

BEIJING REVIEW

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ON THE LOOKOUT

All eyes on the market-based renminbi



RMB6.00
USD1.70
AUD3.00
GBP1.20
CAD2.60
CHF2.60
JPY188

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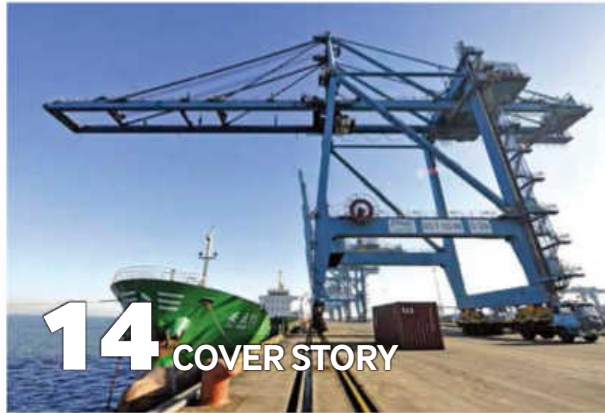
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EDITOR'S DESK

A Devalued Yuan Constitutes No Concern

The continued devaluation of the renminbi (yuan), China's legal tender, has sparked concerns both in China and abroad. The depreciation trend that started in August 2015 hasn't shown any signs of reversing, but as a matter of fact, the depreciation of the yuan is an inevitable outcome of its internationalization.

China is moving to turn the yuan into a global currency. For this purpose, the currency has to adopt a market-oriented exchange rate regime in the first place.

The reform of the yuan's exchange rate regime has been carried out prudently in order to ensure the stability of the Chinese economy. China didn't formally kick off the reform until 2005. Moreover, it might have unfolded more steadily without the 2008 global financial crisis, which interrupted the process.

On August 11, 2015, the People's Bank of China, the country's central bank, restarted the reform of the yuan's exchange rate regime 10 years after the first attempt was initiated, and announced the adjustment of the formation mechanism of the yuan's central parity rate. The central parity rate of the yuan against the U.S. dollar dropped by 2 percent that day, the largest margin of decline in history. Since then, the yuan has devalued continuously, contracting by 7 percent in five months

from a central parity rate of 6.1162 against the greenback on August 10 last year to 6.5720 on January 12.

The depreciation has been caused by multiple factors. First, it is a direct result of the appreciation of the U.S. dollar. In fact, the yuan has been showing a tendency for devaluation since the beginning of 2014 amid market expectations of a stronger dollar. Second, the pessimistic forecast of the Chinese economy due to its recent slowdown has also affected the value of the yuan.

Moreover, China had promised to make the yuan freely convertible when the currency was added to the Special Drawing Rights basket of the International Monetary Fund in November 2015. This increases the supply of the yuan in the international market and thereby causes the currency to devalue.

Finally, the reform of the yuan's exchange rate regime put in place by China's central bank last August has resulted in larger margins of fluctuation. As a result, the value of the yuan has shrunk sharply under downward economic pressure.

As long as the yuan's exchange rate is decided by the market, the depreciation or appreciation of the currency is both understandable. ■

WRITE TO US



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Please provide your name and address along with your submissions. Submissions may be edited.

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JAPAN.....JPY118 EUROPE.....EURO1.90 TURKEY.....YTL5.00 HK.....HKD9.30 NEPAL.....RS40

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WELL READ

Chinese and Indian representatives jointly launch China's "guest of honor" events during the New Delhi World Book Fair on January 9.

Some 250 Chinese delegates, including publishers and authors, participated in the nine-day fair. Around 5,000 titles of Chinese books, print and electronic editions alike, were showcased.



Disney in Shanghai

Shanghai Disney Resort will officially welcome its first batch of guests on June 16, the Walt Disney Company and Shanghai Shendi Group announced on January 13.

As the sixth of its kind worldwide, the Shanghai Disney Resort will feature attractions unseen in five other Disney resorts worldwide, including ones based on Marvel comics and *Star Wars*, and others inspired by Chinese culture.

telecom service providers will try to commercialize the 5G technology in the following two years.

“China has made progress in the research of some key areas regarding 5G technology,” said MIIT chief engineer Zhang Feng.

China currently has more than 905 million mobile Internet users and about 380 million are 4G users.

Easier Entry

The Ministry of Public Security (MPS) announced on January 12 that it will ease requirements for foreign professionals entering and exiting Beijing and will provide favorable terms to such foreigners who seek to acquire permanent residence in China.

The MPS will run the pilot program in Beijing’s Zhongguancun Science Park, providing foreign professionals with conveniences such as special offices for permanent residence examination and approval, streamlined approval procedures and more favorable terms for foreigners with doctorate degrees to obtain a Chinese green card.

The new regulations will also allow short-term internships for foreign students in Beijing and will permit them to run their own start-ups in Zhongguancun.

Foreign talents in technology and senior management are also encouraged to join companies in China’s creative industries and to file applications for permanent residence, the MPS said, adding that the new regulations, scheduled to take effect on March 1, aim to promote Beijing’s environment for innovation and startups.

The Warmest Year

China had the warmest year on record in 2015, partly due to a powerful El Niño, the China Meteorological Administration (CMA) said on January 12.

China’s average temperature was 10.5 degrees Celsius, 0.95 degree higher than the average historical level since the country

Military HQ Reshuffle

China has reorganized its four military headquarters—staff, politics, logistics and armaments—into 15 new agencies under the Central Military Commission (CMC) of the Communist Party of China Central Committee.

The new structure includes three commissions—discipline inspection; politics and law; and science and technology—as well as the general office and five more: administration, auditing, international cooperation, reform and organizational structure, and strategic planning. There are six new departments: joint staff, political work, logistical support, equipment development, training, and national defense.

Chinese President Xi Jinping, also Chairman of the CMC, met with the new chiefs of each agency on January 11, when he described the reshuffle as a breakthrough and

called the new leadership system a crucial step toward a stronger military.

Following the three principles of the absolute authority of the CMC, with battle zone commands focused on combat and each branch of the military service pursuing its own ends, the new structure will better advise and serve the CMC while enforcing CMC orders.

Natural Disasters

A total of 819 people died in natural disasters across China in 2015, according to a report by the Ministry of Civil Affairs and the National Commission for Disaster Reduction published on January 11.

According to the report, as many as 186 million people were affected by natural disasters that caused a direct economic loss of 270 billion yuan (\$41.2 billion) over the year. More than 6.4 million people

were evacuated.

Among the disasters, 14 earthquakes were over magnitude 5. Damage and direct economic losses in Xinjiang Uygur and Tibet autonomous regions accounted for over 60 percent of the national total.

Compared to 2014, 2015 saw fewer natural disasters, with less serious losses.

The 5G Era

The Chinese Ministry of Industry and Information Technology (MIIT) began to research and test 5G technology on January 7 with the aim of commercializing it by 2020.

“The purpose of the research and test is to support the formulation of global 5G standards and boost the development of the telecom industry,” said Cao Shumin, head of a 5G R&D team under the MIIT.

Research and test work will be completed by 2018 and domestic

started to keep records in 1951, according to a CMA report.

All of the country's 31 provincial-level regions had a warmer-than-average year in 2015, and 10 of them saw the warmest year on record.

Affected in part by a strong El Nino, 2015 was also the warmest year globally in the last 135 years, according to Chao Qingchen, Vice Director of the National Climate Center.

China received an average of 648.8 millimeters of rainfall last year, up 3 percent from the historical level.

"Generally speaking, China's climate was normal in 2015 without severe floods or droughts," said Chao.

Quality Labor Force

China will have an abundant labor force for decades to come, though its overall quality needs to be improved, said a senior official with the National Health and Family Planning Commission (NHFPC) on January 11.

Wang Peian, deputy head of the NHFPC, said at a press conference that in 2015 China had a labor force of 1 billion, which is expected to slip slightly to 958 million in 2030. According to the official, the labor force is estimated to be at around 827 million for 2050.

Therefore, the challenge for the nation in the next few decades lies not in the size of the labor force but in its quality, Wang said.

Precision Medicine

The Chinese Academy of Sciences (CAS) announced on January 9 its precision medicine research plan targeting Chinese people. Precision medicine is a medical model for high-efficiency, low-cost prevention and treatment of diseases tailored to individual patients based on their genetic content.

Headed by the Beijing Institute of Genomics under the CAS, a cross-disciplinary team consisting of researchers from multiple institutes will spend four years collecting genetic information from 4,000 volunteers.

Comprehensive research will target 2,000 of those volunteers, involving whole genome sequence analysis, building genome sequence health profiles, and early warning and intervention research for the risks and drug reactions concerning the genetic factors in key chronic diseases.

"Human genome sequence studies brought new concepts for the treatment of complicated diseases such as cancer, metabolic diseases, and cardiovascular and cerebrovascular diseases," said Zeng Changqing, the program's chief scientist.

Collection of the genetic information of the first group of volunteers is under way.

Air to Tibet

Tibet Autonomous Region in southwest China saw a record 3.63 million air passengers in 2015, up



Help Hotline

Middle school students learn to wear blast-resistant helmets on the 30th 110 Publicity Day in north China's Tianjin on January 10. People in China call 110 for police help.

The hotline received over 21 million reports last year and coordinated police assistance to 27.7 million people, according to the police report.

15.2 percent from the previous year, regional civil aviation statistics show.

The plateau region opened 13 new air routes in 2015, bringing its operating routes to 63. The number of cities linked to Tibet via air rose by seven to reach 40.

Five airports in Tibet handled more than 36,000 landings and takeoffs and cargo throughput of 29,000 tons in 2015, an increase of 16.8 percent and 16.3 percent year-on-year, respectively.

Tibet's civil aviation industry has been growing rapidly, with a total investment of more than 3 billion

yuan (\$457 million), becoming an important driver for the regional economy.

During the 13th Five-Year (2016-20) period, Tibet will develop air express routes between the regional capital Lhasa and Chengdu, capital of neighboring Sichuan Province, and will open more air routes to other domestic cities, according to a regional civil aviation official.

Tibet will also encourage airline companies to open routes between Lhasa and Southeast and South Asian countries, said the official.



New Framework

UN resident coordinator Alain Noudehou (right) and China's vice minister of Commerce Wang Shouwen show the new UN Development Assistance Framework for China 2016-20 during the launch ceremony in Beijing on January 12.

The UN unveiled the framework that day, which represents a renewed commitment to continuing the strong partnership between China and the world body.

Inflation Indexes

China's consumer prices grew 1.4 percent in 2015 from one year earlier, below the government's 3-percent cap set for the year, according to data released by National Bureau of Statistics (NBS) on January 9.

The growth in the consumer price index (CPI), the main gauge of inflation, was also below the 2-percent increase registered in 2014.

China's producer prices continued to drop in 2015, indicating high deflationary pressure on the economy.

The producer price index (PPI), a measure of costs for goods at the

factory gate, dropped 5.2 percent in 2015, widening from a 1.9-percent slip registered in 2014, according to the NBS.

The NBS attributed the PPI decline mainly to price drops in oil and natural gas exploitation, ferrous metal smelting, coal mining and gas fuel supply.

Forex Market

China's central bank has allowed more overseas central banks and similar institutions to enter the country's interbank foreign exchange market on January 12.

Seven such institutions completed their registration with the

China Foreign Exchange Trading System, which signaled their official access to the Chinese forex market, the People's Bank of China said on its website.

The move brought the total number of central banks and similar institutions on the market to 14 and will steadily help to promote the openness of the market.

China first opened its interbank forex market to foreign central banks (monetary authorities), international financial institutions and sovereign wealth funds in November 2015, when seven overseas institutions were allowed to enter the market.

They will be allowed to conduct renminbi and foreign exchange

trading of one or more traded forex products, including spots, forwards, swaps and options.

Foreign Trade

Last year, the country's foreign trade decreased 8 percent to \$3.96 trillion, according to data published by the General Administration of Customs (GAC) on January 13.

Exports fell 2.8 percent to \$2.28 trillion in 2015, while imports declined 14.1 percent to \$1.68 trillion last year.

"The double decrease in import and export is due to the global economic slowdown," said GAC spokesman Huang Songping.

The import slump was largely caused by a drop in the price of commodities as well as weakening demand, Huang added.

"China still faces challenges in terms of trade. Its exports will face tremendous pressure in the first quarter of this year," said Huang.

China's trade volume in 2016 will remain at the same level as last year, he said. New trading channels, such as e-commerce, are expected to grow in 2016.

Tidal Power

China's largest tidal power generator unit, with an installed capacity of 3.4 megawatts, is ready to be installed in the sea in Zhoushan, Zhejiang Province, on January 12.

The generator unit owns independent intellectual property rights, with 46 core technological patents being applied and is expected to be put into operation this June.

Managing Risks

China will better manage local government debts and improve its risk control mechanism, the Ministry of Finance (MOF) said on January 11 in the face of rising risks from expanding debts amid an economic downturn.

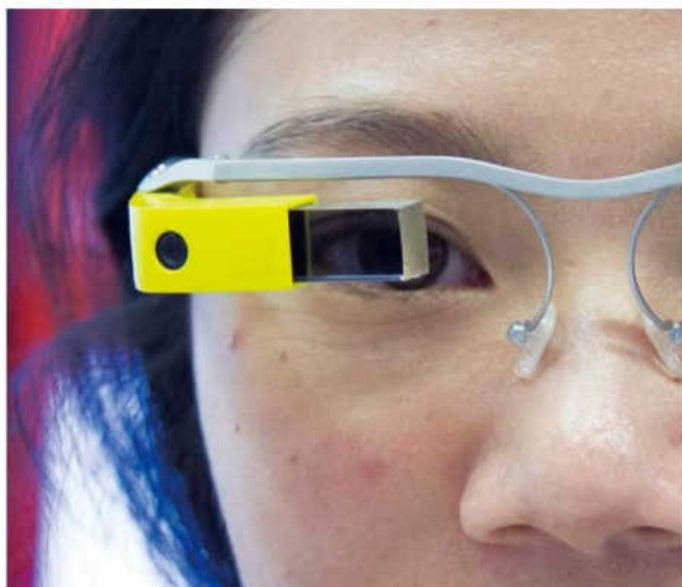
China will put a proper cap on the outstanding debts of local governments and strengthen its management of new bond quotas, according to an online statement from the MOF.

Currently, local governments issue bonds according to a quota set by the central authorities.

Governments will need the approval of the top legislature to alter the cap, the statement said.

China will also conduct comprehensive risk assessments, establish a mechanism to defuse risks and





Cool Glass

A staff of Alto Tech, a hi-tech company based in Beijing, demonstrates its new product Cool Glass, an augmented reality device similar to Google Glass, at the Consumer Electronics Show in Las Vegas, Nevada, on January 9.

improve the supervision and accountability system currently in place.

In 2015, local governments issued nearly 600 billion yuan (\$91 billion) in new bonds and converted another 3.2 trillion yuan (\$487 billion) in outstanding debts into low-interest bonds under a bond-for-debt swap program.

The central authorities have introduced the swap program and put a cap on new debts in an effort to defuse risks, as well as a method to increase the income of local governments.

Chinese Cola

The Chinese cola brand Tianfu, once the country's top-selling soft drink, will return to the market after being absent from shelves for nearly two decades.

Tianfu Cola will be relaunched

around the Spring Festival, which falls on February 8 this year, according to Qian Huang, general manager of the company.

Qian said Tianfu would continue using its natural herbal recipe to produce the "healthy drink."

Back in 1980s and 1990s, the Chongqing-based company was the largest soft drink maker in China with a strong 70-percent hold of the soft drink market. Tianfu Cola was sold outside of China and had started to gain market recognition in Russia and America.

In 1994, the company set up a joint venture with American cola producer Pepsi, which was unsuccessful. By 2005, Tianfu Cola's market share had plummeted to 1 percent.

Qian attributed the failure to the decision to decrease the production of Tianfu Cola to make way for the production of Pepsi-Cola.

In 2006, the company sold its

stakes in the joint venture to Pepsi. However, Pepsi refused to give back Tianfu's production rights.

In 2010, Tianfu took Pepsi to court, accusing the U.S. firm of stealing the secret recipe for its beverage. The court ordered Pepsi to return the formula and technical secrets, but rejected Tianfu's request for 1 million yuan (\$151,700) in compensation.

Qian said that 2016 would witness the "reincarnation" of Tianfu Cola. In addition to the reproduction of its flagship cola, the company plans to debut a new series of soft drinks including fruit juices and a protein beverage.

Less Capital Control

China has granted more freedom in the use of cross-border capital by financial leasing firms in the free trade zone (FTZ) in north China's coastal city Tianjin.

The city already leads the country in terms of financial leasing

business. Around 90 percent of airplane leasing and all maritime engineering equipment leasing are carried out at Dongjiang Port, now part of the Tianjin FTZ.

Financial leasing firms within the FTZ have been given the green light for freer use of the yuan in cross-border financial transactions, including financing, cash pooling, and bond issuance.

Authorities have made the Chinese yuan convertible under the capital account on a quota basis.

