

CHINA INSIGHT

Fostering Business and Cultural Harmony between China and the U.S.

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CHF Chinese New Year celebration invited guests to participate

By Greg Hugh, Staff Writer

The Chinese Heritage Foundation (CHF) recently celebrated the Year of the Rat at the Gramercy Park Party Room in Richfield, MN. Staying true to its mission "...to preserve and promote the understanding of Chinese history, culture and heritage among all Minnesotans" the event was filled with many activities in which the guests were invited to participate. The evening began with a social hour and a Getting to Know You Speed Meeting Race which encouraged individuals to mingle by following a set of rules and questions that would be scored and the three people with the most points were declared winners.



Ming Tschou and Margret Wong presenting Red Packets

and guests helped themselves to the meal. During the meal, Margaret Wong, CHF Advisory Committee Member, served as the moderator for the rest of the evening's program. As is the tradition, children and single adults were invited to receive their Red Pack-

ets that were handed out by Ming Tschou, CHF Founder, to represent the elders of the community that typically bestow this traditional holiday gift.

Ms. Wong then continued the program by having the group review traditional Chinese New Year wishes and participate in a Chinese version of Jeopardy aided by the printed sheets that were distributed. The group also got to sing a Chinese New Year song, lead by the popular tenor, Li Lei, who was then coaxed into singing something extra.

No Chinese New Year celebration would be complete without any firecrackers but since they are dangerous and illegal especially in an indoor environment, this problem was resolved with some creative

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Chinese New Year Celebrations Pages 1, 8 & 9



Carnac the Wise doing his thing

Simultaneously, Carnac the Wise (aka David Lam), attempted to align the stars, for a modest fee to benefit CHF, for those that chose to have him comment on their future by analyzing data based on their birthday, hour and location of their birth. Although it was unclear what people were expecting in their futures, a number of people waited for their chance to meet with him even through the dinner hour. Let's hope the Year of the Rat may bode well for many.



The guest of honor: ROAST PIG

The impending dinner was detected by the aroma wafting through the room as Yin Simpson, CHF Advisory Committee Member, was busy in the kitchen preparing one of the dishes to be served. The center piece of the buffet dinner was a traditional roast pig signifying prosperity along with assorted delicacies and healthy side dishes and a delectable shrimp dish that was personally prepared by Yin Simpson with help from her husband, Scott. Also assisting in food preparation was Pearl Lam Bergad, CHF Advisory Committee Member, and her husband Bob. The buffet table was finally set

World Bank: China Quarterly Update

By World Bank Office, Beijing

Editor's preface: Due to space limitations, only the first three sections of the World Bank China Quarterly Update are presented in the print edition of CHINA Insight. The full China Quarterly Update will be available on www.chinainsight.info, including the last section of the report, special articles on purchasing power parity (PPP) and China's railway transport issues, and a list of recently released World Bank studies on China. The report can also be found at www.worldbank.org.

Overview

China's economic growth has begun to inch down from its record rates earlier in 2007, while food prices are lifting inflation. GDP grew 11.4 percent in 2007, making it the fifth year in a row with double digit growth. The slowdown in the 4th quarter was due to a lower contribution of net exports, as external demand slowed, partly offset by stronger domestic demand. Food prices lifted headline inflation to 6.5 percent in December, but there is, to date, no apparent significant overall excess demand or spill-over of high food prices into general inflation.

The global outlook has weakened and is uncertain, but China is likely to grow robustly and is well-positioned to stimulate demand if needed. The slowdown in the global economy should affect China's exports and investment in the tradable sector, but the

momentum of domestic demand should remain robust and a limited global slowdown could contribute to rebalancing of the economy. We now project a solid 9.6 percent GDP growth for 2008. If the global slowdown will be more pronounced, China is in a strong macroeconomic position to stimulate demand by easing fiscal policy and/or credit controls. Inflation concerns make lowering interest rates or relaxing liquidity management less obvious. Uncertainties in the outlook call for vigilance and flexibility.

Macroeconomic policy needs to address the challenges of inflation and persistent external surpluses. Overall price pressures should ease in 2008 as some factors behind high food prices taper off. But there are risks, including from international food prices and wage cost pressures, and inflation is not likely to decline to low levels soon. The inflation concerns call for relatively tight monetary policy. However, interest rates are constrained by the authorities' concern of attracting interest-sensitive capital inflows. Thus, with the external surplus expected to remain very large, monetary policy will continue to rely on credit controls and liquidity management. Continuing to appreciate the RMB against the U.S. dollar will help dampen inflation pressures and reduce the current account surplus.

The government recently introduced China Quarterly continues on Page 10



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Happy St. Patrick's Day

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China In My Eyes competition

Created by a group of students at Harvard, Tsinghua, and Peking Universities in cooperation with the Strategy Alpha International 2008 Beijing Olympics Foundation, IMUSE, or Initiating Mutual Understanding through Student Exchange, aims to increase understanding of modern China and stimulate discussion on the most pressing issues facing China today.

One of the initiatives of IMUSE is the China In My Eyes Competition. As a country with a long history, a rich culture, and a

complicated, increasingly influential role in the world, China can evoke many different, often competing, images, feelings, and emotions.

Voice your ideas about China in an essay or a photograph, and you might win a new laptop or an all-expenses-paid trip to Beijing!

Visit <http://strategyalphaprep.org/competition.php> for more information and contest rules. ■

Immersion education: Pathways to Bilingualism & Beyond Oct. 16-18, 2008 Crowne Plaza Riverfront St. Paul, Minnesota

CARLA (Center for Advanced Research on Language Acquisition, University of Minnesota) and CAL (Center for Applied Linguistics, Washington, D.C.) are currently seeking proposals for papers, discussion sessions, and symposia on aspects of language immersion education related to four overarching conference themes: Immersion Pedagogy; Culture and Identity; Policy and Advocacy; and Program Design and Evaluation.

Papers, presentations, discussion ses-

sions, and symposia may report on data-based research, theoretical and conceptual analyses, or best practices in language immersion classrooms.

The submission deadline has been extended to Monday, Mar. 3, 2008. More information and online submission instructions can be found at: <http://www.carla.umn.edu/conferences/immersion2008/call.html>

Questions can also be e-mailed to the planning committee at: immconf@umn.edu ■

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APCC seeks funding

The Asian Pacific Cultural Center mission is to celebrate, promote and foster understanding of Asian Pacific cultural heritage. The former Hamm's Brewery has been selected as the future home of APCC. For APCC to exist, State bonding funds are needed this year. The APCC facility will cost US\$18 million. A minimum of US\$7 million is needed from the State. For more information about APCC and how to support the current bonding bill e-mail Naomi Chu, Executive Director, at nchu@apccmn.org. ■



AMA seeks funding

Asian Media Access seeks to raise US\$1.6 million in funding to establish a Multi Arts Complex to present Asian films and theater performances. So far AMA has raised about US\$730,000 from various sources, and is looking to break ground this summer.

The funds will be used to create a community hub at 2412-2418 Plymouth Avenue North in Minneapolis. The newly remodeled Multi Arts Complex will embody AMA's values of openness, energy, and respect for diversity. Visit www.amamedia.org/CapitalCampaign for information about the project and how to support the renovation and AMA. ■

NPC and CPPCC sessions begin

The first session of the 11th National People's Congress (NPC) and will begin Mar. 5. The first session of the 11th Chinese People's Political Consultative Conference (CPPCC) will begin on Mar. 3. Further information is available at www.npc.gov.cn for the NPC session and www.cppcc.gov.cn for the CPPCC session. The Web sites are in Chinese, English and other foreign languages. ■

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POETRY



Li-Young's *Behind My Eyes* features the author's intimate perspectives and philosophical thoughts

By Albert Leung, Staff Writer



Li-Young Lee

We nestled between the overflowing wooden bookshelves in the middle of Magers & Quinn Booksellers located in Minneapolis. A crowd of loyal literary followers crowded into the few folding chairs put out. Some had to stand to the sides, others in the back. All of them gathered to hear Li-Young Lee address them with poetic serenades out of his latest book, *Behind My Eyes*.

I arrived about a half hour early, hoping to score a seat next to the microphone. Unfortunately, the diehards had already settled and I was relegated to the back. Fans looked around, peeking between bookshelves to find some free space or to see if Li-Young was hiding off to the side.

Li-Young was born in Indonesia to Chinese parents in 1957. His family fled Indonesia during the 1959 anti-Chinese sentiment, trekking through parts of China before settling in the United States in 1964. Li-Young has published three books of poetry and is highly regarded in the literary world, winning the William Carlos Williams Award, 1990 Lamont Poetry Selection and Delmore Schwartz Memorial Poetry Award. *Behind My Eyes* is his fourth poetry book.

To my left was a rack of Minnesota postcards. I could see a picture of the Minneapolis skyline in my peripherals. To my left stood one of Minneapolis' local literary legends Bao Phi. Bao Phi is a well known Minneapolis-based poet and spoken word artist. He came excited to see one of his literary idols. Bao stood in the back and out of sight, as if he was embarrassed to be in Li-Young's presence. While talking to a college student who wasn't familiar with Li-Young's work, Bao simply said, "He's the best god damn poet ever." More well known local artists also came out to heed the poetic utterances of Li-Young. Chinese-American photographer Wing Young Huie was also in attendance.

When Li-Young strolled out, it was as if the tension in the room that built up from the crowd's anticipation had suddenly been released after he took his first step out to the crowd. Those who were talking among friends fell silent. Those still looking for a place to sit stopped and slinked to the back.

Li-Young walked out in calm demeanor with his wind-tussled shaggy hair and Harry



Potter like glasses. His voice was so soft and gentle that you could barely hear him thank everyone for gathering on the night after Valentines Day. The heating system almost overpowered his words of appreciation to his loyal fans. The event organizers adjusted the microphone and tweaked the sound up.

Li-Young read and for 30 minutes we had a first hand view of the world through his eyes, in his words guided by his voice. The first piece he shared was titled "A Hymn to Childhood" which he said he had taken personal images and weaved them into the poem. His recitations were crooning the masses. His rhythm was slow and methodic.

Being one who hasn't attended many poetry events, I was surprised to see the crowd wasn't filled with people wearing turtle necks and black berets who snapped their fingers rather than clapping their hands. They were normal, young, middle-aged and old men and woman who closed their eyes to imagine the scenes that Li-Young's words painted. Everyone seemed hypnotized by his slow drawl and soothing inflection. I looked over towards Wing and saw him sitting attentively at the edge of his folding-chair, motionless like those photographed in his pictures

Li-Young treated us with about five pieces by night's end. Some poems reflected on his life like a piece he wrote about a bird that nested outside his home which he was reminded of experiences he had endured as a child. He also recited a "self-help" poem which he was inspired to write after being told numerous times that self-help books are always best sellers. Li-Young also shared insight about how he views the world, universe, love, life, heaven and earth, and shared with us his own writing experiences. He ended the night with a piece he called "Virtues of a Boring Husband" which he says is about how whenever his wife struggles to sleep, he talks her to slumber. In the poem he ruminates about love and the universe as she slowly dozes off.

After the reading the crowd sluggishly dismembered as if Li-Young's last poem and his voice began to rock us to sleep like he described in the piece. People seemed euphoric and exhausted from Li-Young's poetic prowess. Everyone lingered about the store, talking about what they saw in their minds while he read. Nobody seemed to want to leave as if trying to hold on to the moment as long as possible, clutching the book which the great poet read. ■

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FILM



Chinese film screenings open to the public

From silent classics to kung fu cult flicks, from melodramatic tearjerkers to austere art films, this course surveys a wide range of cinema from mainland China, Taiwan, and Hong Kong over the last three-quarters century. We will focus on films that have gained recognition for their artistic quality and/or landmark status in Chinese cinema history. The course will emphasize the historical significance of films, leading to greater appreciation and knowledge of modern Chinese history, culture, politics, and society. Attention also will be paid to the formal and aesthetic elements of film art and the basic concepts of film theory and analysis. Chinese cinemas will be placed in international perspective, with topics including the relationship between classical Hollywood cinema and early Chinese cinema, the role of cinema in carrying out political and social critique in China, and the unique and internationally influential aesthetics of Hong Kong cinema and the New Taiwan Cinema.

Above is the course description of Chinese Film, a class offering in the 2008 Spring Semester at the University of Minnesota.



This image has been obtained from: web.utk.edu/.../concubine-704842.jpg

The course is taught by Jason McGrath, Assistant Professor, Asian Languages/Literatures. Now, one does not need to be a University student to enjoy the Asian films included in the class because the movie screenings are now free and open to the public.

