20 PATHS ONE DIRECTION

Though more voices mean more differences, G20 nations worked to decide the world's economic future in a way benefiting them all.

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Ultimate Mission

By ZHOU JIANXIONG

The semi-annual G20 summit meeting, attended by heads of state and government of 20 developed and developing nations, ended in Seoul November 12, with an official declaration pledging, among other things, to “support and stabilize the global economy” and “lay the foundation for reform” in order to avert future world economic upheavals.

The G20—or Group of 20—was born out of the G7, an informal forum set up by the world’s seven leading industrial powers in the mid-1970s. With the breakup of the financial storm that swept the world in 2008, it became an important mechanism for coordinating the financial response to the economic crisis. Time has proved the G20 to be much more effective than its predecessor, since it comprises representatives of the developing and emerging economies. By having a relatively inclusive membership, the G20 enables the world to formulate strategies to combat financial problems and look for more balanced ways to develop the world economy.

The positions of member countries at the recent summit showed that many nations are more concerned with their own economic recovery now that the worst of the global economic crisis is apparently over. Some nations—due to their different roles in the world division of labor, varying development stages and differing economic models—were naturally at odds with one another. Needless to say, the United States’ plan to buy back $600 billion in Treasury bills led to a major controversy. This unilateral move is widely expected to further devalue the dollar, the world’s major reserve currency, increase inflationary pressure and threaten the global economy.

The differences and controversies at the Seoul summit show, however, that the G20—from being ineffective—is more important than ever to world economic stability and equity. Through the G20, developing and developed countries may try to iron out their differences, address the common concerns of the majority of nations, share responsibilities and hardships, and find solutions to the lingering economic crisis.

To help achieve these goals, China also offered its own recipe for overheating the world economy. It advocated freer trade, stricter financial controls and narrowing the wealth gap among nations. These proposals largely reflect the interests of the developing world. They are also the basis for a new economic order appropriate to the world’s changing economic and political environment. This could well be the ultimate mission of the G20. Just as the world outgrew the G7, the economic order of the latter half of the 20th century can no longer support the economic and social requirements of the world today. Replacing the old order with a new one is therefore in the interest of the world community. It will not only help global economies recover from the current crisis but will help them embark on a new path of sustained and shared growth.
**Scientist Laureate**

Vivian Wing-Wah Yam, a professor at the Chemistry Department of the University of Hong Kong, was recently announced among the five laureates of the 2011 L’Oreal-UNESCO Women Scientist Awards, for her contributions in light-emitting materials and innovative ways of capturing solar energy.

Yam, 47, obtained her Ph.D at the University of Hong Kong and became professor there in 1997 and chair professor in 1999. She was head of the university’s Chemistry Department from 2000 to 2005, and became the Philip Wong Wilson Wong Professor in Chemistry and Energy in 2009.

Yam was elected an academician of the Chinese Academy of Sciences at 38, the youngest member of the top Chinese research institution at that time. In 2006, she became a fellow of the Academy of Sciences for the Developing World, and has also been awarded a Royal Society of Chemistry (UK) centenary lectureship and medal.

Initiated 13 years ago, the L’Oreal-UNESCO Awards each year honor five outstanding women scientists—one per continent—for their research contributions, the strength of their commitments and their impact on society. Yam is the laureate for the Asia-Pacific region.

**Grassroots Inventor**

Lesser-known inventor Song Youzhou’s creature—the Straddling Bus—has been listed in the 50 Best Inventions of 2010 by *Time* magazine.

With more than 50 invention patents, 52-year-old Song is now board chairman of the Shenzhen Huashi Future Parking Equipment Co., which he founded with several partners last year.

The straddling bus is inspired by rush-hour grid-locked traffic in major Chinese cities and may reduce road traffic by 20 to 30 percent, said Song.

Song’s designed bus runs along special tracks 4.5 meters above a road surface so ordinary cars can pass underneath it. It can carry up to 1,400 passengers and travel as fast as 60 km to 80 km an hour.

Though having no more than six years of schooling, keen observation provided the tools for Song to invent many objects to meet people’s daily need. Besides the straddling bus, he is also very proud of his confetti firework. The firework has been widely used in China for various big events.

**Highest-Paid Writer**

Yang Hongying tops the newly released 2010 Chinese Writer’s Rich List with an annual royalty income of 25 million yuan ($3.68 million). With more than 40 million copies of her books sold in the past 10 years, Yang, 48, is one of the most popular children’s writers in China.

Yang has worked as a primary school teacher, children’s book editor, mentor of a children’s newspaper and executive editor of a children’s magazine.

She began her writing career at 19 when her students suggested she should write books since she had the talent.

Since its first book was released in mid-2003, Yang’s best-selling *Naughty Boy Ma Xiaotiao* series, which tells stories of primary school student Ma Xiaotiao and his friends and family, has sold more than 16 million copies. New York-based HarperCollins Publishers bought the rights to publish the series in foreign languages in overseas markets in August 2007, after the French version of the series became available in France a year earlier.

“The world economy is growing slowly and the structure of global demand is changing, which puts new pressure on China in its efforts to stabilize and expand exports and maintain a stable and relatively rapid economic growth.”

Li Keqiang, Chinese Vice Premier, on challenges to China in its next development phase in a comment published on November 14.

“China has had capital controls on short-term flows that have worked, not perfectly, but have worked to stabilize these short-term flows. But at the same time, it’s been very open to long-term investments.”

Nobel Prize-winning economist Joseph Stiglitz, at a press conference in Hong Kong on November 11. He said emerging economies would need capital controls to manage flows of “hot money” and ensure economic stability in the wake of the United States’ ultra-easy monetary policy.

“It’s like running a marathon, and finding out during the race that they have added more kilometers to the course.”

Greek Prime Minister George Papandreou, saying in an interview with *Proto Thira* newspaper the country could seek an extension for repaying its rescue loans, and conceding the deficit revision would add pressure on his government to cut costs.

“First of all you have to ask: Do we need to defeat it [Islamist militancy] in the sense of a clear cut victory? I would argue that it is unnecessary and would never be achieved.”

General David Richards, the head of the British armed forces, in an interview with *The Sunday Telegraph*.

“Looking back to the sovereignty conflicts in this region, bilateral approaches have proven more effective than multilateral approaches. So regarding the South China Sea issue, we should stick to the China-ASEAN framework and the China-Individual Claimant States Framework.”

Chheang Vannarith, Executive Director of the Cambodian Institute for Cooperation and Peace, proposing solutions to the South China Sea disputes in an interview with Xinhua News Agency.
OPINION

Much-anticipated Law

It has been almost 10 months since the publicizing of a new draft regulation to solicit public opinion on the dismantling of urban houses. The old regulation, which authorizes forced demolitions if homeowners fail to move out within the time required by the government, has been criticized as now being irrelevant in the wake of several cases of homeowners committing suicide. Five scholars, who wrote a letter to the National People’s Congress, China’s top legislature, demanding revision to the old regulation a year ago, voiced their dissatisfaction with the slow legislative process at a seminar on November 13.

While many people eagerly wait for a new regulation, forced demolitions with casualties are increasing in number. The impasse on the formulation of the new regulation has encouraged local governments’ use of enforced demolition and fueled public outrage.

It’s understood good laws take time and complicated procedures. But, when the public interest is always violated, it takes political will and courage to move forward arduous reform.

Huashang Daily

Regular Bonuses

Recently, Zhou Wangjun, an official with the National Development and Reform Commission, China’s top economic planner, suggested, given the fast-rising prices of daily necessities, the government should consider offering allowances to low-income earners.

This official’s suggestion would be a wise policy for the low-income earners if it was put into practice. But, the allowances, no matter their amount, would only enable low-income earners to afford badly needed necessities for a short period. The government should think about formulating a regular mechanism to solve their difficulties in the long run.

In terms of government allowances, China could learn from Singapore, which has a Growth Dividends program. The program uses part of the government’s surplus to reward all adults citizens with cash annually. More importantly, the country does have the financial capacity to initiate a similar program since a large number of state-owned monopoly enterprises reap enormous profits every year.

Yangzi Evening News

Preventive Monitoring

Following a wave of media reports on the widespread practice in the food processing industry of using partly hydrogenated vegetable oils to replace natural animal fat, the Ministry of Health said on November 9 that it has been working to evaluate the health risks of trans fat contained in the oils and may amend national standards for food preparations. The use of trans fat will be banned in infants’ food, said ministry sources.

This is a timely response to public food safety concerns, but before a new national standard comes out, customers will be at a loss about which foodstuffs they should trust.

The controversy over partly hydrogenated vegetable oils again indicates food safety regulation should not be only in response to health emergencies. Instead, it should be institutionalized to prevent such emergencies.

In this area, Hong Kong is a good example. The region’s regulatory system consists of comprehensive and professional risk valuation, timely release of information and regular and strict inspections.

The Ministry of Health recently issued a regulation on the national food safety standards. It has one article saying any citizen, legal person or organization could propose the formulation of a new national food safety standard. It would be a good start if this policy could be well implemented.

People’s Daily

Price Intervention

According to a recent report in Securities Times, several central government agencies are drafting a new regulation, giving provincial price regulatory departments the power to impose caps on housing prices in the event of dramatic price hikes after obtaining permission from their provincial governments.

It is understandable if the government tries to control prices of public housing projects, which has enjoyed land use and taxation incentives. But other housing properties are ordinary commodities, whose prices should be determined by supply and demand.

Considering the soaring housing prices in many cities since last year, the government’s direct intervention does comply with stipulations in the Price Law. However, this should be the government’s last resort in a market economy. Central and local governments have already introduced many measures to rein in housing prices in recent years, such as limiting the number of new homes each household is allowed to buy, tightening payment requirements, increasing mortgage interest rates and cracking down on developers who hoard land. Now we need to evaluate the effectiveness of these policies. If soaring prices have been curbed or there are alternative tools to control prices, then direct price intervention will be unnecessary.

Yangcheng Evening News

AID TO NEEDY: Low-income earners register for free daily necessities offered by the local government at a community service center in Yinchuan, Ningxia Hui Autonomous Region on November 15
Pride in the Sky

J-10 jet fighters from China’s Bayi Aerobatic Team take off to perform at the opening of the eighth China International Aviation and Aerospace Exhibition (Airshow China) in Zhuhai, south China’s Guangdong Province, on November 16.

The biennial event, first held in 1996, is the largest air show in the country. Around 600 civil and military manufacturers, suppliers and designers participated in this year’s show featuring about 70 commercial and military aircraft from 35 countries and regions.

China unveiled the prototype of its first large passenger jet, the C-919, at the show. A full-size model of Tiangong-1, China’s first unmanned space module, was also on display.
SOCIETY

Curbing Kickbacks

China’s Ministry of Health will intensify its crackdown on bribery in hospitals, according to a report in the People’s Daily on November 17.

Bribery in hospitals has increased in some areas of China, seriously undermining people’s interests and the image of medical professionals, according to the report.

The ministry will work to stop doctors from receiving kickbacks from pharmaceutical companies while strictly prohibiting hospital staff from illegally collecting information about prescriptions for commercial purposes, the report quoting an unnamed official said.

Some pharmaceutical companies pay kickbacks and bribes to doctors and hospital staff to boost the sales of their drugs.

Some medical equipment-makers have also been involved in similar schemes.

Those found to have accepted bribes will be punished according to the relevant laws and rules, the official said.

Freer Flight

China will open part of its low-altitude airspace for aviation in an orderly manner to promote the country’s general aviation sector, including for private planes, a report in November 15’s People’s Liberation Army Daily said.

According to a circular jointly issued by the State Council and the Central Military Commission, the country’s low-altitude airspace will be divided into three sections: areas under control, areas under surveillance and areas where aircraft can fly freely after reporting their flight plan in advance.

Previous regulations put low-altitude airspace throughout China under control, which meant private planes had to apply for permission in advance for every flight and then wait for approval, which often took a long time.

According to the circular, the open airspace reform will be trialed in some areas by 2011.

They will then be expanded to other parts of the country.

Recognized Heritage

Peking Opera and acupuncture are among the traditional celebrations, healing techniques and culinary arts newly added to the UN Representative List of the Intangible Cultural Heritage of Humanity, according to the Paris-based UNESCO.

After an committee finished examination of 47 nominations, the list was expanded to 213 traditional elements.

Armenian cross-stone, Knonanb Marimba music and French gastronomic meal are also among the members newly recognized by the UNESCO committee.

As for the List of Intangible Cultural Heritage in Need of Urgent Safeguarding, the reviewing meeting in Nairobi, the capital of Kenya, also added four new elements, bringing the total number to 16.

The protection-in-need list enrolled three intangible cultural styles in China. They are Meshrep, a performance art practiced by Uygur people in Xinjiang Uygur Autonomous Region, the watertight-bulkhead technology of Chinese junks, as well as printing with wooden movable type.

Best Supercomputer

A Chinese supercomputer was ranked as the world’s fastest machine in the TOP500 list officially issued by U.S. and European researchers on November 16, highlighting China’s rapid progress in the field.

The Tianhe-1A system at the National Supercomputer Center in Tianjin, is capable of sustaining computation at 2.57 petaflop per second, which equates to a mind-numbing 2.57 quadrillions of calculations per second.

As a result, the former number one system, the U.S. Department of Energy’s Jaguar in Oak Ridge, Tennessee, which achieved 1.75 petaflop per second, is now ranked in second place, according to the 36th edition of the TOP500 list.

FESTIVE FOOD

Muslims in Yinchuan City, Ningxia Hui Autonomous Region, buy a traditional snack for the celebration of Corban Festival on November 17, one of the most important Islamic festivals.

COMPREHENSIVE PATROL

China’s first fishery patrol vessel equipped with helicopters begins its maiden voyage from the southern city of Guangzhou to patrol in the East China Sea on November 16.

NATURAL AND RECYCLABLE

A visitor looks at a sofa made of bamboo sticks at an exhibition of creative ideas and designs in Beijing on November 13.
ECONOMY

Price Controls

The State Council announced price control guidelines to curb surging prices across the country.

Efforts will be made to ensure market supplies, improve subsidy systems, make price controls more targeted and strengthen market supervision, said a statement released on November 17 after a State Council executive meeting presided over by Premier Wen Jiabao.

The government will further support agricultural production and put state reserves of grains, edible oils and sugar on the market when necessary in order to guarantee supplies.

They will also continue to reduce prices of power, gas and rail transportation for chemical fertilizer producers, and increase production of oil, especially diesel oil, to guarantee a sufficient supply.

The government will also offer temporary price subsidies for the needy, and increase allowances for needy students and student canteens.

Treasury Bonds

The Ministry of Finance announced on November 17 that it would issue the country's third-ever 50-year national treasury bonds with a yield of 4.4 percent.

With a total face value of 28 billion yuan ($4.22 billion), the bonds were on sale for five days from November 18 and became tradable on November 24, according to a statement on the ministry's website.

China first introduced the 50-year treasury bonds on the interbank market in November 2009 with a 4.3-percent coupon rate.

The country issued the second round of 50-year T-bonds on May 21 this year at a coupon rate of 4.03 percent.

Iron Ore Output

China's iron ore output was expected to exceed 1.3 billion tons within three to five years, said Zhou Zhongshu, President of China Minmetals Corp., at the China Mining Conference and Exhibition held November 16-18 in Tianjin Municipality.

Domestic iron ore supplies have been rising for the last two years. In the past 12 years, China had discovered more than 900 new reserves, including 152 large and super-large reserves, according to the ministry.

During the first nine months of 2010, China's iron ore output increased 26 percent year on year to 780 million tons. But iron ore imports dropped 2.5 percent to 460 million tons during the same period, compared with a jump of 41.6 percent in 2009.

Aircraft Sale

On November 17, China's AVIC International Holding Corp. signed a deal with aircraft manufacturer Commercial Aircraft Corp. of China (COMAC) to sell 100 ARJ21-700 aircraft in overseas markets.

They will work together to sell China's independently developed regional jet in the international market, according to the agreement signed at Airshow China 2010 held in Zhuhai, Guangdong Province.

The ARJ21-700 jets have completed more than 900 hours of tests during more than 400 trial flights since the first trial in November 2008, according to COMAC officials. The first ARJ21-700 plane is expected to be delivered to customers in 2011.

Brand Investment

Beijing Automotive Group Co. Ltd. plans to invest 10 billion yuan ($1.5 billion) over the next three years to develop its own car brand named after the city.

The independent Beijing brand will have nine lines of automobiles, including three SUV lines.

The company has dedicated most of its resources to commercial vehicles, mostly buses. It produces 700,000 commercial vehicles annually, making it one of the largest commercial vehicle makers in the world.
1. FRANCE
French President Nicolas Sarkozy poses with members of the new cabinet on November 17 at the Elysee Palace in Paris after the first meeting of the reshuffled government.

2. BULGARIA
Russian Prime Minister Vladimir Putin holds a Bulgarian shepherd dog he received from his Bulgarian counterpart Boyko Borisov after a joint press conference in Sofia on November 13.
3. SAUDI ARABIA
Muslims from around the world make the pilgrimage to Mount Arafat, near the holy city of Mecca, on November 15.

4. HAITI
Locals walk past a pharmacy near the General Hospital, where people infected with cholera are being treated in Port-au-Prince on November 16. Haiti's cholera death toll has passed 1,000.

5. GUINEA
Police patrol a suburb of Conakry on November 17 amid violent protests following the Guinean presidential election.
EMERGING ECONOMIC VOICES

China calls for equal, balanced and sustainable development at the G20 and APEC summits

By DING YING

A bigger economic output means a larger voice for emerging economies and developing countries on the world stage. This proved true at both the recent G20 Summit and the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting. The growing influence of developing countries and their emerging economies should make global interactions more multilateral.

Chinese President Hu Jintao, attending the G20 Summit and the APEC Economic Leaders' Meeting from November 11-14, spelled out China's stance on future world economic development and regional cooperation. His remarks represented a common stance by emerging economies and developing countries.

Analysts said developed countries' decreasing economic power marks a power shift toward emerging economies. China, as a big developing country with an emerging economy, should take responsibility and urge other countries to help create a better trade and financial system for sustainable world development.

Shifting power

Participants at this year's G20 Summit reached an important consensus that reflected the international influence of emerging economies and developing countries.

Established in 1999 to, in part, avoid another Asian financial storm, the G20 is made up of members of the Group of Eight (G8), the EU and 11 emerging economies—China, Argentina, Australia, Brazil, India, Indonesia, Mexico, Saudi Arabia, South Africa, the Republic of Korea and Turkey.

Although it was only the fifth G20 Summit, the most recent event in the Republic of Korea was the first held in a country with an emerging economy; this clearly shows the rising importance of emerging economies.

Speaking on the future mission of the G20 at the summit, Hu said the world community should improve the "framework for strong, sustainable and balanced growth," champion open trade and promote coordinated development. In addition, it should reform the financial system while narrowing the development gap.

During the Seoul summit, the leaders agreed to strengthen the role of the G20 in order to deal with new risks and challenges in the international financial sector while jointly boosting the growth of the global economy. They agreed to further promote the reform of international financial institutions, and confirmed the 6-percent shift of the International Monetary Fund (IMF) quota shares to emerging economies.

For the first time, the issue of development was considered a major topic, and the summit endorsed the Multi-year Action Plan on Development over the medium term. The members also pledged continuous efforts to intensify financial regulation and combat trade protectionism.

The declaration showed a common understanding of economic development. It requires developed economies remain alert to the effects of exchange rates and to retain exchange rate flexibility, to avoid the competitive depreciation of currencies and to craft a financial safety network.

The Seoul declaration and related agreements were the result of argument and compromise, said Professor Jin Canrong from Renmin University of China. He said the declaration transcended differences not only between developed and developing economies, but also among developing economies themselves. Currently, emerging economies, like China and Brazil, are worried about economic overheating and want to take measures to contain excess liquidity. However, developed economies like the United States, the EU and Japan prefer further economic stimulus due to their slow economic recoveries.

Prior to the summit, the U.S. Federal Reserve's announcement that it would purchase an additional $600 billion in Treasury bonds over the next seven months drew ire from around the world. During the summit, even Germany—a developed economy—condemned the United States for irresponsibly manipulating its currency and transferring its domestic economic pressure to other countries.

"The G20 Summit showed a compromise, especially on the exchange rate issue," said Jin. G20 members agreed to allow the market to determine exchange rates rather than continuing to force certain currencies to appreciate, which was acceptable to neither developed economies nor emerging economies. Developed economies cannot stop the tendency of emerging economics driving world economic development, so they must agree to transfer some economic power to emerging economies, Jin said.

The Seoul summit marked a shift for the G20 away from emergency response and toward long-term economic governance. The G20 played a significant coordinating role during the international financial crisis, and it will play an even greater role after the crisis. In fact,
moving forward, the G20 will play a more important role in world economic development than the G8, said Wei Xin, a researcher with the Chinese Academy of International Trade and Economic Cooperation.

He explained the global financial crisis took a heavy toll on developed economies, and the influence of emerging economies began to rise in its wake. "The power of making macroeconomic adjustments has transferred from the G8 to the G20, which consists of both developed and emerging economies," said Wei. "And economic decision-making rights are also transferring from developed to emerging economies."

Wei said the IMF should transfer further shares to emerging economies to meet the tendency of world economic development, thus pushing forward reforms in international monetary and economic systems. "Emerging economies shouldn't give up the right to establish a new international economic system," he said.

"The agreements at the G20 Summit came about after an economic and diplomatic power struggle," Shen Shishun, a senior expert on Asia-Pacific studies and President of the Institute of International Economy at the Hainan University of Economics, said to "Beijing Review." He said the rising power of emerging economies will push us toward a more multilateral world.

"The involvement of emerging economies can better contain the unilateral and irresponsible actions of some developed economies," he added.

Eyeing free trade

Focusing on this year’s theme of "change and action" in Yokohama, Japan, APEC leaders discussed regional growth strategies, economic integration, security, the Bogor Goals, the Doha Round of WTO talks and APEC’s future development.

