

北京周报

VOL.49 NO.40 OCT. 5, 2006

BEIJING REVIEW

MAO TODAY

How does his legacy still influence China?

ISSN 1000-9140



WILL JAPAN'S NEW LEADER THAW TIES WITH CHINA?

HK.....HKD 9.30
EUROPE.....EURO 1.90
JAPAN.....JPY 188
SWITZERLAND.....CHF 2.60
CANADA.....CAD 2.60
UK.....GBP 1.20
AUSTRALIA.....AUD 3.00
U.S.A.....USD 4.70
CHINA.....RMB6.00

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COVER STORY Thirty years after his death, Mao Zedong's legacy is a varied one. To many people in the country, and especially in his hometown of Shaoshan in Hunan Province, he is still a hero, remembered as the leader who helped to transform China, bringing it into the modern era and creating a powerful country. On the other hand, the repercussions of the Great Leap Forward and Cultural Revolution are still being felt today. Whatever the ultimate evaluation of Mao's legacy, he remains a legendary figure whose influence is still evident.

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A News Weekly Published Since 1958

http://www.bjreview.com.cn

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Published every Thursday by

BEIJING REVIEW, 24 Baiwanzhuang Lu,
Beijing 100037, China.

Overseas Distributor: China International Book Trading

Corporation (Guoji Shudian), P. O. BOX 399,

Beijing 100044, China

Tel: 86-10-68413849 **Fax:** 86-10-68412166

E-mail: fp@mail.cibtc.com.cn

Website: http://www.cnokay.com

General Distributor for Hong Kong, Macao and Taiwan:

Peace Book Co. Ltd.

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

Tel: 852-28046687 **Fax:** 852-28046409

SUBSCRIPTION RATES (1 Year)

Australia.....	AUD 135.20
New Zealand	NZD 144.00
UK	GBP 48.10
U.S.A.	US\$ 75.30
Canada	CAD 114.40

Printed in China by

BEIJING LEEFUNG-ASCO CHANGCHENG PRINTERS CO. LTD.

Influence of Chairman Mao

By TANG YUANKAI

Since the founding of the People's Republic of China in 1949, Mao Zedong's portrait has gazed down from the symbol of state power, the Tiananmen Rostrum (entrance to the Forbidden City).

Every year, master painters touch up the painting. For the past 30 years, since he passed away, this tradition has remained, keeping the enduring image of Mao pristine in the minds of the Chinese nation. He seems to be watching the changes the country is passing through, aware of the growing pains and the rapid development all around him.

The architect of the Communist Party of China (CPC), as well as the founder of the People's Republic, Mao not only changed the destiny of the Chinese people, but also the pattern of the world. Today, his political ideas and determination still influence not only China, but also people all over the world who fight for liberty.

Mao demonstrates China's growing influence on the world stage. Adherence to the Mao Zedong Thought has been inscribed in the Constitution of China. It is also to be found in the CPC's constitution, forming the fundamental principles of the ruling party.

However, for all his greatness, Mao was just a man, with the same hopes, emotions and human foibles as all of us. In retrospect, he made mistakes, as people do. As the Chinese know, in his late years, he initiated the Cultural Revolution (1966-76) in a bid to "purify" the Party and state leadership. Unfortunately, the sweeping political campaign went beyond its original intention, resulting in the tremendous losses in almost all aspects of social life and a cult following.

Today, the opening of Chinese society allows the people to broaden their views and reconsider Mao's dominating influence. Giving an objective evaluation of Mao in history, more and more Chinese people admit that, apart from his wrongdoings, he was a great charismatic leader with numerous achievements to his name. Undoubtedly, he contributed to an important chapter of world history in the 20th century along with other influential men of his generation.

"For most of his life, Chairman Mao did very good things. Many times he saved the Party and the state from crises. Without him the Chinese people would, at the very least, have spent much more time groping in the dark," said Deng Xiaoping, another great Chinese leader, in his talks with Oriana Fallaci, an Italian journalist.

As peace and harmonious coexistence remain the mainstream goal of the modern world, Mao's overemphasis on "class struggle" today seems out of date. Nonetheless, the emerging social problems such as widening wealth gap, inefficient social security system, growing unemployment rate, soaring education and medical costs and increase in corrupt officials remind people of Mao's motto: to wholeheartedly serve the people, which has been the backbone of daily Chinese moral values for generations.

For most Chinese, Mao is immortal in a spiritual sense. The new round of Mao's commemoration reflects people's good wishes for the future—the desire for sound social order and friendly human relationships. Nurtured by Mao's philosophy, people seek the truth in a modern China.

Mao will never be forgotten in Chinese history, and his legacy will remain. ■

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JIN LIU/AGFEP

SOFT SHOE SHUFFLE

Henry Paulson, the Bush administration's new guardian of the national coffers, won over many people during his visit to China in mid-September.

Paulson's warm reception was based around the fact that he wanted to nurture a long-term discussion of major economic issues, and not to look for "quick fixes" to curb runaway U.S. trade deficits, such as a quick revaluation of the renminbi.

From the Chinese viewpoint, an independent, manageable and gradual RMB revaluation would be the best choice.

Interviewed before the trip, the treasury secretary called China the emerging global economic engine and encouraged the country to embrace market-oriented policies. He said China had contributed half of the global growth in the past five years, together with the United States, to ease strained trade disputes.

During his visit to Beijing, Paulson and Chinese Vice Premier Wu Yi announced on September 20 that the two countries agreed to launch a strategic economic dialogue.

According to a report of the China Radio International, the agreement puts Paulson, a former head of investment bank Goldman Sachs who has extensive China experience, in charge of discussions with Beijing on the long-term challenges of a relationship that has been fraught with disputes ranging from intellectual property to the value of the RMB.

U.S. officials said Paulson, who took over Treasury in July, had persuaded cabinet colleagues and Bush that a broader economic dialogue with China was needed.

"What we've done here is to put a process in place that gives us the best chance of getting us the results that we need to get," *The New York Times* quoted Paulson as saying in Beijing. "To me the key thing always in working with the Chinese is to be able to get access to all the right people at the right level and have a process where there's a real discipline."

“Paulson is staking out a role as the administration’s coordinator on a wide range of China issues beyond those normally handled by Treasury.”

Nicholas Lardy, China expert at the U.S. Institute for International Economics

“It appears that our China policy in recent years largely has been periodically telling China to revalue its currency. Paulson seems to have a wider view, with the currency just one of them.”

Don Straszheim, Vice Chairman of Roth Capital Partners in Newport Beach, California

“The key to solving the present difficulties is for the Japanese leader to make an early resolution on removing the political barrier of the visits to the [war-related] Yasukuni Shrine, and bringing bilateral relations back on track.”

Qin Gang, Chinese Foreign Ministry spokesman, called on newly elected Japanese Prime Minister Shinzo Abe to make efforts to improve bilateral relations

“Either we live side by side in a spirit of brotherhood, not separated by ethnic or sectarian identities, or Iraq becomes a battlefield for different groups to settle their scores.”

Iraqi Prime Minister Nuri al-Maliki urge peace in his war-ravaged country after the fasting month of Ramadan started amid insurgent attacks and explosions

“There have been questions that Cabinet members in the previous government abused their authority to benefit from approvals of some projects.... The investigation is needed because those actions have caused severe loss to the nation.”

Army Chief Sondhi Boonyarataglin, who heads the National Administrative Reform Council that now runs Thailand under martial law, announced its decision to set up a commission to probe graft allegations against ousted Prime Minister Thaksin Shinawatra and his allies

“I had a very strong conversation with the [Pakistani] intelligence chief. I told him that for Americans this was a black or white issue. Pakistan was either with us or against us.”

Former U.S. Deputy Secretary of State Richard Armitage denied that Washington had threatened to bomb Pakistan “back to the Stone Age” after the September 11 attacks and said a Pakistani official might have distorted U.S. resolve to press Islamabad for help

“For the first time, *Forbes* magazine’s list of the 400 richest Americans consists exclusively of people worth \$1 billion or more. As a group, the people who made the rankings released September 21 are worth a record \$1.25 trillion, compared with \$1.13 trillion last year.”

Vinnee Tong, AP Business Writer

OPINION

Learning or Vacationing?

In a country whose per-capita GDP has just exceeded \$1,000, for ordinary people, it is really a luxury to travel abroad.

Recently, a group of village leaders from a province in northeast China visited South Korea, aiming to “gain experiences” in rural construction. The tour, which took the delegation to several scenic spots, cost everyone at least 10,000 yuan. This amount may be nothing to the rich, but it is a big sum to farmers who have to pay for the village leaders’ tour, as their average annual income is between 1,000 and 2,000 yuan.

China has benefited a lot from other countries’ experiences since the beginning of reform and opening up in the late 1970s, but obviously not all foreign models are suitable for China. Of importance is the fact that there is no existing model in other countries for China’s ongoing drive to make the countryside prosperous and enrich farmers.

After the frequent visits to other countries, how many of these officials who travel abroad have actually put what they learn to use? There is a growing fear that the ongoing rural revival drive will offer new excuses for officials to travel abroad. Isn’t it better to spend their traveling fees on actually working to revive the countryside?

Market News

Long-term Public Health System Needed

As part of the efforts to ensure the success of the 2008 Olympics, Beijing has begun to organize public health emergency response exercises to strengthen the city’s ability to cope with outbreaks of disease. Undoubtedly, it’s necessary to have such a system, but to ensure public health is something related not only to the upcoming sports gala, but is a long-term mission.

Frequent public health incidents in recent years are a reminder that everyone can be affected by such incidents, and also affected are social security and stability. To integrate the public health security into the overall social development planning, therefore, is inevitable.



CHEAP READ: Discounted books are needed to help restore reading levels in China

It’s unacceptable that the emergency response system targets only the 2008 Olympic Games. Isn’t it better to take advantage of the current emergency response system building as an opportunity to create an extensive public health security system? The new system should cover outbreaks of serious epidemics, food-borne diseases, drinking water sanitation, radiological health and tropical diseases.

Combined with new measures, public health emergency response exercises should be made a regular activity, and be continued after the 2008 Olympics. Only a regular public health defense system can effectively mitigate health risks and ensure the health of the public at large.

Hua Nan News, People’s Daily

Book Prices Hamper Reading

In September, two big bookstores in west Beijing were crowded with eager book buyers, triggered by a price war between the two stores. At the same time, the fourth national survey on reading habits in China found the number of people regularly reading books has been declining over the last six years.

Yet these crowds showed there is an interest in books, but does the survey mean people are buying books merely as house decorations? Actually, it is cheap books that draw people to these bookshops, as they are items that have risen to above the level of what many people can regularly afford. Research done by the Chinese Institute of Publishing Science shows that price remains the key factor affecting people’s purchase of books.

The fact that book prices are inflated is an open secret in China, as the actual cost of a book, including paper, printing and issuing, is only 30 percent of the final price. Fifty percent of the profits go to the pockets of wholesalers and retailers. Even after the discount, booksellers are still able to make big money and this price war is seen as an attempt to sell books at the acceptable prices at which they should be sold.

Book price competition occurs not only in Beijing, but in other Chinese cities too—a phenomenon experts see as an implication of heated competition between increasingly stronger individually run bookstore businesses and their decades-old state-owned counterparts. Ultimately readers are the beneficiaries of the ongoing price war.

People’s Daily

Shared Economic Growth Needed

The fact that wage growth has fallen behind the pace of increase of the country’s GDP is now an unavoidable problem facing the Chinese Government. The stagnant salary growth among the low- and middle-income earners not only leads to insufficient consumption, declining labor skills and ineffective distribution mechanisms, but also reflects that social achievements are not fairly shared by the public.

This year, the Chinese Government has begun to pay great attention to the problem of a widening wealth gap. Some provinces and municipalities have already begun to raise the standard of living wage. Good news indeed, but we should not neglect the system deficiencies behind this problem. The hikes in the living wage standard alone are unable to solve the problem of crimped wage growth, there must be a system of guarantees and supportive measures.

Low wages will prevent Chinese laborers from improving their own skills. As a result, China will only become the destination of the transfer of manufacturing industries of low added value. Besides, there is already a lack of skilled technical workers due to low wages in China, which will eventually hamper the country’s industrial upgrading efforts. Therefore, a higher standard of the living wage is needed for the sake of China’s long-term economic growth and national interest.

Workers’ Daily



Joint War Games

An soldier hangs from a helicopter as it lands during mountain warfare joint exercises held in Kulyab, Tajikistan on September 23. Some 300 Tajik troops and 150 Chinese troops practiced a coordinated response to possible terrorist attacks during the two-day drills, code named "Coordination 2006."

The drills were held under a memorandum signed by the Tajik and Chinese defense ministers in Beijing this April. They were designed to enhance mutual trust and cooperative ties, as well as to maintain regional security and stability.

Senior Official Sacked

Chen Liangyu, Secretary of the Shanghai Municipal Committee of the Communist Party of China (CPC), has been sacked for his involvement in a social security fund scandal.

Chen was also suspended from the posts of member of the Political Bureau of the CPC Central Committee and member of the CPC Central Committee.

The Political Bureau of the CPC Central Committee convened a meeting on September 24 and discussed a preliminary investigation report on Chen's problems, which was tabled by the CPC Central Commission for Discipline Inspection. Chen's case is still under further investigation.

According to the preliminary investigation, Chen was also involved in other discipline violations, such as helping to further the economic interests of illegal entrepreneurs, protecting his staff who severely violated laws and discipline, and furthering the interests of family members by taking advantage of his official posts.

Expanded Social Insurance Coverage

China's social insurance system has covered 6 percent more people annually in recent years, said Tian Chengping, Minister of Labor and Social Security, at the first annual meeting of the China Social Security Forum on September 23 in Beijing.

Tian said that by 2005, China had accumulated 606.6

billion yuan of social insurance funds for basic pension, unemployment, employment injury, maternity and basic medical insurance, with an annual income growth of 20 percent in recent years.

From 1998 to 2005, more than 24 million laid-off workers from state-owned enterprises benefited from basic living allowances, while over 19 million were reemployed, he said.

Impact Study of Qinghai-Tibet Railway

The Chinese Academy of Sciences is planning to send an expedition team this month to the Hoh Xil region, China's largest area of uninhabited land, bordering Tibet, Qinghai and Xinjiang, to study the impact of the Qinghai-Tibet Railway on wildlife.

The 45-member team will investigate the geology, ecology, animals and plants and environment of the region during the 50-day expedition, to begin October 10, said Ding Lin, lead scientist of the expedition.

While government officials applaud the environmentally friendly construction of the railway, some Chinese scientists are restrained in their assessment, believing that more time is needed to evaluate the impact of the project.

Ding said the changes in the living habits of the Tibetan antelopes will be the focus of the expedition.

Panchen Blesses Followers

Tibetan Buddhist leader



PHOTOS BY

STANDARD CONFUCIUS The China Confucius Foundation on September 23 unveiled a standard portrait of ancient philosopher and educator Confucius in order to give him a single, recognizable identity around the world.

Gyaincain Norbu, the 11th Panchen Lama, was welcomed September 23 by 10,000 followers to Tibet's Baiqoi Monastery, where he held a Buddhist ritual.

During the ritual, the 17-year-old Panchen Lama prayed for the monks at the Baiqoi Monastery and offered them alms. After lunch, he gave blessings to several thousand local Tibetans, touching their heads.

On the same day, the Panchen Lama also held brief Buddhist services at two other monasteries in the same county. Traveling from place to place, he stopped his car many times to bless his followers.

The young lama studies Buddhism in Beijing and frequently visits Tibet and other Tibetan ethnic areas in Qinghai, Gansu, Sichuan and Yunnan provinces to hold religious ceremonies. Since his ordination in 1995, the living Buddha has blessed about 300,000 people.

Asian Candidate Supported

China firmly supports an Asian candidate in the election of the next secretary-general of the United Nations, said Chinese Foreign Minister Li Zhaoxing at the general debate of the 61st UN General Assembly on September 22.

Li noted that as chief administrator of the United Nations, the secretary-general has an important role to play. "China will firmly support an Asian candidate, and we are convinced that Asia can produce a competent and well-respected secretary-general acceptable to all member states," he said. The last Asian to hold the post was Myanmar's U Thant, whose tenure ended in 1971.

The minister said China welcomes progress in UN reform and announced China's decision to pledge \$3 million to the UN peace-building fund.



PHOTO BY

TOO EXPENSIVE TO EAT A jade carving in the shape of fried chicken is on sale in the eastern Province of Shandong, priced at 280,000 yuan



PHOTO BY

TEA ETIQUETTE An expo on Pu'er tea, grown in southern Yunnan Province, is staged in the capital city of Kunming on September 22, featuring performances by ethnic minorities showing the traditional preparation of the tea

Construction of Next-generation Network

China has successfully built the core network of its next generation Internet, leading the world in developing a larger, faster and safer Internet that is to dominate the future.

The network, named CNGI-CERNET2/6IX, passed the examination of an expert team organized by the Ministry of Education in Beijing on September 23, according to a Xinhua report.

China launched the building of the China Next Generation Internet in 2003 and in 2005 completed its first next-generation Internet, the CNGI-CERNET2.

The success of the CNGI's core network freed China from dependence on foreign key Internet technologies and products and ensured national information security, Xinhua quoted unnamed experts as saying.

Proposed in the mid-1990s, the next generation Internet is estimated to increase the information transmitting speed by more than 1,000 times to 40 gigabytes per second. It also offers more safety, easier management and almost inexhaustible Internet addresses.

Top Lender's Upcoming IPO

The Industrial & Commercial Bank of China (ICBC), the country's top lender by assets, is preparing to launch 48.4 billion shares of its initial public offering (IPO) simultaneously in Hong Kong and

Shanghai in October.

The bank expects to raise between \$18 billion and \$21 billion through the IPO, which could be the world's largest since Japan's top mobile phone operator NTT DoCoMo Inc. raised \$18.4 billion in 1998.

Between September 22 and 23, ICBC posted its preliminary prospectus on the websites of the China Securities Regulatory Commission and Hong Kong Exchanges and Clearing Limited.

The bank said it wants to issue 13 billion A-shares, which are priced in Chinese currency, in Shanghai, and offer 35.39 billion H shares, priced in HK dollars, in Hong Kong.

Soaring Profits in Industrial Sector

China's industrial firms recorded 1.1327 trillion yuan of profits in the first eight months of 2006, up 29.1 percent from a year earlier, according to the National Bureau of Statistics (NBS).

The booming growth was primarily driven by soaring profits in sectors such as non-ferrous metals, oil and gas, and transport equipment, according to the NBS.

Non-ferrous metal firms saw their profits more than double from the same period last year, profits of transport equipment makers surged 53 percent and profits of oil and gas producers jumped 40.2 percent.

Mining Interests Investigated

As accidents in small



IPO TOAST Chairman of the China Merchants Bank Qin Xiao (right) and Henry Tang Ying-yen, Financial Secretary of Hong Kong, smile at the Hong Kong listing of the Merchants Bank on September 22

coalmines that are later covered up continue to claim lives, the Chinese Government has launched a movement to investigate the interests of government officials in coalmines.

On September 22, Vice Minister of Supervision Chen Changzhi said at a press briefing that since the start of the campaign at the end of last year, 5,357 officials have reported stakes in coalmines worth 755 million yuan, of which 94 percent or 709 million yuan has been withdrawn.

Chen said the next steps in avoiding corruption related to coalmine accidents are to increase the investigations of officials investing in coalmines and dig up any corruption that is behind a mine accident.

Spiking Cotton Import Demand

China's demand for cotton is expected to reach 10.6 million tons this year, while output is only estimated at 6 million tons, said Lei Xiangju, General Manager of the China National Cotton Reserves Corp. She estimated the shortfall at 4.51 million tons.

Lei said the gap between supply and demand continues to widen in 2006 despite tougher times for the textile industry, which is having to face up to rising costs, falling competitiveness and the strengthening of the Chinese yuan.

In 2006, China's cotton-growing area totaled 79 million mu (5.27 million hectares), an increase of 3 million mu (200,000 hectares) from a year ago.