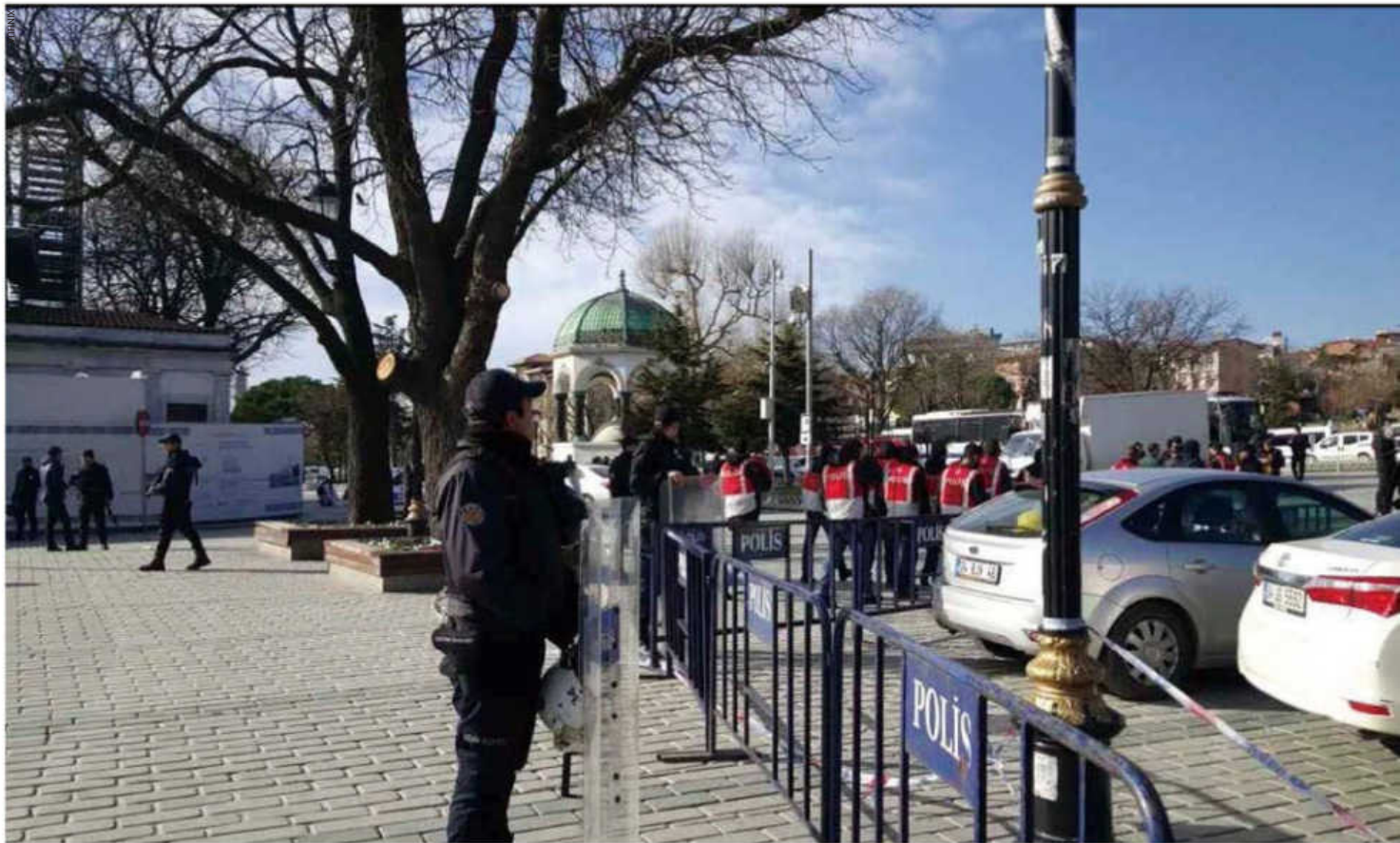
China's foreign exchange regulator has also approved the establishment of a joint venture financial leasing company between the China Minsheng Investment Corp. and the Republic of Korea's Hana Bank in the Tianjin FTZ.

ICBC Financial Leasing Co. Ltd. set up by the state lender, the Industrial and Commercial Bank of China, brought back 5 billion in offshore yuan into its cash pool, thanks to eased controls on cross-border capital flow within the FTZ.



Heading to Brazil

A total of 350 cars made by China Anhui Jianghuai Automobile Co. Ltd. are ready to be shipped to Brazil at the Lianyungang Port, east China's Jiangsu Province, on January 9.



TURKEY

Police cordon off Sultanahmet Square in Istanbul on January 12 after a suicide explosion killed 10 people and injured 15 others. The Turkish Government said that the so-called "Islamic State" group was behind the attack



THE UNITED STATES

People walk past Macy's flagship store in Manhattan, New York City, on January 12. Macy's announced it would cut thousands of jobs and close 36 stores across the country after disappointing sales in 2015



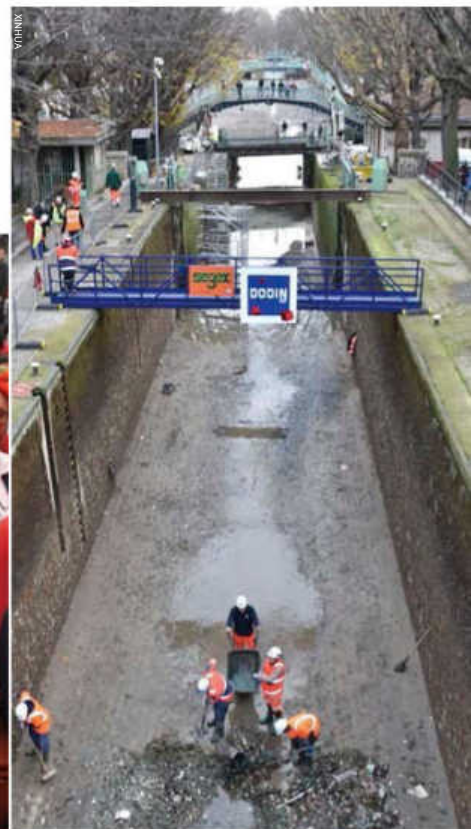
MEXICO

People rescue the injured at a bus crash site in Veracruz State on January 10. At least 20 people were killed when a bus plummeted off a road and into a ravine



MYANMAR

Political representatives across Myanmar attend a national peace conference in Naypyidaw on January 12, signifying the initiation of the first round of a peaceful political dialogue process in the country



FRANCE

Workers clean the riverbed of the St. Martin Canal that passes through Paris on January 12. The work will last three months in a bid to revamp the facility and protect biological diversity of the river



BRITAIN

Fans pay their respects with flowers and messages at a David Bowie mural in Brixton, south London, on January 12 after the iconic figure of rock music died of cancer at age 69

↓ AWARD-WINNING SCIENTIST

Pan Jianwei, 45, a quantum physicist at the University of Science and Technology of China in Hefei, central China's Anhui Province, and his team members were awarded the State Natural Science Award (first class) for their breakthrough in quantum technology at an annual ceremony in Beijing on January 8.

The state-of-the-art technology the team has explored could pave the way for the development of unbreakable quantum communication networks and quantum computers substantially faster than current supercomputers.

Pan was enrolled at the University of Science and Technology of China in Hefei in 1987 and got his bachelor's and master's degrees there. He received his PhD from Vienna University in Austria in 1999. The quantum communication equipment developed by Pan's team has been applied to ensure communication security in several major national events.



Repositories for Academic Resources

Changjiang Daily January 7

Going against popular theory, circulation statistics recently released by some academic libraries in central China's Hubei Province show that books on specialized subjects ranging from mechanics to history, rather than literature, are the most borrowed books.

With the increasing use of the Internet to gather and retrieve data, traditional libraries saw a decline in both circulation and the number of visitors. Physical literature books, which used to top the reading list of traditional libraries, have lost appeal to young readers used to having information with just the click of a mouse. The recent rebound of professional books on the most borrowed list shows that libraries, which

act as a repository for academic resources, have a unique advantage in the era of the Internet.

Libraries have long been the ideal destination for readers thanks to their extensive collections, advanced facilities and comfortable environment. But with the rise of more convenient mobile terminals and a diverse online collection, online reading has recently eclipsed libraries. The popularity of online reading and mobile terminals makes reading more accessible to a larger pool of readers.

But traditional libraries, facing the challenges of the Internet, are not just museums with musty texts. The circulation statistics recently released show that in the Internet era, the professional resources still make libraries competitive.

Traditional reading should not be killed off by online reading. They are two different options, which may coexist for a long time. Online reading offers more accessible texts to a general audience, while traditional libraries provide collections for readers interested in delving into specialized areas.

A New Film Industry

Oriental Outlook January 14

China's overall box office for 2015 reached 44.07 billion yuan (\$6.7 billion), a 48.7-percent increase year on year. Domestic films generated 27.14 billion yuan (\$4.13 billion) at the box office, or more than 60 percent of the total.

There are many reasons for the rapid growth of China's box office. First, a new generation of directors has risen. Young directors with different backgrounds, often called product-manager-typed directors, consider films as products and tailor them to the audience's taste.

Second, an abundant inflow of private capital from the Internet sector has rapidly changed the traditional film industry, bringing in new film studios with new ways of filmmaking, distribution and promotion.

Third, China's rapid urbanization has created a large number of cinemagoers in need of entertainment. Box office revenue in third- and fourth-tier cities is on the rise. New generations of urban cinemagoers are attracted by domestic films, which have struck a chord in their hearts.



"Party members should maintain confidence in the Communist Party of China (CPC) Central Committee's anti-corruption volition."

President **Xi Jinping** at a conference of the country's top anti-graft watchdog, the CPC Central Commission for Discipline Inspection, on January 12

"The West Coast now has new [flight] routes to cities like Guangzhou, Chengdu, Wuhan and Nanjing. The great weather in California makes it a well-liked travel destination all year long."

Luo Linquan, Chinese Consul General in San Francisco, commenting on the increase in the number of nonstop flights between China and the United States in 2015 on January 10



But China's box office sales will not be sustainable if films are stereotyped as a few kinds of products. The priority for China's film industry should be seizing the moment's golden opportunity to build a differentiated market as soon as possible.

More Pragmatic Cyber Protection for Minors

China Education Daily January 8

The eighth report on Chinese minors' Internet use released by the Beijing-based Chinese Young Pioneers Business Development Center on January 5 shows that 91.9 percent of China's minors have surfed the Web and over 90 percent of these minor netizens have been exposed to harmful information, including advertisements, rumors, porn and even cyber violence. The report calls for joint efforts to protect minor netizens by creating new laws and building a cleaner cyberspace.

In fact, similar calls have been heard for many years but the situation has yet to improve. Simple cries against harmful online information and calls full of generalities may not help the situation. No matter how detailed the advice is, it will not make a difference until we discover the causes behind the problem. China's Internet is thriving. Not only minors, but also adults, are frequently exposed to harmful information online. Building a separate and clean cyberspace for minors is a currently a difficult task.

With growing Internet accessibility, we should accept the fact that it's impossible for minors to live in a sterile environment free from harmful information and sources. Moderate exposure to harmful factors may help improve minors' immunity. Schools and families should try to be a part of minors' online lives, and give them advice and warnings when necessary. Proper technologies are also needed to facilitate cyber security for minors.

NEWLY APPOINTED WORLD BANK OFFICIAL

Chinese Ministry of Finance (MOF) official **Yang Shaolin** has recently been appointed chief administrative officer and managing director for the World Bank Group. The title represents a new position in the group, created to bring together the functions of organizational strategy, budget and planning, and information and technology, among other responsibilities.

Yang is currently the director general of the MOF Department of International Economic and Financial Cooperation, in charge of economic and financial cooperation between China and international financial institutions as well as foreign governments. In his position, he played a critical role in the creation of the Asian Infrastructure Investment Bank.

Yang served as the executive director for China at the World Bank Group from September 2009 to November 2013. His new appointment will be effective from February 29.



"Some people predict the coming collapse of the Chinese economy. I think they do not understand the essence of the Chinese economy."

Justin Yifu Lin, founding Director of the China Center for Economic Research and honorary professor of Peking University, speaking at a press conference in Moscow on January 12

"The new [two-child] policy has increased the likelihood of later-age pregnancies, which are associated with risks including genetic abnormalities and labor problems."

Wang Peian, deputy head of the National Health and Family Planning Commission, calling for better maternal and child health services on January 11

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COVER STORY

WHERE IS THE YUAN HEADING?

Fears of a steep depreciation are unfounded due to strong economic fundamentals By Deng Yaqing

The year has started off with a nervous shudder of paranoia amidst steep market tumbles and the recent depreciation of the yuan against the U.S. dollar, raising doubts of the stability of China's financial market. Rest assured, the effective exchange rate of the yuan maintains stable, and there are a multitude of factors buttressing the Chinese currency in the medium and long term.

This is made evident according to a yuan exchange rate composite index released by the China Foreign Exchange Trade System (CFETS) on January 4. As of December 31, 2015, the CFETS yuan exchange rate index gained 0.94 percent from the end of 2014. In addition, compared to the end of 2014, the yuan exchange rate gained 1.71 percent against the Bank for International Settlements' currency basket and weakened by 1.16 percent against the IMF's Special Drawing Rights basket.

The mixed movements of the three indexes mirror the overall stability of the yuan exchange rate against a basket of currencies in 2015, as articulated by an article on the website

A cargo ship berths at a wharf of the Huanghua Port in north China's Hebei Province on November 8, 2015



of the People's Bank of China (PBOC).

"Though the yuan faces depreciating pressures this year, a steep decline of the yuan exchange rate against the U.S. dollar seems unlikely," He Liping, Dean of the Department of Finance at Beijing Normal University, told *Beijing Review*.

He thinks China is capable of pulling up the yuan through market intervention, since its central bank still has more than \$3 trillion of foreign exchange reserves available—despite the reserve's monthly decline of a record \$107.9 billion in December 2015. Independent economist Ma Guangyuan argued that the shrinkage is also a result of the central bank's interventions to stabilize the yuan exchange rate by unloading the foreign reserves.

On the other hand, He said that China's trade and current account balances still enjoy a huge surplus, which will bolster the yuan. He predicted that the yuan may depreciate by around 5 percent this year.

On the whole, China's current condition is favorable enough to maintain a relatively

stable yuan exchange rate against a basket of currencies, said the PBOC article. The overall performance of the economy is basically stable, growth rate is within a medium-high range, and the economic structure is improving as reforms take hold.

Despite a slowdown in export growth, the share of China's exports to the global market actually expanded last year. In 2015, China registered a trade surplus of \$594.5 billion. It doesn't need to boost its exports through competitive devaluations of the yuan, said the PBOC article.

Therefore, there is no basis for the yuan to continue depreciating, according to the PBOC. The bank attributed its confidence to the continual growth of China's inward and outward direct investments, the significant amount of foreign exchange reserves, the stability of its financial system, and increasing overseas demand for yuan-denominated assets. This year, the yuan exchange rate will continue to float in a two-way and flexible manner based on market demand and supply, with reference to a basket of currencies, concluded the article.

Root causes

Lian Ping, chief economist from the Bank of Communications, held that the exchange rate of a country's currency is primarily determined by the country's long-term economic fundamentals. Despite the current slowdown, China probably maintains a 7-percent-or-so growth pace, which is a pretty high score when compared to other countries, according to him.

"Though the strong dollar spurs a reflux of capital and imposes a downward pressure on the yuan, China's economic fundamentals and policy adjustment capability will shield the yuan from the dangers of a drastic slump," said Lian.

There are various reasons behind the cur-

rent yuan devaluation against the U.S. dollar, explained He, who attributed them to the interest rate hike by the Federal Reserve (Fed) in the United States and bursting financial bubbles in China's domestic market.

"Since the Fed raised the interest rate last December, some domestic and overseas investors believed that dollar-denominated assets would witness a rise in return rates, leading to the relative weakening of other currencies," said He. Part of the larger picture is that the U.S. economy is still on the road to recovery with the U.S. dollar gaining strength, while conversely, China's economic growth is braking after having reached high speeds.

Additionally, since domestic assets became overpriced over the course of the past three to five years, some bubbles had formed in China's financial markets. Those bubbles have not been completely squeezed out, He noted. The foreign exchange market has also been affected by the pressure. Expectations for the yuan's depreciation had begun sprouting at the foreign exchange market since the beginning of last year, He said.

Short-term speculation also had a hand to play in the recent debate. Some speculators attempted to make a fortune from hot money trading based on yuan wagers. Although such activities don't reflect the true market's supply and demand, it still sent the wrong price signals to the market, according to the PBOC article.

In fact, as early as last December, a trend composed of the yuan short selling had emerged. Complicated by the repeated downward adjustments of the yuan central parity in January, the expectation of the yuan's devaluation had become increasingly overwhelming. That encouraged a significant amount of unhealthy speculation throughout the global market, according to Xiao Lei, a research fellow



from G-banker, an Internet financing platform focused on gold investment.