All screenings are on Tuesdays at 6:30 p.m., Nicholson Hall 275, East Bank Campus, 216 Pillsbury Drive SE, Minneapolis, MN 55455.

Remaining screenings:

3/4: *Farewell My Concubine* (dir. Chen Kaige, 1993)

3/11: *Not One Less* (dir. Zhang Yimou, 1999)

3/25: *Love Eterne* (dir. Li Han-hsiang, 1963)

4/1: *A Touch of Zen* (dir. King Hu, 1971)

4/8: *A Chinese Ghost Story* (dir. Ching Siu-tung, 1987)

4/15: *Centre Stage* (dir. Stanley Kwan, 1991)

4/22: *Chungking Express* (dir. Wong Kar-wai, 1994)

4/29: *A Time to Live, A Time to Die* (dir. Hou Hsiao-hsien, 1985)

5/6: *Yi Yi* (dir. Edward Yang, 2000)



This image has been obtained from: http://www.dvdtimes.co.uk/images/Covers/achineseghoststory_r2front.jpg

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BOOKS



Mao: The Unknown Story

By Jung Chang, Jon Halliday



Synopsis

Based on a decade of research and on interviews with many of Mao's close circle in China who have never talked before--and with virtually everyone outside

China who had significant dealings with him--this is the most authoritative life of Mao ever written. It is full of startling revelations, exploding the myth of the Long March, and showing a completely unknown Mao: he was not driven by idealism or ideology; his intimate and intricate relationship with Stalin went back to the 1920s, ultimately bringing him to power; he welcomed Japanese occupation of much of China; and he schemed, poisoned and blackmailed to get his way. After Mao conquered China in 1949, his secret goal was to dominate the world. In chasing this dream he caused the deaths of 38 million people in the greatest famine in history. In all, well over 70 million Chinese perished under Mao's rule--in peacetime.

Combining meticulous research with the story-telling style of *Wild Swans*, this biography offers a harrowing portrait of Mao's ruthless accumulation of power through the exercise of terror: his first victims were the peasants, then the intellectuals and, finally, the inner circle of his own advisors. The reader enters the shadowy chambers of Mao's court and eavesdrops on the drama in its hidden recesses. Mao's character and the enormity of his behavior toward his wives, mistresses and children are unveiled for the first time.

This is an entirely fresh look at Mao in both content and approach. It will astonish historians and the general reader alike.

LET US HEAR FROM YOU

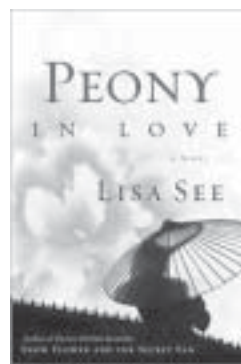
Have an observation or comment about something you read in

CHINA *Insight*?

Write a Letter to the Editor

Peony in Love

By Lisa See



Synopsis

"I finally understand what the poets have written. In spring, moved to passion; in autumn only regret."

For young Peony, betrothed to a suitor she has never met, these

lyrics from *The Peony Pavilion* mirror her own longings. In the garden of the Chen Family Villa, amid the scent of ginger, green tea, and jasmine, a small theatrical troupe is performing scenes from this epic opera, a live spectacle few females have ever seen. Like the heroine in the drama, Peony is the cloistered daughter of a wealthy family, trapped like a good-luck cricket in a bamboo-and-lacquer cage. Though raised to be obedient, Peony has dreams of her own.

Peony's mother is against her daughter's attending the production: "Unmarried girls should not be seen in public." But Peony's father assures his wife that proprieties will

be maintained, and that the women will watch the opera from behind a screen. Yet through its cracks, Peony catches sight of an elegant, handsome man with hair as black as a cave--and is immediately overcome with emotion.

So begins Peony's unforgettable journey of love and destiny, desire and sorrow--as Lisa See's haunting new novel, based on actual historical events, takes readers back to seventeenth-century China, after the Manchus seize power and the Ming dynasty is crushed.

Steeped in traditions and ritual, this story brings to life another time and place--even the intricate realm of the afterworld, with its protocols, pathways, and stages of existence, a vividly imagined place where one's soul is divided into three, ancestors offer guidance, misdeeds are punished, and hungry ghosts wander the earth. Immersed in the richness and magic of the Chinese vision of the afterlife, transcending even death, *Peony in Love* explores, beautifully, the many manifestations of love. Ultimately, Lisa See's new novel addresses universal themes: the bonds of friendship, the power of words, and the age-old desire of women to be heard.



From Wall Street to the Great Wall: How Investors Can Profit from China's Booming Economy

By Burton G. Malkiel, Patricia A. Taylor, Jianping Mei, Rui Yang



Synopsis

From the million-copy-selling author of *A Random Walk Down Wall Street*, the perfect guide to investing in the next economic giant.

It is no secret that China has the world's fastest-growing economy. The trick is how average investors can tap into the opportunities it affords. Burton G. Malkiel, longtime friend and adviser to ordinary in-

vestors through his great book *A Random Walk Down Wall Street*, now gives them China. In *From Wall Street to the Great Wall* he explains why and how the Chinese economy is poised for significant gains in the near future. It highlights not only Chinese firms and industries but also multinationals in the United States and elsewhere that are likely to benefit from China's explosive growth. Following this tour and analysis of investment opportunities in China, including the stock, commodities, real estate, and even art and collectibles markets, the book reviews these options and sets forth a grand strategy, including sample portfolios, for investing in China.

Synopses from barnes&noble.com

China bans horror audio, visual products

Films such as the Harry Potter series will not be banned under China's latest edict on horror audio and visual products, an official with the film watchdog said [on Feb. 19].

Hollywood blockbusters like "Shrek", "Toy story", "Gremlins" and "E.T.", all popular with children and adults alike, will also escape the ban as "their content is healthy",

an officer at the General Administration of Press and Publications (GAPP) said...

The official explained the ban would apply to horror audio and video products "specifically plotted for the sole purpose of terror and severely harmful to minors' physical and mental health"... ■

Source: Xinhua

Storytimes: More than stories, songs and rhymes

By **Elaine Dunn**, communications manager, and **Linnea Lind**, Youth Services librarian; Hennepin County Library

Success is an intrinsic Asian value. In this age of increasing globalization and a shrinking world, thanks to instant messaging and the Internet, the pressure is on all parents to prepare their children for success in the global economy.

Strong Minnesota-China connection

China's role as a leading economic power is increasing. Its economy has grown faster than any other in modern history, averaging a 10 percent annual growth rate in the past 20 years. The University of Minnesota has a vigorous recruitment program for exceptional undergraduate students from China to complete their post-graduate education here. The Twin Cities is home to many multicultural companies doing business in China. Besides an 8000-strong Chinese population base in Hennepin County alone, there also is a large contingent of Minnesotan families who have adopted children from China. The need and interest for learning the Chinese language have never been greater. At last count, there are about 20 Chinese-language programs offered at the elementary through high school levels and two Chinese (Mandarin) immersion schools in the Twin Cities.

Workers who are proficient in the Chinese language and who are knowledgeable of the culture will certainly have an advantage. So, how can parents enhance a child's likelihood for success? What community resources are there to help accomplish this critical goal?

Library provides a foundation for school success

One great and free resource is Hennepin County Library (HCL), one of the top ten library systems in the United States. The library is well aware of this growth in interest in learning Chinese and is responding

accordingly. Fall 2007, the library added 275 new titles to its Chinese collection, for a total of almost 3,800 books, CDs and DVDs in Chinese. It also offered the state's first series of Chinese storytimes at its Plymouth Library.

Storytimes are programs in which librarians use books, songs and other tools such as puppets to instill a love of reading, encourage language development and promote early literacy skills that children need to acquire before starting school. These skills are:

- * Interest in and enjoyment of books
- * Knowing the names of things
- * Ability to differentiate text and pictures
- * Understanding that each letter/character has a different name and sound
- * Ability to hear smaller sounds in words and to play with language
- * Ability to describe things and events and to tell stories

Current research on early literacy and brain development indicates that it is never too early to prepare children for success as readers. Research also shows that homes where parents talk and read to their children from birth score higher in academic success. Storytimes' main goal is to show parents and caregivers how to effectively share books and listening skills with their children in order to build the necessary foundation for school success.

Brain research shows that children are better suited to learning languages in their early years because "their brains are wired for it" and that it is easier for younger children to develop native-like pronunciation. Most children learn their first language by age 5.

Research further suggests that children who learn a second language often are more creative and better at solving complex problems than those who do not.

In 2006, with guidance of early childhood

consultants on dual language education from the University of Minnesota, HCL Youth Services librarians developed "best practices" for presenting World Language Storytimes — storytimes presented in languages other than English. The new approach, contrary to past beliefs, is based on the premise that children learn two languages best when the languages are kept separate. With funding provided by a grant to the Library Foundation of Hennepin County from the Comcast Foundation, Chinese was one of the languages added to the World Language Storytimes offered at Hennepin County libraries.

Immersion model work for both native speakers and those learning the language

Chinese storytimes at Hennepin County Library are presented jointly by a librarian and a native Mandarin-speaker from the community. These storytimes accommodate both families who speak Mandarin at home and may speak English fluently or may be just learning English, and also those who are trying to learn Mandarin. Entire stories, dialogue, songs and follow-up activities are presented by the native Mandarin speaker. The librarian may use some English, translated as needed, to welcome families, to introduce the storytime, to describe library resources and to assist the Mandarin presenter.

The librarian may introduce a story or lead the discussion in English after a story has been read in Mandarin by the Mandarin presenter. English is only used as a tool to improve comprehension for those who may have limited experience with Mandarin. *The intention is to create an environment where Mandarin is encouraged and celebrated.*

Librarians who helped present World

Language Storytimes have heard parents repeatedly express how thankful they are for having a place for their children to practice their native language. One family who attended Chinese Storytimes at Plymouth Library last fall commented that, "This has been very nice for my kids since they are half Chinese and half Caucasian. The storytime helps reinforce the Chinese that they are learning at home from their grandparents."

"One of the library's overarching goals is to support early literacy through multilingual library resources and collections, an informed staff and an outstanding community outreach program," said Library Director Amy Ryan. "It is extremely heartening to know that through our World Language Storytimes we are also strengthening family connections by encouraging intergenerational use of their native language."

The next series of Chinese Storytimes for children ages 2 and up will be offered at Ridgedale Library, 12601 Ridgedale Dr., Minnetonka, on Thursday mornings, from April 3-24, at 10:30 a.m. Participants will be able to check out Chinese and Chinese/English books, CDs and DVDs before and after the storytime. Call Ridgedale Library's Children's Desk, 952-847-8847, for information about Chinese Storytimes.

Hennepin County Library serves more than one million residents of the city of Minneapolis and suburban Hennepin County. The 41-library system offers more than five million books, CDs, DVDs and materials in more than 40 languages, 1,600 public computers and extensive Web sites. The library is a department of Hennepin County. For additional information about Hennepin County Library programs and services, visit www.hclib.org and www.mplib.org. ■

China Lecture Series examines Shaanxi

The Shaanxi Association of Minnesota and Hamline University East Asian Studies Program present "China Lecture Series: Shaanxi and Its Glories in Chinese History and Culture." Part III, "Han Dynasty and the Silk Road", will be presented on Saturday, Mar. 8, 2008, at 10 a.m. Part IV, "Tang Dynasty: the Golden Age of Chinese Civilization", will be presented Saturday, Apr. 5, 2008, at 10 a.m. Lectures, given by Dr. Yali You, are free and open to the public and will be held at Sundin Music Hall, 1506 Hewitt Avenue in St. Paul, at Hamline University.

About the Shaanxi, China Lecture Series

Shaanxi Province has a special significance in Chinese history. It is the birthplace and cradle of Chinese civilization and culture. In 5,000 years of Chinese history, 13 different dynasties established their capitals there, lasting over 1180 years all together. It has left an extremely rich cultural legacy in this centrally located province in northern China.

The lectures in this series will uncover



Xianyang, Shaanxi Province

the splendors of cultural and historical events which shaped the Chinese as a whole. The details will focus on the Bronzes of the Western Zhou Dynasty (1046-256 BC), the Terracotta Warriors and Horses of the First Emperor of the Qin Dynasty (221-206 BC), the largest territory in Chinese history of the Han Dynasty (206BC-220AD), the prosperity and flourish of poetry, arts, culture, and the golden age of Chinese history

in Tang Dynasty (618-907).

