

BEIJING REVIEW

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Logo of Centre for Intellectual Property Protection

- China, UK to promote dialogue on trade, IPR protection 2006-11-28
- China seizes 58 mln illegal publications in 3 months 2006-11-28
- MOE and MOST jointly hold working conference on universities' service for local development by independent innovation 2006-11-28
- 2006 Guangzhou International Design Week 2006-11-28

FOCUSING ON IPR

China ramps up the fight against piracy

- Vice Minister of MOST addresses joint meeting of S&T Departments in mid-south 2006-11-28
- China seizes 58 mln illegal publications in 3 months 2006-11-28
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MULTINATIONALS' CHINA INVESTMENT PAYS OFF

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COVER STORY It's common knowledge that piracy of films and other forms of entertainment is still widespread in China, but the government has begun to fight back in a more intensive way. As part of that effort, China has been expanding its cooperation with other countries. Recently, Twentieth Century Fox, a major U.S. entertainment company, signed an agreement with Zoke Culture Group, China's largest video distributor, to provide legitimate copies of its movies in a more timely manner in the hopes of weaning people away from pirated versions. Yet the battle won't be won easily, as new file-sharing technology enables people to illegally download films, music and other entertainment much more easily.

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Cooperating on IPR Protection

By LI NING

Twentieth Century Fox Home Entertainment signed in Beijing in mid-October an exclusive cooperation agreement with Zoke Culture Group, a Chinese audio and video publisher, with a view to offering DVDs and VCDs of its classic and latest movies to China's home entertainment market through Zoke's extensive network. This can be seen as a new step forward in intellectual property rights (IPR) cooperation between China and the United States.

U.S. Commerce Secretary Carlos Gutierrez, who was then visiting China, attended the signing ceremony. He said that inter-enterprise cooperation of this kind would become another "strategic weapon" in the two countries' joint fight against piracy.

IPR protection is of rising importance to China-U.S. economic relations. Both sides have reached a consensus that piracy in China not only hurts American companies' interests, but also hinders the further development of bilateral trade.

Chinese Commerce Minister Bo Xilai made it very clear that while China is making great efforts to encourage creativity, the country regards IPR protection as a national strategy. The Ministry of Commerce has set up centers in 50 cities around the country to handle complaints about IPR infringements, which by the end of September had investigated more than 15,600 cases.

In accordance with the Chinese Government's Action Plan on Intellectual Property Protection 2006, released at the beginning of this year, China has already carried out 19 international exchange and cooperation projects, covering IPR legislation, as well as protection of trademarks, copyrights and patents. Seven of the programs are happening between China and the United States. These include China's import of American expertise on the fight against online piracy, the training of law enforcement personnel, and joint studies of the influence of piracy on national security, cultural security and the development of human society.

Dialogue is the best way for Beijing and Washington to solve their disputes regarding IPR protection. According to Gutierrez, the U.S. Government had sent an intellectual property attaché to Beijing and at the beginning of 2007 one more attaché will be dispatched to Guangzhou, capital of south China's Guangdong Province, to strengthen dialogue and cooperation between the two countries.

It must be pointed out that IPR protection is a global concern. According to statistics from the American Film Institute, the United States suffered a loss of \$6.1 billion from movie piracy around the world in 2005, of which \$240 million was attributed to pirated products in China. That is to say, quite a few countries apart from China have done harm to U.S. movie copyrights. Hence, it is necessary for the United States to protect its intellectual property in a more extensive manner.

The Chinese Government understands clearly that IPR protection is not only compulsory under World Trade Organization rules, but more importantly, it is crucial to China's own development. Therefore, China is stepping up efforts to upgrade its IPR protection system and to formulate relevant laws and regulations, so that the rights will be respected and more effectively protected. The United States' suggestions on how to protect intellectual property rights in China are welcome and it is believed that in the near future the two countries will have more effective cooperation in this field. ■

Have a comment, complaint or question? *Beijing Review* welcomes your feedback.

E-mail our editorial team at contact@bjreview.com.cn or write to us at **Beijing Review, 24 Baiwanzhuang Lu, Beijing 100037, China**. Letters may be edited for length or content.

Committed to Education

Education is the life's work of **Zhang Baoqing**, but money now is his top concern. The former vice minister of education supervises the China Education Development Foundation (CEDF), the country's first publicly funded organization of its kind.

By the end of November, the foundation had raised 264 million yuan, including a donation of 3 million yuan from former Chinese Premier Li Peng. More than 13,000 students from impoverished families have been included in its aid program,



“It is not only the government’s responsibility to help students in difficulties, but the responsibility of us all.”

Zhang Baoqing

“The state supports nongovernmental organizations engaged in relief efforts for students from poverty-stricken families and encourages all sectors of society to contribute to educational development, so as to build a more extensive network for this purpose.”

Chen Zhili, Councilor of the State Council

with total payments reaching 40 million yuan.

But Zhang pays more attention to the 200,000 applications for help his foundation has received.

Throughout the country, there are 40 million students in schools at all levels in danger of dropping out due to financial difficulties, according to official statistics.

At the inauguration of the CEDF in March,

Zhang said the organization was established to mobilize all sectors of society to contribute to the estab-

lishment of an efficient relief system for students in difficulties.

From then on, Zhang, 62, has launched a nationwide fundraising campaign. “No matter how big or small a donation is, we welcome it,” he said.

Zhang attributes his dedication to helping poor students to a wholehearted gratitude for the government sponsorship that helped him through his school years. He said his next objective is to increase the available capital of CEDF to 1 billion yuan and make its working procedures more transparent.

Despite the increasing strength of CEDF, Zhang stresses that nongovernmental relief organizations can only play a supplementary role in aiding poor students and calls for governments at all levels to increase the coverage of the state-run student loan system.

Prior to his retirement from the government in October 2005, the outspoken opponent of the commercialization of education had repeatedly advocated that education is a kind of public service and the government is obliged to invest in it.

“This government believes strongly that the time has come for national reconciliation.”

Canadian Prime Minister Stephen Harper, speaking to the House of Commons hours before the parliament overwhelmingly adopted a resolution on November 28 stating that Quebec Province represents a “nation” within Canada

“Religions are for peace and reconciliation—they should not be interpreted otherwise.”

Pope Benedict XVI, calling for “authentic dialogue” between religions during his visit to Turkey

“We have to remain by the side of one another and share the sorrows and happy moments of each other.”

Iranian President Mahmoud Ahmadinejad, pledging help for security and peace in Iraq during a meeting with his Iraqi counterpart Jalal Talabani in Tehran

“Increased demand for energy from China isn’t the only thing driving up the global oil price. In fact, market fundamentals demonstrate that as long as investment goes to fueling oil production, there will be enough oil at affordable prices for the world economy.”

Noe Van Hulst, Director of Long-term Cooperation and Policy Analysis at the International Energy Agency

“The issue for us is to make sure we are extremely well-planned and ready for the six-party talks [on the Korean nuclear issue], which we do anticipate will get going at some point very soon.”

U.S. Assistant Secretary of State Christopher Hill, speaking to reporters before talks with Chinese and North Korean negotiators in Beijing on November 28



Lasting Expectations

The emblem of the 16th Asian Games, to be held in south China's Guangzhou City in 2010, was unveiled on November 26. The ascending lines of the design are modeled after the contour of the host city's symbolic five-goat statue and reflect the shape of a torch.

The emblem expresses Guangzhou's hope that the flame of the Asian Games will remain lit forever, said organizing officials.

The Asian Games is the largest sports event in Asia. Doha, Qatar is the host of this year's games from December 1 to 15.



SOCIETY

Affordable Olympics

The Beijing Organizing Committee for the Games of the XXIX Olympiad (BOCOG) revealed pricing schemes for the most affordable tickets in recent Olympic history on November 29.

Fifty-eight percent of the tickets for sale will be priced at or lower than 100 yuan. In line with the Olympic Education Program, BOCOG has also allocated a number of special tickets to encourage attendance among China's youth. Those tickets for preliminaries will be available for students at 5 yuan and for finals at 10 yuan.

Prices for preliminaries range from 30 yuan to 300 yuan, while the finals will be priced at 60 yuan to 1,000 yuan.

Tickets will become available in China in the first half of 2007.

Power Failure Snuffs Satellite

The failure of China's first large direct-to-home broadcasting satellite SinoSat-2 was confirmed one month after it was launched into space.

On November 28, a spokesman for the satellite's owner, Sino Satellite Communications Co., acknowledged publicly that SinoSat-2 suffered a technical failure on November 8 when the solar power panels stopped working.

"The company is drafting a replacement plan. The substi-

tute satellite will not be a carbon copy of the previous one and we are expecting more technical upgrades," Spokesman Fan Xinming said. Fan also said further investigations are being conducted into manufacturing faults and the development of a substitute satellite for the failed SinoSat-2 will take at least three years.

The satellite was designed to serve broadcast TV, digital TV, live broadcast TV and digital broadband multimedia systems on the Chinese mainland, Hong Kong, Macao and Taiwan.

Pension for Rural Residents

Only 12 percent of China's nearly 500 million rural laborers participated in the old-age pension system by the end of last year, said a senior official with the Ministry of Labor and Social Security (MLSS).

Liu Conglong, Vice Director of the Department of Rural Social Insurance of the MLSS, said a lot of input is needed for a well-functioning rural pension system.

On the governmental level, Liu said the Central Government had not appropriated any funds for rural old-age social insurance since China launched its rural pension schemes in 1991 while the urban pension system could get an annual subsidy of more than 50 billion yuan.

Moreover, he said no efficient financial products were available for rural social insurance funds to maintain and



FENG JIN/HUIJIA

FIGHTING AIDS Over 500 students from 20 universities in Beijing participate in an oath-taking ceremony at Peking University on November 27 to become AIDS volunteers. Their duties involve educating the public and conducting surveys

increase their value as no preferential interest rates existed for savings and no special treasury bond types existed for rural insurance funds.

Crackdown on Gangs

Chinese police authorities said more than 1,300 criminal gangs have been broken up in the latest campaign against organized crime. In China, organized crime gangs are sometimes protected by officials through bribery, threats or other means.

Between March and October, Chinese prisons received 887 new inmates charged with gang crime, Hu Yiding, Deputy Director of Prison Administration under the Ministry of Justice, said.

By the end of October, police had referred 196 cases of alleged organized crime for prosecution and 1,347 criminal gangs had been broken, according to the office for the national campaign against organized crime.

This shows that the campaign against organized crime has been effective, said a spokesman of the office.

Restrictions on Medical Ads

China has revised its regulations on medical services advertisements.

The new regulations, which will take effect on January 1, 2007, seek to eliminate exaggeration of the effects of certain medical treatments by banning the mention of specific diseases, *The Beijing News* reported.

An ad can reveal no more than the following information: the name of the medical institution, its address and phone number, specialty and qualifications, type of ownership, number of beds and opening hours.

The new regulations also increase the penalty for violating the law. In serious cases, the licenses of medical institutions can be suspended or even revoked.



ARCHITECTURAL FASHION Models exhibit a line of clothing by Chinese fashion designer Zhou Xiaodan titled "Flowing Forbidden City" in Tokyo as part of a monthlong Chinese culture festival



MY YEAR Chinese jewelry stores woo customers with pig-shaped gold ornaments months ahead of the coming Year of the Pig in China's lunar calendar

MAI PHUEN

XIN HUIJIA

ECONOMICS

Rules for Foreign Banks

China has granted overseas banks a five-year grace period to comply with a requirement that their loan-to-deposit ratio be less than 75 percent in a new implementation rule released November 28.

The new implementation rules take effect on December 11, when China's \$5.2 trillion banking sector is opened under the country's World Trade Organization commitment.

Foreign banks that incorporate locally have to meet the requirement by December 31, 2011, the China Banking Regulatory Commission said on its website.

The watchdog made the new rules in line with a rule released on November 16 stipulating that overseas banks that want access to the full spectrum of retail yuan business must incorporate locally with a registered capital of no less than 1 billion yuan.

If not, they can hold single deposits of 1 million yuan or above, shutting the door to small clients.

New High for Renminbi

The value of the renminbi against the U.S. dollar hit a new high on November 29, with the central parity rate at 7.8394 yuan to \$1, breaking the 7.84 mark.

This signifies that the renminbi's value has risen 5.32 percent since July 21, 2005, when the Chinese Government

launched its reform of the exchange rate system to allow the yuan to float against the U.S. dollar within a daily 0.3 percent band from the official central parity rate.

The exchange rate was set at about 8.28 yuan per U.S. dollar before the reform.

The yuan's appreciation is attributed to the continuous slump of the U.S. dollar and expectations for an interest rate drop in the United States, said analysts.

China's soaring foreign exchange reserves and the rocketing trade surplus are also considered important factors that pushed the yuan's value to new highs.

Later Retirement?

The government is considering raising the mandatory retirement age to plug the huge deficit in the pension fund, the *China Economic Weekly* reported.

The social security fund was 800 billion yuan in the red at the end of last year, compared to a 36 billion yuan deficit in 2000, the Chinese-language magazine said, citing a Ministry of Labor and Social Security document.

The magazine quoted unidentified ministry officials as saying that they would put forward a proposal to raise the retirement age to higher authorities within a month.

Official statistics showed that in 2000, the average retirement age was 51.2, much earlier than the requisite age of 60 for men and 55 for women.

Checked Growth

Growth of China's gross domestic product (GDP) is expected to slow from around 10.5 percent this year to 9.25 percent next year as a result of the government's macroeconomic controls, according to a report jointly released by the Institute of Economics of Renmin University and China Chengxin Credit Management Co. Ltd.

The report said after peaking this year, the growth of the country's GDP is expected to decline with implementation of more stringent macro-controls next year.

According to its estimates, China's GDP will grow by 10.48 percent this year, with investment in fixed assets up 27 percent and the Consumer Price Index up 1.5 percent.

China's GDP growth began to ease in the second half of this year, showing that the macroeconomic control policies aimed at cooling down the economy have taken effect and the trend is

likely to continue next year, said the report.

Vibrant Online Entertainment

China's Internet video audience will nearly double this year to 63 million, and its members will pay 400 million yuan to watch sports, TV series and movies online, according to an industry report released November 27.

By 2010, consumer spending for online entertainment will more than double to over 950 million yuan, Shanghai-based consultancy firm iResearch said. Even with such robust growth, however, that figure will account for only a portion of the sector's total revenue as more companies will want to advertise through video platforms, the report predicted.

The total market is expected to generate 3.4 billion yuan in sales by 2010, of which more than 70 percent will come from advertising.



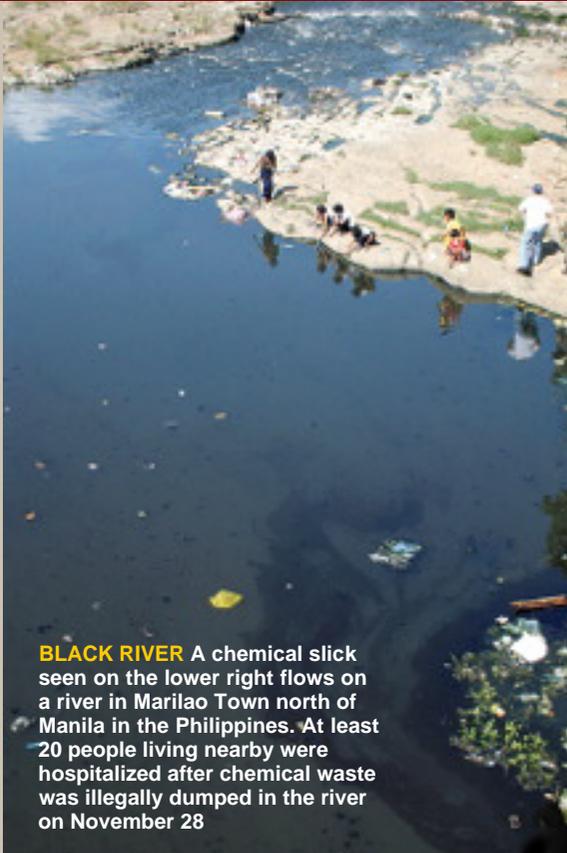
NATURE'S BOUNTY Farmers from Ningxia Hui Autonomous Region enjoy a good harvest of corn



VENOMOUS REBIRTH On the island province of Hainan, a 100-year-old upas tree that was uprooted in a typhoon is replanted on November 26 with the assistance of heavy machinery



A WARM FEELING Animals from Southeast Asia and Africa in the safari park in northeast China's Qinhuangdao City have been moved to new "apartments" with heating in the chill of winter



BLACK RIVER A chemical slick seen on the lower right flows on a river in Marilao Town north of Manila in the Philippines. At least 20 people living nearby were hospitalized after chemical waste was illegally dumped in the river on November 28



DEADLY CRASH A member of the Iranian Revolutionary Guards stands in front of the debris of a military plane that crashed at Mehrabad Airport in Tehran on November 27. All 39 people on board were killed



CEASEFIRE IN GAZA A Palestinian boy walks past a destroyed house near the Jabalia refugee camp in Gaza Strip. A ceasefire agreement reached by Palestinian Authority President Mahmoud Abbas and Israeli Prime Minister Ehud Olmert took effect on November 26



PROTECTING WOMEN Parisians take to the street on November 25 to mark the UN-designated International Day for the Elimination of the Violence Against Women. A recent government report shows that close to 100 women had been killed by their partners in France since January of this year



FINAL VICTORY A woman displays a mobile phone with a picture of Joseph Kabila as she celebrates on a street in Kinshasa. On November 27, Kabila was declared the official winner of the presidential election in the Democratic Republic of Congo in October after the Supreme Court turned down a legal challenge by the losing candidate



A WORLD OF BEAUTIES Miss Chile, Hil Yesenia Hernandez Escobar (second from left), 22, who claimed the 2006 Miss Earth title, poses with the runners-up at the 2006 Miss Earth beauty pageant in Manila, the Philippines, on November 26

XINHUA/AFEP



STUFFING IT IN Contestants begin eating turkey at the Thanksgiving Invitational Turkey-Eating Championship on November 22, at Artie's Delicatessen in New York. Pat Bertoletti (third from left) won the contest by eating 2.177 kilos of turkey in 12 minutes

XINHUA/AFEP



ENDANGERED PEACE Sri Lanka Special Task Force soldiers examine vehicles and people entering Colombo. On November 27, the rebel Liberation Tigers of Tamil Eelam declared the peace process with the government defunct, saying it would press for an independent state for the island's Tamil minority

XINHUA/AFEP



CHECKING BIRD FLU South Korean health officials wearing sanitation suits sprinkle lime powder on a road leading to a chicken farm in Iksan where H5N1 bird flu outbreaks were confirmed on November 28

XINHUA/AFEP

Cementing Neighborly Bonds

President Hu Jintao's recent trip to China's southern neighbors is a further step toward achieving regional harmony, experts say

By YAN WEI

"Harmonious" seems to have become a hot-button word in the international community. "We pledged to continue our work toward a dynamic and harmonious Asia-Pacific community by building strong societies for the well-being of our peoples," stated the Hanoi Declaration adopted by the leaders of the 21-member Asia-Pacific Economic Cooperation (APEC) forum at their recent summit.

This echoed China's current worldview of a harmonious world developed under President Hu Jintao. Addressing the APEC summit in the Vietnamese capital on November 18, Hu indicated that China would join hands with APEC countries to shape a harmonious, peaceful and prosperous Asia-Pacific community.