Ensuring stability

The recent depreciation of the yuan against the U.S. dollar—in contrast to a more stable CFETS yuan exchange rate index—raised the issue of the formation of the yuan's exchange rate.

Ma Jun, chief economist of the PBOC's research bureau, told the Chinese media that the yuan's exchange rate has already been unpegged from the U.S. dollar, though it's not floating freely.

"The yuan's exchange rate will be determined with more reference to a basket of currencies—that is to say, the yuan's value will

basically be kept stable against the whole basket," said Ma. "That's the tone set for the yuan's exchange rate formation mechanism for the foreseeable future."

This mechanism could improve the stability of the yuan's value against the currency basket, while two-way fluctuations of the yuan against the U.S. dollar would be widened. "Changes to the yuan's exchange rate against the U.S. dollar would not be unidirectional," Ma stressed.

A transparent, credible, basket-based exchange rate formation mechanism can help stabilize market expectations, so that the central bank can reduce the frequency and scale of its interventions in the foreign exchange market, he said.

Ma believes that the depreciating pressure on the yuan will be eased and the short selling of the yuan will decline when investors fully understand the mechanism. By then, positive factors such as trade surplus and the yuan's higher interest rates compared to foreign currencies can play a greater role in the formation of the yuan's exchange rate.

Giving more consideration to a basket of currencies will not hurt China's autonomy in making monetary policies, and that the yuan's rate will not be strictly pegged to the basket, he added. ■

Copiedited by Bryan Michael Galvan
Comments to dengyaqing@bjreview.com

Milestones in the Yuan's Exchange Rate Reform

August 11, 2015: The PBOC improved the yuan's central parity rate formation system to better reflect the market changes in the exchange rate of the yuan against the U.S. dollar. Daily central parity quotes reported to the China Foreign Exchange Trade System before the market opens for the day should be based on three factors—the closing rate of the interbank foreign exchange market from the previous day, the supply and demand in the market, and the price movement of major currencies.

September 29, 2014: China started direct trading between the yuan and the euro on the interbank foreign exchange market.

June 18, 2014: China started direct trading between the yuan and the British pound on the interbank foreign exchange market.

March 18, 2014: China started direct trading between the yuan and the New Zealand dollar on the interbank foreign exchange market.

March 17, 2014: The yuan's exchange against the U.S. dollar was allowed to rise or fall by 2 percent from the central parity rate each trading day, up from the previous limit of 1 percent.

April 9, 2013: China started direct trading between the yuan and the Australian dollar on the interbank foreign exchange market.

May 29, 2012: China started direct trading between the yuan and the Japanese yen on the interbank foreign exchange market.

April 16, 2012: The yuan's exchange against the U.S. dollar was allowed to rise or fall by 1 percent from the central parity rate each trading day, up from the previous limit of 0.5 percent.

May 7, 2011: A total of 82 Russian banks set up yuan accounts.

April 26, 2011: A pilot program of cross-border trade settlements using the yuan was expanded across the country within the year, and continued progress was made in pushing forward the pilot program of cross-border yuan investment.

February 22, 2011: Deutsche Bank took the initiative to establish the first electronic platform for offshore yuan transactions, contributing to the development of the yuan as a settlement currency.

January 14, 2011: The PBOC allowed qualified domestic enterprises to use the yuan to invest directly in foreign countries.

December 15, 2010: The yuan started trading in Russia, becoming the Chinese currency's first overseas market.

November 22, 2010: China started direct trading between the yuan and the Russian ruble on the interbank foreign exchange market.

June 19, 2010: The PBOC announced that it would restart exchange rate reforms and enhance the elasticity of the yuan's exchange rate.

July 21, 2009: Four years since the exchange rate reform, the yuan had appreciated against the U.S. dollar by 21 percent.

April 8, 2009: Cross-border trade was allowed to be settled through the use of the Chinese currency on a trial basis in Shanghai and in four cities of Guangdong Province.

May 21, 2007: The yuan's exchange against the U.S. dollar was allowed to rise or fall by 0.5 percent from the central parity rate each trading day, from a previous limit of 0.3 percent.

July 21, 2005: China initiated reforms by de-pegging the yuan from the U.S. dollar. The PBOC said it had shifted to "a managed floating exchange rate based on market supply and demand, referenced against a basket of weighted currencies."

(Compiled by Beijing Review)

COVER STORY

APPRECIATING THE YUAN'S DEPRECIATION

With regard to the recent dramatic devaluation of the yuan against the U.S. dollar, **Xu Hongcai**, Director of the Economic Research Department at the China Center for International Economic Exchanges, shared his views in an exclusive interview with *Beijing Review* reporter Deng Yaqing. Here are edited excerpts from the interview:



Beijing Review: What do you think are the major causes behind the recent depreciation of the yuan?

Xu Hongcai: In my view, it's a result of irrational psychological anticipation incited by some overseas speculators who want to reap profits from it. For one thing, China's economic fundamentals remain sound; for another, the country is still attractive to long-term international capital, as its foreign direct investment ranks No.1 globally. Therefore, expectations of a drastic depreciation of the yuan are groundless.

While the foreign exchange market may be negatively affected by short-term flows of funds such as the swap of hot money, the exchange rate formation mechanism is determined by long-term funds, which keep flooding into China, tapping into investment opportunities. Given that, the authorities should strengthen their supervision over the transfer of short-term funds.

In short, the strengthening of the dollar after the U.S. Federal Reserve's interest rate hike has resulted in the yuan's depreciation. The reason lies in the United States, rather than in China.

If the yuan continues to depreciate this year, what impact will that have on the Chinese and global economies?

There would be both positive and negative influences on China's economy. The yuan's exchange rate is not just determined by the dollar, but also by a basket of currencies including the euro and the Japanese yen. The effective exchange rate of the yuan is still on the rise. By and large, the yuan is now appreciating against all other currencies except for the dollar. How is it possible for the yuan to maintain a trend of moderate increase in value? It's because the world is confident in China's economic funda-

mentals. In essence, the yuan is still a strong currency.

In the past two years, the yuan's exchange rate against the dollar was stable, which contributed many benefits to the world economy. Since the combined GDP of China and the United States makes up one third of the world's total, the stability of the yuan's exchange rate against the dollar is of eminent importance. China has pledged not to deliberately precipitate currency devaluations or start a currency war.

Admittedly, the yuan's depreciation against the dollar is conducive to China's export trade with the United States, which is also bolstered by the recovery of the U.S. economy. Additionally, the yuan's depreciation against the dollar can alleviate the pressures it has accumulated from its appreciation against the euro and the yen. Moreover, China's exports to the European Union, Japan and the Association of Southeast Asian Nations have fallen remarkably, which also undermines China's economic growth. As a major engine for global growth, the decline of China's economy will produce a negative influence on the world economy.

In the context of the market's equilibrium, slight fluctuations in the yuan's exchange rate are normal. However, no one would benefit should the yuan depreciate too much.

What's your prediction on the trend of the yuan's exchange rate this year?

Recently, the yuan's depreciation against the dollar has been too drastic and beyond my expectations. I hope this year the yuan can depreciate by 3-5 percent against the dollar and its effective exchange rate can appreciate by 2-3 percent against other currencies in order to ensure the stability of the foreign exchange market.

Since China's economy is fundamentally

sound, it should be no problem for the country to realize 6.8-percent growth this year, which would be an amazing achievement in the eyes of the rest of the world. In contrast, the United States would be praised if it could muster a growth of 3 percent. Given that, drastic depreciation is unlikely.

What China's policymakers should do now is to strengthen market confidence through reasonable policy guidance and properly control the outflow of hot money. To stymie the flow of hot money, authorities should do more to intervene in both onshore and offshore markets.

The yuan started depreciating immediately after being included into the IMF's Special Drawing Rights (SDR) basket. Is there a correlation? What challenges do you think the currency will encounter in the future?

The direct impact brought about by the yuan's SDR inclusion is limited. Though it has been expanded, the size of the SDR is merely \$285 billion or so. It's just a means of accounting for the IMF and isn't circulated in the international market. Joining in the SDR means an escalation of the yuan's credit rating and a greater role for the yuan in the global market.

In the future, the People's Bank of China should pay close attention to both domestic and overseas yuan markets and keep a close eye on both the yuan's interest and exchange rates. Therefore, the central bank will have more jobs to do, such as properly guiding market expectations and effectively communicating with the market, in order to prevent rampant speculation and ensure the stability of the yuan. ■

Copiedited by Bryan Michael Galvan
Comments to dengyaqing@bjreview.com

A Daunting Task

The prospect of peace in Syria is still gloomy By Gong Zheng



The author is an assistant researcher with the China Institutes of Contemporary International Relations

On December 18, 2015, the UN Security Council unanimously adopted a roadmap for a peace process in Syria, which was seen as having injected “fresh impetus” to solve the Syrian crisis.

The UN Security Council Resolution 2254 requires a nationwide ceasefire in Syria within January 2016 and the convening of formal Syrian-led and transition-focused negotiations in the same month between the Bashar al-Assad-led government and opposition members, excluding terrorist groups such as the so-called “Islamic State” group (ISIS) and Jabhat al-Nusra. The United States, Russia and other regional countries will continue their fight against these extremist groups.

In parallel, the resolution stipulates that Syria must establish credible, inclusive and non-sectarian governance within six months, and hold free and fair elections within 18 months under UN supervision. As resolutions rarely gained the unanimous support of the 15 UN Security Council members, U.S. Secretary of State John Kerry described Resolution 2254 as a “milestone.”

To be sure, the resolution is one of the results of the two Vienna meetings on the Syrian conflict held in October and November 2015 respectively, and a significant symbol of the ability of the world’s top powers to use diplomatic means effectively. As the resolution has drawn a clear roadmap and timetable for the settlement of the crisis, it has brought the world much anticipation

for the ending of the disastrous civil war.

However, the current reality in Syria is much more complicated than the text of the resolution, and the political settlement—not to mention the humanitarian needs—of the prolonged crisis still needs to overcome great obstacles.

Ceasefire may be out of reach

In most cases, the end of a civil war is brought about by a military victory, external interference, internal compromise or national secession. But based on the current Syrian situation, the above outcomes are seemingly impossible to reach.

The Syrian civil war has lasted for five years, but neither the government army nor the opposition can claim a decisive victory in the battlefields that are the cities and towns still inhabited by millions of innocent civilians. What is more, the conflict has become more complicated with the involvement of the Kurdish military forces and the barbarism of ISIS. The nature of the war thus also has had elements of terrorism and national separatism added, creating an even muddier picture.

In addition, the Syrian conflict’s participants have received large amounts of foreign assistance. This has, for all intents and purposes, maintained the status quo of everyone losing, and no one winning.

Behind the Syrian Government are Russia and Iran, while Syrian opposition forces have gained support from the United States, Saudi Arabia and Turkey. Since Russia began sending bombers to Syria in late September 2015, Washington and its allies also increased their support to the Assad’s opposition.

At the same time that foreign parties send aid and weapons as well as launch airstrikes, they also do not want to be caught in an entrenched war like those of Iraq or

Afghanistan: No one has signaled their intention to send ground forces into Syria.

Meanwhile, Turkey is keeping its focus on its long border with Syria while Saudi Arabia has shifted its emphasis to Yemen. Even Iran, which sent the largest number of military forces to Syria, is now showing signs of withdrawal. The U.S. military estimated recently that the number of soldiers of the Iranian Revolutionary Guard Corps in Syria has declined from about 2,000 in October 2014 to 700.

Generally, the precondition for compromise is that parties involved in a conflict either have no confidence in winning or are unwilling to continue the war, and they agree to accept an international peacekeeping army in the country for monitoring. However, there is no such sign from any party in the Syrian conflict. The fighting going on in north Syria’s Latakia and Aleppo is still extraordinarily violent.

Challenges abound

Moreover, there is a wide gap between the Syrian Government and the opposition in their stance for political talks. Assad and his supporters are united in actively pushing for the political talks and hope the talks will help elevate the international legitimacy of the current government.

In contrast, the opposition camp is in a state of disunity and appears feeble before even coming to the negotiation table. Despite that Saudi Arabia gathered more than 100 opposition leaders for a meeting to build consensus in Riyadh on December 10 of last year, the differences among the opposition can hardly be narrowed.

First, the Kurdish groups in north Syria were excluded from the Riyadh meeting. Some radical organizations even refused to sign on to a joint statement at the conclusion of the

Refugees walk back from the Turkish border town of Akcakale to their home in north Syria's Tell Abyad on June 17, 2015



meeting. These internal differences among opponents of the Assad regime thus resulted in a lack of motivation for political dialogue with the stronger governmental delegation.

Moreover, Khaled Khoja, President of the National Coalition for Syrian Revolutionary and Opposition Forces, claimed on December 19 last year that the UN Security Council Resolution 2254 is not pragmatic and undermines the achievement of the Riyadh meeting.

In the meantime, a large amount of Syrian land is under the control of extremist groups. Therefore, resolving the Syrian conflict by dividing the country into several autonomous regions is currently impossible: There is no way to completely eradicate the terrorist groups in a short time. Even if dividing the country could help in ending the current Syrian conflict, it would likely trigger a disastrous chain effect in other countries including Iraq, Libya and Yemen, resulting

in widespread calamity for the whole of the Middle East.

Now, with the adoption of the UN Security Council Resolution 2254, it seems that the international community has built a kind of basic consensus on the Syrian issue. Yet peace in Syria cannot be achieved immediately. Especially since right before the new round of Syrian political dialogue was to be staged, conflict between Saudi Arabia and Iran lit up once again. The rising tensions have led to a wave of shuttering diplomatic relations between Sunni states and Shia Iran and intensified sectarian clashes even further. As the two most influential forces behind the Syrian civil conflict, and in the region as a whole, the confrontation between the two countries has cast a new shadow on the prospect of the political settlement of the Syrian civil war.

China, as an important participant in the Syrian peace process, has long adhered to

the approach of the combination of principle and flexibility in solving the issue through political means. China's effort has played an important role in pushing forward the proper settlement of the Syrian crisis and gained appreciation from both the Syrian Government and opposition leaders.

Against the increasingly complicated situation, China needs to make better use of its impartial position on the issue, making vigorous yet steady efforts in promoting the hard-won peace talks. In particular, China needs to take active steps to coordinate with major parties involved in the Syrian crisis such as Iran and Saudi Arabia, trying to avoid conflict and adding no new obstacles to the chance for a lasting peace in Syria. ■

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Police disperses anti-migrant protesters with a water cannon in Cologne on January 9



Merkel's Dilemma

Can Germany lead the EU through crises? By Wu Huiping



The author is a professor of German studies at Tongji University in Shanghai

The EU seems to have gotten used to facing crises one after another: terrorism at home, refugees from abroad, and global financial instability that cannot seem to go away. In the backdrop of woes brought from both inside and out, the EU needs a cohesive force—and strong leaders—to deal with them.

But traditional European powers such as France and Britain are finding it difficult to undertake leadership within the EU.

Britain always hesitates to lead EU affairs, seeing itself as distinct from the rest, and is planning a referendum on whether or not it will stay in the EU at all. France meanwhile is busy with its own problems, including dealing with the aftermath of two separate

terrorism sprees in Paris last year.

Meanwhile, the European Commission, basically the government of the 28-member bloc, is too weak and slow to make timely decisions about each new challenge.

In contrast, Germany is the member state that should take the helm on EU affairs. Indeed, over the last 10 years, under the leadership of Chancellor Angela Merkel, Germany has played a leading role in EU's internal affairs and regional issues, such as keeping Greece in the eurozone and facilitating political mediation in the Ukrainian crisis. The EU is increasingly relying on Merkel's Germany, and her own political prowess, to offer solutions when it encounters a crisis.

Undoubtedly, Germany has ascended to an unprecedented position in the EU today. Meanwhile, Europe is benefiting from a prosperous Germany much more than ever before. In particular with the eurozone debt crisis, Germany has played an indispensable role in dealing with the issue. Many member states are calling on Germany to assume a

leading country role in the EU structure.

Yet it is also true that Germany dominates the EU in many aspects rather than merely nudging. Germany uses its economic clout to defend the EU system and European order, helping member states to work together through negotiations and rule-making and promoting Germany's experience of political and economic development in Europe. As a result, Germany achieves the trust and support of other EU states.

Still Germany cannot afford to undertake the huge responsibility and heavy burden as the lone leading regional power in Europe. What Germany wants is to carry on its ideas, patterns and solutions, and defend its national interests. In the end, leading the EU may prove too difficult.

Germany's efforts

When refugees began surging into Europe last year, some EU member states called on Germany to play a leading role in coping with

the crisis. Merkel adopted a moderate policy to provide asylum for seekers from North Africa and the Middle East. The number of migrants accepted by Germany now exceeds that of any other EU state.

To a great extent, what attitude the EU would take toward migrants or refugees was up to Germany; almost every leader in the EU was watching Berlin's moves.