In a speech at the APEC meeting, President Hu called on member economies to promote balanced, inclusive, sustainable, innovative and secure growth. The Chinese leader noted this year marks the deadline for industrialized APEC economies to achieve the Bogor Goals, a commitment announced at the 1994 APEC Summit in Bogor, Indonesia.

Under the commitment, APEC members agreed to realize free and open trade and investment for developed members by 2010, and for developing members by 2020. The Chinese president called on APEC members to continue the promotion of trade and investment liberalization and facilitation and the acceleration of regional economic integration.

Hu’s remarks were reflected in the declaration titled "The Yokohama Vision—Bogor and Beyond," which said APEC member economies "will implement the growth strategy out to 2015, focusing on the five desired attributes of balanced, inclusive, sustainable, innovative, and secure growth." APEC members cannot continue with "growth as usual" and "the quality of growth" needs to be improved, said the declaration.

The leaders also mapped out an action plan for the strategy, which encompasses critical elements such as structural reform, human resources and entrepreneurship development, green growth, knowledge-based economy and human security.

APEC leaders pledged to "take concrete steps" toward realization of a Free Trade Area of the Asia-Pacific (FTAAP). An FTAAP should be pursued as a comprehensive free trade agreement by building on ongoing regional undertakings, such as ASEAN Plus Three (China, Japan and South Korea), ASEAN Plus Six (China, Japan, South Korea, India, Australia and New Zealand), and the Trans-Pacific Partnership, the declaration said.

"A developing country's development is doomed to be unsustainable if it relies only on processing primary products," said Wei, stressing changing the mode of economic growth is urgent for emerging economies.

"Changing the mode of economic growth is a worldwide trend," said Shen, adding that all APEC members should establish new development concepts and seek sustainable development.

Strengthening regional cooperation, including technological exchanges, would help to reach such a goal, said Shen. He pointed out that developed regional economies, such as Japan, are more experienced in developing clean energy, and other members can benefit from technological exchanges.

APEC leaders also agreed to make further efforts toward realizing the Bogor Goals, he said. Developed countries finally realized that helping developing countries benefits everyone, and they are trying to establish good relations with developing countries.

"Developed economies are now hitchhiking on emerging economies' and developing countries' economic development," Shen said, adding that the creation of the FTAAP could drag developed economies out of their slow economic recovery.
The G20’s Commitment

The top developed and emerging countries vowed coordinated efforts to revitalize the global economy

By HU YUE

As they join hands on the macroeconomic front, the G20 countries are trying to brush away the clouds hanging over the global economy.

"Some of us are experiencing strong growth, while others face high levels of unemployment and sluggish recoveries. Uneven growth and widening imbalances are fueling the temptation to diverge from global solutions into uncoordinated actions. However, uncoordinated policy actions will only lead to worse outcomes for all," the G20 stated in a joint communiqué on November 12 closing the two-day Seoul summit held in South Korea.

This was the fifth gathering of the G20 leaders since they first met in Washington, D.C. in November 2008 when the financial crisis was just starting to sweep the globe.

The G20 was established in 1999 to bring together strategically important industrialized and developing economies to discuss key issues in the global economy. Together, the G20 members represent around two-thirds of the world's population, 90 percent of global GDP and 80 percent of world trade.

"We recognize the importance of addressing the concerns of the most vulnerable. To this end, we are determined to put jobs at the heart of the recovery, to provide social protection, decent work and also to ensure accelerated growth in low-income countries," said the communiqué.

The summit called on member countries to move toward more market-determined exchange rate systems, enhance exchange rate flexibility to reflect underlying economic fundamentals, and refrain from competitive devaluation of currencies.

Obviously, the U.S. position has been undermined by its own recent quantitative easing policy that threatens to weaken the greenback and trigger a flood of speculative capital into the emerging markets, Xiang Songzuo, Deputy Director of the International Monetary Institute at the Renmin University of China, told Xinhua News Agency.

Emerging economies fear they will be left vulnerable to a crash if the speculators later pulled out their money abruptly, he said.

A major irritant in the run-up to the summit was Washington’s proposal to set numerical targets for current account deficits and surpluses in a bid to address global economic imbalances. U.S. Treasury Secretary Timothy Geithner even suggested that countries should implement policies to reduce their current account imbalances below a specified share of national output.

Instead, the G20 leaders only agreed to draw up "indicative guidelines" to reduce unsustainable imbalances, and left the details to be discussed in the first half of next year.

The international community also raised doubts about the feasibility of the U.S. proposal. German Economic Minister Rainer Bruederle warned of falling back into "planned economic thinking," while China’s Foreign Ministry spokesman Ma Zhaoxu said the numerical target is unrealistic and unfair to developing countries.

As the size of a sustainable current account imbalance cannot be the same for advanced and developing economies and countries that are oil exporters, it was not practicable to set uniform targets like linking the size of a surplus or deficit to the GDP, said Dominque Strauss-Kahn, Managing Director of the IMF.

Needed coordination

When the financial crisis drained the life out of the world economy in 2008, the G20 managed to put their differences aside and rolled out coordinated stimulus packages in the London summit in April 2009. This was even hailed by many economies as a new model of global economic cooperation.

Two years later, the urgency to act as one seems to have faded. The policy unity also faces challenges as member countries find themselves in difference stages of recovery.

The global recovery is proceeding better than expected but at varying speeds—tightly in many advanced economies and solidly in most emerging and developing economies, said the IMF in an October report.

"Better growth prospects in many emerging economies have triggered a resurgence of capital inflows, igniting the risk of inflation pressure and asset bubbles," said the report.

"Meanwhile, growing sovereign risks in Europe could undermine the financial stability gains and extend the crisis."

The G20 has since clashed over a string of issues including the withdrawal of stimulus, currency valuation and trade imbalances. For example, the United States and Europe have sparred over a proper timing of stimulus withdrawal. The Obama administration in September 2010 unveiled a $350-billion stimulus package including infrastructure spending and tax cuts.

"In the past, stimulus was too quickly withdrawn and resulted in renewed hardships and recession," said U.S. President Barack Obama.

This put it on a collision course with Germany, France and the UK, among others, who have promised to cut budgets amid rising debt worries.

"The international community united as one spirit during the crisis," said South Korean President Lee Myung Bak. "But now there are doubts over whether such
cooperation can be achieved since the global economy is entering a recovery phase, with each country growing at a different pace.”

The expanded number of voices at the table after the G20 replaced the G7 as the leading body to manage the global economy may help explain the increased noise, said Michael Paulus, Managing Director of Asia Public Sector Group at Citigroup Inc. in Hong Kong.

“When you’ve got 20 members that are trying to agree on something, it is much harder when there were seven,” he said.

Since the global recovery remains fragile, G20 leaders need to look beyond their own economies and stand firmly together against the uncertainties, said Ba Shusong, a senior economist at the Development Research Center of the State Council.

A strong boost

Although lacking in detail, it is hard to deny that the agreements in Seoul came as a needed boon for the world economy.

In the joint communiqué, the G20 countries recognized the vital role of small and medium-sized enterprises (SMEs) in employment and income generation. Canada, South Korea, the United States and the Inter-American Development Bank jointly committed $528 million to help SMEs through grants and co-financing.

In another move, the G20 aimed to support country-led green growth policies and facilitate energy efficiency and clean energy technologies. It also confirmed the shift of over 6 percent in IMF quota shares from advanced economies to emerging ones, and called for deeper reforms to shape a more legitimate, credible and effective IMF.

When G20 countries face the undue burden of adjustment, policy responses in emerging market economies with adequate reserves and increasingly overvalued flexible exchange rates may also include carefully designed macro-prudential measures, said the communiqué. Many economists believed this was a hint of allowing emerging economies to set up capital controls and stem the tide of capital inflows.

Another bright spot was a deep commitment to keeping markets open and liberalizing trade and investments.

“We will refrain from introducing and oppose protectionist trade actions in all forms and recognize the importance of a prompt conclusion of the Doha negotiations,” said the communiqué.

Next year, 2011, is a critical window of opportunity, albeit narrow, to round things off, it added.

WTO members started the Doha round of global trade talks in 2001, with a mandate to help poor countries prosper through more trade. But the negotiations have long been stalled because of sharp disagreements over farm trade subsidies and industrial market access.

“The fear we should all have is a return to what happened in the 1930s—protectionism, trade barriers, currency wars, countries pursuing ‘beggar my neighbor’ policies—trying to do well for themselves but not caring about the rest of the world,” said British Prime Minister David Cameron.

In a recent report, the WTO said G20 countries had continued to exercise restraint in imposing new restrictions since their last summit in Toronto at the end of June. New measures, increasing but at a slower rate, covered 0.5 percent of G20 imports and 0.2 percent of the total world imports, it said.

“Cohesion and cooperation defined the G20 during the crisis. This allowed decisive policy action to help avert a second Great Depression,” said Dominique Strauss-Kahn, Managing Director of the IMF. “Now, the challenge is to secure the recovery and to create the growth and jobs that the world needs. We all recognize that much remains to be done but the Seoul Action Plan is a step in the right direction.”
The Price Of Free Trade

APEC faces many obstacles in establishing an Asia-Pacific free trade area

By SHEN MINGHUI

Twenty-one years after its founding, the Asia-Pacific Economic Cooperation (APEC) is facing major challenges. As a leading regional trade and investment forum with 21 member economies, its future development direction will be watched closely.

At the 18th APEC Economic Leaders’ Meeting, held on November 13-14 in Yokohama, Japan, leaders agreed to promote the establishment of a Free Trade Area of the Asia-Pacific (FTAAP) with practical actions, as part of the regional economic integration efforts.

Benefits

The FTAAP is not a new topic. Actually, after being proposed in 2004, it has been brought to the APEC discussion desk on many occasions. But little progress has been made, due to differences among member economies. This often-shelved proposal was put on the agenda again in 2009, when the United States announced that it would pursue the Trans-Pacific Partnership (TPP), a proposed free trade area that now includes Brunei, Singapore, Chile and New Zealand.

The FTAAP could mean many benefits. It could help promote the currently stagnant WTO negotiations and could help overcome the harmful overlapping of regional trade agreements that currently exists.

In addition, the FTAAP can serve as an alternative to the Doha Round of WTO negotiations in case of its failure. It can also prevent the United States from being excluded from East Asian cooperation. What’s more, it can help solve the trade imbalance between China and the United States, and increase the possibility of China being accepted into the U.S. free trade area network. The FTAAP could also benefit regional welfare to a huge degree.

However, the FTAAP also faces difficulties. First of all, large differences exist in the economic development levels of APEC member economies. For instance, the 2008 per-capita GDP of Australia, the highest in APEC, was 45.6 times that of Viet Nam, the lowest in APEC.

In addition, the adoption of the FTAAP may signal a move away from the organization’s original principles — featuring “open regionalism” and “concerted unilateral action” — which have persisted for two decades. APEC’s non-binding way, which places emphasis on acting on one’s own accord and reaching consensus through consultation, will be abandoned.

The implementation of the FTAAP could also lead to a split between developing members and developed members. Developed members are so anxious to promote the FTAAP that they tend to ignore their commitments to the Bogor Goals. This has aroused the concerns of developing members. The Bogor Goals, which were proposed at the APEC Summit in Bogor, Indonesia, in 1994, call for the realization of free and open trade and investment for developed member economies by 2010, and for developing members by 2020.

Obstacles

What’s more, there is no driving force for the establishment of the FTAAP, as East Asian economies lack a so-called Asia-Pacific identity. Also, it is difficult for any free trade area including China to pass muster with the U.S. Congress. And the FTAAP cannot guarantee the United States will achieve its key goal in WTO negotiations, opening the agricultural product market. This is extremely difficult when it comes to Japan, as Japanese farmers are strongly against this. Difficulties also exist for Japan in opening its service sector.

Although the United States is currently moving ahead with the TPP, it only hopes to use it as an alternative to APEC reforms. If it cannot make progress in APEC’s trade and investment liberalization in the run-up to the 2011 APEC Summit in Hawaii, it may continue to absorb APEC members into the TPP, and, by default, turn the TPP into the FTAAP.

However, the TPP requires a high degree of openness in both services and investments, as well as high standards in labor and environmental protection. Couple this with the fact that it has no uniform way of accepting new members, it remains questionable whether the TPP can help develop a free trade area in the Asia-Pacific region.

It should be noted that the developing members of APEC lack confidence in the FTAAP. This results from the relatively slow progress in APEC economic and technical cooperation over the years, and from the reality that the economic gap between the member economies has but expanded.

To be specific, there are a couple of reasons for their lack of confidence. First of all, they lack funds for economic and technical cooperation. This makes it difficult to conduct practical activities. Also, APEC’s resource allocation is inappropriate. The priority areas have not been evenly developed. The increasingly empty economic and technical cooperation projects have made things worse. From 2006 to 2009, APEC carried out 326 projects, of which 277 were on information collection and sharing. This cooperation is empty and lacks practical results.

The author is an associate research fellow with the Institute of Asia-Pacific Studies of the Chinese Academy of Social Sciences.
The FTAAP can only be a long-term goal, promoted gradually in different areas, at different levels and through various channels. Just as Japanese scholar Masahiro Kawai said, it may be most feasible to first promote Asia-Pacific economic integration through ASEAN Plus Three (China, Japan and South Korea), then ASEAN Plus Six (China, Japan, South Korea, India, Australia and New Zealand), and finally the FTAAP.

APEC ought to play a leading role in setting the terms of the FTAAP, but the FTAAP should not go against WTO principles. The FTAAP should be a stepping stone, rather than a stumbling block, for WTO trade negotiations.

While forging ahead with trade and investment integration, all member economies should adopt more active attitudes toward promoting economic and technical cooperation. For instance, they can establish an APEC skills development and promotion center to help developing members strengthen human resources development.

Since its establishment, APEC's development has relied on two fronts: one is trade and investment liberalization and facilitation; the other is economic and technical cooperation. Only when a balanced development is achieved between the two can the Asia-Pacific region achieve sustainable economic growth. After so many years of effort, from 1989 to 2008, the average applied tariff rate among APEC member economies dropped greatly, from 16.9 percent to 6.6 percent. The total trade in goods and services increased from $30 trillion in 1989 to $140 trillion in 2009. And compared to 1994, the foreign direct investment into the APEC region increased more than four times to $791 billion in 2008, representing an average annual growth rate of 13 percent.

In terms of trade facilitation, the Trade Facilitation Action Plan (TFAP I) from 2002 to 2006, reduced transaction costs within the APEC region by 5 percent. The ongoing TFAP II further reduced the costs by 1.7 percent from 2007 to 2008. In the meantime, an investment facilitation action plan is also under way.

In order to promote sustainable economic development in member economies, APEC has proposed a growth strategy focused on balanced growth, inclusiveness, sustainability, innovation and secure growth.

**Strategy**

To implement this growth strategy, APEC will promote the next phase of structural reforms, especially in five priority areas: regulatory reform, competition policy, corporate governance, public sector governance, and strengthened economic and legal infrastructure.

In fact, the reason they were chosen as priority areas is because the tariff level within the APEC region has fallen to a surprisingly low level and resistance to further reductions is quite strong.

It is foreseeable that in the future development of APEC, difficulties in reforms in the five areas mentioned above will increase. These reforms involve member economies' domestic laws, so they will encounter different degrees of resistance within different APEC economies.

In particular, developed members failed to satisfactorily complete the Bogor Goals by 2010. If APEC sets the trade liberalization goal as zero tariffs, it will be impossible for developed members to achieve the Bogor Goals. Only if it sets the goal between 0 and 5 percent can they meet the requirements. Therefore, the first-phase task of the Bogor Goals is just completed to some extent.

Under this premise, as "border measures" have yet to be cleared, it will be inevitably regarded as an evasion of responsibility and a rush to take domestic measures. It is still doubtful whether developing members have enough motivation to participate.

**FIERCE PROTESTS:**

Japanese farmers shout slogans in protest of the government's attempt to join the Trans-Pacific Partnership, a free trade agreement that will call for the opening of the country's agricultural product market, in Tokyo on November 10.
Strengthening Bilateral Relationships
Chinese President Hu Jintao reaches out to U.S., Russian and Japanese leaders

By YU YAN

Chinese President Hu Jintao met with U.S. President Barack Obama, Russian President Dmitry Medvedev and Japanese Prime Minister Naoto Kan during recent summits in South Korea and Japan.

China and the United States

Hu discussed monetary policy in his November 11 meeting with Obama during the Group of 20 (G20) Summit in Seoul.

"While meeting with Obama, President Hu tactfully but clearly criticized the United States' pressing for the appreciation of the renminbi," said Shi Yinsheng, a professor at the School of International Studies, Renmin University of China in Beijing. "The U.S. attempts would bring great harm to developing countries. U.S. policies should take into account the interests of developing countries as well as other developing countries."

Hu said China's determination to promote the reform of the renminbi exchange rate regime was unswerving, but this could only be carried out gradually.

He also told Obama China was concerned about the U.S. Federal Reserve's decision to inject $600 billion into the U.S. economy. He said this action would devalue the dollar.

China's decision to proceed with the reform of the renminbi exchange rate regime was made against the backdrop of a severe economic and employment situation, Shi said. And it was not an easy decision for China to make.

According to Shi, with this decision, China has made a big contribution to the United States. Therefore, the United States should not put more pressure on China. China will not allow the renminbi to appreciate as fast as the United States hopes, said Shi.

Despite longstanding disputes over the renminbi exchange rate, China and the United States agreed on the need to strengthen bilateral relations.

During his meeting with Obama, Hu said advancing "positive, cooperative and comprehensive" China-U.S. relations and developing a partnership in fields where the two sides have common interests are a major task facing the two countries.

This task not only affects the two countries themselves, but also has a far-reaching influence on the future of the world, Hu said.

China hopes the United States will pursue constructive policies toward China and strive to stabilize bilateral ties. The two sides should trust each other and work together to address global challenges at a time of constant change in the international and regional situation, Hu said.

Obama agreed with President Hu's views on the development of bilateral ties, saying the United States is ready to strengthen cooperation with China.

Obama also said the United States is looking forward to further dialogue with China to boost bilateral ties.

Hu is scheduled to pay a state visit to the United States early next year. And both presidents pledged to make the visit a success at their meeting in Seoul.

China and Russia

Hu also met Russian President Medvedev on November 11. The two heads of state exchanged views on major international and regional issues of common concern that affect the development of the China-Russia relationship.

Hu said China and Russia should each hold grand celebrations to mark the 10th anniversary of the signing of the China-Russia Treaty of Good-Neighborliness and Friendly Cooperation next year. The two countries should also continue to boost their "traditional friendship and all-round strategic cooperation."

"China-Russia mutual political trust keeps strengthening," said Zhao Mingwen, Director of the China Center for Periphery Security Studies with the China Institute of International Studies.

High-level visits between China and Russia have been frequent this year. In May, Hu attended celebrations of the 65th anniversary of Russia's victory over Nazi Germany in Moscow. In September, Medvedev visited China, and the two countries issued a joint declaration regarding World War II.

Participation by Chinese and Russian leaders in significant events in each other's countries serves as proof of strengthening
Trilateral Coordination

China, Russia and India called on other members of the Group of 20 (G20) major economies to implement agreements reached at G20 summits.

At their 10th trilateral talks in Wuhan, capital city of central China's Hubei Province, on November 15, Chinese Foreign Minister Yang Jiechi, Russian Foreign Minister Sergei Lavrov and Indian External Affairs Minister S.M. Krishna called for efforts to strengthen macroeconomic policy coordination and promote "strong, sustainable and balanced growth" of the world economy.

The G20 has become a major forum for international economic and financial cooperation, they said.

At the same time, they underlined the need to reform the international financial system, while voicing opposition to protectionism.

They also agreed the three countries would step up consultation to play a positive role within the framework of BRIC (Brazil, Russia, India and China), as well as within mechanisms for economic and security cooperation in the Asia-Pacific region.

The BRIC countries have convened two summits in Russia and Brazil and a third summit is scheduled to be held in China next year.

Chilean President Visits China

China will expand trade ties with Chile by boosting collaboration in many areas, including agriculture, science and technology, mineral resource development, light industry and home appliances, said Chinese President Hu Jintao.

Hu made the remarks while meeting with visiting Chilean President Sebastián Piñera in Beijing on November 16. The two countries signed three agreements on economic cooperation following the meeting.

Chile is the first Latin American country to recognize China's full market economy status and sign a bilateral free trade agreement with China. China is Chile's biggest trade partner, while Chile is China's second biggest trade partner in Latin America. Official Chinese statistics show bilateral trade totaled $17.72 billion last year.

The two countries should deepen political trust, increase cultural exchanges and enhance coordination in international and regional organizations, Hu added.

The visit, which came as the two countries celebrated the 40th anniversary of their diplomatic relations, was Piñera's first state visit to China since taking office in March.
Available in the Expo Village, at Shanghai Foreign Book Store, various audio and video stores, and CIPG's overseas branches

Days and Nights in Shanghai, released in four 60-minute versions in Chinese, English, French and Japanese, presents the city's glamour, history and culture, scenic spots and tourist attractions through narrations and eye-catching visuals.

A cultural travelogue for foreigners
A historical review through multilingual DVDs
A 360-degree look at dynamic Shanghai
A reflection of the host city during the 2010 World Expo

Contents of the DVD
Welcome to Shanghai
07:00-08:00 Eternal Waibaidu Bridge
08:00-09:00 Fairview—The New Shilupu Dock
09:00-10:00 Multinational Architectures on the Bund
10:00-11:00 A Museum You Cannot Miss
11:00-13:00 Dining at City God Temple and Sightseeing in Yu Garden
13:00-14:00 Jinzhī Yuyue Cheongsam Store
14:00-15:00 Memories Hidden in the Streets
15:00-16:00 Tianzifang—Shanghai’s Greenwich Village
16:00-17:00 New Height of the City—Shanghai World Financial Center
17:00-19:00 Sunset on Riverside Avenue
19:00-20:00 Hengshan Road in Moonlight
20:00-21:00 Nightlife in Xintiandi
21:00-22:00 Shopping at Nanjing Road
19:00-24:00 The Brilliant World Expo Site
Reach elite travelers through VIP media

在机场贵宾专用停车场内汽车展示
面向您的尊贵目标客户
Exhibit new luxury vehicle models in exclusive airport VIP parking lots.

