

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COVER STORY

# THE FRONTLINE OF REFO

One year on from its establishment, how is Shanghai's free trade zone doing thus far



**HARBORING GOOD INTENTIONS:** An aerial view of the Yangshan Free Trade Port Area, a part of the Shanghai FTZ, on October 29, 2013



# RM

r? By Zhou Xiaoyan



FANJUN

**H**ony Capital, founded in 2003, is a leading private equity firm in China. It mainly focuses on investment in advanced manufacturing, health-care and service sectors both at home and abroad.

In the past, when Hony Capital would bid for overseas acquisition, it had to add a caveat in the bidding papers—if the acquisition failed to be approved by the Chinese Government, the deal would be terminated.

“With such requirements, we hardly stood a chance,” said Zhao Linghuan, CEO of Hony Capital. “We’d already lost before the first blow of the whistle.”

Things started to look up after Hony Capital registered in the China (Shanghai) Pilot Free Trade Zone (FTZ) in September 2013, when the FTZ was inaugurated in the eastern city as an experimental field for China’s future reforms. Overseas investment from companies in the FTZ no longer requires government approval if it does not exceed a specified amount.

“Even since last September, Hony has made four overseas investments. Enjoying the conveniences afforded by an FTZ is something we have been dreaming of for a really long time,” said Zhao.

Such convenience also applies to foreign-funded companies in the one-year-old pilot zone.

“The time to deliver a medicine sample from our company headquarters in the United States to our lab in Shanghai has been halved. Previously, receiving approval took two weeks or more, but now it only takes three days. The overall cost has been lowered by 25 percent,” said Hu Jiangbin, General Manager for the Greater China region of the United States Pharmacopeial Convention (USP).

By virtue of an increase in production efficiency and an expansion in its business scope, USP’s business revenue in China surged from January to August this year, three times that of the same period last year.

The convenience and benefits of an FTZ have also reached ordinary Chinese consumers, as they now have better access to cheaper authentic foreign products.

Microsoft Corp.’s Xbox One was launched in September by a joint venture between Microsoft and China’s BesTV in the Shanghai FTZ, ending the 14-year ban on game consoles in China. Previously, Chinese consumers had to buy those consoles through unofficial channels at a higher price. Another example would be the opportunity to access all products available on Amazon through its Chinese website, pay in yuan, enjoy lower shipping

charges and faster delivery for Chinese shoppers. The credit for this improvement goes to the pioneering Shanghai FTZ.

During the past year, the 28.78-square-km area in eastern Shanghai has already made profound achievements in liberalizing trade, boosting foreign investment, financial innovations and shifting the government’s role from authorization to supervision. Moreover, it serves as an experimental field for future reforms in a country where reform is the top priority.

“The Shanghai FTZ is aimed at institutional innovation. In Shanghai FTZ, there is no such thing as ‘the perfect tense’ for reform but only the continuous tense,” said Ai Baojun, Director of the FTZ Management Committee and Vice Mayor of Shanghai.

## Achievements

As Ai puts it, the one-year-old pilot zone has made four major milestone achievements—creating an investment management system based on the negative list, engendering a more convenient trading environment, introducing a financial innovation system with the twin aims of yuan convertibility under the capital account and the opening up of financial services, and finally a transformation of government functions featuring during-establishment and post-establishment supervision instead of pre-establishment approvals.

One of the biggest achievements of the FTZ is to make foreign investment in China easier by adopting the negative list.

A negative list is a management model for foreign investment that works by defining areas that are restricted for foreign investment. Foreign investments outside the list’s scope do not require government approval and enjoy national treatment.

The negative list was derived from the United States. To date, over 70 countries have adopted this approach to managing foreign investment and it has become a new trend in investment rules globally.

Upon its inauguration in September last year, the Shanghai FTZ adopted the negative list for the first time in China’s history, so as to increase openness and transparency in foreign investment management.

The 2014 version of the negative list of the Shanghai FTZ has been pared down to cover 139 areas, compared to 190 in 2013. Encouraged by this, foreign companies have flocked to the zone in large numbers.