Germany has actively worked together with France, Austria and other frontline countries to seek a comprehensive solution for the migrant crisis. Germany and France, twin engines of the EU, rose to prominence as they volunteered their leadership. Merkel and French President François Hollande gave a joint speech at the European Parliament on October 7, 2015, calling on the EU to keep solidarity and share the burden of the refugee influx.

Under the efforts of these leaders, the EU ended much of the confusion and changed the adverse situation for the better. The German Government has since adopted a series of measures on refugees, which sets an example for other member states. On the whole, the EU has reached coordination and cooperation among its members to deal with this issue in the near term.

Germany's influence was extremely important during the debates over potential solutions. On one hand, Poland, Hungary, the Czech Republic and Slovakia, four East European members, stood together against the refugee quota plan. Denmark, Britain and Ireland also refused to join in the scheme. Despite great opposition, Germany, together with the European Commission, France,

Spain and other members, persuaded the EU Justice and Home Affairs Council to approve a quota-based resettlement plan on September 22, 2015.

External limitations

While winning applause from the international community at large, Merkel's actions in dealing with the migrant crisis has aroused criticism from countries that have been overburdened with incoming refugees.

Hungarian Prime Minister Orban Viktor accused Germany of abusing humanitarianism in order to force other countries to accept refugees. Orban stressed that the crisis was caused by Germany rather than Europe or Hungary, because Germany is most refugees' ideal destination. Czech media criticized Berlin for imposing its will. Going further, the Slovakian Government appealed to the European Court of Justice at the beginning of December 2015, demanding the revocation of the refugee quota plan. President of the European Council Donald Tusk has slammed the plan as "power politics."

The system of the EU was designed to prevent hegemony over Europe and to spur greater economic coordination for the benefit of all members. Hence, any perceived domination of Germany on EU affairs causes annoyance amongst other member states. Although France and Germany, the two founding members of the European Community, always call for solidarity of the EU, the divide between EU member states has widened. East European members don't want to be overwhelmed with refugees and ask that "rich countries like Germany" undertake more responsibility.

In fact, any one country could not afford to solve the refugee problem due to its scale and complexity, a scale that has already exceeded 1 million with hundreds of thousands more expected. So far, Merkel has tried to make the EU reach a common solution,

but Germany lacks the means necessary to prompt other members to take action. Instead, Germany is merely able to cooperate with some members on a voluntary basis.

European integration necessitates compromise among all members to balance interests; the EU is unable to force its members to do something through mandatory means. For example, since the election in October 2015, the new administration of Poland has refused to cooperate under the Germany-proposed refugee resettlement solution.

Policy shift

Meanwhile, Merkel is also facing growing domestic pressure for her policy of accepting refugees.

The sexual assaults on women in Cologne and other German cities on New Year's Eve have shocked the country. Local police officials said that the perpetrators of assaults in Cologne were almost exclusively from migrant backgrounds.

In the following days, riots broke out when far-right extremists participated in anti-migrant demonstrations in some German cities. Retaliatory attacks took place in Cologne on January 10, in which at least 11 people from Pakistan, Syria and Guinea were hurt.

Right-wing groups in Germany now accuse Merkel of putting women at risk by allowing the arrival of so many foreigners.

Historically, migrants have not been warmly welcomed in Germany. Moreover, the German Government had opposed the EU's quota system for migrant resettlement for quite a long time. But no matter how to measure it, through population or economic strength, Germany should accept more migrants than most of its neighbors.

Unfortunately, following the sexual violence in Cologne, Germany's policy on migrants might turn conservative in order to soothe domestic opposition.

More importantly, Germany now has neither the desire nor ability to take the position of the EU leader in coping with more challenges. Germany's diplomacy depends on its strength, so it cannot overestimate its own capacity and ability to solve EU and world affairs alone. ■



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Moving Further Closer

Common interests will lead China and Arab countries to mutual prosperity

By Wu Sike



The author is China's special envoy on the Middle East issue and a former Chinese ambassador to Egypt and Saudi Arabia

In 2013, Chinese President Xi Jinping proposed the building of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road in hopes of connecting Asian, European and African countries more closely and promoting mutually beneficial cooperation. This initiative has garnered support from Egypt, Saudi Arabia as well as other countries along the routes of the proposed belt and road; while seven Arab nations, including the two previously mentioned, have become founding members of the China-initiated Asian Infrastructure Investment Bank (AIIB)—an important financing platform for the Belt and Road Initiative and other regional infrastructure projects. In many ways, the AIIB, which was officially inaugurated in Beijing on January 16, has become a new vehicle for cooperation between China and the Arab world.

When meeting a delegation from the Gulf Cooperation Council in January 2014, Xi stressed that Arab countries, which lie in the western intersection of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, are China's natural and important partners. He added that China highly values the commitment and support from Arab countries in helping to build the belt and road.

Window for cooperation

China has long-enjoyed close relations with the Arab world based on mutually beneficial

cooperation as well as respective needs for knowledge and technology transfer and economic development. As early as 1,000 years ago, Chinese and Arab civilizations began close exchange and engagement with each other through the ancient Silk Road that traverses the Middle East to link China and Europe. Such interaction has survived over centuries.

In the 21st century, economic globalization and the rapid development of information technology have made the world a "small village," and China-Arab relations have experienced great leaps forward. Since 2004, in particular, when the China-Arab States Cooperation Forum was launched as a major platform for bilateral cooperation, the relationship has gained more prominence and caught substantial attention accordingly.

In the face of great social transformations in much of the Arab world in recent years, China adheres to its consistent stance and principles of non-interference in the internal affairs of other countries. China understands the aspirations of the people in some countries in the region—including Egypt—for change. It also advocates that domestic political disputes should be settled through dialogue and political solutions instead of violence.

China has actively promoted the political settlement of hot-button issues in the Middle East, especially the Syrian conflict. It supports Arab countries' independent choices regarding paths of development and is willing to enhance exchanges with these countries in regards to seeking common interests. It will continue to provide economic, technical and humanitarian assistance to nations in need. Finally, China believes strongly in the power of people-to-people exchanges, which are a cornerstone for sound China-Arab ties.

Both China and Arab countries are fac-

ing new challenges in maintaining regional peace and stability, promoting domestic development as well as protecting resources and the environment due to complicated changes in the international landscape. How to achieve sustainable development has concerned every country.

On June 5, 2014, when addressing the opening ceremony of the Sixth Ministerial Conference of the China-Arab States Cooperation Forum, Xi proposed the two sides construct the overland and maritime silk roads based on the principle of discussion, co-construction and sharing, and build



a community of common interests and a community of common destiny. He also proposed the two sides establish a “1+2+3” cooperation pattern.

The “1” in the proposal means taking energy cooperation as the core, with the focus on deepening bilateral cooperation through the whole industrial chain in the field of oil and gas, maintaining the security of energy transport routes and establishing mutually beneficial, reliable and long-term China-Arab relations. The “2” refers to making infrastructure construction and trade and investment facilitation as “two wings” of the cooperation, trying to enhance collaboration between China and Arab countries in major development programs and landmark projects concerning people’s livelihoods. And the “3” points to new breakthroughs in three hi-and new-technology fields of nuclear energy, space satellite and renewable energy, in order to upgrade the pragmatic partnerships

between China and Arab nations.

In the hi-tech fields, Xi proposed establishing three centers for project cooperation—the China-Arab Technology Transfer Center, the Arab Training Center for Peaceful Use of Nuclear Energy and the Center for Application of China’s Beidou Navigation Satellite System in Arab.

At present, the implementation of the Belt and Road Initiative has become the axis of China-Arab cooperation, particularly in the fields of trade, energy, infrastructure construction and high technology. The three centers for project cooperation proposed by Xi are under construction. These projects will effectively boost innovation and the development of new sources of growth for both sides once they come into operation.

Looking to the future, China and Arab nations face historic opportunities to achieve prosperity for their citizens. For its part, China is willing to make further efforts together with Arab partners to elevate bilateral

relationship to new heights in line with the time-honored Silk Road Spirit of peace and cooperation, openness and inclusiveness, mutual learning and shared benefits.

People-to-people exchanges

People-to-people exchanges are an indispensable part of the China-Arab partnership, thus, it should be placed in the position of equal importance with economic and trade cooperation. In short, the overland and maritime silk roads that both sides are working on will embody achievements in both aspects.

China has signed agreements for cooperation with almost every Arab country in the fields of education, culture and healthcare. They have also regularly exchanged visits of personnel from different sectors. At present, there are 19 Confucius institutes and classrooms in the Middle East to teach Chinese language and culture. Meanwhile, the number of students from Arab countries studying in China in 2013 had increased 14 times than that of 2003. In addition, the holding of a variety of cultural forums, “year of culture” programs and art festivals have greatly increased mutual understanding of Chinese and Arab peoples.

The commitment to finding common interests is the inexhaustible motive behind this cooperation. Nevertheless, the current turbulence in the Middle East and the rise of terrorist activities in all corners of the globe have brought new challenges. There is obviously still a long way to go to promote mutual respect and learning between different civilizations.

The shared pursuit of prosperity has more closely linked China and Arab nations together and highlights the importance of matching their respective development strategies. Moving forward, China and Arab countries must constantly deepen cooperation and upgrade their strategic cooperative relationship, to realize a community of common interests and a community of common destiny together for the benefit of all. ■



Chinese and Arab businessmen talk at the 2015 China-Arab State Expo, in Yinchuan, capital of Ningxia Hui Autonomous Region, on September 13, 2015

Copied by Mara Lee Durrell
Comments to liuyunyun@bjreview.com

Beyond Energy Dependence

Belt and Road Initiative will enhance China's constructive role in the Middle East

By Chen Mo



The author is an associate research fellow at the Institute of West Asian and African Studies, Chinese Academy of Social Sciences

Over the past two years, China has promoted the building of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road (Belt and Road Initiative) for developing international trade and enhancing the connectivity of infrastructure in countries along the routes. Energy cooperation is one of the fundamental aspects of the initiative.

The world's energy supply has become increasingly diversified in recent years. The United States' revolutionary breakthrough in exploiting shale gas and oil has had a huge impact on the world energy market by cutting oil imports from Saudi Arabia and other gulf oil-producing countries. Europe is also seeking additional energy supply sources ranging from Central Asia to North Africa.

The Middle East has been a long-time oil supplier to China and this relationship is unlikely to change in the long term. Moreover, China's demand for oil will increase along with its economic growth, so China and the Middle East will continue to be interdependently linked in the energy market.

But China and the Middle East should

cooperate on more than just energy, such as transferring industrial capacity and building free trade areas. The China-proposed Belt and Road Initiative offers both sides clear benefits.

First of all, the initiative will help maintain stable bilateral relations between China and participating countries in the region. In building the belt and the road, these countries will enhance people-to-people exchanges, and state leaders will maintain close contact, solidifying their bilateral friendship.

More importantly, different countries can have their varied needs satisfied through co-operation with China.

Due to its fast-growing population, Saudi Arabia has a large demand for building houses, modernizing its cities and constructing a new transport system, among other infrastructure projects. Many Chinese companies have already been operating in Saudi Arabia in sectors ranging from building railways, ports, telecommunications infrastructure, housing, bridges and roads to petrochemical production.

With their rapid technological progress and performance improvement, Chinese enterprises have become more competitive in the international market. These companies are now able to undertake most foreign projects, regardless of scale.

Iran has historically taken longer to develop its industries. But industrial development in the country remains slow not from

its lack of capabilities but because of long-term international sanctions. However, the sanction cap on Iran is expected to be lifted in the near future after the country reached a deal with major world powers in July 2015 to impose limits on its nuclear program. As a result, investment from foreign countries, including China, will likely surge in Iran. Chinese companies would not only offer job opportunities to Iranians but would also bring new technologies and experiences to the country.

For example, Iran's oilfields are mostly onshore and operated with out-of-date equipment; many of these oilfields need to be technologically upgraded to improve their productivity. China's oil companies have rich experience in reconstructing and upgrading land-based oilfields, so both sides can enhance their cooperation and revamp Iran's oilfields and natural gas development.

Furthermore, China could offer Iran assistance on constructing new infrastructure, such as the planned high-speed railway route linking Tehran and the country's second largest city of Mashhad, a transportation network and oil pipelines. The implementation of these projects will boost local economic growth and increase job opportunities. Additionally, Iran could dock its development strategy with the Belt and Road Initiative.

China is negotiating with the Gulf Cooperation Council on a free trade agreement. If the deal is reached, China and Gulf states will have the opportunity to deepen their cooperation in oil production and other sectors. With concerted efforts, China and the Middle East can achieve more progress in expanding their economic partnership in the future. ■

China and the Middle East should cooperate on more than just energy, such as transferring industrial capacity and building free trade areas. The China-proposed Belt and Road Initiative offers both sides clear benefits

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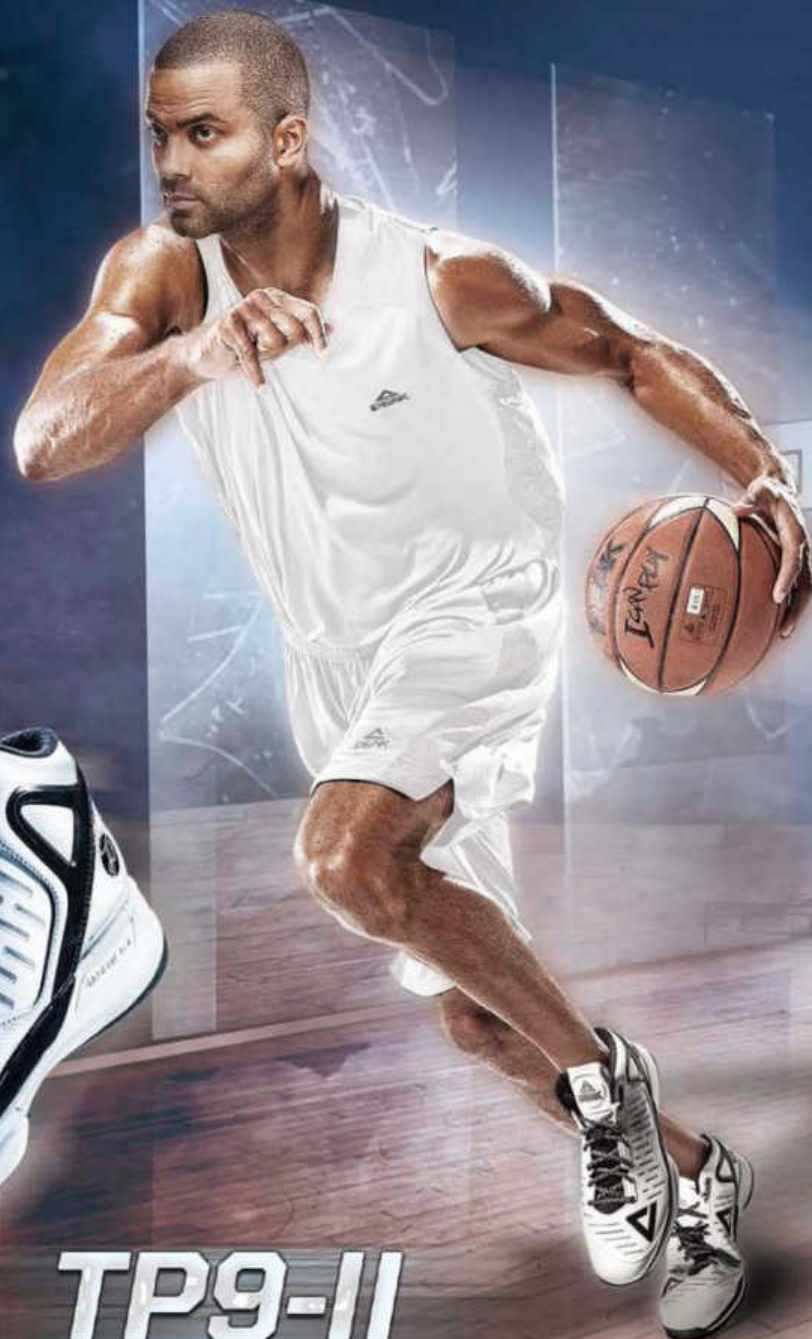


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Armed police soldiers fight "terrorists" in a drill in Shanghai on November 15, 2015



Outlawing Terrorism

China's first anti-terrorism law creates framework to address threat

By Yin Pumin

China started the new year by putting its first anti-terrorism law into effect, representing the country's latest efforts to address the issue at home.

The law creates basic rules for conducting counter-terrorism operations and strengthens measures for preventing, handling and punishing those involved in terrorism crimes, in addition to establishing international cooperation channels.

The National People's Congress (NPC) Standing Committee approved the law on December 27, 2015. Zhang Dejiang, Chairman of the committee, said the new law is an important aspect of establishing systemic rules for national security. It will give China legal guarantees in improving its capacity to prevent and crack down on terrorism, he said.

Li Wei, an expert on anti-terrorism with the China Institutes of Contemporary International Relations, told China National Radio that the law's enactment conforms to China's practical needs.