UP, UP AND AWAY

Twenty hot air balloons fly over the Great Wall during China's second annual hot air balloon tournament, on the morning of September 10



FUTURE STARS

Coaches from the Manchester United Football Club, brought to China by international school Dulwich College Beijing and Care for Children, an NGO, provide professional-standard football training to disadvantaged children from the Shunyi Special Education School and Dulwich students



XINHUA/WAP

BACK ON STAGE Hezbollah chief Hassan Nasrallah gestures at a massive rally in the southern suburbs of Beirut on September 22, the first time Nasrallah appeared in public after Israel's war against Lebanon that ended on August 14



XINHUA/WAP

DEFECTIVE COMPUTERS This file photo shows an employee of Japanese electronics giant Toshiba displaying a Toshiba lightweight notebook computer. The company said on September 19 that it would recall 340,000 laptop computers worldwide due to problems with batteries made by its rival Sony



XINHUA

XINHUA/WAP

PERFECT LANDING U.S. space shuttle *Atlantis* touches down at Kennedy Space Center on September 21 after traveling over 7 million km in 12 days



KING'S RECOGNITION On September 22, Thailand's coup leader, General Sonthi Boonyaratglin, kneels in front of the portraits of Thai King Bhumibol Adulyadej and Queen Sirikit at the army headquarters in Bangkok, where he formally received the endorsement of the nation's revered king



BELL TOLLS FOR PEACE UN Secretary General Kofi Annan rings the peace bell in observance of International Peace Day during the 61st General Debate on September 21 at the UN headquarters in New York



TRACKING A RUMOR French Defense Minister Michele Alliot-Marie visits the police force in Dijon on September 23. She has ordered an investigation to determine the source of an intelligence leak that led to a newspaper report saying Osama bin Laden died this month of typhoid, something that authorities say was unconfirmed



GLOBAL COMMITMENT Former U.S. President Bill Clinton (left) and Sir Richard Branson hold a signed commitment letter after the billionaire entrepreneur announced that he would invest some \$3 billion to combat global warming at the Clinton Global Initiative annual meeting in New York on September 21



HI-TECH TRAGEDY An aerial view shows the scene on a bridge where a high-speed magnetic levitation train collided with an engineering vehicle during a test run near Lathen, northwestern Germany on September 22, a disaster that killed 25 and seriously wounded 10



HOLY SEASON Muslims in Gaza City prepare food as Ramadan, the month of fasting, begins on September 23

A New Dawn for Doha?

China is being urged to exert its efforts to get the stalled Doha Round of trade negotiations moving again

By DING ZHITAO

The Doha Round of global trade talks was suspended in July, but that is not the end of the story. While there have been a lot of fingers pointing over the causes of the breakdown, debates on different aspects of the World Trade Organization (WTO) talks have gained force.

At the same time, a flurry of diplomacy has taken place for the resumption of the Doha Round. Bilateral talks on this subject have been held around the globe.

Multilateral meetings of stakeholders have occurred in Brazil and Singapore, and relevant nations are scheduled to meet again in Geneva soon.

Amid these efforts, the possibility of a resumption of the stalled talks is growing.

“The Doha Round of negotiations is like a boat. It is stranded on the beach. But it is sure to set sail,” said Zhou Shijian, the Standing Councilor of the China Society for World Trade Organization Studies.

His comments were echoed by Brazil’s Foreign Minister, Celso Amorim, on September 10 in Rio de Janeiro, when he

said the Doha Round is like a patient who has been released from the intensive care unit but is still confined in the hospital for a while.

The Doha Round of trade talks, which began in 2001, was named after the Qatari capital where the talks were launched. With an avowed aim to lift millions out of poverty through fairer trading conditions, the round has been billed as the “development round” of WTO talks, as well as a once-in-a-generation chance to boost global economic growth.

However, on July 27, WTO Director General Pascal Lamy declared a halt to the five-year-old talks after the parties failed to achieve substantial progress. Lamy said he would consider resuming the talks after all participants showed sufficient sincerity.

On September 9-10, international trade officials from the Group of 20 (G-20) developing nations met in Rio de Janeiro for the

China and Doha

China, as the biggest developing country and a trade giant in the world, plays an important role in the global trade system. Because of this dual identity, the country is under the global spotlight. Both WTO Director General Pascal Lamy and U.S. Trade Representative Susan Schwab visited Beijing recently to exhort its leaders to strengthen their efforts toward a successful conclusion of the current Doha Round of trade negotiations and play a bigger role in reviving the world’s multilateral trade system. Many believe China can help to restart the talks, which were suspended in July. Several experts give their views of the relationship between China and the Doha Round.

Zhou Shijian, the Standing Councilor of the China Society for World Trade Organization Studies



COURTESY OF ZHOU SHIJIAN

Why did Susan Schwab come to China? Why did Pascal Lamy come to China? They came for one purpose: to persuade China to exert its influence on the resumption of the Doha Round.

Different from its peers among developing countries, China is not reliant on agriculture for its economic growth and export revenue. Therefore, it has a smaller stage in agricultural negotiations of the Doha Round. Besides, China is both a developing country and a trade giant. It has a perfect understanding of how other developing countries and developed countries feel in the talks. Due to this unique status, China can work as a bridge and communicator between the developing and developed world.

If China plays this unique role in saving the Doha Round, it will have its status in the international community further proved.

To revive the talks, China can press the United States and the EU to compromise,

and in the meantime, it can coordinate the opinions of other developing countries, to finally achieve a balance of interests among all the participants.

Jeffrey J. Schott, Senior Fellow of the Institute for International Economics, Washington, D.C.

China has been a constructive but low-key participant in the Doha Round of multilateral trade negotiations in the WTO. It has played a useful role in advancing the negotiating process through its membership in the G-20 coalition of developing countries.

That said, China’s low profile in the WTO talks is not befitting its status as one of the world’s largest economies and trading nations. It has not offered additional reforms beyond the extensive commitments undertaken in its 2001 protocols of accession, and deserves



COURTESY OF JEFF SCHOTT

blame—along with other major trading nations—for the current impasse in the talks. China has an important stake in a well-functioning multilateral trading system—that’s why it spent so much effort to



“We hope the developed WTO member countries will make substantial contributions in order to resume the talks as soon as possible.”

—Chinese Commerce Minister Bo Xilai

join the WTO and why it needs to take a more active leadership role in reviving the Doha Round.

What needs to be done? First, China should work closely with other major trading nations to ensure that the WTO talks re-engage and progress. To that end, China should offer improved access to its markets by cutting its tariffs on non-agricultural goods by a half from the current applied rates and liberalizing trade and investment in the financial and other service sectors. This is not as onerous as it sounds. China is in a position to contribute more than other developing countries to the final Doha Round accord.

Because China's trade barriers are already low compared with other developing countries such as India and Brazil, large percentage cuts in base tariff rates will translate into small changes in China's applied tariffs. Such action could yield important dividends: It would allow China to respond positively to protectionist pressures in Europe and the United States, and would reinforce Chinese economic and political relations with other developing countries in the WTO.

**Supachai Panitchpakdi,
Secretary General of the United
Nations Conference on Trade
and Development**

China alone may not [be able to revive



PHOTOGRAPH BY DANIEL ESTY

the Doha Round of negotiations]. I think the solution should be the collective [efforts] of [many] countries.

In the past, you could have some key countries pushing for the end of

the round, but not these days. You need a collective push and collective [sharing] of responsibility.

**Daniel Esty, Director of the Yale
World Fellows Program**

China has a potentially critical role to play in making the international trading system work to the advantage of all nations—and no country benefits more from open markets than China. China needs to step up to the leadership position that it aspires to fill in many respects. In the context of the Doha Round, China could emerge as a critical mediator, helping to bridge the gaps between the United States and Europe and the developed and developing worlds.

But China also needs to accept that those who receive benefits from global cooperation must share in the burdens of providing “global public goods.” In this

first time since the Doha Round was suspended, with the aim of developing a unified position.

What happened in July was “a serious accident,” said Lamy at a press conference at the close of the G-20 meeting, but “we have been able to move ahead in Rio de Janeiro.” He said all the parties at the Rio meeting agreed that negotiations should resume.

“By mid-March of next year we have to get to know if there is a deal in the making or not,” Lamy said, though a definite date for formal negotiations was not set at the meeting.

Why Doha failed

“The Doha talks will be revived by the end of the year and last for one or two years, or even more,” Zhou predicted in an interview with *Beijing Review*. “Anyway, the [previous] Uruguay Round took seven years.”

Jeffrey J. Schott, Senior Fellow at the Institute for International Economics in Washington, D.C., explained the reason why the Doha Round failed. “Disagreements over agricultural reforms—in particular, how much the United States and the European Union (EU) should cut subsidies and tariffs protecting their farmers—have been a major

regard, China's role as a bystander in the worldwide effort to reduce greenhouse gas emissions and address other global scale environmental [problems] is increasingly untenable. If China is to be seen as a leader, it must be prepared to pay its fair share (which, indeed, will be substantial) of the costs of addressing climate change and other issues involving trans-boundary harm. While China has many poor people and must prioritize addressing their plight,



COURTESY BY DANIEL ESTY

poverty can no longer be accepted as an excuse. China has great wealth today and must therefore be prepared to contribute financially and otherwise as a middle-income country (of great size) to global problem solving.

China, more than any other country, will gain from the ongoing trade liberalization and risk a serious economic slowdown from its failure. So China should use all of its diplomatic and economic strength to lean on the European nations to make compromises sufficient to restart the stalled talks. ■

(Wang Yanjuan and Chen Wen contributed reporting for this article from New York)



ENJOY/REX

“The WTO and its members need a solid Doha outcome to remain an effective force in the global trading system.”

—U.S. Trade Representative Susan Schwab

cause of the impasse in the Doha Round,” he told *Beijing Review*.

Chinese experts on the WTO tend to attribute the collapse of the Doha Round to developed countries’ neglecting the interests of developing countries.

“The developed world and the developing world failed to agree with each other, while in the developed world, different countries cannot reach a consensus,” said Zhou. “For example, the EU just cannot compete with the United States in terms of cutting government subsidies.”

That may partly explain why EU Trade Commissioner Peter Mandelson once had scathing criticism of the United States. “The United States has been asking too much from others in exchange for doing too little themselves,” he said in July.

He said Washington was responsible for the failure of the WTO talks and warned of negative consequences in global trade, particularly for poor nations.

But there are other views. Daniel Esty, Director of the Yale World Fellows Program, said the biggest obstacle to a successful conclusion of the Doha Round is the EU’s intransigence in reducing its trade-disruptive agricultural subsidies, which blocks access to the European market for many developing nations with potential agricultural export sectors.

“The slow pace at which the EU is proposing to reduce these subsidies, which amount to tens of billions of euros each year, is the major stumbling block to progress. And within Europe, the finger of blame must be pointed directly at France for its refusal to make adequate concessions on farm subsidies.”

Esty also criticized several Asian nations. “Japan and South Korea are also

part of the foot-dragging group.”

“The developing countries were angry, as the developed ones always carry out a ‘double standard’ in world trade,” said Zhou. “Industrialized countries, which dominated the trade talks, are very selective about which sectors should be pro-free-trade. For products they are not good at [manufacturing], for example, textiles, they impose not only tariffs, but also quotas. For IT products, in which they have a competitive edge, there is no tariff at all.”

Getting the talks restarted

Zhou said that mentality is not good for world trade. “The United States and the EU are both trade giants. If the Doha Round collapses eventually, where will the WTO head? Without the WTO, the globalization of the economy cannot be achieved,” he said.

On the relationship between the Doha talks and world trade, Morgan Stanley Chief Economist Stephen Roach has a different viewpoint. In his article titled “Doha Doesn’t Matter,” Roach writes that the Doha Round was “a sideshow to the main event in the global economy” from the very beginning.

“A successful completion of the Doha Round of trade liberalization would have been nice. But the benefits would have been fleeting, at best. There are much bigger fish to fry in an increasingly contentious era of globalization,” he said.

However, Roach’s comment does not



WTF/REX

“A failure of Doha would strengthen those who want to turn their backs on globalization and retreat into protectionism.”

—EU Trade Commissioner Peter Mandelson



WTF/REX

“By mid-March of next year we have to know if there is a deal [on the Doha Round] in the making or not.”

—WTO Director General Pascal Lamy

seem to be in the mainstream. As the third quarter of the year comes to a close, more voices are heard appealing for the resumption of the WTO negotiations, and stressing the importance of the Doha Round to the establishment of a stable and open global economic system.

“A failure of Doha would strengthen those who want to turn their backs on globalization and retreat into protectionism. It would undermine the WTO system, which has brought stability and predictability to the global economy,” Mandelson said.

In Rio de Janeiro, U.S. Trade Representative Susan Schwab said the United States “is committed to finding a successful outcome for this round if there is one to be found.”

“The WTO and its members need a solid Doha outcome to remain an effective force in the global trading system,” she said.

But it requires extra efforts on the part of developed and developing countries alike, she said, cautioning that expecting immediate results was not realistic.

Mandelson said high-level talks to jumpstart the Doha Round could be possible at the end of this year or early next year.

International Monetary Fund (IMF) Managing Director Rodrigo Rato and World Bank President Paul Wolfowitz, speaking at the annual meeting of the two international organizations in Singapore on

September 19, said all countries should seize the opportunity and re-energize the Doha talks.

Who will take the first step?

Other finance officials expressed their optimism that a swift conclusion to the Doha Round talks could be reached soon.

Gordon Brown, British Chancellor of the Exchequer, gave the most positive statement, saying, "The aid-for-trade announcement, the determination of America, the statements made by European ministers, the communique that says we want a successful outcome by the end of the year show that we are fired up as a group in wanting both a conclusion to the trade round and a successful outcome, and I believe that is sending a message right across the world."

Despite the optimistic talk, the problem remains of who will take the first step. In her trip to Beijing in late August, Schwab used the "rock-paper-scissors" game to describe the importance of simultaneous action by all players. Otherwise, she warned, "One cannot play the game."

"Therein lies the key challenge for WTO diplomats," Schott told *Beijing Review*. "The United States, the EU, Japan and others will have to offer reforms of restrictions that have survived liberalization initiatives over the past 50 years."

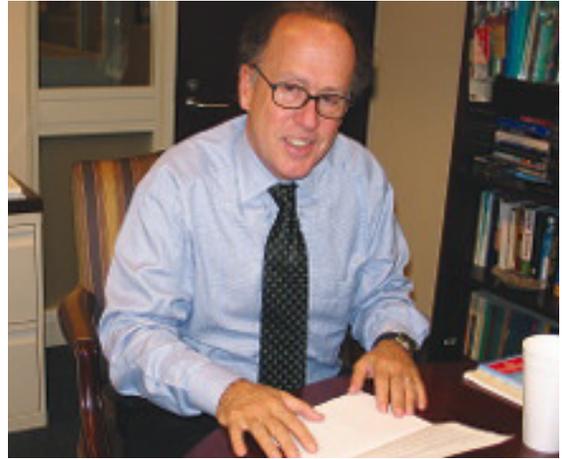


"We are fired up as a group in wanting both a conclusion to the trade round and a successful outcome."

—British Chancellor of the Exchequer Gordon Brown

"There are much bigger fish [than the Doha Round] to fry in an increasingly contentious era of globalization."

—Morgan Stanley Chief Economist Stephen Roach



"To get political support for changes in their long-standing trade barriers, trade officials from those countries will need to bring home agreements that offer substantial new trading opportunities in agriculture, manufacturing and services. Simply put, a big package of market access reforms is essential for a successful Doha Round deal."

"Thus, the leading developed and developing trading nations need to act in tandem to improve what is on offer in the Doha Round," said Schott.

China maintains that developed nations are expected to "take the lead in making substantial concessions" in terms of cutting farm tariffs and subsidies. In his meeting with Schwab, Chinese Commerce Minister Bo Xilai said, "We hope the developed WTO member countries will make substantial contributions in order to resume the talks as soon as possible and reach the objectives of the negotiations in a timely manner."

These countries account for the lion's share of world trade and represent a wide range of commercial interests. Consensus among them is considered crucial for a general agreement of all WTO members.

"The developed countries must act first," said Zhou of the China Society for

World Trade Organization Studies. "On the one hand, they must cut agricultural subsidies by a large margin. On the other hand, they must give a clear timetable. They can learn from what has been done in regard to textiles."

He said it is difficult to reach a consensus among 149 members, but somehow a solution will finally be reached. "Nobody can shoulder the responsibility for the failure of the WTO talks."

(Wang Yanjuan and Chen Wen contributed reporting for this article from New York)

Chilly Ties Persist

Sino-Japanese relations seem unlikely to improve under the leadership of Shinzo Abe

By ZHAO DAWEI

The deteriorating state of relations between China and Japan may persist under the government of Shinzo Abe, who won the presidential election of the ruling Liberal Democratic Party (LDP) on September 20 and was named the new prime minister of Japan on September 26.

Judging from Abe's public remarks and election proposals, there are enough reasons to believe that the successor to Junichiro Koizumi will hold an even tougher policy toward China.

During Koizumi's time in office, Sino-Japanese relations reached their coldest point since the normalization of bilateral relations in 1972. The outgoing prime minister visited the Yasukuni Shrine, which honors Japan's war dead, including World War II war criminals, on six occasions, which gravely damaged the political foundation of relations between China and Japan and led to a halt in mutual visits between the senior officials of the two countries.

Furthermore, the antagonistic sentiment between the peoples of the two countries has also been aggravated. Due to the negative effect of the cold political relations between the two countries, trade between the two countries has decreased, and Japan's investment in China has been shrinking.

On the issues of energy and other resources, Japan has also competed with China, including an oil pipeline project in Russia and oil and iron ore projects in Sudan. The two countries also have had disputes related to territory in the East China Sea.

Besides, the ties between Japan and Taiwan have become closer in recent years, developing from economic contacts to security cooperation, which has challenged the core interest of China.

The worsening bilateral ties between China and Japan, two important Asian countries, seem likely to continue after the change of Japan's prime minister. Abe appears more hawkish than his predecessor. As an important member of Japan's pro-Taiwan group, he used to actively advocate permitting former

Taiwan leader Lee Teng-hui, who backs "Taiwan independence," to visit Japan.

On the issue of oil and gas fields in the East China Sea, Abe has frequently delivered provocative remarks. He also remains in close contact with right-wing forces in Japan and has visited the Yasukuni Shrine. He holds that it is China's wishful thinking that it would be able to separate a few militarists from the bulk of the Japanese people. Abe's aide for diplomacy, Hisahiko Okazaki, who was also his teacher, holds typically right-wing views in Japan's political arena.

Compared with Abe, Koizumi seems more moderate. After all, Koizumi has always held that China's rise is an opportunity for Japan. He accepts the Tokyo tribunal's verdict on World War II war criminals, and has repeatedly mentioned the speech delivered by Japan's former Prime Minister Tomiichi Murayama on August 15, 1995, which acknowledged and apologized for Japan's actions in World War II.

But, will Abe proceed down Koizumi's road? That does not appear to be so simple. The domestic and international environments mean that he cannot do whatever he wants.

First, Abe must improve Sino-Japanese relations and lead Japan out of its current diplomatic predicament, which can show his political capability to the nation, so that

the LDP can win parliamentary elections next year.

Second, most Japanese, from ordinary citizens to political figures, hope to dispel the bad effect of Koizumi's visits to the Yasukuni Shrine. A survey by the Japanese Foreign Ministry in March shows that 77.9 percent of the Japanese polled expressed the view that Japan should improve the worsening ties with China caused by Koizumi's visits to the Yasukuni Shrine.

Third, the United States neither wants Japan to get out of the alliance with it, nor does it want to see the isolation of Japan in Asia. Thus, in the near future, Washington would like to see better Sino-Japanese relations.

Fourth, the recovery of Japan's economy has mainly been due to the fast growth of bilateral trade with China. The economies of the two countries are complementary and mutually beneficial. In this sense, maintaining good political relations to develop economic relations serves the interests of the peoples of both countries.