The APEC forum was only one of the numerous occasions on which Hu has emphasized the concept. Promoting the idea was at the top of the Chinese president's agenda as he toured Viet Nam, Laos, India and Pakistan from November 15-26, experts say.

Powered by trade

Ruan Zongze, Vice President of the China Institute of International Studies (CIIS), called Hu's four-nation visit "a tour of good neighborly diplomacy." He stressed that relations with neighboring countries are of primary importance for China as it seeks to build a harmonious world. China has more neighbors than any other country in the world, he noted, adding that establishing good ties with them is a pressing strategic task.

Sharing Ruan's views, Hu Shisheng, an expert on South Asian studies at the China Institutes of Contemporary International Relations (CICIR), believes the most concrete and notable progress made during the trip was in economic and trade cooperation.

Chinese Foreign Minister Li Zhaoxing recently briefed the media about Hu's tour. According to Li, 54 documents were signed on cooperation between China and other countries in various fields, in addition to the

five joint statements and declarations that were released.

Li said economic and trade cooperation is a key component of China's relationship with the four countries.

He noted that China and Viet Nam signed a number of cooperation documents during Hu's visit, setting out the framework for bilateral economic cooperation in the next five to 10 years. The two sides agreed to promote cooperation on major projects, expand bilateral trade and work together to push forward negotiations on investment and trade in services related to a free trade agreement between China and the Association of Southeast Asian Nations (ASEAN), he said.

Viet Nam is a member of ASEAN, which has agreed to set up a free trade area with China by 2010.

trade agreement that is projected to triple their current bilateral trade to \$15 billion within five years and to promote cooperation in agriculture, transportation, energy, finance and the information industry.

In an interview with *Beijing Review*, Hu of the CICIR singled out several achievements that he believes are of special significance. Given the fact that political relations between China and Pakistan have been more valued than their economic relations, the free trade agreement and the ambitious trade target are set to upgrade the countries' economic ties, thus promoting across-the-board cooperation between the two countries, he said.

Hu noted that China made concessionary trade arrangements with countries in a disadvantaged position in international competition such as Viet Nam, Laos and

Pakistan. He said with these arrangements, China undertook greater responsibilities commensurate with its a major power status in the region. As it pursues common development through expanding economic and trade links, China is demonstrating its policy of seeking harmonious relations with neighboring countries, the expert argued.

Working toward rapport

At a press conference after their meeting in New Delhi, Chinese President Hu Jintao and Indian Prime Minister Manmohan Singh hailed bilateral relations.

Hu noted that China and India share broad common interests in bilateral, regional and international

dimensions. "Both China and India are confident of our future relationship and are willing to work together to facilitate all-around and in-depth development of a strategic and cooperative partnership," he said.

Singh, for his part, asserted that cooperation between India and China has global significance. He said the nature and range of agreements signed during Hu's visit pointed to the consolidation and diversification of bilateral ties.

The warming up of relations between Beijing and New Delhi has caught the world's attention in recent years, but not everything is rosy, experts say.



SYMBOLIC HANDSHAKE: Indian Prime Minister Manmohan Singh meets Chinese President Hu Jintao in New Delhi. The relationship between China and India is believed to have global implications

Li said China and Laos pledged to expand bilateral trade and enhance cooperation in the fields of investment, communications, transportation, infrastructure, energy and mining.

China and India signed a pact on investment promotion and protection, agreeing to strengthen cooperation in the areas of information and communication technology, energy, infrastructure, science and technology and agriculture, the foreign minister said. The two sides also set a target of raising the annual volume of bilateral trade to \$40 billion by 2010, he added.

Li said China and Pakistan signed a free

Hu of the CICIR observed that the two countries are still suffering from a lack of trust, as evidenced by the solemn and impersonal atmosphere that prevailed at the leaders' meetings. Given this, he pointed out that the time is not ripe for resolving the border dispute between the two countries. They must make meaningful concessions before coming up with a mutually acceptable solution, he said.

During Chinese Premier Wen Jiabao's visit to India last year, the two countries vowed to build a strategic and cooperative partnership

for peace and prosperity. However, shaping a partnership is a gradual process rather than a goal that can be reached in one leap, Hu said.

Frequent and regular high-level visits are an important part of a strategic partnership, he said. The Chinese premier and president paid visits to India in the space of less than two years, a fact that he believes shows the great importance the Chinese leadership attaches to strategic exchanges with India.

The expert noted that President Hu's visit provided a fresh impetus to bilateral trade. He told *Beijing Review* that India often rejected Chinese investments in the communications sector, ports and airports by citing security concerns. In this context, the pact is expected to strengthen their mutual trust. The \$40 billion trade target is also indicative of their resolve to cement trade relations. Moreover, the two countries have started feasibility studies for a regional trade arrangement set to be completed by October next year.

Cooperation between China and India on nuclear energy is being closely monitored by experts. According to the joint declaration issued by the two countries, international civilian nuclear cooperation should be advanced through innovative and forward-looking approaches, while safeguarding the effectiveness of international non-proliferation principles. "Although the declaration did not lay out details, it may open up prospects for cooperation in this hotly contested field and is certainly a positive signal," CICIR's Hu said.



TRADE BOOM: Chinese President Hu Jintao, General Secretary of the Communist Party of Viet Nam Central Committee Nong Duc Manh (right) and Vietnamese President Nguyen Minh Triet (left) press a crystal ball to launch a website for promoting China-Viet Nam trade cooperation on November 16

A far-reaching theory

According to Ruan of the CIIS, neighboring countries occupy a key place in China's diplomatic strategy. Apart from high-level visits, China held celebrations marking the fifth anniversary of the founding of the Shanghai Cooperation Organization and the 15th anniversary of the China-ASEAN dialogue partnership to strengthen the bond with its neighbors this year.

"China has taken concrete actions to expand common interests with neighboring countries in the spirit of seeking converging interests," Ruan wrote in an article published by china.org.cn, one of China's major news and information websites. "As the framework for harmonious relations with neighboring countries takes shape, China has been increasingly recognized as the 'anchor' and 'engine' for the stability and prosperity of these countries."

Ruan noted that China lost no time in resolving border disputes with some neighboring countries. By October 2004, it had completely demarcated its 4,300-km border with Russia. Since 1999, China and Viet Nam have resolved issues concerning land border demarcation, demarcation of the Beibu Bay and fishing in the bay. Officials from both sides recently agreed to accelerate the installation of border markers under an agreement signed last year on completing the demarcation of the 1,350-km land border by 2008.

China, the Philippines and Viet Nam have started to explore the South China Sea

collaboratively, exemplifying the principle of "shelving disputes and conducting joint exploration."

Ruan also noted that China made every effort to keep peace and stability in the border region through confidence building. For example, it signed an agreement with India on the political parameters and guiding principles for settling their boundary question last year.

During President Hu's visit to India, the two countries reaffirmed their commitment to resolving the border issue at an early date. "The two are determined to resolve

outstanding differences, including the boundary question, through peaceful means and in a fair, reasonable, mutually acceptable and proactive manner, while ensuring that such differences are not allowed to affect the positive development of bilateral relations," said their joint declaration.

At the same time, Ruan analyzed what a harmonious neighboring environment could mean to China. First of all, it helps China to secure a close and direct regional market. China's trade with neighboring countries accounts for over 60 percent of its total foreign trade, whereas the investment it receives from these countries takes up over 70 percent of the total foreign investment in China, Ruan noted.

Also, he said establishing harmonious relations with neighbors is conducive to political stability and security in the region. Achieving harmony with these countries ensures that China's modernization program progresses smoothly at home as well.

Ruan underscored the need for China to devise its own vision about the future of the world. Today, China is presented with a good opportunity to introduce its diplomatic concepts to the world and strengthen its "soft power," as the international community is interested in what it says and does, he said.

The theory of a "harmonious world" helps the country counteract the "China threat" rhetoric and have a bigger say in international affairs, he commented. ■

YEAR-ENDER

A Positive Outlook

In 2006, Latin America's political situation generally was stable, the economy continued to grow and foreign relations developed in diverse ways

By JIANG SHIXUE

Political situation

This year, more than 10 Latin American countries have held presidential or parliamentary elections, or both. Thus, the media have dubbed 2006 the year of elections for the region.

Except for Mexico, most elections were held in a peaceful environment. After the elections, most defeated candidates faced reality and accepted the choice of the electorate.

Left-wing leaders did not accomplish as much as people expected. In late 2005, some observers and analysts forecast that the left-wing forces of Latin America would continue to show their strength and dominate the political arena. However, so far, their achievements have not been as outstanding as predicted earlier, though left-wing politicians successfully defeated their rivals in Brazil, Nicaragua and some other countries.

Since the 1990s, many Latin American countries have carried out political reforms, with the focus on election laws. Such reforms have been successful in most countries. All political parties participate in elections within a democratic framework, and electorates are able to express their political choice by voting.

Stressing the importance of maintaining consistency in government policies, most newly elected leaders said they would continue the policies of the previous governments so as to maintain the confidence of domestic and foreign investors.

But perhaps Bolivia is an exception. On May 1, President Evo Morales announced that the country's oil and natural gas industry would be nationalized. The measures stirred a panic among international investors in the energy-related fields, and created tension in Bolivia's relations with Brazil, Argentina and other countries.

The political conflicts in some "problem countries" took a positive turn this year. In 2005, political turbulence occurred in some Latin American countries, such as Haiti, Peru,

Ecuador, Nicaragua and Bolivia, because of domestic political, economic and social problems. But in 2006, through elections and political dialogue, these contradictions have been alleviated to a greater or lesser extent.

Economic situation

The Latin American economy has grown five percent in 2006, marking a four-year high-growth period. The previous such high economic growth period was from 1991 to 1994.

The economic growth is closely related to the favorable external environment. For example, the rapid development of the world economy makes Latin America able to continue to expand its exports, which will in turn help the countries further improve their trade positions. The UN Economic Commission for Latin America holds that Latin America ranks second in the world next to China in terms of its export growth rate.

It should also be pointed out that in recent years the "China element" has contributed to the economic growth of Latin America. As China has imported a good number of primary products with high prices from the international market, it has benefited Latin American countries that depend on exporting raw materials.

Currently, the Latin American economy is in a rising period with the following characteristics:

First, the positive effects of external elements are increasingly prominent. Although the recent



A DIFFERENT FEELING: Foreign tourists look around Havana, the capital of Cuba, in a carriage. Tourism has been a pillar industry of Cuba's economy in recent years, and over 2 million tourists come to the country every year

economic rise of Latin America can be attributed to the vitality that economic reforms have brought about since the 1990s and some other internal elements, research shows that the positive effects of the improved performance of the world economy, especially the U.S. economy, on the Latin American economy cannot be ignored. It means to a certain degree that if the world economy can maintain its good growth, the prospects for the Latin American economy will be further brightened.

Of course, to better utilize the favorable external conditions, Latin American countries need to increase the efficiency of investment, improve their infrastructure and strengthen government administration.

Second, a current account surplus accompanies the high economic growth rate. On one hand, Latin America's export trade is increasing, and on the other hand, many Latin American countries, especially Central American countries, obtain a large amount of remittances from emigrants. The current account surplus in 2006 accounts for 1.5 percent of the region's gross domestic product (GDP). The coexistence of a high economic growth rate and current account surplus is rare in the history of Latin America, and it also provides an advantage for the Latin American economy to cope with external problems. The occurrence of the current account surplus is closely related to the improved trade environment.

Third, the increase in national income has increased domestic demand. In recent years, the growth rate of national income of Latin American countries has exceeded the growth rate of



DEFENDING THEIR INTERESTS: Peruvians demonstrated in the streets of Lima, the capital of the country, on June 29 to protest the free trade agreement the government signed with the United States

GDP. In 2004, the growth rates of national income and GDP were 7.1 percent and 5.9 percent, respectively, and those in 2005 were 5.9 percent and 4.5 percent, respectively. As a result, the domestic demand of Latin American countries in 2004 and 2005 increased by 4.2 percent and 5.3 percent, respectively. The fact that the growth rate of domestic demand lags behind that of national income shows to some extent that the national savings rate in Latin American countries is increasing.

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But the investment rate (21.6 percent in 2005) has not recovered to the level prior to the East Asian financial crisis in 1997, and is unable to provide enough jobs. In most Latin American countries, creating enough job opportunities is one of the requisites to resolving social problems.

The negative effects of inadequate investment have been very obvious for a long time. For instance, Latin America boasts the second largest reserves of oil and natural gas in the world. But due to less investment in the energy sectors, some Latin American oil producers could not increase their output by a large margin against the background that world energy prices have skyrocketed in recent years.

The only exception may be Brazil. The country's national oil company has greatly increased its output in 2006, a result of increased investment in the previous years, which makes the country basically able to meet its own energy needs.

Fourth, the debts of Latin American countries decreased greatly. Compared with 10 years before, the proportion of



SIGNS OF PROTEST: Representatives of Mexico's opposition party take over the Congress chamber to prevent President Vicente Fox from delivering his annual speech before Congress on September 1

to export income has been reduced by half, and the proportion of short-term debt to foreign exchange reserves has been reduced by one third.

Fifth, the fiscal status of Latin American countries has been improving. In recent years, a relatively high economic growth rate has driven production activity, which has resulted in a revenue increase. On the other hand, fiscal expenditures have not increased very much.

Sixth, in the eyes of many international investors, the risks of investment in Latin America are declining. That forecast is based on the following factors: the Latin American economy has entered a new growth period, and the economic situation appears optimistic for the foreseeable future; the balance of payments is improving; the macroeconomic situation is getting better and the margin of exchange rate fluctuation is narrowing.

Relations with other countries

In 2006, relations between Latin American countries and China continued to

develop in a positive direction. Many Chinese leaders visited Latin America and several Latin American heads of state visited China. People-to-people contact has been increasing.

It is estimated that the bilateral trade volume between Latin American countries and China is very likely to reach or exceed \$60 billion this year (it was \$50 billion in 2005).

But, behind this, there are also some negative elements. Some Latin American countries have taken anti-dumping measures on the pretext that products made in China have hit their domestic mar-



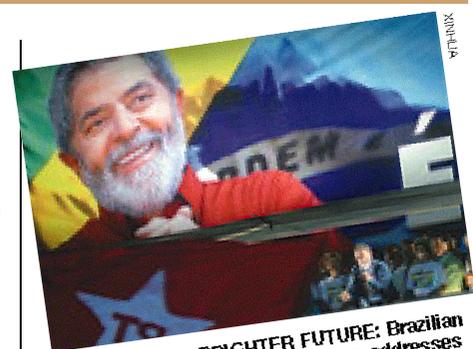
COMMON CONCERN: The presidents of Argentina, Bolivia, Brazil and Venezuela gather in Argentina to discuss issues of natural gas production, pipeline building and trans-border supply

kets. Despite this, more and more Latin Americans believe that China's rapid economic development provides good opportunities for Latin America, rather than being a threat.

From April 12-15, China and the United States held consultations on Latin American affairs, the first of its kind. The two countries exchanged views and opinions on their relations with Latin American countries, their policy toward Latin American countries, the situation in Latin America and Sino-U.S. cooperation in the region. It was part of the Sino-U.S. strategic dialogue started in 2005. It shows in a certain sense that the development of China-Latin America relations has drawn Washington's attention.

Relations between Latin American countries and the United States showed signs of confrontation. Being concerned that Latin American countries will continue to "turn left," the United States tried its best to prevent Daniel Ortega from being elected Nicaragua's president. When Cuban President Fidel Castro was hospitalized, the United States said it hoped for a transition toward democracy in Cuba, instead of a succession by Raul Castro, Fidel's brother. At the same time, relations between the White House and Venezuelan President Hugo Chavez and Bolivian President Morales have not been good.

The United States' construction of a barrier along its border with Mexico has aroused intense opposition from Mexico. Mexican President Vicente Fox said on October 26 that the plan brings shame on the United States and is a nearsighted decision.



PROMISE OF A BRIGHTER FUTURE: Brazilian President Luiz Inacio Lula da Silva addresses an assembly in downtown Sao Paulo on October 29 after he was reelected

But some Latin American countries still maintain good bilateral relations with the United States. On February 27, the United States and Colombia announced that the two countries reached an agreement on free trade after two years of negotiations. Also, on April 12, the United States and Peru signed the free trade agreement that was reached between the two countries in December last year.

In any case, Latin America is the backyard of the United States. As Latin America has to depend on the United States economically, a move to eliminate U.S. influence from the region will not appear. In other words, relations between Latin American countries and the United States have been in a state of coexistence between cooperation and confrontation, and that will persist in the future. But cooperation will still dominate.

Relations within the region

In recent years, relations between some Latin American countries have not been very good. For example, on April 22, Venezuela said it would formally withdraw from the Andean Community of Nations. International media termed the event the gravest crisis since the trade bloc was created in 1969, and at the same time it has had a huge negative effect on the Latin American integration process.

On April 28, Chavez attacked Alan Garcia, Peru's former president who was running in the second round of presidential elections, in barbed words in one of his speeches to the nation, which has aggravated tensions between Venezuela and Peru. Peru announced the next day that it would recall its ambassador to Venezuela.

After Morales announced that Bolivia would seize control of the oil and natural gas industry on May 1, relations with Brazil and Argentina, two countries that have been severely affected by the decision, became complicated. Brazilian President Luiz Inacio Lula da Silva said the Brazilian Government would not take any retaliatory measures against Bolivia, but he also stressed that Bolivia should not have sovereignty over Brazil, and maintaining Bolivia's rights should not damage Brazil's interests. ■

YEAR-ENDER

Bumpy Road Ahead

Despite the recent positive turn, China and Japan have a long way to go to reshape their relations



NEW START: Chinese President Hu Jintao (right) meets with Shinzo Abe on October 8 during the Japanese prime minister's initial foreign tour

By ZHAO DAWEI

China-Japan relations have gone through two stages in 2006. In the first nine months of this year, as Junichiro Koizumi was finishing his term as Japanese prime minister, bilateral relations hit a historical low point since they were normalized in 1972. However, as Shinzo Abe took the reins of government, a new page in relations was opened, as evidenced by his "ice-breaking" tour of China 13 days after he assumed office. In a nutshell, the relationship between China and Japan took a turn for the better after going through twists and turns.

Plummeting relations

China-Japan relations were chilly during Koizumi's last nine months in office. Politically, bilateral exchanges of high-level visits were suspended. After Chinese Vice Premier Wu Yi visited Japan in May 2005, no other high-ranking officials stepped on the

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soil of each other's country. Even on multi-lateral occasions, the leaders of the two countries did not hold any meaningful meetings.

On the security front, distrust between the two countries deepened. Japan repeatedly touted "China threat" rhetoric. It held a joint military drill with the United States near the disputed oil and gas fields in the East China Sea in February this year, a move that was clearly directed at China. On August 1, it published the Defense of Japan 2006 white paper, exaggerating "China's military threat."

Economic cooperation between China and Japan slowed down. From January to September this year, China received \$3.27 billion worth of direct investment from Japan, down 30 percent from the same period of the previous year. The bilateral trade volume from January to October stood at \$168.5 billion, far lower than that between China and the United States, which was \$214.5 billion, and that between China and the EU, which was \$218.9 billion. The figures provide evidence that economic relations between China and Japan, which have been close, were greatly dampened in the wake of the political standoff.

The tipping point

However, bilateral relations took a turn for the better when Abe took office on September 26 and visited China shortly after that. First, the door to top-level dialogue was opened. Abe was received by Chinese President Hu Jintao and other leaders during his visit on October 8. On November 18, Abe and Hu met again in Hanoi, Viet Nam on the sidelines of the summit of the Asia-Pacific Economic Cooperation forum. The two meetings held in the space of about one month spoke of the shared will of China and Japan to improve bilateral relations.