"The legislation comes amid China's strategy to enhance the rule of law and terror threats against China," said Li, adding that the law aims

to safeguard the well-being and property of every Chinese citizen.

The new law comes at a delicate time for China and the world at large: Terror attacks in Paris, the brutal killings of hostages committed by the so-called "Islamic State" group (ISIS) and an attack in Bamako, Mali, in November 2015 are alerting the world about an ever-growing terrorism threat. Three Chinese nationals were killed in the Bamako attack.

"China is facing the same threats from ISIS as France and must prepare for similar terror attacks, which were well-planned and targeted multiple locations at the same time with different firearms and equipment, resulting in devastation in the target city," said Li.

China itself has not escaped the swarm of terrorist attacks unscathed. In one of the deadliest cases, 29 people were killed and scores more injured by knife-wielding assailants at a train station in Kunming, Yunnan Province, on March 1, 2014.

Beijing also witnessed a deadly car attack in Tiananmen Square on October 28, 2013, which killed three people in the car and two bystanders.

"Terrorist attacks have caused heavy losses of people's lives and properties, posing a serious threat to our security, stability, economic development and ethnic unity," said An Weixing, an official with the Ministry of Public Security, at a press conference held on December 27, 2015. "The new law will provide legal support and guarantees for the country to combat terrorist activities, safeguard national and public security."

Fostering mechanism

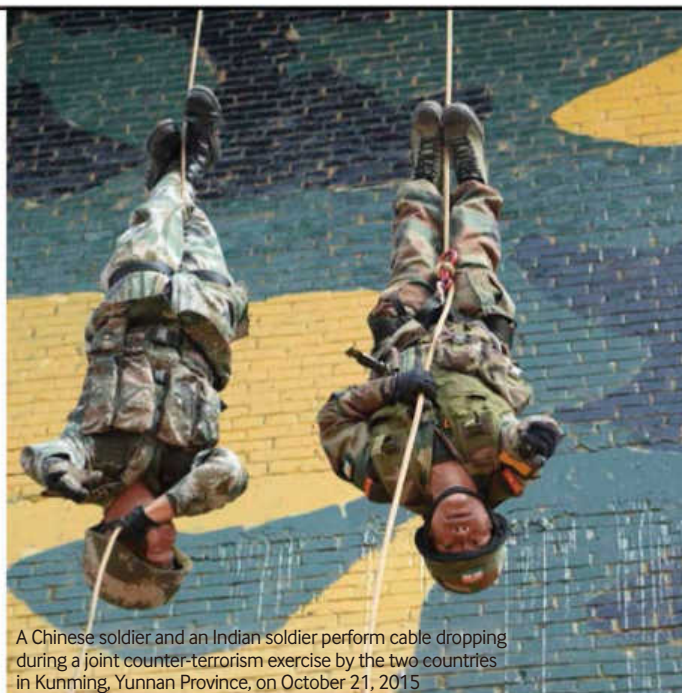
Khaled Matrud, a Syrian scholar, told Xinhua News Agency that the new law is a practical step for China's anti-terrorism efforts in line with its crackdown on all forms of terrorist activities and demonstrates its determination to fight terrorism, both foreign and domestic.

The law proposed creating a national leading counter-terrorism organ that will be in charge of identifying terrorist activities and personnel and coordinate nationwide anti-terrorism measures.

City-level governments and higher will also be required to set up counter-terrorism offices, and county-level governments



Armed police patrol the Bund area in Shanghai on January 1



A Chinese soldier and an Indian soldier perform cable dropping during a joint counter-terrorism exercise by the two countries in Kunming, Yunnan Province, on October 21, 2015

could also be required to set up offices if it is deemed necessary.

The Central Government will provide necessary financial support for key regions listed in the country's counter-terrorist plan. The public and national security authorities, along with armed forces, will establish professional anti-terrorist forces.

In addition to creating new agencies aimed at countering harmful activities, China appointed Liu Yuejin, a key figure in China's crackdown on illegal narcotics, as the first commissioner of counter-terrorism earlier in December 2015.

"The move shows the central authorities have put the counter-terrorism work in the list of their key tasks," said Mei Jianming, Director of the Counterterrorism Research Center at the People's Public Security University of China.

The 56-year-old Liu, previously an assistant minister of public security, is tasked with coordinating the country's efforts to prevent attacks. The Hunan Province native has called himself a "grassroots police officer" in previous media interviews and has been involved in efforts to halt the illegal drug trade since the 1980s.

After the murder of 13 Chinese fishermen aboard two vessels, the *Huaping* and *Yuxing 8*, in October 2011, Liu was appointed head of a special investigation team that worked with police in Laos, Myanmar and Thailand to capture the culprits, including the drug lord Naw Kham.

In November 2012, Myanmar native Naw Kham and several members of his gang were sentenced to death in a court in southwest China's Yunnan Province.

"After Liu's appointment, it's urgent that we

set up a national intelligence-sharing platform, which will help the authorities to obtain and analyze terrorist-related intelligence, then effectively direct forces, such as the police, armed police and soldiers to stop terrorist plots and target criminal groups," Mei told *People's Daily*.

The new law stipulates that a national intelligence center should be established to coordinate inter-departmental and trans-regional efforts on counter-terrorism intelligence and sharing information, which should be reported back to the center.

Police and state security departments were also given more freedom to employ reconnaissance missions to collect counter-terrorism intelligence and information. However, the law specifies that any information obtained by the units should only be used for the investigation, prosecution and trials in terrorist and extremist cases.

Authorities should also rely on members of the public and strengthen their ability to collect information at a grassroots level, according to the law. In a separate clause, the new law allows police forces, when facing violent attackers with guns or knives, to use weapons directly in emergency circumstances.

Defining "terrorism"

For the first time, the Chinese Government released a legal definition for the term "terrorism," which it outlined in the law.

"Terrorism is defined as any proposition or activity—that, by means of violence, sabotage or threat, generates social panic, undermines public security, infringes personal and property rights, and menaces government organs and

international organizations—with the aim to realize certain political and ideological purpose," according to the law.

An earlier NPC Standing Committee statement said the new definition had been co-created by the Shanghai Cooperation Organization counter-terrorism convention and the UN Declaration on Measures to Eliminate International Terrorism.

A previous draft of the law, submitted in February 2015, did not cover personal and property rights or political and ideological purposes.

It is urgent to strengthen law enforcement cooperation between China and other countries in areas such as intelligence sharing, case investigation, border management, creating contingency plans and carrying out mutual drills so that the threat of attacks can be handled more effectively, Li said.

Mei said a specific counter-terrorism law is the best weapon to coordinate anti-terrorism work between China and other countries and between different regions and departments within China.

But before 2016, China did not have a specialized law, though related provisions were featured in various NPC Standing Committee decisions. The committee passed a decision to improve anti-terrorism work in October 2011, but it was never made into law.

Analysts say the lack of a systematic law in this field had hampered China's fight against terrorism. ■

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Annual Checkup

The progress China made in medical reform in 2015 By Yuan Yuan

On May 15, 2015, a man in Jinjiang, Fujian Province, shows a document of one of his family members who enjoys the welfare provided by the New Rural Cooperative Medical Scheme, launched by China in 2003



"Now I would come to the village clinic for minor diseases like a cold or stomachache," Hou Yuezhen, a resident in Changcheng Village, told Ningxia TV. "In the past, we would stay at home, hoping the disease might recover by itself as it was always expensive to see the doctor."

Now, villagers come to the clinic and pay just 1 yuan (\$0.15) to see a doctor and pay the rest after receiving any necessary prescriptions.

Changcheng Village Clinic is one of the pilot clinics in Ningxia to adopt the "see a doctor first and pay after" policy, which has also been adopted in the bigger county-level hospital.

Zhu Xinlian, a village doctor in Ningxia Hui Autonomous Region, has received a significant salary raise: earning 70,000 yuan (\$10,606) in 2015 after earning less than 5,000 yuan (\$758) a year in the late 2000's.

Graduating from Ningxia Medical School in 1996, Zhu has witnessed the dramatic change of the village clinic in the past years. With more than 3,000 residents in his village, the clinic that Zhu works for in Changcheng Village, Huamachi Town, Yanchi County of Ningxia, has been packed, he explained.

But what accounted for the dramatic change in salary? "I've earned more not because I got more patients and could make profits by selling more drugs to them," Zhu told Ningxia TV. "Just the contrary, I always try to find out a more economical way for

the patients. The salary is from the compensation that the government paid for medical staff, especially village doctors."

Focus on health outcomes

As of 2003, the New Rural Cooperative Medical Scheme was launched, aiming to provide health coverage for the nation's entire rural population by 2010. The scheme has been pushed forward since early 2009 when the Central Government passed the medical reform plan and proposed the establishment of the National Essential Medicines System, which covers drug production, pricing, distribution, procurement, prescriptions and payment and instigated a "zero-mark-up" policy for medicines on the National Essential Drugs List when they were prescribed at the grassroots level.

Patients get the treatment first and only pay 30 percent of the total fee, as 70 percent is covered by insurance.

Ma Xiudan, a resident in Yanchi County, paid 50 yuan (\$7.60) as a deposit before her father had a surgery performed in the hospital. Out of the total 2,400 yuan (\$363) for the operation, she paid 800 yuan (\$121).

"It is a great relief for us, as in the past, we dared not go to the hospital to get the treatment," Ma told the television station. To enjoy this, the rural people just need to pay 100 yuan (\$15) each year for the insurance.

On January 19, 2015, the State Council, China's cabinet, approved a plan for better rural medical care by deploying more doctors in the countryside. The plan sets out to ensure that there is one doctor for every

1,000 rural residents. These rural doctors will get extra trainings for free, better continued education opportunities, preference in their future careers, along with higher pay and pensions, according to the plan.

Zhu Jinhu, an 81-year-old retiree from Shanghai, has been living in Nantong, east China's Jiangsu Province, since retirement. With diabetes and high blood pressure, Zhu needs to go to hospitals for medical tests and medicine regularly.

Before 2015, Zhu could only get the reimbursement from the medical insurance after collecting all the payment receipts for several months and went to a fixed place in Nantong for reimbursement. Since January of last year, Zhu can get his money back immediately after he pays at the counter of the hospital thanks to a connection system that Shanghai and Nantong set up with Shanghai Bank that allows the medical insurance card holders in both places to get reimbursed right after payment is made.

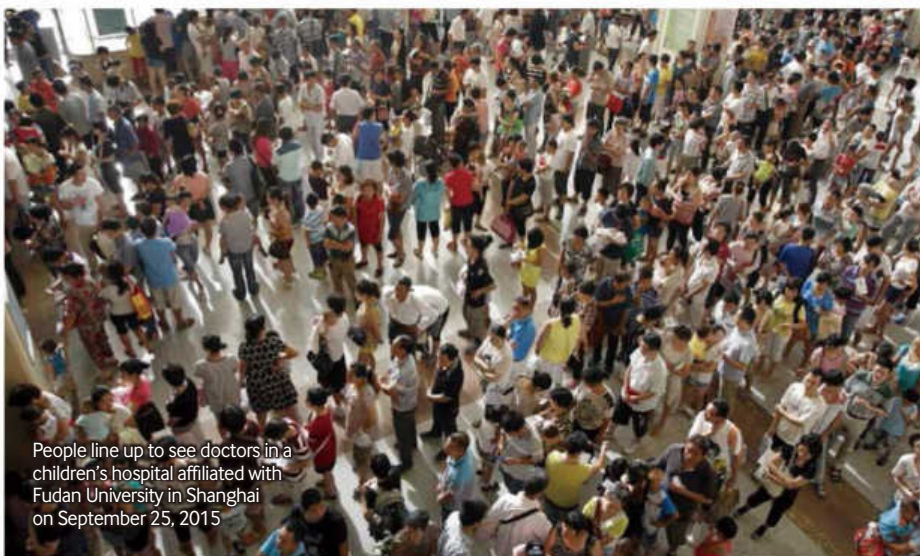
"Medical care depends heavily on hospitals rather than community clinics and primary-care doctors," Du Xueping, Director of Yuetan Community Healthcare Center in Beijing, told *Beijing Review*. "This has resulted in the heavily burdened public hospitals, especially hospitals in bigger cities."

"To include community clinics and village clinics in the national medical insurance will in the long run relieve the burdens laid on the comprehensive hospitals," Du said.

Private and public

The picture in the public hospitals is still not yet ideal. Long lines waiting to see famed doctors and heavy traffic jams around the hospitals are still common scenes in big hospitals in cities across the country.

On May 9, 2015, the State Council issued a circular, asking its ministries and departments as well as provincial-level authorities to deepen medical reform in 2015. In the circular, the State Council laid out specific tasks and plans to address prominent challenges the reform is facing. Among the tasks, the



People line up to see doctors in a children's hospital affiliated with Fudan University in Shanghai on September 25, 2015

first is to continue to reform publicly funded hospitals with these hospitals joining in the reform efforts.

According to the government, the reform seeks to control the size of public hospitals so that they don't expand in an irrational manner. The public hospitals are forbidden to overcharge patients with the medicine mark-up price, so that the hospitals and their medical staff will be decently paid for their work instead of relying on selling medicines. Meanwhile, public hospitals should adopt a reasonable performance assessment system for their staff, the report recommends.

"The most urgent task is to make the hospitals a public welfare instead of business," said Li Ling, a professor from National School of Development at Peking University, to the magazine *China Investment*. According to the goal that the State Council has set, in 2015, more than 95 percent of the country's population will enjoy public health insurance; authorities should therefore increase the insurance's premium for urban children and the unemployed, as well as rural residents, read the curricular.

In June 2015, the State Council issued a series of measures to accelerate the development of private hospitals at the same time the reforms in the public hospitals are underway. Patients are currently allowed to claim medical insurance for private hospital visits as they do for a public hospital.

Hong Kong University-Shenzhen Hospital, jointly opened in 2012 by Hong Kong University and the Shenzhen Municipal Government, is one pilot private hospital. Having struggled for the first three years

with patients' suspicion of its performance, in 2015, it saw a steady climb in demand for services.

"It is an incubator for people who are going to take part in healthcare reform," said Grace Tang, the hospital's chief executive. The hospital established a family-medicine unit to triage and manage patients, a bundled payment system that compensates doctors for spending time with patients, and a team-based treatment approach.

The payment system is quite new in this hospital. Rather than paying a very low fee to see a doctor plus separate fees for subsequent tests or drugs, patients are charged 130 yuan (\$16) as an initial fee. Included in that price are a primary-care doctor consultation and a number of routine medicines and tests if they are needed.

"This might be a very dramatic pilot program for China's medical reform," said Tang. "But it is on track now."

"Actually in 1978, private investors could open private hospitals but many were too eager to chase profits," said Professor Li Ling. "The private hospital market is flooded with hospitals providing low quality services with negative reputations. Encouraging investment in private hospitals could help more reputable hospitals grow and the increasing competition would eventually force public hospitals to improve their services."

"The purpose of medical reform is to have a healthy China," Li said. "We are still on the way." ■

Copied by Mara Lee Durrell
Comments to yuanyuan@bjreview.com

Workout Routine

Keeping fit has been a fashion in China By Tang Yuankai

About five years ago, Liu Chun'er, a Beijing-based office professional, hated her own image in the mirror.

"Fat-laden waist and stocky legs obscured my curve," she said. She did not even have the courage to wear skirts.

Now she loves to don skirts, snap pictures of herself and share them with her friends via social media platforms. Moreover, she has become a fitness role model for her husband and acquaintances.

Shaping up

Five years ago, Liu was inspired by a social sports instructor who said that it is not difficult to shed fat in legs through exercise. She was determined to reshape herself.

Like Liu, more and more people in China seek professional opinions from instructors for their daily workout. Since 1993, social sports instructors have been made a certified profession in China. Not working in schools, they instruct and organize the general public to engage in non-competitive sports.

Statistics from the General Administration of Sport of China (GASC) show that, as of the end of 2014, more than 1.7 million people in China had obtained skill certificates for this occupation and 120,000 people have been certified as professional social sports instructors at the national level. Currently, there are more than 47,000 registered social sports instructors in Beijing. Over the years, social sports instructors in China have learned how to provide better and better services.

Following the advice of a social sports instructor, Liu first learned how to swim. In addition, she ran in the pool because she believed that the resistance of water makes it harder to move legs and hence consume more fat stored therein, while water buffers shocks to joints.

"Walking, biking, cross-country skiing and

climbing staircases are all good exercises to trim legs," Liu shared via WeChat, a popular social media platform in China.

Although jogging can burn fat, for some overweight people, it might be too difficult to continue running for an extended period of time. For them, a good method is to combine walking with jogging.

Liu usually walks to work, and on the way, she jogs intermittently. She has extended the distance gradually over time.

Every day at home, she rides a fitness bike and uses a fitness ball. Another workout routine she follows at home is to face the wall, with two hands placed on the wall, and presses and stretches her two legs in turn.

Her goal is not only to lose weight or get a pair of thin legs, but to make herself stronger and healthier.

"Many ladies such as me no longer like being skinny and fragile," Liu said.

