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# CHINA WATCH

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# The Programming of the Sound Development of Major-Country Diplomacy with Chinese Characteristics and the Construction of a New Type International Relationship with the Core of Win-Win Cooperation

Su Changhe, *School of International Relationship and Public Affairs, Fudan University*

"Five-Year Plan for National Economy and Social Development" is a distinctive feature of China's development path. The period during the implementation of "The Thirteenth Five-Year Plan"(from 2016 to 2020) is the most critical five years for the complete establishment of a moderately prosperous society. The implementation of this project demands the utilization and creation of a favorable international environment. Currently, foreign affairs play a more and more important role in the Party's governance, national economy and social development. The connection and interaction between domestic affairs and foreign affairs are becoming stronger and stronger. Thus, the formulation of "The Thirteenth Five-Year Plan and the implementation of every task call for the the two parts to plan as a whole and work together. **Therefore, it is suggested that the designing of the content concerning the work of foreign affairs in "The Thirteenth Five-Year Plan" should put into more consideration of the establishment of the inner profound meaning of China's major-country Diplomacy with Chinese characteristics.With the objective of the construction of a new international relationship with win-win cooperation as the core, it should strive to create an international environment which is conducive to the implementation of this plan.**

*The designing of the content concerning the foreign affairs in "The Thirteenth Five-Year Plan" should put into more consideration of the establishment of the inner profound meaning of Major-country Diplomacy with Chinese Characteristics. It is also suggested to list the work of foreign affairs independently and highlight it. It should endeavor to exert a more positive influence on the management of the topics of the global governance by planning the development actively. With the target of the construction of new type international relationship with the core of win-win cooperation , it should strive to create an international environment which is conducive to the implementation of this plan.*

**Firstly, the layouts of the previous five-year plans have never listed out independently and highlighted the work in foreign affairs; and in the most recent one,it is dispersed loosely in the parts of economy,society, culture, government establishments, etc. Therefore, by listing it out independently, it would form a comprehensive system, and in the meantime, it is beneficial to the cultivation of our international awareness in our programming process as well as the implementation process.** In 2014, the Central Foreign Affairs Meeting put forward the notion that China must have a major-country diplomacy with its Chinese characteristics. China also raised the idea of the construction of the new type international relationship with the core of win-win cooperation. The relation between China and the world has already undergone a historic change. China's dependence, as well as the world's dependence on China, becomes stronger. **In the past we strengthened that we should strive for a favorable international environment, now, we should**

**pay more attention to how to create one by our own initiation from being the passive to the active. Thus, in the draft of the once-in-five-year program, we should highlight the topic of our diplomatic development.** The core of foreign affairs in "The Thirteenth Five-Year Plan" should be focus on the New Type International Relations with the core of major-country diplomacy with Chinese characteristics and win-win cooperation."

**Secondly, the field of Global Governance begins to witness more and more five-year or ten-year development plans**, such as the Millennium Environment Development Agenda under the Framework of the United Nations, After Millennium Development Agenda, etc. **China's major-country diplomacy needs a more active development plan to influence the governance of the global issues in a much more positive way, instead of being led passively and mono-directionally.**

**Thirdly, China has started to establish five-year or ten-year diplomatic development plans with more and more countries.** On the one hand, it is beneficial to minimize the interferences to bilateral relations caused by the shifting of different governing parties of the target countries. One the other hand, it is advantageous to the deepening of the long-time cooperation with the target country. So far, China has formed Different kinds of cooperation with different types of countries, including over 70 partnership countries. The deepening of the development of abundant number of partnerships has already been one most significant factor to our construction of a new international relationship. Besides, China has also started its exchange system in legislation, political parties, humanities, and local cooperation with a number of countries. We are already quite good at these aspects and it shows that sustainable planning is a feature of China's major-country diplomacy. But these work needs to be one system. At this moment, it should also be incorporated into the long-term consideration of China's diplomatic development plan for the steadiness and the sustainability of its development.

**Fourthly, in recent years, China has set up the SCO, the AIIB, the New Development Bank, the BRICS Summit by initiating independently or working together with other countries, at the same time established a number of bilateral dialogue mechanisms with different regions of the world.** And since "One Belt and One Road" is a long-term strategy, its steps and periodic work should be categorized into the work of foreign affairs.

**Finally, with the enhancement of the spillover-effect in China's development to the rest of the world, our five-year plan has become an important reference for many countries in their considerationof**

**developing relations with China.** The major-country diplomacy development plan standing out in Outline of the Five-year Development Plan, will help lead other countries to gradually join and accept China's diplomatic development initiatives in the international arena, and deepen the influence and absorbing capacity of China’s Path in the world.

Translator/ Liu Wencui

# China's Monetary Policy Choice

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*China's economic growth rate continues to drop because of China's monetary policy. The new administration hopes that current economic downward pressure can facilitate a shift in the economy towards greater reliance on household consumption, and devotes to change the economic development mode from being driven by investment and export into being driven by consumption and service. The government should carry out low interest rate monetary policy to ensure the stability of economic fundamentals.*

## *I. "New Normal" of Chinese Economy under the Current Monetary Policy*

China's economic operation has been fluctuating greatly in recent years. The whole world is paying close attention to the changes of China's economic growth, especially whether it will be back on track.

After the global financial crisis in 2008, China's macroeconomic policy has been unstable, changing from expansion to tightening, which has hindered the full use of production capacity and resources. Overcapacity is always accompanied by growth rate decline, which not only has a negative impact on economic growth, but also leads to overcapacity in a large scale in some industries (especially in the energy industry, heavy industry and chemical industry).

If the short-term fiscal policy changes led to the economic downturn, however, why has it lasted so long? A relatively convincing argument points out that China's monetary policy is accounted for decline in economic growth. The new administration has not given up the previous administration's prudent macroeconomic policies. Instead, they hope that the current economic downward pressure can stimulate the shift to an economic development pattern mainly driven by household consumption. They call the current slowdown in China's economic growth as "New Normal".

## *II. Conflict between the Actual Situation of High Interest Rates and Domestic Demand*

It's a stable growth of GDP, not a dramatically drop of it that makes sure a smooth transition of economic structure. But the reality is that though China continues to carry out structural adjustment, the economic deflation lasts with a sharp decline in demand. CPI (consumer price index) growth rate remains below 2%, while the negative growth of PPI (producer price index) has lasted for 44 consecutive months.

The capital liquidity in China is very high, which, measured by M2, a common index of money supply, is already twice of China GDP, but corporate lending cost has kept rising. At the same time, the government has maintained high interest rates over 11% even after the PPI is adjusted. The interest rate of shadow banking sector has reached 20%, and some private lending rates are even higher.

Of course, the result of high rates is the high financing cost, which makes many manufacturing companies fail to maintain its minimum profit. In addition, the closure of local government financing platforms and local borrowing limits implemented by the central government lead to the lowest level of capital spending on infrastructure investment in history. Macroeconomic tightening policy has also greatly weakened the growth in real estate industry. Due to the economic downturn, local governments and businesses fail to pay interest, having no choice but to borrow from shadow banks to fulfill repayment. As a result, risk-free interest rates will be raised again, leading to a vicious circle.

Suppressed by high interest rates, the domestic demands need to be expanded to reverse the economic downturn trend. Why doesn't the government take measures to cut interest rates? The answer is obvious that it is committed to shift the current development pattern from being led by investment and export to being led by consumption and service.

***III. Ensure Economic Stability by the Low Interest Rate***

But can China achieve the re-balance driven by consumption as it assumes? After all, this kind of re-balance has never really been realized by those rapid growing East Asian economies, which are quite similar to China's economic growth pattern, in their high growth phase in history.

In view of the above-mentioned facts, China's top policymakers should pursue a loose monetary policy and reduce the real interest rate for the current deflation, if necessary, or even take dropping the real interest rate to zero into consideration. There is still a certain amount of leeway if China takes this action, which not only can reduce the existing debt burden, but more importantly, once the economy is growing faster, the debt can be rolled over.

Most of the bank loans are deposited in the infrastructure and other real assets in China, which is quite different from the situation in Europe, so it’s better for China to expand domestic demand than rushing to de-leverage. The key is how to take full advantage of interest rate cut to stimulate demand so as to reduce the financial risk of high leverage and reconstruct local government debt. Moreover, lower interest rates can promote the development of domestic capital market, which is very important for the innovation of small and medium enterprises to obtain equity financing.

There is no doubt that China still need to clean up and swap debts, while a structural reform should be carried out step by step. But policymakers must be aware of the dangers posed by high interest rates. In order to prevent further decline in growth, ensure the stability of the domestic economy, and maintain the momentum of global economic recovery, it is high time that the government carried out an easing monetary policy.

Translator/Wang Hui

# Reform of the Rural Land System: Next Growth Engine of China's Economy

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### *I. Influence and significance of the rural land reform*

#### *i. Historical significance*

Land system is of great importance in economic development, structural transformation and income distribution. Both China's economic reform and take-off begin with the reform of rural land system: abolishing village community and establishing the contract system with remuneration linked to output. The establishment of this system gives farmers the right to using land and claiming residual income, which greatly arouses famers' enthusiasm, promotes the development of rural economy and provide sufficient raw material, market and labor force for industrialization. Thus the significance of this reform of land system would never be overemphasized.

#### *ii. Remaining issues*

The contract system with remuneration linked to output is based on the family unit. Although it has promoted the development of rural economy, it has also left some problems at the meantime. The current system of rural land property rights is incomplete, especially for the reason of lacking assignment rights and the rights to mortgage. Even the right to the use of land is frequently adjusted at regular or irregular intervals by village collectives instead of being arranged or planned in a long term by farmers themselves.