Second, the areas for bilateral dialogue and cooperation were reaffirmed. The leaders expressed a common intention for future cooperation and exchanges during their meetings.

On the economic front, the governments of the two countries will facilitate ministerial meetings and consultations between departments as well as non-governmental dialogues. They are committed to increasing bilateral economic cooperation and exploring the possibility of creating a free trade area between the two countries.

On the issue of the East China Sea, the two countries pledged to speed up consultation, stick to the principle of jointly developing the oil and gas resources in the sea and seek commonly acceptable solutions.

The two countries also agreed to launch a joint historical research program by the end of this year. Organized by the Institute of Modern History of the Chinese Academy of Social Sciences and the Japan Institute of International Affairs, the joint research is aimed at making a new breakthrough in the hot-button issue of wartime history.

China and Japan will build mutual trust in the security field through security dialogues and defense exchanges, the countries announced. Military exchanges, such as dialogues between the two militaries, visits by naval fleets, exchanges between military officers and joint military drills, are expected to resume soon.

The two countries will also hold a year of cultural and sports exchanges in 2007 to mark the 35th anniversary of the normalization of diplomatic relations. The program is designed to promote people-to-people and youth exchanges, enhance mutual understanding and improve the perception of each other's country.

At the same time, they will strengthen coordination on regional and international affairs. The two countries are expected to reach a consensus on East Asian regional cooperation and integration, strengthen dialogue on UN reform and maintain that the

North Korean nuclear issue should be resolved peacefully through dialogue in the framework of the six-party talks with the aim of denuclearizing the peninsula.

Third, bilateral political relations have been brought back on track. Chinese Foreign Minister Li Zhaoxing exchanged views with his Japanese counterpart Taro Aso on implementing the common understanding reached by President Hu and Prime Minister Abe over the phone on October 9, one day after Abe's visit to Beijing. On October 15, a delegation led by President of the Japanese House of Councilors Chikage Oogi visited China to enhance parliamentary exchanges. On the same day, Wang Jiarui, Minister of the International Department of the Central Committee of the Communist Party of China, visited Japan, where he and delegation members attended a five-day meeting convened under an exchange mechanism between the ruling parties of the two countries. Chinese Premier Wen Jiabao received the members of the New China-Japan Friendship Committee for the 21st Century, encouraging them to put forward suggestions on establishing mutually beneficial strategic relations between the two countries. The foreign ministers of the two countries met in Hanoi on November 16.

Thanks to the exchanges, visits and meetings at various levels, China and Japan have overcome the barriers formed in the Koizumi era, as their relations were restored and strengthened.

Fourth, friendship is taking root in the two nations. According to an opinion poll of the *Sankei Shimbun* newspaper, 14.6 percent of the Japanese public expect the Abe Cabinet to improve Japan's relations with China and South Korea and 52.2 percent believe the prime minister should not visit the Yasukuni Shrine. A survey conducted by *China Youth Daily* showed that 76.9 percent of the Chinese public believes that China-Japan relations are important and 45.2 percent said Abe's visit to China had positive implications. After the stalemate during Koizumi's tenure, the two nations have once again embraced reasonable views of bilateral relations. The high percentage of respondents valuing China-Japan relations in China in particular is a clear indication that the friendly ties between the two countries conform to the will of the general public.

Toward a new relationship

There are several reasons for the stalemate in China-Japan relations during Koizumi's term. First and foremost, Japan was unable to adapt to the changes in the two countries' respective national strengths. Japan scored steady and rapid economic

development after World War II. By the 1980s, it had risen to become the world's second largest economy. However, in the 1990s, as the economic bubble broke, Japan suffered a persistent economic stagnation, which resulted in a decline in its international influence.

China, however, has seen an average annual economic growth of some 10 percent since it adopted the reform and opening-up policy 28 years ago. While becoming increasingly engaged in the international economy with its share of the world economy and trade constantly growing, China has greatly bolstered its national strength. Some analysts believe that the Chinese economy is set to overtake that of Japan.

Finding it difficult to face up to the fact, the Koizumi Cabinet became suspicious of China's development. It worried that an ascendant China would pose a threat to Japan's status in the Asia-Pacific region. Given these concerns, the government was always thinking of ways to contain China in certain areas.

Moreover, right wing forces gained the upper hand in Japan, fueling the government's hard-line policy toward China. The negative effects of the Japan-U.S. alliance are also responsible for the chilly relations between China and Japan. Closely following the footsteps of the United States, Japan tended to regard China as a potential rival. The alliance was strengthened during Koizumi's term with his frequent visits to the United States.

Abe, however, reversed his predecessor's policy toward China when he took over. As a new prime minister, he was actually expected to find a solution to the deadlock in China-Japan relations, as it not only jeopardizes the interests of the two countries but also affects peace and stability in the Asia-Pacific region at large.

Most Japanese, officials and private citizens alike, had expressed the view that the problems caused by Koizumi's shrine visits should be cleared up as quickly as possible. An opinion poll conducted by the Japanese Foreign

Ministry in March showed that 77.9 percent of the respondents agreed that Japan-China relations, which had worsened because of Koizumi's visits to the Yasukuni Shrine, needed to be improved.

The U.S. factor also contributed to Abe's change of course. The Committee on International Relations of the U.S. House of Representatives held a hearing in September to discuss Asian affairs. During the hearing, experts pointed out that the deteriorating relations between China and Japan were disastrous to U.S. interests. The United States, which does not want to see Japan alienated in Asia, welcomes an improvement in China-Japan relations in the short term.

Moreover, Japan ended its economic stagnation with a notable recovery largely because of the rapid expansion of its economic and trade relations with China. It is in the interest of the two nations that they continue to upgrade their mutually complementary economic ties under a sound political relationship.

For China and Japan, 2006 was an eventful year, during which the climate for their relations turned from chilly to balmy. However, the road ahead is still bumpy. The two nations face a pressing task to establish a new type of bilateral relations by sustaining the positive trend that has just emerged. ■

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Americans' Changing View of China

Time Asia magazine has again released its November appraisal issue of “Asian heroes” who have helped shape the continent’s future over the past 60 years. The Chinese on the list, most of whom are very familiar to their countrymen, have sparked a great sensation in the whole nation. **Wen Dao**, a Beijing-based observer, looks at the profound changes in Westerners’ comprehension of China over the past decades and shares his expectations for the future.

The globe is a home village where people from different races and with different beliefs and ideologies coexist. As time goes by, and as exchanges intensify and technology develops, the world population is getting closer, sharing similar views and perspectives.

Recently, intensive media reviews have focused on *Time*
A s i a

magazine’s list of its top Asian heroes, including 56 people who have helped Asia rise “from poverty to powerhouse, from imitator to being imitated” in the past six decades. The late Chinese leader Deng Xiaoping, Hong Kong billionaire Li Ka-shing, Victor and William Fung from Hong Kong’s Li & Fung Group, Taiwan Acer Group’s founder Stan Shih and Yahoo’s co-creator Jerry Yang are on the list.

Also named are the mainland’s Olympic gold medallist-turned-businessman Li Ning, legendary action star Bruce Lee and popular actress Gong Li. They are separately listed in the categories of nation builders, artists and thinkers, business leaders, athletes and explorers.

Being the only honored nation builder from China, Deng is hailed for his contributions to setting off China’s economic

CHANGE PUSHER:
The late Chinese leader Deng Xiaoping is the only honored nation builder from China on *Time Asia* magazine’s “Asian heroes” list, who is hailed for playing a key role in leading the country’s astonishing development

reform, which has been widely accepted and has made great achievements.

Time Asia explained that it chose Deng instead of Mao Zedong, the founder of the People’s Republic of China, because “although the name of Mao is known throughout the world, it is Deng who inherited the mantle of a Chinese hero.”

“While Mao is now mainly associated with the idea of revolutionary excess and periods of colossal suffering, Deng has come to be linked to China’s astonishing economic development, and to the steering of China away from its organizational straitjacket into a wider world of technological growth and international trade,” the magazine said.

One of the most influential weekly publications in the world, *Time* was first launched in 1923. In 1927, it started celebrity lists, which gained the magazine even more fame. In the

Through *Time*’s coverage of China, we are inspired by the changing way that the American people look at the Chinese people, and we are even more encouraged to quicken our steps in the process of emerging into the world family

past years, nearly a dozen Chinese people have been selected by the magazine as cover faces. Among them are Communist leaders Mao, Zhou Enlai, Liu Shaoqi and Deng, Kuomintang chief Chiang Kai-shek and Puyi, the last emperor of China. In recent years, the ranking of Chinese President Hu Jintao, Premier Wen Jiabao, Vice Premier Wu Yi, basketball star Yao Ming and actress Zhang Ziyi have demonstrated the

converging taste of the Chinese and the Americans, assured by growing exchanges and mutual understanding resulting from a closer economic and diplomatic relationship. Last year, Li Yuchun, top winner of China’s most popular talent show, the *Super Girl* singing contest, also made the cover of the magazine.

Prior to the 1980s, Chinese Communists were usually demonized and bluntly attacked in *Time*’s reports. But now, Deng wins much more applause than criticism.

Soon after China’s reform and opening up to the outside world in the late 1970s and, in particular, after its entry into the World Trade Organization in 2001, its growing participation in world affairs and the responsible image it has built up have dramatically reduced the ideological segregation set up by Western powers. We are getting closer and closer by sharing ideas through dialogue.

Through *Time*’s coverage of China, we are inspired by the changing way that the American people look at the Chinese people, and we are even more encouraged to quicken our steps in the process of emerging into the world family. ■



China Is Not the Cause Of Global Inflation

International inflation is increasing. Some overseas research institutes argue that the cause is an increase in the prices of China-produced commodities. Zhang Anyuan, from China's National Development and Reform Commission, shares his analysis in an interview with *People's Daily*.

***People's Daily*: Are international inflationary pressures increasing? Is it true that the cause of the inflation is an increase in the prices of Chinese exports?**

Zhang Anyuan: Inflation has become a big concern since the beginning of this year, forcing governments throughout the world to put curbing inflation atop their economic agendas. The U.S. core consumer price index (CPI) was 206.7 in August, compared with 202.6 in January. The rate of inflation in Europe has exceeded the 2 percent mark set by the European Central Bank. Some predict it is impossible for the figure to fall back below 2 percent. Japan's CPI began to rise in April after a period of decline, which meant the end of deflation. In July, Japan ended its longstanding zero-interest policy.

The price of crude oil has fallen recently, but its impacts on the CPI are still unclear.

Some overseas research institutes are suggesting that the cause of inflation is an increase in the prices of China-made commodities, but I don't think they have reason to draw that conclusion. Customs statistics show that not all commodities exported from China have seen price hikes, while some have even become cheaper. Moreover, an increase in foreign consumer costs in the second half of this year should take into account fluctuations in the prices of China's export commodities in the first half of this year.

Is there any evidence to show that China is not responsible for inflation in other countries?

China's economy is not strong enough to reverse either international inflation or deflation. In addition, inflation in China has not risen recently.

As we all know, the free-on-board prices of many China-made everyday-use commodities contribute only a small part to the retail prices in overseas markets. Middlemen are behind rising prices.

Finally, processing trade makes up half of China's exports. This trade is manipulated by transnational companies. China is just

an upstream workshop, which does not set the end-user prices. China does influence prices of some primary products like energy in the international market, but inflation indexes are not directly related to energy prices in all countries around the world.

Where has the idea that China is to blame for international inflation come from?

The "China threat" theory continues to haunt some countries. A few years ago, some people argued that international deflation was caused by cheap exports from China. Later, the rising prices of primary products made many opportunities available to developing countries, which China supported. However, people critical of China turned a blind eye to this. On the contrary, they said China was scrambling for international resources. Now, they are blaming international inflation on regular price fluctuations in China's export prices.

I think the conclusion that the rise in the prices of Chinese exports drives up international inflation may come from the following two factors. One is the Chinese economy's high dependence on foreign

trade. The country currently accounts for 8 percent of global trade and has an even larger share in terms of the export volume. As a result, China has a say in fixing prices of some commodities in the international market. On the other hand, a large number of Chinese exports are included in the CPI baskets in destination countries. Foreign consumers are therefore sensitive to price fluctuations of China-made commodities.

What is the main cause of international inflation? What kind of role does China play?

The formation and spread of international inflation is the result of economic growth in every country and the spread of globalization. Although the worldwide economic boom has continued for several years, the growth cycle will eventually play its role in the market economy. So inflation and ensuing anti-inflation measures are unavoidable. Furthermore, high oil prices push up the prices of other goods as well.

China is becoming a major driving force of global economic growth. It is cautious about its role and hopes to make a greater contribution to the world economy. However, the power of one country alone is not enough to reverse a trend in the international economy. All countries should recognize this and cooperate with each other. Complaining and shifting blame make no sense.

How should we forecast the relationship between China and international prices in the next phase?

An increase in the rate of inflation will not occur in China in the near term, but international inflation will maintain a slow uptrend. With the constant rise of China's proportion in the global economic aggregate and the import and export trade, its domestic prices will play a bigger role in international market prices. ■



BENEFITS OUTWEIGHING: Although China supplies a large amount of consumer products to overseas markets, it is blameless for rising international inflationary pressures due to its incapacity to fix end-user prices



BLACK DVD MARKET GETS NEW BLACK EYES

With the government socking away at pirated copies, the business community comes in with a big left hook: legal versions that sell well

By LI LI

While cultural shock is common among first-time overseas travelers, Ji Bing, a 27-year-old client manager in a bank, still thinks he got a particularly electrifying one on a recent European package tour. The young man, who saved half a year for this trip, was baffled when he was admired as a very rich man at a DVD rental store in a Munich suburb during an after-dinner walk.

"To practice my English, I told the clerk in the store who is in his 40s that I have a private collection of over 1,000 such DVDs," recalled Ji, a huge fan of Hollywood movies.

"Hearing that, the clerk said I was literally rich especially considering my age." Ji still doesn't get the logic of the clerk, who later told him he didn't own all rental DVDs in his store.

Ji cannot see his DVD collection as a fortune. "Every disc costs me 6 or 7 yuan, which all add up to around 7,000 yuan, which is around my monthly wage and less than half of the clerk's own wage. Then how can he call me a rich man?" said a confused Ji.

The best explanation for Ji's bewilderment is that all his DVDs are counterfeits, which are so readily available in China. In fact, in most cases of new theatrical releases it's the only version available.

But as foreign studios begin serious efforts to market legitimate DVDs in China, Ji will soon face a choice between buying a cheap counterfeit and a slightly more expensive legal copy of higher quality. Ji's choice, together with tens of millions of home video lovers in the country, will finally decide the success or failure of Hollywood movie studios' new round of efforts to battle piracy through nurturing a market for genuine copies.

A business solution

As China's trade surplus with the United States has repeatedly broken records in recent months, it is no wonder a protectionist tone found a way into the rhetoric of visiting U.S. Commerce

HEAVY CRACKDOWN: In a market cleansing campaign in northeast China's Liaoning Province last February, more than 500,000 pirated copies of audio and video products were destroyed in public. Better marketing of legal DVDs still may prove more effective in destroying their illegal counterparts

Secretary Carlos Gutierrez. "Another victim of widespread intellectual property theft in China is American support for expanding our trade relations," said the visiting secretary.

However, the highlight of the U.S. secretary's visit, the signing of an exclusive agreement between Twentieth Century Fox Home Entertainment and China's largest video distributor, Zoke Cultural Group, on November 13, offset the subtle hint of protectionism by sending a positive message.

Marking a milestone for the studio, Fox has launched an in-country business with Zoke as its exclusive partner to supply the Chinese market with legitimate copies of recent theatrical releases and celebrated titles from the studio's library. With Fox's commit-

ment to releasing the titles more quickly on DVD, Zoke has started its first wave of DVD and VCD titles in November, led by blockbuster *Garfield: A Tale of Two Kitties* (out November 20), *Ice Age: The Meltdown* (December 1) and *X-Men: The Last Stand* (by the end of this year). Fox announced at the signing ceremony that at least 100 movies on DVD will be exported to China in 2007.

"The distribution agreement between Fox and Zoke is an important symbol of the stake both China and the United States have in seeing intellectual property rights vigorously enforced in China," said the visiting commerce secretary.

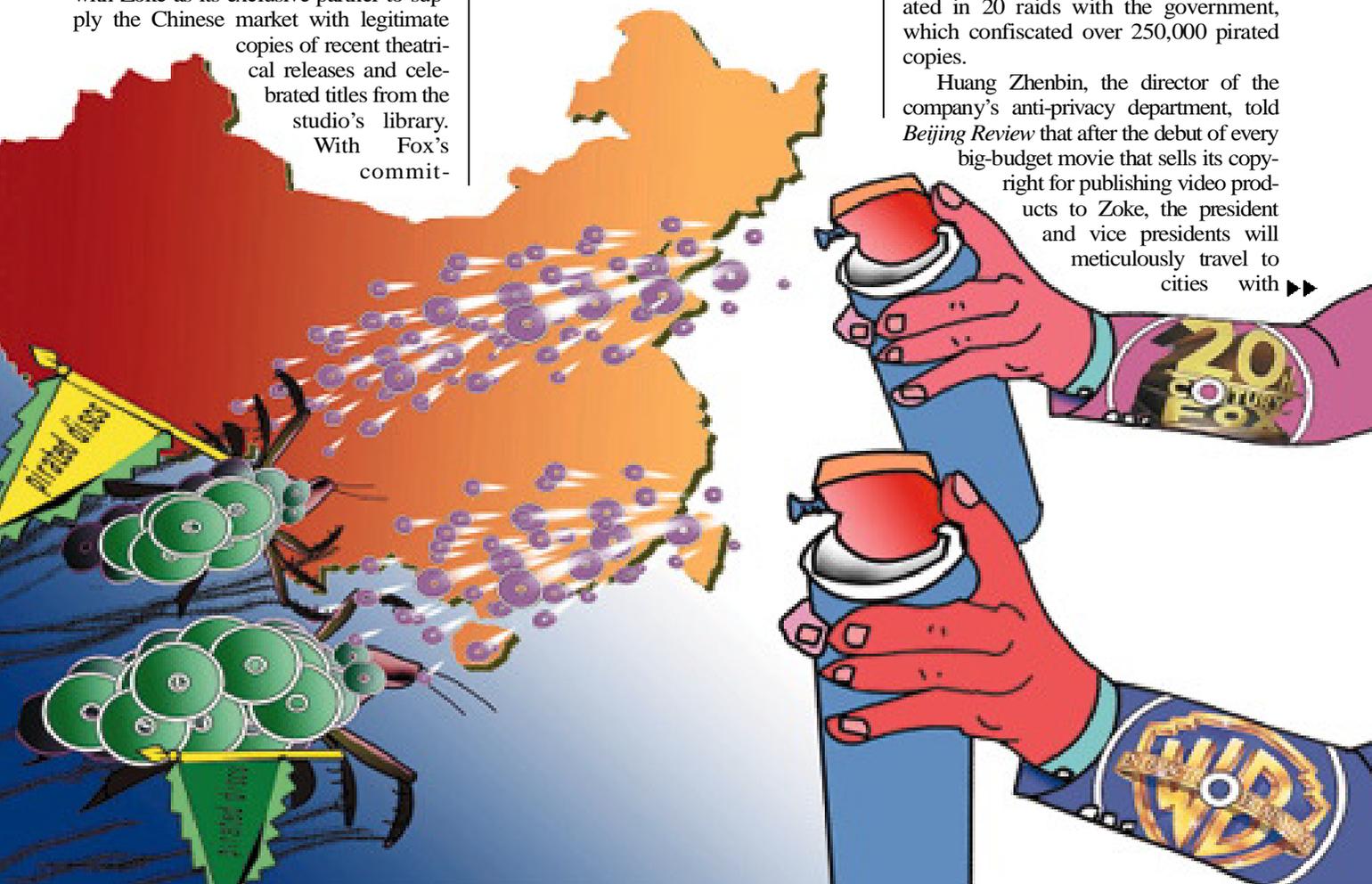
At the signing ceremony, Fox Home Entertainment Worldwide President Mike Dunn pointed out two reasons for choosing Zoke. The first is its distribution capacity: Zoke has a distribution network of over 20,000 retail outlets throughout China. The other is its solid reputation in fighting intellectual property right infringements.