The origin of the Chinese herbal medicine and agriculture, the association with dragon, the creation of writing, movable printing, paper-making, the Silk Road and China's connection with the world, the arts and architecture, poetry, music, customs and traditions... will be included in the lectures. The ancient city of Xian, capitol of Shaanxi province, many historical sites in and around the city and in the province will be focused in the later portion of the series. A Power Point presentation of actual images will accompany the lectures.

About Dr. Yali You

Dr. Yali You teaches cello, music history, chamber music, and conducts the orchestra at Hamline University in St. Paul since 1996. A native of China, she received her Doctor of Musical Arts in cello performance from the University of Cincinnati, and her Master of Music and a Performance Certificate from Northwestern University. Her Bachelor's degree is from the Shanghai Conservatory. Dr. You also attended the Peabody Conser-

vatory of Johns Hopkins University. Solo and ensemble performances include the Beijing Film Orchestra, Washington (DC) Chamber Orchestra, Aspen Music Festival, Ravinia Music Festival, Superior Music Festival, and National Public Radio.



For the last nine years, Dr. You has led numerous student groups to Italy, Austria, Germany, Hungary, and Czech Republic to study music and culture on site. Professor You has been teaching, performing, and conducting in China since 2003. The Xian Conservatory of Music in China engaged Dr. You as the Honorary Professor of Cello in 2005. Due to her outstanding achievements, Professor You was included annually in the Who's Who in America since 2004.

For more information, call 651-523-2439 or visit www.Shaanxi-mn.org online. ■

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Students to teach in China and Africa

Two St. Cloud State University students will do their student teaching this spring on the other side of the world. Seniors Raunn Finley and Elizabeth Loch, who are majoring in special education, will spend March and April at Shanghai Special Education Consulting School in Shanghai, working with students in grades K-6.

The program is one of several developed through the St. Cloud State College of Education Office of Clinical Experiences as a cost-effective way to prepare St. Cloud State students to teach in a global world.

The opportunity is the result of partnerships that could lead to similar student teaching opportunities in other cities in China as well as in South Africa. Elementary and secondary education majors will be able to teach in Beijing, China; child and family studies majors will be able to teach in a bilingual early childhood program in Xi'an, China; and all majors will be able to student teach in South Africa.

The University learned of the opportunity to collaborate on a student teaching program for special education majors last year when a delegation from the University visited China and met members of the Minnesota-Shanghai Club, a group of Chinese and Americans with connections to Minnesota who meet regularly to share information about life in China and happenings in Minnesota. The opportunities in South Africa evolved out of the institutional partnership with Nelson Mandela Metropolitan University.

Cass Markovich, principal of the school at which Finley and Loch will be teaching, was in St. Cloud Feb. 6 to share program information with St. Cloud State faculty and students.

For information about this and other programs at St. Cloud State University, visit www.stcloudstate.edu. ■

Source: <http://www.stcloudstate.edu/news/pressreleases/default.asp?storyID=24712>

U of M hosted Language Immersion Celebration Feb. 5

More than 1,000 students from 18 Twin Cities schools attended the Language Immersion Celebration Tuesday, Feb. 5 at the University of Minnesota Northrop Auditorium. Participating students ranging in grades from pre-kindergarten to 12 are learning French, Spanish, Chinese, German, Dakota and Ojibwe.

"This celebration showcases a commitment to and appreciation for world language learning and indigenous language and cul-

ture revitalization," said Diane Tedick, event coordinator and director of graduate studies in the University of Minnesota department of curriculum and instruction. The community was invited to "enjoy the global atmosphere as students take the stage to perform native dances, folklore, poetry and theatrical storytelling and blend their voices in multilingual harmony."

The Four Humors Theater Troupe performed in between acts.

Free 2008 Academic Enrichment Guide for students of color

Students of color and their families are encouraged to enroll in summer programs that will help pave the way for college

The Minnesota Minority Education Partnership (MMEP) announces the availability of the 2008 Academic Enrichment Guide. This Guide is published for students of color and their families, specifically to make it easier for them to find out about and enroll in enrichment programs.

This year the Guide is larger than ever - with many more programs to consider - and

all of the participants in the Guide have committed to providing opportunities for students of color in an environment that seeks diversity and cultural competence in its staff and participants.

In addition, each program has agreed to provide at least one scholarship to a student of color. Included are programs in math and science, college and career preparation, music, art and communications and general recreational; many of the programs are located on college campuses

"Research from Johns Hopkins shows that enrichment programs are vital in eliminating 'summer-gap'" says Mona Harris, Program Director at MMEP. "Students spend time in a nurturing and stimulating atmosphere with engaged students and instructors who share their interests." Harris continued: "In addition, participating in a summer or school-year enrichment program can be an important part of building a 'college-going' resume. Don't be discouraged by the costs, because many of the programs have scholarship dollars available."

To order a copy of the MMEP Academic Enrichment Guide go to www.mmep.net to the Enrichment Guide order form OR call 651-645-7400 ext. 207, and leave a message on

the voicemail, giving name, address and the quantity of Guides needed. MMEP will mail one Guide at no charge to the recipient. If bulk copies are desired, or to request enrichment guide workshop information for students or families, call 651-645-7400 ext. 204 or e-mail mharris@mmep.net to make arrangements.

MMEP will be co-hosting a number of summer enrichment fairs in the coming weeks, where students and families can receive a copy of the Guide, and hear more about other education opportunities:

On Saturday Mar. 8, 9:30 a.m. to 1:30 p.m., "Summer Enrichment Fair" for High School Students will be held at Blake School, 511 Kenwood Parkway, Minneapolis. The fair is co-sponsored by MMEP, Blake's Learning Works and Admission Possible.

MMEP is pleased to share information to organizers of summer enrichment workshops. Workshops can be scheduled for students and families in schools, after school programs, community centers, churches or any place that families gather. Counselors may want to add the enrichment workshop to spring college fairs.

Check the MMEP Web site at www.mmep.net for the most current information on these events, directions and the possibility of other events added to the list.

The expanded Academic Enrichment Guide is made available through the generosity of the ADC Foundation, Carlson, Great Lakes Higher Education Guaranty Corporation, Medtronic Foundation and State Farm Insurance.

The Minnesota Minority Education Partnership (MMEP), founded in 1987, is a non-profit collaborative that formally brings together major educational institutions in Minnesota with people of color to increase the success of Minnesota students of color in Minnesota schools, colleges and universities. For more information, go to www.mmep.net ■

Participating schools included Yinghua Academy Chinese Immersion School, L'Etoile du Nord French Immersion, Adams Spanish Immersion Magnet, Highland Park Junior High French Immersion Program, Twin Cities German Immersion School and Highland Park Junior High Spanish Immersion Program of St. Paul; Windom Spanish Dual Immersion and Emerson Spanish Immersion Learning Center and Wicoie Nandagikendan Pre-School Language Immersion School (Dakota and Ojibwe) of Minneapolis; Eagle Heights Spanish Immersion School of Eden Prairie; International Spanish Language Academy of Minnetonka, Lakes International Language Academy Spanish Immersion of Forest Lake, Normandale Elementary French Immersion School and Valley View Middle School French Immersion of Edina;

Park Spanish Immersion Elementary School of St. Louis Park, Richfield Dual Language School of Richfield, Robbinsdale Spanish Immersion School of Robbinsdale, and XinXing Academy Chinese Immersion Magnet School of Hopkins.

The event was sponsored by the Minnesota Advocates for Immersion Network and the University of Minnesota's College of Education and Human Development, Institute for Global Studies, Office of International Programs and the Consortium of Post-secondary Academic Success. ■



China's Environmental Challenges and Development of a Green Society

By Greg Hugh, Staff Writer

The above heading was the title of a China Mini-Workshop Part III held recently at Minneapolis Community Technical College. It was the third part of a four part series of workshops organized by St. Cloud State University (SCSU) and the Woodrow Wilson International Center for Scholars.

The workshop began with lunch and then the presentation began with Kathryn Johnson, Director SCSU China Initiatives, introducing the speaker, Jennifer Turner, Director of the China Environment Forum at the Woodrow Wilson International Center for Scholars and a senior program associate with the Environmental Change and Security Program.

As she began her presentation, Turner, admitted that the information that she was about to present on China's environment, although somewhat disconcerting, nevertheless, held some promise. She also cautioned the group to be prepared to answer questions that she would ask during the presentation and she also admitted to being labeled as part of China's Environmental Mafia.

Although the media is full of stories regarding China's air pollution and what the government is doing to ensure good air quality for the Beijing Olympics, it is difficult to maintain acceptable air quality when over 70 percent of the country's energy is produced from the dirtiest fuel: coal. Thus China contains 16 of the most polluted cities in the world. Since 45 percent of the energy produced in China is used in the construction industry, China has already taken steps to regulate this industry to institute more environmentally friendly procedures that has resulted in less harm to the environment.

While air quality in China is bad, water quality is considered even worse, stated

Turner and China ranks 187 out of 191 countries rated. In 2005 there were over 51,000 complaints filed with the Chinese government about water quality and recent high-profile incidents occurring at Lake Tai, the Songhua River and in Xiamen has created more awareness of these conditions within the international community.

The main drivers for poor water quality are obviously the demand for water that has been caused by China's economic success and the lack of government control. In this instance, lack of government control cannot be blamed totally on Beijing but to greedy, unscrupulous local provincial officials. Furthermore, China's EPA numbering less than 700 people is woefully understaffed to do its job.

It should be noted that there are some positive trends toward improved water quality in China. The government has created a high level Ministry of Water that will be responsible for enforcement and the establishment of numerous non-government organizations (NGO) to monitor water quality has been very effective and appears to be a force to be acknowledged. There are also some initiatives being taken by international corporations like IKEA, GE and Coca Cola doing business in China to improve water quality.

At the conclusion, Turner offered to take questions from the group. Questions were limited possibly because the group might have been trying to process the great amount of information given in the fast-paced presentation.

Additional information can be obtained at the following Web sites: www.wilsoncenter.org/cef and www.chinadialogue.net. ■

China's snowstorm will snowball into unknown economic consequences

By Greg Hugh, Staff Writer

Although there are several other articles appearing elsewhere in the paper reporting on China's economic status supported and based on empirical data, it is worth commenting on the possible effects of what may be referred to as China's Lunar New Year Storm of the Rat!

The biggest snow storm in five decades could not have occurred last month at a more inopportune time. Millions of people were traveling to return home to celebrate the Chinese New Year with more than 130 people losing their lives and the devastating humanitarian costs are impossible to measure.

There was also over US\$21 billion in damage. The storm halted train and air travel at key transportation centers. Food and coal deliveries were disrupted and hundreds of power lines were toppled resulting in power outages. China's vulnerability in its infrastructure was exposed for all to observe.

China's government had hoped to hold inflation to 4.8 percent this year but could have trouble doing so since the January snowstorms will put a heavy strain on its resources to respond to the chaos that it has caused. Economists have raised 2008 inflation forecasts for China as high as 6.8 percent following the storms. China's inflation rate for 2007 was 4.8 percent well above the official target of 3 percent and the surge in inflation over the past six months has been blamed on shortages of pork, grain and some other food items.

Inflation accelerated in January to an 11-year high of 7.1 percent, driven by an 18.2 percent rise in food costs. Analysts say prices could rise even faster in February but they say inflation should ease later in the year.

There is obviously concern about the impact of the snowstorm on the mainland's infrastructure and inflation, but the mood is not all gloomy as other observers expect the damage to be manageable. Perhaps this will serve as a wake up call for China to build up its fragile infrastructure and help close the

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huge gap between the relatively modern coastal areas and the more impoverished inland regions.

Towards this goal, it might be helpful to know that the Chinese characters for the word "crisis" also contain the characters that contain the word "opportunity" so wouldn't it be ironic and poignant that the snowstorm crisis translates into an opportunity for China to resolve many of its infrastructure problems? ■

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China's oldest library



China's oldest folk library, Tianyige, resumed sinology classes after a 70-year interruption on [Feb. 21] in the eastern province of Zhejiang.

At the library, 70 students in red Chinese traditional costumes recited proverbs, including one that said: "We should get up at dawn and clean up the court to keep order both inside and outside." It was as if they had stepped back in time.

The children learned to sit still, chanting ancient Chinese works and writing characters with brush pens, just like students in old-style private schools did decades ago.

The students came to school carrying lanterns for the opening ceremony and learned ancient traditions associated with the Lantern Festival, which fell on [Feb. 21].