为您的客户及潜在客户提供尊贵座驾，
于登机口与贵宾室间的摆渡试乘
Let your VIP clients experience elite vehicles through our shuttle service.
Games Beyond Sports

The Asian Games are not only a sports but also a cultural gala

By YIN PUMIN

Twenty years after the 11th Asian Games were held in Beijing in 1990, the sports gala again came to China, putting Guangzhou, south China's Guangdong Province, in the host position.

With the theme of “Thrilling Games, Harmonious Asia,” the 16th Asian Games, running through November 12-27, attracted more than 14,000 athletes and officials from 45 countries and regions to the city to compete.

On a continent inhabited by nearly two thirds of the world's population, the Asian Games have become Asia's largest sports event and a symbol of unity between different cultures, politics and religions, said Sheikh Ahmad Al-Fahad Al-Sabah, President of the Olympic Council of Asia.

An opportunity

The Chinese people are trying their best to present a sports gala that reflects the concept of harmony, a green Earth and civilization.

Guangdong built and renovated 70 stadiums and gymnasiums, including 53 competition and 17 training venues. Twelve of the 70 were built from scratch, said Zhang Guanying, Vice President of the Guangzhou Asian Games Organizing Committee (GAGOC).

The air and water quality in Guangzhou has been improved, its transportation system updated and barrier-free facilities put in place.

Some 600,000 volunteers are going all out to ensure a comfortable and safe environment for the audience and athletes.

With these efforts, the city ushered in the largest ever Asian Games, featuring 28 Olympic and 14 non-Olympic sports with 476 gold medals up for grabs.

Since the ninth Asian Games in 1982, China has dominated the medal rankings. In 1990, China won 183 gold medals from the Beijing Asian Games. At the last Asiad, in Doha, Qatar, China claimed 165 gold medals, 88 silver and 63 bronze.

In order to continue shining at the Games, China sent a record delegation of 1,454, including 977 athletes, to compete in 447 events in 41 sports, except kabaddi.

The Chinese athletes included 35 Olympic champions. But most of them, accounting for two thirds, did not take part in the 2008 Olympics nor the Asian Games held four years ago in Doha.

“We hope to spot young talent at the Asian Games and prepare them for the 2012 London Olympics,” said Duan Shijie, head of the Chinese delegation.

“The Asian Games are not just a sports gala to win as many gold medals as possible for us any more,” said Duan, also Vice Minister of the State General Administration of Sport. “It's a platform to exchange friendship as well as show the world that great changes are taking place in Chinese sports.”

The official said the Asian Games would also provide a good opportunity for officials and coaches to see how sports are developing internationally.

“Some of our traditional training systems are out of date. We should learn from other countries and regions and improve our systems,” Duan said. “It's not about having more athletes involved in intensive training anymore. Sport is more about the proper use of knowledge and technology.”

Duan said China is good at sports such as table tennis and badminton, but lags far behind internationally in swimming, track and field, and team sports.

“Ball games, such as soccer and basketball, are more difficult to handle because they need more complicated and systematic training systems. They need more people to get involved in different ways,” Duan said. “We need breakthroughs in those sports to balance our development toward a sports powerhouse.”
A cultural gala

At the invitation of organizers, artists from 25 countries and regions gathered in Guangzhou on the night of November 15, along with the Shenzhen Symphony Orchestra, to present a unique multicultural concert reflecting the traditions and culture of the participating countries.

Apart from sports, the Asian Games are also a platform for different cultures to showcase themselves, said Chen Chunsheng, Deputy Director of the GAGOC’s Cultural Events Department.

A boat parade along the Pearl River before the opening ceremony of the Asian Games on November 12, as well as performances on the riverbanks of traditional Guangzhou drumming, lion dancing and many other events, showed athletes and officials the natural and urban life of Guangzhou.

There will be a total of 317 sessions of 38 programs presented as an Asian Games cultural campaign by more than 2,000 artists from 20 countries and regions from November 8 to December 19, according to Chen.

The performance program includes well-known plays from Asian countries and regions as well as local plays from the host city. They will showcase diversified cultures in Asian countries and regions and offer a platform for cultural communications.

Charming Asia is part of the big cultural feast. It presents performing arts from various Asian countries that Chinese audiences will have rarely seen before.

At the Lingnan Convention Hall in Guangzhou, Syrian Sufi musician Nourredine Khourchid and his “Whirling Dervishes” group share the same stage with Christian singer Ghada Shibeir from Lebanon.

Meanwhile in the Huanghuagang Theater, the Royal Ballet of Cambodia stages a show based on a Khmer mythical love story between the half-bird, half-woman Monoreo and prince Prathom Sothun.

### Numerical Differences

<table>
<thead>
<tr>
<th></th>
<th>Guangzhou 2010</th>
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<td>Volunteers</td>
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<td>200,000</td>
</tr>
</tbody>
</table>

Source: Xinhua News Agency
EYE-CATCHING SPORT:
Dancers from Kazakhstan take part in the Waltzing competition on November 14.
"I'm honored to be here. I think this program shows both the unity and variety of Asian arts. Sharing the stage with artists from so many different countries is an amazing experience for me," said Reem Kelani, a Palestinian singer who performed at the first concert of the series on November 8.

It is the first time the whirling dervish dance of Islam's Sufi tradition has been staged in China.

Originally a religious ritual, the dance of the whirling dervishes involves continuous whirling and is said to represent a mystical journey of man's spiritual ascent through love to perfection.

"We may have different cultural backgrounds, but we share the same love for life," Khourchid said. "The Asian Games have provided a great platform for culture and arts."

This is the second tour for the Royal Ballet of Cambodia, the first was 51 years ago.

"Each country has its own traditions. What we are presenting here is a dance style with eight centuries of history," said Norodom Buppha Devi, princess of Cambodia and director of the troupe.

Besides, there will also be 79 exhibitions held during the period. Most tickets to these performances and exhibitions are being given out to residents of Guangzhou communities free of charge.

"Nowadays, large-scale events have become the best platforms for culture. Just like the World Expo is not only about novel technology, the Asian Games are not only about sports," said Lin Jian, Director of Charming Asia. "For Chinese people, such events are good starting points to get to know more about other cultures."

(Miao Xiaoyang contributed reporting in Guangzhou)

Odd Sports at Asian Games

DanceSport
Debut: 2010 Guangzhou
DanceSport is generally defined as partner dancing, with the man and woman using the required technique together with floor-craft and artistic interpretation to produce a highly disciplined dance performance.

Kabaddi
Debut: 1990 Beijing
Kabaddi was probably invented to ward off group attacks in ancient times. It is basically a combative sport, with seven players on each side and played in two 20-minute halves. The core idea is to score points by raiding the opponent's court and touching as many of its players as possible without getting caught on a single attempt.

Dragon Boat Racing
Debut: 2010 Guangzhou
The history of dragon boat racing goes back more than 2,200 years. It emerged as an international sport in 1976. For competition events, dragon boats are generally rigged with decorative Chinese dragon heads and tails.

Sepak Takraw
Debut: 1990 Beijing
It is generally believed that sepak takraw was played as early as the ninth century. It is played on a court with a hand-woven ball (takraw) by teams made up of two or three people. Points are scored by hitting the ball above the net and into the court as the opposing players attempt to block. Players can use their feet, legs, shoulders and heads but not their hands.

Roller Sports
Debut: 2010 Guangzhou
Roller sports developed from ice-skating. In 1863, New Yorker James Plimptom solved the problem of controlling skates when he used a rubber cushion to anchor the axles. From then on, roller sports have spread all over the world. (Source: Xinhua News Agency)
Fighting a Smokeless War

China still faces formidable challenges while endeavoring to keep its commitments under the World Health Organization Framework Convention on Tobacco Control

By WANG HAIRONG

On November 15, a new global report indicated that "efforts to combat the global tobacco epidemic are lagging, in spite of strong progress in some countries." The report was published by the Framework Convention Alliance, a coalition of more than 350 non-governmental organizations from over 100 countries.

The report was released during the Fourth Conference of the Parties to the World Health Organization Framework Convention on Tobacco Control (WHO FCTC), held in Punta del Este, Uruguay, on November 15-20 this year.

Although China was not included in this report, its fight against tobacco is in a similar situation. Progress has been made regarding tobacco control in China, said Yang Gonghuan, but China’s efforts are not enough.

Yang is the director of China’s National Office of Tobacco Control under the Chinese Center for Disease Control and Prevention (China’s CDC). She also serves as deputy director general of China’s CDC.

China ratified the WHO FCTC in 2005 and put it into force on January 9, 2006.

The convention includes measures to reduce tobacco consumption and supply. Parties to the convention are obligated to restrict or comprehensively ban tobacco advertising, promotion and sponsorship. They also have to put proper warnings on tobacco packaging, protect people from exposure to secondhand smoking in public places, implement taxation policies aimed at reducing tobacco consumption and clamp down on illicit trade in tobacco products.

China is the largest consumer and producer of tobacco products. Statistics from China’s National Office of Tobacco Control show China accounts for one third of the world’s total smoking population, cigarette sales and cured tobacco output.

Currently, more than 300 million Chinese adults smoke, and about 540 million non-smokers are exposed to secondhand smoking, including 180 million children under the age of 15, according to China’s Ministry of Health.

Every year, about 1 million people in China die of tobacco-related diseases, said the Ministry of Health.

Piecemeal progress

China has made great progress in controlling tobacco consumption, Yang told the Beijing-based Sanlian Life Weekly. Now, there is stronger political will, enhanced public awareness and increased media coverage on tobacco control in China, Yang said.

During the annual session of the National People’s Congress and the Chinese People’s Political Consultative Conference, dozens of bills and proposals related to tobacco control were put forward, Yang said. The number used to be very small, she added.

At the grass-roots level, many villages and counties hold smoke-free meetings, and citizens host smoke-free weddings. In this sense, the effectiveness of tobacco control is very obvious, Yang said.

On World No Tobacco Day, which falls on May 31, various activities are held nationwide to draw attention to the tobacco epidemic and to the preventable death and diseases caused by smoking.

Some localized or partial smoking bans have been put in place in China. Now, cities such as Beijing, Shanghai, Hangzhou, Guangzhou and Yinchuan have promulgated regulations banning smoking in public venues, Xu Guihua, Vice President of the Chinese Association on Tobacco Control, told people.com.cn.

To comply with the packaging and labeling requirement set forth in WHO FCTC’s Article 11, in April 2008, the State
China's Tobacco Control Regulations
Since 1981, the Ministry of Education has enacted several regulations prohibiting middle school students from smoking.
In 1991, the National People's Congress of China passed a law on the protection of minors, prohibiting smoking in indoor public places where minors gather.
In 1994, China's Advertisement Law adopted by the National People's Congress outlawed tobacco advertising on radio, television and in newspapers.
In 1997, the Ministry of Health, jointly with the Civil Aviation Administration of China and some other government departments issued a regulation banning smoking on public transport.
In 2007, the Beijing Municipal Government banned smoking in taxis and in most indoor public areas the following year. Other cities, such as Shanghai, Hangzhou, Guangzhou and Yinchuan, have followed Beijing's example and promulgated regulations banning smoking in public venues.
On May 20, 2009, the Ministry of Health ordered a comprehensive smoke ban in medical institutions nationwide from 2011.

(Sources: Website of the Chinese Association on Tobacco Control and media reports as specified)

SAY NO TO TOBACCO: Students in Wujil School of Rushan City, Shandong Province, stand in the pattern of a smoke-free sign on May 27 to mark World No Tobacco Day

Tobacco Monopoly Administration and the State General Administration of Quality Supervision, Inspection and Quarantine jointly issued a regulation governing the packaging and labeling of domestically produced tobacco products.

The regulation requires such warning messages as “smoking harms your health” and “quitting smoking early helps reduce the risk” be displayed on tobacco products' packaging, and the warnings should cover at least 30 percent of the display areas. Nonetheless, it does not mandate pictures or pictograms depicting the health hazards of tobacco use.

Formidable challenges
Despite the progress in tobacco control, China has a long way to go, said Xu. China does not have any comprehensive smoking ban at the national level, whereas 17 other countries have, she said.

The compliance rate of existing laws and regulations banning smoking is low, said Yang. Smoking at indoor workplaces and public places is still prevalent. The 2010 Global Adult Tobacco Survey (GATS) published in this August showed that in China, about one third of people noticed smoking in public transportation and health care facilities, six in 10 adults noticed smoking at the workplace, while almost nine out of 10 noticed smoking in restaurants.

Xu also pointed out despite China's regulation on tobacco packaging and labeling, the warning messages used are not effective in deterring people from smoking. Many people in China are not fully aware of the serious health risks of tobacco products and still send them to others as gifts, Xu said.

Meanwhile, tobacco companies target young people by sponsoring charity events. Yang told the WHO earlier this year. She said a primary school rebuilt after the Sichuan Wenchuan earthquake with funds from a tobacco company was named Sichuan Tobacco Hope Primary School, and the school walls are inscribed: “Talents are brewed by intelligence; tobacco helps you grow up and become accomplished.”

Another perplexing issue about tobacco control in China is that although the WHO FCTC has been in force for several years, the number of smokers and the production and sales of tobacco products have increased over the years, said Xu.

Data from China's National Bureau of Statistics show that in the first half of 2010, the national wholesale volume of cigarettes reached 446.1 billion yuan ($65.6 billion), and the tobacco industry paid 325.2 billion yuan ($47.8 billion) in taxes, up 16.7 percent and 17.52 percent respectively from the same period last year.

The tax contribution by the tobacco industry to the Chinese fiscal revenue was 8 percent in 2009, said Zhang Xiuliang, spokesman for the State Tobacco Monopoly Administration.

Tobacco is a lucrative industry, especially for big tobacco provinces such as Yunnan. Although a 2005 Peking University study found that the health costs of tobacco exceeded the profits from the tobacco industry, yet Yang told the WHO that the government is reluctant to relinquish the revenue.

“The workforce loss indicated by the study is a long-term problem, but most local government officials are focused on today's issues,” Yang said.

The fundamental obstacle to tobacco control is institutional conflicts of interests, Yang said, as the organization in charge of the tobacco control policy making and enforcement is also in charge of tobacco production in China.

“It's like a bunch of foxes in a chicken coop discussing how to protect the chickens,” Yang described the situation to Sanlian Life Weekly.
Easing Housing Woes

A new housing law brings the hope of decent housing for everyone

By LI LI

Legions of urban residents now priced out of China's booming housing market may soon get relief under a new law working its way through China's legislative system.

Xinhua News Agency reported on November 8 the Ministry of Housing and Urban-Rural Development submitted a draft Basic Housing Security Law to the Standing Committee of the National People's Congress (NPC). The NPC is now soliciting opinions from other governmental units. The draft law sets standards for low-income housing construction and management, specifies applicant requirements, and deals with related issues such as rent subsidies for low-income earners; economic incentives and taxation; and housing guarantees for farmers.

The law is intended to rectify problems caused by the commercialization of China's real estate sector. Over the past 12 years, market reforms in the industry have generated jaw-dropping profits and brought huge revenues to local governments through land sales. However, astronomical prices have meant many people are unable to own their own apartments and are often reduced to living in crowded, overpriced housing.

A new term has even sprung up to describe such people "ant tribes." These people, often low-income college graduates, frequently live in tiny rooms in overstuffed apartments subdivided to fit 10 or 20 people, instead of three or four as originally intended. They should be entitled to low-priced government housing for rent if there was sufficient supply of this kind of housing.

Twelve years ago, the government attempted to provide for low- and middle-income earners when it commercialized the housing market. However, State Council directives and local implementing regulations were not satisfactorily implemented.

An editorial published on the website of Shanghai-based Xinmin Evening News said, with the new law under consideration, China's housing system is returning in some ways to its starting point 12 years ago. Under the earlier system, housing was distributed to people at below-market prices, usually through their place of employment. Although the new law may seem in some ways like a return to the past, the editorial said it is actually a symbol of progress since market tools and social welfare policies will be combined to guarantee citizens' right to housing.

The much-anticipated new law is expected to ensure the construction of affordable and low-rent housing. In recent years, the booming real estate market created disincentives for building less profitable housing.

Gao Fengtao, Vice Director of the Legislative Affairs Office of the State Council, said in March that the law is expected to be implemented in 2011.

Affordable housing problems

While more and more people have found jobs in big cities as China's urbanization has accelerated, the amount of affordable housing has not kept up due to a lack of funds and land.

Statistics released by the NPC in October showed that the Central Government had already spent its annual budget for the construction of affordable housing, 79.2 billion yuan ($11.8 billion), by the end of August. At the same time, local governments, which should shoulder part of the cost, said they faced difficulty in raising money for housing. According to the NPC report, only 23.6 percent of the housing funds required from local authorities in 2009 had been allocated in the first eight months of that year.

Another problem is that local authorities are reluctant to spare land for low-income housing projects since they yield low profits. Tao Yan, a professor at Renmin University of China, said local governments, whose rev-
The much-anticipated new law is expected to ensure the construction of affordable and low-rent housing. In recent years, the booming real estate market created disincentives for building less profitable housing.
**InterContinental Beijing Financial Street**

Lo's Kerry Centre Hotel, Beijing has a line-up of mouth-watering culinary treats perfect for a grand finale to the end of the year.

- Christmas Carol at 6:30 p.m. on December 24 in partnership with Dandelion School, a school for children of migrant workers. Shangri-La’s Kerry Centre Hotel, Beijing will invite the school’s Christmas choir to perform on Christmas Eve at various locations within the hotel. There will be a donation drive during the performance, with contributions supporting this non-profit charity organization.

- A White Christmas at the Grand Ballroom On Christmas Eve, guests can experience a dazzling array of cuisine styles enhanced with festive highlights, with nostalgic songs by Zhang Xian, a pop singer in the 1970s, and performances by comedians Wang Yuebo and Yang Ning. Magic, Chinese acrobatics, and Chinese-face painting will entertain children’s clowns from the Dandelion School.

**Holiday Inn Downtown Beijing**

As the snow falls as the clock strikes midnight, with the rhythm of the rim and silver River waves around you, Santa Claus arrives on his sleigh and beautiful pine trees dancing in the brilliant rays of light. Christmas is approaching!

Enjoy an authentic Western Christmas gold buffet on December 24 at Garden Court Bar of Holiday Inn Downtown Beijing. The prices are 1,364 yuan, 1,584 yuan, or 1,688 yuan net per adult, 788 yuan net per child under 1.2 metres tall.

Be surprised by the exciting luck draw in a totally festive and magic ambiance to feel the brilliance and passion of Christmas.

Reservations before December 10, 2010 will enjoy a 20% discount.

**Shangri-La’s Kerry Centre Hotel, Beijing**

Evoke the spirit of Christmas and end of 2010 with a remaining bang! Be it a gift of a festive gift basket, a scrumptious Christmas Eve buffet dinner or a New Year’s Eve countdown party, Shangri-
Ariva Wins Prize for Hospitality Management for Shanghai Corporate Pavilion China Expo 2010

Ariva Hospitality, a hotel and serviced apartment management company from Singapore, was honored to provide hospitality management services for Shanghai Corporate Pavilion China Expo 2010.

Throughout the 184-day Shanghai World Expo, Ariva, with its full dedication and professional expertise, succeeded in providing perfect services for the Shanghai Corporate Pavilion.

Recently, the Shanghai Corporate Pavilion was awarded eight prizes by the Shanghai World Expo organizers, including pavilion management, guest services, and teamwork excellence. Ariva was also awarded the Excellent Team in Expo Park Service award. More than 40 Ariva staff members also won honors for their outstanding performance.

Shama

Asia's premier, boutique serviced apartment provider, Shama, recently announced the opening of its first flagship property outside Greater China—Shama Sukhumvit. Following Shama's acquisition by ONYX Hospitality Group, the Thailand-based hotel management company, Shama's new property in Bangkok marks the expansion of its superior serviced apartments in a number of gateway cities in Asia.

The new Shama Sukhumvit is located just 30 minutes from Suvarnabhumi International and Don Muang Airports and close to the BTS Sky Train. The property is located in the heart of Bangkok, close to both the business district and some of the city's most popular tourist attractions, providing an ideal short- or long-term accommodation option for families, tourists and business travelers.

To celebrate the grand opening of Shama Sukhumvit, Shama is pleased to offer a special promotional daily rate from Baht 2,980 (around $99); valid from now until November 30, 2010.

The luxury package includes:
- Welcome drink
- Breakfast
- Complimentary Wi-Fi Internet access
- THANN amenities
- Complimentary airport limousine transfer from Suvarnabhumi International and Don Muang Airports
- A spacious apartment with extensive clubhouse facilities including an outdoor swimming pool (A minimum stay of five nights is required.)
Diesel in Short Supply

Frequent diesel oil shortages necessitate the need to revamp pricing mechanisms and break up oil monopolies

By LAN XINZHEN

Li An has made many journeys from Xinzhou, Shanxi Province, to Beijing on the expressway. The trips have been too numerous, much like his cargo of potatoes that will be sold at the Xinfadi Farm Produce Wholesale Market in the Chinese capital city. Recently, Li has run into problems that could threaten his trucking excursions to Beijing and across China.

Since October, diesel oil shortages that started in south China have spread north and west, with many gas stations low on or completely lacking diesel oil. To fill his tank, Li often has had to visit five or six gas stations. “Without a full tank, we dare not run the truck,” he said.

According to figures released by the Petroleum Circulation Committee (PCC) of the China General Chamber of Commerce, by November 12 this year, more than 5,000 privately owned gas stations had run out of diesel fuel and 80 percent of state-owned gas stations had limited the amount of fuel customers could buy.

This isn’t the first major diesel oil shortage to plague China. In the past decade, such shortages have happened every one or two years. But this shortage sets itself apart from previous ones, and while it may not impose a serious impact on the Chinese economy, it has sounded the alarm from the country’s energy mechanism.