According to Wang Yu, Public

Relations Manager of Zoke, the company was the first audio and video publisher in China to set up an anti-piracy department, in 1999, which has expanded to a team of over 100 people or about one seventh of the company's total staff. The company has set up permanent supervision offices in 15 cities across China, which closely monitor the market and help with local government agencies' crackdown on piracy through reporting the production or sale of counterfeits, raiding warehouses and bringing to court those involved in IPR infringements.

In an interview with Xinhua, Guo Zilong, President of Zoke, said his company promised to respond to every privacy complaint from its wholesale clients. He said his company has the ability to cooperate with governments at different levels to eradicate piracy against Zoke products at stake; if Zoke failed to do so within a certain period, Zoke promises to recall their copies from wholesalers on request. In October alone, Zoke cooperated in 20 raids with the government, which confiscated over 250,000 pirated copies.

Huang Zhenbin, the director of the company's anti-privacy department, told *Beijing Review* that after the debut of every big-budget movie that sells its copyright for publishing video products to Zoke, the president and vice presidents will meticulously travel to cities with



the most rampant piracy to lobby local governments to take action against the targeted piracy so as to protect Zoke's profits and the profits of its partner. Huang said such a reputation helped Zoke win the favor of Fox. "Counterfeit manufacturers just don't dare to copy DVDs of Zoke since they know we could come after them," said Huang.

Fox not the precedent

Yet Fox is not the first top Hollywood studio to promote affordable authentic DVDs in China. Warner Home Video has been trying a similar approach by forming a joint venture with the Shanghai-based Chinese Audio and Video Publishing House last February. According to both Warner and Fox, the winning chips in the Chinese market are world-class quality, reduced pricing, Mandarin dubbing, subtitles and shortened release windows.

Deng Jianguo is the Zoke manager in charge of the cooperation project with Fox. He explained that the cooperation between the two companies is strategic and profound, which will cover all procedures of production, marketing and IPR protection. "If we need enhanced content on DVD for the purpose of sales

promotion—say a DVD extra of Garfield in China—Fox probably will listen to our advice and make it for us," said Deng.

However, Deng singled out the shortening of release timeframes and synchronized worldwide DVD publication as the key to winning the battle with pirated DVDs in China. In China, the most rigorous competition for authentic DVDs of foreign movies is the replicated copy of the legitimate DVDs published in other countries a bit earlier, which is of considerably good quality. Deng said the rule in the home entertainment publication industry is that first round publication rakes in profits and second round reaps practically nothing. "We have told our Fox partners that they can only choose between synchronized publication of DVD in China and minimal sales," said Deng. He told *Beijing Review* that Fox has agreed in principle to publish DVDs in China the same time as other countries, which is about three months after the theatrical debut.

In experimental cases, Warner is exploring a new model of letting the Chinese market take the lead. Warner's joint venture in China last June released the *The Sisterhood of the Traveling Pants*

on DVD in China only two days after the theatrical release in the United States. In September, the *Superman Returns* DVD, competitively priced at 14 yuan and 22 yuan for two versions, was released in China two months earlier than its worldwide bow elsewhere. The success was phenomenal as the authentic DVDs were sold in more than 8,000 retail outlets, many of which had previously stocked only counterfeit movies, according to a company release.

Mike Ellis is Senior Vice President and Regional Director of Asia-Pacific for the American Motion Picture Association (MPA), the lobby group for Hollywood and the global interests of the U.S. movie industry. He told *Beijing Review* that the prices of legitimate home video products are extremely competitive in China and Chinese people can afford it. "When I see Chinese people paying \$3 for a Starbucks cappuccino, I know we can convince them that legitimate versions of movies are worth paying for," said Ellis.

Difficult mission

Meanwhile, a nationwide campaign of intensive crackdown on piracy, which was unprecedented in terms of its duration and

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number of government departments involved, started July 15 and lasted 100 days. Jointly launched by 10 ministries and national departments, the campaign revoked 368 business licenses for audiovisual products. Nearly 13 million pirated CDs, DVDs and computer software items confiscated in the first half of the 100-day campaign were destroyed in different cities on September 16.

Meeting with his American counterpart, Chinese Minister of Commerce Bo Xilai said the Chinese Government regards IPR protection as a national strategy. "We will show no mercy in the fight against IPR infringement," said Bo.

The Chinese Government also is trying to relieve the situation by nurturing the retailing channels for legitimate DVDs. New rules were released in November to make entering the audio and video chain business in China easier, with the minimum registration fee reduced from 5 million yuan to 1 million yuan. In a Xinhua report, a spokesman from the Ministry of Culture said the market for audio-video chain stores is "shrinking" because their high operating costs render them at a disadvantage in competing with street vendors hawking pirated discs.

A study undertaken by the Chinese Academy of Social Sciences on behalf of the MPA, released this July, paints an even starker reality. In the first survey examining the impact of piracy from the perspective of industry insiders, 61 percent of the 100 respondents believe movie piracy will continue to increase in the short term. The same report concludes, "Pirated movies have fundamentally undermined the production capacities of China's movie industry, with the private sector hit most severely."

Another study commissioned by the MPA and conducted by independent research firm LEK Consulting found that piracy cost the movie industry in China \$2.7 billion of potential revenue in 2005, of which just \$244 million was lost for MPA member companies and most of the rest lost by the Chinese industry itself.

"The Chinese industry is affected far more than MPA member companies," said Ellis from the MPA. "At the moment it is virtually impossible for Chinese filmmakers to make money domestically from the productions; they must hope to sell overseas distribution rights and as a result make money in markets where piracy is less widespread."

Zoke's Deng said the whole video publication industry has been in a sluggish mood since last year due to the introduction of the devastating piracy technology of compact discs. Every compact disc, available at 7 yuan, can easily store 80 hours of content, which equals 40 movies or 30 episodes of the latest TV soaps.

Deng also said Zoke's anti-privacy tasks are anything but easy. He said now it has to deal with the wider availability of fake DVDs, spread by outdoor vendors squatting on stacks of the latest releases in popular areas like pedestrian bridges and outdoor vegetable markets. On the other hand, Deng said whereas most local governments vigorously support and engage in Zoke's anti-piracy efforts, some try to shelter piracy as local tax revenues are collected from companies involved in illegal production.

"This year we have intensified efforts to hire lawyers and launch judicial action against piracy for economic compensation, and it works well," said Zoke's Huang. "The situation is at least turning around in key markets—big cities like Beijing and Shanghai." ■

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THE BATTLE FOR THE INTERNET

File sharing software is creating an Internet world where virtually everything can be obtained for free, but intellectual property rights clash with that approach

By JING XIAOLEI

To Zhang Jie, a programmer at a Beijing-based information technology company, the greatest invention of the 21st century is the P2P download system provided by BitTorrent (BT). P2P refers to peer-to-peer, an Internet file sharing application.

Zhang's computer desk is piled high with clusters of CDs that he has burned over the past five years. One of Zhang's friends introduced BitTorrent to him and he loved it the moment he successfully downloaded a 600-megabyte movie in two hours.

"It is really exciting to find such a great Internet file sharing system: fast, convenient and rich in all kinds of content," said Zhang. The first movie he downloaded via BT is a collection of New York underground short films. "You can never get this alternative and rare movie from a regular audio and video store, but BT has brought the resources on the Internet across the world to your doorway; what's better, they are all for free!"

Over the past five years, Zhang has downloaded numerous movies, music, e-books, software, digital games, cartoons, TV shows, documentaries and other material. "BT can download almost everything that can be transformed into digital form," he noted. Because of the limited storage capacity of his computer, he has to store what he has downloaded on CDs.

"We borrow quite a lot of stuff from Zhang Jie, as the movies he collected

from the Internet can make a small movie database," Zhang's friend said. This enthusiasm on the part of Zhang and many others clashes with the intellectual property rights (IPR) of the owners of copyrights to movies, music and other artistic content to receive royalties and recognition for their work. The Chinese Government, however, recently launched a new campaign to protect IPR.

"The government again has begun to crack down on Internet piracy recently, but I don't think the three-month storm will have any big success," said Zhang.

The "storm" he mentioned refers to the 100-day anti-piracy campaign that was jointly launched by 10 ministries and national departments, including the Ministry of Public Security, State Administration of Press and Publication, National Copyright Administration (NCA) and Ministry of Culture, at the end of September.

The crackdown is aimed at the illegal downloading of films, music, software and

textbooks, which has been described as "rampant."

"IPR infringements on the Internet not only violate the interests of copyright holders but also stain the country's reputation globally," said Long Xinmin, head of the National Copyright Administration.

The intellectual property rights watchdog has vowed to clamp down on major websites that offer unauthorized downloads. While it has no authority to deal with foreign websites offering illegal material, it is targeting local sites that offer links outside the country or unauthorized downloads.

The administration collaborated with major IPR protection associations in the country to collect evidence for 302 Internet IPR infringement cases during a one-month investigation, according to Wang Ziqiang, head of the NCA's copyright management department.

"The number is double that of last year, which means that Internet copyright infringement is still rampant," Wang said.

Officials have tracked down the website operators and their details will be passed on to local copyright bureaus for action, said Wang.

Of the 302 cases, 123 are about software IPR infringement, followed by films and music. Most are in developed areas such as Beijing, Shanghai and Zhejiang Province.

"This year's campaign involves authorized file uploaders but leave out the downloaders. But sooner or later, the big free meal on the Internet will be gone with the rising concern over IPR protection and enhancement of anti-piracy law enforcement," said Zhang.

Troublesome technology

Bram Cohen, the American creator of the revolutionary piece of software called BitTorrent, is considered a hero in Zhang's eyes, but to the IPR holders, the inventor is just like a nightmare.

"I think we Internet file downloaders all owe thanks to Bram Cohen. This guy has broadened our eyes and provided everyone with much easier access to share human knowledge and civilization," said Zhang.

Since the release of this technology in the summer of 2001, BitTorrent has quickly grown into one of the most preeminent file distribution methods. It lets users quickly upload and download enormous amounts of data, files that



A PUZZLING CONTROVERSY: The Internet promotes a "sharing spirit," but IPR holders do not want to see their rights infringed



FREE MUSIC: Visitors to a Shanghai telecom exhibition listen to music on an MP3, with most music downloaded from the Internet for free

are hundreds or thousands of times bigger than a single MP3.

Three years after the birth of BitTorrent, analysts at CacheLogic, an Internet-traffic analysis firm in Cambridge, England, reported that BitTorrent traffic accounts for more than one third of all data sent over the Internet. In China, BitTorrent has become the fourth most popular Internet application after Internet Explorer, e-mail and instant messenger.

The power and potential of BitTorrent has the Motion Picture Association of America (MPAA) quite worried. In 2004, the MPAA launched a campaign against BitTorrent sites in the United States and Britain. An MPAA spokesman said Cohen is under scrutiny for continuing to develop the software "and making it easy to steal copyrighted material."

Since then, BitTorrent has caused controversy worldwide. In October 2005, 38-year-old Hong Kong resident Chan Naiming was sentenced to a three-year prison term after he had uploaded illegal copies of the films *Daredevil*, *Miss Undercover* and *Red Planet* onto the Internet and spread them via BitTorrent. In October this year, 23-year-old American Grant Stanley was sentenced to five months in prison, followed by five months of house arrest, and a \$3,000 fine for his role as a leading participant in the BitTorrent tracker site Elitetorrents. This ruling is the first

BitTorrent-related conviction in the United States.

In China so far there have been no prosecutions of BitTorrent downloading but the country's IPR watchdogs said they would purge the Internet illegal content-sharing area, including BT websites, during the three-month campaign.

Officials from the IPR law enforcement bureau in Beijing declined to provide further information on the crackdown, saying they were too busy to do so and that no additional information was available currently.

Resolving the controversy

It is a puzzling paradox. The Internet is supposed to reflect a "sharing spirit" but IPR holders definitely don't want their rights to be infringed. Technologically, BitTorrent is a great invention of the Internet world, but at the legal level it is deemed to be an accomplice of IPR violators.

Rumors have circulated from time to time that China's communications operators will ban BitTorrent downloading but it is still in force since it receives strong support from the mass of Internet users. According to a survey by China's Web portal sina.com, 93.25 percent of the 20,826 respondents opposed the prohibition of BitTorrent use.

"Any invention has good and bad points and we don't snuff it out just because of its shortcomings. Why can't we treat BitTorrent

just like we treat nuclear power?" said one netizen using the Internet ID Isbaal.

His view is echoed by Ye Lante, an IT commentator, "On the deeper level of thinking, the BitTorrent controversy is all about how we look at the new technology. If we kill the new technology just because it has some negative effects, that would be a tragedy."

Ye also believes the traditional IPR system needs to be changed to fit the Internet era. "By that time, IPR will not be quite an issue for the development of BitTorrent. At present, we'd better show more tolerance towards the creative technology," he added.

Not long ago, the Internet Society of China set up an organization to promote the use of P2P technology while conforming to IPR laws and regulations.

"P2P applications will play a leading role in the era of Web 2.0, which is featured in wider audio and video data trading and deeper interaction," said Lei Zidong, General Secretary of the union, adding that P2P technology developers should make profits by collaborating with legal content providers.

Regarding the IPR issue, Lei thinks the Digital Rights Management (DRM) system is an operative approach. The DRM system controls every link of the distribution of digital products, making the products available only to authorized users.

"Technical management can't solve all the problems, and enhancing IPR law enforcement is also necessary," Lei noted. ■



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Cause for Cheer

Despite difficulties, China's human rights cause is making steady progress



VIEW OF HISTORY: The exhibition on human rights held in downtown Beijing depicting the dramatic changes in people's daily lives in the recent past, invites curious crowds

By TANG YUANKAI

In the first half of this year, the newsroom at *Beijing Youth Daily* was bombarded with readers' calls complaining about lavatory sanitation in big hospitals in Beijing. "These hospitals have the most cutting-edge medical equipment in Beijing or even in China. But the sanitation of their lavatories is unbearable," said one complainant. It was not long before several journalists from the newspaper conducted a secret investigation into 20 big hospitals in Beijing and put together a front-page story on the deplorable lavatory conditions in most top hospitals in Beijing on August 24.

A copy of this page was on display at the first-ever exhibition on human rights in China held from November 17 to 26. The caption for this exhibit read, "This is a reflection of the public's right to know even when it might harm the interests of some institutions and some powerful people."

The recent exhibition was held to commemorate the 40th anniversary of two milestone international pacts on human rights,

namely, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

Dong Yunhu is the deputy director of the China Society for Human Rights Studies, one of the sponsors of the exhibition. He said this was the first time an exhibition was held to showcase China's progress in the human rights area. "For a long time, we refused to use the term 'human rights' and rarely reflected on China's history from the perspective of human rights. This posed practical difficulties for the planning of this exhibition," Dong said.

He said "human rights" used to be a taboo subject in the country, even as mid-19th century imperialism and feudalism had led to many violations of human rights for the Chinese for almost a century. For decades after the founding of the People's Republic of China in October 1949, China refused to include human rights in the Constitution or laws and also regarded it as a taboo subject in academia. During the

Cultural Revolution (1966-76), under the influence of ultra-leftist thinking, "human rights" came in for harsh criticism as a capitalist concept and in practice, were totally ignored and severely trampled upon.

The tide was reversed from the late 1980s. In 1989, state leaders announced that Chinese people's human rights are reflected in the second chapter of the Constitution on citizens' basic rights and duties. November 1, 1991 witnessed the release of a white paper

on China's human rights by the State Council's Information Office, which became the Chinese Government's first official document on human rights. The document said the right to subsistence and development, as the primary human rights, were the pillars of the theoretical system of China's human rights. In September 1997, human rights were written into the report of the 15th National Congress of Communist Party of China (CPC), which was the first time the concept appeared in a report of the Party's national congress. The Amendments to the Constitution of the People's Republic of China, which were adopted at the Second Session of the 10th National People's Congress on March 14, 2004, clearly stipulate that the "State respects and guarantees human rights."

Besides photographs, the other items of daily life covering different periods displayed at the exhibition ranged from antique telephones, bicycles and sewing machines to color TV sets and cell phones, capturing the rapid changes in Chinese society in its recent past. There were also exhibits showing the abolishment of the 2,600-year-old agricultural tax at the beginning of 2006 and the shrinkage of the population mired in poverty at an annual rate of 10 million, in the past 20 years.

Dong said Chinese civilization, dating back thousands of years, has always ensured the protection of the rights of minority groups, women, children and the disabled. "This is a feature of Chinese human rights," he said.

To prove this, he points to China's ethnic regional autonomy system, which is stipulated as a basic political system in China's Constitution. The system serves as a guarantee to the ethnic minorities of their special rights according to law and an equal access to the fruits of the country's development and modernization.

China's founding father, late Chairman Mao Zedong, famously said, "Women hold

up half the sky.” Chinese women can work in any vocation as men and are not discriminated against for getting married or starting a family. It is clearly stated in China’s Constitution that women enjoy the same rights as men in political, economic, cultural, social and family life.

“China has set up a legal system of safeguarding women’s interests, with the Constitution as the basis and the Law on the Protection of Rights and Interests of Women as a main pillar along with other related laws and regulations,” said Zhang Xiaoling, Director of the Human Research Center of the Party School of the CPC Central Committee.

In 1995, the Chinese Government detailed its first active initiative on promoting gender equality, and followed it with another in 2001. In the same year, the amended Law on Marriage for the first time introduced provisions banning domestic violence and compensation for women after divorce. The Law on Rural Land Contracts passed in 2003 stressed the equal rights to land of married, divorced and widowed women. The amended Law on the Protection of Rights and Interests of Women stipulates that gender equality is China’s basic national policy, opposes gender discrimination in the labor market and domestic violence and, for the first time, defines sexual harassment.

Zhang points out that a new trend in the development of women’s rights in China is

increasing the budgetary provisions for it. Special funds have been allocated since 2003 to support the rehabilitation, education and poverty alleviation of the disabled. In drafting policies, government departments in health care, education and labor have been taking into consideration the special needs of the disabled and giving them preferential treatment.

On December 10, 2003, CDPF Chairman Deng Pufang was granted the UN Human Rights Award, which is given out every five years. As the eldest son of the chief architect of China’s reform, Deng Xiaoping, he was tortured at the beginning of the Cultural Revolution for his family background and ended up with paralyzed legs.

“Human rights are mankind’s pure and noble pursuit. I have personally suffered from a loss of dignity and freedom, which has made me value dignity and freedom even more,” said the man who is confined to a wheelchair. He also said he was grateful that he could personally experience the difficulties of the disabled and work relentlessly to safeguard their rights and improve their situation.