Abe's hawkish background and the impact of reality may jointly determine that his policy toward China will be two-sided and unstable. On one side, he may show diplomatic flexibility. He may first make a new promise on the issue of Yasukuni Shrine visits in order to provisionally remove the political obstacle to the meetings of the leaders of the two countries. It is also possible that he may suggest the two countries hold a wide-ranging strategic dialogue on various issues between the two countries or elevate the level of the dialogues that already exist, such as the regional cooperation in East Asia, energy cooperation, oil and gas development in the East China Sea, or even military and strategic dialogues.

He is also likely to discuss new cooper-

Abe's Political Views

Abe discussed much about his views of politics and diplomacy in his election program, showing that he means to be a tough party president and prime minister.

First, on the issue of constitutional revision and collective self-defense right, Abe strongly advocates completely revising the Constitution to remove the limit that Japan can only exercise military power in self-defense. At the same time, by enacting a law, Japan would be able to send its self-defense forces overseas at any time. Abe claims that Japan should break

away from the post-war system, and what he will do first during his term is to try to remove the obstacles to revising the Constitution. Regarding the Japanese-U.S. alliance, Abe holds that the role of the alliance should be improved and its mutually interactive feature needs to be ensured in order to change the awkward situation that U.S. troops are unilaterally stationed in Japan but Japanese self-defense forces cannot provide overall support to the U.S. military.

Second, on the issue of historical problems, Abe made an ambiguous comment on the meaning of Tomiichi Murayama's "August 15"

The author is a researcher with the China Institute of International Studies

Profile of Shinzo Abe

Shinzo Abe, 52, was born into a distinguished political family. His father, Shintaro Abe, was former secretary general of the LDP and former foreign minister, and his grandfather was former Prime Minister Nobusuke Kishi. Following graduation from the Department of Political Science of the Faculty of Law at Seikei University in 1977, Abe studied politics at the University of Southern California. In 1979, he returned to Japan and began to work at Kobe Steel Ltd., where he remained for about three years. Abe entered politics as his father's secretary in 1982. In 1993, he won a seat in the House of Representatives by running in a constituency in Yamaguchi Prefecture. In 2000, he was appointed deputy chief cabinet secretary in the second cabinet of Prime Minister Yoshiro Mori. He was elected LDP secretary general in 2003 and became a cabinet member for the first time in the post of chief cabinet secretary in Junichiro Koizumi's third cabinet in 2005.

The following factors helped Abe win the LDP presidential election: First, he is a member of the Hashimoto Faction, the most powerful faction of the LDP, and is strongly backed by Koizumi. Second, his hawkish political thinking conforms to the right-wing inclination of Japan's social trend of thought. Third, his tough and uncompromising attitude on the issue of abductions of Japanese nationals by North Korea and other diplomatic problems caters to the sense of crisis of some Japanese people. Fourth, family influence has helped him gain adequate election funds. Fifth, the LDP's voting system was favorable to Abe.

As a political figure born after World War II, Abe shows a decisive and tough working style with a strong hawkish flavor, gaining him high prestige in the nation, especially among young people. Looking young and handsome, he is also good at taking advantage of his "star" quality, which helped him attract many voters. Abe is also a good writer, and his new book, *Toward a Beautiful Nation*, became a bestseller in Japan immediately after it was published.



JAPAN ENTERS INTO ABE TIME: Japanese Chief Cabinet Secretary Shinzo Abe seals 464 votes among the total 703 ballots. He was elected the 21st president of the ruling Liberal Democratic Party on September 20

ation channels on economic contacts and the development of bilateral political relations. He may attach importance to cultural exchanges, educational cooperation, people-to-people contact and personnel exchanges, so as to increase the good feelings between the two peoples.

On the other side, it may also be true that Sino-Japanese relations will not improve substantially. Coordinating with the United States and containing China will still be Japan's diplomatic strategy. Japan is also likely to maintain its strategic advantage over China by relying on the alliance with the United States. Abe also favors a strategic "alliance of democracies" among the United States, Australia and India to offer a counterweight to China.

In addition, Japan may develop its military under the pretext of the missile and nuclear threat from North Korea, with the real intention being to deal with China. Japan is likely to provoke events on the Taiwan issue and the oil and gas development of the East China Sea and damage relations with China. Of course, such events as anti-China remarks and a new round of textbook disputes may occur.

But, generally speaking, Sino-Japanese relations during Abe's tenure will not spin out of control. Although the two countries will not repeat their friendly relations of the 1980s, they will not have a hostile confrontation or conflict in the foreseeable future. ■

speech, saying it was delivered on the 50th anniversary of the end of World War II and thus has become something related to the past, and there is no need to express new views on the matter. On the issue of Yasukuni Shrine visits, Abe said he has always had a feeling of respect for those who fought for the country and would like to pray for them. He said that whether Japanese leaders should pay visits to the shrine or not should not reflect the will of other countries, and if Japan is misunderstood by other countries because of this, it should try to clear up the misunderstanding but not listen to oth-

ers. Abe did not make clear remarks on whether he would pray at the Yasukuni Shrine as prime minister.

Third, on diplomatic issues, Abe advocates that the Tokyo-Washington alliance should continue to be strengthened. Apart from overall cooperation with the global strategy of the United States, Japan needs actively enhance its status in the international arena and quicken its move toward becoming a politically important country. In Asia, Abe holds that Japan should establish reliable relations with China and South Korea and try to resume talks between the leaders of Japan and

the other two countries. With regard to North Korea, Japan should handle the abduction issue and the nuclear and missile problems in a tough manner, such as imposing economic sanctions. Based on some common values, Japan should push forward strategic dialogues with the United States, Europe, Australia and India, finally making Japan a country with important responsibility in the world.

Abe has made few comments on his views about the economy, education and other domestic issues in his election program. He is very likely to follow Koizumi's lead on these issues. ■

Flexing Muscles

The non-aligned movement, representing two thirds of UN members, is gaining vigor in world affairs

By NI YANSHUO

Imagine nearly two thirds of the UN members meeting together to discuss and reach consensus on international events. This is what happened in Havana, Cuba, at the 14th Non-Aligned Countries Movement (NAM) Summit from September 11-16. Cuba, the new holder of the presidency of the NAM, again became a focus of world attention.

"You can see from the participants in the summit conference that the representativeness of the NAM this time are very broad," Carlos Miguel Pereira Hernandez, Cuban Ambassador to China, said in an interview with *Beijing Review*.

At the summit, two more countries, Haiti and St. Kitts and Nevis, were approved as NAM members, expanding the number to 118. A total of 56 top leaders and 90 foreign ministers participated in the conference. Meanwhile, some delegations were headed by vice presidents or vice prime ministers. Fifteen observer nations, including China, took part in the summit. Participants also included UN Secretary General Kofi Annan, African Union representatives, and representatives from the MERCOSUR customs union and the Andean Community in South America.

"All countries and regional organizations in the Caribbean area participated in the conference. This is the first time in NAM history," Hernandez said.

The major goal of the summit was to "revitalize the movement so that it will play a role in the international arena that is in keeping not only with its current membership of 118 countries but also our history of battles in the name of the loftiest causes," Raul Castro, President of the Council of State and Ministers of Cuba, said in his closing address to the summit.

Besides stressing the implementation of the UN Charter and maintaining world peace, the NAM summit also voiced support for the development courses of Venezuela and Bolivia, as well as Cuba's efforts to combat the U.S. blockade and its occupation of Guantanamo Bay. At the same time, the

summit supported Iran's right to peaceful utilization of nuclear energy and objected to double standards in this regard.

"It is impossible for the world's nationalities to be in one mode; different countries should have different development modes," Hernandez said.

Cuban leader Fidel Castro did not participate in the summit because of his recent gastrointestinal surgery, but he was elected chairman of the NAM.

Three highlights

"The NAM has now developed into an important force in pushing the world economic and political system in the direction of justice and reasonableness," Wu Miaofa, a researcher with the China Institute of International Studies (CIIS), told *Beijing Review*.

According to him, the NAM summit left a deep impression in at least three aspects. "The first is that the NAM, after decades of a low ebb, has regained its vigor in international affairs," Wu noted, adding that the gathering of NAM members and their discussion of various international affairs demonstrated the organization's vitality.

During the 45 years since the first NAM summit was held in Belgrade, Yugoslavia, in 1961, many developing countries, mainly in Asia, Africa and Latin America, have followed an independent and non-aligned foreign policy, serving as a third important political force between the United States and Soviet Union during the Cold War period.

Wu worked in the UN as a councilor in the 1970s and said he felt the strong influence of the NAM in the world organization at that time. Because of the large gap between finished product prices and raw material prices, which had hurt developing countries' interests, the NAM made efforts to establish a new international economic and political system at the sixth Special Session of the UN General Assembly in 1974. Many developing countries rallied to that cause. "This indicates the NAM could sense unsatisfying elements in the world economic and political structure and take active measures to try to change them," Wu noted.

After the end of the Cold War, many NAM members gave priority to building their own countries and the opportunities for them to join together to promote world development became fewer. Meanwhile, because of an increase in conflicts among NAM members themselves, the establishment of other economic organizations for developing countries and Western countries' disengagement, the NAM's influence became less, and it was on the brink of being forgotten.

Entering the new millennium, however, the world order changed greatly. U.S. unilateralism and its preemptive strategy failed to contain the development of terrorism. On the contrary, terrorism has increased worldwide.

According to Wu, the world's problems, such as weapons of mass destruction, the Middle East, and the Iranian and North Korean nuclear issues, are also pressing on the NAM. The organization needs to have a platform to speak about these affairs.

"Cuba has done well in arranging the conference and all the 118 NAM countries showed great unity at the conference, which is rarely seen in history. This is the second highlight of the summit," said Wu. He added that the NAM members are different in many aspects: Some are African countries, some are Arab countries, some are U.S. allies, such as India and Pakistan, and some, such as Iran, have been labeled part of an "axis of evil" by Washington. "They can still reach a consensus on many international affairs, which indicates the NAM's strong internal unity," Wu said.

He denied that the NAM is an anti-U.S. organization. "Most of the members would like to cooperate with the United States to improve the world order."

"The third highlight is that the NAM's suspicion of U.S. foreign policy influenced the country's hegemonism and unilateralism," said Wu.

Because of the deterioration of the image of the Bush administration among NAM and European Union members, the United States faced a dilemma and the White House is gradually changing its practices. It has changed its attitude toward the UN. "Previously, the United States could take action without approval from the UN, such as the war against Iraq; but now, it has started to rely on the world body on many issues," Wu said, adding that the country also began to mend its relations with European and Asian countries.

According to Hernandez, the NAM countries' unity and coordination is not only important but also necessary. NAM countries will have strong power in the UN when they are united because they account for the majority of UN members.

"Our movement is essential to the quest for a new system of international relations,"



NO TO ALIGNMENT: Representatives to the 14th Non-Aligned Movement Summit pose for a photo in Havana on September 15

Carlos Lage, Cuba's Vice President, said at the opening session of foreign ministers of the NAM. "We do not align ourselves with war, terrorism, injustice, inequity or double standards. We align ourselves with peace and justice."

No double standards

This is the second time Cuba has held a NAM summit, the first being in 1979. At that time, the main task for the NAM summit was to coordinate internal relations, such as the war between Iran and Iraq. "Now, things have changed," said Hernandez. "Though the Cold War ended, conflicts still exist. Challenges facing developing countries are no longer coming from themselves, but from outside. Outside pressure and defiance force the third world countries to unite."

The 14th summit spoke out against double standards in fighting terrorism. "To some developed countries, there is good terrorism and bad terrorism," Hernandez said. "They divide this on the basis of their own political goals. But to the NAM, terrorism is terrorism, no matter in what manner or form."

According to the ambassador, the United States is still sheltering Luis Posada Carriles, allegedly responsible for a Cuban civilian plane bombing in 1976 that killed 73 civilians, mostly Cubans, including Cuban youth fencing team members who had just won a championship in Central America. Carriles was a Cuban who later became a Venezuelan citizen. "This year is the 30th anniversary of the bombing and Carriles and his partners are still at large in the United States," Hernandez added. Venezuela has asked for his extradition but has been refused.

"In this sense, the United States is not against terrorists, but protects them," Hernandez said.

The summit highlighted views that differ from those of European countries and the United States on many international events. It supports Iran's nuclear development for peace ends and believes all countries have the rights to peacefully utilize nuclear energy. It criticized U.S. Government's preemptive methods in its antiterrorism campaign and the label of "axis of evil" Washington applies to some countries. The summit also appealed for diplomacy to resolve international disputes. According to South African Deputy Foreign Minister Aziz Pahad, the current international situation is more complicated and perilous than it was decades ago. The world structure has changed greatly, and the NAM's multilateralism is of great significance under the current international situation of imbalanced political power and frequent regional conflicts.

"We must fight against a world in which a sovereign nation is denied the use of nuclear energy for peaceful ends while another is aided in the accumulation of a nuclear arsenal," said Lage in commenting on the Iranian nuclear dispute.

A better future

Hernandez is optimistic about the future development of the NAM as he sees the number of participants rising. "This indicates more countries realize the importance of the NAM and give priority to it," he said.

According to him, a platform for developing countries has been formed under the NAM framework. Participants in Havana included NAM members, observers, representatives of various organizations and countries that quit the NAM and now wish to come back.

Argentina used to be a NAM member, but left during the presidency of Carlos Menem. It participated in the Havana conference as a guest, and expressed the desire to

rejoin. "You can see from the Havana conference the developing trend of the NAM as more countries would like to join the movement since developing countries can see the importance of the organization in protecting their interests," said Hernandez.

China became a NAM observer in 1992 and from then on has cooperated with the organization. Vice Foreign Minister Yang Jiechi led a delegation to the conference to present China's views on international and regional affairs.

"China, as a participant in, maintainer and constructor of the world system, has natural connections with the NAM. They together create strong forces to promote the world economic and political system in the direction of justice and reasonableness," said Wu of the CIIS.

Western countries, especially European countries, have attended NAM summits as observers. During the 13th NAM summit held in Malaysia in February 2003, the United States also participated as an observer.

"NAM is an organization of third world countries which reflects the interests of the third world countries," said Hernandez, adding that the NAM countries will make efforts to implement the agreements reached at the Havana summit in various stages, mainly in the UN. Meanwhile, the troika of Malaysia, Cuba and Egypt will also contact and discuss with developed countries related issues under the NAM framework through various channels.

According to Hernandez, the NAM was formed during the Cold War and played an important role in world development. Though the Cold War ended, problems still occur, with wars and conflicts still threatening world development. Therefore, the movement has good reason to continue to exist and exert its influence under a new circumstance. ■

Economic Interaction

At a hearing before the U.S.-China Economic and Security Review Commission on August 22, 2006, James A. Dorn, Vice President for Academic Affairs, Cato Institute, offers his ideas on the impact of China's financial system and monetary policies on U.S. exchange rates, capital markets and interest rates. Excerpts follow.

Macroeconomic impact

If China continues to open its capital markets and to make its exchange rate regime more flexible, it will eventually be able to use monetary policy to achieve long-run price stability. At present, the People's Bank of China (PBC) must buy up dollars (supply RMB) to peg the RMB to the dollar and then withdraw excess liquidity by selling securities primarily to state-owned banks. This "sterilization" process puts upward pressure on interest rates, which, if allowed to increase, would attract additional capital inflows. The PBC thus has an incentive under the current system to control interest rates and to rely on administrative means to control money and credit growth. But the longer this system persists, the larger the PBC's foreign exchange reserves become and the more pressure there is for an appreciation of the RMB/dollar rate. Those pressures have led to reform, with the July 21, 2005 revaluation and with a number of changes in the institutional setting to establish new mechanisms for market makers and hedging operations as the currency becomes more flexible.

China will move at her own pace. What matters most is that she moves in the right direction—toward liberalization, not centralization. We must be patient and realistic. Most of the costs of China's undervalued currency are borne by the Chinese people. Placing prohibitively high tariffs on Chinese goods until the RMB/dollar rate is allowed to appreciate substantially is not a realistic option. It would unjustly tax American consumers, not balance our overall current account deficit or even our bilateral trade deficit with China, and slow liberalization.

Adjustment requires that China not only allow greater flexibility in the exchange rate but also allow the Chinese people to freely convert the RMB into whatever currencies or assets they choose. A more liberal international economic order is a more flexible one based on market-determined prices, sound money and the rule of law. We should help China move in that direction—not by threats, but by example. The U.S.

Government should begin by reducing its excessive spending and removing onerous taxes on savings and investment.

While it is useful to consider the macroeconomic impact of Chinese financial policies on the United States, it is well to remember that China is still a relatively small economy. What matters most for the U.S. economy is to pursue sound monetary and fiscal policies at home. If we follow such policies and maintain an open trading system, U.S. prosperity will continue.

The case for economic liberalism

Engagement does not mean dictating what the RMB/dollar exchange rate should be or calling for a new Plaza-Louvre type agreement to correct global imbalances. When the Group of Five industrialized nations (United States, United Kingdom, Japan, Germany and France) met in 1985 to agree on collective action to lower the foreign exchange value of the dollar, China was not a factor. The PBC's foreign exchange reserves were only \$12.7 billion, and China's overall current account was roughly in balance. Intervention in the foreign exchange markets and various changes in fiscal policies in the G-5 did help to bring the dollar's value down, but the U.S. current account deficit still reached a peak of 3.4 percent of GDP in 1987, at which time the G-5 met in Paris to reverse course and intervene to stem the dollar's slide.

Today, the U.S. current account deficit has risen to more than 6 percent of GDP, China is the world's third largest trading nation, and Asian central banks play an important role in financing the U.S. budget deficit. A new Plaza Accord would require a much larger group to negotiate—the Group of 20—without any credible enforcement mechanism. William Cline of the Institute for International Economics has argued that emerging market economies in Asia can overcome the "prisoner's dilemma" by jointly agreeing to allow their currencies to appreciate against the dollar. The extent of overall appreciation would then be much smaller than if each country acted alone. He would also have the Federal

Reserve, European Central Bank and Bank of Japan intervene in the foreign exchange market to push the dollar lower.

The argument that intervention is necessary to get all parties to agree to let their currencies appreciate against the dollar in East Asia is questionable. Stephen Green, senior economist at Standard Chartered Bank in Hong Kong, notes that it is unlikely that Asian currencies would stand still while China let the RMB/dollar rate appreciate. If a country did not follow suit, it might have a temporary advantage. But as its trade surplus grew, there would be pressure to revalue or suffer inflation as a means to revalue the real exchange rate. Changing one price—the exchange rate—is far less costly than changing the relative price level.

Rather than a new Plaza-Louvre type agreement, an alternative approach to correcting global imbalances is to have monetary authorities agree on common principles and objectives. In a world of pure fiat monies, the principle should be to establish credibility by having central banks constrain themselves to long-run price stability. Many central banks already have adopted inflation targeting and have substantially reduced inflation.

China has expressed its long-run desire to make the RMB fully convertible, allow market forces to guide the exchange rate, and to liberalize interest rates. It is in China's self-interest to do so. Creating an international market-liberal order is a slow process, in which the United States must take a leadership role—not by dictating policy, but by example and persuasion. Sound domestic monetary policy, unilateral free trade and limiting the size and scope of government are essential in that endeavor.

The politics of China's economic reform

Since the start of the reform movement in late 1978, China's leaders have declared that the country's top priority should be to achieve robust economic growth and improve the standard of living. The failure of central planning and the Soviet development model led to institutional innovation and economic restructuring. China's accession to the World Trade Organization (WTO) in December 2001 was further evidence of the commitment to liberalize trade and the financial sector.

Progress has been made since 2001, but much remains to be done. There has been considerable discussion of how China should sequence its economic reforms and make the transition from financial repression to capital freedom. It is clear that opening capital markets without reforming state-owned banks and without maintaining monetary stability could lead to substantial capital flight and exacerbate the problem of



CLOSE LINKS: China-U.S. business-building conferences like this one in 2002 play an important role in boosting economic cooperation between the two big economies

non-performing loans. Moreover, there must be an effective legal system to protect newly acquired private property rights.