Now, fitness has become an indispensable part of her life, she added. "I will feel at lost if I do not exercise on any day," she said. On smoggy days, in addition to exercising at home, she also likes to go to a community fitness center.

Through body-building, Liu has harvested not only health but also friendship. She and the friends she has made while keeping fit often exchange photos and fitness experiences.

As people's living standards rise, they pay more and more attention to health and fitness, and would like to spend money on that; meanwhile fitness centers have also mushroomed, whose environment and facilities are getting better and better, Liu explained.

Data from the Beijing Municipal Bureau of Sports show that more than half of urban residents exercise regularly, and 87 percent of residents indicate healthy lifestyle as a priority. According to the bureau, the percentage of exercising residents in the city has reached the level of developed countries.

Government efforts

In China, fitness is not only a personal choice, but also a national strategy. In the past decades, the government has been promoting fitness activities across the country at full steam.

In early 2009, the State Council, China's cabinet, designated August 8 as National Fitness Day to raise public awareness.

On February 12, 2011, the State Council released the National Fitness Program (2011-15), which outlines the plan for improving residents' health during the five-year period.

The result of a comprehensive evaluation on the program was released on December 23, 2015, by the GASC.

"The program has produced obvious results," said Liu Peng, Minister of the GASC. He said that the percentage of people that exercise often had increased to 33.9 percent as of the end of 2014, up 5.7 percentage points from 2007. This percentage is also higher than the 32 percent target set in the national plan.

Liu Peng said that both urban and rural residents' physical conditions have improved. A national physical fitness survey conducted in 2014 showed that 89.6 percent of Chinese residents were fit, up half a percentage point from 2010.

Now the national fitness program has been included in the country's social and economic development plan, listed in the budget of various levels of government, and covered in their annual work report. By the end of 2015, China had more than 1.2 million sports venues, more than the targeted number set in the National Fitness Program, while the area of sports venues averaged to 1.5 square meters per capita, according to Liu Peng.

Jiang Chongmin, a GASC official in charge of the national physical fitness monitoring office, said that the monitoring followed

A half-Marathon race is held in Wuhan, Hubei Province, on May 2, 2015



very strict standards. He said that 21 indicators were used to measure fitness. "If three indicators were missing for a respondent, we would drop the sample," he said. As a result, the GASC deleted more than 10,000 invalid samples, he added.

In 2000, Jiang participated in the first national physical fitness survey. Since then, the survey had been carried out once every five years, except for the fourth one, which was conducted in 2014 rather than 2015, he said.

The fourth survey was done one year ahead of schedule so as to provide data for the formulation of the 13th Five-Year Plan (2016-20), he explained.

While flourishing fitness activities enhanced the physical health of participants, they also nurtured a big sports industry.

In October 2014, the State Council released its opinions on boosting the industry and spur-ing sports consumption.

The State Council predicted that by 2025, China's sports industry will have a total value of more than 5 trillion yuan (\$806 billion), while more than 500 million people will exercise regularly. By that time, the per-capita area of sports grounds will be 2 square meters.

By then, "it can be inferred that the value of the sports industry will account for 1-1.5 percent of the GDP, which is at a level compatible with that of developed countries in North America and Europe," said Yi Jiandong, Vice President of Jiangxi University of Finance and Economics, who specializes in sports humanistic sociology.

The development of the sports industry will push forward the growth of the service industry as well. "The sports industry is a labor-intensive industry, which will create jobs, and improve people's physical health, hence it is of important social value," said Yi.

Yi said that the government's preferential tax for cultural and sports industries will further

propel their development. Previously, some sports such as golf and billiards were taxed as entertainment, so the tax rate used to be high. According to the opinions released by the State Council, cultural and sports industries will be subject to a 3 percent business tax, lower than that of the entertainment industry.

In the fall of 2015, Wang Jianlin, CEO of Wanda Group and one of the richest men in Asia, also predicted that the sports industry will have bright market prospects.

Boosted by Internet Plus

In the Internet era, fitness activities have been promoted both online and offline. Mobile Internet apps have been developed for people to monitor their own and their friends' exercise online and encourage each other to continue. Wang Fengxun, Associate Editor in Chief of a fitness magazine, has downloaded several fitness apps, through which he interacts with friends.

These apps can also be used to book fitness clubs, such as Run Bear Run, a ClassPass fitness model launched by Beijing Run Bear Run

Technology Co. Ltd. in April 2015.

By paying 99 yuan (\$15) per month, a user can exercise up to three times in that same month in any fitness center operated by Run Bear Run, said Tian Yingying, the company's chief operating officer. Traditionally, fitness club membership in China usually costs hundreds of dollars per year, which holds undetermined or busy people back. The Run Bear Run model makes access to fitness clubs more affordable and flexible.

In 2014, a novel form of fitness centers that can be booked through Internet apps appeared in front of an office building in Shenzhen, south China's Guangdong Province. The mini mobile center is actually converted from several containers, equipped with various facilities such as smart treadmills. No club card is required. Users can reserve and pay for equipment usage by hours. Through Internet apps, they can also make appointment with and pay fitness instructors. ■

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Searching for *Xiaokang*

Economists predict slower, more sustainable growth By Corrie Dosh



Justin Yifu Lin, Honorary Dean at Peking University's National School of Development, delivers a speech at the annual Forecast of China's Economy held by the National Committee on U.S.-China Relations in New York City on January 7

speaker Justin Yifu Lin, Honorary Dean at the Peking University's National School of Development and a former World Bank chief economist.

China's growth has been decelerating over the past six years, Lin said, fueling fears that the three decades of breakneck expansion have come to an end. Viewing the country's economy in the context of global economic cycles, however, shows that the slowdown is mainly due to external pressures, rather than internal weakness, he said.

"Some people are pessimistic about the growth prospects in China because they think the deceleration is mainly due to internal, structural growth model issues. I think China is a transition economy. Certainly China has structural, internal problems.

However, the deceleration since 2010 is mainly due to external and cyclical issues. All other emerging market economies are experiencing similar deceleration since the first quarter of 2010 and, if anything, their deceleration was even sharper," Lin said.

The economist remained confident in China's economic prospects over the coming decade, forecasting a growth rate of between 6.5 percent and 7 percent in the next five to 10 years.

Though GDP growth is slowing, other economic indicators have remained steady, said Lu Feng, Director of the China Macroeconomic Research Center at Peking University. Income growth continues and employment is growing. The service sector is expanding and consumption is stable. The strategy for growth can be seen as building a "*xiaokang* society"—a term used by generations of Chinese leaders defined

as a moderately prosperous society in which its wealth should be broadly distributed among the population.

"How to achieve *xiaokang*? There are five core tasks: innovation, harmonization, green strategy, opening up, and, sharing with the future," Lu said. As the country continues to develop, priority will be giving to supply-side structural reforms this year with focus on dealing with overcapacity, reducing inventory in the housing sector and reducing income disparity, he added.

Global integration

If anything, China's recent troubles in its stock market shows just how interconnected the country has become to global finance. China's suspension of trading due to rapid selloffs sent world markets tumbling with a 1-percent stock market slide on Wall Street and a 2-percent slump in European markets during the first trading week of 2016. China's new "circuit breaker" mechanism meant to limit selling seems to have backfired, spooking investors when it was implemented during that week's downturn. Market regulators abruptly pulled the circuit breaker in an attempt to stop the slide and calm investors.

Even after the first week's selloffs, the market is still up 42 percent over the past three years and is the best performing market in the world, said Junheng Li, founder of JL Warren Capital in New York.

China's stock market also cannot be used as a bellwether for the country's economy, say economists.

"Do not blame China's economy for trashing the world's equity markets," reported High Frequency Economics, based in New York. "We

As China's stock market plunged for a second time in a week, fueled by a weakening yuan, leading economists gathered in New York January 7 to rally hope that the country's reforms have not stalled and that the deceleration in the economic growth represents a small bout of growing pains. With the success of an expanding set of free trade zones in Shanghai and other cities, China's economy will continue to grow by 6.5 percent in 2016, according to delegates to the annual Forecast of China's Economy held by the National Committee on U.S.-China Relations (NCUSCR).

"Certainly, China aspires to be a high-income country and to be one it has to continue further reform to reduce income disparities and contain corruption, in order to get rid of the legacy of this dual-track transition," said keynote

Stephen Orlins, President of the National Committee on U.S.-China Relations, and other Chinese economists at the committee's annual event



blame skittish investors, not a poorly performing economy. For all its faults and flaws, China's economy is doing more than its fair share to absorb the excess productive capacity in the world's commodity markets."

The Chinese stock market and the Chinese economy have "been on separate tracks," said Stephen Orlins, NCUSCR President and host of the annual forecast. "For years, as the economy raced along, the Chinese stock market didn't go up. Then, as growth has somewhat decreased, the market soared."

Chinese leaders have approached economic growth as cautiously as crossing a rushing river on stones, Orlins said. As some of the stones are slippery, some steps will need to be backtracked and a new path sought. Corrections are unavoidable, he said.

Betting on the basket

The devaluation of the yuan has raised more serious worries on the state of the Chinese economy.

Investors are closely monitoring the yuan after the People's Bank of China published a reference rate for the yuan against a trade-

weighted basket of 13 currencies instead of the dollar on January 4.

Staying tied to the dollar meant China's currency has become very strong against everyone except for the United States, its biggest trading partner. If done slowly and gradually, using a basket approach will be a more rational way for China to adjust to economic trends, said delegates.

Global markets panicked over the devaluing of the yuan during the first week of the year, fearing a currency war. Investors were worried that the move signaled a faster economic slowdown than expected. Those fears may be unfounded, say analysts.

The yuan may have been overvalued and the readjustment is a "structured and necessary part of China's transition from an export-led economy to a more consumer and services-driven one," said Nigel Green, CEO of the deVere Group, in a statement.

Confidence remains

With all the negative press the Chinese economy has generated at the beginning of 2016, investors may be thinking that China is no

longer the powerhouse of growth that it once was, but economists at the NCUSCR forecast remained upbeat.

Emerging sectors such as Internet finance, technology and the service industry and positive policy changes such as the success of the free trade zones will expand and replace the manufacturing base that has fueled China's rise.

The depreciation of the yuan, stock market "circuit breakers," and decrease in reserves simply show that Chinese authorities have many tools to protect the transitioning economy against external pressures, panelists said. What remains is that the Chinese dream is still strong and that China is still a good option for investors.

"Fundamentally, the capital will come back to China's economy and will continue to grow strongly. Fundamentally, the gross product is one of the best in the world," said Lin. ■

(Reporting from New York City)

The author is a contributing writer to *Beijing Review*, living in New York City
Comments to yushujun@bjreview.com

A Laborious Matter

Labor services prices are expected to grow slowly while consumer inflation remains moderate **By Mei Xinyu**



The author is an op-ed contributor to *Beijing Review* and a researcher with the Chinese Academy of International Trade and Economic Cooperation

The labor market is important to the economy, as reflected by its impact on economic performance and the government's decision-making process for related policies. Take the United States, for example, in which the unemployment rate maintained a steady decline from 8.9 per-

cent in 2011 to 6.2 percent in 2014. During the first 10 months of 2015, U.S. unemployment rate dropped from 5.7 percent to 5 percent—indicating an economic recovery. It therefore comes as no surprise that, even though financial markets around the world suffered turmoil during 2015, the U.S. Federal Reserve opted to kick-start its plans to raise interest rates.

In China, the labor market is also playing an increasingly important role, affecting many aspects of the economy, including inflation. The effect has been verified by price indexes, the unemployment rate, and the total wages of employed persons in

urban areas. Particularly after 2012, while China's producer price index (PPI)—a major measure of inflation at the wholesale level—has kept declining, its consumer price index (CPI)—a main gauge of inflation—has still been rising. This indicates that the growth of the consumer inflation index is mainly driven by the price increases of agricultural products, human resource costs and real estate prices, instead of industrial products. Particularly in the past year, human resource costs, which are decided by the supply and demand of the labor market, have become a major source of inflation.

Rise of labor costs

Usually, costs of commodities and services come from three sources: the costs of raw materials, energy and equipment, of human resources and of land. Due to economic growth and demographic changes, China's surplus labor force is becoming exhausted, rapidly pushing the costs of the labor market to new heights. Therefore, human capital has become a major factor behind inflation pressures—this has also had a remarkable impact on services prices.

Measured by dollar-denominated commodity prices in international trade, the primary commodities market—composed of materials in a raw or unprocessed state—was booming from 2002 to 2011. As a result, throughout this period, China's PPI was higher than its CPI, and the purchasing price index of raw materials was higher than the PPI. As for consumer prices, the price rise of consumer goods was higher than that of services. For instance, in 2011, prices of



(Source: National Bureau of Statistics, designed by Pamela Tobey)



A supermarket in Cangzhou, north China's Hebei Province

consumer goods rose by 6.2 percent, as opposed to a 3.5-percent rise in services prices.

According to the World Economic Outlook issued by the International Monetary Fund in April 2015, the dollar-denominated costs of nonfuel commodities dropped by 10 percent in 2012. Meanwhile, oil prices rose by 1 percent and the costs of finished products climbed 0.6 percent, meaning that the primary commodities market had entered a period of recession. It will take some time, however, for the effects of the recession to be transmitted to China's consumer market. Correspondingly, consumer goods prices in China rose by 2.9 percent in 2012, still higher than the 2-percent growth in services prices. This activity came against the backdrop of the CPI's growth plummeting from 5.4 percent in 2011 to 2.6 percent in 2012.

Since 2013, the recession in the international commodities market has worsened. At the same time, China's labor market remains close to full employment. During the period of 2011-14, the registered unemployment rate in urban areas stood at 4.1 percent, 4.1 percent, 4.05 percent and 4.09 percent, respectively. At the end of the third quarter of 2015, the rate dipped to 4.05 percent.

Wages have also kept rising. Data from the National Bureau of Statistics showed that in the third and fourth quarters of 2012, the total wages of employed persons in urban areas grew by 23.6 percent and 18.3 percent respectively. In the first three quarters of 2013, the index rose by 17.2 percent, 17.3 percent and 18.9 percent respectively. Even in the fourth quarter of 2014, during a clear economic slowdown, the total wages of em-

ployed persons in urban areas still went up by 10.5 percent.

The increase of wages therefore pushed up services costs at a rate faster than prices of consumer products could keep up with during the past three years (see graphic).

According to the China Employment Index Report jointly issued by Renmin University of China and Zhaopin.com, in the third quarter of 2015, labor market supply still fell short of demand, but the gap between them was narrowing.

Future price trend

Based on the tendency that the costs of human resources in China are likely to maintain rapid growth, it is expected that for some time, the growth of the CPI will be higher than that of the PPI. Also, among consumer prices, the growth of consumer goods prices will be higher than that of services prices. For some time, the value of traditional labor-intensive products will grow faster than that of capital and technology-intensive products. In addition, the fast growth of labor-intensive products will finally lead to a curb of their price increase. Among services, the growth of traditional labor-intensive service prices, such as catering and home services, will be higher than that of capital-intensive services. This is due to the fact that it is difficult to improve the productivity of labor-intensive services solely through equipment upgrades, while capital and technology-intensive services can be offered in a variety of places through back-office outsourcing or back-up centers.

A review of changes in the prices of consumer goods, services, traditional labor-intensive services and capital-intensive services within the past two years has verified my conclusion.

But, will the prices in 2016 follow the described trends? Considering the prices of international primary commodities and China's employment indexes, I can draw the following conclusion: Unless the yuan sharply depreciates against the U.S. dollar, imported deflationary pressures brought by declining PPI and purchasing price index for raw materials will continue throughout 2016. Furthermore, the trend wherein the CPI grows faster than the PPI and services prices grow faster than consumer goods prices will also be maintained. However, due to the economic slowdown and a shrinking gap between labor market supply and demand, the difference between the growth rates of consumer goods and services prices will gradually be narrowed.

Moreover, since the services prices have increased substantially and mobile commerce has developed rapidly, traditional labor-intensive services, such as catering and home services, are facing severe pressures to restructure. Because of decreased intermediate costs and increased supplies of labor—for example, the use of mobile applications making it possible for housewives to provide cooking services—prices of labor-intensive services will grow less rapidly, or may even stop. ■

Copiedited by Bryan Michael Galvan
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OPINION

Is the 'Circuit Breaker' to Blame for the Stock Market Fall?

In an effort to tame the frenzied stock market last year, the China Securities Regulatory Commission (CSRC) implemented a "circuit breaker" mechanism to mitigate the impact of future fluctuations. The mechanism started operating on January 4, but was subsequently responsible for the early end of the first day of trading in 2016.

(Editor's note: China has introduced the "circuit breaker" mechanism to follow the Hushen 300 Index, which reflects the performance of both the Shanghai and Shenzhen stock markets. Should the index rise or fall by 5 percent, the "circuit breaker" will trigger a 15-minute suspension in trading. Trading is outright terminated for the day if the Hushen 300's rise or decline is greater than 7 percent. On January 7, the "circuit breaker" mechanism resulted in the shortest day of trading in the Chinese stock market's 25-year history—exchanges lasted just 29 minutes. The CSRC subsequently ordered the temporary suspension and review of the mechanism's operations, just four days after its introduction.)