Behind the shortage

This year, the blame for the lack of diesel falls on some local government measures to limit electricity usage in parts of China.

Five years ago, the Chinese Government set a target that by 2010 the energy consumption per unit of GDP would be reduced by 20 percent of 2005 levels. The decision was passed down to all provincial- and county-level governments under the stipulation that government officials in these areas would be held responsible if the targets were not reached.

As the deadline quickly approaches, local officials are scrambling to save energy and reduce emissions, and one of the ways they’re doing so is to limit electricity supplies.

Zhong Yongsheng, Deputy Director of the Center for China’s Urban-Rural Development Studies, said because of the rush limit of electricity, many enterprises have had to generate electricity by themselves using diesel oil. And so the shortage began.

Furthering the dilemma was the fact that many oil refineries often perform maintenance work on equipment in July and August when oil consumption is usually low. This year, however, output decreased just as demand was increasing.

“The reduction of diesel oil output and limits on electricity supplies jointly caused the shortage of diesel oil, directly and indirectly,” Zhong said.

Lin Feng, a petroleum industry analyst with Shandong Zuoqiang Information Co. Ltd., said this year the diesel oil shortages mainly hit south China, especially the southeast coastal area, which was directly related to the limit of electricity supply by some local governments. The unexpected limit has increased the country’s demand for diesel oil by at least 100,000 tons.

Zhao Youshan, PCC Chairman, thinks some branches of China National Petroleum Corp. (CNPC) and China Petroleum and Chemical Corp. (Sinopoc) have jointly directed the diesel oil shortage this time. The two state-owned oil giants, as the country’s biggest refined oil suppliers, have monopolized the Chinese oil market.

During negotiations with the branches of the two oil giants, Zhao became familiar with their policies and practices. He said he eventually found out these branches had oil in their depots, but had stopped oil wholesale to other gas stations and were only supplying their own gas stations.

“Before each oil shortage, these branches will create tension in the market by stopping wholesale and limiting supplies. Then the price of oil increases. Jointly pushing up prices has been a basic sales strategy for them,” Zhao said, adding that their ultimate goal is obviously to force the National Development and Reform Commission (NDRC), who has pricing power over refined oil, to raise the selling price of refined oil.

According to figures from the National Statistics Bureau and the General Administration of Customs, in June 2010, China produced 13.34 million tons of diesel oil. It imported 83,000 tons and exported 269,000 tons, so the apparent consumption—the sum of net input and output—in June was 13.15 million tons. Domestic apparent diesel oil consumption was 13 million tons in July, and then declined further to 12.89 million tons in September.

Traditionally, diesel oil demand is low in June and July, hence exports of diesel oil often increase rapidly. But because domestic demand was low in June and July this year, the high apparent consumption of diesel shows that the diesel inventory was actually increasing, or at least higher than usual, during those two months.

So why haven’t China’s oil giants been selling their oil? Because on the refinery oil market, the retail price has been lower than the wholesale price.

In early November, the wholesale price of diesel oil in China was 7.634 yuan ($1,149.7) per ton, increasing 818 yuan...
($123.19) per ton month on month, which was 154 yuan ($23.19) higher than the average national retail price per ton.

Zhong Jian, chief analyst of the Shanghai Toprise Information and Technology Co. Ltd., said higher wholesale prices than retail prices would likely cause wholesalers to find it difficult to sell expensive oil and make retailers unwilling to sell oil at a loss.

Afflicted by the quantitative easing policy by the U.S. Federal Reserve, international oil prices have been increasing quickly, Zhong said. The higher wholesale prices compared to retail prices reflect business expectations for price increases in the future, so possibilities cannot be ruled out that diesel oil stockpiling won't soon ensue.

Addressing the shortage

To solve the problem of suspended or limited diesel supplies by gas stations, expectations on future price increases need to be relaxed, Zhong said. If, after raising the retail prices of refined oil on October 26, the government will raise the oil prices again in late November, the two oil giants may have more incentive to increase oil supplies.

This will prove to be a major challenge to consider for related decision-making departments. If they fail to follow through with crude oil price fluctuations and raise refined oil prices again, consumers will complain and the government will fear repercussions from the general public. But if they try to control the price, the oil shortage will not be stifled.

Chen Kexin, chief analyst of the Distribution Productivity Promotion Center for China Commerce, thinks it is impossible to thoroughly solve the oil shortage anytime soon. Under the general conditions of short supply, together with the unpredictable U.S. dollar, prices of energy products such as diesel oil will most probably increase in the future. To the worldwide short supply and rising prices of energy products, China must make long-term preparations.

Chen said since China is undergoing massive industrialization, urbanization and infrastructure construction, diesel oil and all other energy products will be in high demand. This high demand will not decrease in the short term and may actually continue for decades to come.

To relieve diesel oil supply strain, the government should first rationalize the wholesale and retail prices of diesel oil, and then open the wholesale and retail sector of refined oil and break any monopolies, Chen said. It should also increase imports of diesel oil while curbing exports. More importantly, the government should encourage energy saving and eliminate backward production capacities. Cutting off electricity and stopping the flow of diesel oil and other resources to these companies would effectively cut off their lifeline and force them to shut down.

According to estimates by C1 Energy Ltd., the short supply of diesel oil may be relieved by the end of 2010. And due to increased transportation needs during the next Spring Festival in February 2011, the two oil giants, under pressure from the government and the public, will most likely relax their inventories to mitigate the oil shortage if only momentarily.

Fragile reserves

The frequent oil shortages in recent years reflect the fragility of the reserve system for refined oil in China. “At present, the strategic refined oil reserve is progressing slowly,” said Mao Jiuxiang, Deputy Director of Sinopec’s Economics and Development Research Institute.

Since 2003, China has been preparing oil reserve bases. The primary plan is to complete hardware facilities in three stages within 15 years. The reserves include 10-12 million tons in the first stage and 28 million tons in the second and third stages respectively. Facilities for the first stage are currently in use, consisting of four crude oil reserve bases with an aggregate reserve capacity of 10 million tons. But all the reserves would last only 30 days, whereas the internationally accepted security line is 90 days.

In a proposal for the petroleum and chemical industry released in May 2009, the State Council said for the first time that it would “act promptly to establish oil reserves, accelerate the construction of reserve facilities and increase national oil reserves by grasping the present favorable opportunities.”

The target is to raise the refined oil reserve to 3 million tons in 2009, 6 million tons in 2010 and 10 million tons in 2015.

However, since the plan was somewhat vague, progress has been slow. And the target of 3 million tons for 2009 was not reached.

“Oil companies have no incentive to increase commercial reserves. To increase strategic reserves, the government must grant favorable policies and financial support,” Mao said.

Besides financial problems, another reason for the slow progress in oil reserves is that refined oil is easy to volatileize and deteriorate, so the oil depots must change oil products at regular intervals, which increases companies’ management difficulties.

Liao Kaishun, an oil industry analyst at C1 Energy Ltd., suggests that the government’s future control of diesel oil exports should be under the precondition of strengthening the national strategic and commercial reserves of refined oil. In the meantime, refined oil reserves should be open not only to the two oil giants and state-owned enterprises, but also to more private enterprises, in order to diversify the storage of oil.
Rushing to Invest Overseas

Chinese companies expand abroad to establish a global foothold in foreign markets

By HU YUE

With deep pockets and eyes abroad, Chinese companies are looking to expand their footprints beyond China's borders.

On November 1, the Ministry of Commerce (MOFCOM) released China's outbound investment development report for 2010, painting a favorable picture for corporate China's intentions to head overseas.

China's outward direct investment (ODI) grew 1.1 percent year on year to $65.53 billion in 2009, compared with $2.8 billion in 2003, the report said.

The investing spree comes amid the unprecedented global recession that has forced multinationals to ease back on expansions. Global flows of foreign direct investment nose-dived 37 percent to around $1.1 trillion in 2009, said the United Nations Conference on Trade and Development.

The wave has showed no signs of tapering off this year. From January to September, China's overseas investments in non-finance sectors soared 10.4 percent from a year ago to $36.3 billion, said Zhang Xiaojian, Vice Minister of the National Development and Reform Commission, at the opening ceremony of the Second China Overseas Investment Fair in Beijing on November 2.

In the latest of overseas investing, appliance maker Guangdong Midea Holding Co. Ltd. on October 11 announced the acquisition of a 32.5-percent stake in Miraco, an air conditioner market leader in Egypt. Midea is now the second largest shareholder of the Egyptian company and has gained access to Miraco's products, brands and markets.

Without a doubt, expansion-minded Chinese firms are quickening the pace of establishing a cross-border presence. Their solid financial grounding and a stronger yuan are paving the way for them to step onto the world stage. Moreover, the Chinese companies now have the cash to cherry-pick foreign assets, while beleaguered global giants detach themselves from failing businesses.

Merger and acquisition (M&A) deals accounted for 34 percent of the country's ODI value in 2009, said the MOFCOM report.

Policymakers have also recognized that going out is a much wiser strategy than staying home. "The government is sparing no effort to strengthen consultation services and protection for the firms heading overseas," said Chen Lin, Deputy Director of the MOFCOM Department of Outward Investment and Economic Cooperation.

China has reached bilateral investment protection agreements with 130 nations, and the MOFCOM investment promotion agency has tied up counterparts in 71 countries and regions to beef up cooperation, said Chen.

In addition, stiff efforts are also underway to enhance risk alarms and emergency responses, as well as talent training about cross-cultural management, he said.

While state-owned enterprises lead the tide of globalization, private players are quickly stepping up their games as well, noted Chen.

One case in point is the Zhejiang-based Geely Automobile Holdings Ltd., which closed a deal in August to purchase the Volvo Car Corp. from Ford Motor Co.

By expanding globally, Chinese companies will make global names for themselves and help contribute to China's economic recovery, said Chen Jian, MOFCOM Vice Minister.

"But they still have a long way to go before catching up with established multinationals," he said. "It will take time to bridge the gap in experience."

By the end of 2009, China's accumulated ODI had amounted to $246 billion, a milestone 1.3 percent of the world's total, said the report.

The vice minister also dismissed rumors that the government handed out subsidies for state-owned enterprises to invest overseas. "Their outbound investments are completely market-driven strategies," he said. "The enterprises operate independent-

**Accumulating resources**

The tide of overseas acquisitions was driven partly by China's thirst for natural resources. The MOFCOM report said 24 percent of the country's ODI last year went to the mining sector.

In the first nine months of this year, China was responsible for 49 outbound mining and metal deals, soaring 108 percent from a year earlier, said a report by the international accounting firm Ernst & Young.

For instance, PetroChina, the country's largest oil and gas producer, has teamed up with Royal Dutch Shell Plc. to jointly acquire Arrow Energy Ltd., an Australian coal seam gas company. The two established a 50:50 percent joint venture to pay 3.5 billion Australian dollars ($3.1 billion) for all Arrow stock.

"China's outbound M&A investment continues to be driven by the country's need to secure reliable sources of raw materials to..."
support its rapid economic growth and urbanization plans," said Ernst & Young China mining and metals leader Peter Markey.

"Competition for assets has become a lot tougher, and deals are no longer just about cash, but about what else an investor can bring to the deal," said Ernst & Young global mining and metals leader Mike Elliott.

Elliott said the most successful Chinese companies in the M&A market this year understand this and have used access to debt finance, new technologies and equipment and supplies with lower operating costs as additional incentives.

Although China's current focus is mostly on countries with low political risks, Elliott said he has seen investor interest shifting to new regions like Latin America and Africa.

"Mining asset prices in developed countries like Canada and Australia have been bid up, which means assets in some higher-risk, new-mineral countries are of good value, providing a great opportunity for Chinese companies looking for lower-cost assets," he said.

**A welcomed trend**

As Chinese firms try to widen their geographic scope, their efforts are being warmly greeted by the rest of the world. Many financially distressed Western companies are expecting that Chinese buyers will come to their rescue. Most importantly, the Chinese investments came as a powerful boon to boost local employment and tax revenues, said Vice Minister Chen.

Chinese companies generated $10.6 billion in tax revenues and created 438,000 jobs outside China in 2009, said the MOFCOM report.

Among the most ambitious firms was the Suntech Power Holdings Co. Ltd., China's largest solar panel maker. In early October, it launched its first U.S. manufacturing plant in Arizona and it plans to create more than 1,000 local jobs in the United States where the employment landscape remains bleak.

"We are on the way to grab a 20-percent market share of the burgeoning U.S. solar industry this year, up from 15 percent in 2009," said Shi Zhengrong of Suntech.

Besides this, Chinese investments have played a significant role in accelerating infrastructure construction and resource development of target countries, as well as improving living conditions of local residents, said Vice Minister Chen.

Since 2000, Chinese companies have built around 70 million square meters of houses, 60,000 km of railways and power generating units with an installed capacity of 3.5 million kw in Africa. Meanwhile, China has extended $11.2 billion in credit to African countries in the past decade.

In another move, the China National Petroleum Corp. made headways into oil exploration in Sudan. The company now boasts more than 3,000 km of oil pipelines and an annual refining capacity of 5 million tons in the African country. Those projects helped establish a modern oil industry in Sudan and injected fresh steam into the local economy, said the vice minister.

**No guarantees**

While Chinese firms continue reviving up their deal-making machines, their success is far from guaranteed. Managerial expertise and cultural sensitivity needed to build a global scale cannot be achieved overnight. Regulatory hurdles are also casting an ominous shadow over their prospects.

A painful lesson was learned from the headline failure of Chinalco's $19.5-billion investment proposal with Australian miner Rio Tinto in June 2009.

Of the failed deals worth at least $300 million since 2005, some 65 percent were due to foreign regulation, 9 percent to an unfavorable market environment and 4 percent to higher bid prices of competitors, said the MOFCOM report. And quite often, the target assets are just too difficult to run for Chinese managers with little cross-border experience, it added.

The Chinese machinery manufacturer Tengzhong stunned the world last year when it proposed to buy the road-hogging Hummer brand from GM. But given its inexperience with auto-making, suspicions proliferated about how it could turn around a brand that even GM failed to resurrect.

"Outbound investment needs to be tied closely to the corporate strategy and the fundamentals of the business at home. This is a basis for target identification," said Hanson To, partner in charge of transactions and restructuring at KPMG China.

"An internal ability to fully understand and assess a potential target is a hallmark of world-class deal making and something that many Chinese companies are still developing."

The good news is there appears to be an increased deal-making prowess on the part of Chinese businesses. Many have started going forays with smaller acquisitions or simply gathering core technologies, said Xing Houyuan, a senior researcher at the Chinese Academy of International Trade and Economic Cooperation, a think-tank affiliated with MOFCOM.

Among the most visionary investors was Beijing Automotive Industry Holding Corp. (BAIC), the fifth largest automaker in China. In December 2009, it paid $200 million for intellectual property rights to certain sedan models from Saab, a premium Swedish auto brand. The deal, coming as a boost for the Chinese company in pursuit of its own brand models, is expected to save it five to six years of research.

Chinese companies are increasingly hunting down opportunities before the recovering prices put their target assets out of reach, said Xing.

But they must have a clear long-term strategy and should fully understand the target customers, as well as the local legal environment, she said.
Thoughts on the ‘China Model’

As China stunned the world with its successful growth and economic momentum during the past decade, its development model, dubbed the “China Model” by some scholars, has become the center of attention around the world. So what is the “China Model” and does such a model indeed exist? Chen Zhiwu, a finance professor at Yale University’s School of Management, offered his views on these questions as well as China’s economic reform and the yuan exchange rate dispute between the United States and China, in an interview with *Beijing Review* reporter Chen Wen in New York. Edited excerpts follow:

*Beijing Review*: Your new book *China Model Never Exists* was published in Taiwan recently. What do you think about the “China Model”?

**Chen Zhiwu:** No one has been able to provide an accurate definition of what the “China Model” is. If we call the system now being practiced in China the “China Model,” then this model is indeed special in some respects.

I think it has at least two major characteristics.

First, the Chinese Government has strict control over the country’s economic resources and the access to financial industries. Through state ownership, state-owned enterprises, land and resources all fall under the supervision of the Central Government. Various levels of Chinese authorities have much tighter control over economic resources than Japan and the United States.

Second, China’s political system reform has lagged behind its economic reform, and no substantial political reform has occurred during the last three decades.

Right now, I think we need to make it clear that it’s too early to decide whether a system works properly or not with only 30 years’ experience.

What are the major problems facing China’s economy today?

First, China relies too heavily on imports and exports, which has concerned U.S. President Barack Obama and the U.S. Congress and served as one of the hot topics of discussion during the recent mid-term elections in the United States. In spite of the pressure from the outside, China should downsize its imports and exports. The current growth model driven by excessive exports isn’t sustainable.

Second, China also relies too much on investments. According to my own calculations, China’s fixed-asset investment in 1980 was equivalent to the annual disposable income of 200 million urban residents. But, fixed-asset investment in 2009 equaled to the annual disposable income of 1.2 billion urban residents. It is justifiable to say that China needs such a large scale of fixed-asset investment 10 years ago. If it still counts on fixed-asset investment to power economy in the coming five, 10 or 20 years, the growth model can’t be considered sustainable. After all, the final goal of economic development is to raise people’s living standard.

The third problem is the slow increase in private consumption. Excessive dependence on investment and exports certainly means that growth in private consumption isn’t fast enough to become a major engine of China’s economy.

Now, the three problems are just symptoms. The root cause lies within the economic system.

So, what are problems within the system, in your opinion?

First, the right to tax has not been brought under substantial supervision. Premier Wen Jiabao once said that the key to political reform is supervision and restrictions on power. It sounds abstract, but actually it’s not.

Take some specific issue as an example. Should part of the income and property of enterprises and residents become government assets by taxation? Since the country doesn’t have strict restrictions on the right to tax, fiscal revenue has tripled during the past several years, the proportion of government income in the GDP has increased, but the proportion of residents’ income in the GDP has decreased.

The direct result is the proportion of private consumption in the GDP dropped from 69 percent in 1952, to 45 percent in 1978, and to only 35 percent in 2009. In sharp contrast, the proportion of government expenditure in the GDP increased from about 16 percent six decades ago to 30 percent in 2009. To develop the economy...
CRISIS FOCUS

Teeming With Liquidity

Feeling the pressure of the U.S. second round of quantitative easing, the Chinese market is again plagued by excess liquidity. Consumer prices are running high and property prices have exceeded pre-crisis levels. But the situation is far from hopeless, as Zhang Monan, a researcher at the State Information Center, pointed out three ways to contain the liquidity in an article on *The Beijing News*.

Edited excerpts follow:

Rampant liquidity is staging a comeback, facilitated by the central bank’s massive cash injection and the large scale of greenbacks being printed by the United States.

Faced with these sweeping issues, we must ask ourselves the following questions:

The first question is how we should view this excess liquidity. Excess liquidity means the amount of capital in production, investment and consumption is much smaller than the amount of money in the virtual economy, like the financial market and financial institutions.

Second, we have to ask ourselves how much liquidity we actually have in China? Statistics show China’s economic scale has reached 5.5 trillion. By the end of 2010, the amount of money stock will have reached $10 trillion. The broad money supply far exceeds that of GDP. By the end of September this year, the broad money supply had totaled 69.64 trillion yuan ($10.48 trillion), twice that of the GDP in the first three quarters of this year—26.87 trillion yuan ($4.04 trillion). If it shows that money is not being used efficiently and is disproportionate with the real economy.

Worse still, many countries are putting excessive amounts of money into the markets, and not just their own markets, but foreign ones. China’s skyrocketing foreign reserves have become the most important factor affecting its money supply. In the first three quarters of this year, the amount of outstanding foreign reserves grew $249 billion, the equivalent of dumping 1.6 trillion yuan ($240.7 billion) into the Chinese market. Therefore, foreign governments’ excess money supply is putting China’s economic stability at risk.

In the future, the biggest challenge for the Chinese economy will be liquidity. This is where the third question comes in: How will we manage the liquidity risk?

In my opinion, there are three ways to cope with this dilemma.

The excess liquidity must be absorbed. Fundamentally, the effective absorption depends on whether we have enough financial investment tools, channels and methods. In addition to the development of the capital market, we should also strive to develop a “financial asset pool” of bond assets, stock holdings, life insurance and pensions.

We should also expand investment channels for private investors so that the huge amount of surplus social capital and newly added credit can be directed into the real economy. In particular, the government should encourage the idle capital in Wenzhou, Zhejiang Province—the boomtown of private economy—to invest in industrial sectors or startup enterprises.

At the same time, the government should also intervene in the money market on a large and sustained scale. In other words, it should take advantage of the sovereign wealth fund or other financial stability mechanisms to accumulate foreign currency assets. It can not only offset the negative impact of the excess inflow of foreign currencies, but also balance domestic liquidity, which will turn capital advantages into economic advantages.
TO THE POINT: For two straight quarters, China has replaced Japan as the world's second largest economy, but experts believe the Chinese economy is not without its flaws. The country remains a favorite destination for foreign investors as FDI pours in. China remains the largest holder of U.S. Treasury securities. The auto market continues to burst with vitality as vehicle sales pick up across the nation. Chinese steelmakers are facing some serious headwinds as costs rise eats into their profits. PC giant Lenovo fares well, with quarterly profits soaring.

By HU YUE

MARKET WATCH

Big But Not Strong

For two consecutive quarters, China's GDP has climbed higher than that of Japan, making the Chinese economy the second largest in the world.

The Japanese Government on November 15 reported the country's GDP at $1.37 trillion in the third quarter, compared with China's $1.42 trillion. Japan still leads with $3.97 trillion for the January-September period. But if the current pace of growth continues, China is expected to surpass Japan for the entire year of 2010.

China's leap past Japan is a reflection of the former's economic boom in the past decades, said Guo Tianyong, Director of the Research Center of China's Banking Industry at the Central University of Finance and Economics.

However, this success is far from guaranteed since China's economy faces a number of problems, such as its over-reliance on investments and environmental pollution, he said.

Learning lessons from Japan, China should expand domestic demand and step up its clampdown on asset bubbles, said Guo.