In a recent interview, Zhou Xiaochuan, head of the PBC, emphasized that China is committed to creating an institutional framework for a more flexible exchange rate regime “based on market demand and supply,” and “gradually realize RMB convertibility...by lifting the restrictions on cross-border capital movements in a selective and step-by-step manner.” In sequencing the financial sector reforms, the first priority is to put the banking system on a sound footing by recapitalizing large state-owned banks and turning them into joint-stock companies with the participation of foreign strategic investors. Further progress must also be achieved in widening the scope of foreign exchange transactions, including liberalizing the capital account. Zhou recognizes that institutional change cannot occur overnight because “people need some time to learn and adapt to change.” A new “mindset” must be developed. Moreover, he understands that China “cannot wait to start reforming the exchange rate regime until all banking reform measures have been completed.” Reform must move along a broad front.

Policy recommendations

The United States and China need to continue the policy of engagement and recognize that it is more important to focus on the issue

of capital freedom than on the narrow question of the proper exchange rate. China should continue to liberalize its exchange rate regime, open its capital markets, allow full convertibility of the RMB, liberalize interest rates and use domestic monetary policy to achieve long-run price stability. Most importantly, China needs to privatize its stock markets, its banks and its firms.

The PBC’s Monetary Policy Committee has been concerned with the lack of flexibility in the current financial system and made the following recommendations at its third quarterly meeting in 2005:

- “The market itself should be allowed to play its role in economic restructuring.”
- “Market-based interest rate reform policies should be continuously carried out.”
- “Measures should be taken to further improve the managed floating exchange rate regime and maintain the exchange rate...at an adaptive and equilibrium level.”
- “Efforts should be made to advance financial reform” and “to enhance the effectiveness of monetary policy transmission.”

Those pro-market policy recommendations are a positive sign and a clear signal that China’s top policymakers are aware of what needs to be done to improve the financial architecture.

China has promised to allow full participation by foreigners in its banking sector by 2007 and to further open to foreign port-

folio investment. However, China is intent on moving at its own pace, especially regarding the transition to a floating exchange rate regime. According to Zhou, the “noises” being made on Capitol Hill (e.g., by Democratic Senator Charles Schumer and Republican Senator Lindsey Graham) for protectionist measures—if China does not significantly revalue the RMB/dollar exchange rate—“will not change the basic conditions and sequence of China’s exchange rate reform.”

Congress can best foster sound U.S.-China relations by not treating China as an inevitable enemy and by taking the opportunity to capitalize on China’s emergence as a market economy, albeit a “socialist market economy.” In particular, U.S. policymakers should treat China as a normal rising power, not as a probable adversary, continue to liberalize U.S.-China relations and hold China to its WTO commitments; and recognize that advancing economic freedom in China has had positive effects on civil society and personal freedom for the Chinese people.

Protectionist measures to force China to revalue would place a large tax on U.S. consumers and not advance capital freedom. Adherence to the principles of a liberal international order—as opposed to protectionist measures designed to force international agreements—should be the primary object of U.S. policy. ■



STILL A HOMETOWN HERO

WANG XIANG

Thirty years after his death, Mao's legacy is most obvious at his birthplace

By LI LI

He Yanghui, 60, understands well that the quality of life for her husband and herself this year depends as usual on sales of souvenirs at their two-square-meter stall.

The couple grows their own rice for staple food, but for every bit of the family's disposable income, the founding father of the People's Republic of China, Chairman Mao Zedong, takes credit three decades after his death.

Their stall, one in a row of a dozen, is in mountainous Shaoshan in southern Hunan Province and only about 100 meters away from a mud-wall house that has since been renovated. This was the home of Mao's parents, and the birthplace of the man himself. To people who revere Mao, it is like Mecca.

Souvenir stall owners like He are a dime a dozen among the farmers of this village, many of whom earn a living by selling mostly cheap items with Mao's image on it, from badges to key rings to alarm clocks. He's three sons are all in the same business.

"All year, I only take three or five days off, when the farm work is really busy," said He, who grew up in the area and has been selling Mao souvenirs for 20 years. "After all, I can earn a little more than 10,000 yuan in a normal year by selling souvenirs, and that gives us a comfortable life."

He's stall is on the side of a path leading to the tomb of Mao's parents, which many tourists will take time to visit after seeing the house. When there are no customers around, He enjoys eagle-eying the tourists from all over the world as they weave through the jumbled mess of old buildings. She regards the length of the queues as her business climate index.

"The crowd has become bigger and bigger in recent years. I've seen longer queues only during the Cultural Revolution," said He, watching the crowd three days before the 30th anniversary of the death of Mao.

"Long live Chairman Mao," once the most popular slogan during the Cultural Revolution, faded away for most Chinese people with Mao's death on September 9, 1976, the conclusion of the Cultural Revolution that year and social upheavals thereafter.

Yet for the people in Mao's hometown, and in particular the souvenir sellers, it all seems still relevant as every day they see and feel the direct benefits of living around Mao's birthplace.

Mao as god

Despite making a living by selling trinkets with his image on them, He thinks Mao's greatest legacy at his birthplace is not the rampant consumerism but his spiritual legacy. "I will remember him as an altruistic man for losing six family members to the revolution," she said.

Shaoshan is Mao's birthplace and where he spent his childhood and early teenage years before departing for further studies in Changsha, capital city of Hunan Province, in 1910 at the age of 17. He came back in the 1920s, founding underground rural Party branches and educating farmers on fighting landlords for a fairer society.

Many townspeople followed Mao's revolutionary path, including his two brothers and his first wife, who died in the struggle for Communism and are considered martyrs. He came back to Shaoshan twice after the 1949 founding of the new China, in 1959 and 1966. Items on display in museums in Shaoshan include a pair of worn out slippers and a robe Mao wore during his trips to his hometown, reinforcing the image of a leader who would sacrifice luxuries for the well-being of his people.

Mao's perceived high moral ground along with his image as a savior of the nation has fostered some people's worship of him. Credit card-sized metal talismans with engraved portraits of Mao to bring health and fortune, instead of the more usual images of Buddha, can be bought at almost

every souvenir stall in Shaoshan.

Tang Tian, 24, a civil servant of local government, said she wouldn't say anything unfavorable about Mao on any occasion. Besides her affection for the great leader, she has a fear of punishment from beyond the grave for offending Mao's spirit.

Song Zihao, a tourist from Hebei Province, has carried with him a Mao talisman every day since 2001. He believes his worship for Mao gave him the strength to end his six-year addiction to drugs, which almost killed him. "I was doing nothing but waiting for death, without thinking in my wildest dreams that I could be normal again," said the middle-aged businessman who is now finding success in the construction material business.

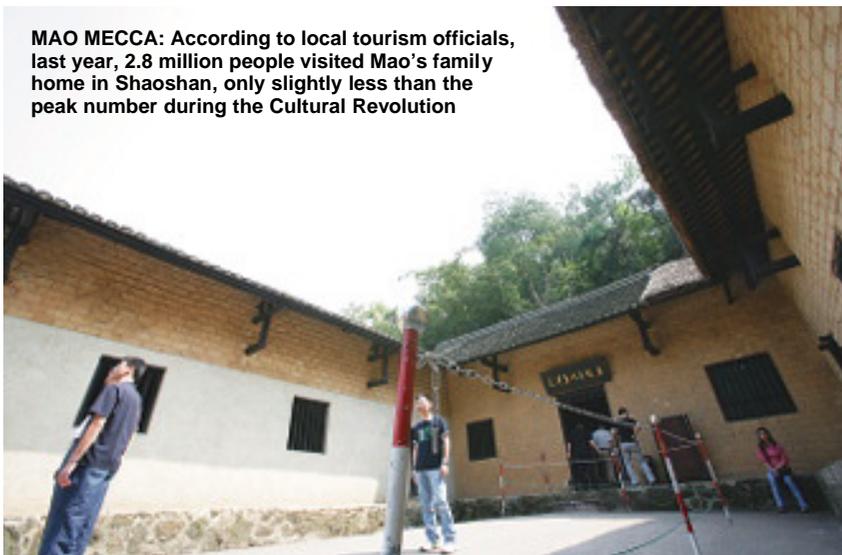
Song said that back in his home province he is among the spiritual believers in Mao, who think that Mao saved the people from suppression and exploitation in his human life and came back to earth to save people. The believers regard Mao as a Buddha.

While Song's tale is one of extreme devotion, stories about people who have had their wishes come true after praying in front of statues of Mao are widely traded in the alleys of Shaoshan.

Mao tourism

Mao's hometown is located in a mountainous area, 100 km southwest of Changsha. The county has a population of 100,000 in an area of 210 square km, a ▶▶

MAO MECCA: According to local tourism officials, last year, 2.8 million people visited Mao's family home in Shaoshan, only slightly less than the peak number during the Cultural Revolution



small town by Chinese standards, but local tourism authorities say it has accommodated more than 50 million visitors since the 1950s. Last year, the total revenue of the tourism sector was 396 million yuan, accounting for one third of the GDP.

Huang Lishan, Vice Director of the Shaoshan Government's Media Center, said that the development of tourism, while making limited contributions to the local treasury, has greatly improved the quality of life for local farmers. In 2005, the per-capita income of Shaoshan County's 80,000 peasants was 5,150 yuan, much higher than the average level of Hunan Province of 3,118 yuan.

One third of the total county area, or 70 square km, has been developed as a tourism zone, highlighting Mao's birthplace, school, memorial museum, memorial hall, the Mao Zedong library and the hotel where Mao lived in 1966.

Besides selling souvenirs and books about Mao, many farmers have opened restaurants selling "Mao's favorite dishes" or hotels to accommodate tourists. According to Shaoshan tourism officials, 2.8 million tourists visited Mao's childhood home last year, an increase of 40 percent over the previous year and close to the peak figure of 2.9 million in 1966, the first year of the Cultural Revolution.

"Over half of the visitors are middle-aged or older," said Han Li, 25, an administrator at the tourism spot. According to her observations, Shaoshan is a lot less of an attraction to children and teenagers, who mostly come under organized school tours.

Born and raised in Shaoshan County, civil servant Tang Tian visited most Mao tourism spots several times when she was in primary and middle school, on school group trips. Thus it is not surprising that when accompanying friends also in their 20s who were visiting for the first time, her commentary, dotted with anecdotes from Mao's life, is comparable to that of any professional tour guide.

Tang said she had great respect for Mao, but the Chinese literature major admitted she has little knowledge of Mao's poems, essays or thinking. Tang said she could sing most of the songs praising Mao since they are broadcast in public places in Shaoshan, like buses.

When asked whether she would sing Mao's songs at karaoke, a popular entertainment form for young people throughout China, she answered with a laugh: "No, of course not—that's different."

Hometown advantage

Besides the development of Shaoshan as a site of pilgrimage, another boost to the economy is the huge amount of government investment in infrastructure.

THE LONG MARCH AND MAO

By TANG YUANKAI

The Long March, from October 1934 to October 1936, was a 6,000-mile trek by the Communist Party that resulted in the relocation of their revolutionary base in central China to Yan'an in the northwest.

Three months into its most famous retreat, the Red Army took over and occupied the southwestern city of Zunyi from the nationalist Kuomintang army in January 1935. A conference took place in a 27-square-meter room that would change the face of China.

A military commanding team consisting of Mao Zedong, Zhou Enlai and Wang Jiaxiang was formed at the meeting. Mao emerged from the conference as the leader of the Communist Party and in full control of the Red Army after losing military command for two years. The conference had 20 participants, including such future prominent state leaders as Zhou and Deng Xiaoping.

When the Kuomintang forces of Chiang Kai-shek threatened to encircle and crush the Communist forces at the end of 1934, the Communists decided to break through the Kuomintang lines at their weakest point and march westward. The Communists called the military maneuver the "west march," Chiang was the first to come up with the term Long March, in a speech referring to his military action to annihilate the Red Army.

The same month as the Zunyi meeting was held, Japanese armies that had occupied China's northeastern provinces for over three years invaded further south to the central provinces. However, Chiang still stuck

to a non-resistance policy towards the Japanese invasion while stepping up the civil war, and relocated hundreds of thousands of troops to southwest China to encircle the Red Army on the Long March.

At the Zunyi meeting, Mao made a long speech to illustrate that the essential reason for the military setbacks the Red Army suffered is "the mistake in strategy."

Before the Zunyi meeting, the Communist Party of China had unconditionally respected the authority and followed all instructions of the Comintern, which was founded in 1916 to unite Communist parties around the world for the socialist movement. This complete loyalty, according

to Professor Jin Yi'an from China's National Defense University, brought destructive losses to the Red Army and the Communist regime. Thus, the Zunyi meeting marked a turning point in that China's young Communist Party started to act on its own initiative and in accordance with China's actual circumstances.

After the meeting, Mao directed the troops to make unexpected movements to escape from the encirclement of Kuomintang troops. The ensuing successive military victories are attributable to the regained leadership of Mao over the Red Army and his military tactics.

The Long March laid the foundation for the victory of the Chinese revolution and is regarded as a critical moment for the Communist Party. Many soldiers who survived the Long March later become state leaders of the new republic. After the march, Mao remained leader of the Communist Party and later of China until his death in 1976. ■



MAO ON THE MARCH: Mao's military genius and command of the Red Army were confirmed through the Long March

The county has a legacy of such investments. In 1967, two days after Mao's birthday and a year after the start of the Cultural Revolution, a railway station opened along with direct train service from Changsha to Shaoshan.

In the years that followed, the train car-

ried innumerable Mao devotees dressed in their blue Mao suits on their pilgrimages to visit their beloved leader's hometown.

The train still arrives from Changsha once a day, but the railway station isn't bustling anymore, a huge painting of Mao looking down on the empty benches.



TIME WARP: On display at the memorial museum in Shaoshan are photos and posters of Mao, as well as badges of him from different time periods

The construction of a new highway, built for the 110th anniversary of Mao's birth in 2003 made it faster to travel by road—only one and a half hours from Changsha to Shaoshan by bus, instead of about two and a half by train. Another highway is currently being built.

Huang Lishan said the best news in terms of Shaoshan's development last year was the Central Government's decision to build the county as a nationalism education

base under something called the "No. 1 Project." The other two places on the project list are Jinggangshan, the location of the Communist Party's outpost against Kuomintang suppression in the 1920s and 1930s, and Yan'an, the Communist Party's headquarters in the 1930s and 1940s.

According to the campaign, which began last December, by the end of 2007 the government will have invested 290 million yuan, including 236 million from the central trea-

sury, in building and renovating Mao memorial facilities and improving the infrastructure in the tourism zone. Last November, the Hunan Provincial Government also issued an outline to make Shaoshan a so-called model county of a "well-off socialist society" in the next five years by investing 100 million yuan in the area every year.

"Honestly, it is difficult for Shaoshan to develop fast by relying solely on its own strength," Huang said. He explained that the county has no heavy industry and recent years have seen the decline of the state-owned economy as many factories went bankrupt or were bought by individuals. "After all, it is the common hope of all Chinese people to see prosperity in Mao's hometown," he added.

In May, the Shaoshan Government launched a campaign of "jointly developing Shaoshan," inviting leaders from 29 big cities from across China to make an investment in or donation to Shaoshan with the goal of building a "well-off society." Thirty million yuan was collected, Huang said.

However, he added that Mao refused similar initiatives when municipalities and provinces volunteered to help with Shaoshan's development in the 1950s. "He loved his hometown, but didn't want it to enjoy privileges because of his status," Huang said. ■

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RED CAPITALIST

A life changed by a chat with Mao



REMEMBERING THE HELMSMAN: Tang Ruiren says Mao should take the credit for her happy life

By LI LI

Tang Ruiren, 76, a peasant-turned-restaurateur, has led a charmed life. The founder of Mao Jia Restaurant Development Corp., with 145 franchise restaurants in 20 provinces, she heads an empire that employs 20,000 people and last year paid more than 60 million yuan in taxes. What's so special about her restaurants? Mao Zedong's favorite dishes.

The restaurants serve such recipes as *huo bei yu*, or bitter-tasting fish baked with chili pepper, which Mao touted as helping people to think only about revolution, and *hong shao rou*, or braised fatty pork—Mao said that only by eating fatty pork can he get enough nutrition to his brain to win the battle.

Tang, who opened her first restaurant in 1987, has tied her legendary business success to New China's founding father.

She often thinks of June 25, 1959, the day Chairman Mao paid a visit to Tang's family home, which overlooks the pond where Mao learned to swim and beyond it the old residence of Mao's parents. She recalls that in a short conversation with Mao, the leader asked about her hometown and the name of the baby in her arms, her first-born son. Mao jokingly said, "I should call the baby uncle according to family hierarchy. The friendship between two families has run across generations."

In Chinese villages, traditionally everyone is somehow related, all of them descendants of the same family. Tang's baby son was Mao's uncle. According to Tang, the midwife who attended to the birth of Mao was the grandmother of her husband.

This meeting in the village of Shaoshan, in Hunan Province, resulted in a sort of overnight fame for Tang. A photo of a grinning Mao sitting with Tang's family appeared on a poster that for a while decorated millions of homes around the country. People knew Tang only as a member of a farmer family the Chairman took time to inquire about and pose with for a photo.

The brief meeting inspired Tang in her entrepreneurship half a century later. In 1984, Tang became the first private business owner in Shaoshan by selling *zhou* (a porridge-type dish also known as congee, its Cantonese name) to visitors of Mao's old family home. She said her intentions were to treat "Mao's guests," the visitors to his former residence, as well as to make money. Her initial investment in the restaurant was only 1.70 yuan, or \$0.21.

It was not until 1987 that Tang had enough money to start a restaurant at her own house. To name her restaurant, Tang went to Beijing to seek suggestions from Wang Shoudao, Mao's former secretary who was also from Hunan Province. Wang suggested the name of Mao Jia Restaurant, or Mao Family Restaurant, and wrote it in calligraphy for Tang. This reconnected Tang's business with the legendary leader 11 years after his death.

When asked what motivated her to travel 1,600 kilometers to Beijing just for a name, she said with a sly smile, "I was just that clever."

Tang's business sense and hard work brought her rapid success. With its prime location less than 500 meters away from Mao's childhood home, and the Mao ambi-

ence created by stories connecting the restaurant with the man himself, centering on the 1959 encounter, the business took off.

In 2004, Mao Jia Restaurant Development Co. ranked 23rd among the top 100 catering companies in China, according to a survey released by the Ministry of Commerce and the China Cuisine Association.

But despite this success, the matriarch of this business empire says she has no money. "Why should I have any money?" Tang asked. "I used to be a beggar. I am illiterate and too old to do any work." She said that all the money the restaurant earns still belongs to her customers, and she wants to find the best way to give the money back to the people.

"I never forget that after writing out the name of my restaurants, Wang Shoudao told me three things to do so as not to fail the name," said Tang. "The first thing is to treat the customers well, whether they have money to pay the bill or not; the second is to make contributions to the country and the third is to care for the youth."

Tang has been trying to fulfill the three rules over all these years. She set up an education foundation, which so far has sponsored over 500 children to finish their schooling. She is proud that four of the children she supports are starting university this year. "I love children and it is important for them to be educated, unlike me," Tang said.

Due to a poor childhood, Tang never went to school. Although she taught herself how to read later in life, she can still only write seven Chinese characters—her name and that of her company.

Among the charity work she does, she has financially helped dozens of orphans, donated tens of thousands of yuan to build a paved road for a local school and employed handicapped people and laid-off workers at her company. She said she can't calculate the exact figure of the money she has donated to charitable causes.

Tang said she felt happy after receiving a spoken guarantee from her children, who will succeed her as president of the company, that her path of devotion to education and charity work will be continued after her death. "I ask them to be sophisticated, diligent and patriotic," she added.

She recalls that in 1953 Mao took a swath of cloth out of his own pocket and gave it to Tang's family. She got part of the cloth to make a new shirt, a luxury for Chinese people at that time.