In line with its commitment to international cooperation on human rights, the Chinese Government has endorsed 22 UN treaties on human rights, including the International Covenant on Economic, Social and Cultural Rights (1966).

At the 16th National Congress of the CPC, the General Secretary of the CPC Hu

“China has achieved great progress and accumulated rich experience in protecting and developing human rights,” said Ukrainian Parliament Commissioner for Human Rights Nina Karpachova, who was speaking at a three-day symposium in Beijing between November 22 and 24 on respecting and promoting human rights and constructing a harmonious world. She said people from many countries were prejudiced against China as they were unaware of the real situation in Chinese human rights. Since 1995, she said, she had paid several visits to different provinces in China and had witnessed first hand the huge changes in these places. She believes China’s substantial progress in protecting human rights is closely linked to its economic development. “China’s rich experience in protecting human rights could serve as a good reference for developing countries at the same development stage as China,” said Karpachova.

Yet many Chinese people realize that there are problems and conflicts in the progress of the cause of human rights in the country. Several experts at the symposium said public education, communication and discussion on human rights as well as a strong legal system were needed to guarantee the realization of citizens’ rights. They agreed that on the one hand legislative, judicial and administrative authorities must do their duty but on the other, a popular culture of respecting and guaranteeing human



RIGHT TOUCH: Disabled and orphaned children at a Datong Social Welfare Institute in Shanxi Province enjoy their reading in the inviting interiors of a newly opened library



LEARNING TO READ: Students at a private school for rural migrant workers' children in Beijing read from their new textbooks

YEAR-ENDER

Equal Education

China's educational reform is aimed at reducing the inequality between urban and rural areas and different regions

By FENG JIANHUA

The private school for rural migrant workers' children that was established by Zhang Gezhen in Beijing has bitterly survived the many clampdowns on such schools over the past nine years. Zhang's motive is quite simple: to enable migrant children to afford education in urban areas.

"Migrant schools are what the disadvantaged groups use to save themselves in terms of education during the transition period when the planned economy is giving way to a market economy and the rural population is flocking to cities," said Zhang.

He came to Beijing for work in 1995. The first thing he did was to find a school for his child. He contacted dozens of public schools, all of which required him to hand over a considerable sum of money called a "patronage fee" because his child did not have a Beijing *hukou* (registered residence). The least expensive "patronage fee" was two color television sets. Zhang finally bought two TV sets for 8,500 yuan to give to the school and then his child was enrolled.

It was after this terrible experience that Zhang had the idea of starting a school for the children of migrant workers like him. The next year he started the preparatory work and in 1997 his school was founded. In its first year the school had only 53 students but the number rocketed to 500 in the second year. In 1999, Zhang opened branch schools in Fengtai, Daxing and Chaoyang districts. At the peak, Zhang had seven schools. Following Zhang's footsteps, migrant schools in Beijing sprang up like mushrooms.

But many of these schools are too small, too poorly equipped and don't have the license granted by the government. By April 2004, the Fengtai District closed down 79 schools, including Zhang's schools there. To dodge the cleansing, some migrant schools were frequently relocated. One of the schools moved eight times in just three years.

The turning point came in September 2003 when the Beijing Municipal Government ruled that rural children could enjoy the same education treatment as urban children when they go to public schools. After this policy was initiated, the Daxing District promised that public schools there would receive an 80 yuan bonus

for each migrant child they accepted.

In 2003, Zhang's Mingyuan Migrant School gained the first license in Beijing to operate such a school. And in 2004 the school received a special gift from the municipal government—100,000 yuan in funding—which makes Mingyuan the first migrant school in Beijing to receive a government subsidy.

According to statistics from the Beijing education authorities, the city has around 370,000 migrant children, 239 unauthorized schools and a total enrollment of 95,092 students.

Zhang understands the government's move to close down migrant schools and he thinks such schools will sooner or later cease to exist, given the increasing educational opportunities for rural children provided by public schools. But Zhang still thinks the clampdown is going a bit too far and the best way is to gradually transfer some of the rural children to public schools while rectifying the substandard migrant schools.

Narrowing the gap

China's rural population accounts for 65 percent of the total, and 150 million out of the total 200 million middle school and primary school students are in rural areas. What's worse, less than 40 percent of the education funds have been flowing to the countryside.

Qi Tao, head of the Shandong Department of Education, would never have believed the miserable situation in rural education if he hadn't seen it with his own eyes.

"Why do rural teachers prepare their lessons on the ground? Why is the classroom empty with nothing left when a class is over? Because the teachers don't have their own desks, and the emptiness is because the desks and benches are brought to the class by the students themselves," the educational officer said in describing what he had witnessed when he inspected a rural school in the province.

"The conditions are so tough there for the children, it almost made me cry," said Qi.

Such poorly equipped schools are not rare in rural China. The terrible rural education situation is related to China's unbalanced educational policy, which favors urban education. During the period just after the founding of the People's Republic in 1949, when the country was in desperate need of talent to rebuild the country, the Central Government had to put its limited education funds into the key universities

in cities to cultivate talent as fast and as much as possible. But 50 years have passed and this policy has not undergone any changes. Instead, it has become more unbalanced in some places.

China's education expenditures make up only 3 percent of its gross domestic product, equal to the level in the 1980s in Western countries. The insufficient input has long been the bottleneck restricting the country's education development.

Other statistics from the Ministry of Education show that the average education received by rural people above 15 years of age is seven years, three years less than that of urban residents. Among the rural labor force between the ages of 15 and 65, only 1 percent have had education above the junior college level, 13 percentage points lower than urban residents.

For quite a long time, China's compulsory education has been handled by local governments. Due to the imbalance in economic development in different regions, education levels differ from region to region and such an imbalance has been enlarged.

The Ministry of Education says three fourths of the illiterate or semi-literate population lives in the countryside in China's west and in regions populated by minority groups.

Reducing the inequality

Even within the same region, educational resources are distributed unequally. Under the examination-oriented education system, most of the educational resources are allocated to so-called "key schools" and "key classes."

To control the enrollment in these key schools, a high entry threshold has been set up. If a student fails to reach the cut-off score on the examinations, he has to pay a large sum of money called a "school-choosing fee" in order to enroll. In Chongqing, for example, the fee for the city's No. 8 Middle School stands at 35,000 yuan, equivalent to the annual income for a working class family. Under such circumstances, some parents have to make use of all their personal connections to send their children to these key schools.

A survey of the equality of a high middle school education in 10 cities showed that the 10 percent of children from families of Party cadres or government officials and middle- or high-level managers account for 42 percent of the student enrollment in key schools. In Beijing, the proportion stands at 57 percent.

The Chinese Government is now working on narrowing the inequality. A series of government documents released in 2006 ruled that the increased educational budget is to be mainly used in rural education. Rural students receiving compulsory education have been exempted from tuition and miscellaneous school fees, and schools are not allowed to be split into "key schools" and "non-key schools."

In addition, many local governments have launched teacher exchange programs. In October, 52 schools in Shenyang welcomed 1,000 rural teachers, who shared teaching experiences with their urban counterparts and received training from the veteran urban teachers.

In September the Zhengzhou educational bureau in central China began a one-year teacher exchange program in which 646 rural and urban teachers shifted positions. In five years, the city will allow all urban teachers to teach in rural areas for one year, said Si Futing, the city's education bureau chief. ■

(This is the second of the year-end series.)



FILLING A NEED: Li Jia, a teacher from a middle school in Zhengzhou, Henan Province, leads a gym class in Jianshan Village. Li was sent to the village, which has poor educational resources, during a government campaign to promote equal education

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BEIJING REVIEW

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Professional Vacancies:

Micro Model Technology & Development Co. Ltd.,

founded in 1994, is one of the world's leading architectural model makers. To date, more than 2,000 models have been submitted to our clients worldwide. The models help architects, planners and owners to refine their work and achieve their expected goals.

Quality service is one of our company's principles. It has been guiding the company to win most of the major facility projects for the 2008 Olympic Games, Chinese airport projects, and international project competitions in recent years. Furthermore, prompt delivery is another principle of the company. Micro has never delayed any project model since it was founded. Quality service and schedule control bring more and more clients to Micro.

Position: Mechanical Designer/Market Manager

Description:

We need candidates who can work in the branch office of our company in Dubai in the United Arab Emirates and are responsible for the market development and business negotiation. Candidates who come from European countries and have related experience in architectural design are preferred. Also, candidates should be excellent in English and speak a little Chinese.

Contact: John Chen or Sapphire

Tel: 86-10-63898076, 63898077

E-mail: micro@china.com

Website: www.micromodel.com.cn

Lee Garden Service Apartments, Beijing, distinguished for its fashionable design, excellent service, European style management and 199 comfortable and elegant suites, offers safe, private and personal service. It is only 45 minutes from the airport and is located right in the center of Beijing within walking distance to Tiananmen Square and the Forbidden City. It also neighbors Wangfujing Avenue, the best dining and shopping area in Beijing.

Position: Managers for Reservation and Front Office

Responsibilities:

1. In charge of the entire front desk, which includes handling guest enquiries and complaints, staff management, etc.;
2. Responsible for daily reservations, client liaisons and rate negotiation with clients;
3. Take enquiries and liaise closely with other departments to manage room availability;
4. Support and train staff according to Lee Garden's standards.

Requirements:

1. University degree;
2. Two years' experience in management work in a four- or five-star hotel;

3. Knowledge of Chinese is highly preferred;
4. Customer oriented and good business sense;
5. Quick problem solver with good communication and strong leadership skills, and being independent with a strong sense of responsibility;
6. Good understanding of room allocation and rate control.

Contact: Shelley Lu

Tel: 86-10-65258855 ext. 6201 Fax: 86-10-65266151 (manual)

Address: 18 Jinyu Hutong, Dongcheng District, Beijing 100006

Website: www.lgapartment.com

Teaching Vacancies:

Shanghai High School is a municipal key high school in Shanghai. With a history of 140 years, it is one of the most famous high schools in China for its fully equipped facilities, rigorous study schedule, high morale and advanced education standard.

The International Division of Shanghai High School was established in 1993. The school is the first international school founded as a result of a joint effort between China and international partners in Shanghai. With the division's parent school, Shanghai High School, providing administrative and academic backing, and with support from the Shanghai Municipal Education Committee, the school is a well equipped and administered educational institute.

The International Division now has around 1,400 international students, starting from grade four to 12, from all over the world, mainly from Asia. The Shanghai High School is a member school of the International Baccalaureate Organization and offers IB courses in Grade 11 and 12. We need teachers to teach English, History, Geography, Science, Music, Economics and Art (Painting) with at least two years' teaching experience.

The full-time teacher's salary starts at \$1,600-2,000 per month according to qualifications and teaching experience. A full-time teacher has fixed office hours: from 8:10 a.m. to 4:10 p.m. and will teach about 20 periods per week. An annual bonus of \$2,600 will be given according to performance. The following benefits will also be given to full-time teachers: paid leave during holidays according to the school's rules; free accommodation and a comprehensive reimbursement system for medical expenses.

The school term usually begins in September and expires in next July, or begins in February and continues to the next January. If you are interested in joining us, please feel free to send an e-mail to resume@chinajob.com.

Tianjin University of Commerce is seeking qualified ESL teachers from native English speaking countries, and Russian and Japanese teachers are also needed. The contract begins next February and expires in July 2008. The salary is 4,000 yuan per month. Candidates should have teaching experience, a college degree, and a teaching certificate. The school offers free accommodation and roundtrip airfare. Contact Eric at contact@chinajob.com.

Hiring trends in China

As the number of college graduates continues to soar this year, competition for entry-level jobs is fiercer than ever. More and more schools and training companies have been set up to help graduates get a competitive edge in the cutthroat job market, giving rise to a demand for foreign language teachers because a big part of the teaching programs are foreign-language related. However, there are few vacancies for entry-level foreign job seekers in foreign companies.

Along with the rapid growth of entry-level employees, the number of mid-level executives has increased dramatically. After China expanded its higher education enrollment in the late 1990s alongside with the surging number of foreign companies, more and more students have been working in multinational companies. Those employees are becoming highly skilled and experienced mid-level executives, with five to 10 years of valuable experience working in a foreign company. Competition for jobs at this level remains

tough, to some extent. Meanwhile, mid-level foreign professionals are coming to join the job market in China. They begin to take various positions in companies around China. And the merging of domestic and international companies promotes the demand for global professionals, such as IT and the automotive industry.

Senior-level positions attract less competition, according to a headhunter at Atlantic Resources Technologies. China still lacks highly skilled and educated senior managers. According to *China Daily*, more than 70 percent of foreigners in Shanghai take up management positions. If you have the required experience, educational background and are fluent in Chinese and English, you will be able to find very good jobs on the Chinese mainland, especially in large cities like Beijing and Shanghai. Also, professionals who can only speak their native language but have expertise that Chinese companies need are always welcome in China. Furthermore, they can work with a flexible schedule: one month, three months, or a half year.



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Pamper yourself with sumptuous seafood delicacies for a delightful weekend.

Tuck into our specially created seafood buffet presented with a wide variety of well-chosen fresh seafood: lobster, shark fin, oyster, sashimi...

Time: Every Friday 18:00 to 22:00
 Venue: Cafe Restaurant on hotel lobby floor
 Price: RMB 158+15% per person, including a free flow of soft drinks and local beer

For reservations, please dial: 6773 1234-3930

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 E-mail: sales@res.dhst.com

The Westin Beijing, Financial Street

Dreamtime Party at Treasury Ballroom
 Time: 18:30-midnight, December 24 (Sunday)

An exclusive one-night performance and world-class production from international award-winning musician and entertainer Donny Ray Evins and band direct from Las Vegas. An impressive international seafood buffet for you to indulge in and enjoy with all the Christmas flair and dreamtime wishes is sure to leave you spellbound.

Adults: 1,888 yuan net (inclusive of wine, beer, champagne, soft drinks and chilled juice)



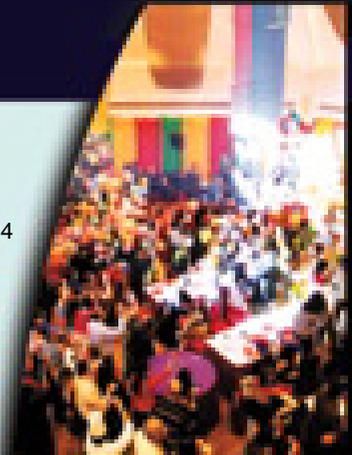
Holiday Inn Lido Hotel

Christmas Eve Gala Dinner

Venue: Grand Ballroom
 Time: 18:30-midnight, December 24

Rates:
 Adults: 1,388 yuan and 1,288 yuan, including wine, beer and soft drinks

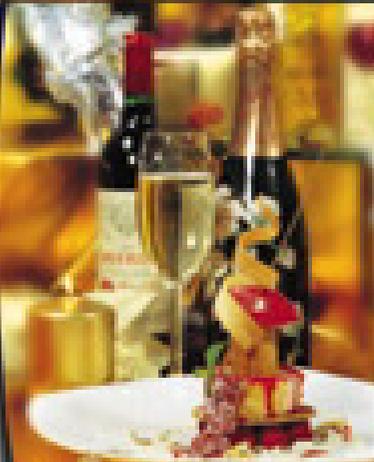
Children (aged 4-12): 700 yuan



Kunlun Christmas Carnival (2006)

Join us for Hotel Kunlun's winter wonderland Christmas Eve! A feast fit for Santa, a carnival of entertainment and the chance to win two separate spectacular lucky draw prizes!

This year's fantastic Christmas Eve Grand Prize Lucky Draw: a five-day holiday for two in South Korea, including round-trip airfare.



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 Start your Christmas celebration this year with a wide selection of seasonal goodies made fresh every day at the Patisserie. Or indulge your Christmas spirit with a series of special menus designed by our award-winning chefs. Dine in style with exclusive party packages, or reserve a room at a special rate to make this Christmas a truly unique occasion, complete with Christmas carols to add a magic touch.

Festive program reservations: 86-10-85181234 ext. 3738
 E-mail: fb.beigh@hyattintl.com



Park Plaza Beijing Wangfujing

Christmas Eve Buffet at Bloo Dining
 Time: 18:30-22:30, December 24
 Rates: 488 yuan per adult/228 yuan per child

Children under 3 years old are free of charge.

VIP rooms are available for groups of 10 persons at 6,000 yuan per room.

The Christmas Buffet includes free soft drinks, chilled juices, local beer and wine, champagne, entertainment and lucky draw prizes.



The Great Wall Sheraton Hotel Beijing

Venue: Grand Ball Room
 Date: December 24

An exciting evening with the Corleone family of *The Godfather* fame in a memorable yesteryear atmosphere. Don a Prada suit, wear a fedora and pose with the obligatory Cuban cigar. Bring the family, because as Don Vito says, "A man who does not spend time with his family is not a real man!"

Section A: 2,388 yuan+
 Section B: 1,988 yuan+



Foreign Companies See Green

Profit figures mostly look good to foreign companies in China

By LAN XINZHEN

David Dollar, the World Bank's Country Director for China and Mongolia, stated at the Fourth China Investment Climate Forum held in Hangzhou, capital of Zhejiang Province, on November 11 that foreign companies' return on investment in China reached as high as 22 percent.

Dollar noted that this figure was from a World Bank survey of 12,400 enterprises in 120 Chinese cities. About 8 percent of the respondents are state-owned, 28 percent have foreign investment, and the remaining 64 percent are private businesses. The return on investment of foreign-funded companies is 22 percent, while that for private enterprises is 19 percent.

"Judging from the worldwide situation, the return on investment of both foreign-funded and private companies in China is very high," Dollar said.

The white paper of the American Chamber of Commerce in China shows that among the 450 U.S. companies surveyed in 2005, some 68 percent were profitable or prosperous.

Foreign investment has entered hot industries like banking, insurance, telecommunications, automobiles, logistics, retailing, manufacturing, energy, iron and steel, IT, websites and real estate. According to a report from Xinhua News Agency, among industries that are open to foreign capital, the top five companies in each industry are controlled by foreign capital. Foreign capital has control over the majority of assets of 21 industries among China's 28 major industries.

The tempting returns from the Chinese market inspire foreign-funded enterprises to constantly expand investment in China.

Most profitable industries

According to statistics from the Ministry of Commerce, National Development and Reform Commission (NDRC) and the National Bureau of Statistics, foreign-funded enterprises in manufacturing, retailing and pharmaceutical industries are making the largest profits.

The manufacturing industry in China has always been the first choice for foreign investors, and foreign-funded enterprises now take the largest share in the market of this sector.

Statistics from the National Bureau of Statistics show that from January to October this year, all state-owned industrial enterprises as well as non-state enterprises with annual sales exceeding 5 million yuan reported total profits of 1.47 trillion yuan, increasing by 30.1 percent compared with the same period last year. The total profits of foreign-funded and Hong Kong-, Macao- and Taiwan-invested companies hit 410.5 billion yuan, up 27.7 percent year on year.

The Ministry of Commerce once published a list of China's top 500 foreign-funded companies in terms of sales from 2004 to 2005. They included 405 manufacturing companies, accounting for 81 percent, and nine of the top 10 belonged to the manufacturing sector.

In the five years from 2001 to 2005, the annual increase of industrial added-value of foreign-funded companies was around 30 percent, contributing to one third of the country's gross industrial output value. The tax paid by foreign-funded companies during the five years increased by 22 percent annually, accounting for over one fifth of

the country's total tax revenue.