China still has a long way to go toward prosperity as its per-capita GDP is only $3,800, ranking 108th in the world, said Zhao Xijun, Deputy Director of the Financial and Securities Institute at the Renmin University of China.

Meanwhile, efforts are also needed to bolster the country's technological expertise, innovation capacity, brand competitiveness and education, he said.

FDI Momentum

China has maintained its appeal to foreign investors despite a slowdown in the macroeconomy.

The country received $7.66 billion of foreign direct investment (FDI) in October, up 7.86 percent from a year ago, said the Ministry of Commerce (MOFCOM). This was the 15th consecutive month of growth.

The October figure brought the amount for the first 10 months of the year to $82 billion, surging 15.71 percent year on year. From January to October, a total of 21,181 foreign-funded companies were approved, an increase of 16.62 percent over the previous year.

As the Chinese economy takes off, many foreign investors have focused on the Chinese market, instead of exports back to their home countries, said Yao Jian, a MOFCOM spokesperson on November 16.

Meanwhile, a growing stream of FDI is shifting from the manufacturing industry to the service sector, he said. From January to October, 45 percent of the FDI went to the service sector, while 47.6 percent went to manufacturing industry.

Adding U.S. Assets

China in September increased its holdings in U.S. Treasury securities for the third consecutive month by $15.1 billion to $883.5 billion, said the U.S. Department of Treasury.

China remains the largest holder of U.S. Treasury securities, ahead of Japan, which increased its holdings by $28.4 billion in September to $865.5 billion. Total holdings of Treasury securities by all foreign countries amounted to $4.269 trillion, an increase of 1.3 percent from the previous month.

The securities are key to funding the massive U.S. budget deficit that reached a dizzying $1.29 trillion in the 2010 fiscal year ending on September 30, slightly down from the record $1.42 trillion deficit set in 2009.

Economists believe the U.S. Treasury securities are still a relatively safe home for capital given clouds gathering over the global economy. For China, it is also an effective channel of investment for the country's trade surplus, said Jiang Shu, a senior analyst at the Industrial Bank Co. Ltd.

Hot Wheels

Despite a slowdown in the macroeconomy, Chinese automakers are basking in the glow of a sales boom.

Vehicle sales across the nation grew a robust 25.5 percent in October from a year ago to reach 1.54 million units, said the China Association of Automobile Manufacturers (CAAM).

The October figure brought sales in the first 10 months to 14.7 million units, com-
Numbers of the Week

340 billion kwh
China's power consumption in October rose 8.5 percent from a year ago to reach 340 billion kwh, said the China Electricity Council on November 16.

786 billion yuan
China's fiscal revenue in October rose 14.8 percent year on year to 786 billion yuan ($118.4 billion), said the Ministry of Finance.

pared with 13.65 million for the entire year in 2009.

The market euphoria is expected to continue as dealers step up year-end promotions, said Xu Yingbo, an analyst at the CITIC Securities Co. Ltd.

Customers may also rush into showrooms before the favorable tax policy expires at the end of this year, said Xu.

China allowed buyers to pay only 7.5 percent tax for purchases of cars with small engine displacements (less than 1.6 liters) in 2010. But it remains unclear whether the policy will be continued next year.

While the Chinese market thrives, their foreign counterparts are struggling to recoup losses. The October vehicle sales in Germany and Japan nose-dived 20 percent and 26.7 percent from a year ago, respectively. But the U.S. market seems to be waking up from its slumber. Its October sales jumped 13 percent as buyers gained confidence in the economy and new models lured them into dealerships.

Steelmakers' Pains

After a strong start to 2010, Chinese steelmakers lost ground in the third quarter, raising red flags for the rest of the year since they are expecting to be hit by anemic demand and costs rise.

China Iron and Steel Association (CISA) said 77 large and medium-sized steelmakers raked in a combined profit of 5.8 billion yuan ($865.7 million) in September, diving 20.25 percent from a year ago. The September figure brought the third-quarter total profits to 12.5 billion yuan ($1.9 billion), compared with 21.7 billion yuan ($3.2 billion) in the January-to-March period.

From January to September, 10 steelmakers were in the red with losses totaling 2.4 billion yuan ($358.2 million), said the association.

The industry now faces some chilly headwinds due to falling exports and lackluster domestic demand this winter, said Luo Bingsheng, Deputy Director of the CISA.

The Chinese Government canceled export rebates for 406 items, including certain steel products, effective as of last July 15.

But the biggest concern was soaring iron ore prices that are eating into profits. China’s CIF (cost, insurance, freight) prices of iron ore imports averaged $121.7 per ton in the first nine months, surging 56 percent year on year. Global miners this year forced through a new quarterly pricing system for the volatile spot market.

Pricing negotiations for 2011 have already started, and China will push for a return to the old benchmark system of annual contracts, said Luo.

But China lacks some bargaining power since the world's biggest three miners—Vale, Rio Tinto and BHP Billiton—have monopolized global supplies, said Xu Xiangchun, a senior analyst at Mysteel.com, a steel information service company based in Shanghai.

Lenovo Cashes In

Chinese PC maker Lenovo generated $76.58 million in net profits in the fiscal quarter ending on September 30, soaring 44.2 percent year on year. Its global sales jumped 41 percent year on year to $5.8 billion.

The world’s fourth largest PC firm suffered a string of quarterly losses in 2009, leading to painful job cuts and corporate restructuring. It also refocused its efforts on China and other emerging markets, a strategy that appears to have paid off.

Lenovo said its China sales surged 32 percent to $2.6 billion, accounting for 46 percent of global revenues. Its market share stood at 28.8 percent, up 2.3 percentage points from the previous year.

In other emerging markets, PC shipments skyrocketed 185 percent in Russia, 68 percent in Latin America and 60 percent in India. Its business in the mature markets, much of which was inherited from IBM, also returned to the black as spending by corporate customers picked up.

"We have good momentum to keep growing, especially outside China," said Yang Yuanqing, CEO of Lenovo.

"We will also look for merger and acquisition opportunities in the sector," said Wong Wai Ming, CFO of the company.
Hotel for Health

What words can be used to describe a five-star hotel? Comfort, luxury, delicious food, good service and much, much more. During short stays in a hotel, customers may not pay attention to whether the dishes are healthy, whether the air in the rooms is fresh, or whether the pillows and mattresses are good for your back.

But in an age when people have a new understanding for health, a hotel is no longer just a room for sleeping and eating in—it’s a healthy experience. Invented by the People’s Medical Publishing House, Radegast Lake View Hotel is the first health theme and exhibition hotel in China. Though it cannot provide medical treatment as hospitals do, it is dedicated to offering customers a healthy environment, healthy food as well as services and ideas of health through perfect integration of health and fashion.

Healthy food

According to traditional Chinese medicine, some herbs are both medicinal and edible, which has resulted in the establishment of medicated diet. Green Restaurant of Radegast Lake View Hotel specializes in extending new ways of cooking to mix the ingredients of fresh herbs with traditional Chinese food.

Chef Wang Youhong is also a senior technician from the Institute of Medicinal Plant Development affiliated with the Chinese Academy of Medical Sciences and Peking Union Medical College. Deeply engrossed in research of a medicated diet, Wang designed many dishes for Green Restaurant.

Cooked with fresh and pollutant-free herbs from the Institute of Medicinal Plant Development, dishes of Green Restaurant may not smell of medicine, but are delicious and good for your health. During different seasons, the restaurant also designs different menus suitable for different seasonal characters.

Besides Green Restaurant, Radegast Lake View Hotel also offers other food and beverage choices. Royal Chinese Restaurant provides authentic Cantonese cuisine and fine local cuisine made by a famous chef from Hong Kong in an elegant environment with 11 private dining rooms. Lakeside Café presents the classic and finest French and Mediterranean cuisine, contemporary à la carte menu and creative international buffet. The all-day dining restaurant accompanied by elegant decorations is a truly delightful experience. With the combination of Chinese modern and simple decoration styles, a wide selection of wines, beverages and gourmet snacks, the Lobby Lounge is the perfect venue for a casual cocktail and great conversation.

Healthy rooms

Sitting beside Beijing’s Longtan Lake, the 307 comfortable and elegant guestrooms of Radegast Lake View Hotel have beautiful views. Opening the window, customers will see the beautiful Longtan Lake, not an endless flow of traffic—which is extremely rare for a five-star hotel in downtown Beijing.

The beddings are of high quality. The high-class mattresses are in keeping with human mechanics, and the cotton bedclothes provide cloud-like comfort. In the rooms, customers will have various choices of pillows. And after customers select a pillow type, the hotel will remember their choice for future stays.

To ensure fresh air, the hotel adopts photocatalyst technologies to clean the air. It also offers pure tap water that is ready and clean enough to drink. The guestrooms also come with books on maintaining a healthy lifestyle for people traveling.

Healthy services

As a hotel with a health theme, Radegast Lake View Hotel establishes health files for its customers. With these health files, the hotel provides personalized health services according to different health conditions for each and every customer. For example, if a customer has allergies, the hotel will select a room with good ventilation for him or her; if a customer has cervical spondylosis or insomnia, the hotel will select a suitable pillow for him or her; if a customer suffers from indigestion, the hotel will suggest digestible dishes.

Healthy leisure

With traditional Chinese decorating styles, the China House offers an elegant environment for customers to explore typical Chinese culture such as lyre, chess, books and paintings while enjoying great Chinese tea.

On the top floor, the Radegast Executive Lounge presents a variety of culinary styles and fine wine, where customers can observe the Longtan Lake Park with a wonderful natural landscape. In the lounge there is a unique study room with traditional medical books and Chinese classics to help customers explore Chinese culture.

Covering an area of more than 5,000 square meters, the Royal Palace Recreation Center is equipped with the newest exercise facilities and indoor swimming pool as well as Spa, sauna, hairdressing facilities and billiards room. In front of the swimming pool, there is a hot tub, where customers can feel refreshed after a day’s hard work.

Conference facilities

The Convention and Exhibition Center, offering more than 8,000 square meters of conference and event space, includes Harmony Grand Ballroom, a magnificent Conference Hall and 22 additional meeting rooms. The center is equipped with simultaneous interpretation facilities, television conference equipment, a professional projection booth, WiFi Internet access, electron meeting screen, new-generation lighting system and the latest audio-visual facilities. It is the ideal venue for large international conferences, special dinners, entertainment, theme banquets and social events.
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Mickey Finds a New Home

By YU LIN TAO

In a few years, the Chinese will no longer need to go abroad or to Hong Kong to meet their cartoon idols, Mickey Mouse and Donald Duck.

On November 5, an agreement between the Walt Disney Company and the Shanghai Shendi Group (SSG) on the building of a Disneyland in Shanghai was officially signed. The Shanghai fun park will be the fourth Disney theme park outside the United States beside Paris, Tokyo and Hong Kong.

Huge project

The whole project, which is to cover 1.16 square km, will be the largest Disneyland in the world, said He Jianmin, Director of the Tourism Department of the Shanghai University of Finance and Economics, which participated in the appraisal of the project.

The construction will be divided into three phases. The first phase, including a nearly 1-square-km theme park area, is to involve an investment about 25 billion yuan ($3.68 billion) and is planned for completion around 2014. After it opens, the number of tourists is expected to add up to 10 million every year, while the total tourists visiting the whole park will be 30 million annually, He said.

Water will be one of the main features of the first phase of the Shanghai Disneyland. A 0.39-square-km lake will be built in the first phase, which will take up a sizeable proportion of the entire park. It will be used as a base for water recreation activities and transportation.

In the northeast of the lake, a 7,000-square-meter artificial island will be built. On the north side of the lake are spaces for the construction of a public transportation hub, entertainment facilities and hotels. A river which will surround the park has been under construction since October. As a whole, the park will present to tourists an impression of a sea world.

The section to be built in the first phase will focus on the theme of a magic kingdom. It will include five different theme areas.

A 20-square-km Shanghai International Tourism Resort will be built to surround the theme park. A joint venture set up in August by Disney and the SSG will be in charge of operating the Shanghai theme park.

A special Disneyland subway line is to be built to link the fun park with the urban area of Shanghai.

Long-awaited

From the idea of cooperation to the formal signing of the agreement, both parties of the park's construction have waited for more than a decade.

Walt Disney was the first big U.S. entertainment company to have access to the Chinese market. In 1989, the China Central Television (CCTV) and Walt Disney signed an agreement to air the Mickey Mouse and Donald Duck cartoon series in China. Since then, Disney has had wide-range cooperation with its Chinese business partners in areas such as movies, TV and Disney brand product promotions and sales.

With the success of the cartoon series, the idea of building a Disney theme park in Shanghai struck the then city leader.

A decade-long negotiation between the two sides began. But, Disney was cautious about site selection, the first Disney theme park in China opened in Hong Kong in 2005.

The establishment of Hong Kong Disneyland made negotiations between Shanghai and Disney much harder. There was fierce debate centered on whether a second Disneyland was needed in China.

"If a Shanghai Disneyland is built, it is certain many mainland tourists would choose Shanghai instead of Hong Kong," He said. This became a major barrier to negotiation.

As early as 2000, Xu Kuangdi, then Mayor of Shanghai, said 100 million richest Chinese lived in the Yangtze River Delta where Shanghai is located, and they themselves could sustain a Disney park. They also wanted it. To this end, the Pudong New District reserved a piece of land for a theme park for more than 10 years, said professor He.

In the next 10 years, with the rapid economic growth of China, Shanghai rose to be a financial center and the consumption capacity of the Chinese also became greater, which increased the feasibility of building another Disney theme park in China.

In 2009, Shanghai officials said the city was fully prepared to host a Disneyland.

Driving a new economy

Disneyland will become a new engine for Shanghai to power its economy in the wake of the World Expo. It is estimated
when Disneyland is built, it will provide 50,000 new jobs. The fun park is also expected to attract around 80 percent of mainland tourists, as well as part of the tourist flow from other Asian countries.

Zhu Lianqing, a researcher from the Shanghai Academy of Social Sciences, says the Disneyland project will bring the area huge benefits. The project will boost economic development in Shanghai and benefit many sectors, including real estate, tourism, retail, and the animation industry.

Many people living in areas adjacent to the planned park think when the park is completed and with the improvements to transport systems, the value of their properties will rise considerably.

Yang Yu, a research fellow with the National Development and Reform Commission, said in an interview with CCTV the park would not only lift the value of nearby real estate and boost tourism but would also be helpful in transforming the city's economic structure, which would move from depending mainly on manufacturing to service industries. During this transformation, the city still needs competitive brands and products. So building a Disneyland is an important step for the city to realize this purpose.

**Concerns**

Although there were low construction costs and millions of domestic tourists are expected, and experience based on the operations of the other five Disney theme parks could help Shanghai Disneyland succeed, the fun park still needs to further reduce costs of construction and operation and introduce new attractions to ensure making profits.

Setting the prices of tickets is also crucial. A questionnaire done by the *Shanghai Morning Post* shows ticket prices concern tourists the most. Ninety percent of the respondents said the price would be acceptable if it was 400 yuan (S61) or below. Other matters that concerned respondents were transportation and operation times.

"I am really looking forward to the Shanghai Disney theme park. We are a generation that grew up watching Disney cartoons. Even now, I like Mickey and Donald Duck very much," said Zhao Jingna, a 29-year-old white collar worker in an education service company in Beijing.

But not all have great expectations for the park. Zhang Xiaoli, a postgraduate at Beijing Language and Culture University, said ticket prices were too high for a student, even at 400 yuan.

Disneyland will also encounter competition from domestic amusement parks in China such as Happy Valley, an entertainment theme franchise which has opened in Beijing, Shanghai and Shenzhen. Happy Valley has developed rapidly in recent years in the domestic market and is loved by a great number of tourists. Its ticket price is much lower than the average price of Disney parks.

The entry of Disneyland will bring about pressure on the domestic popular culture industry. The cooperation agreement also authorized the joint venture to produce cartoon movies and TV shows. These will promote both the Disney brand and the Shanghai park. It is also to publish a Disney-branded magazine. The agreement also calls for the joint venture to authorize local manufacturers to produce Disney-branded toys in China and sell them internationally.

But many Chinese from popular culture and entertainment industries are not overly worried about the impending competition.

"The entry of Disneyland into China provides a good opportunity for the Chinese animated movie industry to learn. Disney has first-class ideas and experience in animated movie making, which is what the Chinese animation industry needs to learn," said Zhou Ying, who works at the Cartoon and Animation Industry Base in Shanghai.
National Treasures

The Palace Museum signs a five-year cultural cooperation contract with the Louvre Museum

BY ZHOU XIAOYAN

The antiquities collected in the Palace Museum in Beijing will be exhibited in the Louvre Museum next year. This was part of the content of a five-year cooperation contract signed between the two museums at the beginning of November in France.

Under the newly signed contract, the exhibition will be held from September to November next year, and about 140 national level treasures of China will be displayed. Centering on cultural relics from the period of Emperor Kangxi (1654-1722) and Emperor Qianlong (1711-1799), the exhibition will introduce life in the palace of China’s Ming and Qing dynasties (1368-1911) to European visitors.

It will be the first time for collections of the Palace Museum to be exhibited in a major Western museum, and the preparation for the exhibition started more than two years ago, said Li Ji, Deputy Curator of the Palace Museum. “The Louvre Museum does not have a category for East Asian antiquities. But it has made an exception for the Palace Museum by holding a large exhibition next year,” he said.

The Palace Museum receives 11 million tourists a year while the Louvre Museum receives 8 million. How to balance tourist flow and protecting cultural relics is an issue that worries both museums, said Li.

As symbols of two major cultures in the East and the West, the cooperation between the Palace Museum and the Louvre Museum has gone beyond cooperation between the two museums, but closer contact of the two nations, he said.

Both sides emphasize increasing cooperation on public shows and building visitor flow in the newly signed contract. In the next five years, the two repositories of national treasures will cooperate in joint exhibitions, protection of cultural antiquities and website construction, said the department in charge of foreign affairs of the Palace Museum.

Henri Loyette, Director of the Louvre Museum, said both museums used to be royal residences and have witnessed the history of the country. The two museums agreed to deepen the cooperation with a variety of ways of collaboration.

“We are really glad to see the cooperation between the two museums. They now sign a contract every five years and have a long-term cooperation pattern. Also on November 28, members of the Louvre Museum will come to China to have joint exhibition together with the China Central Academy of Fine Arts,” said Sebastien Cavalier, Cultural Attache of the French Embassy in China.

It is not the first time that the two museums have cooperated. As the largest museums of the two nations, the Palace Museum and the Louvre Museum have worked with each other since early 2004. On October 10, 2005, a 2006-2010 cooperation contract was signed between the two sides, which carried the rider that if the cooperation went well, there would be a contract extension in 2010.

One of the most significant events brought about by the earlier contract was the Louvre Museum Napoleon I Exhibition.
The Palace Museum

Located in the center of Beijing, the Palace Museum was established on the base of the Forbidden City, a royal palace of the Ming and Qing dynasties, and its collection of treasures. Founded in 1925, the museum is the largest museum of the country.

The museum houses a collection of more than 1.5 million valuable art works, most of which were in the possession of the imperial families of the Ming and Qing dynasties. These art treasures include painting, pottery, bronze, gold and silverware, embroidery, sculpture, jade, lacquer and enamel wares. In addition, there are also court articles, including jewels, accessories, clocks, medicines, furniture and furnishings. It is a unique, superb building complex, integrating outstanding achievements of ancient Chinese architecture.

In 1981, the Forbidden City was included in the List of Key Historical Monuments under State Protection. In 1987, it was put on the World Heritage List of the UNESCO. The Palace Museum used to be as mysterious as the palace itself. But now, with advanced technology and equipment it has built a "digital palace" on the Internet, to unveil its tremendous cultural resources.

(Source: dpm.org.cn)

The Louvre Museum

Originally constructed from 1166 to 1223, the Louvre was built as a palace for aristocrats. As the heir to the century of the Enlightenment and the French Revolution, the museum is now accepted as the "museum among museums," a model and a recognized authority.

Founded in 1793 as a museum for all, the Louvre celebrates humanity's long journey spanning thousands of years, reaching from America to the borders of India and China, and is highlighted by such iconic, universally admired works as the Mona Lisa, the Venus de Milo and the Victory of Samothrace.

Together with the British Museum and the Metropolitan Museum of Art, the Louvre, now a public and multifaceted institution, is recognized as one of the top three museums in the world. It now houses 35,000 works of art in eight departments, displayed in more than 60,000 square meters of exhibition space. Its curatorial departments include Near Eastern Antiquities, Islamic Art, Paintings, Egyptian Antiquities, Sculptures, Prints and Drawings, Greek, Etruscan and Roman Antiquities, and Decorative Arts.

(Source: louvre.fr)

which took place at the Palace Museum from April 5 to July 3 in 2008. During the exhibition, about 100 exhibits relating to Napoleon were on show. All exhibits were provided by the Louvre Museum.

"Besides the Napoleon exhibition, cooperation and communication on management experience and publishing will also be emphasized. Nowadays, greater numbers of Chinese tourists are visiting the Louvre. In order to offer them better service, the Louvre cooperates with Chinese museums so they have a better understanding of what is needed. Cooperation with the Palace Museum is bound to help us make progress in that area," said Christophe Monin, Deputy Director of Cultural Development of the Louvre Museum, in 2006.

As the most famous and largest museums in the world, the Palace Museum and the Louvre Museum share a lot in common: They both used to be palaces and inherited many antiquities; both museums take palace art works as their basis and have gradually expanded their collections; both of them have abundant collections; both play an irreplaceable role in developing and promoting their cultures; both receive many domestic and foreign tourists each year. As well, they have encountered similar questions recently, such as how to ensure service while receiving so many tourists, how to protect ancient architecture, and how to publicize their cultures.

The Palace Museum said there was considerable significance in strengthening cooperation with foreign museums. It would help publicize Chinese culture and will be very important for the Palace Museum to use others' experience for reference in order to improve itself. Apart from the Louvre Museum, the Palace Museum also has cooperative relationship with eight other foreign museums, including the British Museum, the Metropolitan Museum of Art in New York, and the Tokyo National Museum.