Firstly, the current land system in rural areas has an impact on production efficiency. Different aspects of this influence are listed as follows: (1) Irregular adjustment to the right to of land use has an influence on farmers' initiative in terms of long-period investment to the land and the income growth and the improvement of the land quality. Scott Douglas Rozelle, an American development economist, found in the research on China's rural land that the uncertainty of land right exerted noticeable impacts on farmers' long-term investment on land: the more uncertain the land right is, the less positive the farmers are for the long-term investment. (2) The non-transferable and non-collateralized land rights lower the value of assets attached to the land such as houses and thus farmers' property income, depriving them of the rights to share the interests brought by urbanization. (3) The blurred boundary of property rights discourages the

*The land in China's broad rural areas is a kind of "dead capital" which remains unused yet. The key to succeed in the land reform lies in strengthening land power and clarifying land ownership. And more effective social policies on medical insurance and social security should be enacted in order to replace the security function of land and gradually remove the social insurance function attached to land.*

urban investment on the rural land and its derivative assets, leading to insufficient utilization of the rural land and the destitution of rural areas. (4) The non-collateralized land aggravates the restrictions on the credit and obstructs farmers in starting their own business.

***II. Properly arrange land system to avoid the middle-income trap***

***i. China's rural land system has widened the gap between urban and rural areas***

China's current rural land system has not only restricted the development potentials of rural areas but also widened the gap between urban and rural areas: although urban residents do not have the land ownership but the ownership of houses built on the land, which means the value of land can be "capitalized" into the prices of houses through the real estate market and thus these residents have in essence the ownership of land. By comparison, rural residents do not have such a ownership of land and the fact widened the long-standing income gap between urban and rural areas. As a result of the asymmetry of land market and property right in urban and rural areas, the house prices of urban cities remained too high while the rural areas too low, further blocking the urbanization process. The backwardness of rural development has always been an obstacle for China's city development and modernization transformation, and to help the country rise from the middle-income trap, it should blur and even eliminate the urban-rural dual structure.

***ii. How to turn land into real "capital"?***

Hernandode Soto, a Peruvian economist, pointed in his book The Mystery of Capital that the reason why so many developing countries have long suffered from the development trap lies not in the fact that they have no assets but that these assets can not become real "capital" in the economic system but only "dead capital" which can not be used as collateral because of the blurred boundary of the legal property right. In this sense, land and other immovable property in China's broad rural areas are virtually dormant or dead capital remaining to really enter the modern economic system. To China, a developing country, credit constraint is a tight restriction for economic development, which will be hugely pushed forward if land can be turned into capital in the real sense.

***iii. The experience of America, East and South Asia***

Referring to the history of world development after World War II, only South Korea and Taiwan in more than 50 years after the war successfully got away from the middle-income trap and transformed from agricultural economy to industry economy. They conducted egalitarian reform on factor market, particularly the land market, granting farmers intact land property right. From their experience, we can conclude that equality at the starting point created by the reform of factor market is quite essential for shared or inclusive growth and stable democratization. From a higher sight, we can find that the division of the economic development route between North and South America was exactly caused by different distribution of factors. Similar to some Southeast Asian countries like the Philippines, South American countries falls into the middle-income trap due to be closely associated with the high-level inequality of land endowment.

***III. The key lies in the intensification of land power and functions and clarification of land property right***

***i. Abide by the decisions of the Third Plenary Session of the 18th Central Committee of the CPC and intensify the power and functions of land property***

According to the decisions passed in the Third Plenary Session of the 18th Central Committee of the CPC, we will stabilize rural land-contracting relationships which will remain unchanged for a long time to come. On the premise of upholding and improving the system for providing the strictest possible protection for farmland, we will endow farmers with the rights to land tenure, land use, land revenue, land transfer and mortgage and guarantee of contracted land use, and allow farmers to develop industrialized operation of agriculture by becoming shareholders using their contracted land-use right. We will select several pilot areas to steadily and prudently push forward the mortgage, guarantee and transfer of farmers' residential property rights, and expand the channels for farmers to increase their property income. We will set up a rural property rights transfer market, and promote the open, fair and procedure-based operation of rural property rights transfer.

If we can correctly design and perform the second reform of land system, we can not only change the inadequate growth of China's current economy but also help our country successfully get away from the middle-income trap. Actually, after the implementation of the system of contracted responsibility linking remuneration to output, we just established farmers' land usage right and usufruct, but the right to transfer the land has not been affirmed and protected by law. The reason land reform is making slow progress lies not only in some ideological factors but also in a fact that politicians and academic experts show concerns about the free transfer right, which means many farmers will sell out their land and flock to urban cities, causing such social problems as city slums. A lot of government officials and experts believe that current rural land system is a mandatory social insurance: once farmers lose their jobs in urban cities, they can return to rural areas, and the collective land can become their insurance. This is a popular view held by Chinese people.

***ii. Clarify the land property right and stimulate new growth points***

At the early stage of China's economic transformation, the technological level remains low and the city capacity is very limited. As a measure of expediency, the current land system has its own rationality, but in the long term, the blurred boundary of land property right obstructs the capital to give full play to its functions and restricts the economic development and structural transformation. Thus, we need to improve the property system. The latest economic research has proved that with the improvement of land property system, effective hypothecary value will be increased and this will be conducive to the growth of agricultural production.

At the same time, we should displace the security function with more effective social policies such as medical and social insurance, gradually getting rid of the functions of social insurance attached to land. When the conditions are mature, we can release the free transfer rights and hypothecation, giving full play to land property right. The new land system will relieve the financial restrictions and provoke people to start business, largely promoting the development of China's economy and integration of urban and rural areas and ensuring sustainable sound development in the upcoming 20 years and more. In this way, China can also follow the example of the shared growth of South Korea and Taiwan.

Translator/Zhuang Fei

# Green Finance Needs Better System

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Since China has opened up to the outside world in 1978, many systemic issues related to Chinese economy and society has come up, among which problems in reference to environmental protection is becoming more severe for the extensive economy growth and development which caused much environmental pollution has brought about a big negative influence on our economy and society. "Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform" adopted at the third plenary session of the 18th central committee of the communist party of China demands an all-round and deeper reform by promoting the transformation of economic structure and social governance. Developing green finance is a key part of the transformation. On 22nd Apr 2015, the green finance work group of central bank issued a report titled "Building Chinese Green Financial System", in which implementation routes and related suggestions on building such a system have been introduced. In the future, building Chinese green finance is a big step to achieve an improved financial system, more financial innovations and a better developed financial service. Moreover, it is one of the big challenges to Shanghai on this city's way to be an international financial center.

*In the course of Chinese economic development, early extensive economy growth has made environmental protection an increasingly severe problem in today's China, which caused both economic losses and bad influence on our society. Building green finance is a big step to achieve an improved financial system, more financial innovations and a better developed financial service. The government needs to pay special attention to provide legal support, good financial environment as well as international communication and cooperation for the development of green finance.*

### *1. Building a Green Financial System*

The idea of "green finance" was first introduced to avoid financial risks caused by environmental pollution. As more financial institutions are paying attention to such environmental risks, people have gradually shifted their focus from avoiding risks to managing risks and are exploring a way to build a more systemic financial environment for institutions as well as a system for the prevention and control of social risks.

(1) Building Green Finance——an internal demand made by the increasingly serious environmental problems. The senior economic analyst Marcel Jeucken who works for Rabobank Group holds that, attitudes of financial institutions towards sustained growth will develop from resistance, avoiding to recognition and adoption. Compared to European countries and America who have already entered the third "recognition" stage, the building of Chinese green finance system is relatively slow featuring the majority of financial organizations are still in the first(resistance) or second(avoiding) stage. With the development

of Chinese economy, our environmental problems are becoming more serious, so the government is in urgent need to put great efforts into the development of green economy so as to achieve a sustained development and create a both economic and environmental society.

(2) A new challenge to the top design of financial policies in post -financial crisis era. The financial crisis in 2008 suggested that exist financial systems and economic order in developed countries failed to guide private capitals into sustained growth of economies. The nature of capital is pursuing interests. Without good system designing and regulation, the consume of natural resources and carbon emission will be much more than they are now, thus the consequent environmental problems will be more severe. Therefore, we can see that without an effective top designing of financial policies, it's hard for economies to achieve a healthy, stable and sustained development.

(3) Green financial system is required for the transformation of social governing and economic structure. Chinese serious environmental pollution is mainly related to industrial structure, energy structure and communication structure which usually result in high pollution in China. At this key moment of economic transformation in China, a series of fiscal-tax means and financial measures are needed for changing current incentive mechanism of resource allocation, adjusting economic and energy structures and improving social governing. And an effective and developed green financial system can promote the realization of a deeper Chinese reform.

***2. Suggestions on Green Financial System***

(1) The government should put much emphasis on top designing of financial policies. Rebuilding financial policies and order is a must to establish Chinese green financial system which can be employed to meet the demand of a long-term development of Chinese economy. Therefore, our policy makers are supposed to promote high-level opening debates and put forth insightful and effective advice on the reform of top designing of financial policies. “Building Chinese Green Financial System” includes a series of related suggestions, but further discovery and discussion are required to put these ideas into practice. Green finance is necessary for the implementation of both national and local development strategies including national "One Belt, One Road" strategy, local strategies in Shanghai like "Four Centers", "The Center for Technology and Innovation" and "Multi-level Capital Market". The development of Chinese green finance, on the one hand, needs the devotion of international institutions such as AIIB(Asian Infrastructure Investment Bank), Silk Road Fund and New Development Bank; on the other hand,

it requires the cooperation between domestic organizations including Chinese central bank, state-owned banks, commercial banks, insurance companies, fund companies, national think tanks and civil think tanks.