At present, major telecommunications, petrochemical, automobile and mechanical equipment manufacturers worldwide have extended their production networks to China. More and more multinational companies have placed China as their bases for manufacturing, marketing, raw material purchasing, research and development and human resources development.

Retailing industry

Statistics from the Ministry of Commerce show that the average profit rate of foreign-funded retailing enterprises was around 3.7 percent in 2005.

Since the Chinese retailing industry was fully opened to foreign capital on December 11, 2004, transnational companies have made great strides in penetrating into the Chinese retailing market. Statistics from the National Bureau of Statistics show that from January 2005 to September 2006, another 1,580 foreign retailing enterprises opened up shops in China, five times that before the opening of the market. After China opened



MAKE IT IN CHINA: Manufacturing is one of the most profitable industries in China. This picture shows technicians at ChangAn Auto Co. Ltd. testing a new Ford Mondeo car



ALL FOREIGN: Passing by Lujiazui financial district in Shanghai, pedestrians see a great many foreign companies operating in the city

its business sector in 1992, and until the end of 2004, only 314 foreign-funded retailing companies opened shops in China.

The substantial increase in the sales of foreign-funded retailing companies as well as the huge potential of the Chinese consumption market have tempted foreign retailing companies to open more stores in the country. Currently, the number of stores of Lotus Super Center, Wal-Mart and the British furniture retailer B&Q has all doubled from the year 2004.

In big metropolises like Beijing, Shanghai and Guangzhou, the retailing market is in the main controlled by foreign retailers.

Pharmaceutical industry

According to statistics from the National Development and Reform Commission, in the first half of this year, the aggregate industrial output value of the pharmaceutical sector was 251.09 billion yuan, a rise of 19.47 percent compared with the same period last year. The total profit of the pharmaceutical industry reached 18.09 billion yuan, up 7.65 percent. Among the sales of the pharmaceutical industry, that of Hong Kong-, Macao-, Taiwan- and foreign-invested companies accounted for 75 percent, and their combined profit made up 80 percent of the sector's total nationwide.

When foreign companies began to

invest in the Chinese pharmaceutical industry, they first set up a production base in China, and then transferred the whole operational body, including research and development, production, sales and purchasing into China. In recent years, they have been devouring the Chinese traditional medicine market and entering the market of the country's medical treatment system. The world's top 20 multinational pharmaceutical companies have already established joint ventures in China. Among the list of the top 500 foreign-funded companies in China cited by the Ministry of Commerce for 2004 and 2005, there were 14 involved in the pharmaceutical industry, with 13 of them controlled by foreign capital.

New investment trend

The past two years have witnessed new changes in foreign investment in China owing to China's commitments to the World Trade Organization to fully open the country's market.

"Foreign capital is now being invested in the financial sector," noted Xin Houyuan, researcher with the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce.

Following the listing of the Bank of China, the Construction Bank of China and the Industrial and Commercial Bank of China, foreign companies have been investing in China's financial sector through the securities market. For instance, since June 2005, Bank of America has bought \$2.5 billion and Singapore's Temasek Holdings

\$1.4 billion in stock of the Construction Bank of China. In August 2005, the Royal Bank of Scotland held \$3.1 billion in the Bank of China.

With its full opening on December 11 this year, the financial sector is expected to become a focus of foreign investment.

According to statistics from the China Banking Regulatory Commission, by the end of December 2005, foreign banks had set up 254 offices in China. Standard Chartered plans to extend its network to over 20 branches before 2008 and aims at grabbing 5 percent of China's retail banking market by 2015.

The Chinese securities market is a new hot area for foreign investment. Currently, China has opened the B-share market to foreign investors, and begun to open the A-share market to qualified foreign institutional investors, which means China has opened its domestic stock market to foreign capital. In terms of securities firms, China is beginning to widen market access to foreign capital. In 2005, UBS paid 1.7 billion yuan to acquire 20 percent of the shares of Beijing Securities to become the largest shareholder of the latter.

Energy-related fields have also attracted significant attention from foreign investors. In September 2005, Peabody Energy, the biggest private coal company in the United States, launched a representative office in Beijing. Currently, Peabody Energy has had contacts with China Huaneng Group, the Shenhua Group Co. Ltd. and some large iron and steel companies in China, and will

Share of Foreign-Funded Industrial Enterprises in China's Market

Year	Sales of Foreign Industrial Enterprises (100 million yuan)	Total Sales of Industrial Enterprises in China (100 million yuan)	Market Share of Foreign-funded Enterprises (%)
1993	3,290.77	38,084.13	8.64
1994	5,528.81	42,398.57	13.04
1995	9,022.61	52,936.21	17.04
1996	10,815.20	57,969.98	18.66
1997	13,019.55	63,451.48	20.52
1998	15,604.60	64,148.86	24.33
1999	17,966.55	69,851.73	25.72
2000	22,545.74	84,151.75	26.79
2001	26,022.08	93,733.34	27.76
2002	31,189.27	109,485.77	28.49
2003	43,607.63	143,171.53	30.46
2004	57,831.51	187,814.77	30.79

Major Industries of 2005 FDI in China

Industry	Paid-in Capital (\$100m)	Proportion of Total (%)	Contractual Investment (\$100m)	Proportion of Total (%)	Number of Projects	Proportion of Total (%)
Manufacturing	424.53	58.63	1273.57	67.36	28,928	65.72
Finance	123.01	16.99	5.51	0.29	58	0.13
Real Estate	54.18	7.48	194.01	10.26	2,120	4.82

provide raw materials for and carry out technological exchange with Chinese electric and iron and steel companies.

Energy companies based in Australia, South Korea and Japan are also seeking opportunities to develop coal mines in Shanxi, Shaanxi and Inner Mongolia through shareholding.

In addition, foreign capital will sweep into the petrochemical industry. On December 11 this year, China opens its refined oil wholesaling market to foreign capital, marking the end of the transitional period following China's WTO accession and the full opening of the domestic oil and petrochemical market.

Currently, BP, Oman Oil, ExxonMobil and Shell have all been involved in the Chinese petrochemical industry.

It is foreseeable that in the next few years, more foreign capital will pour into China's petrochemical sector.

"In terms of the investment strategy, foreign investors give priority to acquisition or exclusive investment," noted Xin.

In the early years of China's reform and

opening up, foreign investors chose to set up joint ventures or cooperate with Chinese enterprises. In 2005, however, exclusive foreign-funded enterprises accounted for 73.4 percent of the total number of newly established companies. Meanwhile, acquisition has become another important method for foreign capital to enter China. From 2005 to 2006, acquisition with foreign companies acquiring Chinese ones became a common practice. For instance, Wal-Mart acquired Trust-Mart, which ranked 11th in the Chinese retailing market. After acquiring 40 percent of Shandong SEM Machinery Co. Ltd.'s stocks this year, Caterpillar is seeking stock in China's leading engineering and mechanical enterprises like Xiamen Machinery and Shanghai Diesel Engine Co. Ltd. The number of acquisition cases involving more than 100 million yuan each has exceeded a dozen between 2005 and 2006.

Foreign investment policy

For the Chinese Government, attracting foreign investment is an unswerving policy, but focus will be laid on optimizing and rec-

tifying the use of foreign capital. On November 10, the National Development and Reform Commission made public the plan to use foreign capital from 2006 to 2010. Li Pumin, Director of the NDRP Policy Research Department, stated that a major task in the future is to lead foreign investment to the country's central and western regions.

As a matter of fact, due to the shortage of land resources and labor in the eastern coastal area—and the saturated market—foreign businesses have already switched their attention to the central and western part of China, where more favorable policies are offered. The NDRC's plan conforms to this trend.

Li noted that in the next five years, priority will be given to the introduction of advanced technology, management expertise and high-quality professionals.

"Management over foreign capital utilization should be more rational and effective and strike a balance between the use of foreign capital and domestic economic and social development," said Li. ■

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Europe vs. America in China

How are the regions addressing their companies' problems on the mainland?

By LIU YUNYUN

Companies of the world, are you ready?

The alluring Chinese market will be fully opened to foreign investment on December 11, marking the end of the country's transitional period of its World Trade Organization accession.

As this threshold mark nears, the European Chamber of Commerce and American Chamber of Commerce (AmCham) have both issued their reports on their member nations' business operations in China, analyzing problems and looking for future solutions at a critical time in China's market opening.

But let's first get rid of any abstract talk and go right to the tense scene of competition at Beijing's fourth automobile exhibition, which attracted 600,000 spectators in a mere nine-day showcase on November 18-27. And underneath the exhibition's magnificent splendor were the manufacturers' racked nerves.

Volkswagen was there, feeling the tense air. Currently, the market share of Volkswagen in China has rebounded to 17.5 percent, and its business executives are leading the company to rejuvenation in the Chinese market. However, to Volkswagen's displeasure, in the same exhibition this year, the debut of the attractive Chrysler 300C was also a magnet for Chinese viewers, who were eager to have a glimpse at the localized Chrysler vehicle.

Then there was Chery Automobile, an emerging Chinese automaker targeting the low-end market. Its QQ series of cars, costing no more than 40,000 yuan each, wins Chery many younger fans. The Chrysler 300C, at 400,000 yuan, is way too expensive for an ordinary Chinese buyer.

This is China now, a land of international competition where multinationals go up against competitors on Chinese soil while fending off homegrown rivals.

To some extent, that has the American and European chambers of commerce in China in an uproar, doing what they can to create more favorable conditions for the companies they represent. But in listing their complaints, they have suggested compelling differences in the way America and Europe



TAKING THE LEAD: Companies like Microsoft are paving the way for American IT success in China

are looking to succeed in the Chinese market. While European business largely wants to change Chinese policies, American ones are beginning to look back home for solutions to better business. That may not be a bad idea, because as Ministry of Commerce researcher Mei Xinyu says, Europe has the edge in at least one important industry because of U.S. bureaucratic bumbling.

The buck stops where?

When embracing the enormous opportunities brought about by a more open

Chinese market, European companies and U.S. ones are vaguely uneasy. Who will get the lion's share, and what problems are hindering their expansion and profitability?

"While the survey shows American companies continue to be bullish on China, they are facing increased competition on a number of fronts," said the 2006 China Business Report by AmCham.

Further, increasing labor costs and operational costs had been squeezing companies' profit margins, the chamber found. Meanwhile, U.S. companies are getting ►►

price pressure and direct competition from domestic companies. "Those two factors are taking a toll on the bottom line of AmCham companies," Laurie Underwood, Communications Director of AmCham in Shanghai, told China Radio International.

But AmCham doesn't see the source of all its companies' problems in China. It puts a lot of stress on policies that need to be changed in the United States.

AmCham noted that the United States' lengthy and uncertain visa process and sometimes embarrassing entry requirements due to security remain a distinct deterrent to "buying American."

Indeed, 44 percent of survey respondents said they had lost significant sales as a result of U.S. visa issues. Almost 70 percent

said they now avoid arranging meetings in the United States because of concerns about obtaining a visa for their customers.

Further, although 75 percent of companies that increased their exports to China were profitable, U.S. exporters seem to be less competitive in capturing China market share. AmCham blamed this on insufficient government trade support, noting that Japan and Germany each have substantial government offices and industry organizations to promote trade.

The chamber also attacked U.S. export policy. For safety concerns, the United States strictly controls the exportation of military technology. But

AmCham alleged that the technology can be purchased from non-U.S. sources, which diverts business to U.S. competitors.

"All branches of the U.S. government need to recognize that our failure to take full advantage of the opportunity that China presents is contributing to our bilateral trade deficit," the AmCham report said. In 2005, the U.S. trade deficit with China stood at \$201.6 billion, and that of EU was 106.0 billion euros.

But strikingly different from

Opportunities for EU Businesses to Compete in China

- The evolution of EU-China trade reflects the evolution in overall EU trade with emerging economies. While the latter, and China in particular, are making significant gains in some segments of high technology products (such as laptop computers, mobile phones and DVD players), the EU is strengthening its specialization in high-quality products in preference to low- and middle-quality goods.

- Commission studies indicate that the expansion of the Chinese market will continue to bring important benefits to EU business operators. Although Chinese companies will become competitive in more market segments (for example in basic chemicals or some types of vehicles), other segments will expand rapidly (for example, specialty chemicals or demand for capital-intensive car components), offering new opportunities to EU operators.

- The EU is particularly strong in exports of machinery and vehicles, which account for two thirds of all EU goods exports and one third of all Chinese imports of machinery. EU exports to China of chemicals have doubled in the last five years, making China the EU's second largest export market. There is potential to increase EU market share in line with EU performance in other markets. As China develops, its demand for high-end branded European consumer products will increase.

- In order to succeed, EU operators will need to develop a more thorough knowledge of the Chinese market and play on their comparative advantage. Europe's chief assets in its trade relationship with China are innovation, specialization, quality, related services and brand identity. High unit labor costs are not necessarily an impediment to export success. The strongest performing European exporters to China have some of the highest labor costs in Europe.

Source: EU-China Trade and Investment: Competition and Partnership

Opportunities for American Businesses to Compete in China

- As China modernizes and its buying power increases, we expect export opportunities to increase as many higher-end products made in the United States will be increasingly attractive to the Chinese.

- The Chinese economy is increasingly requiring services in which the United States has a strong competitive advantage. The 20 percent growth for 2004 is the highest rate for U.S. cross-border service exports to China since 2000.

- Imports of travel, passenger fares, and other transportation services totaled roughly \$5 billion and made up the vast majority of U.S. cross-border imports from China.

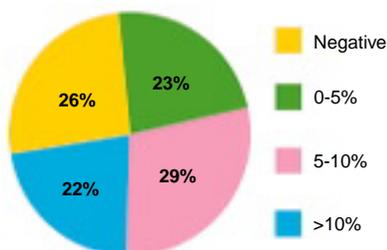
Source: White Paper 2006 of AmCham China

AmCham's inward national criticism, the European Union Chamber of Commerce policy paper tended to pressure the Chinese side rather than seek internal solutions.

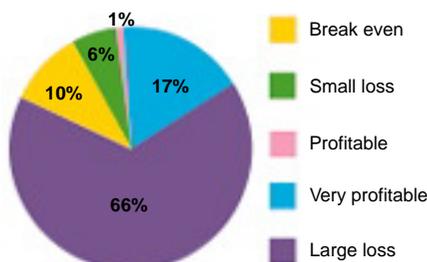
For instance, while American companies are calling for loosened U.S. government control on certain technologies, especially military technologies, the European Union complained that transferring proprietary technology to China was often made a precondition of bidding on Chinese government projects. The EU chamber added that China imposes local content requirements, which limits EU exports and unfairly aids the local industry.

Which region has it better?

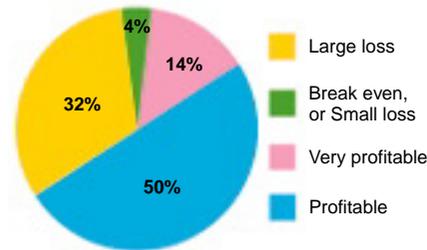
Parent Company Net Profit Margin (2005)



Financial Performance Estimate (2006)



U.S. Companies' Profitability in China



Source: European Union Chamber of Commerce in China European Business Confidence Survey 2006

Source: 2006 AmCham-China Business Climate Survey

PriceSmart's Dumb Moves

Desperate market expansion and unreliable capital management led the company to fail

By TAN WEI

On October 23, nine of the former senior management staff of PriceSmart Membership Shopping were summoned for interrogation at the First Intermediate People's Court of Beijing.

The case, understandably, attracted attention from a large number of people. Zhao Kun, an alias due to his request for anonymity, from northeast China's Harbin City, was among them. Zhao was one of the suppliers of PriceSmart, which had defaulted on a payment of goods for over 300,000 yuan. But this trial didn't bring him any good news.

The court held a three-day trial involving alleged contract fraud and illegal capital withdrawal at PriceSmart, and looked into the criminal responsibility of its nine senior managers. But the court didn't make a ruling on how to handle the large amount of money the company owed to suppliers.

Zhao's woe is just the tip of the iceberg of PriceSmart's failure to pay for goods. PriceSmart was in default on payments to suppliers of nearly 2 billion yuan, excluding its loans from banks—it owed more than 1 billion yuan to banks.

Meanwhile, the absent company founder, controller and chief suspect in the PriceSmart case, Liu Wuyi, had left the country, leaving behind a fragmented and heavily indebted PriceSmart.

The company's case study serves as a lesson for the business community and government alike. Essentially, the moral of the story isn't good, and neither is ill-considered growth.

Becoming notorious

In 1995, Liu registered a company called PriceSmart Membership Superstore Enterprise Group (PM Group), which claimed to be derived from the trademark "PriceSmart" under U.S. Price Enterprises Inc.

It is notable that although the PriceSmart set up by Liu was the first membership-only supermarket in China and based on the U.S. model, the Chinese PM Group is actually a private company without any foreign capital. It adopted a kind of franchise store operation. Whenever a new PriceSmart supermarket opened in China, it would pay a sum of money to the U.S. side. Apart from the money, the PM Group China

had no connections to the U.S. side.

In the next eight years, Liu expanded PriceSmart by starting membership stores nationwide, and in 2001, he also developed N-Mart to attract non-membership customers. By the end of 2004, he had opened altogether 48 stores in China and the nationwide sales once hit 4 billion yuan a year in its heyday. Liu was doing a good job targeting the wealthy demographic.

"Cars parked outside of PriceSmart were all imported, and those who drove homemade cars to a PriceSmart would be mocked at," said Cheng Keneng, once a member himself.

"In the beginning, PriceSmart followed the rules and regulations docilely and was welcomed in local areas," said Zhao. "When Liu Wuyi found it so easy to tap money by opening more stores, he became crazy about opening new stores and once ordered to open 70 more in three years. However, due to the lack of capital, talent and proper management, PriceSmart's expansion was totally out of control."

In 2004, banks tightened credit for PriceSmart, which put pressure on the company's capital chain. In July 2004, the Changsha PriceSmart was accused by Nanfang Construction Material of owing its company a total of 28.09 million yuan in rent, water and electricity fees. As a result of the lawsuit, the Changsha PriceSmart was forced to close, creating a domino effect. Local

banks and suppliers all urged PriceSmart to pay off its debts. Eventually, because of capital chain problems, all PriceSmart stores were closed by March 2005.

Dangerous pattern

The formerly resplendent private retailing enterprise came to a dead end with about 2 billion yuan in debt.

One question many inquiring minds want to know since the company's downfall is this: What were the company's fundamental problems?

"The root of the PriceSmart crisis is in its dangerous business pattern," said Yang Qian, a professor of management at Beijing Commercial Management Cadre College. Yang stated that PriceSmart manipulated money from banks and suppliers in order to get more market share while its own capital was very limited. Once one link was in trouble, all the dominoes fell.

Yang said that the daily revenue of a 20,000-square-meter PriceSmart or N-Mart store was about 1 million yuan, and Liu could get 60 million in two months. But PriceSmart used to settle accounts with its suppliers only once in a period of more than three months. Then Liu could take the 60 million yuan in accounts payable and open a new store. In this manner, more and more stores were opened. Understandably, the capital chain built on suppliers' money and bank loans was extremely fragile.

Beginning in 2002, PriceSmart was frequently accused of delaying payment. In the middle of 2004, suppliers united to boycott PriceSmart, causing a complete break in its chain.

"From then on, the capital black hole had been revealed," Yang said.