COURT TREASURE: An enamel vessel of the Qing Dynasty (1644-1911) displayed in the Palace Museum in Beijing
The Westin Tianjin

Transform your Sunday. Rejuvenate with an indulgent Buffet Brunch that includes endless champagne at the Westin Tianjin. Awarded several times as the best brunch in Beijing, the Bubbling Buns Sunday Brunch finally arrived as well as Seasonal Tastes in Tianjin on November 7, 2010.

The Bubbling Buns Sunday Brunch features a variety of selections from live cooking stations with hand made pastas, dim sum, BBQ, carvings hot off the oven, an international assortment of cold and hot dishes, an impressive selection of cheeses, live crab and lobster for all seafood lovers. The around-the-clock offerings include fresh salads, Chinese specialties, amazing desserts and more.

Endless Moet and Chandon champagne is not to be missed. There is also a choice of selected beers, wines and cocktails. A live band helps make the brunch even more like a big party and to celebrate the weekend along with friends until late in the afternoon.

The brunch is priced at 258 yuan per person inclusive of endless soft drinks, coffee and tea, 298 yuan per person inclusive of endless selected beers and wines, or 328 yuan per person inclusive of endless Moet and Chandon champagne. All the prices are subject to a 15 percent service charge.

Marriott International

Marriott International and Chrip.com International Ltd. recently signed a distribution cooperation agreement. Marriott International will leverage Chrip’s card-edge hotel reservation platform to help distribute hotels of its various lodging brands worldwide. Chrip is Marriott’s latest online travel agency partner in China with direct global system connectivity.

Under terms of the agreement, the reservation systems of both Marriott International and Chrip will establish direct global connectivity. Through Chrip’s platform, travelers can make bookings at any Marriott hotel worldwide and receive confirmation on a real-time basis.

The Langham, Yangtze Boutique, Shanghai

The Langham, Yangtze Boutique, Shanghai is offering a third night free when booking two nights this winter.

For stays from November 22, 2010 to February 28, 2011, the best available rate comes with complimentary breakfast for one person plus complimentary broadband Internet access. Guests staying for three consecutive nights during this period can enjoy the best available rate for the first two nights, while the third night is free. This three-night stay excludes complimentary breakfast and Internet access benefits.

The Ritz-Carlton, Sanya

Chris Southwick, a 14-year culinary professional who has worked in the company’s properties in Saratoga, Moscow, Hilton Head, Palm Beach and Cleveland, recently arrived at The Ritz-Carlton, Sanya as executive chef. Southwick was once executive chef of the Ritz-Carlton, Saratoga and oversaw all culinary operations for the 266-room resort. During his tenure with the Ritz-Carlton Hotel Company he has had the honor of working on many opening teams, including at the culinary operations at Grand Cayman, Tokyo, Georgetown, Half Moon Bay, Beijing, New Orleans and Philadelphia.

During his career Southwick has had the distinct pleasure of creating memorable dinners for dignitaries including President Bill Clinton, First Lady Hillary Clinton, Russian President Vladimir Putin and Kazakhstan President Nazarbayev.

Hotel Pravo

There is a new concept in boutique hotels coming to Shanghai on December 8, 2010. Located on the Bund and designed to offer personalized, indulgent comfort, Hotel Pravo, with classical Art Deco design style, is the final culmination of one man’s decades-long quest to create the perfect hotel.

The dreamer is Steven Wang, CEO of Hotel Pravo, who is also CEO of Brilliant Consulting Group. What he learned in his early years working with the Ritz Carlton Taipei left him with one desire — to create a hotel that gives its guests an experience that is not just memorable, but inspiring and all-embracing.

"I want my guests to feel the hotel surrounds them from the first step through our doors," said Wang. "Every aspect, every feature of the hotel, from the scent of the air to the gentle sounds in the background has been designed to make our guests feel welcome. Hotel Pravo is a place where everyone is welcome and wrap in personal care and attention."

Scheduled to open in the last quarter of 2010, Hotel Pravo represents a watershed in the hospitality landscape for Shanghai, as it moves away from the World Expo and into the comfortable maturity of a city which knows that it is a world destination. Indulgent, comfortable and offering an enjoyable experience as possible, Hotel Pravo is a new style of hotel for a new Shanghai.
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Are Profits Good Reason for Rebuilding a Long-lost Kingdom?

An ancient Chinese kingdom largely lost over time may come alive again if the plans of a less developed county in Hunan Province are realized.

Xinhuang County announced on October 16 to rebuild the ancient Kingdom of Yelang using a 5-billion-yuan ($746 million) investment. The rebuilt kingdom would feature 20 theme sites occupying 30 square km and would take advantage of the area's canyon-filled topography and rich religious atmosphere. Construction will begin next year, with a projected completion date of 2020.

Yelang was one of many kingdoms that existed in the southwestern part of the territory controlled by the Han Dynasty (206 B.C.-220), however, it disappeared long ago. Most people agree it was located in the northern part of today's Hunan Province. But due to a lack of reliable archaeological evidence, Hunan and neighboring Guizhou continue to dispute the actual location of the kingdom.

Investors in the proposed project say they hope it will allow more people to appreciate the mysterious culture of Yelang. According to estimates, more than 5 million tourists per year will visit the rebuilt kingdom after it is completed.

After news of the project was released, hot discussion erupted, with many people questioning the plan. Their concerns centered on four main issues: First, people still argue about whether the capital of the Yelang Kingdom lies in today's Hunan or Guizhou. Second, since Xinhuang has an annual fiscal revenue of only a little more than 100 million yuan ($15 million), where is the massive investment for this project supposed to come from? Third, since the kingdom disappeared nearly 2,000 years ago, on what basis will it be reconstructed? Fourth, is this just another instance of real estate speculation?

Supporters of the plan, on the other hand, think the goal of the project is to bring tangible economic benefits and fame to the county using the "brand" of "Yelang." They think creating a tourist attraction by combining Yelang culture and unique natural resources is a good idea and worthy of support.

Local officials from Xinhuang say the investment for rebuilding the Yelang Kingdom will come from private businesses and the project won't increase the county's budgetary burden.

Not suitable for rebuilding

Ma Zhengu (www.zjol.com.cn): The Yelang Kingdom is an enigmatic memory. Creating a real version of this kingdom to replace this enigma won't solve its mystery; it will just destroy the beauty of that mystery. The most practical value of this project would be as a wealth factory—using history and the name of an ancient kingdom. Although this fictitious place could bring in a large amount of money, it would take away history from our minds.

For people living in today's world, where economic construction is the central task, using rich historical resources as a means of making money is not a sin. However, distorting history in order to make money is certainly a crime.

Sheng Dalin (Xi'an Evening News): What does 5 billion yuan mean to Xinhuang? Its normal budget revenue is only 68.38 million yuan ($10 million). That is to say, the cost for rebuilding the Yelang Kingdom would be about 50 times the county's annual fiscal revenue.

Reconstruction of the Yelang Kingdom is a tourism project. Xinhuang is obviously looking for it to bring in lots of money in the future. But how much tourism income will be needed to recoup the investment? Since the project was approved, this means the majority of the authorities involved in the decision are confident about its future. However, it doesn't necessarily mean the public will support the project. The actual location of the Yelang Kingdom has not been verified, but most people think that it was located in what is now Guizhou. Furthermore, Xinhuang lies in a remote area, making the potential attractiveness of the rebuilt kingdom not very bright.

When investing in construction and cultural development projects, it is necessary to undertake scientific planning and proceed based on one's real capability. We should be confident but not conceited; we should advance, but not be rash. Xinhuang seems to have excessively high expectations for the impact of Yelang culture; at the same time, it seems to lack a sober realization of its capacity to bear the economic burden of this project. This lack of accurate self-assessment smacks of conceit.

Tang Wei (www.dwzwww.com): Culture doesn't have any room for copying or tampering; to do otherwise is to be irresponsible to future generations. If the historical facts of future generations see are a sham, what will they feel? There is no final conclusion about what the Yelang Kingdom really is. It is immoral to try to seize the position of defining this kingdom for others when more academic research about the matter is still needed and disputes still exist about its original location.

When it comes to economic development, we should base our plans on our actual capability. An investment of 5 billion yuan perhaps will end up being a pain for all the people of the remote county of Xinhuang, rather than a "group feast."

Social benefits as well as economic benefits should both be taken into account when developing the economy. An imagined Yelang Kingdom may be appealing to some officials but not necessarily to tourists. As for where the money should come from, how the money should be managed and what the economic benefits will be, people should
Yang Guodong (The Beijing News): There aren't many records about the Yelang Kingdom. It mainly exists in people's imaginations; there aren't many historical materials or cultural relics to which one can refer. The planned rebuilding of the Yelang Kingdom won't have many advantages over the many tourist attractions today that employ ancient-looking architecture. Using Yelang culture to get tourists to accept this project is probably just wishful thinking.

Local governments that do anything they can to grab cultural resources may make their area famous, but they actually do not create any positive public image for their area—such as might derive from having abundant historical and cultural resources. Rebuilding projects worth hundreds of millions of yuan or even billions of yuan amaie people. But they mainly cause people to worry about the financial capability of local governments. If the imitated ancient architecture doesn't attract tourists and the huge investment can't be recouped, what can officials do in the aftermath? Instead of spending so much money on constructing buildings for ancient people who are long dead or may never have existed, Xinhua should use the money for improving people's livelihood.

Cities with genuinely rich historical and cultural legacies don't need to contend with others. Ancient people thousands of years ago can't bring any glory or fame to today's cities. The image of a city ultimately depends on its achievements. Shennu County in Shaanxi Province, which has offered free medical care for local residents, is not the home of any famous person nor did it serve as a kingdom capital. But it's the most admirable county in China. Since ordinary people have received real benefits, the city brand of Shennu has gained nationwide fame. Instead of taking a shortcut by spending huge amounts of money to be known as the home of some celebrity, local governments should earnestly solve problems related to the people's livelihood by providing better public services. In that way, they can use the praise of the public to gain the upper hand in the fiercely competitive war among cities to market themselves.

Wang Pan (Bohai Morning Post): There are two kinds of forgery in archaeology: One is conducted by today's people and the other by ancient people. If ancient people create something fake to deceive today's people—it's still fake. Some people wildly go about building tourist attractions of alleged historical significance; sometimes people even go ahead and build without any evidence or basis. After a long period of time, however, how will our descendants be able to tell the fake from the real?

If ancient people were irresponsible to later generations; if they battled over cultural heritage in order to make money off it; if ancient people randomly created ancient kingdoms and ancient cultures, then is our cultural heritage still pure? Absolutely not. In contrast, we are just a moment in human history. After we become fossils and become the past, how will future generations judge the fake culture we have created for economic reasons? They will certainly say it's a forgery—just one counterfeited by ancient people.

Room for tolerance
Chen Lihua (www.chinanews.com.cn): In the past few years, there have been many cases of locales containing over ancient cultural sites or where a famous person's birthplace was. In my opinion, these disputes don't hurt anything but boost the development and protection of cultural heritage. We can imagine that when disputes occur, each side will present more evidence to prove itself correct. Meanwhile, they will both pay more attention to cultural development in order not to lose the edge in the argument.

From this perspective, Xinhua wants to invest 5 billion yuan to rebuild the Yelang Kingdom, hoping to create a tourist attraction that combines Yelang culture and unique natural resources. As long as the project has been scientifically discussed and won local people's support, the project is worthy of our encouragement.

Chen Siwei (China Business Times): Actually, there's nothing essentially wrong with Xinhua trying its best to create a brand and build up its tourism industry. People living in rich places can hardly understand poor people's desire to cast off poverty and become prosperous. Since you don't know how poor they are and can't know what kind of life they lead, you can't truly and fully understand them. A remote county, with no particular advantages, deserves our tolerance of its attempt (although pie in the sky) to change its present condition as long as its behavior doesn't hurt others.

In China, people always judge a man by his victory or defeat. There was a time when merchants from Wenzhou, Zhejiang Province traveled around the country to make money, with lots of them being shoe cobblers or barbers and so on. They were once discriminated against nationwide. Now, however, some Wenzhou business people have become really successful. Therefore, fewer and fewer people laugh at them, while more and more people praise this striving spirit.

Why can't we look at Xinhua's plan to rebuild the Yelang Kingdom as a manifestation of this kind of daring, enterprising behavior? Is it too much to ask for more tolerance?

Dear Readers,
"Forum" is a column that provides a space for varying perspectives on contemporary Chinese society. We invite you to submit personal viewpoints on past and current topics (in either English or Chinese).
E-mail us at byao@clpg.org.cn
Please provide your name and address along with your comments.

Liu Zhiquan (Beijing Times): The Yelang Kingdom really existed in history; it has nothing to do with deceit. Therefore, from the perspective of commercial marketing, it totally makes sense to use this well-known historical and cultural theme to integrate and package relevant resources and promote them to the public.

From another standpoint, whether the Yelang Kingdom used to be in Xinhua is a cultural debate. Due to the kingdom's short existence and the limited amount of surviving materials, it's hard to reach a final conclusion. However, since Xinhua has been known as "Yelang" for a long time, there must be some basis for that.

The main problem associated with the development of the tourism industry is whether natural or cultural resources will be destroyed in the process. This is also one of the main concerns of the public concerning the development of cultural heritage-centered tourism, and indicates why there is a need for strong supervision from government departments. As for whether the 5-billion-yuan investment has gone through a scientific budget-making process, that's a topic totally separate from the dispute regarding the Yelang Kingdom.
Funny Creatures

By VALERIE SARTOR

"T"

hough we don't show as much direct emotion as Westerners, that doesn't imply the Chinese lack positive feelings," said Yang Jinheng, my scholarly friend. "In fact, Chinese people have a deep-seeded sense of humor, which has a great impact on Chinese art and literature."

"But Yang," I protested, "Classical Chinese literature is hard to understand. Chinese paintings seem beautiful but alien. Where is the humor?"

"You must look closely," he said. "We all know life is serious. Even in Asia, laughing philosophers are in the minority. China is the only culture that has created a god of humor. Look at these scrolls—Chinese Taoists and Buddhists made a kind of religion of humor, by having monks performing dances around a ceremonial toad. Scholars made fun of the comedy of manners that ancient people engaged in to succeed. In the Book of Songs, as well as in Tang Dynasty (618-907) poets Li Bai and Du Fu’s works, the human condition is often expressed humorously. Chinese writers do not look down on humor, as Western people do. You value John Milton over Samuel Butler. Thank goodness for Chaucer and Thackeray!"

"But what about painting?" I countered.

"I have heard that only one Judeo-Christian angel in 3,000 years actually smiled — and, not surprisingly, that angel was French — the Angel of the Annunciation at Rheims. By contrast, Chinese mythology depicts many gods and deities as laughing: some were even making mischief. Your gloomy Dante Alighieri obsessed about the circles of hell, while the Chinese created the romantic legend of the earthly cowherd and the heavenly spinning maid. I concede that ancient Greeks had lovely stories about the cosmos, with some amusing gods and deities. Nevertheless, our deities are more diverting, more pleasant, and have more laughter, especially in relation to those drawn in Jewish and Christian ideologies."

"Are you implying the Chinese are happier than Westerners because they are less religious?" I asked.

"Not at all," he replied. "The Chinese perspective is simply different. Christianity’s paradigm perceives man as the dominant creature. Taoist and Buddhist thought, in contrast, sees man as a fellow creature, part of the menagerie of life. Ancient Chinese lived close to animals. They domesticated many species, and they had great fondness for pets. Chinese artists depict animals with humor; by laughing at or with them, they are equally part of the comédie humaine."

"Some Western artists idealize animals, as well as the human form. I’m thinking of Albrecht Dürer and Edgar Degas," I replied.

"But Chinese artists chose freedom of imagination over idealization," said Yang. "They caught animals, for example, in surprising forms and attitudes. Yet, from one point of view, we Chinese act as purists. Ancient Chinese didn’t anthropomorphize, using beasts to tell moral tales, as Grimm, Jean de La Fontaine and even Ivan Krylov did."

"I guess because the birds and beasts didn’t have to obey strict Confucian orders," I responded with a smile.

"Perhaps," Yang said. "Animals are simply and naively lovable. To live with animals is to live freely, with a great variety of companions."

"So where is the humor in depicting animals?" I asked him.

"I’ve seen a Tang Dynasty headrest, shaped into a pig! The sleeper rests his head between snout and tail — is that not humorous?" said Yang.

"Yes," I conceded. "But we have Donald Duck and Mickey Mouse — they’re quite funny."

"All ducks are funny creatures; they entertain by bobbing and quacking. Let’s examine instead a serious bird. The phoenix symbolizes solemnity, piety, and sacredness. It’s not a bird for fun? Yet the phoenix painted on a kitchen dish can share in general good humor. Anyone can cut out of it the smiling bird contributes to our sense of well-being."

"Do you have a funny rat?" I asked.

Yang said, "In painting we have a very famous picture of rats scavenging together as a family. The mother rat has eaten her way through a melon, so her head and tail are at either end; she’s digging out juicy pieces in the middle for her babies. This is dry Chinese humor. A bit strange, but moving. Stay longer in China — you will understand more and more."

The writer is an American living in Beijing.
Overview

China's growth has moderated somewhat, with a shifting composition. GDP growth declined from 10.6 percent in the first half to a still surprisingly strong 9.6 percent (yoy) in the third quarter. The domestic economy cooled as the stimulus impact is fading out and the monetary stance is being normalized. Investment and urban consumption have decelerated, and so have imports. Meanwhile, with exports strong, net external trade has contributed significantly to (yoy) growth and the external surplus is rising again.

The global outlook is broadly favorable, but risks remain. Despite an expected deceleration, global growth prospects are fairly favorable due to emerging market strength. But risks include a weaker outlook in high-income countries and ample international liquidity as well as the global imbalances and possibly contentious policies triggered by them. Global price pressures remain contained by spare capacity in many countries. But there are upward inflation risks internationally.

China's own economic prospects remain sound, with risks both ways. Growth may ease further as global growth decelerates and the macro stance is normalized further. However, the expansion should remain supported by the traditional growth drivers and a robust labor market. We have edged up our GDP growth projection for 2010 to 10 percent after the third quarter data. We see growth at 8.7 percent in 2011 and easing somewhat further in the medium term. Pushed up by higher food prices, inflation may stay above the 3 percent target for a while. It is unlikely to escalate as core inflation remains in check. However, raw commodity prices may rise further while maintained high wage growth is uncertain but cannot be ruled out. Given the fundamental drivers of property prices, they are unlikely to be contained for long. On current trends and policies, the external surplus is on course to rise in 2011 and the medium term.

Further normalization of the macroeconomic stance is needed to guard against macro risks. The key concerns are asset price increases, strained local finances and non-performing loans, while inflation risks cannot be ruled out. Two-way risks call for policy flexibility. The authorities are broadly on track to normalize the overall monetary stance and meet the 2010 quantitative targets. They have also started to raise interest rates, although interest rates will need to rise further. International liquidity poses challenges to monetary policy, but these should be more manageable in China than in some other emerging markets. Nonetheless, measures can be taken to enhance protection against unwanted capital flows.

The preparations for the 12th Five-Year Plan (2011-15) call for focus on structural issues and reforms. Changing the growth pattern is rightly a key target. The need to rebalance to more domestic demand-led, service sector-oriented growth seems stronger now than five years ago, in part because the international environment is less favorable. Rebalancing will not happen by itself—it will require significant policy adjustment. This update also discusses policies that would help boost private sector development, focusing on open-

概要

中国经济增长有所放缓，增长结构有所改变。三季报GDP的同比增幅从上半年的10.6%回落，但仍保持9.6%的有力增长。随着刺激政策的影响减弱，投资和城市消费有所减速，贸易和进出口贡献有所放缓。与此同时，出口保持强劲，净出口为经济增长作出了重大贡献，外部盈余又开始上升。

全球经济前景总体较为有利，但仍有风险。尽管增长速度出现了预期中的下降，但由于欧洲市场表现强劲，全球经济前景仍然良好。然而，风险主要包括通货膨胀向国家输入影响，以及国际流动性显著增加可能引发的非传统政策。从全球来看，由于很多国家产能过剩，价格上涨势头将会受到抑制，不过，国际通货膨胀的风险依然存在。

中国的经济增长前景较好，市场和下行风险同时存在。随着全球增长预期减速以及国内宏观经济政策的传导，中国的增长速度可能会进一步放慢。不过，传统的发展动力以及强劲的劳动力市场仍会支持经济的扩张。三季报数据显示后，我们对2010年全年GDP增长速度的预测略微上调至10%。我们预计2011年的增速为8.7%，增长将在中期内有所回落。受食品价格推动，通货膨胀率在一段时间内可能保持在高于3%的一致目标水平。由于工业品价格核心通货膨胀率的提高，总体通货膨胀不太可能出现大幅攀升的现象。但是，大宗商品价格可能继续上涨，工资持续大幅增长的可能性虽然不大，但也不能完全排除。考虑到存在房价上涨的根本动力，房价不可能长期不变。按照当前的发展趋势和政策，2011年以及中期来看外部条件未必会改善。

需要使宏观经济政策进一步正常化，以防范出现风险。最主要的担忧是房价价格上涨，地方财政紧张和银行信贷紧缩，而通货膨胀也可能被推动。因为风险是双面的，这就要求政策的制定具备灵活性。当局正在将宏观政策正常化，2010年货币政策的主要指标已经实现。当局已经开始考虑提高利率，不过还需要进一步加息。国际流动性对货币政策造成挑战，但与其他一些新兴市场国家相比，中国有更强的灵活政策改变的可能，无论何时，可能采取措施进一步防范有危害性流动。

第十二个五年规划（2011-2015）的制定将重点放在结构性改革上。改变增长方式是一个核心目标。现在，推动经济平衡，实现以内需拉动，以服务业为导向的增长，比之前更为紧迫。这在一定程度上是因为国际环境变得更为不利，经济再平衡不会自发实现，要求进行重大政策调整。
Recent Economic Developments

China’s continued rapid growth during the global crisis reflected large scale stimulus and strong underlying growth drivers. The stimulus package implemented since end-2008 gave a well-timed temporary domestic demand boost. The underlying growth drivers, in place since long, stem from sound fundamentals and a policy setting that stimulates industry-led, capital intensive growth.