(2) A legal environment is necessary for building Chinese green financial system. A beneficial law environment is extremely significant. Cases such as "Love Canal Tragedy" suggest that only the serious implementation of related laws can transform risks of environmental pollution to financial risks and financial institutions will only be willing to reform current financial system when having to avoid and manage risks. Meanwhile, as financial institutions put a high value on financial risks, companies have to pay attention to environmental protection, improve their manufacturing environment and purchase environmental liability insurance as well as green insurance. Therefore, some important foundations for realizing a long-term development of Chinese green finance are enhancing law enforcement, increasing violation cost and shifting environmental costs from public to companies.

(3) A reformed accounting system is required for building Chinese green financial system. Different from the top designing reform promoted by innovative financial policies, accounting system reform is mainly about a micro aspect of financial system——the measurement of value. Traditional financial accounting system, especially accounting standards cannot be used to accurately measure the real value of natural resources. Since many kinds of natural resources are regarded as public properties, their value has been much underestimated. And some negative social and environmental effects caused by enterprise operation have not been accounted into financial statements due to quantitative difficulties. So the price of natural resources is actually not an accurate indication of their scarcity, which also has a bad influence on the efficiency of resources allocation. Consequently, establishing a green financial system needs the collaboration with international organizations and a new accounting system to accurately show the changes in company's financial capital, natural capital and social capital etc.

(4) Financial innovations related to environment are essential for building Chinese green financial system. Nowadays, most of the developed countries have entered the third "recognition" stage featuring their rapid innovation of green financial products and thus developed a new income resource. However, at the present time, both the structure and variety of green financial products in China are relatively simple, among which energy-efficiency finance is the most common product in commercial banks. There are quite a few green financial products available. China is able to form a comprehensive and multi-level system of green

financial products by learning and analyzing how those developed countries has innovated their green financial products successfully. For instance, the development of medium-sized or small green enterprises will be encouraged by reduced lending rate; fund products related to environmental subjects of water or carbon can meet the needs of various investment groups; promoting the issue of green bonds and green shares; encouraging the development of green products in insurance industry; developing green financial products based on the collaboration between different departments etc.

(5) The involvement of financial institutions is required for building Chinese green financial system. Our green financial system is mainly consisted of financial institutions such as banks, insurance companies and fund companies. Under the powerful legal surveillance, financial institutions have to put active efforts into building green finance when facing financial risks transforming from environmental insurance. Being inexperienced in green finance, most of the Chinese financial institutions still have many idealistic and technological difficulties in combining the idea of environmental protection with traditional financial business. For this reason, it is necessary for the government to offer related training, technological support and even privileges in reference to fiscal-tax and market access. Shanghai, as the "experimental plot" of financial development and innovation in China, boasts loads of financial institutions and enjoys financial cluster effect. Therefore, local government should promote institutions to discover our own way of building green finance by learning the parallel measure adopted by developed countries which comprises tax, penalty and rewarding.

(6) Chinese government should strengthen its international cooperation to explore a way of building Chinese green financial system. To establish a mature, international green financial system, both related experiences of developed countries and Chinese national conditions are needed to be taken into consideration. Chinese green financial system is not only a national system but an international stage. Many environmental issues such as climate changes, air pollution and carbon emission belong to international topics, so close cooperation among countries all over the world are required for building a global green financial system. Therefore, Shanghai needs to take building Chinese green finance as a part of its plan of developing as an international financial center and makes active contribution to the formulation of international standards as well as establishment of supporting environment related to green finance.

(7) The government should put more efforts to build the environment beneficial for green finance development. Our government needs to

promote the national spread of the idea of green environmental protection by all kinds of means including public service advertisement, textbooks for general education, popular science books, films, TV programs etc. The development of green finance depends on financial institutions, enterprises, the general public as well as people's awareness of environmental protection and social responsibility. The improvement of citizen's quality and awareness can greatly reduce the costs of building Chinese green financial system. Thus great efforts from our government to promote the general awareness of green finance are required for providing a beneficial environment. As a leading role in Chinese economic and educational development, Shanghai will also play a leader part in environmental construction of Chinese green environmental protection system.

Translator/Li Ziyan

# Promoting the Fusion of Small-Sum Loan Companies and Cyber Finances

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*The author suggest the local government that should actively accelerate the process of building enterprise credit information system platform, and set up credit level for every small-sum loan company and actively promote the fusion of small-sum loan companies of quality and cyber finances platform in view of the financing problem of small- and micro-companies.*

Financing has always been a problem for small and micro business for a long time. Traditional banking business is quite demanding toward prospective borrowers and the approval process is quite complicated. As a result, it is hard for small and micro business to get the credit from the bank; the business scale of small-sum loan companies aimed at small and micro business are also limited due the narrow financing resources; P2P companies with advantages of Internet facilitate the financing of small and micro business but can not meet the long- term productive financing demands due to its short-term products and poor risk control. The fusion of small-sum loan company and cyber finances can make up the disadvantages of each other and achieve multi-win. We suggest that local government should speed up the building of enterprise credit information system platform, and set up credit record degree for every small-sum loan company and promote the fusion of small and micro business of quality with cyber finances platform. It can fulfill the advantage of each of them and effectively solve the difficulty and high cost of financing for small and micro business.

## *1. Problems Faced by Traditional Banks, Small-Sum Loan Companies and Cyber Finances*

### *1.1 Weakness of traditional commercial banks was increasingly magnified - the difficulty in meeting the financing demands of small and micro business.*

Commercial banks are essential parts of finances markets and the main channel of enterprise financing in a long term. With development of the entity economy, the finances service demand gradually varies from company to company. The disadvantages of traditional commercial banks are also gradually exposed.

The simple product of deposit and the cost hovers at a high level. The simple product of deposit and the category is homogeneous in every bank on the market. For many years, the products has experienced little change, the time, place and method of deposit and withdraw is highly restricted and it is not transferable, which can not meet diversified investment and trade demand of financing assets of clients Meanwhile, there is a tendency of “scale discrimination”,i.e., "the big one is preferred than the small one " and " ownership discrimination", i.e., "state-owned enterprises are preferred". It aggravates the problem of financing difficulty and high costs.

The risk control is restricted and approval efficiency is low. As the bank plays the role of creditor in the loan, it would rather concentrate more on the current credit quality of the enterprise than the future development; besides, commercial bank has developed a set of rigid risk control system and internal approval procedure. Faced with the lack of pledge and formal bank statements, many small and micro business are not favored by the funds of bank. Even it is possible to get the credit from the bank, they have to experience a very complicated procedure.

All in all, financing service provided by the traditional commercial bank can not meet the need of small and micro business. We have to explore new mode and new way to solve the financing problem.

### *1.2 Business Scale of Small-Sum Loan Companies face bottleneck subject to limited capital resource*

Small-sum loan companies can make up the drawbacks of traditional bank service. As a finance institution aimed at small and micro business loan, small- sum loan companies with standardized management and business make a significant contribution to the development of local entity economy. However, the capital source of small-sum loan companies is narrow and the business scale is limited. The major capital resource of small-sum loan companies is the capital paid by stockholders, donated money and money financed by no more than two banking and financial institutions and the financed balance can not be over a certain proportion. At the same time, small-sum loan companies can not absorb the public deposit as the bank, as a result, the low leverage and limited financing channel confines the business of small- sum loan companies.

### *1.3. Drawbacks of Cyber Finances-Inconsistency between Production Terms and Credit Terms*

Cyber finances directly connect the financial products with capital providers, which effectively reduce the cost of information collection of both sides and break the time and space restrictions. It greatly relieves the development of small and micro business.

However, P2P financing platform supported by the advantages of Internet is still immature. The major business is short- term products and aims at the capital shortage in trading turnover. According to the data of a website, from April 1, 2015 to April 30, 2015, only 11 of 252 P2P platforms has average credit term that is over 1 year. The longest is 35.14 months. There are 206 platforms whose average of credit term is no more than 6 months.. This shows that the product of cyber finances is not targeted at large capital need during production and construction.

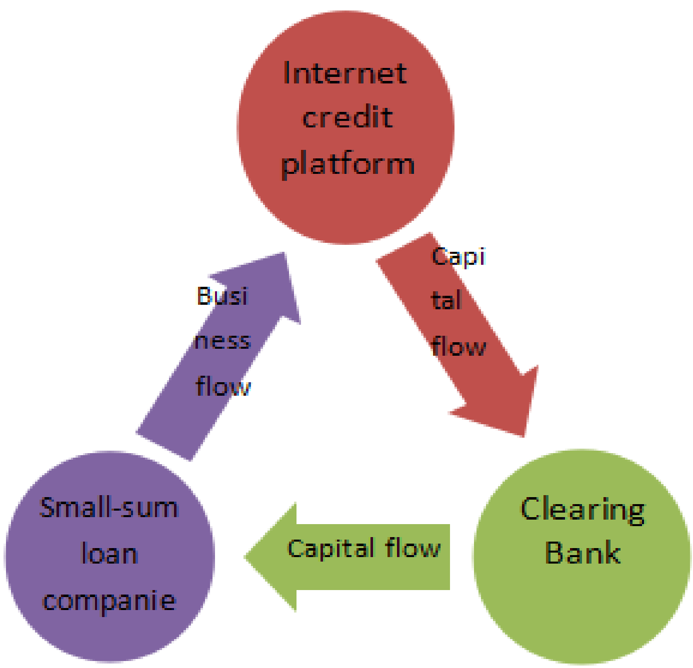
With current background of industrial upgrading and business transformation, it is an essential problem how to combine effective and convenient cyber platform with small-sum loan companies aimed at small- and micro- company loan, to make up the business vacancy of commercial banks and promote development of small and micro business.