"Chairman Mao is a great man who had six of his family members die for the cause of liberating the people," said Tang, who continues to both revere his memory and benefit from it, and refuses to criticize Mao's legacy. "I know there were bad things said about him, but I don't give a damn." ■

INTERPRETING MAO

Thirty years ago, Chairman Mao Zedong died in Beijing at the age of 83. On the occasion of the September 9 anniversary of his death, *Beijing Review* asked scholars to discuss the legacy of the most legendary state leader that modern China has ever seen. **Merle Goldman**, Professor Emerita of History at Boston University and an associate of the Fairbank Center for East Asian Research at Harvard University, **Thomas Paul Bernstein**, a political science professor and member of the Weatherhead East Asian Institute of Columbia University, and **Yang Kuisong**, a history professor at Peking University, shared their opinions with *Beijing Review* reporters Wang Yanjuan and Chen Wen in New York and Li Li in Beijing.

What aspects of present China do you think are a result of the years under Mao?

Goldman: I think that China's high rate of literacy, the rise in the position of women, improved health care and the beginning of the building of a modern infrastructure were due to the leadership of Mao and the Chinese Communist Party.

Bernstein: When one goes to China, you will see a remarkable amount of admiration for Mao. Among ordinary people, like the taxi drivers, they often keep a portrait of Chairman Mao. People say he was tough, and he managed to unite the country and he eliminated foreign influence on China.

Yang: Mao's influence still can be seen everywhere in China, from the jumbo sculptures in many city squares, airports and colleges to the portraits decorating the walls of the farmers' homes in poverty-stricken areas. Many of China's social problems today can find their source in Mao's era, such as the severe inequality between cities and rural areas and the harsh criticism on the Internet over the yawning wealth gap.

How do you view Mao's role in founding the People's Republic of China in 1949 and why could Mao achieve this success? What do you think Mao brought to the Chinese people?

Goldman: Mao had the strategy to reunite China after 60 years of disunion by the use of military force and attention to the needs of the farmers.



Merle Goldman

COURTESY OF MERLE GOLDMAN

Bernstein: He was a great state builder and a person who was chiefly responsible for China's standing up—recovering its place as a power that had to be taken seriously, even though it was still a weak country, but a country very different from the one before 1949. That's his greatness.

He had the determination to forge ahead and transform China, making it an industrialized nation and implementing all the socialist and communist ideals. But he did it at a sharply accelerated pace. The original idea was to maintain new democracy for maybe 50 years before moving ahead into socialism and to lay a solid foundation for the socialist transformation. I think a lot of people in China, intellectuals, regret the fact that the new democracy had such an abbrevi-

ated life, you know, the socialist transformation was class struggle and the ending of the private sector, and came much too early and much too abruptly. I think China should have taken a much more gradual road.

Yang: As the founding father of the People's Republic of China, Mao was the only Communist Party leader who dared to use military tactics and to change the scheme of class struggle at will to defeat the enemies. Although he managed to destroy an old world, he failed to construct an ideal new world. His mistake lies in clinging to the experiences of class struggle in guiding the social transition and reconstruction. The aftermath is that people fell into the mire of political struggles after the brief excitement of peaceful development.

How does he continue to influence Chinese politics today?

Bernstein: The interesting thing about Mao is that he had this utopian side—transformed new men and women, unselfish society and things like that. And then he had a very realistic streak. I think over time, the utopian aspect prevailed over the realistic aspect, and the Chinese people paid a great price for that. But when he was in his realistic mode, he understood that you can't get along without material incentives; you can't get along without improving people's standard of living.

I think there are a lot of negative lessons that his successors have learned. Class struggle has its limits; it may be good for the takeover period, in a time when you have landlords and counter-revolutionaries around, and this permanent labeling creates a kind of caste: outcasts. Constant campaigns are too destructive to orderly growth.

One can take his works and find very sensible things. You can pluck out the sensible things and study those. But that of course isn't the whole Mao. You can use them today but you're not really using the full Mao; you're only using part of him.

Yang: The influence is mainly spread by the governing Communist Party of China, which publicizes an ideology glorifying Mao through media and education. Meanwhile, Mao's theories on egalitarianism and class struggle are still latently affecting many people's minds.

Mao is widely noted for starting the revolution from the countryside. ►►

How do you think the drastic effect Mao had on rural China is playing out today?

Goldman: First of all, he and the Communist Party had the strategy to unite China after 50 to 60 years of disunion; that was very important. Second, he and the Communist Party provided an education for a whole younger generation. That means that today's China has a literacy rate of close to 90 percent. Remember this is a country of 1.3 billion people, but with a very high literacy rate. Third, he raised the position of women. [It's] very important in trying to understand what's going on today.

Mao and the Communist Party began building the infrastructure in this period. And finally, and maybe just as important, the health care of the Chinese—China had a life expectancy of that of a developed country, even though it was a very, very poor country. And we made fun of those barefoot doctors who went from village to village. But they did something very important; they went into the villages, they cleaned up the water, they gave injections, they moved on. But China's life expectancy certainly was very much prolonged.

So when Deng Xiaoping came to power in the late 1970s and began the economic reforms, he had a literate, healthy population that's ready to respond. And I think those factors are very important in understanding what happened.

Yang: Mao used to be the savior of poor farmers in China. Meanwhile, due to his blind worship of the Soviet Union



Yang Kuisong

COURTESY OF YANG KUISONG

model, Mao regarded farmers and their private land as potential threats to realizing Soviet Union-style socialism. He also believed that industrialization should be based on the sacrificing of farmers' interests. Thus, through the implementation of the commune system for land ownership and the *hukou* [residence registration] system in the 1950s, farmers were put in a disadvantageous position again. Although today farmers have regained the right of free migration, compared with city residents, they are still victims of Mao's policies

The Chinese people say, in the words of Deng Xiaoping, that Mao was 70 percent good and 30 percent bad. Do you think this legacy will evolve in the years to come?

Goldman: When I teach my class I evaluate Mao as 30 percent good and 70 percent bad. The 30 percent are the points I made above—the strategy for uniting China, providing universal education, health care and raising the position of women. But then Mao persecuted the intellectuals whom he needed to modernize the country; he carried out the Great Leap Forward campaign in the 1950s, and launched the Cultural Revolution (1966–1976), which undermined the earlier reforms and caused chaos, disunion and bloodshed.

Bernstein: I don't think one can put percentage terms on it. I don't think these percentages are meaningful. Given the disasters of the Great Leap Forward and the Cultural Revolution, if any percentage, I would say 70 percent bad and 30 percent good, simply because they set China back

so much. Mao had heavy responsibility for this. That weighs very heavily on the evaluation of Chairman Mao.

Yang: Deng's judgment is regarded as the most accurate by the Communist Party. The successive Party leaders believe they are entitled to inherit the statesmanship of Mao without needing to bear his mistakes. They know that any campaign criticizing Mao, like Khrushchev's indictment of Stalin in 1956, would invite trouble for themselves. Therefore as long as the Communist Party is the governing party, Deng's judgment over Mao will be stuck to.

What do you think is the main legacy of Mao?

Bernstein: Despite the disasters of the Great Leap Forward and the Cultural Revolution, Mao did lead a much stronger country that had economic and military achievements. I don't know how the Chinese people really feel; it's hard to gauge.

There is another aspect of Mao that one needs to take seriously. When you compare Mao with Stalin, Stalin pretended to have a well thought-out ideology, to be an innovator of Marxism, but Mao really did think about fundamentals of socialist and communist development. The result was terrible, but in the mid-1950s, in the Anti-Rightist Campaign, Mao made his "Contradictions Among People" speech. I think this is still a guiding principle for China today. There are interest conflicts in China among the people as well. There are not necessarily contradictions between people and enemies among the people. Now there are more and more conflicts in China. Mao recognized that at a very early stage. I think he was the first one in the communist camp to recognize that. Mao knew the contradictions between farmers and workers, between Han and minorities, between towns and cities, between heavy industry and light industry.

Yang: The most important legacy of Mao is the regime that continues today. The regime has achieved unification of the country, which previous governments had failed to do for a long time.

Another important legacy from Mao is the failed egalitarian ideals and practices. Although Mao's try in this regard ended up a total failure, it still was the utmost attempt to pursue equal distribution in modern history. That still recalls Mao and Mao's era to many Chinese people. ■



Thomas Paul Bernstein

NEW NEHD



ON HIGH: A painting depicting Mao Zedong launching workers' movements in the 1920s is on display at an exhibition showing art from the era of Mao last year in Guangzhou

MAO NOW

With his legacy in flux, some Chinese people are appropriating the life and words of Chairman Mao to meet the challenges of modern life

By TANG YUANKAI

His face is no longer ubiquitous in China, but it remains by far the most recognizable. The image of the Great Helmsman, Mao Zedong, is the only one on the country's currency. A massive portrait of him still hangs over Tiananmen Gate, 30 years after his death.

Yu Hai, 38, a basketball teacher at a Beijing middle school, says even his 3-year-old daughter knows who he is. As he put away old magazines recently, he found one with Mao's portrait on the cover. He asked his daughter to guess who the man was, and the toddler answered "Chairman Mao," to the surprise of Yu, who hadn't even taught her about him.

Despite this, Yu said that most children of his daughter's age or a little older are able to recognize banknotes, but not the face on them. "I think my generation, the same with my father's generation, holds an inborn reverence of Mao," said Yu, who was a child when Mao died and couldn't understand how such a deified man could pass away. When Yu was young, he and his friends

would swear on Mao's name as if it were that of God.

Countryside connection

Chen Fang, a 53-year-old professor at Renmin University of China, buys old copies of Mao's selected works at the Panjiayuan antique market in Beijing. In 1967, the second year of the Cultural Revolution (1966-1976), the city-born Chen was sent to work in the countryside according to Mao's instructions.

Although it took Chen time and grueling effort to escape from the countryside, he refuses to criticize Mao. Chen insists that Mao's initial intention of sending young people to a harsh environment to refine their temperament remains correct.

During those days in the countryside, Chen had nothing to read but Mao's little red book, *Quotations from Chairman Mao Tse-tung*. "I practically grew up reciting Mao's sayings and Mao's thinking has always been my source of spiritual strength," Chen said that although he isn't wealthy, he holds a positive attitude toward life in spite of setbacks and difficulties,

thanks to the encouragement of Mao Zedong thought, once a mandatory part of daily life for many Chinese.

Mao, the son of a prosperous farmer family, was known for having a special relationship with the Chinese farmers. He started his revolution by cultivating a farmers' movement in Hunan, his home province. Subjects of his early revolutionary doctrines include dividing land among farmers and taking over the regime by first storing strength in the countryside.

"Mao sincerely hoped that all Chinese people could live a happy life, although the actual situations went against his will," said Chen, adding that nowadays Mao is still the most popular among the farmers, many of whom face growing hardship. "Through holding memorial activities for Mao, the farmers hope the gap between urban and rural areas will narrow."

"Mao realized that farmers are revolutionary forces and called on the public to fight against bureaucracy. This is how Mao tried to awaken the democratic consciousness," said Zhang Tianguang, 40, a freelance playwright. ▶▶

As a student at the Shanghai University of Traditional Chinese Medicine in the 1980s, he was a firm believer in Western democracy. He said he changed his mind later in life after studying Mao's works. "I admire his saying that rebellion is fully justified," said Zhang. Different from the Red Guards during the Cultural Revolution, who understood it as encouragement for violent destruction, Zhang interpreted the line as, "the people's request for liberation is sensible." Zhang sees it as the localization of Marxism by Mao.

Mao as business guru

Ren Zhengfei, the founder of major Chinese telecom equipment provider Huawei, said he reads Mao's works for "the spirit of rebellion," which he believes is important to his company's innovation and development. The nascent company once had to compete with such well-established foreign brands as Alcatel and Lucent, which had dominated the Chinese market for years.

Ren successfully directed the company to grab market share by adopting Mao's military tactic of "using the countryside to encircle cities." He said he even uses Mao's theory of criticism and self-criticism at staff meetings.

Zong Qinghou, founder of homegrown soft-drink giant Hangzhou Wahaha Group, is also a loyal believer of Mao's idea of "using the countryside to encircle cities." This is how he developed his company, by first occupying the market of rural areas. Future Cola, a carbonated drink the company designed for the domestic market, has broken the monopoly of Pepsi and Coca-Cola since its launch in the late 1990s. Zong's management style is quite bossy, which he admitted is "learned from Mao."

The founder of computer giant Lenovo, Liu Chuanzhi, also borrowed Mao's style in managing his company. He once said half-jokingly, "Legend has its commercial secrets, but not to those who understand Mao's theories."

Even some up-and-coming Chinese entrepreneurs, who didn't experience the Cultural Revolution, are looking to Mao in their business dealings.

Chen Tianqiao, 33, CEO and cofounder of Shanda Interactive Entertainment Ltd., was listed as the richest man in China for running the country's most successful online gaming company. He wrote an article on company management that mimicked Mao's style of language.

Top Shanda executive Tang Jun, former president of Microsoft China, is yet another admitted fan of Mao. He once organized all

employees of his company for a package tour to Jinggangshan, location of the Communist Party's outpost against the Kuomintang in the 1920s and 1930s and now a nationalistic tourist site. Chen Tianqiao said one of the reasons he hired Tang to be the president of Shanda was that they had a common affinity for Mao.

However, Tang Can, a researcher for the Chinese Academy of Social Sciences, said that younger people worship Mao only as an idol, different from the total devotion to Mao of the previous generation.

Young people tend to like Mao for his



RED COLLECTOR: Zhang Yuhuai, a retired worker from Tianjin, has collected over 100,000 Mao Zedong badges and over 1,000 Mao portraits since 1978

rebellious and defiant spirit. Tang Gang, a university student from the western city of Xi'an, said, "He was a man of strong will and feared nothing, which was part of American journalist Edgar Snow's conclusion about China's future half a century ago."

Mao's charisma also makes him interesting to university students. "Mao's sayings are deep as well as colloquial and vivid," said Han Tian, a Peking University student. Han gave an example: "When Mao talked about the role of heavy industry in the country's development, he used vivid metaphors—If the economy is a human body, agriculture is one fist, military defense is the other fist; to punch your enemies hard, you need to steady yourself, and that is the role of heavy industry."

"Mao's emphasis on patriotism is an important reason why he led the Chinese revolution to victory. But this revolutionary movement failed to overcome patriarchal traditions in Chinese culture later in his life, which fuels the unfavorable personal worship and abuse of power," said a university teacher who refused to give her name.

Image overhaul

Mao's image has gone through several transitions since his death, starting officially in China with *Mao Zedong Man, Not God*, a book first published in 1989 that brought

him down to the realm of the people after being viewed for years as a god-like figure.

According to Gao Hua, a history professor at Nanjing University, there is a new wave of commemoration of Mao, related to social realities such as the widening gap between rich and poor. He said that against the background of a large number of workers being laid-off from state-run companies and the collapse of the social welfare systems in cities, as well as skyrocketing costs for health care and education, people left behind by China's reforms are nostalgic about Mao's era.

Gao said that some people have a selective memory of Mao, screening out such events in the later years of his rule as the Great Leap Forward and the Cultural Revolution, and taking Mao as a token of social justice to express their dissatisfaction over the current reality.

Zhang Suhua, a historian who studied Mao's life and works for 27 years, has summarized four reasons why Chinese people have a lasting interest in Mao. First of all, she said, Mao's status as one of the founding fathers both of the Communist Party and of the country is prominent and unique. The adherence to Mao's way of thinking has been written into the Constitution and the Party Constitution.

Second, Mao is a complicated figure, whose life involves great historical achievements and severe mistakes. "People are intrigued by the evaluation of such a controversial figure," she said.

Third, he used to be glorified and restoring him into an earthly man involves a lot of work and debate. Fourth, she added, Mao is a man of great wisdom and reflects an entire epoch. Studying Mao's successes and failures is still meaningful for today.

"When studying the failures of Mao, it is important to distinguish those caused by the system, those by his shallow understandings of socialism, those by his miscalculation of the situation and those by his personal reasons," Zhang said.

Professor Gao regards Mao as an important historical phenomenon worthy of reflection and study by future generations. "Mao's phenomenon is the outcome of China in a transitional period, from an imperial country to a republic. At the turn of the new century, China is facing new challenges, which requires new thinking and new systems," he said. "So all the reflections on Mao should be future-oriented." ■

CORRECTION: *Beijing Review* misspelled the name of a "super girl" in its No.38 issue published September 21. The error appears in the left column of page 20. The correct spelling should read Shang Wenjie. *Beijing Review* apologizes for the error.

BACK TO SCHOOL INC.:
The New Oriental Education & Technology Group Inc. is recognized as the first Chinese school to be listed



Enriching Education

“IPO” and “education” are two different animals, but they’re beginning to cohabitate in China and hopefully will procreate smarts

By LAN XINZHEN

When the Beijing-based New Oriental School’s parent company went public in New York on September 7, it essentially nullified the oxymoron “rich teacher.”

On the first day of New Oriental Education & Technology Group Inc.’s IPO when its share value rose by 46.7 percent to close at \$20.88, its educators, encouraged to invest, found that teaching is indeed a rewarding experience.

“Stimulated by people’s craze for learning English and going aboard, the New Oriental School grasped the opportunity

and made a fortune out of it,” said Gu Mingyuan, a professor with Beijing Normal University.

The New Oriental School is an extreme example of school privatization in which a school isn’t public—it goes public.

But in a country that prizes education, many Chinese wonder whether schools so obviously interested in profit can do a proper job with their youth.

The successful IPO of the New Oriental has shown the country that private education can be industrialized. But should it?

Aye for school IPOs

Founded in 1993, the New Oriental School offers a wide range of educational

programs, services and products consisting primarily of English and other foreign language training, test preparation courses for major admissions and assessment tests. By the end of May this year, the New Oriental School had trained more than 3 million students and established an extensive network of 25 schools, 111 learning centers, 13 bookstores, and 1,700 teachers in 24 cities. The school’s virtual online network has approximately 2 million registered users.

But perhaps the most impressive is its recent IPO.

On that day, Yu Minhong, founder and president of New Oriental School, saw his assets soaring to \$200 million overnight based on owning 31 percent of the stocks. As the New Oriental School also encourages its teachers to buy its shares, many of them also have become rich.

For all the attention New Oriental got for its IPO, Yu remains a cool cat.

“I don’t know how much pressure I should bear at the present stage,” he said. “If I fail in the future, the New Oriental will be included as a negative case in MBA classes.”

He has a reason for confidence: The IPO isn’t just a get-rich-quick scheme. Many believe it has solid grounding.

"The biggest benefit of the listing is that the school can collect much more money for its development," said Sun Baoquan, professor with Beijing Geely University. "It is very inspiring for China's money-thirsty private schools."

According to statistics from the Ministry of Education, by 2005, there were altogether 86,200 private schools and more than 29,000 private training institutions around the country.

These statistics indicate that the number of China's private educational institutions is not small.

"However, their scale is mostly small with limited development potential due to a shortage of money," said Sun.

From 2002 to 2005, many of the private schools stopped operation as their teaching equipment was insufficient and could not meet the requirements of the Ministry of Education.

Under such circumstances, many private schools and sociologists call for government fiscal support.

But Yu insisted that the only way out for private schools is industrialization.

What is industrialization? Yu explained, "Industrialization means to earn more money from the market to stimulate the development of education."

And seeking development is what New Oriental does. Reportedly, its goal is to jump out of the niche market of English training to degree-based education. The New Oriental School also plans on forging an entire educational chain that would include the links of kindergarten, primary school, middle school and even higher education.

Copycats are beginning to turn up too, as reportedly the Beijing-based 101 Distant Learning Center is taking on the project of being listed.

Government is good

Li Yumei, a teacher with the Beijing No. 15 Middle School (a public school), has given some thought to the listing effort of the New Oriental School.

"Our final conclusion is that we are different from the New Oriental School, and we have got different objectives in education," Li Yumei said. "We shoulder the responsibility of conducting compulsory education and are funded by the government. The New Oriental School, however, is a private school and earns money from education."

Regardless of New Oriental's successful listing, the fact is that most teachers in China like Li will remain without shares in their schools.

"The New Oriental School's IPO is just an individual case," said Gu Mingyuan, professor with Beijing Normal University. "It doesn't necessarily mean that once it is listed, all of our

education segments should be listed, which is incoherent of our actual situation."