Growth moderated to a still rapid pace of 9.6 percent (yoy) in the third quarter of 2010, with a shifting composition (Figure 1). The domestic economy cooled as the stimulus impact is fading out and the overall monetary stance is being normalized. Since August, measures to meet the 11th Five-Year Plan’s energy efficiency targets may also have had some effect. Meanwhile, the (yoy) contribution of net external trade shifted from strongly negative in mid-2009 to strongly positive in mid-2010, reflecting a rebounding world economy and further global market share gains. Sequential GDP growth held up better than expected at 9.1 percent in the third quarter at a seasonally adjusted annualized rate (SAAR). Production-wise, the slowdown was led by industry—heavy industry in particular—with the expansion in the service sector steadier (Figure 2).

So far, the growth moderation has been largely domestically-led.

- Investment continued to slow gradually through the third quarter (Figure 3). After the surge, government-led investment has normalized in 2010, slightly lagging overall investment. Strong real estate investment has prevented a more abrupt slowdown in overall investment. In April, the government took measures to contain housing prices, including higher minimum down payments for mortgages, banning mortgage discounts, and restricting financing of developers. However, because of the lead-time, real estate construction and investment have not yet slowed significantly, even though sales initially weakened substantially (see below). Other market-based investment has continued to expand robustly.

- Consumption growth has also softened, especially in urban areas. With real urban income growth moderating in 2010 because of higher food-price driven inflation and slower housing sales (which trigger slowdown in consumption spending on household items), urban consumption has decelerated significantly through the third quarter. In rural areas, slower “business income”—in part because of the supply shocks causing the higher food

Figure 1. Solid growth with shifting

图1. 增长较快，但结构调整正发生变化

Figure 2. Some slowdown more recently

图2. 最近增速有所放缓
prices—was more than offset by strong increases in migrant wage income and government transfers. Rural cash consumption growth held up through the third quarter. However, overall consumption growth decelerated, because of the higher weight of urban spending. Retail sales also moderated slightly (Figure 4).

With exports strong, domestic demand and imports easing, and a broadly unchanged growth pattern so far, the external surplus is increasing again.

- China's highly competitive exports continued to outpace global imports. Global import demand has slowed recently, after the post-recession rebound, and import volumes (in constant prices) in the world outside China are still somewhat lower than a year ago (Figure 5). However, despite recent easing, China's merchandise export volumes were up 9.6 percent on two years ago in the third quarter, implying further market share gains.

- The expansion of import volumes slowed alongside investment. After the stimulus-driven surge earlier on, slower investment and heavy industrial production caused imports to decelerate this year, particularly raw material imports (Figure 6). Imports of machinery and equipment have held up better and car imports have also remained strong. Overall merchandise import volumes were 22.6 percent higher than 2 years ago in the third quarter.

- China's terms of trade (TOT) were unfavorable in the first half, but prices—the rise in prices of non-tradable goods and services continued to outpace the rise in prices of tradable goods, due to the appreciation of the renminbi. The result was an increase in the TOT, which has been a拖累 in recent years. Although the TOT improved in the first half of 2010, the improvement was modest. The improvement was due to the appreciation of the renminbi in the first quarter, which outweighed the negative impact of rising input prices.

- China's exports growth remained strong in the first half of 2010, but growth slowed in the second quarter due to weaker global demand and the appreciation of the renminbi. The growth of China's exports of goods and services was 10.6 percent in the first quarter and 9.6 percent in the second quarter. The growth of China's exports of goods was 12.4 percent in the first quarter and 9.9 percent in the second quarter. The growth of China's exports of services was 7.6 percent in the first quarter and 7.2 percent in the second quarter.

- China's imports growth slowed in the second quarter due to weaker global demand, but growth remained strong in the first half of 2010. The growth of China's imports of goods and services was 15.9 percent in the first quarter and 10.4 percent in the second quarter. The growth of China's imports of goods was 18.4 percent in the first quarter and 10.9 percent in the second quarter. The growth of China's imports of services was 9.2 percent in the first quarter and 9.1 percent in the second quarter.

- China's trade surplus continued to widen in the first half of 2010. The trade surplus was 32.2 billion yuan in the first quarter and 36.4 billion yuan in the second quarter.

- China's foreign exchange reserves increased in the first half of 2010. The foreign exchange reserves increased by 1.3 trillion yuan in the first quarter and 1.5 trillion yuan in the second quarter.
are turning around. In the first half of 2010, the TOT were an estimated 15 percent lower than a year ago as commodity prices were sharply higher while spare capacity in the manufacturing industry worldwide depressed China's export prices (Figure 7). However, as commodity prices increase are moderating while export prices are recovering, the TOT are turning around again—in September they were down only 4.2 percent over a year ago—adding substantially to the current account surplus.

- The trade surplus is rising again (Figure 8). The trade surplus declined strongly in 2009 because of China's domestic economy—and thus imports—kept on growing, supported successfully by massive stimulus, while the global crisis depressed China's exports. Now, with the impact of the stimulus fading out and imports slowing, little hope so far in China's underlying pattern of growth, and the world economy recovering, the external surplus is rising again, even though this was masked in the first half by TOT effects. Thus, while in the first quarter of 2010 the trade surplus was $47.7 billion lower than a year ago, in the third quarter it was $26.5 billion higher than a year ago.

- Consumer price inflation has risen on higher food prices. CPI inflation rose to 3.6 percent (yoy) in September (Figure 9). About two thirds is contributed by higher food prices, largely because of problematic weather domestically but with additional impact from higher international food prices. Despite renewed increases in international prices for industrial raw materials, input prices in China are still falling month on month and the (yoy) PPI increases are moderating. Meanwhile, core inflation remains low as strong productivity growth in manufacturing affects largely offset sizeable wage increases in recent years (Box 1). Nonetheless, after falling in 2009, unit labor costs in manufacturing rose significantly in the first three quarters of 2010 (yoy) because of the particularly high wage increases granted earlier this year (Figure 10).

- Property prices have hardly budged since April. According to the NBS's 70 cities index, the most closely watched by policymakers, price rises were contained during June-August amidst weak housing sales. However, housing prices rose again by 0.5 percent month on month in September as sales recovered. In response, the government added some measures in September, including increasing the minimum down payment ratio for first mortgages to 30 percent.

- Despite some exchange rate appreciation against the U.S. dollar, foreign exchange accumulation is accelerating again. Between the end of the temporary peg in mid-June and early November, the RMB has appreciated 2.3 percent against the U.S. dollar. As the U.S. dollar weakening substantially against many other currencies, in nominal effective terms the RMB has depreciated in this period, although the nominal effective exchange rate is still more appreciated now than in mid-2008, when the temporary peg was introduced.

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**Figure 7. The terms of trade loss is fading out**

图7. 贸易条件恶化影响正在消失

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<thead>
<tr>
<th>Year</th>
<th>Export Price (percent Change)</th>
<th>Import Price (percent Change)</th>
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</tr>
<tr>
<td>2010</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
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**Figure 8. The trade surplus is on the rise again**

图8. 对外贸易顺差重新开始增长

<table>
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<tr>
<th>Year</th>
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Economic prospects

The global economy is starting to slow again, particularly in high income countries (HICs). This is because of an end to the inventory adjustment, implementation of exit strategies for stimulus policies, and sovereign stress in peripheral Eurozone countries and its potential impact on global financial markets. Prospects for growth in the United States and Japan in 2010-11 are being revised downward, which is also leading to further easing of monetary policy there, including possible additional quantitative easing in the United States. Global trade and industrial production are slowing down after the earlier bounce back (Table 1).

However, overall global growth prospects are supported by emerging market strength. In the United States and Europe, the apparent slowdown notwithstanding, mainstream forecasters do not expect a double dip, although the Japanese economy may struggle. Moreover, most emerging markets and developing countries should see continued robust growth. Their growth prospects are of course linked to those in HICs via trade and capital flows, and financial sector risks originating in HICs have global ramifications. However, domestic demand prospects are robust in most large emerging markets, while relatively sound macroeconomic fundamentals buoy the sustainability of their growth. In all, overall global growth prospects for 2010 have been upgraded since January 2010, although those for 2011 have been nudged down (Table 1).

Nonetheless, the global growth outlook remains subject to large risks, both ways. In HICs, households may remain reluctant to consume as they adjust to balance sheet losses and amidst high unemployment and uncertainty. There could also be feedback effects between high public debt burdens, unfavorable growth dynamics, increased rollover risk, and linkages to the banking system. A few factors mitigate downside risks: Private investment may not fall much more, given that it is already low, as a share of GDP, and amidst robust corporate profits; a renewed rundown of stocks is unlikely because inventories appear to be close to desired levels; and overall financial conditions have stabilized in OECD countries, making banks somewhat less reluctant to lend.

The global imbalances and the tensions they create cast a shadow over the global outlook. The combination of large current account surpluses in some countries, including China, and large current account deficits in other countries, notably the United States, poses financial and economic risks, including the possibility of a debt crisis in the eurozone and a delayed recovery in the United States. The problems are all the more serious because several crises have been triggered by financial imbalances and the resulting financial vulnerabilities, particularly in emerging markets. The need for global policymakers to coordinate their responses is clear, especially as the global economy continues to recover from the latest financial crisis.

Figure 9. CPI inflation rises as PPI inflation declines

Figure 10. Will unit labor cost remain contained?
Box 1. Have Wage Increases Driven up Costs In Manufacturing?

Concerns were raised earlier this year that high wage increases would drive up costs in China’s manufacturing sector. Weaknesses and gaps in the data call for caution. Nevertheless, sizable wage increases in manufacturing over the last 10-15 years seem to have been offset by rapid productivity growth, also in recent years. As a result, unit labor costs fell between the mid-1990s and the mid-2000s and remained broadly unchanged since.

In a booming economy, manufacturing wages have grown strongly in the last decade. Amidst robust urban labor demand, average wages have risen rapidly since 2000, and in recent years wages at the lower end have also started to accelerate. Nominal wage growth picked up further in 2007, when the economy was booming and inflation rising (Box figure 1). However, it slowed substantially in 2009 due to the impact of the global crisis. Quarterly data clearly show the recent deceleration and rebound (Box figure 2). Wages in the services sector decelerated less during the downturn and, conversely, have not seen the rapid acceleration seen in industry since end 2009.

Despite several problems, the wage data provide useful information. The most widely used wage data — used in Box Figures 1 and 2 — only cover the urban economy and do not cover most private enterprises. This is in principle a major problem, since it may not be representative for the whole economy. However, surprisingly, this weakness appears not to distort the picture excessively. Separate, independent data from the household survey suggest lower average wage growth than the mainstream data (Box figure 1). However, the household survey data show a similar dynamic and the pace of wage growth is broadly similar to that in manufacturing in the mainstream data. This strengthens the case for using the mainstream data even as caution remains required.

Labor productivity in industry has also risen sharply in the last 15 years. Value added in Industry grew at around 9-10 percent in 1997-2001. Then it accelerated, boosted by WTO accession and a strong world economy. Moreover, labor productivity was boosted by

Box figure 1. Wages have grown rapidly

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
<th>Manufacturing</th>
<th>Min &amp; Max</th>
<th>HH survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>2.5</td>
<td>2.0</td>
<td>0.0</td>
<td>5.0</td>
</tr>
<tr>
<td>1998</td>
<td>3.0</td>
<td>3.5</td>
<td>1.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1999</td>
<td>3.5</td>
<td>4.0</td>
<td>2.0</td>
<td>6.0</td>
</tr>
<tr>
<td>2000</td>
<td>4.0</td>
<td>4.5</td>
<td>3.0</td>
<td>7.0</td>
</tr>
<tr>
<td>2001</td>
<td>4.5</td>
<td>5.0</td>
<td>3.5</td>
<td>7.5</td>
</tr>
<tr>
<td>2002</td>
<td>5.0</td>
<td>5.5</td>
<td>4.0</td>
<td>8.0</td>
</tr>
<tr>
<td>2003</td>
<td>5.5</td>
<td>6.0</td>
<td>4.5</td>
<td>8.5</td>
</tr>
<tr>
<td>2004</td>
<td>6.0</td>
<td>6.5</td>
<td>5.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2005</td>
<td>6.5</td>
<td>7.0</td>
<td>5.5</td>
<td>9.5</td>
</tr>
<tr>
<td>2006</td>
<td>7.0</td>
<td>7.5</td>
<td>6.0</td>
<td>10.0</td>
</tr>
<tr>
<td>2007</td>
<td>7.5</td>
<td>8.0</td>
<td>6.5</td>
<td>10.5</td>
</tr>
<tr>
<td>2008</td>
<td>8.0</td>
<td>8.5</td>
<td>7.0</td>
<td>11.0</td>
</tr>
<tr>
<td>2009</td>
<td>8.5</td>
<td>9.0</td>
<td>7.5</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Source: CEIC, World Bank staff estimates.  数据来源：CEIC，世界银行工作人员估计。

Box figure 2. Zooming in on recent

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6.0</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>2007</td>
<td>6.5</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td>2008</td>
<td>7.0</td>
<td>7.5</td>
<td>7.0</td>
</tr>
<tr>
<td>2009</td>
<td>7.5</td>
<td>8.0</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Source: CEIC, World Bank staff estimates.  数据来源：CEIC，世界银行工作人员估计。

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global inflation pressures. However, the possible monetary easing would be in response to economic weakness. Combined, the associated changes to the outlook do then not obviously imply higher global inflation, although the easing could complicate the financial outlook, including by boosting global liquidity. However, substantial recent increases in many food and industrial commodity prices show how changes in market conditions can affect such prices quickly. More generally, inflationary pressures have resurfaced in several large emerging markets, which trade and financial spillovers to the rest of the world. In particular, emerging economies in Asia have seen significant capital inflows and asset price appreciation. Japan is another example, where the combination of low interest rates and a weak yen has fueled asset bubbles. In Europe, too, some countries have experienced financial booms, with rapid credit growth and inflationary pressures. The risks to the global economy remain significant, particularly as central banks continue to ease monetary policy.
Table 1. The global environment (percent change, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World GDP growth 1/</td>
<td>1.6</td>
<td>-2.3</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>High income countries</td>
<td>0.3</td>
<td>-3.6</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Developing countries</td>
<td>4.1</td>
<td>-0.1</td>
<td>4.8</td>
<td>5.0</td>
</tr>
<tr>
<td>World imports 2/</td>
<td>3.8</td>
<td>-11.2</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>World prices (US$ per barrel)</td>
<td>97.0</td>
<td>61.8</td>
<td>78.2</td>
<td>78.8</td>
</tr>
<tr>
<td>Oil</td>
<td>97.0</td>
<td>61.8</td>
<td>78.2</td>
<td>78.8</td>
</tr>
<tr>
<td>Non oil commodities</td>
<td>0.0</td>
<td>-21.6</td>
<td>16.8</td>
<td>-16.8</td>
</tr>
<tr>
<td>Manufactured export products</td>
<td>5.9</td>
<td>-4.9</td>
<td>3.1</td>
<td>1.4</td>
</tr>
<tr>
<td>G-20 interest rate (6 month period per year)</td>
<td>3.2</td>
<td>1.1</td>
<td>0.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>


In China, growth may ease in the short term, notwithstanding the surprisingly robust third quarter. The actual slowdown in global growth and imports is likely to affect China's exports. Some additional impact stems from the normalization of the macro policy stance, the eventual impact of the measures introduced to contain property price rises, and some administrative measures to meet energy efficiency targets. Nonetheless, we revise up our GDP growth forecast for 2010 as a whole to 10 percent after the stronger than expected third quarter outcome (Table 2).

Growth is likely to moderate somewhat more in 2011 and the medium term to a still robust pace. The expansion should continue to be supported by the traditional growth drivers and robust macroeconomic fundamentals. In early 2011, activity may also receive a fillip from the end of some temporary administrative measures to meet energy efficiency targets. New public investment programs are also likely to be started next year to accelerate urbanization in inland regions and promote strategic new sectors. However, these are unlikely to fully offset the impact of the end of the 4-trillion-yuan stimulus package. In all, with export growth lower but consumption benefiting from a robust labor market and private sector investment assumed to hold up, we project GDP growth to moderate to 8.7 percent next year. In the medium term growth should remain robust, although trend (potential) growth is likely to diminish. See our June 2010 Quarterly Update for a discussion of China's medium term outlook.

Inflation is unlikely to escalate but it will be difficult to containing housing prices for long. Inflation may remain above the 3 percent target for a while, although the food price increases should eventually decelerate (the domestic supply side factors driving them up are considered largely temporary). Looking further ahead, the inflation outlook benefits from the subdued projections for international prices for oil, industrial commodities and food, recent increases notwithstanding, although China's domestic staple grain prices are not influenced much by international prices. Despite the large wage increases in part of the manufacturing industry earlier this year, core inflation is unlikely to escalate, because China's labor market is flexible and the manufacturing sector appears able to absorb substantial wage increases (Box 1). However, given the fundamental drivers of property prices—rapid urbanization, sizeable income growth, and low interest rates—they are unlikely to remain flat for long.

The external surplus is on course to rise again. Taking into account the recent trends in trade volumes, normal seasonal patterns in export and import volumes, and the turnaround in the international terms of trade, the whole-year trade surplus may be broadly unchanged from 2009, because of the low reading in the first half. However, on current policies and trends, the trade surplus is likely to continue to rise in 2011 and the medium term, in 3% (Figure 12). The current account surplus should rise faster than the trade surplus because the net income on China's rapidly growing net foreign asset position is likely to grow significantly in the coming years. The upward revision in our current account surplus forecast compared to our June forecast is largely because of stronger than expected export volumes.
Table 2. Main economic indicators
(percent change, unless otherwise indicated)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010f</th>
<th>2011f</th>
<th>2012f</th>
</tr>
</thead>
<tbody>
<tr>
<td>The real economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>14.2</td>
<td>9.6</td>
<td>9.1</td>
<td>10.0</td>
<td>8.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Domestic demand 1/</td>
<td>12.3</td>
<td>9.6</td>
<td>13.8</td>
<td>8.1</td>
<td>8.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Consumption 1/</td>
<td>10.8</td>
<td>8.5</td>
<td>8.5</td>
<td>7.6</td>
<td>8.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Gross capital formation 1/</td>
<td>14.2</td>
<td>11.0</td>
<td>19.8</td>
<td>8.7</td>
<td>8.6</td>
<td>8.3</td>
</tr>
<tr>
<td>Contribution to GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>growth (pp)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic demand 1/</td>
<td>11.7</td>
<td>8.8</td>
<td>12.8</td>
<td>7.8</td>
<td>8.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Net exports 1/</td>
<td>2.5</td>
<td>0.8</td>
<td>-3.7</td>
<td>2.2</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Contribution net exports (W6, pp) 2/</td>
<td>3.4</td>
<td>1.8</td>
<td>-4.6</td>
<td>2.2</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Exports</td>
<td>20.0</td>
<td>8.6</td>
<td>-10.4</td>
<td>24.3</td>
<td>9.3</td>
<td>8.4</td>
</tr>
<tr>
<td>(goods and services) 2/</td>
<td>14.2</td>
<td>5.1</td>
<td>4.3</td>
<td>19.0</td>
<td>9.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Imports</td>
<td>10.6</td>
<td>10.5</td>
<td>11.0</td>
<td>9.8</td>
<td>9.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Potential GDP growth</td>
<td>4.3</td>
<td>3.4</td>
<td>1.5</td>
<td>1.6</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Output gap (pp)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI increases (period average) (%)</td>
<td>4.8</td>
<td>5.9</td>
<td>-0.7</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>7.6</td>
<td>7.8</td>
<td>-0.9</td>
<td>4.7</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>External terms of trade</td>
<td>-0.9</td>
<td>-4.3</td>
<td>8.6</td>
<td>-8.8</td>
<td>-0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Fiscal accounts (per cent of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget balance 3/</td>
<td>0.6</td>
<td>-0.4</td>
<td>-2.8</td>
<td>-1.8</td>
<td>-1.6</td>
<td>-1.8</td>
</tr>
<tr>
<td>Revenues</td>
<td>19.3</td>
<td>19.5</td>
<td>20.3</td>
<td>20.3</td>
<td>20.5</td>
<td>20.7</td>
</tr>
<tr>
<td>Expenditures</td>
<td>18.7</td>
<td>18.9</td>
<td>23.0</td>
<td>22.1</td>
<td>22.1</td>
<td>22.3</td>
</tr>
<tr>
<td>External account (US billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance (US$ bn)</td>
<td>315</td>
<td>361</td>
<td>250</td>
<td>247</td>
<td>273</td>
<td>314</td>
</tr>
<tr>
<td>Current account balance (US$ bn)</td>
<td>372</td>
<td>426</td>
<td>297</td>
<td>320</td>
<td>356</td>
<td>442</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>10.6</td>
<td>9.4</td>
<td>6.0</td>
<td>5.5</td>
<td>5.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Foreign exchange reserves (US$ bn)</td>
<td>1529</td>
<td>1945</td>
<td>2400</td>
<td>2765</td>
<td>3143</td>
<td>3596</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad money growth (M2, e-o-p (%))</td>
<td>16.7</td>
<td>17.8</td>
<td>27.0</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: NBS, PBC, Ministry of Finance and World Bank staff estimates.
1/ WR estimates using contribution to growth data (CHNS 1:35 in NBS Statistical Yearbook).
2/ WR staff estimates based on data from 2009 (March) and 2010 (March).
3/ WR estimates for 2009 and 2010 data is in line with the commitment data presented to the NPC.

and weaker than expected import volumes.

There are of course risks to this outlook. In current circumstances, with the world economy at an inflection point, there are in principle many sources of risk. On growth, the global risks discussed above, including those with respect to global imbalances and possible policy responses, are probably the key ones for China. In this connection, a lack of success in rebalancing China's growth pattern would be among the more serious medium-term risks, for China and the world economy. Upside risks with respect to inflation could arise from further shocks affecting raw commodity prices or from sustained high wage increases driving up core inflation.