As of September 15, there had been 12,266 businesses newly registered in the Shanghai FTZ during the past year, more than all the ►►

companies set up in Shanghai's bonded areas during the past two decades. Among the total, 1,677 companies, or 13.7 percent, are foreign-funded, according to data from the Shanghai Municipal Government.

Wang Shouwen, Assistant Minister of Commerce, said a surge in foreign companies means the new system featuring a negative list has been recognized by the market.

As the negative list grows shorter, areas open to foreign investment are mounting.

A general plan governing the operation of the FTZ stipulates that 23 areas of the service industry should be opened up to foreign investment. To date, the policy contained in this document has been completely implemented and, as a result, 283 foreign investment projects have been carried out in the FTZ, according to data from the Shanghai Municipal Commission of Commerce.

Another breakthrough the Shanghai FTZ has made is loosening business registration requirements in order to fully tap entrepreneurship in China.

Since its inception, the Shanghai FTZ has initiated pilot reforms on business registration to encourage startups by lifting restrictions on minimum registered capital, payment deadlines, and the down payment and cash ratios for registered capital. This measure went on to be adopted nationwide on March 1 of this year and has been in effect ever since.

Over half of the newly established businesses in the FTZ are logistics and trade companies.

"In the first eight months of the year, their logistic costs have been reduced by 10 percent, with three to four days faster customs clearance," said Ai.

Trade facilitation has been improved within the zone with innovative supervisory measures.

Shanghai Customs and Shanghai Entry-Exit Inspection and Quarantine Bureau have introduced over 60 new measures to facilitate trade and improve supervision.

In terms of innovations in the financial sector, a total of 51 measures have been released by central authorities to support the FTZ's development. At the end of August, 25 percent of the businesses newly registered in the FTZ were financial companies, including 87 financial institutions, 453 quasi-financial institutions, 296 financial information service providers, 2,179 investment and asset management companies.

The Shanghai International Energy Exchange was launched in the FTZ on November 22 last year. The Shanghai Gold Exchange launched an international board in the FTZ on September 18 this year to allow foreign investors to invest in China's gold market, in hopes that it might eventually challenge global gold markets like those in New York and London.

## Only a start

Many of Shanghai FTZ's reform measures have already been or will be introduced nationwide.

According to the Shanghai Municipal Government, a total of 21 reform measures in investment, trade and finance are being replicated nationwide, such as business registration and overseas investment within a certain amount being exempt from government approval. In addition, another 33 reform measures are being assessed and will be introduced nationwide subject to the results of the assessment.

For instance, China's customs regulator expanded the simplified clearance procedures

initiated by the Shanghai FTZ to 51 customs along the Yangtze River in August. Since September, the procedures have been applied to customs across the country.

The national version of the negative list is being formulated by the Ministry of Commerce and the National Development and Reform Commission (NDRC).

China and the United States are carrying out Bilateral Investment Treaty (BIT) talks and will start substantive negotiations on the negative list in 2015. BIT talks between the two countries began in 2008 and are expected to galvanize Sino-U.S. economic ties.