Recent market imbalances have aroused widespread speculation regarding whether or not the mechanism actually fits China's stock market. So, what are the reasons behind the immediate triggering of the "circuit breaker" after its launch?

First of all, there are widening concerns over China's economic outlook. According to statistics from the National Bureau of Statistics and the China Federation of Logistics and Purchasing, the purchasing managers index (PMI) for China's manufacturing industry stood at 49.7 in December 2015. Though it's a slight increase from the previous month, the manufacturing PMI has been below the level of 50 for five consecutive months—a reading over 50 indicates expansion, while anything under 50 expresses contraction. Also, manufacturing activities in the last quarter of 2015 were less robust than that in the third quarter. Even worse, investments and exports also fell short of expectations in 2015, implying that the economy faces increasing downward pressure.

Considering this trend, these concerns are valid. The housing industry is currently under

pressure to reduce their inventory, especially in third- and fourth-tier cities, as part of efforts to avoid a property bubble collapse. The manufacturing sector also has to reduce their inventory. Due to Chinese enterprises' high leverage ratios, investment will continue to be suppressed. In addition, considering the current global economic situation as well as China's underperforming export trade in 2015, this year's exports are likely to fall short of expectations as well. Therefore, it's widely believed that China's economy will grow at a slower pace than that of the past several years.

Moreover, panic and paranoia recently spread like a virus among investors due to the U.S. Federal Reserve (Fed)'s decision to make reverse repurchase operations on the last day of 2015. The New York Fed on December 31, 2015 awarded a record \$474.59 billion of one-day fixed-rate reverse repurchase agreements to 109 bidders at an interest rate of 0.25 percent. This implied that the United States will keep pushing the dollar's interest rate up, and adding fuel to anxieties that capital is bleeding out of China. On the other hand, on the first trading day of 2016, the exchange rate of onshore yuan against the U.S. dollar tumbled 0.62 percent to 6.5338, the weakest level since April 2011, while that of offshore yuan against the dollar slumped 0.85 percent to 6.6256. That's to say, as the effects of the Fed's interest rate hike are made clear, investors are increasingly likely to unload their yuan-denominated assets.

Beyond that, restrictions barring majority shareholders from selling their stocks were removed on January 8. Since many shareholders purchased large quantities of shares when prices plummeted last June, and some mid- and small-cap stocks are now overpriced, the tendency is to cut shareholding after making fat profits.

Another source of anxiety is the prospective implementation of a registration-based initial public offering (IPO) system. The first changes brought by the reform are expected to kick off in March. Given that there is a long line of companies waiting to get listed, investors are

worried that after the registration-based IPO system is implemented, new companies will saturate the market. In such a scenario, it is possible that overpriced listed companies will lose value, adding to market pressures.

Finally, deep-rooted problems in China's stock market must be taken into account when analyzing the overall economic situation. The interests of the investors haven't been protected as effectively as they should have been. Some listed companies almost never pay dividends to investors, so stock investors often profit from speculative activities instead. Data from the Ministry of Finance show that stamp duties on securities transactions amounted to 239.5 billion yuan (\$36.36 billion) in the first 11 months of 2015. Counting in commissions charged by securities traders, the figure ballooned up to 450 billion yuan (\$68.31 billion). In sharp contrast, a total of 219 companies that got listed in the Shanghai and Shenzhen stock markets last year only raised a meager 158.6 billion yuan (\$24.08 billion) through their IPOs, according to statistics from Deloitte.

A lack of effective investor protection has also led to frequent insider trading scandals. Revelations of malignant insider trading have played a role in daunting stock investors. Investigations into the activities of high-ranking CSRC officials and many executives from securities companies, as well as media reports of collusion and interest transfer behaviors have, to some extent, shaken investors' confidence in the securities watchdog's ability to monitor and regulate the market.

Regulators are pushing for reform. As problems continue to arise, the government has shown the willingness to experiment and to adopt strategies designed to iron out the wrinkles in the stock market. ■

This is an excerpt of an article written by Bian Yongzu, an associate research fellow from Chongyang Institute for Financial Studies at the Renmin University of China, published on China.com.cn

Copiedited by Bryan Michael Galvan
Comments to yushujun@bjreview.com

NUMBERS

(\$1=6.6 yuan)

24.59 mln units

Auto sales in China last year, a year-on-year increase of 4.7 percent

\$87.43 mln

Worth of cargo transported by cargo trains between Europe and Harbin, capital of northwest China's Heilongjiang Province, since the service's inception in June 2015

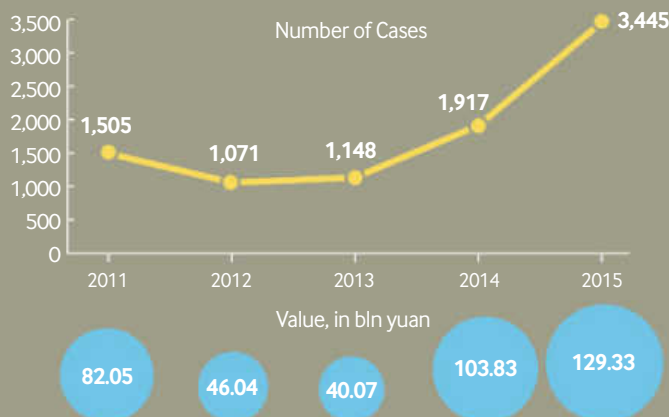
4.6%

Decline of Volkswagen's auto sales in China last year, with its total sales in the country standing at 2.63 million units

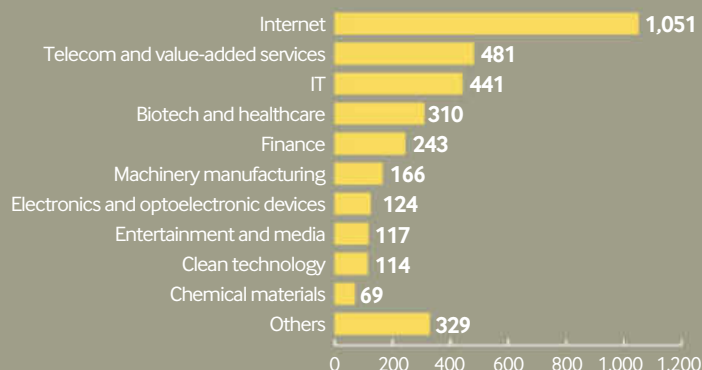
1.43 bln

Number of rides completed by China's largest ride-hailing and sharing app Didi Chuxing in China last year—its user base now exceeds 250 million

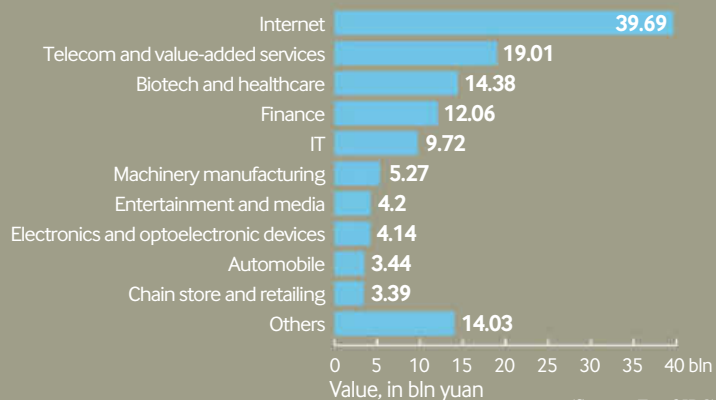
Investment Cases and Value in China's VC/PE Market



Top 10 Sectors in Investment Cases in China's VC/PE Market 2015



Top 10 Sectors in Investment Value in China's VC/PE Market 2015



(Source: Zero2IPO)

23.04%

China's forest coverage goal by 2020

180 bln yuan

Value of investment projects approved by the National Development and Reform Commission during the first 10 days of 2016

77 bln yuan

Investment on the construction of civil aviation infrastructure this year

12.3 mln

Number of Chinese people having 1 million to 5 million yuan worth of investable assets in 2015



A Review Of the 20 Years Development History of HNA Group

Since its successful maiden flight on May 2, 1993, HNA Group has been prospering into a giant conglomerate based on the core businesses of aviation, industry, finance, tourism and logistics. During this 20-plus years, the Group's business landscape has expanded from Hainan Island, the pearl of the South China Sea, to the whole nation and the rest of the world, with its total asset value reaching nearly 500 billion Yuan including 11 joint-stock and holding listed companies. In 2014, HNA Group had a revenue exceeding 150 billion Yuan, while providing more than 110 thousand opportunities of employment to the society. Now, the HNA Group ranks 99th in China's Top 500 enterprises, and lands on Fortune's Top 500 for the first time, ranking 464th with an operation revenue of 25,646.4 million dollars.

HNA's African operations

Civil aviation operation

In 2012, the HNA Group acquired a French company Aigle Azur, an airline mainly offers scheduled flights between France and North Africa, as the 2nd largest shareholder. HNA Group is also the co-founder of Africa World Airlines Limited (AWA) in Ghana, with China-Africa Development Fund (CADF). AWA is the first civil aviation business invested by Chinese enterprises in Africa, which not only marks a network of air passenger route that connects China, France and Africa has been preliminarily formed, but also shows the China's investment in Africa has been upgrading from traditional mineral exploitation and project contracting to service industry like aviation.

Logistics service

Cumulatively, the HNA Group has conducted the engineering logistics businesses in 10 African countries and regions by now, with the annual revenue in this business reaching approximately 10 million RMB and the transport volume grown to over 20 thousand revenue ton. In African countries like Equatorial Guinea, Congo, Cameroon, Gabon Madagascar, Zambia and so on, the HNA Group are cooperating with some large Chinese state-owned enterprises, for instance the China Road and Bridge Corporation, the China National Machinery and Equipment Import & Export Corporation and the Sinohydro Ltd, and provides them excellent engineering logistics service in infrastructures construction projects. In addition, the HNA group also has a business to transport the bulk cargo of iron ore and coal exported from South Africa to China.





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THE NEW SPIRIT OF AFRICA

A STAR ALLIANCE MEMBER





‘In’ Words

Selecting popular expressions of the year has become a trend, but can their popularity last? By Ji Jing

“Internet Plus” and “maker” made Yaowen Jiaozhi magazine’s list of the 10 most popular Chinese catchphrases of 2015. The list, published in the December 2015 issue, featured seven phrases from the Internet and three related to political and economic affairs.

Hao Mingjian, Editor in Chief of the magazine that specializes in correcting typos and the misuse of words in publications, said the selected phrases are frequently used because they reflect the realities of society and people’s aspirations.

For instance, a “sense of gain” originates from a speech made by President Xi Jinping during a meeting of the Central Leading Group for Overall and Further Reforms last February. Xi promised to bring citizens a

greater “sense of gain” from China’s reforms.

“The phrase is down-to-earth and reflects the expectations of ordinary citizens for social progress,” said Hao.

Huang Anjing, Executive Editor in Chief of the magazine, said, “Some catchphrases have also represented breakthroughs in linguistic structures. For instance, ‘Internet Plus’ is composed of a noun and a punctuation mark in Chinese. It’s simple but informative.”

The Internet has become a breeding ground for hot words. The phrase *zhuyao kan qizhi* or “focus on my aura” went viral online after Taiwan-based singer Cindy Wang posted a photo from her new album of herself holding a hamburger on her Weibo microblogging social networking platform.

Wang replied to criticisms that the photo was weird by posting “focus on my aura.” Later many social media users imitated Wang and posted photos accompanied by this phrase.

Huang cited three criteria for selecting the words and phrases: First, they should be popular and bear the imprints of the times; second, they should involve innovation and breakthrough in linguistic structures; and third, they should be polite. Some phrases such as *ranbingluan*, meaning “being nonetheless useless,” though popular, were excluded on the grounds of bad taste.

Zhang Yiwu, a professor with the Department of Chinese Language and Literature at Peking University, attributed the emergence of many new words and phrases to the Internet.

“Many catchphrases are peculiar to the Internet era. In the past, it was philosophers and writers who created new words, and ordinary people could hardly be part of language creation owing to limited communication methods,” said Zhang. “However, people are becoming more expressive. The Internet has provided them with a new chan-

nel to share information and communicate with each other. New expressions have come into being in the process of online communications and some of them have become part of modern Chinese."

Poet Ye Kuangzheng said relaxed regulations for language use have promoted linguistic innovation. That's not to say we abandon regulations, but different criteria should be applied to media at different levels, Ye added. For instance, national media should adopt stricter rules for language use than local media.

"The practice of selecting catchphrases represents heightened attention to new expressions and should be encouraged," said Ye.

Selecting hot words has become a trend in China. In addition to *Yaowen Jiaozi*, the National Language Resources Monitoring and Research Center at Beijing Language and Culture University, in conjunction with several other institutions, published the 10 most popular phrases in six categories on December 21, 2015. The categories included domestic politics, international politics, economic affairs, science and technology. The center has made such a selection for the past 10 years.

However, writer Zhe Fu is not optimistic about the sustainability of Internet buzzwords.

"Buzzwords are often short-lived because most of them stem from specific events or a specific environment," Zhe said. "They will become redundant 10 or 20 years later when the context that gave rise to them changes."

Tang Wenming, a professor with the Department of Philosophy at Tsinghua University, shares a similar view, predicting that hot words will have a short lifespan.

"Linguistic innovation is a serious matter," said Tang. "For instance, Chinese idioms embody experiences of our ancestors and are still relevant today. However, hot words lack such experiences and therefore can hardly survive." ■

Copiedited by Calvin Palmer
Comments to jijing@bjreview.com

Top 10 Buzzwords in 2015

Huodegan (Sense of Gain)

The phrase refers to the sense of gratification derived from sharing the results of ongoing reforms.

Hulianwang+ (Internet Plus)

The Internet Plus strategy introduced by Premier Li Keqiang seeks to integrate the mobile Internet, cloud computing, big data and the Internet of Things with modern manufacturing to improve efficiency. The country hopes the strategy will help drive the restructuring and transformation of conventional manufacturing, facilitate the development of emerging sectors such as e-commerce and online banking, and help Internet companies increase their presence in the international market.

Yanzhi (Appearance Value)

The word means the quantitative value of one's appearance, although appearance is not something that can be quantified. *Yanzhi* can be compared and measured like other quantifiable things such as length and weight. A person with high or sensational *yanzhi* is someone who is extremely handsome or beautiful, whereas someone who has low *yanzhi* is a plain Jane.

Baobao (Baby)

The word originates from the Internet slang, "It scares *baobao* to death," which actually means, "It scares me to death." *Baobao* is primarily used by girls when referring to themselves in almost any context.

Chuangke (Maker)

This word refers to a person who turns innovative ideas into creative products or services using his or her skills. With the government's vocal support for entrepreneurship and innovation, a new wave of makers has spread throughout China.

Naodong Dakai (Opening up the Brain Hole)

Derived from Japanese anime, *naodong dakai* means the audience imagining plots outside the story. The meaning is similar to "imaginative" or "inspiring." Those who have "a large brain hole" are supposed to be imaginative, even unimaginably weird.

Renxing (Willful)

Renxing comes from a story about a man who was cheated by an online fraudster. Even though he realized he was being defrauded, the man continued to give his money away to the swindler. When interviewed, his response was startling. "I just wanted to know how much they wanted from me," he said. The story drew a comment that went viral: "Only if you have plenty of money can you be willful like that." However, the negative connotation has faded, giving way to a somewhat neutral one. It is now used to mean "naïve" or even "brave."

Duoshoudang (Hand-Chopping People)

The phrase refers to those addicted to online shopping, primarily women. They compare prices between different shopping sites before making a purchase. It seems that they have saved money but in fact they have wasted time buying a large quantity of useless items. They often regret their purchases later and vow to chop their own hands should they make irrational purchases again. However, they soon return to the same pattern of behavior.

Wanghong (Instant Online Celebrity)

The word refers to someone who gains overnight fame on the Internet through his or her gorgeous appearance, weird words or deeds, and promotion by Internet marketers. Though instant online celebrities have a strong impact on the social media, the duration of the influence is usually short.

Zhuyao Kan Qizhi (Focus on My Aura)

The phrase advises people not to be preoccupied by appearance because inner qualities are more important.

(Selected by Yaowen Jiaozi magazine)

World Outlook for 2016

Dear Readers,

Forum is a column that provides a space for varying perspectives on contemporary Chinese society. We invite you to submit personal viewpoints on past and current topics (in either English or Chinese).

 yanwei@bjreview.com

Please provide your name and address along with your comments

As we emerge from the embers of last year, 2016 holds great potential for both hope and turmoil.

In terms of hope, athletes from around the world will compete for the highest honors in Brazil during the 2016 Summer Olympic Games. This will also be a year of hopeful expectations as the citizens of the United States cast their votes for a new president.