***2. Promoting fusion of small-sum loan companies and cyber finances is an effective way to solve the financing problem of small and micro business***

As mentioned above, fusion of small-sum loan companies and cyber finances is a breakthrough of financing problem of small and micro business. We can combine the convenience and efficient of Internet and advantages of small-sum loan companies aimed at small and micro business. The combination can not only overcome the disconnection between the commercial bank and small and micro business, but also the blocked financing channel. We can also improve the inconsistency between product term of cyber financial product and financing term of enterprise production. It can finally achieve "win-win-win" effect. The most representative mode is Kaixin Credit whose mode is "Kaixin Credit Platform+ small-sum loan companies+ clearing bank."

***2.1 Introduction of Mode of "Internet Credit platform+ small-sum credit companies+ the clearing bank"***

We summarize a mode of "Mode of Internet Credit platform+ small-sum loan companies+ the clearing bank, which is similar to the business mode of Kaixin Credit. This three parts form a stable triangle mode.



Small-sum loan companies recommend borrowers to Kaixin Credit□take the responsibility of security and run the management after the credit. Internet credit platform provides the financing resource for small-sum loan companies. The capital was trusteed and transferred by the clearing bank.

The cyber credit company has no contact with borrowers when money is granted. All is done by small-sum loan companies. Small-sum companies extend all over the whole province, and they do the research before the credit, follow the tracks after the credit and provide the security service.

***2.2. Experience of Fusion of Cyber Finances and small-sum loan companies.***

The reason why the mode of "Cyber credit platform+ small-sum loan companies+ the clearing bank" can be successfully conducted comes from two parts. On the one hand, it is the innovative combination of traditional finances mode and Internet application. On the other hand, it can not do without the policy support from the related government departments. Through the research of Kaixin Credit Internet credit platform, we know that Frances Office of Jiangsu Province gives its support to the operation of Kaixin Credit platform. In April 2013, Financial Affairs Office of Jiangsu Province released Measures on Business of Small-sum Loan Companies of Kaixin Credit of Jiangsu Province. It gives a detailed regulation of how enterprises in Jiangsu Province conduct the business of Kaixn Credit and its institutional access, risk control and system of supervision and punishment. It put forward the system of reserves against deposit of Kaixin Credit and set the comprehensive financing cost ceiling of the platform. The experience of fusion of Internet Finances and Small-sum loan companies can be concluded as follow:

***Advantages combination:*** It breaks the limit of independent operation of small-sum loan companies and Internet Finances and make full use of both advantages and make a organic integration. Cyber platform is responsible for the effective spread of information and capital collection while professional small-sum loan companies are responsible for project selection and risk control. It can make up the drawback of short credit term of the former and the limited capital sources of the latter.

***Qualification recognition***: Internet credit platforms only cooperate with small-sum loan companies with excellent credit records. For example, Kaixin Credit only cooperates with small-sum loan companies with above A-level in Jiangsu Province. Actually, all the 70 participating institutions and companies are 2A-level and above.

***Data support:*** In order to get the credit record of small-sum loan companies, the business data of small-sum loan companies are necessarily needed. Financial Affairs Office of Jiangsu Province established the Jinnong Company in 2012 and has invested 50 million RMB successively. It provided all the small-sum loan companies in Jiangsu Province with uniformed information administration, trade network, vocational training and enterprise management and other services. It knows well all the dynamic operation data of small-sum loan companies and all this data will be provided to Kaixin Credit to be evaluated as enterprise access.

***Procedure construction***: Only the security has been examined and verified by the small-sum loan companies can the loan project been put in the platform to start the money raising. Borrowers have to go through the following steps to start financing in Kaixin Credit: If they apply online credit on Kaixin Credit platform, the platform will suggest him to choose the local small-sum loan companies with the business qualification and start the security application. After that, borrowers have to pass the verification procedure and small-sum loan companies confirm its security. Since then, this loan project will be seen on the website and move to the collection period.

***The system of reserves requirement***: Apart from full principal and interest security, Kaixin Credit ask all cooperating companies to subscribe reserves against deposit in proportion to the leverage. The present scale of reserves is about 30 million yuan. This method is similar to the reserves system of commercial banks, which can buffer the risk.

***System construction***: Jiangsu Province conducts dynamic evaluation on small-sum loan companies and grant them different business scope in accordance with the evaluation results. Those small-sum loan companies with under B-level are prohibited to any financing and can only conduct traditional money lending with their own capital.

### ***3. Policy Advice on Promoting Fusion of Small-sum Loan Companies and Cyber Financing Platform***

To solve the financing problem of small- and micro- company and to promote development of small and micro business is also the major economic task of the government. However, if we only have easy monetary policy and proactive fiscal policy from the top-down level, but no unimpeded channel, we can not achieve real efforts. It is of great significance to discuss the effective ways to promote the fusion of small-sum loan companies and Internet financing platform to alleviate problems of difficulty of financing and high cost and to make finances serve for the real economy. We put forward several suggestions as following:

The local government should actively promote the construction of enterprise credit information system platform. This work is the foundation of promotion of fusion of small-sum loan companies and Internet financing platform. Due to the little share and communication of credit information of small-sum loan companies and small- and micro-company between regulation departments, it is difficult to evaluate the real qualification of small-sum loan companies and conduct uniform management. In order to improve the enthusiasm of information sharing, sharing of credit records can be implemented between government departments to facilitate to information sharing. At the same time, external data purchase or out- service data collection can also be used, which make third party companies to conduct professional data collection.

Platform should be unified by means of integrated management. As a developed finances area, there is no lack of small-sum loan company in Shanghai. However, there is no official platform managed and instituted by the related governmental departments. To use the experience of Jiangsu Province as reference, we can first build a uniform cyber platform, which covers policy training, administration procedure, business training and many other items, which can enhance the uniform management.

Qualification verification is of great importance with strict control of access of cooperating partners. One of the features if Kaixin Credit model is that it gathers all powerful small-sum loan companies and related governmental departments grant the business qualification of Kaixin Credit. This method greatly enhance the risk control and excellent project resource, which further guarantee the normal and sustained management of Internet platform.

After all this work has been finished, we have to continue conduct procedure and build systems in risk control buffer measure, credit approval procedure and evaluation system, etc.

Translator/ Hong Kailun

# Policy Suggestions to China's Outflows of Foreign Capital

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*To China, the slow inflow of new capital and rapid outflow of introduced capital may be the manifestation of the international capital flow to South-east Asian countries. The Chinese government should use macroeconomic policies properly to stabilize investors' mental expectation, to expand the scope of investment, to push forward actively the negotiation of Sino-US and Sino-European bilateral investment treaty and to improve Chinese "soft" environment.*

## *1.Background*

The issues about rapid outflows of foreign investment from China have continuously fermented recently. The newly released official statistic data also cause growing panic about the outflows of foreign investment. Several sets of data have aroused attention:

### *1.1The quick shrinkage in foreign exchange reserve*

According to the data offered by State Administration of Foreign Exchange (SAFE), Chinese foreign exchange reserve hit a record in June, 2014, up to $3.993213 trillion. After the peak, Chinese foreign exchange reserve decreased each month to $3.51412 trillion in September, 2015, with the amount of shrinkage $479.093 billion, 12% of the peak. The flight of capital might cause such a dramatic change in foreign exchange reserve in such short time.

### *1.2The consecutive deficits in capital and financial account*

According to the data offered by SAFE, from the first quarter in 1998 to the second quarter in 2015, all together 70 quarters, the capital and financial account (not including reserve assets) reached negative in 21 quarters, while from the second quarter in 2014 to the second quarter in 2015, the capital and financial account reached negative for 5 straight quarters, which never happened before.

### *1.3China first became a net capital exporter*

China has gone through a rapid expansion of scale of capital export. According to the data released by UNCTAD, China surpassed America in 2014 to become the largest recipient of FDI in the world. According to Commerce Department, China first became a net capital exporter in 2014. Chinese outward foreign investment has exceeded the utilization of foreign capital, for about $20 billion.

## *2.Facts and truths*

The data above only reflect the broad environment where capital flows, rather than the measurement of the capital flow itself. In this part, we are going to measure the capital from different angles and make comments on the claim that "withdrawal of foreign investment in China".

***2.1Which capital withdrew from China?***

According to the data offered by SAFE, the deficit of Chinese capital and financial account (not including reserve asset) reached $125.9 billion in the first half of 2015. In the first half of 2015, the deficit of the first quarter reached $98.3 billion; the second quarter $27.6 billion. There are three main subjects in the financial account, which are direct investment, portfolio investment and other investment. The favorable balance of direct investment was $92 billion, with year-on-year growth of 1%. The unfavorable balance of portfolio investment was $24.1 billion, while $36.9 billion in the same period of last year. The unfavorable balance of the other investment was $193.1 billion, with year-on-year expansion by 2.7 times and 3.3 times of the unfavorable balance of the whole capital and financial capital (including reserve asset).

Apparently, the flight of capital is mainly on portfolio investment. especially including investments called "hot money"quit from China The direct investment which could show economic fundamentals is still rising overall.

***2.2The foreign capital, rapid outflow or slow inflow?***

We will restrict capital flow to direct investment corresponding to the economic fundamentals. From the perspective of foreign direct investment in China, during the past decade from 2005 to 2014, the annual increasing rate of new FDI inflow reaches 21%, compared with the rate of outflow 39%. Things are different specific to the ten years. During the four years from 2005 to 2008, the annual increasing rate of new FDI inflow reaches 30%, while the rate of the original FDI outflow reaches 23%. From 2011 to 2014, the annual increasing rate of new FDI inflow reaches 10%, while original FDI outflow 47%.