Basic education in many regions is far from sufficient, Gu said. The biggest problem is the shortage of educational funds, and some village schools do not even have public-school funds. Some schools owe salaries to teachers. The heavy economic burden on students' parents has resulted in a considerable number of dropouts. Currently, the number of adult illiterates, above the age of 15, reaches as high as 100 million.

"A sad truth is that many cannot go to

industry." As a result, many educational institutions treated education as an industry, which directly led to various arbitrary charges such as epidemic prevention fees.

In 2003, the government identified altogether 853 million yuan of arbitrary charges, punished 2,488 offenders, and 359 headmasters were fired. But in 2004, the National Bureau of Statistics revealed that arbitrary charges were still prevalent in 50 counties it had investigated.

In 2005, the Chinese Academy of Social Sciences issued the Blue Book of China's



SOCIETY FRIENDLY: While earning enormous money from the education market, New Oriental pays back society by establishing free community training classes

school because of poverty," said Gu. "Therefore, at present, special attention should be focused on the development of basic education."

Beginning this year, the Chinese Government decided to implement completely free compulsory education in rural areas.

Luo Yan, lecturer with Tsinghua University, pointed out that government-funded free compulsory education in rural areas can guarantee the implementation of basic education, while industrialized education could lead to more poor dropouts if schools tried to make money off of them.

The Chinese educational circle had once questioned whether education should be industrialized as they had seen that many schools posed arbitrary charges on students.

Still, in 1998, the Chinese education brass reached a consensus that "education is a public product and can have features of an

Society, which revealed that many students dropped out of school due to poverty.

The Chinese Ministry of Education itself has taken some measures to curb school industrialization, announcing that schools should not be industrialized.

However, the ministry, adopting a "non-intervention" attitude toward private schools, did not prevent their industrialization effort. It has become a hidden rule that public schools should not be industrialized but the private schools can.

"When the country lacks sufficient educational funds, it is beneficial to develop education in an all-around way," Gu said.

Middle school teacher Li suggests a compromise.

"The government's investment can guarantee the input of basic education, while the market can make sure that private education can get enough money," Li said. ■

A Foreign China

Having grown up on FDI, China now is weighing down its ability to cut loose and cultivate domestic enterprise

By LAN XINZHEN

This is not your father's China. Compared to state-monopolized industries of yesteryear, China has come a long way in attracting foreign investors. But in doing so, it appears to have given away control of major industries.

In every one of China's industries open to other countries, the top five enterprises are actually controlled by foreign investors, according to new survey results. And among China's 28 major industries, 21 have most of their assets controlled by foreign investors. The survey results, revealed by the Development Research Center of the State Council, shocked Dr. Shi Weigan from the Institute of World Economics and Politics, Chinese Academy of Social Sciences (CASS).

"It's time for the country to readjust foreign capital inflow in China", said Shi, in an essay.

Beyond Shi, quite a number of economists feel anxious and uneasy about the increasing share of foreign capital in China's economic activities. They are afraid that dominant positions of foreign companies will do harm to China's economic security.

In fact, the Chinese Government is working on just such a readjustment.

In July, measures limiting foreign investment in industries like real estate and steel and its acquisition of Chinese enterprises were issued. For example, foreigners are only allowed to buy one apartment in China. Foreign currency in foreign institutions' special accounts is banned from investment in Chinese real estate. And foreign investors are required to apply for approval with the Ministry of Commerce if their acquisition will or is likely to impose a negative impact on China's economic security.

The Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises that came into effect in September also put forward clear regulations—including limitations on foreign investors' takeover of Chinese enterprises.

But are such measures enough? Can



NOT SO MICRO: In April 2006, the "Microsoft Innovation Day" is held in China. Currently, most computers in China are equipped with the Microsoft operating system

domestic companies come into their own, rising to the top of industry? And what practical solutions are there to make this happen?

Too controlling

As early as December 2005, the China Economic Monitoring Center of the National Bureau of Statistics reported that the five top elevator companies, whose manufacturing accounts for more than 80 percent of the country's total elevator production, have had their shares controlled by foreign investors.

Further, among the country's 18 national-level electrical appliance makers, 11 are now operating in the form of Sino-foreign joint ventures; China's cosmetic industry is under the control of 150 foreign-funded companies; 20 percent of the country's pharmaceutical industry is at the hand of foreign investors; and 90 percent of the sales of the auto industry can be attributed to foreign brands.

The list goes on ad nauseam.

This situation will likely not change for the time being as foreign investment plays an important role in China's economy.

"On one hand, the influx of foreign investors will stimulate market competition in China and promote the improvement of corporate management and technical level of Chinese enterprises, leading to the effect of technical overflow," said Wei Houkai, a researcher from Institute of Industrial

Economics, CASS. "On the other hand, enjoying such advantageous intangible assets as technology and management skills, foreign investors are evolving into manipulating forces in the Chinese market."

According to statistics issued by the United Nations Conference on Trade and Development, in 2005, China attracted \$60 billion of direct foreign investment (FDI), ranking third in the world, next only to the United Kingdom (\$219 billion) and the United States (\$106 billion).

Favorable policies aiming to attract foreign investment began to appear in the early 1980s during the early stages of China's market reforms. Today, the average tax rate for Chinese companies ranges from 22 percent to 24 percent, while that for foreign companies is only between 10 percent and 13 percent.

By July 2006, China had accumulatively absorbed FDI of \$655.1 billion, which greatly contributed to the growth of the Chinese economy.

"However, when a large part of major Chinese industries' share holding is in the hands of foreign companies and when quantitative changes are likely to result in qualitative changes, there is the potential to see serious conflicts and problems in the coming days," said Wei.

First of all, the competitiveness of the Chinese economy will decline, Wei continued.

By now, Coca-Cola has grabbed over 70 percent of China's soft drink market and in large and medium-sized cities, foreign chain supermarkets have snatched 80 percent of the market share.

If such a trend continues, the whole Chinese market is likely to be gradually taken up by foreign investors, Wei said.

Second, problems are looming in the country's industrial security, he added.

Consider this: Import and export volume accounts for 60 percent of China's GDP, FDI amounts to 10 percent of the GDP and 40 percent of its basic energy depends on imports; while the country only has 4 percent of independent intellectual property rights.

As foreign capital has controlled a high rate of core industries, China, a developing economic power, is doomed to face severe problems in industrial security, according to Wei.

Nevertheless, he said, China should keep absorbing foreign capital, which is an important part of China's reform and opening-up policy. Instead of blocking foreign capital inflow, China should try to guide or restrict the investment scale in certain areas through policies, he said.

As Liu Changquan, a researcher from CASS, has pointed out, so far, all over the world, no country risks exposing all its economic areas to foreign capital. In some important industries, obstacles and legal

restrictions are imposed on foreign capital. In spite of differences in specific details, all countries share some practices in common: First, unfair competition laws and anti-monopoly laws are used to prevent the foreign investment inflow.

“If China fails to adjust its policies on foreign investors in a timely manner and does not exert necessary restrictions over foreign investors’ merger and acquisition of Chinese industries, disastrous results are expected to come,” said Liu.

Liu suggested that foreign investment be absorbed in a selective way and attention should be paid to two important aspects.

First, China should raise the threshold for foreign investment to allow those with the most advanced technology in the market and keep those with lower technological abilities at bay.

Second, China should try to absorb foreign investors in the fields of research and development, design, branding and key machinery parts.

The monopoly misinterpretation

Dominating, perhaps, but foreign investment isn’t monopolizing any industry, according to China’s Ministry of Commerce.

True, foreign investors have grabbed a large share of the market in some sectors, but this does not mean monopoly, said Wang Zhile, Director of Research Center on Multinational Corporations of the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce. Foreign companies involved in the same sector also compete against each other, so it’s unwise to treat all the foreign investors as an entity that is trying to wrestle market share from the Chinese com-

panies, he said.

Besides, he said, a large market share is only one of the conditions for monopoly. Monopoly occurs when a competitive entity tries to hinder others from becoming its rivals by making use of its dominant role in the market. So to judge whether a company is practicing monopoly, it must be determined whether this company is restricting free competition through its predominance in the market, he said.

“Our survey shows that foreign investors possess an absolutely high proportion of market share in certain sectors, but monopoly is not what’s happening yet,” Wang said.

Wu Yi, Vice Premier of China’s State Council, indicated in early September that although among the world’s developing countries, China is the biggest receiver of FDI over the past 15 years, the proportion of per-capita FDI remains low, and in this sense, China’s foreign investment absorption is below the world’s average level.

Tax reform

One way to clean up the foreign over-investment may be through tax reform.

Shi Weigan from the CASS believes that 20 years ago, foreign capital was badly needed to fill the country’s domestic reserves and to learn advanced technology and managerial experience. At that time, most products manufactured by foreign investors were exported to the overseas market.

However, today, these investors believe China has already evolved from a low-cost production center into a burgeoning big market, so their products mainly target the Chinese market instead of the international market.

“If they mainly work for overseas market, it’s acceptable to grant them certain favorable policies, as it is helpful to China’s employment and taxation, but the truth is nowadays, most foreign companies produce and sale in China, so why should they enjoy better policies than our domestic enterprises? It’s unfair to the latter!” Shi said.

The Ministry of Finance is working on a solution for the much-disputed problem of unified taxation of both Chinese and foreign companies and relevant policies are due out in two years.

But the answer isn’t just reforming the tax system. It’s creating a fair competition environment, said China’s National Development and Reform Commission spokesman Li Pumin.

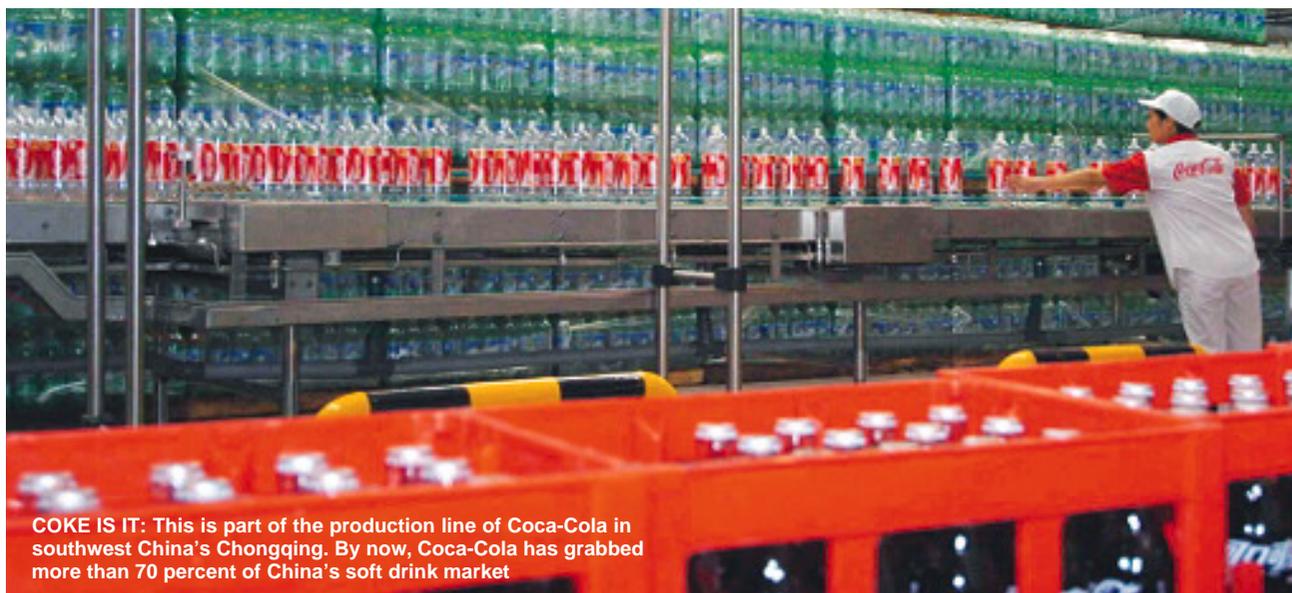
“A fair environment in these industries should be created for Chinese and foreign companies,” said Li.

Nevertheless, without favorable policies for foreign companies, foreign investors may retreat. Already, there is concern within the European Union, for example, that China is beginning to support “economic nationalism,” as stated in a position paper released September 5 by its chamber of commerce here.

“Members would like to see China achieve its domestic goals in an open market environment and not through increased protectionism,” the paper said.

If foreign investors began retreating in droves, their capitals’ dominance in the Chinese economy would weaken, but the economic growth rate would also slow—something desirable if considerable, said Li.

So control, monopoly—whatever you want to call it—of Chinese industry by foreigners will likely continue for some time. ■



COKE IS IT: This is part of the production line of Coca-Cola in southwest China’s Chongqing. By now, Coca-Cola has grabbed more than 70 percent of China’s soft drink market



Teaching Vacancies:

Sichuan Education Association for International Exchange, an

organization administered by the Education Department of Sichuan Province, works as an agent to help schools in Sichuan recruit qualified ESL teachers from English-speaking countries, and help schools both at home and abroad establish exchange programs. If you're interested in teaching in Sichuan, we are the first to be contacted. Email jimluo_cd@yahoo.com.cn, or call Luo Hong at 86-28-89833627.

Xi'an Jahoo International School (XJIS) is seeking kindergarten, science, math and ESL teachers for the 2006-07 academic year. XJIS, an international school, currently has students from 15 countries. Applicants should have at minimum a bachelor's degree, a teacher's license and teaching experience, and ESL experience is preferred. Annual salary begins at 77,000 yuan to be paid monthly, with increments for advanced academic degrees, years of teaching experience, ESL certification and overseas teaching experience. XJIS offers fully furnished (including TV, DVD player, microwave, etc.) and rent-free apartments, basic medical and accident insurance, roundtrip airfare reimbursed upon expiration of contract, and bonus equal to a maximum of one month's salary upon expiration of contract. Contact Kevin at dean@jahooed.com.

International Business School, Yanjing Overseas Chinese University, located in Fengtai District in Beijing, is seeking five ESL teachers for this semester. Foreign teachers will mainly teach English writing, reading, listening and conversation. There are no more than 20 students aged between 18 and 28 in one class. The school will offer a monthly salary of 4,500-5,500 yuan for 20 teaching hours per week, in addition to insurance, roundtrip airfare, free accommodation with necessary facilities and a \$1,000 bonus for one-year contract. Candidates should be native English speakers aged under 60, from the United States, UK, Australia, Canada, New Zealand or Ireland, with a bachelor's degree or above and a half-year teaching experience at least. Please contact at sticker_bi125@yahoo.com.cn for more details.

Wenzhou Foreign Language School, located in Wenzhou City, Zhejiang Province, is seeking ESL English teachers for this semester. There are only 20-25 students every class. The school offers a monthly salary of 5,000 yuan for 16 teaching hours a week, in addition to roundtrip airfare and free accommodation with necessary facilities. Candidates should be native English-speaking teachers from the United States, Canada, UK, New Zealand or Australia. Experience and degree preferred but not required, enthusiasm and positive attitude is essential. Contact at nealyao@163.com for more detailed information.

The Tutoring Center for International Students, located in

Dongguan City, Guangdong Province, is recruiting ESL teachers now. There are only three to eight students in a class, with most of them coming from South Korea. The school pays 10,000 yuan per month for 22 teaching hours a week. Roundtrip airfare is offered after one-year contract. Candidates should be native English speakers from the United States, Canada or UK, with a bachelor's degree at least or TEFL/TESOL certificates and TEFL teaching experience. Interested applicants can send their resumes to ohseejane@yahoo.com and call 86-20-39737375 to schedule for an interview.

Zhejiang Taizhou Public University is looking for English teachers for this semester. Salary offered is 5,000 yuan per month for 18-20 teaching hours a week from Monday to Friday. The school also provides free accommodations (equipped with TV, kitchen, washer, Internet and bathroom), travel allowance and roundtrip tickets for one-year contract. Candidates should be native English speakers from the United States, UK, Australia, Canada, New Zealand or Ireland aged between 22 and 60, with a bachelor's degree or above. Please send email to Vicki at vickinuan520@yahoo.com.cn for more detailed information.

Jilin EF English Training Center is recruiting foreign English teachers for this semester. Salary offered is 5,000-6,000 yuan per month for 18-22 teaching hours each week. Foreign teachers who teach more hours than required will receive additional payment. The school also provides health insurance, free Chinese courses, airfare for one-year contract and free accommodations with necessary facilities. Candidates are required to be confident, enthusiastic and outgoing, and particularly love teaching in China. Please contact Miss Yang with your resume, a recent picture and copies of any educational and teaching certificates attached at hresljobinchina@yahoo.com.

Sun Yat-sen University, located in Zhuhai City, Guangdong Province, is recruiting ESL English teachers for this semester. The school will provide 7,000 yuan per month for 20 teaching hours per week from Monday to Friday. Other benefits include 900 yuan per month for renting an apartment on campus and one-way ticket for one-year contract. Candidates should be native English speakers aged 22-55 from the United States, Canada, UK, New Zealand or Australia, with a bachelor's degree or above. Contact Jacky at jacky_wu_gz@126.com or Emma at teachingd@126.com for more detailed information.

Qingdao Vocational and Technical College is looking for native English speakers with language teaching qualifications and experience for this semester. Salary offered is 4,000 yuan per month. The school also provides free accommodation and roundtrip airfare for those from the United States, Canada, UK, New Zealand or Australia, with a bachelor's degree or above, TESOL/TEFL/CELTA/DELTA/ICELT certificates and teaching experience. Please contact evita3003@gmail.com for more detailed information.

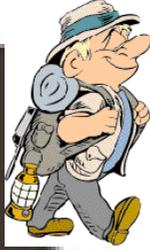
2006 TEFL Training Concluded

The 2006 TEFL training (Beijing and Zhongshan) concluded on August 27. Certificates were issued to students who had finished all the TEFL courses and passed the demo exam at the closing ceremony. Professor Teresa Dalle (the TEFL trainer, Master of Arts in English as a Second Language and Ph.D. in linguistics) and Yi Fanping (General Manager of the China Service International) were present and awarded the certificates. The TEFL training staff also participated in the ceremony.

The TEFL training in China was initially launched in January 2006, sponsored by the China Association for International Exchange of Personnel and the Center for Teaching & Learning in China. China

Services International and Chinajob.com organized the training course. The trainers consist of professors from the United States and UK in the field of teaching English as a foreign language and administrators from the State Administration of Foreign Experts' Affairs. The TEFL training mainly covers: how to teach English in China, how to adapt to the cultural difference and relevant Chinese laws and regulations.

Due to the increasing demand for foreign language teachers in China, the State Administration of Foreign Experts' Affairs noted that TEFL training in China, tailored for foreign teachers who teach Chinese students, is important and helpful to regulate and promote the country's foreign language teaching market.



Jinan of Shandong Province

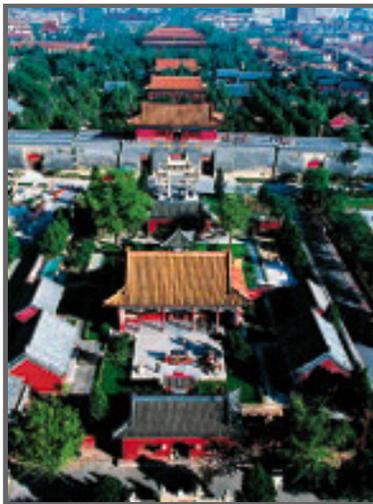
Jinan, capital of Shandong Province on China's east coast, is the province's political, economic and cultural center. Jinan was one of the birthplaces of Chinese civilization. Cultural relics representing the Xihe Culture (7,300-8,400 years ago), especially pottery, have been discovered in the city. Jinan is known as the "City of Springs." Underground streams from Taishan Mountain flow along the limestone strata to Jinan, where they are halted by igneous rocks and spurt out in the form of numerous springs. There are many places of interest in the city.

Thousand-Buddha Mountain

Lying 2.5 km (1.55 miles) to the south of Jinan, the Thousand-Buddha Mountain is one of the key places of interest of the city. It is about 258 meters high and was made into a park in 1959, occupying an area of about 166 hectares. In the early days of the Sui Dynasty (581-618), a great many statues of Buddha were chiseled on the rocks of the mountain and the Thousand-Buddha Temple was built and soon became famous, so the name of the temple became the name of the mountain. There are many scenic spots and historical relics distributed in the mountain. You can enjoy the beautiful scenery all along the way wandering up either on foot or by bus.