The first term will be a public welfare training course, with students paying a nominal fee to cover costs. They are divided into four classes: pre-school, a combined class of grade one and two, a combined class of grade three and four, and a class for the senior grades of elementary school.

The library will open classes for junior middle school students soon.

The students will have class every Sat-

urday for four months. The study plans ask them to learn to recite Mencius, Confucius, Three Character Primer and many other ancient Chinese literary works.

"Childhood is the best time for memory and reading. Maybe the children cannot fully understand the truth in the works; however, it is good for them to memorize them and build a foundation for future understanding," said Yu Haoxu, curator of the Tianyige Museum.

"Sinology is usually considered to include ancient Chinese literature, playing musical instruments and chess, calligraphy and brush painting. Actually, ancient traditions and folk-customs are also part of it," said He Yuhong, deputy curator of the museum.

Tianyige was built in the 1560s during the Ming Dynasty by an official named Fan Qin (1506-1585). Classes were halted when Japanese troops entered the city in the 1930s.

"After a long interruption, Tianyige finally again has pleasing chanting voices. The sinology class must be a memorable event in the students' lives," said Yu Haoxu. ■

Source: Xinhua

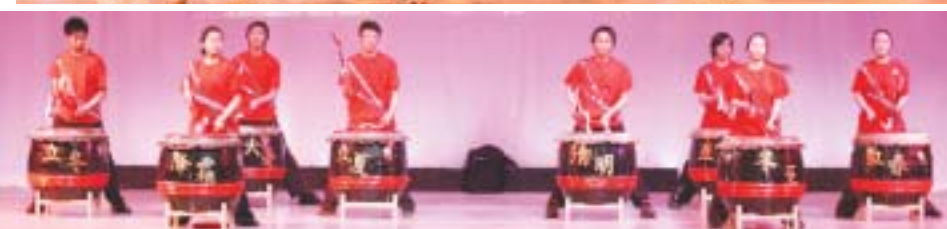
30 Chinese cultural groups celebrate Chinese New Year together

An astounding 30 different Chinese cultural groups in Minnesota convened to organize one of the state's most elaborate and diverse Chinese new year celebration shows. This year, the show was held at Bethel University's Benson Great Hall. The 30 various Chinese organizations put together a show of 24 different performances that included drums, comic dialogue, cultural dances, singing, Chinese opera, among others. The show was sold out with a little over 1,000 attendees. Twin Cities Chinese Dance

Center served as lead organizer for this year's event. Other groups that performed included Shaanxi Folk's Association, Minnesota Chinese Day Care, Yu Cai Chinese School, Minnesota Gymnastic Center, NFFA, Chinese American Association of Minnesota, Chinese Dance Theatre, Huaxia Chinese School, Huasheng Music Center, Minnesota Chinese Dance Theatre, North America Opera Center, Minhua Chinese School, The Minnesota Guzheng Music Society, Minhua Chorus, Minnesota Senior Chorus, Huaxia Times and CABDA. ■



Top and Bottom, Shaanxi Folk's Association's high-energy performance "Spirit of the Drum - 24 Seasons," Below, TCCDC jump starts the Chinese New Year celebration with the traditional lion dance, Right, Huasheng Music Centers' women's choir serenades the crowd with the song "Praising the Corals"



U of M China Center Chinese New Year event a success

The University of Minnesota China Center's annual Chinese New Year's event was a great success! More than 200 people from the community—including business people, members of academia, and other friends of the China Center—celebrated the arrival of

the Year of the Rat.

The evening started with a program of Chinese music and dance. Attendees were treated to a vocal performances from Dr. Wang Lixin and Ms. Qian Xu, three dances performed by the Chinese American Association of Minnesota, Dr. Yongwei Zhang—China Center director—playing the erhu and dizi, and the feature performance by world renowned pipa artist Gao Hong.



Dr. Yongwei Zhang (left) plays dizi, Gao Hong (right) plays pipa for the song Gu Su Xing.

Following the musical program, Dr. Zhang presented plaques to the China Center's Corporate Partners in recognition for their generous support. Outgoing China Center Advisory Council members were also recognized.

The evening ended with dinner served in the Humphrey Center Atrium, which had been festively decorated in red and gold with lanterns, candies, couplets, and other decorations. ■

USCPFA-MN celebrates special anniversaries at Chinese New Year banquet

By N. Walter Graff, USCPFA-MN Board Member

On Sunday, Feb. 17, the Minnesota Chapter of US - China Peoples Friendship Association held its annual New Year's banquet at Little Szechuan Restaurant in St. Paul. This year, the banquet marked the 25th anniversary of the Xi'an - Minnesota Sister State relationship and the 20th anniversary of the Chengdu - St. Paul Sister City relationship, both initiated by USCPFA. A proclamation from Mayor Coleman of St. Paul was read. Special invited guests included teachers and music performance students from High School for Recording Arts School in St. Paul's Midway area, who are planning a trip to Xi'an and the village of An Shang in Shaanxi this year as part of their study of music from different cultures.

Chapter President Mary Warpeha, drawing on her extensive visits as volunteer and USCPFA-Minnesota representative, narrated a program of her pictures from Rural Shaanxi, which was much appreciated for a fresh, close look at a part of China that is definitely not on the usual tours. She showed us around the village of An Shang, which has made remarkable progress by its own planning and work. The new village school was built with the assistance of Minnesota's Global Volunteers and with a generous donation of computer equipment by BestBuy. She also showed us pictures of the large wildlife forest preserve in the southwest part of the province, Changqing National Nature Reserve, where Pandas, Takin and Golden Monkey roam in the wild. ■



Yinghua Academy celebrates the Year of the Rat



Chinese New Year is the longest and most important celebration in the Chinese calendar, and at Yinghua Academy, students spent a day creating and experiencing this special holiday. After the all-school morning assembly, students enjoyed a New Year's morning meal together, eating jiaozi, a Chinese dumpling. The school was decorated with traditional New Year's decorations along with other items the students made for the occasion. The day was an out-of-uniform day, and teachers and many students wore traditional Chinese outfits.

Students performed for their families many traditional New Year's songs and dances, demonstrated Kung Fu, recited Chi-

nese stories and performed skits and plays that highlight the holiday's traditions. The festivities ended with a Lion Dance, performed by the professional Chinese dancers from Ha Family Entertainment. Students and family members left with an apple and hongbao, the traditional red Chinese lucky money envelope that serves as a token of well wishes and blessings for the new year.

"I was amazed how most of the performance was in Mandarin, and I still learned a lot about this holiday. The students did an amazing job," noted one second grade parent.

For more information about Yinghua Academy contact 651-379-4112 or visit <http://www.yinghuaacademy.org>



Yinghua Academy students perform



Left and below, Children at the Yucai Chinese New Year celebration



Previous Page, Bottom Right, Presenters at the Yucai Chinese New Year celebration

CHF from Page 1

CHF Chinese New Year

improvisation. To set off the fireworks, all of the children were invited up to front and were instructed to pierce a row of inflated balloons that quite accurately simulated firecrackers exploding.

Accompanying the children were a number of elders that had donned traditional Chinese costumes provided by Margaret Wong. She shared that these costumes were acquired years ago from a grant she received at Breck School where she teaches and has turned out to be a great investment. Although much of the computers and other supplies she acquired at the same time are now pretty much obsolete, these costumes can no longer be obtained in China since they were individually hand stitched and the art has virtually disappeared in China.

As the evening's program drew to an end, Ms. Wong quizzed the audience on some of the customs, superstitions and other traditions practiced by the Chinese during

their new year celebration. In closing she then distributed some special fortune cookies that were prepared for her by a student's mother that signified a blending of Eastern and Western cultures since these cookies were chocolate covered. Guests were also invited to help themselves to packets of good luck candy that was distributed at their tables and to feel free to take home some oranges or tangerines which are also symbolic of the holiday. No one went home empty handed or unknowledgeable about Chinese heritage.

All photos courtesy of Pearl Bergad



Elders modeling traditional costumes



Elders and children making firecracker noises.

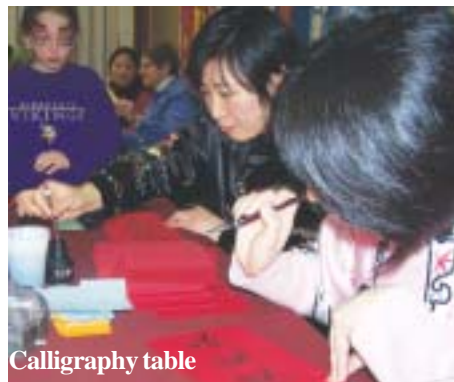
Minnetonka Schools celebrate Chinese New Year

By Will Ahern, Staff Writer

The Minnetonka School District celebrated the Chinese New Year, Friday evening, Feb. 22 at its Middle School West. Parents and children also celebrated the first year of Minnetonka's Chinese immersion program which is in progress. The children from the program, dressed in red and sang a few songs in Chinese for the appreciative audience. The festive atmosphere in the gymnasium included vibrant performances by Hui's Lucky Lion Dance Team, Green

Dragon Kung Fu Association, and the Twin City Chinese Dance Center. The Gu Zheng, a Chinese stringed instrument was performed by Jiexiang Li.

Running concurrently to the performances were several booths and activities including face painting, calligraphy and a traditional Chinese medicine display. Food was provided by the Beijing Restaurant. For the 300 people that attended, it was a great time to connect on a common theme that is shared by many families in Minnetonka.



Calligraphy table



Face painting



Peiju Ruan and Jiexiang Li at Minnetonka School Chinese New Year celebration



Lion dance

China Quarterly from Page 1

World Bank: China Quarterly Update

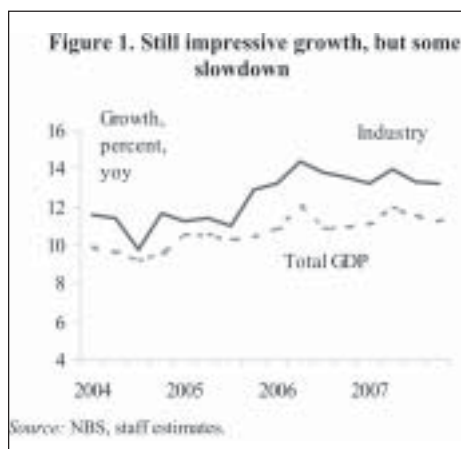
further administrative measures to contain inflation. Their objective is to dampen price rises, keep items affordable, and manage expectations. In the long run, the detrimental incentive effects that they generate are likely to outweigh the benefits. The government has rightly announced its intention not to rely on them for long. Given China's strong fiscal position, the authorities could consider replacing some price controls with direct subsidies, ideally targeted at needy groups.

The recent revision of purchasing power parity (PPP) estimates does not change the conclusions about China's growth and poverty reduction. A special focus article notes that the new estimates revise up considerably China's price level, relative to other countries, and thus revise down the size of China's economy in PPP terms. The revised PPP estimates do not change our understanding of real growth. With the new relative price data, the World Bank's estimate of the US\$1 per day (PPP) poverty rate will go up modestly. However, estimates for earlier years will be revised as well. The revision does not change the fact that China has had the largest and fastest poverty reduction in history. Another special article discusses China's railway transport issues.

Recent Economic Developments

China's economy has begun to slow down somewhat from its record growth rates earlier in 2007. The domestic economy has started to contribute more to growth, and the trade surplus may stop rising going forward. Food prices lifted headline inflation to 6.5 in December, but general inflation pressure (except food) remains modest.

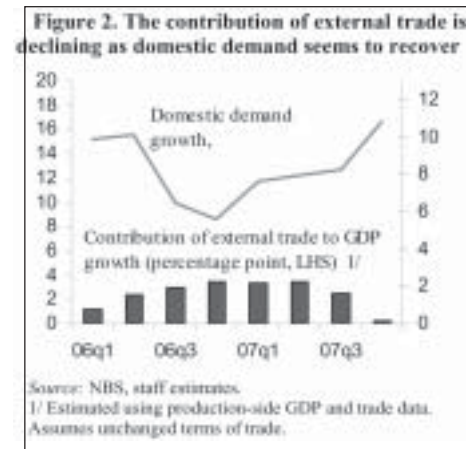
Economic growth remained strong in 2007, but the economy appears to have slowed down somewhat in the second half. GDP grew 11.4 percent in 2007, compared to 11.1 percent in 2006, making it the fifth year in a row with double digit growth. However, on a quarterly basis, GDP growth came down within the year from a peak of 11.9 percent (yoy) in the second quarter to 11.2 percent in the fourth quarter (Figure 1). Production-wise, this slowdown was reflected in lower growth of industrial production, which declined from a peak of 19.4 percent in June to



17.3-17.4 percent in November-December 2007.