In the meantime, dark signs of unrest are looming on the horizon as increasing numbers of refugees have been hemorrhaging out of Syria, and the virulent threat of the so-called "Islamic State" group (ISIS) is spreading throughout the world.

The global village has shrunk again, and any small incident has the potential to rock the world. What will become of the world? *People's Daily Overseas Edition* interviewed a handful of experts on international studies, who shared their views on 2016's global outlook. Excerpts of their views follow:

A tough economic recovery

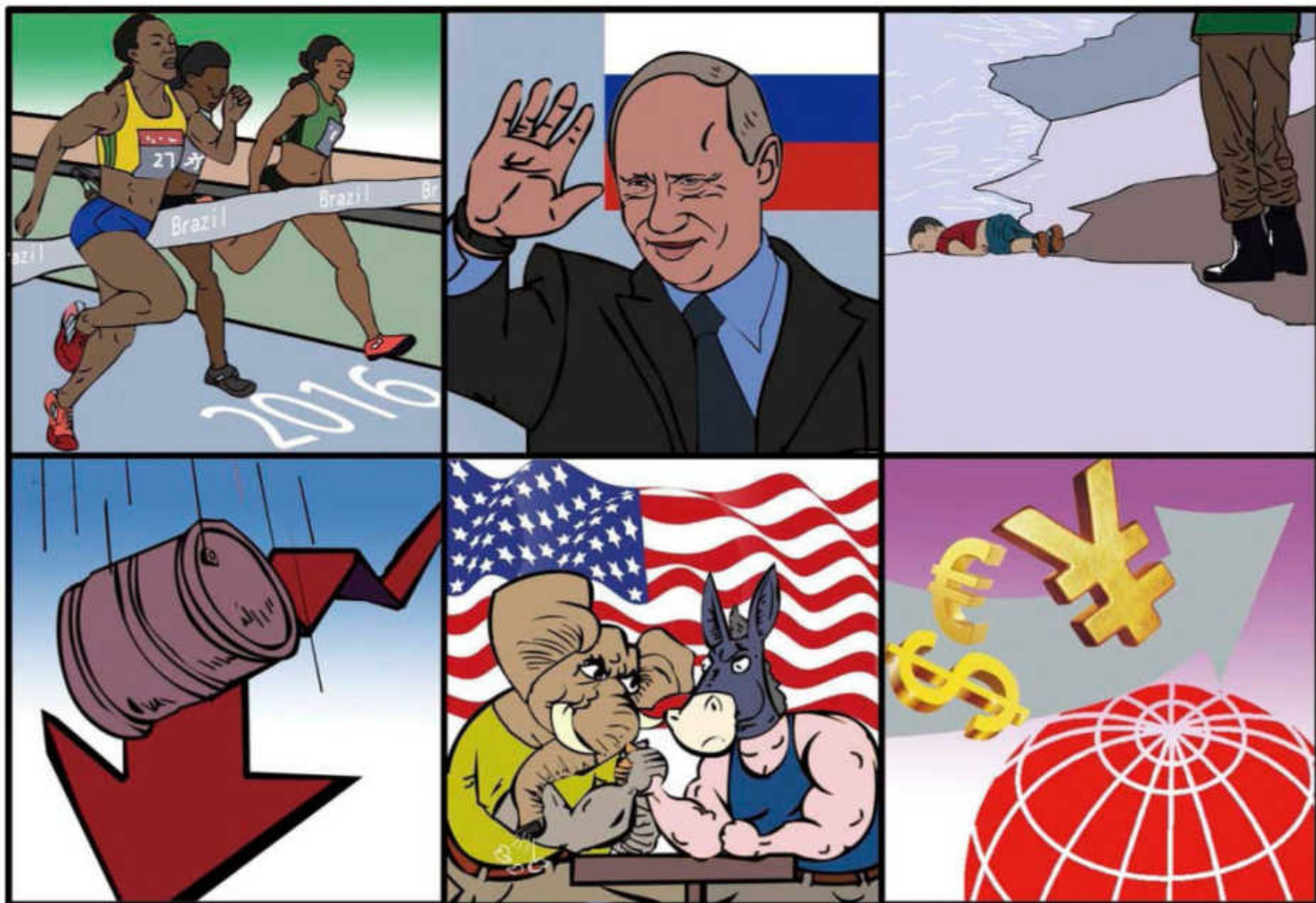
The world economy failed to throw off the vestiges of the global financial crisis in 2015, a struggle that has now continued for the past eight years. Oil prices were low at the start of the year, the global financial market was turbulent throughout the midyear period and the U.S. Federal Reserve (Fed)'s move to raise interest rates at the end of 2015 sent a nervous jolt across major economies.

Will the world economy realize a complete recovery this year? In the recent world economic outlook report published by the International Monetary Fund, the world econ-

omy's growth rate in 2016 was projected to reach 3.6 percent. Similarly, the Organization

"It will be very difficult for the world economy to realize an overall recovery in 2016 owing to the risks of financial fluctuations in emerging economies."

Xu Hongcai,
Director of
the Economic
Research
Department at
the China Center
for International
Economic
Exchanges



for Economic Cooperation and Development (OECD) outlined a growth of 3.3 percent in its own economic forecast for 2016. Although such figures are slightly higher than 2015's predictions, they are still lower than previous expectations.

Compared to the risk of fluctuations in emerging markets, Europe is likely to realize a moderate recovery thanks to the implementation of the European Commission Investment Plan. The strategy, outlined by European Commission President Jean-Claude Juncker in 2014, is an ambitious infrastructure investment program that aims to stimulate investments. Nonetheless, the Greek debt crisis remains, as reforms cause tensions to flare throughout the union.

Meanwhile, the Japanese economy—

the third largest in the world—is projected to remain relatively stable, though fears of continued stagnation have led to increased reforms. The OECD has made optimistic predictions of the performance of developed economies in 2016, foreseeing the GDP growth rate of the United States to be around 2.5 percent, the eurozone to be 1.8 percent, and Japan 1 percent, all higher than predictions those of last year.

However, it is worth noting that in contrast to the Fed's move to increase interest rates, the European Central Bank and the Bank of Japan continue to maintain quantitative easing policies as a means to prop up their economies. The inconsistent monetary policies adopted by developed economies

will increase the risk of future turbulence in the global international financial market.

"The world economy will experience moderate recovery in 2016; however, the pace of recovery will not be very fast," said Shen Jiru, a researcher with the Institute of World Economics and Politics at the Chinese Academy of Social Sciences. "The uneven development of the global economy will persist."

Xu Hongcai, Director of the Economic Research Department at the China Center for International Economic Exchanges, holds similar views to Shen. Xu said, "It will be very difficult for the world economy to realize an overall recovery in 2016 owing to the risks of financial fluctuations in emerging economies."

That analysis is highlighted by the Fed's ►►

interest rate hike last year, which may lead the dollar to appreciate, thereby resulting in capital flowing back to the United States. If so, developing economies would face additional downward pressure this year, along with currency devaluation.

"On the whole, the economic outlook in the Western Hemisphere will be better than that of the Eastern Hemisphere, and the Northern Hemisphere's situation will be better than the Southern Hemisphere's," claimed Xu.

In addition to those concerns, the international oil price is an important factor to be considered. In 2015, oil prices plunged precipitously, sparking fears in the global market. Will the slump in oil prices be reversed in 2016?

"The price of staple commodities, especially oil, will remain low in 2016. This is related to the Organization of the Petroleum Exporting Countries' (OPEC's) decision not to slash production in order to maintain its members' market shares," said Xu.

Low prices are likely to be sustained in part due to the United States' recent decision to lift a 40-year-old ban on oil exports, as well as Iran's return to the oil market after international sanctions were relaxed. Nonetheless, the demand for oil hasn't followed the swelling supply, not to mention a sagging global economy's meager appetite for increased oil prices. The Goldman Sachs Group even predicts that oil prices will fall to \$20 a barrel this year.

"The massive use of renewable energies will reduce traditional reliance on fossil fuels," said Shen. "This will be good news for energy resource importers such as the United States, Europe and Japan. However, energy exporters such as Russia, Brazil, and OPEC members will face greater downward pressure."

Global threats to security

2015 was an estuary in which traditional and non-traditional security threats met and enveloped each other. ISIS' growth was the most infamous of those threats as it rampaged like a bull in a china shop across various regions.

"ISIS' development may slow down this year due to the international community's consensus to join forces against them in 2015. This will dissolve the influence of the group," said Li Weijian, Director of the Foreign Policy Research Center at the Shanghai Institutes for International Studies.

"However, new problems are likely to ensue. ISIS might flee to other fragile states and carry out some 'lone wolf' terrorist attacks as attempts to get back at the international community's crackdown, as well as to manifest and spread their influence," Li Weijian added.

Even so, Su Xiaohui, a researcher of international strategies at the China Institute of International Studies (CIIS), holds that although a consensus is being formed, the

sincerity of all parties involved is questionable. "ISIS cannot be eliminated quickly; therefore, cooperation will be limited," claimed Su.

In addition to ISIS, many other safety problems are likely to afflict the world in 2016. In Nigeria, Boko Haram Islamists may continue to carry out bloody massacres; in Afghanistan, although the majority of U.S. soldiers are scheduled to pull out of the country by the end of 2016, no signs of peace and stability can be seen in the horizon; and in Latin America, massive levels of homicides and drug-related crimes are a pervasive threat to the region's safety. Many experts believe that non-traditional security threats may become more prominent this year.

"In recent years, non-traditional security threats have been constantly on the rise. For instance, the cybersecurity problem has always existed but has been covered up by more urgent issues. They are likely to arouse more attention in the international community this year," said Su.

Wang Jun, Chief Engineer of the China Information Technology Security Evaluation Center agrees, stating, "Cybersecurity will play more important roles in bilateral and multilateral relations this year and even rank as a top priority sometimes."

Wang also thinks that although it has been several years since the U.S. National Security Agency's data surveillance program PRISM was disclosed by Edward Snowden, similar mass surveillance programs have not reduced nor disappeared from the Internet.

Diffused responsibilities?

According to latest data from the International Organization for Migration, over 1 million refugees and migrants arrived in Europe in 2015, four times that of the previous year. Reports by the German Institute for Economic Research predict that 1 million more refugees will swarm into Germany in 2016. The European Commission expects that 3 million asylum seekers to reach the European Union (EU) by 2017.

Cui Hongjian, Director of the European Studies Institute at the CIIS, predicts that the number of refugees flocking into

"ISIS' development may slow down this year due to the international community's consensus to join forces against them in 2015. This will dissolve the influence of the group."

Li Weijian, Director of the Foreign Policy Research Center at the Shanghai Institutes for International Studies

Europe in 2016 may decline compared to previous forecasts in part due to relevant measures taken by the EU at present. However, Europe must contend with the possibility that increasing numbers of refugees may find their way into Europe from countries apart from Syria, including South Asian countries such as Afghanistan and Pakistan.

"The refugee problem arises from war, terrorism and issues in governance inherent in some countries. If those three obstacles continue to exist or become worse in 2016, the number of refugees will continue to rise," stated Cui.

"The refugee problem arises from war, terrorism and issues in governance inherent in some countries. If those three obstacles continue to exist or become worse in 2016, then the number of refugees will continue to rise."

**Cui Hongjian,
Director of the
European Studies
Institute at the
CIIS**

Cui claimed that the rise in the number of refugees will increase disorder, even as Europe attempts to control the influx into the continent. An effective solution would be to disperse the refugees in countries outside of Europe.

"The EU expects other countries not only to increase their financial support through the UN for the solution of the refugee problem, but also shoulder some responsibilities for maintaining regional stability," said Cui.

He foresees that the EU will continue to attempt to internationalize the refugee problem in 2016. Countries like the United States, Australia and Canada have already announced plans to take in refugees from the Middle East. This will test the resolve of the global community to come to the aid of those afflicted by the war in Syria and other war-torn regions in 2016.

Geopolitical risks

A number of experts believe that regional problems may erupt into global concerns as 2016 matures. "As relations between countries become closer, a small incident in one region may cause a chain reaction throughout a number of nations," said Su Xiaohui, a researcher of international strategies at the CIIS.

As the glue binding the EU becomes weaker, the unity of the union may degenerate even further this year, especially considering the Ukrainian impasse in the east as well as the refugee predicament. Moreover, the United Kingdom could vote to decide whether to break its ties to the union later this year. Debt-ridden Greece may leave the eurozone.

In the Middle East, geopolitical problems are erupting en masse, with some conflicts escalating, said Li Wei, Director of the Antiterrorism Research Center at the China Institutes of Contemporary International Relations. He asserted that the fragmentation of this region would continue and the region may reorganize itself in 2016.

There will be frequent outbreaks of controversial issues in the Asia-Pacific region, too, according to Su. "The United States meddled in maritime territorial disputes in the South China Sea in 2015. It may take

"The Obama administration will try its best to avoid conflicts with Russia as the presidential election approaches. Russia's primary concern is to assuage relations with the West and create a better environment for its own development."

**Su Xiaohui, a
researcher of
international
strategies at the CIIS**

further steps in the region in 2016," she said, adding that special attention must be given to the Korean Peninsula.

Despite regional hotspots, experts believe that the relationship between major powers won't diverge too much from the norm in 2016. Su cited Russia and the United States as an example. "The Obama administration will try its best to avoid conflicts with Russia as the presidential election approaches. Russia's primary concern is to assuage relations with the West and create a better environment for its own development." ■

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What Can the World Expect From China?

By Tim Collard



The core of the message to the outside world lay in President Xi Jinping's assertion that the international community expects to hear China's voice and be aware of China's plans and China will not be absent from the world's debate. This is not new, of course. For some time now, the world has recognized China as a force to be reckoned with. But in order to understand what the world can expect from China in 2016, it is useful to analyze the carefully considered content of the president's New Year address.

President Xi emphasized that the strengthened position of China in the world is, and will continue to be, based on a continued reform and strengthening of China's polity and economy. Though it is likely that China's economic growth will stabilize at a somewhat lower level than during the "boom years," it will still lead the world for the foreseeable future. Internal reform, particularly in the judicial field and that of discipline and anti-corruption in the Party and government, will continue to be pushed forward. Most importantly, despite a certain amount of economic turbulence during 2015, the general public will enjoy a sense of growing prosperity.

China will continue to pursue global leadership in the fields of science and technology. The start of production of the Chinese-built C919 large passenger aircraft represents a real challenge to the current domination of European- and American-built passenger aircraft, which in the last 20 years have monopolized the Chinese domestic flight market.

The direction of planned progress was laid out at the Fifth Plenary Session of the 18th Communist Party of China Central Committee in October 2015. The work program adopted focused on promoting structural reform, social fairness and justice, and a sustainable environmental protection regime. As was demonstrated at the UN Climate Change Conference in Paris in December 2015, China is willing to take a leading role to tackle the problems of pollution and global warming. Domestically, President Xi said that his government will aim to build a moderately prosperous society in China in a comprehensive fashion, aiming at spreading the prosperity among all sectors of society rather than allowing a potentially dangerous inequality to develop.

President Xi also spoke directly about some of the problems which faced China in 2015: the capsizing of the *Eastern Star* ferry, the major fire and explosions at the Tianjin Port and the Shenzhen landslide were

among the domestic tragedies mentioned, and also the killings of Chinese citizens by the terrorists of the so-called "Islamic State" group. He made it clear that China is not satisfied just to bemoan these incidents, but is prepared to take whatever action is necessary to preserve the lives and vital interests of its citizens. This promise of effective action is no longer strictly limited to the Chinese territory and Chinese citizens. Though China renounces any wish to interfere aggressively in other countries and regions, the president has realized that mere expression of sympathy is not enough, saying that when we see people trapped deeply in suffering and war, we should have compassion and sympathy, but also take responsibilities and action.

Regarding China's position in the world and in the East Asian region, the president looked back to the summer's commemoration of the 70th anniversary of the conclusion of World War II, reminding the world how far it has come since then and how important it is that such situations do not recur. He also looked forward to further steps toward stable peace in the region by mentioning his historic meeting with Taiwan leader Ma Ying-jeou in Singapore. While the outside world does not wish to interfere in the details of cross-Straits relations, we are all deeply concerned that the problem be resolved peacefully and by agreement.

The president also reiterated that China's contribution to world security and prosperity will be made primarily by promoting and strengthening economic links of all kinds, including the necessary physical and financial infrastructure for successful trade. This primarily means pushing along the Belt and Road Initiative and the regional and international financial structures required to underpin it, and also full participation in international sustainable development initiatives.

President Xi's New Year address did not actually include any new material. However, none was necessary. The path to progress has already been laid out and his speech was aimed at endorsing and underlining China's intentions as already expressed, assuring listeners that there will be no weakening or dilution of China's approach to the construction of a more peaceful, secure and prosperous world. ■

To understand what the world can expect from China in 2016, it is useful to analyze the carefully considered content of President Xi Jinping's New Year address

The author is a retired British diplomat. This is an edited version of an opinion piece first published on China.org.cn
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