Thousand-Buddha Mountain



Dai Temple

Dai Temple of Shandong Province

Located in Tai'an City at the southern base of Taishan Mountain, Dai Temple is dedicated to the God of Taishan Mountain and is the place to perform sacrificial ceremonies to the God of Taishan Mountain.

The history of Dai Temple can be traced back to the Qin Dynasty (221-206 B.C.). The continuous remodeling in successive dynasties made Dai Temple a grand architectural complex.

Covering an area of 96,000 square meters, Dai Temple has an ancient palace architecture. The temple complex is surrounded by a wall almost four meters high with eight gates originally opening to the outside. Now gates at the north and south are still in use. The central north-south axis of Dai Temple is aligned with the mouth of the valley at the base of the mountain.

Dai Temple is a quiet place with numerous famous ancient trees, stone steles and cultural relics. Entering Dai Temple is like visiting a museum of Chinese history.



Sacrificial rite for Confucius

Jining of Shandong Province

Jining is a prefecture-level city in southwest Shandong Province. Jining administers 12 county-level divisions, including Shizhong and Rencheng districts, Qufu and Yanzhou cities, and Weishan, Jinxiang, Jiexiang, Wenshan, Sishui, Liangshan, Yutai and Zoucheng cities, covering 11,000 square km and is the economic, cultural and commodity circulation center of southwest Shandong.

Jining has a history of 7,000 years' civilization. During the Spring and Autumn Period, the four greatest saints, namely, Confucius, Mencius, Yanzi, Zengzi, and the earliest ancestors of the Chinese, Fuxi, Nuwa, Huang Di and Shao Hao, were all born in Jining. In the city's territory there are seven cultural relics under first-class state protection, 50 under the provincial protection, and hundreds under the municipal protection. Among them, Confucius Temple, Confucius Mansion and Confucius Cemetery have been listed by UNESCO as World Cultural Heritage sites. These splendid Chinese traditional cultures have drawn numerous tourists both from home and abroad to come to Jining.



Grand ceremony of worship of heaven on Taishan Mountain

Made In China: American Dreams

As our series continues with this, the second of five articles beginning in *Beijing Review's* No. 38 issue, Martin Alintuck has the faint prospect—in his mind only—of taking over George W. Bush's job.

Although Alintuck's communication skills are certainly better as the frontman for public relations company Edelman in Beijing, his "strategy" is a little odd.

First, he's not a Bush.
Second, he's not a politician.
Third, he's in China.

In fact, these realities only buttress Alintuck's real plan: to forever dare to dream. That's, after all, what eventually brought a shy Boston boy here. And that's why he has become a leading PR man in China.

So go ahead, Martin, dream a little dream, or a big one.

China feels you brother.

Presidential PR

Could smooth communicating in China be a stepping stone to the Oval Office?

By LI LI

Martin Alintuck could be considered one of China's most prominent communicators, and he did it without knowing Chinese.

"My first word was *fapiao*, or receipt," said Alintuck half-jokingly. "Somebody told me I need to know this word."

Alintuck, Managing Director of the Chinese branch of world's largest indepen-

dent PR company, Edelman, might be an earsore in Mandarin. But the fact that he's a powerful communicator without knowing his host country's language fluently shows he's no dummy. He's an example of how even the most remote of American Dreams can come alive in China.

That's good news for Alintuck, who eventually wants to be a U.S. president.

"I have always wanted to be the president of the United States since I was very little; that's why I might get back to politics

one day," he said.

Let's state the obvious: as a PR man in China, the prospects for that are slim.

But his American dream—the notion that he, or anyone, can do anything—is what keeps "president" on the to-do list and more China business success in the "been-there-done-that" category.

The day boring died

Alintuck had a pretty plain life growing up—a typical secure American life one might say.

Born and raised in Boston, he comes from a middle-class family of four kids. His father was in sales and his mother a stay-at-home mum. He was a "normal kid" in high school—pretty quiet and shy. The family traveled mainly in New England, with New York being the farthest place.

As a young adult, he worked for the mayor of Boston and governor of Massachusetts immediately after university in the 1980s.

But what he learned about pursuing happiness in those strait-laced years was important.

"The American dream is about growing up in a place that encourages everybody from very young to have great dreams and fulfill them," Alintuck said.

And, after working in PR for six years in San Francisco, that latent wisdom was central to correctly responding to a crucial telephone question.

"I will never forget when they called me and said, 'How would you like to go to China,' and at first I thought it was a joke," he said.

Expats who accept this challenge, like Alintuck, frequently have this subsequent thought: Why not? You can always go back home if it doesn't work out.

But—and this may be unique to China—the reality is often greater than the initial wide-eyed contemplation.

"That decision is the best thing I ever did in my life, which completely changed my life," Alintuck said.



PEOPLE PERSON: Martin Alintuck's vision to build PR firm Edelman is to support the "hearts and minds" of his people, clients and sometimes kids in rural China

Opportunity, not crisis

Alintuck's first job in China was with Burson-Marsteller, another leading international PR company, but since 2003 he has headed Edelman's China business.

Shortly after his appointment, Alintuck was faced with a textbook crisis-management case when the company's biggest client, P&G China, had to cease its contract with Edelman China after the parent company Edelman signed with consumer goods competitor Unilever.

"It was really a difficult time when revenue dropped dramatically and people left the company in droves, but Alintuck held on and kept the company on the right track and wisely moved the business focus from an events organization to strategic consulting," said Jennifer Wu, who worked with Alintuck for half a year and now is the account director of an international PR competitor.

According to the China International Public Relations Association (CIPRA) 2006 survey on the Chinese PR industry, international companies enjoy obvious advantages over homegrown companies in the more value-added business of strategic consulting rather than event execution, which explains their much higher per-capita annual revenue.

According to Edelman's prediction for the year of 2006, a 49 percent revenue increase is expected over 2005, the largest growth rate ever for Edelman China. And an industrial survey by CIPRA in March 2006 ranked Edelman China one of the top 10 international PR companies in China for the fifth year in a row.

With Alintuck at the helm, the company also has witnessed a staff expansion from 51 in 2003 to 120 by the end of this year and relocation of its head office to Beijing Fortune Plaza, one of the most expensive office properties in town.

Alintuck's brand new 30-square-meter office on the 33rd floor gives a bird's-eye view of China's vigorous and vibrant economy in the form of bustling traffic and mushrooming skyscrapers holding the fruits of imagination, like at Edelman.

"I think China is a fantastic place for me to pursue American dreams," Alintuck said, his brown eyes beaming. "I see a country of people starting to dream great dreams and I feel very lucky that I can be in the middle of it."

Turning 'PR' into 'professional'

Although the PR industry in China has only a nascent development history of 20 years, the potential is huge. According to Chen Xiangyang, deputy secretary of CIPRA, the whole industry has maintained an annual revenue growth of over 30 percent since 1998 and

the momentum would be accelerated with the nearing of the 2008 Olympics.

"China in 10 years in terms of communication in public relations has achieved what took the United States 30, 40 or 50 years to do," Alintuck said.

And he has been in the corner office, spearheading the PR revolution.

In the eyes of Wu, her former boss has a great sense of humor, a quick mind and wonderful management skills. She used "professionalism" to summarize what she learned from Edelman under Alintuck. She spoke highly of a monthly staff meeting Alintuck initiated where he reported the latest engagement to everyone and awarded

west China's Yunnan Province. On the sideline of their meeting, they adopted a poor elementary school. All participants in their China meeting spent a day at the school cleaning, painting, fixing windows and doors, building a new library, donating books and playing with students and local families. Alintuck sees it as a good team-building experience and a means of giving back to the community.

"You've got to create a place where your people can enjoy working, grow and build their careers," Alintuck said. "PR is a people business. We have the hearts and the minds of our people and hearts and minds of our clients," he said.

Replace "PR" with "democracy," and



PHOTO COURTESY OF EDELMAN

GREAT WALL OF HONOR: Edelman's brand new head office in Beijing has a wall showcasing the events the company organized for its clients

star employees. It is practiced in all three offices in Beijing, Shanghai and Guangzhou today. "He attached a lot to instilling the proudness of being an Edelman employee into everyone," said Wu.

Alintuck thinks employing good people is a key to the company's success.

But they may be more easily employed than retained. Wu said she learned the basics of the business in Edelman but only "blossoms" at her new company, which offers "a creative and energetic working environment."

Still, last October, by his suggestion, Edelman situated their annual all-China meeting at Lijiang, a primitive tourism resort in a poverty-stricken mountainous area in south-

suddenly Alintuck sounds like he could be stumping for the greatest American Dream.

Asked whether he is serious about running for president in the future, he answered first by explaining his firm belief that anyone can dream of becoming whomever he or she wants.

Pressed, he stayed true to PR form, answering somewhere in the land between truth and spin.

"Maybe, who knows," he said. ■

"Made in China: American Dreams" is a five-part series that will appear biweekly and reveal how and why entrepreneurs and executives are increasingly realizing their American Dreams in, or because of, China. The series began in the No. 38 issue published on September 21.

Risk Averse, Broadly Speaking

Investors greet China's first QDII products with caution



QDII GATEKEEPER: Bank of China finds interest in the QDII product the day it is launched, but so far, prospects for the product have been lackluster

By LIU NIAN

Ms. Wang, a financial planner at one of China's largest state-owned banks, takes five phone inquiries a day from clients about its new QDII products, with most clients saying they will consider it.

"I have an enquiry about your bank's QDII products. What are the returns? What are the risks?" are the typical call of this nature, she said. "A lot of people show great interest at the beginning, but few order them."

The long anticipated QDII products were first launched by the Bank of China (BOC) on July 28. The product is a kind of fund launched by approved banks, fund management companies and insurers, called Qualified Domestic Institutional Investors (QDII), to invest in overseas capital markets on behalf of their clients. QDII would convert renminbi (RMB) into foreign currency and invest in overseas bills and money market instruments with high investment grade ratings.

QDII is considered as a scheme, allowing limited domestic investors to invest in overseas securities markets, which earlier they were unable to do because of limitations on RMB convertibility under China's capital account.

After BOC's product launch, the Industrial and Commercial Bank of China (ICBC), the country's largest lender, also launched its fund, allowing residents in Beijing, Shanghai, Shenzhen, Guangdong, Zhejiang and Jiangsu to purchase its QDII products. Later in August, the Bank of Communications (BOCOM), HSBC and the Bank of East Asia came out with similar products.

But despite intense promotion, the launch of QDII products in China has not received the investor appeal that was hoped.

Less competitive

On August 9, when the period to subscribe for ICBC's first QDII products expired, the subscription amount was less than 1 billion yuan—just half that expected. Some of the bank's cashiers were reportedly unclear about exactly what a QDII product is, and returns are not as certain as more traditional dollar- and yuan-denominated investments in the Chinese market.

Some wealth management professionals believe that when a 3 percent exchange loss is taken into consideration, returns of QDII products may fall in value or even lose money.

However, ICBC's QDII products promise returns of 3-7 percent. But on the lower end of

that range, if it's 3 percent, there will be little earnings left after deducting management fees and costs and taking RMB appreciation against the U.S. dollar into account.

Even though BOCOM's QDII products are expected to offer returns of up to 12 percent, some wealth management professionals advise investors to compare it to other RMB wealth management products and take exchange rate risks into consideration.

Most banks' RMB fixed-income products offer returns of around 3-4 percent, with no exchange rate risk attached. A QDII product with a one-year maturity of less than 6 percent in return would not be competitive. With returns on the money market around 2 percent at present and taking exchange rate risk into account, only a QDII product offering a return greater than 5 percent will be attractive to investors. Whether BOCOM's QDII products will be as profitable as anticipated is yet to be seen, as some experts predict they will return just 2 percent.

Some experts say the banks have made their products too complicated and that few investors can understand them.

QDII products are still at the initial stage of development in China and there is a long way to go before they are fully understood by the market.

Portfolios preferred

Even so, QDII products, as a new investment channel, are still attractive for investors to spread their investment risk around.

BOC's products are similar to open-ended funds in that they invest in products on overseas money markets and short- and medium-term bonds to maintain high liquidity of their assets, with no definite expectation of returns. Investors can purchase or redeem them at any time and, as a result, QDII products provide greater liquidity than foreign exchange and RMB wealth management products.

Additionally, to meet the needs of investors with different preferences, ICBC and BOCOM produce both exchange rate risk avoidable and non-avoidable products, allowing clients to choose which they prefer. If clients' expectation of RMB appreciation is much, they may prefer to choose exchange rate risk avoidable products. Otherwise, non-avoidable products will be chosen.

Some experts believe the returns of QDII products could be lower than expected if RMB appreciates too fast or interest rates hike in the second half of this year.

Given that most advisors say investors are wise to allocate capital across a range of investment options to avoid risks, QDII products may have a place in a diversified portfolio, along with fixed-income deposits, treasury bonds and domestic RMB wealth management products. ■

Exuberant Economy No Problem?

By JUMBO ZHANG

Spurred by a 31.3 percent rise in urban fixed assets investment, Chinese economic growth in the first half of the year rose 10.9 percent year-on-year, according to the National Bureau of Statistics, with the second quarter recording 11.3 percent—a 20-year high.

Despite these figures, a number of foreign economists believe that the economy is not overheated.

Bert Hofman, Chief of the Economics Unit at the World Bank Beijing Office, suggested that the macroeconomy was in a sound position, with evidence of recently implemented measures, including tightening interest rates and required reserve ratios of commercial banks at the central bank, already taking effect, which were expected to lead to slower export growth in the second half of the year.

Similarly, Laurence Klein, a recipient of the Nobel Memorial Prize in Economics, said he believed the Chinese economy was not overheated at all but rather that production capacity and consumer deposits had fallen.

However, not everyone is as optimistic, with some Chinese economists feeling that the government should introduce further measures to control the pace of growth.

Yi Xianrong, an economist with the Institute of Finance and Banking of the Chinese Academy of Social Sciences (CASS), considers that if the government does not introduce further macroeconomic controls, the economy could face huge risks in the future.

Lin Yifu, an economist from Peking University, agrees, saying that overcapacity is worsening. There has been too much investment, and too much credit and trade surpluses, he says. He believes the government should continue restructuring its industry, and stick firmly to and improve its policy of macro-control.

Similarly, Xie Fuzhan, Vice Director of the Development Research Center of the State Council, says economic growth, employment, inflation, and fiscal and corporate performance figures conceal the real extent of long-term weakness. The main macro-

control to date has been the raising of interest rates, but, with large levels of currency liquidity, banks' actual loan rates have not risen significantly. In fact, the demand for loans has risen.

Four trump cards?

Specific measures to implement macro-control policy include adjusting fixed assets investments, slowing down the investment of the real estate sector and addressing overcapacity. Restricting the liquidity of currency and curbing the demand for credit is the main goal of monetary policy.

The following are recent initiatives, but to what extent will they be effective?

Interest rates On August 18, the central bank, People's Bank of China, announced a 0.27-percentage-point hike in interest rates. Xie Guozhong, Chief Economist of Morgan Stanley Asia Pacific, believes that China will continue to raise interest rates. "The rise of 0.27 percentage points in August was just an alert, with no root effect on the market due to its small scope," he said. This was unlikely to curb recent inflation or pierce through the real estate bubble.



FAST TRACK: Even though China has already employed a tightening policy, the economic train is still running at fast speed

Exchange rates Sun Mingchun, an economic analyst with Lehman Brothers, believes a series of recent restrictive measures will only serve to ease surplus liquidity in the short run and the fundamental issue is renminbi (RMB) appreciation. Although the exchange rate of RMB against the U.S. dollar broke the "eight" mark, the pressure of RMB appreciation still exists.

Newly launched projects On August 1, five ministries including the National Development and Reform Commission issued the Instructions for Clearing Up Newly Launched Projects, requiring all regions to take measures within one month to clear up construction projects listed in the first half of the year with a total investment of and above 100 million yuan.

The iron and steel, electrolytic aluminum, calcium carbide, ferroalloy, coke, automotive, cement, electricity and textile industries are required to clear projects with a total investment of 30 million yuan. In the coal industry, projects with productivity of 30,000 tons per year will be cleared.

Yuan Gangming, a senior macroeconomic researcher with the CASS, believes that these controls will be effective in curbing excessive fixed assets investment. With implementation in every region of China, the effect is set to carry through to the stock market.

Real Estate In July, the pace of urban investment fell substantially. The prices of newly built commercial residential buildings fell in 14 cities, including Shenzhen, with its rapid rises dropping sharply. The price falls indicate that macro-control measures are already taking effect. The need for ongoing restrictive policies will depend on third quarter data.

Qiu Hong, Chairman of the Beijing Jinchengxin Real Estate Agency, believes that restrictive policies for foreign investment in real estate are ineffective on the market. The scale of foreign investment is relatively small with no more than 10 percent of the total investment in Beijing, Shanghai and southeastern coastal cities, he says. He predicts investment will show an upward development trend.

Niu Li of the State Information Center suggested that tightening new project approval was needed, in addition to controlling credit and land use. Implementing future controls over the real estate market was difficult, with the leading shares of real estate stocks probably set to bounce to new highs. ■

(Xinhua Finance)

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State of the Market

CPI

In August, the consumer price index (CPI) was 1.3 percent higher than that in the same period last year, said the National Bureau of Statistics (NBS). The CPI rose 1.3 percent in urban areas and gained 1.4 percent in rural areas year on year. On a monthly basis, the CPI inched up 0.3 percent from July. From January to August, the CPI rose 1.2 percent compared with the same period last year.

By category, the price of food increased 1.4 percent while that of non-food products went up 1.3 percent from a year ago. Prices of consumer goods and services grew 1 percent and 2.3 percent, respectively, year on year (see graphs 1 and 2).

Retail Sales

In August, retail sales of consumer goods stood at 607.7 billion yuan, up 13.7 percent over the year-earlier period, according to the NBS. In the first eight months, the total sales volume amounted to 4.85 trillion yuan, a year-on-year increase of 13.5 percent.

By region, retail sales of consumer goods in urban areas peaked at 408.2 billion yuan in August, rising 14.3 percent over a year ago, and those in rural areas registered a growth of 12.8 percent to 194.7 billion yuan.

By sector, the sales volume of the wholesale and retail sector ticked up 13.7 percent to 509.8 billion yuan, that of the accommodation and catering sector gained

16.8 percent to 82.7 billion yuan, and that of other sectors totaled 15.2 billion yuan, climbing 2.4 percent compared with the same period last year.

Retail sales of food, clothing and commodities for daily use rose 17.2 percent, 18.5 percent and 21.3 percent, respectively, year on year (see graph 3).

Industrial Growth

In August, all state-owned enterprises and non-public enterprises with annual sales revenue exceeding 5 million yuan (enterprises above the designated size) completed 735.6 billion yuan in added value, edging up 15.7 percent year on year, said the NBS (see graphs 4 and 5).

The sales ratio of industrial products arrived at 98.74 percent, 0.67 percentage point higher than the rate a year ago. Their export delivery value amounted to 505.3 billion yuan, up 23.9 percent compared with the same period last year.

From January to August, the added value of enterprises above the designated size totaled 5.44 trillion yuan, a year-on-year increase of 17.3 percent.

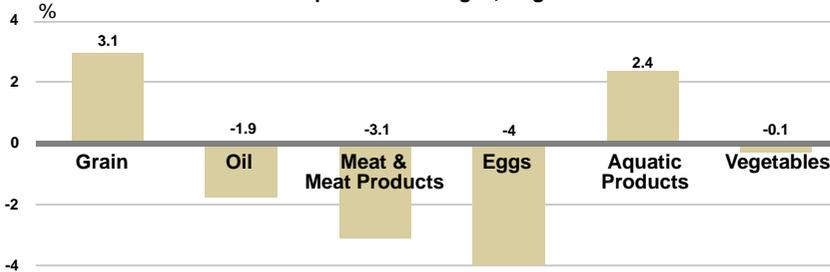
Fixed Assets Investment

From January to August, the aggregate fixed assets investment in urban areas was 5.26 trillion yuan, shooting up 29.1 percent compared with the same period last year, said the NBS (see graph 6). State-owned and state-holding enterprises and the real estate development sector completed investment of 2.47 trillion yuan and 1.11 trillion yuan, respectively, increasing 18.4 percent and 24 percent year on year.