The slowdown in demand was due to a declining contribution of external trade to GDP growth, partly offset by a rising contribution of domestic demand. Export growth had started to outpace import growth by a large margin in early 2006. Since then, a substantial share of GDP growth was due to net trade (Figure 2). However, in the second half of 2007, import growth picked up while export growth declined and imports outpaced exports for 3 consecutive months in the fourth quarter. As a result, the contribu-

tion of net trade to growth came down, particularly in the fourth quarter.¹ Most of the impact on overall GDP growth was offset by an apparent rebound in domestic demand growth. Signaled earlier in the year, this re-



bound became firmer in the 2nd half of 2007 (Figure 2).

It is too early to tell whether more general rebalancing of the pattern of growth is taking place. On the heels of tightening measures introduced in the fourth quarter, including stricter enforcement of window guidance on bank lending as well as of criteria for investment projects, growth in real urban fixed asset investment (FAI) (deflated with the PPI) declined sharply at the end of the year to 13.5 percent (yoy) in December (Figure 3, Page 13).² In the mean time, retail sales growth increased in the fourth quarter, even in inflation adjusted terms. However, because of the recent measures, the December outcome for FAI is not likely to be representative for trend developments. Overall investment growth in 2007 overall was only moderately lower than in 2006, and it continues to be higher than consumption growth, thus increasing its share in GDP. Similarly, industrial production decelerated, but it continues to grow faster than services, thus increasing its share in GDP (Figure 4, Page 12). These developments suggest that the measures taken so far to rebalance economic growth away from investment and industry to consumption and services have not yet had a noticeable impact. This is in large part because the fundamental drivers of investment in industry have not yet been much affected.

More detailed trade data reveals a strengthening of demand for imports in China's domestic economy throughout 2007. The easing of export growth through 2007 in response to a less buoyant world economy and several policy measures (Figure 5, Page 12) including VAT rebate cuts for exporters was particularly pronounced for normal (nonprocessing) exports. However, the VAT rebate adjustment has had a limited impact on China's processing trade. This trade is VAT exempt and is responsible for the bulk of the trade surplus (US\$249 billion of the US\$266 billion surplus in 2007). Meanwhile, the pick up in import growth in the second half of 2007 was particularly pronounced for normal imports, which grew 31 percent (yoy) in US\$ terms in the fourth quarter (Figure 6). Even after taking into account rapidly growing import prices (the import price index grew 10.6 percent in November, in US\$ terms), this suggests strong demand for imports in the domestic economy. The fact that import growth was considerably stronger than export growth recently may signal an upcoming slowdown in the rise in the trade surplus (in the fourth quarter, the rise in the trade surplus (yoy),

in US\$ was only 13 percent, compared to 86 percent in the first half of the year).

Inflation rose considerably, due to higher food prices. Pork prices increased sharply because of weak supply, in part due to the outbreak of diseases. In addition, prices of internationally traded food products such as grain rose sharply. This matters because China's food prices have become increasingly linked to international prices since WTO entry (Figure 7). Given their large weight (1/3rd), food prices drove up overall inflation from 2.2 percent in January 2007 to 6.5 percent (yoy) in December, which triggered several measures, including some price controls (see policy section). Sharp increases in global prices of industrial commodities (mainly metals) in recent years have driven up China's raw material prices and, to a lesser extent, producer prices. But their impact on consumer prices was modest. International oil prices also soared, but this was only partly reflected in China's prices



because of domestic price controls on fuels.

Some wage cost pressure seems to have emerged, but there is no significant spill over into general inflation yet. There are some signs that wage growth has been on the rise (Figure 7). Using data for manufacturing, growth of unit labor costs—the cost (in RMB) of producing a unit of output—in manufacturing has been positive in 2006-07 and is rising (Figure 9, Page 12).³ There is also some anecdotal evidence that high food prices are starting to spill over somewhat into prices of low-end services (where low-income workers' wages are an important cost factor). The pick up in producer price inflation to 5.4 percent in December reflects higher raw material and processed food prices, and possibly some wage pressures. Policymakers have been keen to prevent spill-over into more generalized inflation, including by raising interest rates and by introducing specific price freezes (see below). So far increases in consumer prices of industrial goods remain very modest, while profitability in industry has also remained strong. Indeed, the headline CPI data also suggests very little spill-over of high food prices into more generalized inflation to date, with non-food inflation remaining at around 1 percent through end-2007 (Figure 10, Page 12). This suggests that wage cost pressures, if they exist, have so far been largely absorbed by companies and not passed on.

There are so far few signs of overall excess demand pressure, but there are risks. That non-food inflation has remained so low indicates that there has so far been little domestically-generated overall inflationary

pressure in China. However, price controls and rationing may lead to an underestimation of inflationary pressure, and risks remain. This is consistent with the conclusions of comparing actual output with potential output. Potential output growth has kept up with actual output growth, preventing overall excess demand. But overall there is little spare capacity left in the economy.⁴

These price and cost developments take place against a backdrop of large balance of payment surpluses that continues to boost liquidity. China's external surpluses stem from large current account surpluses and capital inflows under its relatively fixed exchange rate regime. During 2007, the RMB rose gradually against the U.S. dollar, with the pace accelerating at the end of the year and into 2008, although the effective nominal exchange rate strengthened less (the U.S. dollar exchange rate was in end-January almost 11 percent stronger than a year ago). In 2007, with a current account surplus estimated at US\$359 billion, a further rise in incoming FDI to US\$ 83 billion (partly offset by rising FDI outflows), and apparently large net portfolio inflows as well, official foreign reserves surged US\$459 billion in 2007 to US\$1529 billion (excluding foreign exchange reserves "offloaded" to other institutions and commercial banks) (Table 1). The resulting increase in liquidity calls for sterilization, which the PBC does by issuing central bank bills and hiking reserve rates. Liquidity is also affected by domestic financial market developments that increase the money multiplier (the ratio between M2 and

central bank-issued base money).⁵ Nonetheless, window guidance has so far been relatively successful in reducing credit expansion, including the tightening of window guidance at the end of 2007. M2 growth of 16.7 percent (yoy) at the end of 2007 was lower than registered nominal GDP growth of 20 percent in the fourth quarter.

So far, balance of payment surpluses (and the policy response to them) have mainly contributed to high asset prices—shares in particular—as opposed to goods inflation. With non-food inflation still so modest, it does not seem that inflation is due to excessively loose monetary policy. The liquidity from the external surpluses is contributing to steady asset price increases, share prices in particular. The massive increase in share prices in 2006 and 2007 is primarily a domestic phenomenon, rather than primarily caused by capital inflows. With enthusiasm for equity investment booming and deposit rates low, households have shifted assets from deposits to shares. A key reason why deposit rates are so low is that, under the existing exchange rate regime, and the resulting balance of payment surpluses, the authorities are reluctant to raise domestic interest rates, for fear of attracting portfolio capital inflows. The liquidity is also contributing to housing market price increases, although China's overall increases in housing prices remain low by international comparison.

Economic Prospects and Policies

Economic prospects

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Global growth prospects for 2008 have deteriorated considerably amidst financial market turmoil and increased uncertainty. As the negative impact of the financial turmoil on the real economy in the United States and elsewhere becomes visible, the consensus forecast for U.S. GDP growth in 2008—collected from professional forecasters, with some lag—has declined by 0.6 percentage point to 2 percent since early September, when we prepared the previous quarterly.⁶ The consensus forecast for U.S. domestic demand in 2008, a better determinant for U.S. demand for China's exports, came down by about 1 percentage point. On the heels of disappointing recent economic activity data from the United States and renewed financial turmoil, the International Monetary Fund revised down its GDP forecast for the U.S. to 1.5 percent in end-January, and many see a distinct possibility of a U.S. recession. The consensus forecast for domestic demand growth in the euro zone came down by ½ percentage point in the 4 months to January. Overall, the risks to the global growth outlook seem to be mainly on the downside. Weaker growth prospects in the United States also mean lower interest rates there, as indicated by the rapid reduction in U.S. Fed interest rates in recent months, and a weaker U.S. dollar against other major currencies.

The expected weakening of global growth is bound to affect China's economy. Chinese financial institutions have low direct exposure to U.S. sub prime securities, and the direct effect of the U.S. sub prime problems via balance sheets is small.⁷ The direct impact of the international financial turmoil on China's financial markets has also been small, because capital flows are restricted by controls on portfolio flows. The expectation of weaker economic growth and earnings prospects for Chinese companies due to the international market turmoil has affected sentiment on China's stock markets. However, much of the recent volatility in China's stock markets was due to domestic concerns and policies. The main impact of the international turmoil on China comes via the real economy. With over 40 percent of China's exports going to Europe and the United States, exports will be affected considerably by the slowdown in the high income countries, which are most affected by the financial turmoil. Exports may further be somewhat affected by accelerated appreciation against the U.S. dollar and domestic cost increases, including from other rebalancing policies (see price prospects below), although these may be largely offset by continued rapid productivity growth. The prospects of slower global growth and cost increases, combined with more uncertainty, is also likely to reduce the appetite for investment in the (manufacturing) tradable sector, who's fortunes depend on the state of the global economy.

China's domestic economy should maintain robust momentum. China entered 2008 with strong momentum behind domestic demand. The policies introduced to contain investment are taking effect. However, so far confidence about the domestic economy has remained high, as well as liquidity and enterprise profitability, which is so important for financing investment in China. That makes a drastic slowdown still unlikely. Moreover, while policymakers want to contain investment growth, they do not want to see a sharp slowdown in investment.⁸ Thus, the tightening measures may be eased in accordance with evidence about a slowdown of the economy (see below). Therefore, we assume some but no dramatic slowdown in

overall investment in 2008.

Consumption should grow robustly. During the last decade, consumption has grown more slowly than the overall economy, as the share of wage income and household income in the economy declined and household saving rates remained high. Rebalancing is on the agenda, and there have in recent months been several announcements about policy measures that together should have some positive impact on consumption (see the section on fiscal and structural policies). It is unlikely that there will be a rapid increase in the share of wages and household income in the economy or the high household saving rate. Nonetheless, solid income and rising asset prices provide support for consumption, as witnessed by the strong retail sales growth at the end of 2007.

In light of these considerations, we now project GDP growth of 9.6 percent for 2008 (Table 1, Page 13). This is down from the previous projection of 10.8 percent in early September. This is also slightly below estimates of current potential growth, which may help to limit the risk of spill-over of food price increases. Given the current uncertainty about the global outlook, the risks are larger than normal, especially the downside risks.

The trade and current account surpluses are likely to remain broadly at the high levels of 2007. A soft export outlook combined with relatively strong prospects for imports suggest that the trend of imports outpacing exports that started in the fourth quarter could continue in 2008. With the level of exports considerably higher than imports, the trade surplus is unlikely to fall significantly. But, if the trend of imports outpacing exports continues at lower rates of export growth, the trade surplus should stop increasing.⁹

Price pressures should ease in 2008, but inflation is not likely to decline to low levels. The World Bank projects that international food prices rise a further 5-10 percent on average in 2008 (in US\$), with international grain price rises at the high end of this range. This would imply a decline in the rate of global food price increases.¹⁰ Domestically, pork prices should eventually respond to new production coming on the market. The Bank sees international industrial commodity and energy prices decline somewhat on average in 2008, compared to 2007 (in US\$ terms), which could mean more modest increases in China's raw materials and the PPI over time. However, cost increases may come from rebalancing policies—including higher land lease fees, cuts in export tax rebates, export taxes on energy intensive products, and a new labor law. Energy and utilities prices will eventually have to be brought closer to market and/or cost recovery levels (see below), and inflation prospects will depend on the timing and speed of adjustment. Unit labor costs in manufacturing may continue to increase (yoy), although probably at still modest rates. Under these assumptions, consumer price inflation pressure may ease somewhat through 2008, but inflation is not likely to decrease to the low levels seen in most of 2000-2006 and upward risks remain.

Risks on price pressures may be on the upside. International commodity prices including food are notoriously difficult to forecast and in recent years prices have usually been higher than expected. Thus, price pressures in global commodity markets including food this year may again be higher than expected. The significant downside risk to global growth is also somewhat of a downside risk to China's price pressures, because

many global commodity prices would ease and some of China's exporters will redirect production to the local market, putting downward pressure on prices. However, China's inflation is currently largely driven by food prices. Unlike industrial commodities, international food prices do not depend much on growth in the world economy, and the same is true for domestic food prices (bio fuel production and supply side issues are currently the main drivers for high food prices).