As a matter of fact, it was not just PriceSmart that was running this dangerous



BLUE MAN GROUP: PriceSmart's senior management suffered the consequences of being too eager to expand



NOT SO SMART: Due to illegal money management and expansion, PriceSmart won't be courting any more members like this one

operating pattern. Many retailers are still expanding their business in this way. Chen Ji, a professor at Beijing Technology and Business University, pointed out that U.S. supermarkets attach great importance to credibility and stick to the terms of contracts. There, it is much less possible to delay suppliers' payments.

However, a considerable number of domestic retailers still dream of maintaining business operations and expanding via bank loans and suppliers' money. Once the banks and suppliers withdraw their money, the retailers are hit hard and even collapse. They eventually get themselves in trouble.

The blind worship of foreign brands was another factor in the dangerous operation of PriceSmart.

"Many local areas worship imported brands blindly and the governments are keen on attracting investment to boost GDP," said Zhang Yulin, assistant researcher of the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce. Zhang noted that local governments shouldn't spoil retailers in the name of achieving good performance, increasing employment and taxation.

"The insufficient information disclosure and irresponsible investigation and approval system naturally give rise to over-competition, leading to a disordered market," Zhang said. He noted that PriceSmart's shops took bank loans by guaranteeing one another, which is the least reliable practice and is dangerous.

It was later proved that this kind of guarantee actually offered a convenient way to manipulate capital, leading to a large amount of bad debt in banks. To some degree, banks were also responsible as they didn't have a comprehensive approval and investigation system for debtors. The banks' carelessness essentially helped spoil PriceSmart.

Alarm bells for all

Zhao said from his perspective, the government and business world now should be more aware of the importance of strengthening legislation in the market and preventing retailers from illegally tapping money through unbridled expansion.

"If the legislation and supervision is not strong enough, such cases like PriceSmart will still occur," Zhao said.

Zhao's prayer is now being answered.

On November 15, the Administrative Measures for Fair Transaction Between Retailers and Suppliers was jointly issued by the Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security, and State Administration of Taxation. These measures state that the retailers should pay for goods in less than 60 days.

Huang Hai, assistant to the Minister of Commerce, said that some retailers in China adopt a similar operating pattern as PriceSmart, delaying payment to suppliers for three or four months with the excuse of opening new stores. In this way, the retailers can expand their business rapidly, but also, dangerously.

"In China, there is much more supply than demand, and also due to the lack of restrictive laws, many retailers are integrated to form retailer giants and abuse their market advantages, which gives rise to unfair and unjust transactions," Huang said.

Retailers' default on payment has frequently caused business crises.

"Private retailers generally lack capital; hence they have the inclination to stall payment to suppliers and bank loans to open more shops," said Huang. He pointed out that this operating pattern was dangerous and could easily cause a break in the capital chain. It also offers a convenient way for retailers to run away with the money.

Meanwhile, the newly enacted government measures also have special regulations for foreign enterprises. First, foreign enterprises will be subject to business network investigation if intending to open a business in China.

"Although we remove geographic and quantitative restrictions on shops, we will still carry out an examination and approval system," Huang said. "Foreign enterprises should act in line with the commercial network planning of local governments. If they don't, they are not allowed to open."

Furthermore, according to the Law of the People's Republic of China on Foreign-funded Enterprises and Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture, "If the foreign-funded enterprises are going to open new stores and expand their operating scale, they must increase investment, without which they won't be allowed to open new stores," said Huang.

Zhao said the implementation of the new measures is without doubt good news. However, Zhao also worried that some retailers are simply too aggressive and leave a doubt as to whether the measures can be properly enforced.

Zhao said that before the implementation of the new measures, there were other similar regulations on retailers. However, the enforcement departments didn't punish enough.

"We are unsatisfied with the exploitation of retailers, but because of competition, we suppliers must enter the big shopping centers," Zhao said. "If we lose one big retailer, it means we are going to lose dozens of its networks. It also means we send the market share to our competitors." ■

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京典口腔

Not Just A 2008 Thing

The Olympic Games only span several days, but their economic impacts last years and can be quantified on the level of GDP.

Chen Jian, Secretary General of the Beijing Olympic Economy Research Association (OERA), noted that the Olympic economy essentially lasts nearly a decade, beginning in 2001 when China won the bid for hosting the 2008 Olympic Games and ending three years afterward.

He Zhenliang, Honorary Chairman of the Chinese Olympic Committee and member of the International Olympic Committee (IOC), has the following estimates:

The Olympic Games, on average, will add 1.7 percentage points per year to Beijing's GDP. By 2007, Beijing's GDP is expected to reach 600 billion yuan.

During this decade, the service sector in the city will experience an average growth of 13.7 percent per year, while growth in finance and insurance, tourism and exhibitions, commercial services and logistics is expected to average 10-14 percent. The number of new jobs created will reach 320,000 per year.

Of course, this new Olympic economy is a prime opportunity for investors.

The Pie-Carving Contest Has Begun

By JUMBO ZHANG

Time is ticking by with less than two years remaining before the opening ceremony of the Beijing Olympic Games. Pre-games business activities, however, are already in full swing.

The Beijing 2008 Olympic Games budget is 290 billion yuan, and is primarily being spent on infrastructure. But the Olympic economy means much more than this. The extra demand created by the Beijing Olympic Games across all sectors is expected to total around 600 billion yuan.

Real estate and construction

The real estate industry is one of the big direct beneficiaries of the Olympic economy. Massive public construction projects such as stadiums, transport networks and environmental construction and improvement act as catalysts for the real estate market. The four most recent hosting cities have all seen price hikes in the property sector.

The effect is less noticeable in Atlanta, but post-Olympics market prices in Barcelona, Sydney and Athens are all up more than 50 percent.

The Beijing property sector is currently experiencing a relatively moderate rise in valuations. From January to August, the prices of newly built commercial properties increased by 8.2 percent, while residential rates were up 10.7 percent. But Li Minyi, a professor at the Beijing Technology and Business University, warns against impulse buying in the midst of the Olympics run-up and advises buyers of the possible post-Olympic trough effect that may see property values slide.

Other sectors that are expecting to cash in on the Olympic boom range from hotels and serviced apartments to catering and many other tourism-related ventures. By 2008, it is estimated that Beijing will have 15,000 hotels, of which 800 will be star-rated, with 130,000 available rooms. Budget and theme hotels, as well as home-style hotels located near the Olympic venues, will find extra favor with travelers.

The construction sector is prospering. By 2008, Beijing will have up to seven metro lines plus another line directly servicing the Olympic Park. Businesses dealing in cement, glass and new building materials are set to benefit greatly.



FUWA CRAZE COMING?
Considering the popularity of mascot-related souvenirs in previous Olympics, Beijing's Fuwa will likely see strong sales too

Meanwhile, all facilities and air-conditioning units installed in the Olympic Village will be powered primarily by geothermal heat, and hot water for showers and power for lighting will be supplied through solar and wind energy. Many small businesses will be provided with business opportunities in this market.

Tourist souvenirs: a massive market

Trading in mascots and other franchise items at the Sydney 2000 Olympic Games was valued at \$500 million; sales of the Athens 2004 Olympic mascots—Athena and Phevos—totaled around \$840 million. The sales outlook for the five Fuwa dolls that are the mascots of the Beijing Olympic Games is projected to be no less rosy than that of Athens.

Getting into the Olympic mascot and franchised souvenir business may be difficult for small businesses. But Du Wei, Vice Director of the OERA, advises companies to have a broader vision. In 2008, China will welcome an influx of over 100,000 athletes, officials and tourists, many of whom are likely to journey to the many tourist spots across China and buy local souvenirs along the way.

Cashing in on the Olympic Village and surroundings

The Beijing Olympic Games will also trigger demand worth 43.2 billion yuan in the logistics sector. Delivery of goods directly linked to the Games will account for 491 million yuan, of which tourism as well as retail and catering will represent 141 million yuan and 350 million yuan respectively.



XINHUA FINANCE

Ru Yihong, professor at Beijing Jiaotong University, advises all Beijing businesses in the logistics sector to expand their services to cover all areas, hotels accommodating delegates and officials, the press center and the Olympic Village.

Meanwhile, Vice Secretary General of Beijing Leasing Association Yu Xiaomei believes that leasing services is an ideal sector for small businesses to help address the short- to medium-term need for use of goods during the Games period. The leasing market is valued at more than 20 billion yuan, half the size of logistics market but still substantial.

Specialized leasing opportunities include engineering equipment, broadcasting facilities, vehicle chartering, transportation, sports facilities and parking garages.

Insuring the athletes

The IOC, for the first time, took out "Olympics Cancellation Insurance" worth \$170 million for the Athens 2004 Olympic Games, which covered the risk of games being postponed due to war, terrorism, earthquake or flood. An even greater opportunity, however, lies in personal accident insurance for athletes and visitors. The latter carries a higher chance of profitability.

National regulations rule that the minimum amount of personal accident insurance per traveler, payable by the travel agency, is as follows: 300,000 yuan per overseas traveler; 100,000 per domestic traveler. Travelers from developed countries tend to have a better grasp on the concept of personal insurance, usually choosing personal accident insurance with high compensation. ■

Five Sectors That Need Olympic Help

By JUMBO ZHANG

Small and medium-sized businesses need to learn to seek out a niche market. Where there is demand, there is always a market. But competition is tough and businesses must position themselves correctly to sniff out the right opportunities during the critical pre-Olympic run-up period. Five areas are particularly compelling: technology, food and beverage, construction, hospitality and handicrafts.

Technology

Du Wei of the OERA sees the Olympics as a platform of huge potential for technology companies. Small and medium-sized businesses are advised to pay particular attention to networking, security check technology and anti-forgery technology in terms of tickets and credentials of various kinds.

"Quite a number of technological applications have found practical uses, such as solar-powered vehicles, face recognition technology, environmentally friendly sanitary products and energy-saving air-conditioning, many of which were contributed by high-tech small businesses," Du said.

Food & Beverage

This is certainly a huge market, but a wide variety of tastes need to be taken into

account. Around 270,000 participants and 7 million spectators from 202 countries and regions are forecast to descend on Beijing for the Games, which add up to a lot of meals. "The availability of entertainment and recreational facilities around the Olympic Village, restaurants with a variety of dining choices and international-level sanitation facilities offer an enormous number of business opportunities," said Du.

Construction

Many opportunities are available in the construction sector. The 2008 public bidding for sole suppliers and supporting suppliers for the Olympic Games, held at the Guangzhou Garden Hotel in June this year, revealed a sourcing plan valued at 2 billion yuan. Many of the winners were small and medium-sized businesses in the Pearl River Delta. Demand for items as small as high efficiency bulbs and as large as elevators is huge. Environmentally friendly and green products have a significant edge.

Hospitality

Now is the time to prepare for this sector. Opportunities abound. Service quality and branding can be improved to prepare for full-house occupancy that will send revenues soaring; and there is still a shortage of cheaper budget hotels.

Handicrafts

Experience from past Olympic Games proves that finely crafted souvenirs with strong local character are snapped up by tourists like hotcakes. There is likely to be a big market for items such as Hangzhou silks, Yunnan tapestries and miniature stadium models.

"It's not necessary to get the qualification to produce Olympic souvenirs," Du said. "As long as your products are of good aesthetic quality, embody an essence of traditional folk art, and are finely crafted and reasonably priced, you stand to have a good market."

Wang Huamin, Deputy Director of the Beijing Industrial Olympic Economic Action Steering Committee, urges investors to widen their vision. "Articles carrying any connection to the Olympics and Olympic venues will be recognized as Olympic souvenirs," he said. "Businesses may by all means play the Olympic card!" ■

(Xinhua Finance)

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Legal-Ease

Doing Business in China

By CHRIS DEVONSHIRE-ELLIS

Important tax issues that are commonly misjudged

VAT treatment

There is still one commonly held misconception about the “VAT Exemption on Exports.” If the refund rate is lower than the levy rate, the company must bear the additional VAT cost on exportation. The VAT cost is calculated as follows:

Manufacturing company:

VAT cost = (export cost - free duty imported raw material cost) x (levy rate - refund rate)

Trading company:

VAT cost = cost of local purchased raw material x (levy rate - refund rate)

Generally speaking, the levy rate is 17 percent, while the refund rate is 13 percent.

Customs deposit on imported raw materials to be subsequently exported

We often hear the misconceived statement: “There is no VAT and customs duty levied on imported raw materials used for manufacturing goods locally if they are then finally exported 100 percent.” It is incorrect. Actually, newly established foreign-invested enterprises (FIEs) must still make a tax deposit to the customs for VAT (at around 17 percent) and remit duty on the initial importation, for a period of time of generally six months. Many new businesses do not budget for this as initial working capital to be contributed as part of registered capital, leaving them short of operating cash later on.

Enhanced profits repatriation—reducing profits taxes in your business

This is a tax issue, and applies to all FIEs that sell services or products in China. If no structural changes are made to your FIE articles, you will spend 4-13 percent of your total turnover on profits tax payments. FIEs, as mentioned earlier, are not just simple licensing applications, and if you treat them as such, you will end up with an inefficient business.

Enhancing your China profitability by reducing your profits tax burden is essentially a matter of introducing into the business a series of allowable service contracts between the FIE and its parent company back home. These services can include:

- Management expertise;
- Royalties such as for trademark and patent use;
- Interest and administration on loans made to the FIE; and
- Other services as required.

These services rendered to the China FIE generally attract a withholding tax rate of 10 percent if based in a free trade or similar zone and 20 percent if based elsewhere in China. This means, for an invoice of \$1,000 sent to the China entity by the parent, the China entity will have to deduct and pay to the local tax bureau either \$100 or \$200, depending upon their locale, and remit back home the balance, being either \$900 or \$800 respectively.

However, this compares favorably against the profits taxman at the year-end. If the money is left in the company, the profits taxman will levy rates of 15 percent (if in a free trade zone), 24 percent (if in a municipality) and 33 percent if elsewhere (tax holidays excepted). That means payments in profits tax of \$150 if in a free trade zone, or \$240 if in a municipality or \$330 if elsewhere, obviously being less competitive in tax treatment.

Accordingly, to take advantage of this, an enhanced profits repatriation structure needs to be built into the FIE articles and inserted (they do not appear in normal drafts), and a series of contracts need to be agreed between the parent and the FIE and registered with the tax authorities in China for assessment.

Establishing a local company by using local staff's name

Some foreign investors don't wish to go through the required FIE registration process to set up their operations, for reasons such as having to part with higher amounts of registered capital, or that certain industry sectors restrict foreign investment. However, a local company under local staff's names is not your company, even if foreign investors funded the capital of the local company. If there is any dispute with such staff, the foreign investors in it will have no legal mechanism to protect their assets.

Additionally, domestic companies, even if indirectly invested by foreigners, have no rights to transfer profits overseas, as the money is earned by a local company and is subject to local taxes and regulations restricting the movement of such companies' money out of China. ■

This is the sixth and last in a series of articles where we identify some of the common mistakes made when making an investment in China

Chris Devonshire-Ellis is the Senior Partner of Dezan Shira & Associates - www.dezshira.com

AIRLINE INFORMATION



Finnair Doubles Number of Flights on Its Tokyo Service

From the beginning of December, Finnair has increased the number of return flights between Tokyo and Helsinki to four from the previous two. Airbus A340-300 aircraft are used on the route.

"Obtaining additional flights is a real achievement, which we have long awaited. It is also fantastic news for our customers. Our increased capacity to Japan will promote the development of good economic relations between Finland and Japan, and boost tourism and cultural exchanges between the countries," said Finnair's Senior Vice President Commercial Division Mika Perho.

The flights operate from Helsinki to Tokyo on Tuesday, Thursday, Saturday and Sunday, and from Tokyo to Helsinki on Monday, Wednesday, Friday and Sunday.

Star Alliance Launches New Service

Star Alliance is committed to offering new products and services to make global travel more convenient and flexible.

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Given this, Star Alliance has devised a truly global travel solution—Corporate Plus. The program is sure to help our corporate clients save time and money when arranging business tours.



Qatar Airways Opens World's First Premium Terminal

Qatar Airways has opened the world's only dedicated first- and business-class terminal at Doha International Airport.

The new premium terminal opened to passengers on November 26, a week before the start of the 15th Asian Games in Doha. Qatar Airways is the official airline and prestige partner of what promises to be the biggest and best ever event in Asian Games' history.

Chairman of Qatar's Civil Aviation Authority Abdul Aziz Al Nuaimi joined Qatar Airways Chief Executive Officer Akbar Al Baker, local dignitaries, airport officials, travel agents, tour operators, corporations and media for the official ribbon-cutting ceremony of the premium terminal and had a full tour of the facility.



Lufthansa Wins Awards

Lufthansa German Airlines has won the awards of Best European Airline Serving China and Best Airline for First Class from Business Traveler China. A recent awards ceremony in Shanghai highlighted customers' recognition of Lufthansa's quality service, which reinforces Lufthansa's position as the leading European airline in the China market.

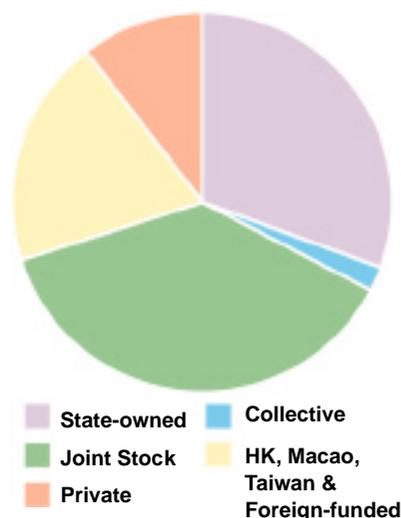
Lufthansa offers up to 52 weekly nonstop flights from and to China. Among European airlines, it is the market leader in flights serving China and Europe, with a share of 14 percent of the total seat capacity. Via code-share agreements with Air China and Shanghai Airlines, Lufthansa can offer flights to 14 destinations across China.

State of the Market

Industrial Profits

From January to October, the total volume of profits made by all state-owned enterprises as well as non-state enterprises with annual sales revenue exceeding 5 million yuan (industrial enterprises above designated size) stood at 1.47 trillion yuan, surging 30.1 percent compared with the same period last year, said the National Bureau of Statistics (NBS) (see graphs 1 and 2).

Graph 1: Industrial Profits, Jan.-Oct. (bn yuan)



above designated size reached 24.7 trillion yuan, up 26.1 percent over the year-earlier period. Among this total, the amount earned by state-owned and state-holding enterprises hit 8.1 trillion yuan, up 20.3 percent from a year ago.

By the end of October, stockpiles of finished products of all state-owned enterprises as well as non-state enterprises with annual sales revenue of more than 5 million yuan were valued at 1.46 trillion yuan, a rise of 17.3 percent compared with the same period last year. Of the total, those of state-owned and state-holding enterprises accounted for 396.5 billion yuan, up 12.9 percent from a year ago. The overdue receivables in industrial enterprises above designated size stood at 3.23 trillion yuan, up 20.1 percent over the year-earlier period. Of this total, state-owned and state-holding enterprises had a share of 802.1 billion yuan, up 9.2 percent year on year.

FDI

In the first 10 months, the Chinese Government approved the establishment of 33,068 foreign-invested enterprises, a decline of 6.32 percent compared with the same period last year, according to the Ministry of Commerce (MOFCOM). The paid-in capital inched up 0.34 per-

cent in China were Hong Kong, the British Virgin Islands, Japan, South Korea, the United States, Singapore, Taiwan, Germany, the Cayman Islands and Samoa. Investment from these countries and regions accounted for 83.96 percent of the total overseas investment that China attracted in the first 10 months.