Apparently, in recent years, the original FDI outflow is faster than new FDI inflow. It's especially worth noting that during the five years from 2010 to 2014, the proportion of original FDI outflow in new FDI inflow has increased all the way, 8.18%, 10.85%, 11.42%, 15.46% and finally 23.86%.

***2.3Which investors left China?***

China is one of the most important investment destinies in the world, but the investment is always mainly from Hongkong, Taiwan, Japan, Korea, Singapore, America, Germany, France, Britain and Netherlands, the most important ten investment sources. In 2013, their investment in China is 91.11% of the whole foreign investment. To investigate which investors left China, we make a comparison between January to July in 2015 and the same period in 2014 based on the data provided by Commerce

Department. From January to July in 2014, the top ten investors are Hongkong, Singapore, Taiwan, Korea, Japan, America, Germany, Britain, France and Netherlands. From January to July in 2015, the ranking of investors remains unchanged except that Macao replaced Netherlands. However, in terms of investment scale, the investment from Hongkong increased $7.15 billion year-on-year. The investment from Singapore decreased $150 million, $220 million from Korea, $750 million from Taiwan, $720 million from Japan, $530 million from America, $80 million from Germany, $20 million from Britain and increased $360 million from France. Netherlands dropped out of the top ten lists.

From January to July in 2015, Chinese actual utilization of foreign direct investment was $76.63 billion, with year-on-year growth of $5.49 billion and $7.15 billion increase from Hongkong alone, which means that FDI from countries and regions decreases. Especially, the main investors all decrease their investment, and Taiwan, Japan and America decrease most.

***2.4Where do the investors quit?***

According to China Statistical Yearbook, we can see the allocation of foreign investment areas. In East China, the number of foreign-invested enterprises in almost all the provinces increased constantly before 2008, but after 2008, the number in many provinces decreased. The number of foreign-invested enterprises in East China still increases overall but slows growth compared with the 40% increase in 2008. In central China, the number of foreign-invested enterprises in almost all the provinces increased constantly before 2008, but after 2008, the number in all the provinces showed a downward trend except that the number in Jilin, Shanxi, Hubei and Jiangxi Provinces remained still. The number of foreign-invested enterprises in central China overall decreased all the way down to 46589 enterprises in 2013 from the peak of 50145 in 2010, with the decrease of 3556. In West China, the number of foreign-invested enterprises in almost all the provinces increased constantly before 2008, but after 2008, the number in many provinces remained unchanged or decreased. The number of foreign-invested enterprises in West China overall declined all the way down to 37945 after it reached the peak of 42203 in 2010, with total decrease of 4285.

As a whole, the investment and settlement of foreign investors in Chinese enterprises reached peak from 2008 to 2010. After that, the increasing rate slowed down and even declined. There is surprisingly outflow of foreign capital in terms of the number of enterprises in central and West China.

***2.5What kinds of industries do the investors quit?***

China Statistical Yearbook also tells us about the industrial distribution of with foreign investment. In 2005, the industrial distribution is agriculture accounting for 1.2%, mining 0.6%, manufacturing 70% and service industry 27.8%. The proportion of FDI in manufacturing industry in 2013 fell by half, while in service industry doubled compared with that in 2005.

More importantly, FDI in manufacturing industry reached peak of $52.1 billion in 2011 and then declined all the way down to $45.6 billion in 2013 and $39.9 billion in 2014. While at the same time, FDI in service industry kept increasing. Therefore, that FDI decreased in manufacturing industry and increased in service industry reflect the absolute reduction of FDI in manufacturing industry.

***2.6Where do the investors go after they quit China?***

Based on World Investment Report by UNCTAD, we can grasp a preliminary idea of where the investment flows after they quit China. We calculated the correlation coefficients of increasing rate of FDI in China and representative countries based on the report. It turns out that China is positively related with America, Europe and Japan. There is the weak negative correlation between China and Korea. China is positively correlated with Hongkong and Taiwan. There is the positive correlation with 11 eastern European countries, Latin America, Caribbean and South America. China is also positively related with India and Bangladesh. However, China is negatively correlated with overall South-east Asian countries (correlation=-0.88), among which Singapore, Thailand and Vietnam have the most significant negative correlation.

The calculation shows that to China, the slow inflow of new capital and rapid outflow of introduced capital may the manifestation of the international capital flow to South-east Asian countries.

***3.Countermeasures and suggestions***

For the above part, we have investigated the origin and facts of the withdrawal of foreign investment from China. Followed are six pertinent policies and suggestions.

***3.1Use macroeconomic policies properly to stabilize investors' mental expectation***

The issue about the withdrawal of foreign investment is, to a great extend, related with the rapid outflow of portfolio and other investment from China recently. Portfolio and other investment, which are quite different from direct investment, more focus on short-term yields and somewhat speculative. With the deepening of opening up of financial industry, portfolio and other investment will become "new normal" in China. Chinese government and departments should use macroeconomic policies properly to stabilize investors' mental expectation. The "high diving" in stock market in first half year and followed flight of foreign capital are much linked to biases and errors in policy orientation, effect evaluation and other aspects by decision-making departments.

***3.2Push forward actively the bilateral investment treaty negotiation to increase the investment from America and Europe***

China is one of the most important investment destines in the world, but the foreign investment from the developed countries in Europe and America is always limited. The advantage of export processing platform is very important to Asian neighbors, while Europe and America focus more on Chinese market potential and size. However, the problem is that developed countries in Europe and America don't invest more in China with the growth from China as a low income country to a high- and middle-income country. The investors from Europe and America maybe not only focus on market, but rather intellectual property rights, market circumstances or other factors. Therefore, we need push forward actively the negotiation of Sino-US and Sino-European bilateral investment treaty and to improve Chinese "soft" environment.

***3.3Optimize regional economic policy to lead foreign investment to shift to mid-west China***

There is no obvious trend that foreign investment shifts from East China to central and West China. On the contrary, enterprises quit central and West China. Although the inland areas has low labor cost, there are also high cost of transportation and straggling developing level, which inhibit the inflow of foreign investment. China is a vast country with various levels of development. Chinese government and departments should make policies with respect to regional differences and allowing local areas certain flexibility and autonomy in policy-making to avoid the policy of "cutting at one stroke" in dealing with different situations. Any economic policies of a great country with unbalanced development should in essence appeal to regional economy at the same time.

***3.4Adjust laws, regulations and rules at proper time to regain the prosperity of foreign investment in manufacturing industry***

The problem of distribution of foreign investment in Chinese industries is not only about decreasing proportion in manufacturing industry, but more important the absolute declines in foreign investment in manufacturing industry. Therefore, China need adjust laws, regulations and rules to bring manufacturing industry to become popular investment spot. Currently, the rapid increase of wages has become a significant factor inhibiting foreign investment flowing into manufacturing industry. In fact, by systematic level reforms (like family planning, family register and retirement); China can still maintain the competitive edge of labor force. In addition, three laws, new Labor Contract Law, Enterprise Income Tax Law and Antitrust Law passed during the period of overheated economy in 2008 need be timely adjusted to create conditions for the return of prosperity of foreign investment in manufacturing industry.

### *3.5Further expand opening up to attract more foreign investment into extended service industries*

The utilization of foreign investment in Chinese service industry lags behind with unsound structure. The data offered by UNCTAD shows that in 2013, 63% of the global foreign investment is in service industry, while 26% in manufacturing industry. However, in China, the proportion of FDI in service industry was just close to 60% until 2013 from the actual utilization of FDI that year. The proportion of FDI in manufacturing industry still remained around 40%. In 2013, at the top of the service industry was real estate for the highest percentage of 41%, followed whole and retail, lease, business services, transportation, warehousing, postal service, information transmission and computer services and software industry, which occupied more than 80% of FDI in service industry. Real estate has always been the sector with largest amount of FDI in service industry, while financial sector only for 3.3% of FDI. This contracts with that in 2013; the proportions of Chinese outward foreign direct investment in manufacturing and service industry are 6% and 76%. In service industry, the proportion of Chinese OFDI in financial sector amounted to 18%. In general, the opening up of Chinese service industry, especially the financial sector need go a step further.

### *3.6Deepen the process of China and ASEAN integration to promote benign circulation of trade and investment*

ASEAN is the third largest China's trade partner and China is the largest trade partner of ASEAN. Moreover, ASEAN is one of the most important China's overseas investment destinies. Nowadays, from the perspective of trade, China has a trade surplus with ASEAN. From the perspective of investment, Singapore has always been China's main investor and the investment from Singapore is far beyond it in size from China to Singapore. Followed Singapore is Indonesia, Thailand and Vietnam. Though the three countries are the main investment destinies in ASEAN, the investment from China is much more than it from the three countries to China. To promote benign circulation of trade and investment between China and ASEAN, the integration of China and ASEAN must be deepened to form a more complementary division pattern. Therefore, China and ASEAN should work together to make progress on two goals.

The first goal is the upgrading of China-ASEAN FTA. In August, 2014, China and ASEAN officially negotiated the upgrading of China-ASEAN FTA. The two sides held two rounds of talks in September, 2014 and February, 2015, which ended with significant progress. The second goal is RCEP with China and ASEAN. Since TPP has been reached, China should actively push forward the final agreement of FTA joined by China, Japan, Korea, and ten ASEAN member nations, Indonesia, Australia, Singapore and other 16 countries. Through the upgrading of integration China-ASEAN FTA and early successful negotiation of RCEP, China and ASEAN are very likely to form a more reasonable value chain division system to avoid "zero-sum game" in bilateral trade and investment.