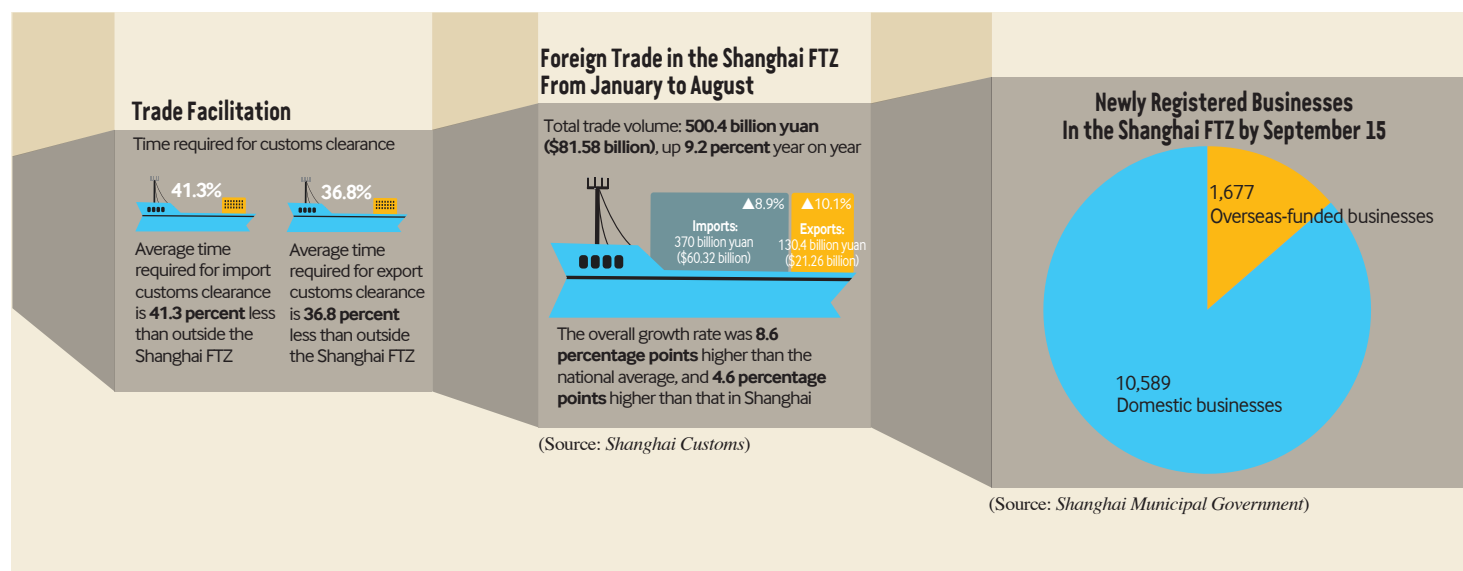
Experiments on the negative list in Shanghai will serve as an important point of reference for BIT talks between China and the United States, said Ai.

Hu Zucai, Vice Minister of the NDRC, said the negative-list approach and easier market access for foreign companies will be formalized and extended to suitable areas of China.

Chen Bo, Secretary General of the Research Institute on Free Trade Zone with the Shanghai University of Finance and Economics, said that in regard to the negative list, much has still to be rectified.

"The list is shorter than it was before but some shortcomings remain. Compared to developed countries, the list still covers too many areas and has ambiguous classifications and definitions. For instance, some guidelines are not detailed enough. Businesses are not fully aware of what they are allowed to do and what not," said Chen.

Fu Weigang, Executive Director of the Shanghai-based SIFL Institute, said the biggest achievements of the Shanghai FTZ have lain in business registration reform and the negative list.





## ↓ Changes Brought About by the Shanghai FTZ

**Game consoles**—The PlayStation 4 or Xbox One are available through official channels in the Shanghai FTZ, after authorities lifted a decade-long ban on the production and sale of games consoles.

**Foreign hospitals**—Hospitals solely funded by foreign investors are allowed in the FTZ. Over 20 foreign hospitals are waiting to grab a share of China's massive healthcare market.

**Overseas education**—Foreign-funded trading institutions and vocational schools are allowed in the Shanghai FTZ, which allows ordinary Chinese to attain an overseas education without leaving the country.

**Cheaper online shopping**—Chinese consumers are able to buy U.S. products directly from Amazon.com, as the e-commerce giant plans to launch a direct mailing shopping website in the fourth quarter and to build warehouses and distribution centers in the FTZ.

**Trading gold**—Foreign investors are allowed to participate in China's bullion trading market in the FTZ, following the establishment of an international board of the Shanghai Gold Exchange.

**Ease of setting up a company**—Registering for a startup only takes four days in the FTZ.

**Banking services**—Opening a free trade account in a bank in the FTZ allows people to borrow yuan from the overseas market at a cost that is 20 percent lower than the domestic market.