The investment in projects budgeted by the state treasury was 568.2 billion yuan, a rise of 29.4 percent over the year-earlier period, and that in local projects stood at 4.69 trillion yuan, surging 29.1 percent year on year.

By industry, the investment in primary, secondary and tertiary industries reached

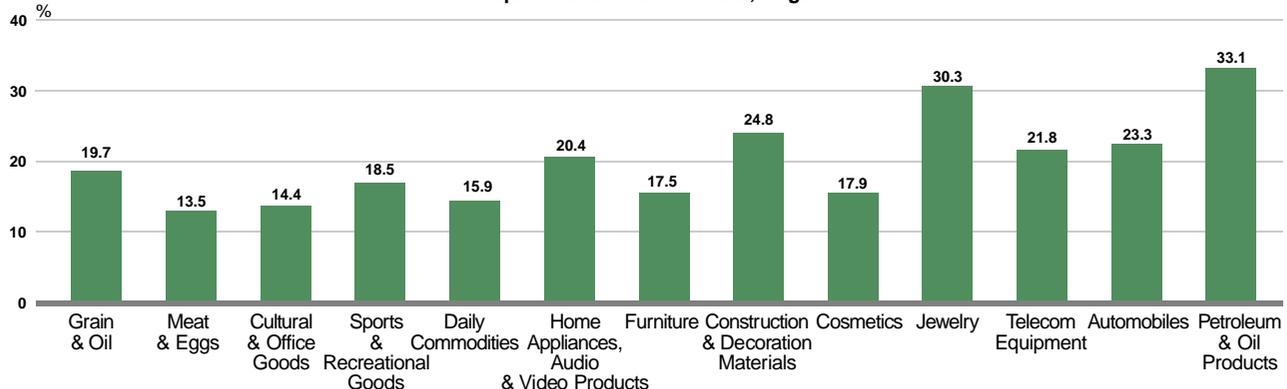
Graph 1: CPI Changes, Aug.



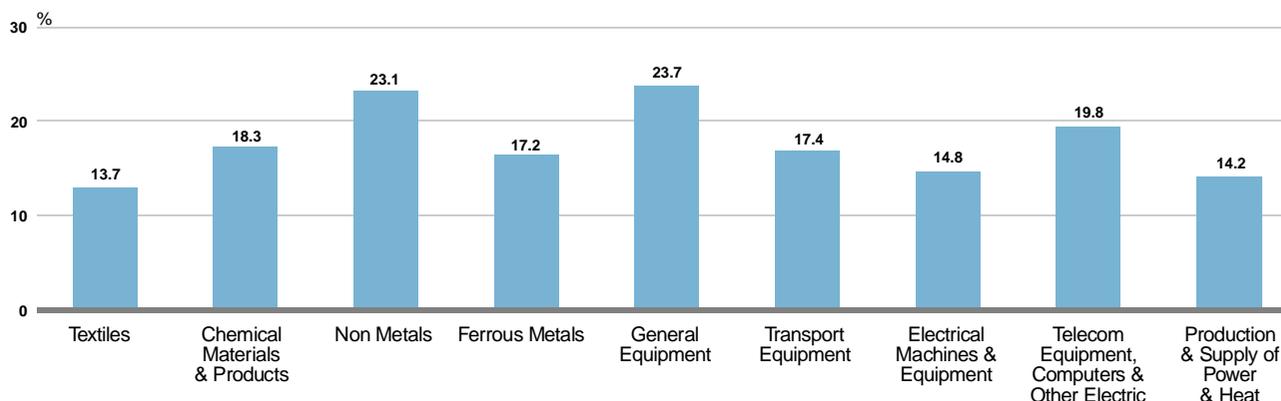
Graph 2: CPI Changes, Aug.



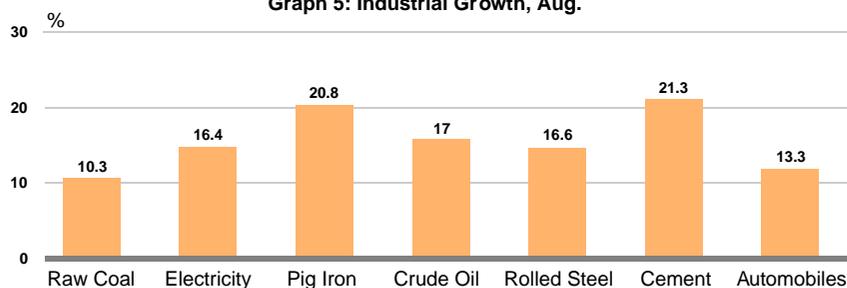
Graph 3: Retail Sales Growth, Aug.



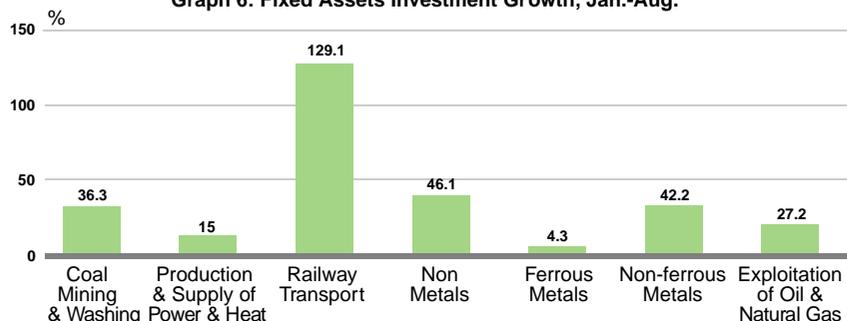
Graph 4: Industrial Growth, Aug.



Graph 5: Industrial Growth, Aug.



Graph 6: Fixed Assets Investment Growth, Jan.-Aug.



54.8 billion yuan, 2.29 trillion yuan and 2.92 trillion yuan, respectively, shooting up 38.2 percent, 32 percent and 26.8 percent year on year.

During the January-August period, the investment made by domestic enterprises reached 4.65 trillion yuan, edging up 29.8 percent compared with the same period last year. The investment made by enterprises with capital from Hong Kong, Macao and Taiwan and by foreign-funded enterprises stood at 243.4 billion yuan and 339.5 billion yuan, respectively, up 16.5 percent and 24.8 percent year on year.

At the end of August, 207,714 projects each valued at 500,000 yuan or above were under construction, 30,863 more than the number in the same period last year. The planned investment totaled 17.99 trillion

yuan, ticking up 23.5 percent year on year. Of the total, the number of newly started projects was 131,086, which was 17,297 more than a year ago, with the total planned investment of 4.45 trillion yuan, growing 11.4 percent from a year ago.

In the first eight months, the paid-in capital totaled 6.04 trillion yuan, a rise of 30.1 percent over the year-earlier period. Of this, domestic loans, foreign investment and self-collected funds rose by 29.8 percent, 18.6 percent and 33.4 percent, respectively, year on year.

Accommodation and Catering

From January to August, retail sales of the accommodation and catering industry reached 653.76 billion yuan, an increase of 88.49 billion yuan over the same period

last year, said the Ministry of Commerce. The sector's retail sales accounted for 13.5 percent of the nation's total retail sales of consumer goods, contributing 2.1 percentage points to the overall growth of retail sales of consumer goods. The industry's year-on-year sales growth, 15.7 percent, was 2.2 percentage points higher than the overall growth of retail sales of consumer goods.

In August alone, retail sales of the industry were 82.7 billion yuan, edging up 16.8 percent over a year ago. The year-on-year increase of the industry was 3 percentage points higher than the overall growth of the total retail sales of consumer goods during this month.

In the first eight months, the sector saw the approval of 693 foreign-funded enterprises, a drop of 6.6 percent from the same period last year. The commitment and paid-in capital stood at \$1.77 billion and \$450 million, respectively, up 13.3 percent and 25 percent year on year.

Creative Industry Expo

The First China Beijing International Cultural and Creative Industry Expo will be held in Beijing on December 10-14. Covering a total floor space of 40,000 square meters with 11 exhibition areas, the expo is aimed at "introducing to the world excellent products of China's cultural and creative industry to attract both domestic and foreign capital and technologies for cooperation in this industry."

Ten specialty exhibition areas will cater to the cultural and creative industry's companies and achievements in radio, film and television, publication and copyright trade, art performance, cartoons, flash, games and software, advertising, conferences and exhibitions, tourism resorts and product design, industrial design, fashion design, architectural design, paintings and calligraphy, handicrafts and sculpture. ■

Should a Click of the Mouse Decide the Fate Of a Criminal Suspect?

Computers have been programmed to do just about anything today and very little they do still raises eyebrows. Well, that was until a software program was developed to decide the fate of suspects on trial in a court of law within minutes.

Zichuan People's Court, Zibo City, in east China's Shandong Province has taken a leap of faith in the direction of computer logic. Judges there now input case details into a computer, which automatically calculates the appropriate verdicts. This innovative move in China's judicial system speeds up the work of the court and standardizes procedures, but expectedly not everyone in the loop is happy.

Chief Judge Wang Hongmei of Zichuan District Court explained: "We developed the system to prevent judicial power abuse." Statistics show that, in recent years, China's criminal cases have seen a 60 percent rise in appeals against arbitrary rulings, half of which were caused by unfair imprisonment terms. Since the sentencing software was introduced in 2003, Zichuan Court has seen a marked drop in appeals to courts of a higher level.

Previous reports described the computer sentencing as a judge, but Wang said strictly speaking, it is not computer sentencing, but rather standard sentencing.

The full name of the electronic judge developed in China is the Standardized Sentencing Software Management System. It is a tailored system that can calculate the appropriate prison sentences for the 100 most commonly occurring crimes and input another thousand cases for reference.

The sentencing procedure is the major task of this software. In addition, it is also equipped with legal rules and regulations, judicial explanations and cases for academic study. As to the judges, it previously cost them a great deal of time to recall similar cases, but now that's available at the click of a mouse. Even the calculation of prison terms can be offered by the system, which raises the efficiency of sentencing from several weeks to a couple of minutes.

Before this system, the United States had applied the world's first computer intelligence system in assisting verdicts as early as 1981. The system program, abbreviated as LDS, was developed in a few modes cov-

ering obligation, negligence and compensation to set standard terms for any subtle difference in varied cases of the same crime. Chinese professionals began their work on legal software development in the mid-1980s. The criminal sentencing system, created by Professor Zhao Yanguang from Wuhan University in 1993, is capable of searching legal codes and providing verdicts for criminal cases.

Those who support the electronic sentences believe it could avoid corruption in the judicial system. However, some people doubt how much the system can restrain abuse of discretionary power.

Though controversial, the Shandong Provincial Court has recommended the software to all courts within the province after testing for two years in Zichuan. In March, the Zichuan District Court had received positive comments from China's Supreme People's Court for its intelligent system.

Electronic assistant

Wang Hongmei (chief judge of the Zichuan Court): The dominant authority in sentencing is the standard regulations, but the software acts as an assistant in giving verdicts. However, it is the judges who make the final decisions. Judges are there to facilitate them to make the correct decisions.

Wang Jiandong (court president of the Zichuan Court): I am pretty sure that the ongoing sentencing by software is great progress for China's judicial future.

Chinese judges have more discretionary power than their foreign counterparts, yet in rural areas, such as the southwest and northwest part of Shandong Province, the under-trained judicial staff can be assisted by the software.

Zhang Baosheng (Vice Dean of the China Political Science and Law University): The program avoids outside interference when making judicial decisions. As equal and fair as the university and college admission process to Chinese students, the sentencing will correct human mistakes to give fair verdicts and on another level curb corruption.

Computerized assistance will break the monopoly of judges and lawyers in controlling legal knowledge, in the same way the Internet gives ordinary people the chance to express themselves, and of course communication leads to shared information. Software of this kind will inevitably become weapons for defendants to protect and guarantee their lawful rights. I think a system that can deal with complicated cases and judicial reasoning will be the trend for future decades.

Xue Feng (Deputy Director of the Beijing Court Research Institute): The new legal software is essentially a trial practice to introduce the idea of hi-tech assistants. To improve accuracy and efficiency the software will not take the place of judges, but be used as a source of reference.

Practically, whether the accused is guilty or not, which category the crime belongs to, and how to punish the convicted, are major issues of the trial. In this respect, the conviction is the basis of sentencing, while the verdicts will be the final decision of the trial. The appearance of unfair judgments requires the assistance of the software.

Zhao Guangrui (writer with Guangming Website): Justice is the warrant for social fairness. The public's low confidence in justice indicates a lack of trust and confidence from society, who demands judicial reforms. Perhaps the introduction of this scientific method could be a solution. Human decisions are not always objective, therefore the software verdicts may help in this regard.

Some argue that the software cannot be suitable for every detailed case, and therefore should not be used. Nonetheless, in Western countries, our counterparts are also turning to hi-tech for help when it is necessary, for instance, the usage of the lie detector.

In accordance with China's current criminal procedure laws, the discretionary power can only be applied by judges. In theory, the discretionary power is the power of the people, endowed by authority, and the people can deprive the

Dear Readers,

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Editor: Liu Yu



judges of their power if they commit malpractice. In that case if the computer sentences are reliable, they should be used. Using the software to curb the power of ill-trained or corrupt judges can also help to bring a more just and legal environment in China.

Whatever the methods adopted, the aim is to reinforce legal authority and to prevent corruption. Without more effective solutions, the software is worth a try.

Liang Jiangtao (commentator of Zhejiang online): A computer calculation will measure verdicts. Every citizen can input the detail of cases and get the results. With reference to related stipulations and provisions, the process will also be a course of legal case study for common people.

Moreover, this is also a way to be protected from the abuse of a judge's power. For the judges, the software could be an aid to prevent them from misbehavior and making errors.

'Byting' off too much

Liu Hongyu (National People's Congress representative, Beijing lawyer): In some cases, computer decisions play positive roles, for example, to restrain the discretionary power of judges, and therefore gain the trust of defendants, and for appeals reduction. However, that could not offset its

two obvious flaws and defects:

First of all, the scope of the software usage will be limited in various cases with subtle distinctions. Despite being a similar case to the computer, the initial intention of criminals causes varied damage to society, which needs flexibility in verdicts. That is why we authorize our judges to take control of the discretionary power to secure the dignity and seriousness of laws.

The second, and the most important, is that judges will have a negative effect. If courts of different levels all over the country produce their standardized software at will, the ill-trained or under-educated local judges could not necessarily guarantee the legal system's reasonable and scientific structure. For proper and accurate prison terms, China's criminal procedural laws are in need of strict trial procedures, and only qualified judges are authorized to make final decisions. If the computer plays the role of judge, the legal authority will be lowered to a point where human brains are dominated by digital programs. What is more, that could excuse the laziness of judges, and perhaps help them escape the criticism of injustice, since they will use computers as standard assistants.

Meng Shan (commentator of China Times): Obviously, machinery can never take the place of rational thoughts and the logic of people. In real life every detailed

case may vary with subtle distinctions. In this regard, computers are helpless.

Justice could be corrected by hi-tech sometimes, but it is not the ultimate solution. Fundamentally, we should strengthen our judicial system to accommodate every case and every defendant. What we need are well-trained judges, improved surveillance systems and appropriate methods to curb floating discretionary power to restore the trust and confidence of the public.

One thing I am concerned about is why so many people are in support of the computer judges. At most, they can avoid abuse of judicial power and corruption. If confidence is restored in the way our judges operate we won't need software of this kind.

Xiao Bo (writer with the Guangming Website): It is undeniable that digital devices are subordinates; the key is whether to use them or not. When the jury cannot give the correct penalty to criminals, they may refer to computers. Nonetheless, this demonstrates the low level of professional knowledge and working experience in our judicial system, which is unacceptable. The public will question the capability of our judges. If the computer can solve everything, what is the purpose of having a judge? To my view, the collaboration between judges and computers is a farce to lower people's opinion of our judicial system. ■

By FRANCISCO LITTLE

Where I come from drinking is a way of life. Around the braai (barbecue) watching sport, at the pool in fact any occasion is a good enough excuse to down a few frosties and have a rip. Often, drinking back home does not include any food, apart from the odd peanuts or crisps. It develops from youth into the rowdy binges that end in skull splitting hangovers, car accidents and alcoholism.

Drinking in China has traditionally been an altogether different affair. Most drinking is done at the dinner or lunch table. You drink, but you eat in tandem. Sensible, no doubt. Food does absorb the alcohol and save that stomach lining from a pounding.

Apart from the regulatory host getting plastered at formal banquets and having to be escorted to his car- and the endless rapid gulping at obligatory *ganbei* (toasts), drunks are not a common sight on Chinese streets. Well, certainly not streets that I walk on.

In fact, I didn't think that alcoholism was an issue at all in China. People drink at meal times, down the odd *baijiou* or 10, drop a few Tsingtaos and go home. Maybe the scene will repeat itself the following weekend. It's all harmless fun. Or is it?

It was therefore interesting to see the recent comments made by one of China's top psychiatrists. He said that the country's searing economic boom and galloping influx of Westernized trends have given rise to a major increase in alcohol abuse over the last 20 years,

Wei Hao, of China's Central South University, told the World Congress on Alcohol Research in Sydney in September, that evidence had emerged of a striking increase in drinking and related health problems in China.

An Associated Press report quotes Wei as saying: "Economic development is the most important factor that has contributed to

the increase in alcoholic consumption in China." He was speaking after having undertaken a World Health Organization-sponsored study of the problem.

What emerged made interesting reading and points to the fact that China does indeed seem to be taking one too many tipples, and it is starting to impact on the nation's health.

China's brewing industry dates back further than any other. NewsScientist.com says solid evidence backing this fact was found in 2004, when a

Chinese men over the age of 15 are dependent on alcohol. That's over 30 million people. The report said only 0.2 percent of women were similarly affected. He calculated the Chinese consumption equated to 5 liters per capita a year of pure alcohol.

And with this demand has come the need to increase alcoholic beverage production by 10 percent a year. Wei said this had a ripple effect, as the desire for alcohol had resulted in a gradual increase in drinking related illnesses. These included cirrhosis of the liver and ulcers, along with psychiatric disorders such as alcohol dependency and dementia, he said.

Wei's report was critical of the scant attention given to public health strategies, despite the increasing documented evidence of rising alcohol abuse. "We only talk about the disorders—not the prevention," said Wei. There are currently no hospitals dealing with alcohol related health problems in China, but the psychiatrist is confident that his report will help change that.

He points a finger at youth watching and following the lead of their Western counterparts, who more often than not drink alcohol without eating. This says Wei, is breaking down the traditional Chinese emphasis on moderate drinking accompanied by some kind of substantial meal.

And with all the business being conducted around the economic boom, it's forcing

another kind of cultural change. "In business, alcohol can be used to improve the relationship—so it forces you to drink a lot," Wei said. Anyone who's been on the receiving end of chasing down a business deal will attest to this.

With more cars even more new drivers on the roads, Wei's survey also looks at this dangerous consequence of drinking, finding that driving under the influence is now the third top cause of traffic accidents in China.

Whether this is all a case of another "negative" Western influence on Chinese culture, or the inevitable spin of the wheel of progress is debatable. And perhaps those two are not mutually exclusive. Or are they? ■



DRINK AND EAT: Drinking has traditionally taken place along with eating in China but that's all changing

Driven to Drink

Chinese-American team discovered traces of alcoholic drinks on pottery dating back as far as 7000 B.C. Moderate drinking throughout this long history has been a hallmark of the nation, but in the past two decades Wei's study found that there has been a 10 percent rise in the rate of alcohol consumption.

"Twenty years ago people were generally very poor, so they didn't have enough money to buy food and even clothing. Now people have become richer and richer, they have extra money to buy (alcoholic) beverages," he said.

Wei's study involved almost 27,000 people in China. It shows that 6.7 percent of

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