Translator/ Shi Ying

# Influence of China–Korea and China–Australia Free Trade Agreements on China's Foreign Trade Structure and National industries' Development, and Its Strategies

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The signing of the agreements gives expressions to the rule of profit balance, which is expected to help to expand the China's trade scale, along with the updating and transformation of the trade structure. On the one hand, striking a deal with two developed countries will largely drive forth China's trade in services and in its turn benefit the tertiary industry with its typical case of modern service; on the other hand, the concerning investment part in the agreement helps Chinese enterprises to go global, strengthening China's soft power in the global arena.

*The China-Korea Free Trade Agreement and China-Australia Free Trade Agreement help to expand the China's trade scale, along with the updating and transformation of the trade structure. The two agreements thrust a push to the trade in services and therefore to the tertiary industry, especially the modern service, diversifying the trade in goods with service trade, whose transformation will make Chinese enterprises more international and reinforce China's soft power on the global stage.*

***I. China's strategy-making after the agreements***

***Firstly, it is suggested to continue the support of the industries which have dynamic comparative advantages, and to take the chances when the free trade agreements enlarge the trade scale and the potential market capacity.*** With the spirit of the agreements, China will further encourage its manufacturing and service industries into foreign market. It seems urgent to continue to develop the industries with dynamic comparative advantages, and take the chances when the free trade agreements, playing a full part of its own, enlarge the trade scale and potential market capacity. In China's secondary industry, the comparative advantage of China's traditional coal mining and washing, and food manufacturing and processing has been waning down into comparative disadvantage through 2004-2013 while its capital- and technique-intensive counterpart has acquired comparative advantages, such as general and special equipment manufacturing, and electrical machinery and equipment manufacturing. And in China's tertiary industry, 2004-2013 has witnessed a fading out of the comparative advantages of the traditional tourism; meanwhile many have been gaining momentum, such as the industries of telecommunication, construction, finance and consultancy. In this status quo, China realizes it is time to develop the industries with comparative advantages and at the top of the value chain, involving them into more global business, which will in its turn help to update the industrial chain. In the meantime, the national multinational corporations require more attention. In the view of the global and market principles, enterprises are encouraged to work with the market resources and carry forth, with free market access, the integration of innovation and values from the core enterprises. The next step is to get a say over the value chain, and further, over the industrial train and acquire more power in control and innovation; however, the specialized "small and micro multinational companies" deserve no less attention. The development of such entities makes complete China's industrial value line while these companies are playing a supportive part in building powerful giant corporations with far-reaching influence. The growth of the large corporations will earn China a favorable and dominant place in global value chain when China is originally in a marginal and limited situation.

***Secondly, diversify the trade in goods with service trade, whose transformation will update China's foreign trade structure.*** China has witnessed a growing trade deficit with Korean and Australia. Its trade in goods remains at the bottom of the global value chain where the traditional competition advantages are fading out and new advantages has not yet to come, whose core value relies on technique, brand, quality and service. Furthermore, trade in services sees no obvious development, unmatched with the trade in goods and is best showcased by the time-lagging modern and productive service which fails to underpin the trade in goods. Additionally, traditional trade in services still takes up a large proportion, so does the labor-intensive trade in the imports and exports, such as transportation and tourism, while other factors like finance and information play a little part in trade in services; that is to say the technique-, and knowledge- and capital-intensive service trade has a long way to go. The free trade agreements require China to cultivate new trade mode, along with the transformation of the trade function, instead of simply expanding the manufacturing-based trade. The ultimate aim is to provide a favorable environment for trading innovation and updating so as to achieve a balanced growth between trade in goods and in services. In order to improve the functional aspect, China may put more efforts in opening up the modern service industry as well as in core competitive power, which entails updating with innovations of the processing trade whose point lies in the innovation and the manufacturers and distributions. The key lies in the international and high-standard mechanism which works to kick off the technical and rule barriers in trade and transportation. Firstly, the mechanism requires that China work out a set of internationally recognized rules and regulations, with knowledge of the revolution of the global investment-and-trade rules. It shall take its initiative in the reform of state-owned enterprises, the intellectual property protection and the labor protection, all of which measures are for any possible change of trade rule. Secondly, a mechanism should be in place which goes along with other countries' development who may by the potential trader and investor. It is top on the agenda to provide beneficial governmental support by refining the agreements of investment and trade, and related policies about customs, inspection and quarantine, cross-border payment, foreign exchange as well as talent pool. It requires an efficient system of goods inspection, cross-border payment, inquiries and financial settlement, curbing the cost of financing, distribution and information exchange. Thirdly, government should pay more to regulation and risk management. Trade liberalization has pressed Chinese government to have better regulation which should be carried out by the team work rather than a single department. Besides, a platform of information exchange between departments should be in place to connect regulation with administration and involve multiple departments into regulation to rein up the foul play and keep an ordered market.

***Thirdly, China should be devoted to reshaping the government functions and the political system, which will help the transformation of China's foreign trade and industrial structure.*** In the investment management, it is better to introduce a complete set of law to clarify a must-not-do list for the enterprises and make it more transparent, which will in return serve for the future of China-Korean and China-Australian Free Trade Agreements, and sustain the dynamic growth of bilateral trade and industrial integration. And it remains a priority to shift the government functions when it has a long way to go with regard to the market access, regulation and fair competition. The functional shift also requires efficient administration and regulation, as well as a transparent government. It is on the must-do list to kick off the administrative barriers to achieve a simplified and decentralized government along with a buoyant market, whose context could not be limited to the central government but extend to local ones. The fact that China's state council has made some progress in this aspect but most of the local governments fail it suggests that the decentralization be emphasized on local level and updating of policies which have become incompatible with the market. However, the ultimate aim of a simplified and decentralized government is to regulate the market through laws and rules, to achieve a legitimate and transparent government and to clarify the responsibilities and limitations of the government and the enterprises. This is the very mode to develop the market as well as the enterprises. The clarified responsibilities and limitations work to supervise the government, improve its policies, and constrain the government with the law, which will in its turn help the market resource allocation and the flows of industrial elements and to yield benefit from the revolution and the new administrative system.

***II.China's strategy against the side effects of the agreements***

Any agreement is possibly to pose industrial and even economic threats to its concerned parties. It is especially the case for the service and trade agreements (which may be related with mass media, such as broadcasting, video and news reporting) in that it may cause some political insecurity. It is true of China-Korea and China-Australia Free Trade Agreements. If the “responsibilities and limitations” mode mentioned above is applied to the aspect of investment, it will be more possible to cause some security problems. For example, China’s less developed industries may suffer from the China-Korea Free Trade Agreement whereas China’s farmers may be affected by its China-Australian counterpart. According to China’s Ministry of Commerce, compared with Korean, China’s less developed industries lie in the capital- and technology-intensive ones so as sophisticated machinery and equipment, chemical products and automobile manufacture. The China-Korea agreement has taken it into account, giving reasonable transitional period and partial tax reduction which are designed to offer the related industries enough time and space for adaptation and avoidance of possible bumps in their already stretched development. However, risk is still lurking, which requires the government to take its initiative to avoid the risk and get precautions.

***First and foremost, the enterprises should be the immediate beneficiary of the two agreements.*** According to Gonzales, CEO of United Nations International Trade Center, agreements are always constraint to the counties’ business while enterprises are less involved and ill-informed, especially for the medium and small enterprises, for their lack of legal personnel which prevents them from taking advantage of the agreements. So the cases are always that the agreement fail to be carries out by real practice and remains to be a paper-work, which situation has suggested China set up a free trade fund for these medium and small enterprises, offering related trainings and improve their awareness of the agreements.

***Secondly, give additional precautions to the free trade agreements in the existing trade precaution system.*** Internationally, there is no such regulation institution taking care of the similar China-Korea and China-Australia Free Trade Agreements. Although WTO requires a register of the free trade zones and submission of the detailed agreements to the secretariat, yet the register-and-submission system wields limited influence on all parties, let alone the tough regulations. Therefore, it is time to set up an additional precaution system against the industrial impact brought about by the China-Korea, China-Australia and any other free trade agreements.

The 49th Article of *The Foreign Trade Law of the People’s Republic of*

*China* which took effect on July 1st, 2004 has stipulated that the foreign trade department and other departments in the state council should set up an early-warning mechanism for the trade of goods, technology and international service, in case of any emergencies and unexpected situations, whose ultimate aim is for the economic security. This Article illustrates that an early-warning mechanism has been included in the legal responsibility for China's government and this stipulation goes a long way in supporting industrial development and security in the international context. Therefore, if the administrative resources are adequate, it is suggested to set up an independent early-warning mechanism against industrial impairment among the parties of the free trade agreement; and if not adequate, and in order not to illicit objection from parties, a supplementary and independent early-warning mechanism can be added into the existing early-warning mechanism. Greet attention should be paid to the import and export trend of the special goods.

***Thirdly, it is top on the agenda to set up a trade adjustment assistance system.*** In the international community, the United States is the very country that has built up an authorized Trade Adjustment Assistance system, which is combined with the Trade Promotion Authority Act. Such combination gives full attention to employees, enterprises and farmers who interest has been undermined by trade liberalization or production transformation, offering governmental assistance and helping the industries—which are in recessions or with comparative disadvantages—to gain more competitive power in import and export. This functions as a subsidy system, which, according to WTO, is not in apparent violation with the Agreement on Subsidies and Countervailing Measures. And the agricultural part in this trade adjustment assistance programme is generally in line with the Agreement on Agriculture issued by WTO. In a word, it is basically legal and feasible to conduct a trade adjustment assistance programme in the context of WTO, though sometimes it is necessary to take into account some individual cases. China should give serious consideration to this programme.