**Duty-free assembly**—Manufacturers can now ship parts to the FTZ for assembly, enjoying the lower labor costs in China, and then export them or sell them in Chinese market. The entire process is duty-free.

**Call centers**—Foreign investors are now permitted to set up call centers in the FTZ.

**Hiring foreign lawyers**—The general plan for the FTZ promises intensified cooperation between Chinese and foreign law firms.

(Compiled by Beijing Review)

## ↓ Shanghai FTZ's First Year

**September 18:** The Shanghai Gold Exchange launches Gold International Board.

**September 16:** Detailed guidelines released to support capital markets.

**July 1:** The 2014 version of the negative list is introduced, with restrictions cut by more than 25 percent.

**May 22:** The PBC releases detailed rules for a free trade account system in the FTZ.

**March 1:** The PBC removes the upper limit of deposit rate for small-amount deposits in foreign currencies.

**February 18, 2014:** Cross-border yuan payments introduced for institutions.

**December 28:** Cross-border e-commerce platform starts trial run.

**December 2:** The People's Bank of China announces guidelines to support the financial sector in the FTZ.

**November 22:** Shanghai International Energy Exchange is inaugurated in the FTZ.

**October 9:** Procedures simplified for FTZ customs declarations.

**September 30:** Release of the 2013 version of the negative list.

**Sept 29, 2013:** Official launch of the China (Shanghai) Pilot Free Trade Zone.

There are two reasons why these areas have produced the most prominent achievements. First, they are each administered by a single government department, making it easier to carry out reforms. For instance, business registration is governed by the State Administration for Industry and Commerce and managing foreign investment is the responsibility of the Ministry of Commerce. Second, these reform measures only involve procedural issues but don't in-

volve any vested interests, said Fu.

"That's to say, if a reform measure involves several government departments and vested interests, it will be much difficult for it to be carried out, as is evidenced by the slow progress in opening up and innovations in the financial sector in the FTZ," said Fu.

After the inauguration of the pilot zone, many people have pinned hope on financial reforms in the zone, and some of them even think that reform represents its most important

mission. But to date, there haven't been any financial reform measures that have been able to make an impression. It's partly because one year is too short to expect any concrete results. More importantly, when it comes to financial reforms, there are a lot of communication and negotiation required between the multitudes of departments concerned," Fu said.

Yao Weiqun, Research Officer of Shanghai WTO Affairs Consultation Center, said it's a good thing that the Shanghai FTZ has a clear vision—aiming at institutional reforms instead of preferential policies.

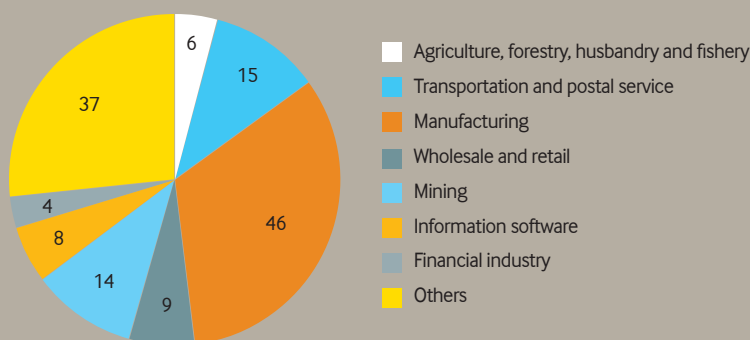
"The current scope of opening up deserves to be praised. I think more can be expected from the opening up of the service sector," said Yao.

"Right now, it has taken only the first of the approximately 1 million steps necessary to reach its goals. It's too early to overrate it," Yao said.

Zhao, CEO of Hony Capital, expects the upper limit of overseas investment that can be exempt from government approval to be further increased by the Shanghai FTZ.

"The upper limit can't meet the demand of our overseas expansion, and it has become an obstacle for our company's future development," said Zhao. ■

The 2014 Negative List



(Source: Shanghai Municipal Government)

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