Macroeconomic policies

In light of these developments and prospects, the three key macroeconomic issues that policy makers have to deal with are: (i) the likely impact on China of the prospective global slowdown; (ii) inflation; and (iii) continued large balance of payment surpluses.

The first key issue is the likely impact on China of the prospective global slowdown. It is important to have a view on the likely impact on China's economy and on how the overall macroeconomic policy stance should be adjusted in light of changes in the outlook. Given the large degree of uncertainty, this requires vigilance and flexibility.

China is well-placed to deal with a contained global slowdown. This is so because of the strong momentum of the domestic economy and the strong macroeconomic position. In fact, a somewhat weaker world economy with somewhat weaker demand for China's exports and lower international commodity prices can help meeting China's objectives by lowering somewhat overall growth, inflation pressures, and the trade surplus. It is too early to say what is the appropriate stance on the existing tightening measures to contain investment. However, in the case of a mild internationally-driven slowdown there is likely no need to actively pursue expansionary macro policies to stimulate the economy.

In the case of a more pronounced global slowdown and impact on its economy, China is in a strong macroeconomic position to stimulate demand. China can do this by adjusting the fiscal stance and ease credit controls. In light of the current concerns about affordability of food, targeted direct subsidies to offset the impact of high food prices on the poor may be an attractive alternative to price controls. Easing the fiscal stance can also be done via more general spending or tax cuts. Barring a serious downturn, the domestic case for lowering interest rates and relaxing liquidity management is not strong, however, given the concerns on inflation and the need to ensure that price pressures do not spill over.

The second key issue is inflation. This is the issue that currently concerns policymakers the most. As discussed above, with inflation currently largely driven by food prices, inflation prospects do not depend much on global and/or domestic growth prospects, even though lower growth helps somewhat to dampen overall price pressures. The government's main objectives are to contain overall inflation at a reasonable level; ensure sufficient supply of goods on key markets; and keep basic necessities including food affordable for people with modest incomes. So far there is limited spill over of higher food prices into more generalized inflation and no obvious overall excess demand yet. Economic policy makers need to ensure this remains the case and that inflation expectations remain contained. This calls for relatively tight monetary policy and effective communication, while exchange rate policy also matters. The government has also

implemented administrative measures including some price controls, and it could consider using direct subsidies.

The third key issue is continued large balance of payment surpluses that inject liquidity into the economy. As with inflation, the balance of payment surplus is also not very dependent on global growth. The surplus will remain large even with weak global growth, thus continuing to put pressure on the currency, inject liquidity, and compromise monetary policy.¹¹ Appropriate policies are needed to (i) reduce the surpluses and (ii) deal with the liquidity. In the short term, this notably has implications for monetary and exchange rate policy. Structural policies to reduce the imbalances associated with China's pattern of growth are also key.

Inflation concerns and balance of payment surpluses have implications for monetary and exchange rate policy, and administrative and fiscal measures.

Monetary and exchange rate policy

Inflation concerns call for relatively tight monetary policy. A stronger exchange rate will help dampen inflation pressures and reduce the current account surplus, while concerns about capital inflows call for strengthening the enforcement of existing capital controls and more exchange rate flexibility.

With monetary policy remaining constrained by the exchange rate policy, administrative measures continue to play a role in monetary policy. High balance of payment surpluses put upward pressure on the RMB. Much of the surpluses are sterilized using open market operations and reserve rate increases. With the interest differential between China and the United States having turned positive (Figure 11), policy makers are concerned that high interest rates would attract more portfolio flows (although it is not clear how high interest rate sensitive capital inflows are). This external constraint has kept domestic interest rates lower than they otherwise would be. Interest rates were increased during 2007, but these increases lagged behind the rise in inflation. Thus, on the metric of real interest rates (deflated by current inflation) there was no monetary tightening in 2007 (Figure 12). As a result, administrative measures and window guidance are used to affect bank lending. The tightening of window guidance at the end of 2007 have been relatively successful in reducing credit expansion, although the success of such measures is difficult to maintain for long periods without economic costs.

Looking ahead, monetary policy may continue to rely on credit controls and liquidity management. The government's desire to rely more on interest rates in the conduct of monetary policy will over time require a more flexible exchange rate regime. In the meantime, as long as external surpluses remain large, policy makers will consider the prospects for further U.S. Fed cuts as a constraint on China's interest rate policy. Thus, a relatively tight monetary stance may continue to be pursued by mopping up liquidity (through open market operations and higher reserve requirement ratios) and administrative measures such as the quarterly credit quotas. The PBC's monetary policy program for 2008 will likely be reflected in lower M2 and lending growth targets, including bank specific quotas for the large banks. Under current conditions, it pays to enforce existing capital controls on inflows as much as possible.¹² While liberalizing controls on outflows is tempting, a

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controlled opening, like the one initiated through the QDII scheme and the going global initiatives is to be preferred over complete liberalization at this stage.

Regardless of the framework, it is important to continue to communicate effectively and credibly to the public about the projections for inflation and how monetary policy will ensure moderate inflation in the medium term, as the PBC is doing, for instance in the recent monetary policy report.

The authorities have speeded up the pace of appreciation against the dollar. This has helped dampen price rises of tradable goods—including food prices. Speeding up the pace of appreciation would further dampen these price increases directly and indirectly stem the current account surplus that is an important contributor to the overall external surplus. Given the movements of the U.S. dollar against other currencies, and the growing importance of countries other than the United States as trading partners, it is increasingly necessary to look at and discuss China's effective, trade weighted exchange rate, as opposed to the U.S. dollar exchange rate.

Administrative and fiscal measures

The government has introduced several administrative and fiscal measures to dampen price rises, keep items affordable, and manage expectations. Administrative measures introduced include: (i) a moratorium on price adjustments on administratively controlled prices of energy and utilities; (ii) price controls on a small set of food items, including instant noodles and university cafeteria prices; and, (iii) in January, temporary measures that require large producers of grain, edible oil, meat products, eggs, milk, and LPG to seek approval from the government before raising prices while medium and large wholesalers and suppliers must report within 24 hours of any significant price increase. Fiscal measures introduced include (i) subsidies for taxi drivers; (ii) subsidies for raising pigs and producing grain; (iii) taxes on the export of grain and introducing export quotas; (iv) taxes on the export of energy intensive products; and (v) reductions in import tariffs for fuel. The government also

released stocks from the national grain reserve on the market.

As the government may consider additional such measures, there are several observations to make. Box 1 discusses some general considerations. How do these general considerations help in deciding what to do if food price pressures intensify?

- Under current circumstances, price controls have short term benefits and costs. It is difficult to know with certainty, but it is at least possible that the beneficial effects of modest price controls may well outweigh the detrimental effects in the short run. That is because price increases so far are mostly in food and do not obviously come from large excess aggregate demand.

- In the longer run, the detrimental incentive effects are likely to outweigh the benefits. Price controls block the transmission of price signals to producers to increase supply. It is difficult to maintain administrative measures for long periods of time, especially if they become at odds with market conditions and the macro stance. Price controls and quotas also contribute to policy uncertainty, which is not helpful for the business environment.

- Thus, administrative measures such as price controls and quotas should be used sparingly and should not be relied on for long periods of time. Indeed, the NDRC, who issued the recent measures, indicated that they should be abolished as soon as the "obvious" price pressures have abated.¹³

- Short-term considerations should not distract from the strategic direction of re-

form. Policy makers need to balance the need to reduce inflation in the short term with the need to improve efficiency and reduce resource intensity and pollution. This is a particularly pressing issue for energy prices, where the 11th 5 year plan calls for improving energy and resource efficiency, for which pricing energy in line with scarcity is key. If, as many, including the World Bank, expect, international oil prices were to be sustained at high levels, Chinese retail prices of fuel would have to increase significantly. This would likely be done gradually, which is fine. It would help the government's efficiency goals, however, if a calendar of gradual price increases is announced in advance. In that way, people start to change their behavior, for instance in terms of what type of car or house heater to buy.

- Given the government's strong fiscal position, the authorities could consider introducing direct subsidies. Such subsidies could help meet the key objectives of keeping supply up and basic necessities including food affordable while keeping markets clearing.

- To minimize costs and keep subsidies justifiable, direct subsidies are, if practically possible, best targeted at the most needy groups.

- The use of administrative and fiscal measures should be flanked by consistent macroeconomic policies.

Other fiscal and structural policies—key for rebalancing

Fiscal and structural policies are important to rebalance the pattern of growth, making growth more resource efficient, cleaner, and more equally shared. During the last 6 months, many fiscal and structural policy initiatives have been taken.

Recent fiscal policy initiatives include the following.

- A proposal to raise the (monthly) individual income tax levy threshold from RMB 1,600 to RMB 2,000 is expected to be adopted in March. The raise would reduce tax collection by RMB 30 billion and would increase the share of income earners exempt from income tax from 50 to 70 percent.

- Under a temporary pilot program in 3 provinces, people will receive a 13 percent subsidy when they purchase electrical appliances in rural areas.

- The government will double its contributions to the cooperative rural and urban health insurance schemes. Currently the central and local government each contribute RMB 40 per person per year.

State-owned enterprises will pay dividend to Government from 2008. Under a pilot project, the Ministry of Finance and the State Asset Supervision and Administration Commission (SASAC) will collect 10 percent of the after-tax profits of enterprises in the chemical, coal, oil, power, telecommunications and tobacco industries, and 5 percent in the case of most other SOEs.

Some progress has been made in reducing the energy intensity and emission. China aims to reduce its overall energy intensity (energy consumption per unit of GDP) by 20 percent during the 11th Five Year Plan, and emission by 10 percent. In 2006, the first year of the Plan, progress was disappointing. Energy intensity fell only 1.3 percent and emissions of sulfur dioxide, a cause of acid rain and chemical oxygen demand (COD), a measure of water pollution, increased. In 2007, the government took several new measures and initiatives, including increasing spending on saving energy and reducing emissions, closing inefficient coal-fired power units and outmoded steel plants, and applying environmental criteria to bank lending. Partly as a result of these above-mentioned measures, China's energy consumption per unit GDP fell three percent in the first nine months of 2007, while both sulfur dioxide emissions and chemical oxygen demand dropped. Later in the year, the government also raised oil product prices, by 10 percent, and imposed an export tax on some energy intensive products.

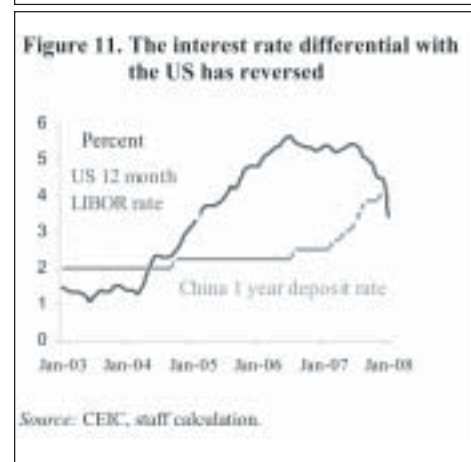
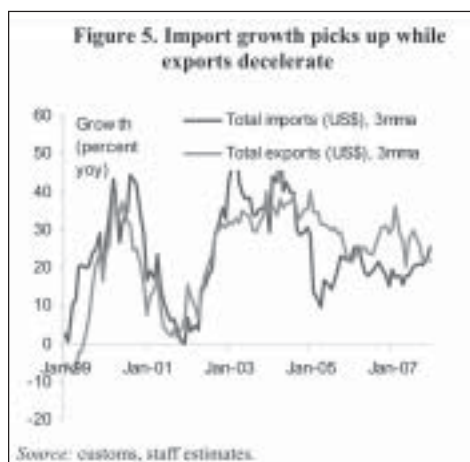
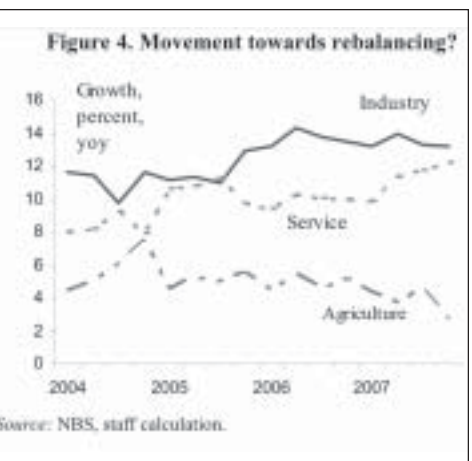
The government cracks down on environmental violators. The Ministry of Commerce (MOC) has issued a notice that exporters would be prohibited from trading abroad for one to three years if they were found to be violating China's environmental protection rules. These measures are targeted at five sectors, including metal processing, chemicals, cements, textiles and light industry, which together account for 80 percent of the country's energy consumption.