***Last but not least, the fundamental approach to deal with the possible economic insecurity is to take the initiative to open up to the world.*** In the spirit of "opening-up for reform", the strategy for any industrial consequences of the free trade agreement is to develop national industries and enhance their competitiveness. The general guideline is to support China's economic transformation and updating through opening-up, free competition and work efficiency in every industry.

Besides, in the light of negotiating technology, the joint research of government, industries and institutes should involve more universities, think tanks, industrial unions and large enterprises. Meanwhile, it requires a team work national wide to probe into the input-output tables and the trade statistics based on the global value chain, with accurate industrial categorization and precise location of different production and products.

Translator/ Huang Ruixin

# On Supporting the Development of Senior Service Tax Policy

Hu Yijian

China has entered the stage in which conflicts and problems, such as aging of population, empty-nest phenomenon, and dementia, are growing in intensity. In face of the increasingly serious aging population trend, China has to accelerate the development of the service for the aged to meet the rapid growth of demand. This task has also taken on strategic importance in China's economic and social development. Developmental goals were set in the Opinions of the State Council on Accelerating the Development of Senior Service Industry (2013): by 2020, a home-based senior service system supported by communities and institutions will be fully completed. This system shall carry improved functions, reach a moderate scale, and cover both urban and rural areas. Developing the service for the aged is not only to meet the demands of an aging society, but also to serve as an important strategic deployment for China's industrial transformation. In order to facilitate it, a market-oriented module, government investments, as well as policy supports are required,. Tax policy is an important factor that affects and restricts the development of senior service system. Therefore the elimination of tax barriers to achieve leapfrog development of senior service system has become an urgent policy problem to be solved.

***The Theoretical basis of tax policy on senior services***

In China, tax is not only the basic form of income for the government, but also an important policy tool for government regulation of economic operation. There are both necessities and possibilities of using tax policy to support and sustain the development of senior services.

***The Necessities***

Tax related senior services refer mainly to the institutional services. The necessities of using the tax policy can be analyzed in the following aspects. First, analysis of the demands on senior service: with the acceleration of population aging, unprecedented pressure has been brought to the social senior service system. The increase of capacity of home care and community care for the elderly in a short period is limited, the heavy burden falls hence on the institutional senior services. Therefore, there are great social demands on strengthening the social senior service system and on developing the institutional senior services. Second, analysis of the nature of senior services: senior services belong to public welfare social service industry which needs to gain profits to sustain itself and to bear social responsibilities such as morality, social ethics and stability. The senior services face great external costs that cannot be afforded by the market alone. The government has responsibility and obligation to compensate these external costs through taxation, in order to support the operation and development of senior service organizations with welfare nature. Third, analysis of the characteristics of senior services: the current institutional senior service in China is a big market with great prospects, however it is still in an emerging stage. Problems, such as shortage of resources and personnel, low level of development, backward mechanism, imbalance between supply and demand, are relying on the prompt tax policy of government for solutions.

***The Feasibilities***

First, in respect of the tax benefits, no matter if it is sales tax or value-added tax based on the revenue of senior services, or business income tax on the profit, there is no difference except the different collection forms. The tax on senior services have resulted in increase of tax costs and in reduction of after-tax profits and the social supplies, and have affected the total supply and demand of the senior service industry. The implementation of senior services tax incentives can, to a certain extent, reduce tax burden, cut costs, improve rate of return, attract investments, and in the end facilitate the development of the industry. Second, in respect of the direction of tax profits, what affects senior services is not the total amount of tax, but more importantly, the tax structure. Should we apply the same taxation rules to senior services as to the other service industries or should it receive preferential tax treatment? If we choose the latter, should we apply general preferential treatment or selective preferential treatment to different senior service facilities? If the preferential treatment should be selective, what kind of projects should be selected? Because different tax policies may have different influences on the demand and supply structure of senior services, the government can show their intention to support the senior services through tax incentives.

***The Support System of Tax Policy on Senior Services***

Among the current categories of taxes in China, those related to pension services mainly are goods and services tax, income tax and property tax. And relevant tax policies include the following ones:

1. to the welfare and non-profit senior service institutions invested or established by government departments, enterprises and public institutions, social organizations and individuals, business income tax shall be temporarily exempted;

2. self occupied real estates, lands, vehicles and vessels shall be exempted from property tax, urban and township land use tax, vehicle and vessel usage tax;

3. senior services provided by pension institutions shall be exempted from sales tax;

4. the donation to welfare and non-profit senior service institutions through non-profit social organizations and government departments from enterprises and public institutions, social organizations and individuals shall be granted full deduction before paying business income tax and personal income tax.

These tax policies can be divided into direct and indirect policies according to the different recipients. Direct policies are those written policies stipulated to directly reduce or remit various taxes of senior service providers, as in the above-mentioned clause 1 and clause 2. Indirect policies are policies without specific stipulation for tax relief, yet conducive to the improvement and development of senior services due to the indirect benefits generated in the implementation of policies, such as clause 4.

One feature of the direct policies is the direct relief of the tax burden of senior services, which reflects the national policy orientation in support of the development of senior service system. However, due to the limitation of direct policies, indirect policies are also needed to strengthen the support. Both of the two methods share the same purpose and compensate each other mutually to make the system function.

***The Limitation of Tax Policy on Senior Services***

China's current tax policy for senior services supports, directly or indirectly, the service institutions on turnover tax, income tax and property tax, which plays an active role in reducing costs, increasing profits and promoting the development of senior services. But there are still some limitations, which will be discussed in the following paragraphs.

***The Range Is Narrow***

China's current policy on tax preference mainly aims at senior service institutions, the supporting range of which is however relatively narrow. First, China's current senior care model is home based, and supported by communities and institutions. As for the most basic services for home-care service system, there is a lack of appropriate tax incentives, which is not conducive to the development of the senior service industry. Second, the source of investments on senior care institutions is shifting from direct government investment to private capital. However, the current tax incentives only aims at senior service institutions while the private capital investment, equity or debt, enjoys no policy support or incentives, which has limited its motivation to invest. Third, there is a lack of relevant tax incentives to those product manufacturers whose products can meet the demands of senior services and ease the conflict between supply and demand. This has also discouraged the private investors who might want to engage in senior care products manufacturing. Fourth, there is no tax incentives to newly-emerged senior care models, such as home care, combination of medical care support, using real estate as guarantee in exchange for senior care services. Given the diversified development trend of senior care services, the existing single tax policy is not adapted to it.

***The Policy Is Weak***

First, current tax incentives for senior services are too weak: the sales tax relief has been enjoyed generally by all senior care institutions, but other preferential tax policies have been only applied to welfare and non-profit care institutions, excluding for-profit organizations. Second, income tax and local tax incentives have defined the restriction of the beneficiaries from such incentives: welfare and non-profit institutions specialized for offering the elderly various services including daily care, cultural entertainment, nursing, fitness and so on. This restriction means that for-profit senior service institutions cannot enjoy the same tax preferences. Third, there is ambiguity in the definition of duty-free qualification of non-profit senior service institutions and vagueness in the description of the beneficiaries who should enjoy business income tax, personal income tax and stamp duty preference policies. These factors could hinder the effective implementation of these policies. In fact, non-profit senior service institutions do need policy supports, but given the capacity shortage of senior service institutions in China, for-profit institutions also need the supports in a certain period to realize the leaping development of senior service industry. Besides, most of the current senior service institutions have a mixed model and dual character of being both economic and public welfare, non-profit and for-profit. If for-profit senior service institutions cannot enjoy tax incentives in their routine operations, the heavy burden of taxation will do no good to the development of institutional senior service industry.

***The Indirect Support Is Not Enough***

As discussed before, in China, direct policies are mainly aimed at senior services while indirect policies are mainly about deduction before tax-paying of the donation to senior service institutions by units or individuals. When enterprises make donations through non-profit social organizations and government departments to non-profit senior service institutions, these donations shall be granted full deduction before paying enterprise income tax, however, these enterprises still have to pay a heavy value-added tax as sales activity. In addition, if the direct donations from enterprises or individuals to non-profit senior service institutions are not made through non-profit social organizations or government departments, they will not be granted full deduction before paying enterprise income tax and personal income tax. And donations to for-profit senior service institutions don't enjoy any tax reliefs. Though the above-mentioned policy is conducive to the prevention of tax evasion, it has still objectively suppressed the enthusiasm of social donation to the institutional senior service industry.

***The Adjustment of Tax Policy on Senior Services***

To accelerate the development of senior service industry and meet the rapidly growing needs for senior services, adjustments of tax preference policy can be conducted in the following aspects:

***Unify the Standards***

Since China's current tax policies on senior services are represented by diverse tax categories, different cities and provinces also have different policies, it is necessary to sort out and sum up the policies dispersed in the administrative regulations and departmental rules. A comprehensive and standardized tax policy is needed on promoting the development of senior services. In order  to achieve this, the policy needs to be more systematic and coordinated, the expressions of the tax policy need to be standardized so that the relevant terms and expressions from various tax incentives can become more unified and specified.

***Narrow the Disparity***

Sandwiched between the growing demands of institutional senior services and the difficulties in expanding non-profit public senior service institutions, the government needs to strive to draw private capital into the construction of senior service institutions and use for-profit institutions to fill the gap. As mentioned above, the operating model of senior service institutions invested by private capital is a mixed one, in addition to the current sales tax exemption policy, the urban and township land use tax, property tax and vehicle and vessel usage tax should also be exempted in a certain period. The consolidation of property tax exemption policy on both for-profit and non-profit senior service sectors will motivate them to improve the service condition and service quality.