Economic policies

China's favorable growth outlook warrants further normalization of the macroeconomic stance. After the large stimulus, the key macroeconomic concerns remain asset price increases, strained local government finances, and non-performing loans. While the inflation outlook does not seem worrisome, the upward risks call for vigilance and managing inflation expectations. Notwithstanding the slack and unemployment in many HEICs, China's economy is operating close to full capacity and the growth outlook is favorable. Thus, further consolidation of the overall macroeconomic stance is needed to contain the rapid expansion in financial asset prices and control further increases in wage costs. The threat of inflation could lead to a more rapid tightening in monetary and fiscal policy, which would help control risks to price stability.

On the external side, the current account surplus is expected to remain high, but the trade surplus is expected to narrow. The authorities have begun to consider ways to help manage the exchange rate, but it is not clear how much depreciation might be needed to reduce the current account surplus.

Finally, the government has announced a series of measures to support small and medium-sized enterprises, including tax cuts and subsidies. These measures are expected to provide some support to the economy, but they are unlikely to be sufficient to fully offset the impact of the stimulus withdrawal and the challenges faced by the economy.

These measures are likely to be effective in the short term, but more sustained efforts will be needed to ensure long-term economic stability. The government should continue to monitor the economy closely and be prepared to take further action as necessary. In conclusion, the outlook for the Chinese economy remains uncertain, but the risks are skewed to the positive, with the potential for further economic growth and development.

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Figure 11. Some appreciation against the US dollar, although not in effective terms

图11. 人民币兑美元升值，但名义有效汇率贬值

Figure 12. The external surplus is likely to rise again

图12. 外部盈余可能再次上升

Source: CEIC, World Bank staff estimates. 数据来源：CEIC, 世行工作人员估计。

these risks.

Two-way risks to growth make it important to be able to respond flexibly to changes in circumstances. This can be done by ensuring flexibility in the design and implementation of policy measures. Over time, changes to the monetary and exchange rate regimes will help to deal with the divergence in the cyclical position vis-à-vis the United States and financial capital inflows amidst ample international liquidity.

The preparations for the 12th Five-Year Plan (2011-2015) call for focus on structural issues and reforms. After the Fifth Session of the 17th Communist Party of China Central Committee (CPCCC) in mid-October, the CPCCC issued its proposal on formulating the 12th Five-Year Plan. This sets out the broad direction for policy making in the coming years. The major targets proposed include stable and relatively fast economic growth, major economic restructuring, raising people’s income relatively fast, and deepening reform and opening up. The principles, tasks, and strategies are broadly in line with the overall challenges and objectives we discussed in our March 2010 China Quarterly (pp19-22) (Box 2).

The Plan itself should have more specificity on the planned policy reforms and associated quantitative targets. In the June 2010 Quarterly we looked at the key role of the public finances and the crucial need for reform of the intergovernmental fiscal system, and fiscal reforms are likely to be introduced. Below we discuss two important policy areas in more detail: private sector development and energy.

Key among the objectives is changing the growth pattern. This adjustment toward more services and consumption, away from the emphasis on industry and investment—this is in order to address China’s social, environmental and external imbalances. It was already a key objective of the 11th Five-Year Plan. Progress has been made in several specific areas. However, there has been limited progress with the overall rebalancing. On the expenditure side, consumption has so far substantially lagged investment (Figure 13). On the production side, the tertiary sector has broadly kept pace with the secondary (largely industrial) sector but not grown faster, in real terms (Figure 14).

The need to transform the economic growth pattern may be stronger now than five years ago. This is in part because the external dimension has become more pronounced. Prospects for exports are less good now. Moreover, China’s economy, its role in the world economy, and its external surplus are now substantially larger than five years ago. On current trends and policies, the current account surplus is rising again. Some have suggested that “endogenous” rebalancing may occur. Surplus labor is drying up and, thus, wage increases will be substantially higher in the years ahead, automatically driving up the share of

行，增长前景也较好。在这种情况下，需要进一步收紧宏观经济政策以控制这些风险。

经济增长面临的双向风险要求在保持经济增长性之间做出权衡。可在政策制定和实施中始终保持警惕。新旧变化的货币和汇率制度，从而为使用货币政策实现国内经济目标创造空间，这将有助于解决国内经济周期与美国经济周期和国际流动性充足情况下金融资本流入所带来的问题。

制定第十二个五年规划（2011-2015年）要重视结构性问题和政策。

10 2010年11月25日
Box 2. The Key Challenges and Objectives During the 12th Five-Year Plan

Two overall challenges:
- Achieving sustained rapid growth and development; and
- Improving the quality of growth, making growth more people oriented, improving the quality of life; reducing environmental degradation; containing energy demand; and reducing the external imbalance.

Five main objectives:
- Changing the economic growth pattern; more focus on services and consumption and less on industry and investment;
- Boosting efficiency, notably by innovation and upgrading and increasing the role of the private sector;
- Pursuing sustainable spatial transformation, by successful urbanization and regional development;
- Changing the role of the state in the economy, with less direct control when markets function well and more involvement in areas such as health and education where markets often do not function well; and
- Taking account of China's changing interaction with the rest of the world.

1/ For a discussion, see our March 2010 Quarterly Update (pp. 19-22).

Fiscal and monetary policy

China's headline fiscal position remains sound, which helps to provide policy space. Despite the massive fiscal expansion, the headline fiscal deficit peaked at 2.8 percent of GDP in 2009, as much of the expansion was financed by bank lending. In the first three quarters of this year, headline expenditure rose 20.6 percent, with fairly even growth of spending across different categories. Revenues increased 22.4 percent in this period, with indirect taxes rising faster than direct taxes.

Figure 13. Evolution of the economic structure—expenditure side

Real growth (percent y/y) 真实同比增长(%)}

Source: PBC, World Bank staff estimates 数据来源：央行，世界银行工作人员估算。

Figure 14. Evolution of the economic structure—the production side

Real growth (percent y/y) 真实同比增长(%)}

Source: CEIC, World Bank staff estimates 数据来源：CEIC数源，世界银行工作人员估算。

专題框 2. “十二五”期間的關鍵挑戰
和政策目標

兩大挑戰：
- 確保持續快速增長和發展；
- 改善生產模式，使增長更加人民為本，減少不平等和貧困，
- 改善生產結構，減少環境退化；控制能源需求，減少付費不平等。

五大目標：
- 轉變經濟增長方式，更注重以服務業和消費來推動增長，減少對工業投資的依賴；
- 提高效率，尤其是通過創新，產業升級和加強各部門在國家產業中的作用來促進效率的提高；
- 通過成熟的市場化和區域化發展實現具有可持續性的經濟活動的空間轉型；
- 改變政府在經濟中的職能，在市場機制可以良好發揮作用的領域減少政府的直接控制，在市場往往不能良好運作的醫療和教育等領域加強政府的作用；
- 充分考慮中國與世界其他國家的互動。

1/ 详见国务院2010年3月的报告。

财政和货币政策

从公布数据看，中国财政状况良好，尚有较大的政策空间。尽管实行了大规模的财政扩张，但鉴于是用银行贷款，2009年财政赤字仅为GDP的2.1%。今年前三个季度支出增长20.6%，各支出类别的增长基本为平衡，同期财政收入增长22.4%，预算内增长超过预算外。这些趋势意味着财政赤字进一步下降——尽管这些趋势并不一定能显示全年财政收支情况。2009年中中国官方发布的政府债务仅占GDP的17.5%。
These trends suggest a further reduction in the headline fiscal deficit, although such trends may not necessarily be a good predictor of the whole-year balance. China's official government debt was a modest 17.5 percent of GDP at end-2009.

Quasi-fiscal spending is being contained, after the surge that has reduced the overall macro policy space. A significant share of the surge in lending to local government investment platforms (LGIs) since end-2008 may be bad. After an investigation, the China Banking Regulatory Commission estimated that in July-August, 2010, LGIs were issuing loans at a rate of 1.77 trillion yuan, about 5.4% trillion yuan, or 15% of GDP, faces default risk.

The overall monetary stance needs to be normalized to contain the associated risks. In addition to strained local finances, the most important macroeconomic risks are ALPs and prices of housing, equity, and possibly other assets. Moreover, while the inflation outlook does not seem worrisome, the risks to inflation call for vigilance, managing inflation expectations, and monetary policy leeway. The economy operating close to full capacity overall and the growth outlook robust, further consolidation of the monetary stance is needed.

The authorities are broadly on track to meet the 2010 monetary targets and have started to normalize interest rates. Mainstream credit growth decelerated from 33.8% in 2009 to 18.5% in September (yoy) and the 2010 target for new lending of 7.5 trillion yuan is broadly in place. Meeting that target should help manage inflation expectations. However, the case for relying more on interest rates in conducting monetary policy is strong. Off balance sheet credit-type products have grown rapidly recently, partly due to ample liquidity and low interest rates. Reining in such financial activity, and more generally tightening overall monetary conditions, requires higher interest rates as well as containing liquidity in the financial system. In mid-October the People's Bank of China (PBC) raised benchmark one-year lending and deposit rates by 25 basis points (Figure 16). The PBC raised longer-term deposit rates by 70 basis points. In mid-June, the People's Bank of China (PBC) raised benchmark one-year lending and deposit rates by 25 basis points (Figure 16). The PBC raised longer-term deposit rates by 70 basis points.

Pressure from international capital flows may challenge the conduct of monetary policy, but these challenges should be more manageable in China than in some other countries. The abundant liquidity internationally created by loose monetary policy amidst weak growth in developed countries is likely to be attracted by the strong growth in this region, notably China. Such flows will add to the upward pressure on the RMB. However, in China such flows may be less of a problem if there is ever thought and they should not be a reason not to raise interest rates. The amount of net financial inflows is still quite modest, compared to other flows and domestic credit creation because China's growth in recent years has been more efficient and effective.

New medium to long term loans (RMB bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>Real estate</th>
<th>Manufacturing</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3000</td>
<td>2500</td>
<td>1500</td>
<td>1000</td>
</tr>
<tr>
<td>2008</td>
<td>3500</td>
<td>3000</td>
<td>2000</td>
<td>1500</td>
</tr>
<tr>
<td>2009</td>
<td>4000</td>
<td>3500</td>
<td>2500</td>
<td>2000</td>
</tr>
</tbody>
</table>

Source: PBC, World Bank staff estimates

Figure 15. Lending to infrastructure is coming down.
effectively apply the controls on financial capital flows and also to consider tightening regulation. Earlier this year, the State Administration of Foreign Exchange (SAFE) tightened regulations on overseas lending and borrowing via domestic banks and both SAFE and the PBOC announced they would more strictly monitor capital flows. There would likely be more room for further tightening of micro and macro prudential regulation. In addition, more exchange rate flexibility may help in deterring capital inflows, although the recent experience in other large emerging markets shows that flexible exchange rates by themselves may not deter such inflows sufficiently. With regard to the level of the exchange rate, a stronger currency helps reducing inflation pressures by lowering the price of imports and toning down demand. It also helps rebalancing China’s pattern of growth toward more services and consumption and less industry and investment.

Private Sector Development

The private sector will remain critical for achieving China’s development objectives over the 12th Five-Year Plan period and beyond. Private sector firms are more productive than SOEs and are crucial for job creation.60 Expanding the role of the private sector has been part of China’s reform strategy. However, there is a feeling among many that in recent years the policy stance has favored SOEs over the private sector (see Box in our June 2010 Quarterly Update). At any rate, there is widespread agreement that a vibrant private sector is key for raising productivity and for China’s further development and growth.

In order to boost the strength of the private sector, in the next five years, China could address the following three challenges:

First, opening up to private enterprises sectors so far dominated by state-owned firms. In 2005, the government expanded the principle of allowing private firms to enter some industries previously reserved for SOEs and called for the equal treatment of SOEs and private companies. In practice, the principle proved hard to implement and progress was limited. Earlier this year, the government issued guidelines that reiterated the desire to stimulate the private sector and remove entry barriers to private investment.61 The objective is to encourage private investment in sectors such as infrastructure, utilities, financial services, logistics, and defense. Specific measures are still pending.

In this connection, the government could usefully clarify the role it envisages SOEs to play in China’s economy. Without a clear, specific policy framework and support, such guidelines may not be very effective, since traditional habits among local governments, enterprises, and banks are sometimes hard to change. Moreover, the guidelines seem to conflict with other explicit principles emphasizing the need for a strong role for SOEs, as codified in a list of “strategic” and “basic or pillar” industries where state-owned companies are meant to play a key role. The current

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Figure 16. Interest rates remain low

![Interest rates remain low](image)

**Source:** CBIC, World Bank staff estimates. 摄于来源、CBIC数据，世界银行工作人员估计。

Figure 17. Interest rates vary with maturity

![Interest rates vary with maturity](image)

**Source:** PBC, World Bank staff estimates. 摄于来源：人民银行，世界银行工作人员估计。

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list of “basic and pillar” sectors in industry includes machinery, autos, IT, construction, steel, base metals, and chemicals. If the aim is to stimulate the private sector, it would be useful to reconsider the composition of this list.

In addition, there is ample room to open several services sectors to private sector participation.

Second, continuing to address investment climate constraints. During the 11th Five-Year Plan, the overall investment climate for the private sector has improved, notably through the reforms of the regulatory environment to encourage new entry. However, some remaining institutional and policy constraints that hamper the development of the non-public sector could be tackled during the 12th Five-Year Plan. These include:

- Making access to finance more equal and developing capital markets. Despite improvements in the capital market, especially the establishment of the Small and Medium-sized Enterprise (SME) Board and the New Ventures Board, many private firms still have difficulties accessing bank loans and the capital market. This is particularly so for micro, small and medium-sized enterprises (MSMEs) in the central and western regions, where the relevant financial markets and products are relatively underdeveloped. Thus, an important task during the 12th Five-Year Plan is to strengthen financial services to MSMEs, especially those in the interior regions.

- Adjusting the role of the government and reducing “red tape.” Local governments often maintain tight control of economic development, selecting industries and planning industrial transfer. As part of the process to change the role of the state, the government—maintaining its role at the local level—could increasingly withdraw from direct intervention in the economy. In this way red tape could also be reduced.

- Reducing further regulatory barriers to entry. Despite the encouragement of private sector development, many states still have unreasonably high barriers. These include undue levels of capital and fixed assets.

Third, supporting the development of (R&D) and innovation capacity of the private sector. During the 11th Five-Year Plan, the overall innovation climate for China’s private sector has improved: and some very innovative private firms have emerged. However, most R&D in China is still conducted by large and medium-sized SOEs, with private firms, particularly small ones, playing a small role. The government can further strengthen the private sector’s innovation capacity through: (i) protection of intellectual property rights; (ii) helping improve the skills of private sector workers; (iii) strengthening interactions between the private sector and knowledge institutions; and (iv) providing supportive services.

Reducing energy intensity—challenges and policies

China will get close to meeting the energy intensity (EI) target of the 11th Five-Year Plan. The plan included a target to reduce the amount of energy per unit of real GDP by 20 percent between 2005 and 2010. Using the most recent energy consumption and GDP data, EI was reduced by 15.6 percent in 2005-09. Given developments so far in 2010, it will be difficult to meet the 20 percent target exactly, barring further data revisions. Nonetheless, China will get close, thus considerably reversing an upward trend in energy intensity (Figure 18). Moreover, the adoption of a binding target has clearly established energy conservation as a top priority at all levels.

More generally, China has made impressive achievements in energy conservation and renewable energy during the 11th Five-Year Plan period. Several reforms have taken place, including in pricing and taxation. Many inefficient coal-fired power plants and energy-intensive factories have been closed. Since the Renewable Energy Law of 2006, wind power capacity has been doubling every year and China has transformed itself into a world leader in renewable energy. These developments have shifted the economy towards a more sustainable energy path.

Looking forward, China will continue to face (local and global) environmental sustainability challenges to meet the energy needs arising from rapid economic development. China’s energy use per unit of GDP in 2009 was around 36.8 times as large as in the United States and 7.3 times as high as in Japan if GDP is measured at market exchange rates (Figure 19). If GDP is
measured at PPP, China's energy intensity in 2009 was around 1.5 times as high as the U.S. level.

Specifically, China's energy needs will be shaped by its response to three overarching challenges. These are: (i) maintaining rapid economic growth while rebalancing the country's economic structure and moving towards a less energy- and carbon-intensive economy; (ii) achieving rapid urbanization while shifting toward less energy- and carbon-intensive cities; and (iii) improving the quality of life while shifting to a less energy-intensive and more sustainable lifestyle. It is essential to meet these challenges without being locked into a highly energy-intensive structure and to contribute to a sustainable energy development path both locally and globally.

In addition to economy-wide reforms to promote rebalancing, meeting these challenges will require actions in four key dimensions of the energy sector:

First, continuing energy pricing reforms. Passing the full economic cost of energy supply to consumers and gradually internalizing environmental costs in energy prices can help increase energy efficiency, discourage energy waste, and encourage clean fuels. The pricing of coal and oil products now reflects developments in international oil prices in a relatively transparent way. However, fuel prices in particular are still low. The strong international evidence on the link between prices and energy intensity shows China can reduce the energy intensity by raising energy prices further. Pricing reforms are also still needed for natural gas and electric power, building on the welcome recent electricity pricing reform for residential electricity tariffs. Furthermore, introducing meters in district heating would help since the current tariffs are set based on the amount of floor area, which weakens incentives to conserve energy. Prices should also increasingly take account of environmental externalities. To that end, local (and even global) environmental costs can be incorporated in energy pricing through an additional fossil fuel tax and/or a carbon tax.

Second, complementing administrative measures with market-based mechanisms to further reduce energy intensity. Sustaining the reduction of energy intensity achieved under the 11th Five-Year Plan will require: (i) increasing the use of market-based mechanisms and financial incentives while strengthening the implementation of administrative measures; (ii) continued structural reforms towards a less energy-intensive economy while pursuing technical and managerial energy conservation measures; and (iii) strengthening energy conservation in urban buildings and transport while continuing efforts on large state-owned enterprises and expanding to other enterprises. Enhanced market-based mechanisms, such as piloting energy saving certificates trading, developing market-based financing mechanisms, and scaling up the energy efficiency service industry, can also motivate enterprises to implement energy efficiency measures and allow government agencies to play a more indirect supervision role. To this end, the energy intensity reduction target for the 12th Five-Year Plan could be made more customized than the current one.

Figure 18. The energy intensity is being reduced

![Energy intensity chart]

Source: CEC, World Bank staff estimates. 

Figure 19. The energy intensity is still high

![Energy intensity chart]

Source: CEC, USA, World Bank staff estimates. 

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Third, reducing cost and improving performance of renewable energy. Currently, power consumers pay an average of about 0.4 fen/kWh for the higher costs of renewable energy. With the rising share of renewable energy in the power mix, in the absence of a government subsidy, a continued increase in the surcharge for renewable energy may create financial burdens on consumers. In addition, a large wind power cannot get onto the grids, biomass development has run into fuel supply issues, and solar PV is still costly. Sustainable growth of China's renewable energy industry would need to focus more on driving down costs while promoting high efficiency and high quality. To address some of these issues, the government has already revised the Renewable Energy Law. Further reforms during the 12th Five-Year Plan period could include: (i) improving renewable energy planning, allocation of mandatory quota, and piloting renewable energy certificate trading; (ii) strengthening feed-in tariff schemes; (iii) resolving the grid integration bottleneck to wind and solar development; (iv) developing policies for distributed generation and integrating renewable energy into power sector reform; (v) accelerating hydropower development; and (vi) improving the performance and reducing the costs for wind and solar PV.

Fourth, accelerating development and diffusion of new energy technologies. Deploying advanced technologies on a large scale requires accelerated and enhanced research, development, and demonstration, coupled with an adequate carbon price. The clean technology revolution offers an opportunity for China to leapfrog to the next generation of new technologies, such as Integrated Gasification Combined Cycle (IGCC), carbon capture and storage (CCS), electric vehicles, energy storage, distributed generation, and smart grids. Coupling a technology push (e.g., increasing R&D) with demand pull (e.g., increasing carbon price) is critical to drive substantial cost reductions of advanced technologies. This also provides an opportunity for China to create local manufacturing industries and drive down costs to become global technology leaders. China already has three of the top ten global solar manufacturers and its wind manufacturing industry is also on its way to become a global leader. The largest barrier is the high incremental costs between these technologies and conventional options.

Notes:
[1] The household survey data from the urban and rural surveys is weighed up to obtain an economy-wide estimate.
[2] The input-output tables suggest only slightly higher increase in ULC for the whole economy during the recent decade, whereas the flow of funds data suggests a 20 percent increase.
[4] These large wage increases reflected a strong rebound in the labor market after an earlier downturn, but when growth slowed, looks ahead to over two years. The economy's real growth rate is far from historical norms.
[5] Seasonal patterns suggest export volumes and the trade surplus tend to be substantially higher in the fourth quarter. Our forecast for 2010 simply assumes that, seasonally adjusted terms, export volumes decline 1 percent per month in the fourth quarter and import volumes rise 1 percent per month on this basis. On prices, we project a deterioration in the 1.7 percent in the second half, compared to 1.5 percent in the first half, as commodity price increases have slowed while export prices have recovered somewhat.
[6] In January-September 2010, the surplus was 2.3 percent of GDP. But the average surplus in the first 9 months was 4.7 percent of GDP in 2007-09, while the whole-year balance ranged from 0.8 percent of GDP in 2007 to 2.3 percent of GDP in 2009.
[7] This is the first adjustment to interest rates since December 2008, when they were cut as part of the stimulus package.
[10] The government announced that in the first half of 2010, the GDI rose by 9.6 percent in 9 months compared to a year ago. Achieving the 5.2 percent reduction in 2010 that would meet the 20 percent of the 11th Five-Year Plan would require a 10 percent reduction in the second half, compared to a year ago.
[11] In 2009, China added 14,000 new wind power generation capacity, the largest increase in the world. Total installed capacity is expected to reach 30,000 MW in 2010, second to the United States.
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