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Box 1. Administrative and fiscal measures in the context of inflation—general considerations

As the government may consider additional such measures, there are several observations to make.

Administrative measures such as price controls are typically introduced to stabilize prices.

They affect the incentives to supply and demand. On the supply side, price controls typically discourage supply (as with fuel products) or lead to a reduction of quality and quantity (less meat in cafeteria food). On the demand side, capping prices in the face of changing market conditions prevents the reduction in demand or substitution to other, similar products that would be useful to re-equilibrate market conditions (as with pork) or be appropriate otherwise (as with energy).

Fiscal measures such as direct subsidies and taxes can sometimes substitute for administrative measures and have a different economic impact. Overall, they tend to keep incentives closer to being market determined and thus be less distortive. A producer subsidy increases the incentive to supply and leaves demand market determined. We would normally expect a producer subsidy to result in a (somewhat) lower market price, and higher supply and demand. A consumer subsidy makes items more affordable while leaving supply market determined. We would normally expect the consumer subsidy to result in a (somewhat) higher market price and higher supply and demand. On the downside, subsidies have fiscal costs.

There are a few general principles on administrative and fiscal measures.

- Administrative measures can be helpful in managing expectations. They may in certain circumstances stabilize market conditions. They can be particularly helpful to quickly stabilize conditions and can be effective for a short period.

- If overall market conditions and macro policies are broadly consistent with the administrative measures, the measures may help restoring market equilibrium and stability. In this case, the potential negative incentive effect of price controls are limited.

- If overall market conditions and macro policies are inconsistent with the administrative measures, it is difficult to enforce the measures successfully for longer periods of time. That is because in these circumstances the underlying economic incentives are at odds with the measures. For instance, price controls reduce the incentives to produce.

- Direct subsidies cause fewer incentive problems. The key considerations determining their introduction are: (i) is the fiscal cost reasonable and financially sustainable; (ii) is the subsidy justifiable from the perspective of fairness.

Targeting direct subsidies to specific groups (or markets) can sharply reduce the fiscal burden. Targeting has administrative cost and may distort decisions. However, international experience suggests that with subsidies the weighing of pros and cons often points to targeting them to specific groups. ■

China Quarterly Notes

¹ The data for Figure 2 is calculated using unchanged terms of trade. Accounting for changes in the terms of trade would give a larger contribution of net trade during 2007, but this approach shows the same trend of a substantially lower contribution of net trade in the fourth quarter.

² In China, economic statistics on real (constant price, or price-adjusted) and nominal (current price) variables are still regularly put together and compared with each other. For instance, growth in retail sales and FAI in nominal terms is sometimes compared with real GDP growth. The agencies providing and publishing data could usefully be clear in their communication about the difference between nominal and real concepts.

³ It is difficult to put together consistent data for unit labor cost analysis in China, and it is better to treat this data with caution. That is in part because the official wage data only covers a part of manufacturing, with a bias to large SOEs. However, information on changes over time in wage growth are likely to be meaningful.

⁴ See figures 12 and 13 in our September 2007 Quarterly Update.

⁵ See the Box on page 13 of our November 2006 Quarterly Update.

⁶ Consensus Forecast (January 14).

⁷ Only a few Chinese banks have significant exposure. For the Chinese bank that reportedly had the largest exposure, this exposure was still very small relative to its balance sheet.

⁸ The CPC's Central Economic Working Conference which formulated the broad macro-

economic policy stance for 2008 was held in early December 2007 (when projections for the global economy had not yet been adjusted much from the optimistic views held throughout most of 2007). It concluded that the primary tasks the "two prevents" (i) prevent economic growth developing from rapid to overheating and (ii) prevent the current food-price led price rises from evolving into "evident inflation." The conference concluded that this should be possible if China continued with a "prudent" fiscal policy and shifted monetary policy from "prudent" to "tight."

⁹ If exports grow 15 percent in 2008 (in US\$ terms), imports need to grow by 19 percent to stabilize the trade surplus in absolute terms.

¹⁰ World Bank, Development Prospects Group (December 2007).

¹¹ If global growth weakens while China's growth remains robust, the current account surplus would reduce but this would be offset by higher net capital inflows into China attracted by growth and interest rate differentials.

¹² In early December, the State Administration of Foreign Exchange (SAFE) announced that it would treble the amount of money that foreigners can invest in the mainland. Specifically, the quota for qualified foreign institutional investors (QFII) has been increased with immediate effect from US\$10 billion to US\$30 billion.

¹³ The NDRC, who issued the measures, indicated that they should be abolished as soon as the "obvious" price pressures have abated. ■

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Table 1. China: Main Economic Indicators

	2004	2005	2006	2007	2008 1/
The real economy (change in percent)					
Real GDP (production side)	10.1	10.4	11.1	11.4	9.6
Real GDP (expenditure side) 2/	9.9	13	13.6
Consumption 2/	7.1	9.4	10.3	10.9	11.0
Gross capital formation 2/	13.4	11.6	13.2	14.3	13.5
Fixed capital formation	11.7	13.6	13.3	14.5	14
Exports (goods and services) 3/	28.4	23.6	23.6	21.2	15.2
Imports (goods and services) 3/	22.7	13.4	18.6	16.5	18.8
Consumer prices (period average)	3.9	1.8	1.5	4.8	4.6
GDP deflator	6.9	3.8	3.0	5.2	5.0
Fiscal accounts (percent of GDP) 4/					
Fiscal balance	-1.3	-1.2	-0.5	-0.6	-0.9
Total revenue	16.6	17.8	18.9	19.8	20.6
Total expenditure	18.0	19.0	19.4	20.4	21.5
External account (US\$ billions)					
Current account balance	69	161	250	359	378
As share of GDP (%)	3.6	7.1	9.5	11.0	9.3
Capital account balance	138	47	-3	100	80
(including errors & omissions)					
of which: FDI (net)	53	68	60	75	60
Change in reserves (increase ==)	206	207	247	459	458
Foreign exchange reserves	610	819	1066	1529	1987
Other					
Broad money growth (M2), e-o-p, in percent	14.6	17.6	16.9	16.7	15

Sources: NBS, PBC, Ministry of Finance, and staff estimates.

1/ Projection.

2/ Estimations are based on the national account data (Table 3-13 in China Statistical Yearbook 2006).

3/ Estimates based on trade deflators for goods published by the Custom Administration.

4/ GFS basis; central and local governments, including all official external borrowing. The data are not adjusted for accumulation of arrears in tax rebates to exporters during 2000-2002, and the repayment of these arrears in 2004 and 2005. Such an adjustment would increase the deficit in 2000-02 and lower it in 2004-05.

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Insider's look at the Chinese economy presented by Wells Fargo economist

By Greg Hugh, Staff Writer

The February meeting of U.S.-China Business Connections (UCBC) was well attended by a diverse group of people anxious to learn more about the Chinese economy. The presentation was made by Scott Anderson, Ph.D., Wells Fargo Senior Economist and Lead China Economist. Dr. Anderson holds a doctorate in economics with an emphasis in monetary theory and international trade and finance from George Washington University. He is responsible for analysis and forecasting of international, national and regional economic trends. His areas of focus include macroeconomic and interest rate forecasting, financial markets, and international economics.



Dr. Scott Anderson

Following are some of the highlights of the presentation that included over 37 slides and graphs. Dr. Anderson began his talk by answering the question on the minds of many of the people in attendance: China's Economy... Boom to Bust? His observation was that it was not likely in spite of its phenomenal growth over the past five years. He definitely sees it slowing but not likely to implode and still might grow by double digits depending on the future price of oil and other raw materials. (See Chinese Real GDP Growth.)

In describing the growth of China's economy, Dr. Anderson compares it much to how the United States evolved from an agricultural-based economy to one of manufacturing. A major difference in how this evolved in each of these countries is the length of time it took to accomplish. China is making this transition in a much shorter period of time as noted in the graph below. (See Chinese Population Distribution.)

Fueling this growth in China was the implementation of early reforms designed to boost exports, foreign development invest-

ment along with technology transfer simultaneous with some important structural changes that required a communist country to embrace pillars of global capitalism. In 2001 China joined the World Trade Organization and in 2004 it strengthens property rights and in 2007 it improves workers rights.

According to Dr. Anderson, associated with this success are inherent risks that eventually afflict most developing countries. In addition to concerns about large trade surplus, a fragile banking system, there is a fear of growing inflation in China which last year exceeded 6 percent (See Chinese Inflation.)

Although the economic growth of China has been met with mixed feelings in the United States, there is no doubt that both countries are nevertheless closely linked and there continue to be opportunities for trade and commerce. As the per capita of the Chinese population increases, there is the possibility that the United States could end up exporting more goods and services to China and even out the difference between the two countries that now show that the United States, at 21 percent, is China's largest export customer but the United States is only fourth, 11 percent, in what China imports and is especially significant when China contains over 1.3 billion potential customers. (See China: External Trade Statistics.)