Accommodation and Catering

From January to October, retail sales of the accommodation and catering industry reached 845.8 billion yuan, an increase of 117.71 billion yuan over the same period last year, said the MOFCOM (see graph 3). The sector's retail sales accounted for 13.6 percent of the nation's total retail sales of consumer goods, contributing 2.2 percentage points to the overall growth of retail sales of consumer goods. The industry's year-on-year sales growth, 16.2 percent, was 2.6 percentage points higher than the overall growth of retail sales of consumer goods.

In October alone, retail sales of the industry were 96.5 billion yuan, up 17.9 percent over a year ago. The year-on-year increase of the industry was 3.6 percentage points higher than the overall growth of the total retail sales of consumer goods during this month.

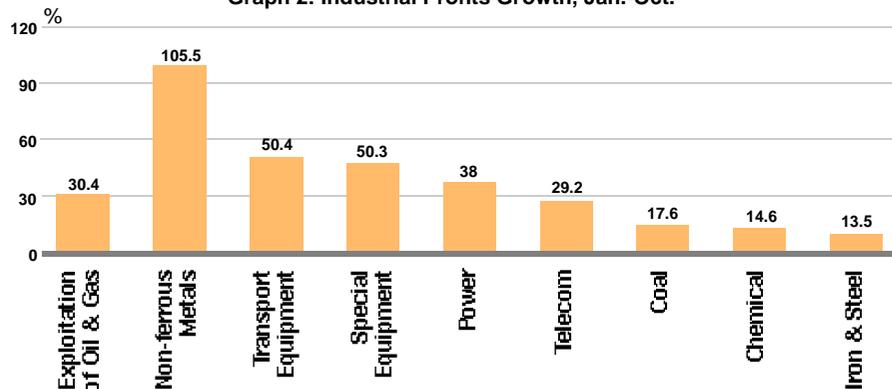
In the first 10 months, the sector saw the approval of 879 foreign-funded enterprises, a drop of 7.2 percent compared with the year-earlier period. The commitment and paid-in capital stood at \$2.29 billion and \$620 million, up 10.4 percent and 36.4 percent, respectively, year on year.

Technology Introduction

According to statistics released by the MOFCOM, in total, China signed 8,692 contracts of technology introduction in the first 10 months, with a total value of \$18.74 billion, shooting up 37.1 percent year on year. Among this total, technology fees arrived at \$12.29 billion, accounting for 65.6 percent of the total contractual value.

From January to October, the transaction value of exclusive technology license contracts was \$5.97 billion, up 57.9 percent over the year-earlier period and accounting for 31.8 percent of the total contractual value of technology introduction. The value of technological consultation and services, as well as joint ventures and cooperative production involving technology introduction,

Graph 2: Industrial Profits Growth, Jan.-Oct.



During the January-October period, taxes paid by industrial enterprises above designated size totaled 1.09 trillion yuan, growing 23.1 percent year on year. Of the total, state-owned and state-holding enterprises contributed 607.2 billion yuan, up 18.9 percent over a year ago.

In the first 10 months, the sales revenue generated by industrial enterprises

cent to \$48.58 billion.

In October alone, 3,047 foreign-invested enterprises were approved for establishment, dropping 0.97 percent year on year. The paid-in capital stood at \$5.99 billion, a year-on-year increase of 15.92 percent.

From January to October, the 10 countries and regions that invested the

Graph3: Accommodation & Catering, Jan.-Oct.



stood at \$4.24 billion and \$3.77 billion respectively, accounting for 22.7 percent and 20.1 percent of the total value of technology introduction contracts.

The European Union (EU) was the biggest source of China's technology imports in the first 10 months. China and the EU signed 2,124 contracts of technology introduction valued at \$7.78 billion, 25.4 percent higher than the figure in the same period last year and accounting for 41.5 percent of the total contractual value of technology introduction. Japan and the United States ranked second and third, with respective contractual values with China arriving at \$4.57 billion and \$3.12 billion and accounting for 24.4 percent and 16.6 percent of China's total technology introduction.

Through January and October, the total value of technology introduction by state-owned enterprises amounted to \$8.19 billion, surging 39.6 percent compared with the same period last year and accounting for 43.7 percent of the country's total. At the same time, foreign-invested enterprises introduced \$9.2 billion worth of technologies, accounting for 49.1 percent of the total value of technology introduction.

The railway transportation sector saw the biggest increase in technology introduction. In the first 10 months, the sector imported \$3.98 billion worth of technology, 3.6 times the figure a year ago. During this period, technology introduction in electronic and telecommunications equipment manufacturing as well as transport equipment manu-

facturing amounted to \$3.7 billion and \$1.6 billion respectively, accounting for 19.8 percent and 8.5 percent of the country's total value of technology introduction.

Corn

China's corn exports stood at 2.27 million tons in the first three quarters of this year, down 68.3 percent year on year, while imports hit 60,000 tons, 43 times the figure a year ago, according to statistics from MOFCOM.

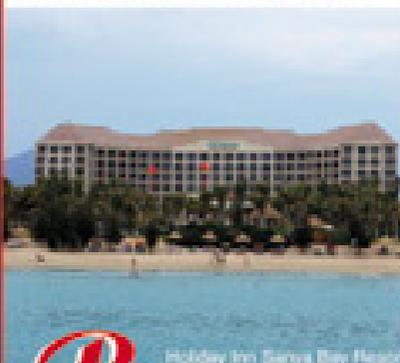
Boosted by rising oil prices, many grain enterprises have built processing facilities in China's major corn producing provinces to reduce production costs. The growing processing capability will drive domestic demand even higher and is likely to turn China into a net corn importer in the coming years, industrial insiders said.

"We believe that China will become a net importer of corn in a few years," said an anonymous MOFCOM official. But he did not expect the change to happen in 2007 because China's corn supply still exceeds demand.

Over 25 million tons of corn was used in deep processing last year in China, compared with 13.8 million tons in 2004. The figure jumped to 15.6 million tons in the first half of this year.

China is now the third largest fuel ethanol producer after Brazil and the United States. Production of fuel ethanol and corn alcohol consumed 8.9 million tons of corn in China last year, accounting for 44.5 percent of industrial consumption of corn. ■

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Golden Coast Hot Spring Hotel

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Should Government Relief Recipients Be Kept From Owning ‘Luxuries?’

In October, the Civil Affairs Administration of Jinan, capital of east China's Shandong Province, issued certain measures related to the subsistence allowance for urban poor, with a provision saying that the financial help would be halted once recipients were found to be purchasing items like cellphones, computers and digital cameras.

This announcement stirred heated debates, with opponents arguing that the purchase of computers and cellphones is a personal right, especially when these commodities are no longer treated as luxuries nowadays, and it's a governmental obligation to help the poor as society is partly responsible for people's poverty.

Actually, around China, many local governments have already implemented similar measures. The Longtan Subdistrict in Beijing, for example, began to carry out strict procedures to assess people's eligibility for government relief. According to relevant regulations, families that purchase and use cars, motorbikes, large screen color TV sets, cellphones and computers have no right to any allowance.

The rationale is to prevent ineligible families from getting access to the limited allotment, as families really dependent on the allowance could never afford cellphones and computers, local officials said.

Not discrimination

Ye Lei (Beijing Youth Daily): As we all know, no right is given without some restrictions attached. In the case of the urban subsistence allowance, it's the government's obligation to help the poor out of poverty, but the subsistence allowance is designed for those really in need of help, so that they can avoid the fate of becoming homeless or starving. When issuing the new policy, the Jinan Civil Affairs Administration announced that special working teams would visit communities where applicant families are located to check whether they are eligible. Any suspicious circumstances will be carefully checked. In the meantime, there is also flexibility regarding specific conditions. If the measure is strictly implemented, the subsistence allowance will surely work in the most effective way.

It's wrong to point a finger at Jinan's new policy. Also it seems that there remain

many misunderstandings about this policy. Therefore, good policies must be explained explicitly to the public in order for them to be better accepted and implemented in the whole of society.

Ye Zhuyi (www.xinhuanet.com): Nowadays, when the overall living standard is going up, computers and cellphones seem to be commodities that every family can afford, including low-income families, so the restrictions attached to Jinan's new policy seem really tough. Nevertheless, we must admit the fact that cellphones and, even more particularly, computers, demand certain economic foundations. Not only subsistence allowance receivers cannot afford them, but average families often find these commodities expensive. Take computers for example. Apart from the several thousand yuan expense on a regular one, fees for Internet access are considerable. But, the subsistence allowance is only 200 yuan every month in Jinan. Hence, families really in desperate need of subsistence allowance can hardly afford these "luxuries." Thus, the restrictive conditions attached to the new policy are not groundless.

As China's social security system is in the initial stage, with quite limited financial support, so the focus should be on people's basic living demands, such as food and clothing, and expensive non-essentials should not be covered. At the same time, as for eligibility to the subsistence allowance, there are rigid require-

ments as well as calculation criteria regarding a family's income and expenditures. Restrictive policies on the subsistence allowance are not a practice of discrimination but are a means of ensuring the money is used for those who need it most and to provide more poor families with the basic necessities of life.

Mu Qiao (hlj.rednet.cn): To judge whether an allowance recipient is engaged in high consumption when using cellphones and computers, we must compare these people with those who are seeking basic living security, rather than those living above the average level or even leading a rich life. The nature of the subsistence allowance is to help create the most basic living security, and its function is to provide those in need with basic living materials like food and clothing.

It's true that China is now home to a large number of cellphone and computer users, but the possession of these commodities is still based on people's revenues. In rich families, maybe children have several cellphones, but for low-income families, cellphones and computers are still a dream.

Some may argue that subsistence allowance applicants may need computers and cellphones to make money or look for jobs, so restrictions deprive them of opportunities to struggle for a richer life. However, in real life, cellphone users are

either the "elites" or "fashion-chasers." How many of them are from low-income families?

Limited financial resources

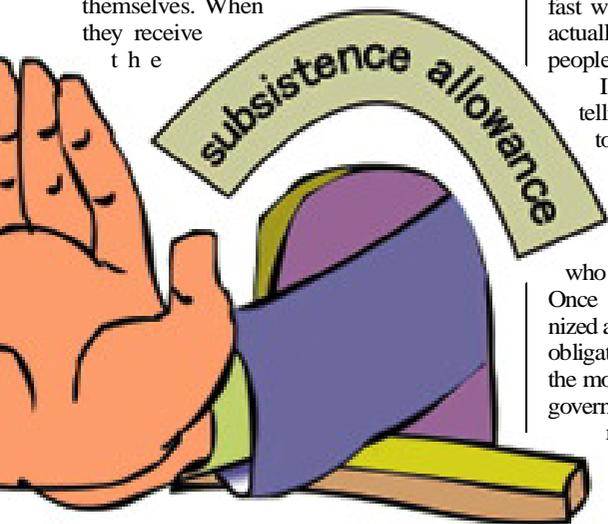


should be used where they are most needed and those who can afford top-grade commodities have no right to the subsistence allowance. There is nothing wrong in this logic.

Yuan Lei (Shenzhen Economic Daily): One of the reasons why it's so difficult to decide the eligibility for the subsistence allowance is that China has so far failed to establish a well-developed wealth-reporting system and taxation system. As a result, the government is unable to have an overall, clear knowledge of citizens' financial status. It is in this condition that cellphones, computers and similar measurable things are used as criteria to decide whether a family is eligible for government relief, with a view to preventing ineligible applicants from sharing the limited financial resources. In this sense, the government has no other choice.

A subsistence allowance system can be seen in almost every country, but there exist differences in what commodities recipients can enjoy and what they are supposed not to seek or possess. In some Western countries, maybe it's common for allowance recipients to have a car. However, despite all kinds of differences in material conditions, restrictions on the eligibility for state relief are a conventional practice.

At its initial stage, China's subsistence allowance system still has many deficiencies, and so applicants are expected to apply for the allowance only when they cannot manage to survive by themselves. When they receive



allowance, there must be some adjustment in their lifestyle or even sacrifice of some possible enjoyments.

Recipients' interests outweighing

Xu Guangmu (www.gmw.cn): The original intention of adopting the new policy by the Jinan Civil Affairs Administration is understandable, as it often happens that claimants fake evidence in order to get the

allowance and some even turn up to claim the money in their cars. As a result, not only is the special fund working ineffectively for those who really need help, but the government's credibility is also impaired and the country's wealth wasted.

However, restrictions on the eligibility for the subsistence allowance should not go too far. Indeed, it's improper to offer financial help to those who can afford a car; but it seems to be going too far to cut off relief to families that have second-hand cellphones and used computers. In fact, if we take this line of argument to its logical conclusion, then those who possess homes are ineligible for the subsistence allowance either, as they could seek to escape from poverty by selling the houses or renting them out.

In my opinion, cellphones, computers and digital cameras are currently necessities for the poor to shake off poverty and improve their lives rather than top grade commodities. While information technology is developing fast with each passing day, these items are actually tools for survival, as they may help people to improve their living standards.

In fact, the Jinan policy seems to be telling people that, since you have chosen to apply for the subsistence allowance, you have to live a poor life!

Zhang Ruidong (www.nen.com.cn): The subsistence allowance is part of social relief offered to those who live below the basic living standard. Once people's living conditions are recognized as in need of relief, it's the government's obligation to provide aid. How recipients use the money is their own business in which the government has no right to interfere despite its role as the provider of the relief.

Since receiving subsistence allowance is the poor people's right, and to use computers is a personal freedom, there is nothing wrong for relief recipients to buy cellphones and computers, and this right should not be restricted on any excuse. Once civil affairs departments recognize a certain family deserves help, it should provide allowance for this family. If any doubts exist about eligibility, a double check should be carried out in accordance with state criteria. But, "computers and cellphones" should not be used as an excuse for depriving

people of the right to relief.

Na Xiaofang (www.southcn.com): As basic tools in modern society, cellphones and computers should be accessible to everyone,

including the poor who live on the subsistence allowance. The government should never impose restrictions in this regard. Otherwise, it's quite possible that when the poor have shaken off poverty, they'll have to learn how to catch up with the pace of modern civilization. When they are denied the right to enjoy modern civilization, they have to live outside it. In Europe, a piano is considered a necessity in many families. If this also applied to China, families would no longer be able to keep a piano in case they needed to apply for the subsistence allowance. The

most important thing is to ensure a certain group can keep up with the pace of modern life, and not focus on how much the government should pay for this purpose. It should also be pointed out that, if people fall behind the pace of modern civilization, the society has to pay more for the efforts to bring them up to scratch.

The subsistence allowance should ensure people the basic right of survival and also the right to keep pace with social progress. Currently, the focus is on the right to survival while other rights are sometimes overlooked. When the state is actually able to offer relief, it must try to ensure the poor receive all their rights. No one wants to see the poor feeling puzzled when they one day face computers and cellphones. If the subsistence allowance can't prevent them from being abandoned by society, what's its value?

Liu Yu (www.jschina.com.cn): Nowadays, cellphones are no longer expensive commodities. In addition, they are very helpful to reduce communication costs, which are of great significance to people on a tight budget. While the rich make long-distance calls lasting hours, the poor can use text messages that are much cheaper.

Actually, as long as there is some limitation on usage, it does not matter whether the allowance recipients use cellphones or fixed-line telephones. This is the same with computers. If they are cheap used ones or given by friends, why can't these things be used? ■

Dear Readers,

"Forum" is a column that provides a space for varying perspectives on contemporary Chinese society. In each issue, "Forum" will announce the topic for an upcoming issue. We invite you to submit personal viewpoints (in either English or Chinese).

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Editor: Pan Xiaoqiao

Pinning My Hopes on Needles

CHINESE TREATMENT: Acupuncture is a magic healer of physical injury, especially to many foreigners first coming to China



By DOROTHY TECKLENBURG

When I entered the acupuncture clinic at the Jintai Traditional Chinese Medicine Hospital in Beijing, the doorway was partially blocked by a woman sitting with her chin in a sling. I stepped over her legs, then squeezed past another woman with needles sticking out of her chin and cheeks. She looked bored. This was a good sign; at least she wasn't in any pain.

Pain, that's the key word. I was already in pain; my knee was swollen the size of a medium cantaloupe. I had twisted it doing a spinning kick combination in kungfu class. In the morning, when I could not bend my knee enough to walk downstairs, acupuncture sounded like a good idea.

Acupuncture is based on the 4,000-year-old theory that there are channels of energy running through our bodies. If a channel is blocked, pain or disease ensues. Unblock the channel and the body can heal itself. It sounded less painful than knee surgery.

Fifty-ish, slightly graying, distinguished, Dr. Zhao's air of professionalism and his white coat would mark him as a medical man in any culture. He didn't speak English, but he didn't need it to poke, prod and nod. He

did something I didn't expect in a traditional Chinese clinic: He sent me upstairs for Western-style X-rays. But first, he sent me to the cashier.

This is China, pay as you go, cash in advance, no medical insurance or credit cards. As I limped down the hall, past the pungent smells emanating from the herbal pharmacy, I hoped I had enough money.

The cashier said "40." Not believing this, I asked, "400?" She shook her head and I said "4,000?" She wrote "40" and passed it to me. It wasn't a joke; X-rays of my knee cost 40 yuan.

After the doctor read the films, he sent me back to the cashier (back over that woman's legs!) to pay for five acupuncture treatments for less than I would spend on a good haircut. The cashier apologized for the high price, but explained that my doctor is famous.

When I returned, the woman in the sling was gone, but this time I slid past a man on a stool with needles sticking out of his chest. I hopped up on a table and rolled up my pant leg. Earlier I noticed they did not change the linens between patients, so I relaxed when Dr. Zhao pulled the needles from sterile packaging. The needles, around four inches long, looked like thin silver filaments with a slight-

ly thicker section at the top where the doctor handled it.

At the moment of truth, I held my breath and prepared to feel pain. He picked up a needle and eased it into the skin above my kneecap, twirling it as it slid in. It didn't hurt. He twirled in two more, triangulating them around the kneecap. Those three needles went in with that slight pinch nurses always lie about when they give you a painful injection. But when he twirled a fourth one into the injury's ground zero point, my kneecap turned to molten lava. The sensation of intense, melting heat only lasted for an instant; after that I was aware of the needles but they didn't hurt.

He left me alone. Nothing at first, but then spurts of energy seemed to break loose in my leg. It felt like mice were hatching from little eggs then scampering up and down my thigh. And then nothing for another 10 minutes; I almost fell asleep.

The doctor returned and pulled out the needles (painless!) and I relaxed. Acupuncture doesn't hurt! I could go home! But wait, what was he doing? He grasped my leg and without warning, drove his thumbs directly into the most painful spot on the inside of my knee. I gasped and said in Chinese "Very painful!" and he just nodded. Why should I be surprised? They think sticking needles into an injury is a good idea. Why not pummel it further?

He used his hands like hatchets, chopping all around. You know that place where the doctor hits you with a little hammer to test reflexes? He hit that again and again with his fist. You don't think that hurts? Get someone to pound yours two dozen times.

I limped out; certain this had been no miracle cure. I could still feel mice partying around my knee, which felt like it weighed 15 pounds. Was it my imagination, or was it feeling... better? How could I test it? The stairs! I walked up, turned around, and walked down. Whereas that morning I could not walk down stairs, now I could. My knee bent freely.

I've been back three times, and each time, the needles did not hurt but the massage was brutal. I have to admit it, each time my knee got a little better. Let's see, will I get surgery and a six-month recovery process, or put up with the mice for a few more weeks? It's a no-brainer. I'm sold on traditional Chinese medicine. ■

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