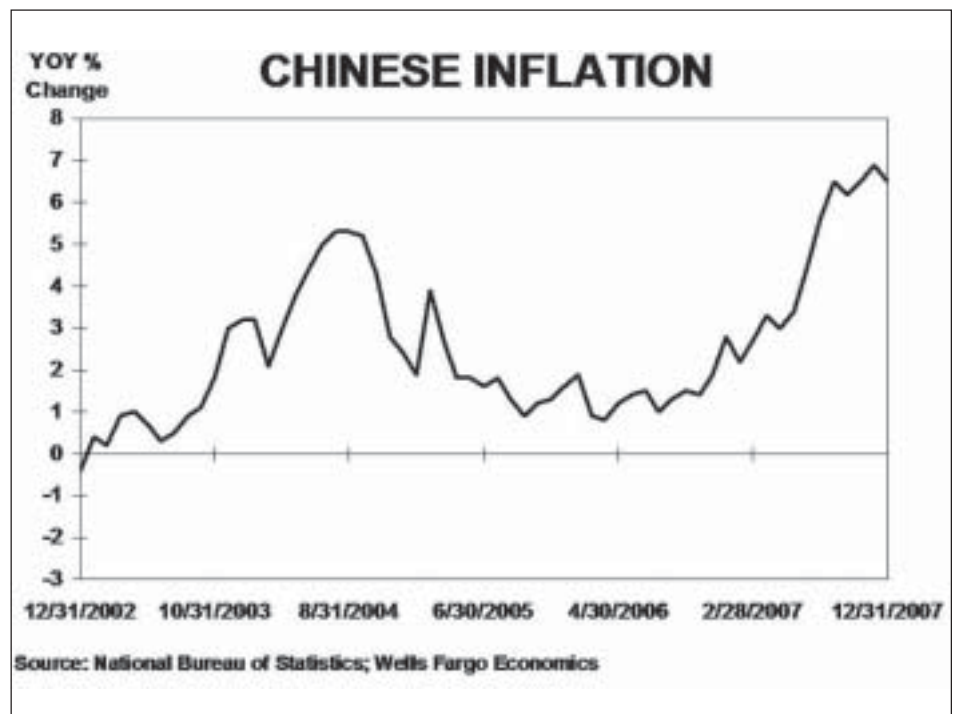
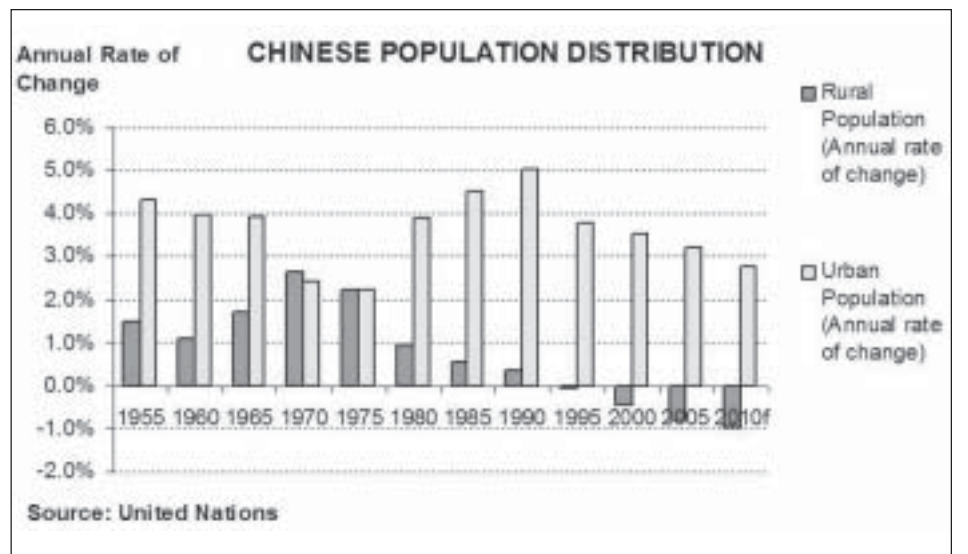
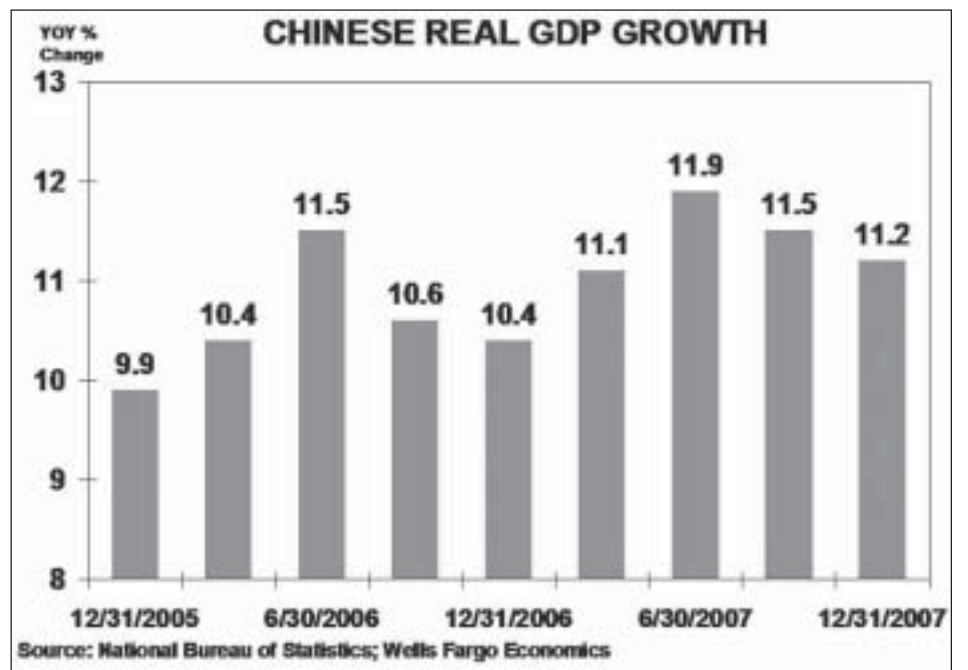
China's future economic development will also be influenced by recent reforms designed to improve income equality, standard of living and domestic demand of its people. In the near term, according to Dr. Anderson, in 2008, he expects China to experience slower export and investment growth, a shift to domestic demand and the hosting of the Olympics in Beijing.

At the conclusion of his presentation Dr. Anderson took questions from the audience.

It appears the road ahead for China is beset with numerous obstacles for its continuing economic growth and is raising more questions than answers both at home and abroad. Concerns over income disparities and core inflation are increasing domestically while international pressures for adjustments to the exchange rate for the Yuan along with environmental and humanitarian issues persist. Thus, can China achieve its growth objectives to meet its domestic needs while also recognizing international concerns?

Dr. Anderson's research is widely read by the financial and business community and he has appeared in numerous media including: CNN, Bloomberg, MSNBC, CBS MarketWatch, BBC, NPR, *Wall Street Journal*, *New York Times*, *Financial Times*, *Washington Post*, *Los Angeles Times*, *Chicago Tribune*, *USA Today*, and *San Francisco Chronicle*. Dr. Anderson joined Wells Fargo as senior economist in 2001.

The next meeting of UCBC is Mar. 5, 2008 and the topic will be "Chinese Business Etiquette – the 1st step toward winning business in China." Visit UCBC's Web site for complete details: www.ucbcgroup.org. ■



	2002	2003	2004	2005	2006	2007	2008F
Main Destinations of Exports (% share)							
US	21.5%	21.1%	21.1%	21.4%	21.0%	-	-
Hong Kong	18.0%	17.4%	17.0%	16.3%	16.0%	-	-
Japan	14.9%	13.6%	12.4%	11.0%	9.5%	-	-
South Korea	4.8%	4.6%	4.7%	4.6%	4.6%	-	-
Principal Exports (% share)							
Electrical machinery & equipment	9.8%	9.7%	10.0%	9.9%	10.5%	10.0%	10.0%
Clothing & garments	12.7%	11.9%	10.4%	9.7%	9.0%	9.1%	8.7%
Yarn & textiles	6.3%	6.1%	5.0%	5.4%	5.0%	4.4%	4.1%
Petroleum & products	1.2%	1.3%	1.0%	1.3%	1.1%	1.0%	0.9%
Main Origins of Imports (% share)							
Japan	18.1%	18.0%	16.8%	15.2%	14.0%	-	-
South Korea	9.7%	10.5%	11.1%	11.6%	11.3%	-	-
Taiwan	12.9%	12.0%	11.5%	11.3%	11.0%	-	-
US	9.2%	8.2%	8.0%	7.4%	7.5%	-	-
Principal Imports (% share)							
Electrical machinery	18.8%	19.3%	19.7%	20.9%	22.1%	22.2%	21.3%
Petroleum & petroleum products	5.8%	6.5%	7.9%	9.0%	10.6%	9.1%	7.4%
Industrial machinery	5.3%	5.1%	4.7%	3.7%	3.5%	3.2%	2.7%
Textiles	4.4%	3.4%	2.7%	2.3%	2.1%	1.8%	1.5%

Source: Economist Intelligence Unit



Ten qualifying events left in the countdown to the 2008 Beijing Olympics

Prior to the 2008 Beijing Olympics, in accordance with International Olympic Committee, 42 sporting events were scheduled from July 2007 to June 2008 leading up to the Olympics. Thirty-nine of the events are part of the "Good Luck Beijing" series. This "includes 14 top-level sporting events and several integrative competitions, covering the whole range of Olympic sports" according to the Good Luck Beijing Web site (<http://www.goodluckbeijing.com.cn/en/>).

The Good Luck Beijing 2008 Swimming China Open was held Jan. 31 to Feb. 5; the 16th FINA Diving World Cup was held Feb. 19-25; and the Good Luck Beijing 2008

International Taekwondo Invitational Tournament was held Feb. 26-29.

There were 32 events in the Good Luck Beijing 2008 Swimming China Open, 16 men's events and 16 women's events. Chinese men won nine medals in seven events. Chinese women won 17 medals in 14 events. At press time, the 16th FINA Diving World Cup was being held. With six of eight events completed (3 of 4 for both men and women), Chinese men had won four medals and Chinese women had won four medals.

There are ten more Good Luck Beijing events before the start of the 2008 Summer Olympic Games in Beijing:

- | | |
|---|---------------|
| * Good Luck Beijing 2008 Water Polo China Open | Mar. 18-23 |
| * Olympic Games Synchronized Swimming Qualification Tournament | Apr. 16-20 |
| * FIE World Championships (Fencing) | Apr. 18-20 |
| * 2008 IAAF Race Walking Challenge | Apr. 18-19 |
| * Good Luck Beijing 2008 Marathon | Apr. 20 |
| * Good Luck Beijing 2008 Women's Basketball International Invitational Tournament | Apr. 19-25 |
| * ISSF Beijing World Cup (Shooting) | April |
| * Good Luck Beijing 2008 China Club Volleyball Tournament | Apr. 16-21 |
| * Good Luck Beijing China Open (Athletics) | May 22-25 |
| * Olympic Games Marathon Swimming Qualification 2008 | May 31-Jun. 1 |



China's Wu Minxia/Guo Jingjing successfully defended the women's 3m synchronized springboard title after scoring a five-round total of 362.10 to win the event



China's He Chong finished atop the men's 3m springboard preliminary round with 499.05pts

Left, China's Wu Minxia upset her teammate Guo Jingjing by 3.60 points to grab the gold of the women's 3m springboard Right, National Aquatics Center



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Asian Night is a means to share culture

By Jennifer Nordin, Staff Writer

The Timberwolves hosted Asian Night in partnership with CHINA Insight on Monday, Feb. 4 the night of the Wolves 86-92 loss to Yao Ming and the Houston Rockets. Pre-game activities included a Chinese Heritage Foundation table where fans could get their names written in Chinese calligraphy, performances by Chang Mi Korean Dance and Drum Troupe, and Gu Zheng performed by Lisa Veronneau. There were also representatives from the American Academy of Acupuncture and Oriental Medicine.

Asian Night was not just about Asians, even though Asians made up a significant portion of the 10,000 some fans at the game. Asian Night gave other Americans the opportunity to learn more about Asian cultures in the Twin Cities. This was the sixth year that the Timberwolves organization and CHINA Insight presented Asian Night at Target Center. The first was held at a home game versus the Houston Rockets during Yao Ming's rookie year in the 2002-2003 season.

At the Standing Drum performance by three members of the Chang Mi Korean Dance and Drum Troupe, some 40 people stopped to watch. The audience was captivated by the performers in red and yellow as they drummed and moved as one. There were two other performances by the Chang Mi group. Chang Mi dance instructor Brooke Newmaster expressed her gratitude for the opportunity to participate in Asian Night for the second year in a row.

Unfortunately, the Chinese Heritage Foundation table was not well identified, and many people passed by without taking advantage of the free calligraphy. Those who did stop at the table were fascinated not only by the beautiful calligraphy but by the art of translation as well. Fans would write down their names in English. Rather than a literal translation, the meaning of the name was determined and then the meaning was translated into Chinese characters.

The American Academy of Acupuncture and Oriental Medicine table included an informative display. An AAAOM member was available to answer questions about acupuncture and other traditional Asian medicine practices. Leland Brenholt of AAAOM was asked by a visitor to give a lecture about acupuncture and traditional Asian medicine to a group of nurses.

Fans that passed the Gu Zheng, a traditional Chinese stringed instrument, in between performances were curious to learn more about the history and significance of the instrument.

As part of Asian Night, fans could purchase the CHINA Insight Package and get a ticket at a reduced price and also get a free t-shirt. The t-shirts showed the Timberwolves wolf logo in the middle of the Chinese Zodiac with Timberwolves written in Chinese below (literally translated as forest wolves team).

Asian Night activities included a half time performance by the Chinese American

Association of Minnesota Dance Theater. Over a dozen girls dressed in bright lime green outfits danced at center court. The artful choreography included the use of beautiful bright pink fans. The performance included large lions and small lions, but it did not include a traditional lion dance.

And, of course, there was the basketball game. There was much cheering at the beginning of the game when the Timberwolves players were introduced. When the Houston Rockets players' names were announced, only Yao Ming and Tracy McGrady garnered any noticeable cheers. For Yao Ming fans, the game was a chance to see their favorite player in action.

Yao was one of the first of the Rockets to come back to the court after half time and a few fans that had come down by the Rockets' bench had an opportunity to speak to him. Some of the CAAM dancers also had a chance to speak to Yao as they exited the floor after their performance.

During the game, a few intrepid fans ventured down to the floor level seating to snap some action photos of Yao. They managed a shot or two before they were politely asked to go back to their seats by event security staff. At a break in play, a short video featuring Yao Ming was aired. In the clip Yao wished everyone a happy Chinese New Year. (The Year of the Rat began on Feb. 7.)

At the Feb. 4 game spectators saw a fast-paced close game between the Minnesota Timberwolves and the Houston Rockets;

Yao Ming fans took advantage of his only appearance at Target Center this season; and the Asian community in the Twin Cities shared their culture with others on the eve of the lunar new year.

Fans will be able to see new Chinese basketball phenom Yi Jianlian when the Wolves face the Milwaukee Bucks on Apr. 16 at the Target Center for the final regular season home game. The Apr. 16 game will also be Fan Appreciation Night. ■

Editor's note: Minnesota Timberwolves owner Glen Taylor was recently appointed to the Board of Directors of NBA China, an entity of the National Basketball Association that will conduct all of the league's business in Greater China. NBA China was formed in January 2008.



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