***Expand the Scope***

At present, tax incentives have only been applied to the operating process of senior service institutions while other processes like financing and investing lack specific policy support. And current tax incentives do not apply to private investors or financial institutions who provide loans to senior service institutions, even various investments on equipments of such institutions are not included in the tax relief policy. Some approaches can be taken into consideration to clarify the direction of tax policy: apply investment tax credit policy to equipments purchase by for-profit institutions; exempt enterprise income tax on the profits from preferential loan provided by financial institutions; reduce or exempt enterprise and personal income tax on the dividend or bonus gained from the investment on for-profit senior service institutions. Tax incentives similar to the ones for the investments from venture capital enterprises in small and medium high-tech enterprises should be applied to the private enterprises who have equity investments in senior service institutions,. This measure might be able to encourage private capital into senior service industry.

***Optimize the System***

Since for-profit senior service business is not lucrative, and the institutions even bear a heavy cost and are generally in a state of loss for a short term, income tax incentives are needed to support them. Here are some feasible methods: lower the tax rate or the level of taxable income for senior service institutions referring to the tax incentives for small and micro enterprises; from the profit-making year onwards, allow the enterprises to enjoy the first two years of exemption and the following three years of half-exemption, or even the first five years of exemption and the following five years of half-exemption; as long as the enterprise does not distribute the surplus but contribute it to the further development of senior service institutions, its enterprise income tax shall be exempted unless the surplus is distributed to the shareholders. Encourage social capital to constantly invest in the senior service industry by giving tax rebate for reinvestments in for-profit senior service institutions; improve the quality of senior service facilities by allowing accelerated depreciation of the devices; enhance the risk resistance capacity of senior service institutions by granting them the deduction of payment expenses on accident liability insurance before enterprise income tax being calculated.

***Implement Diverse Policies***

For a long time, the mostly used tax preference is direct tax reduction. In the future, indirect policies are needed, in addition to direct tax reduction. For example, define the specialized medical and rehabilitation equipments for the elderly purchased by senior service institutions as duty-free goods and exempt value-added tax on importing, wholesaling or retailing. Provide tax incentives to the sellers of these equipments to indirectly reduce costs for senior care institutions, through which more funds could be availabe to be used to expand the scale and improve service quality. Encourage and mobilize communities to donate for senior service institutions. Donations to welfare and non-profit senior service institutions from enterprises and public institutions, social organizations and individuals through non-profit social organizations and government departments shall be granted full deduction before enterprise income tax and personal income tax being calculated. Encourage individuals, enterprises, institutions and social groups to donate to institutions which have provided care to old people in need, giving full play to the role of charity in "the third-time distribution". Implement “deferred deduction” policy, allowing the part of donations that is over the predefined tax-free level to be carried over to the next year or even later.

***Translator/ Li Tianqi***

# Increase the Effectiveness of Anti Domestic Violence Prevention and Intervention

Fan Bin, *Social Work and Social Policy Center, East China University of Science and Technology*

Statistically, domestic violence exists in 24.7% families in China and the victims are mostly women, children and seniors who belong to the disadvantaged group; 10% of the juvenile offenders grow up in an environment with domestic violence. It has severely affected the social stability and security and has impeded the development of a harmonious society. In reality, the action against domestic violence requires not only more judicial interventions, but also unambiguous public opinion and family education, so that the domestic violence problem could be dealt with comprehensively from its origin. Specifically, there are two aspects of possible measures:

One the one hand, the mass media should fully play its role in publicizing, educating and guiding the anti domestic violence actions. Considering the features of Shanghai, the methods mass media can take in the action of anti domestic violence are as follows:

Firstly, take effective use of the press spokesman system. We can take advantage of the guiding role of newspaper, magazine, radio, television, Internet and Wechat, so that the important information about the development, rights and interests protection concerning women, children and seniors can be duly released to the society.

Secondly, bring the advertisements, which are aimed at safeguarding women, children and seniors' rights, promoting women and children's development, into the overall plan of producing public utility advertisements. Encourage the mass media to take on the responsibility of publicizing some basic state policies such as gender equality, children preference and senior protection. In this way, there is hope to make those policies institutionalized and normalized.

Thirdly, contain the appearances of prejudice against women and children in mass media, build a monitoring and supervising system and increase penalties on illegal behaviors.

Fourthly, mass media should develop series of programs, series of columns and anti domestic violence case study series to promote laws concerning rights and interests of women, children and seniors, based on the experience of the feature program A Documentary of Anti Domestic Violence Actions in China produced by "Society and Law" for the channel

*The lasting problem of domestic violence has severely affected social stability and security, and has impeded the development of a harmonious society. In the anti domestic violence action, strengthening judicial intervention is just one measure, more importantly the mass media should play a better role in publicizing, educating and guiding the action; on the other hand, home education should take its advantage in preventing and controlling domestic violence, so that the domestic violence problem could be dealt with comprehensively from its origin.*

of CCTV 12. Now there are feature series like “One Seventh” and “Eastern 110” which can be downloaded for free on the Internet. Columns of anti domestic violence actions can be serialized on important pages.

Fifthly, related departments should build an anti domestic violence platform via new media. In the modern information society, the new media has the following features: it is interactive and fast; it has a large content, big target audiences, huge influence, good concealment and low cost, which makes it crucial for the anti domestic violence action. For instance, if we could establish an anti-domestic violence Wechat official account, we can design modules on domestic violence case studies, cause analysis and anti domestic violence legal advice, and offer information on how to seek help after being abused and how to locate service resources.

Sixthly, mass media should increase its ability in publicizing and promoting anti domestic violence knowledge and strengthen its sense of social commitment. If mass media can publicize with a strong sense of social commitment the constitution and related laws, popularize the basic state policy of gender equality and gender consciousness, and propagate laws and social actions of anti domestic violence, more people can be informed that domestic violence is not just common family dispute but an illegal action that can pose great mental and physical damages to the family members; domestic violence is not a family privacy but a social problem. Family is the cell of a society, but the families which are shadowed with domestic violence problemes are like cancer cells that need to be treated with precaution, be discovered and interfered at early stage, and deterred by law. It is everybody’s responsibility to fight against domestic violence, while the mass media should take more efforts by making full use of all kinds of communication platforms to make sure that the understandable and persuasive anti domestic violence information can be spread to more people and in return more people can voluntarily take part in the social action.

On the other hand, it is important to take advantage of family education in preventing and controlling domestic violence. President Xi said on the New Year’s party: “Family is the fundamental cell of a society, is the first school in one’s life.” Considering the characteristics of Shanghai, possible measures could be takein in the following steps:

Firstly, the Family Civilization Guidance Centers in every district and every county, which were established by Shanghai Women’s Federation, will be used as a platform, there trainings targeted at families, especially at men, will be provided, and a training syllabus and textbooks targeted at the family members will be designed for the trainings. The previous trainings offered by Women’s Federation were centered around women, however, statistically 90%-95% domestic violences were done by men to women and children. Therefore, the trainings targeted at men become crucial. The training contents should include explanations on what domestic violence is and its harm, skills to harmonize family relations, methods to control emotions, etc. For women and children, we can continue to offer training on how to avoid domestic violence and protect themselves, and offer information and resources to help them after becoming victims in domestic violence.

Secondly, strengthen the marriage education in the frame of family education. Before registering for marriage, the couple should receive training and acquire knowledge from related personnel about domestic violence. What's more, we can print relevant contents on the marriage certificate and require the couple to make "anti domestic violence" commitment as prevention to later domestic violence.

Thirdly, we should further improve the three-in-one (school, family and society) family education guidance module and take advantage of the existing parents school at all levels to improve its quality. While guiding parents' upbringing of their children, we can also improve their own abilities especially those in dealing with family conflicts and relations and in establishing a harmonious family.

Fourthly, the government should plan the budget for purchasing family education services and add it to the Government Purchase Public Services list so as to encourage more social organizations to take part in the services of family education on anti domestic violence.

Translator/ Ji Yingyun

# Advocate Chinese Teaching for Foreign Students and Enhance the International Appeal of Shanghai

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Attracting more foreign students to study in Shanghai is crucial to develop Shanghai into an international metropolis as well as an international competitive destination for overseas study (from the 12th Five-Year Plan of Shanghai). In the past decade, the number of foreign students in universities and colleges in Shanghai has been constantly on the rise and the number reached 56,033 in 2014. To further scale up overseas students, Shanghai has taken various measures. For instance, the municipal government has made full use of every cultural exchange opportunity, intensified the publicity of Shanghai's colleges and universities abroad, offered more government scholarship for foreign students, set courses and majors taught in English, to name just a few. Despite of all the efforts aforementioned, so far foreign students have merely accounted for 8.8% of students and faculty among colleges and universities in Shanghai, far below that in Australia (18.3%), UK(17.1%), Switzerland(16.5%), New Zealand(15.8%), etc. It is a far cry from the goal set by Shanghai municipal government, that is, by 2020 the percentage of foreign students in colleges and universities shall reach 15%. Shanghai is in desperate need of requiring the needs and experience of foreign students and accordingly formulates relative policies so as to improve their study and life in Shanghai, live up to their expectancy and in the end make Shanghai an international competitive destination for overseas study. Hence, under the leadership of the International Cooperation and Exchange Office of Shanghai Municipal Education Commission, we had 1892 foreign students from 26 colleges and universities in Shanghai participate in a questionnaire survey and interviewed with 40 foreign students of 13 colleges and universities who came from 22 countries.

*The author holds that Shanghai is in desperate need of requiring the needs and experience of foreign students and accordingly formulates relative policies so as to improve the quality of their study and life in Shanghai, satisfy their expectancy of foreign study and in the end make Shanghai an international competitive destination for overseas study.*

First, To Learn Chinese Is The Primary Factor That Foreign Students Come To Shanghai.

According to our survey, to learn Chinese is the top-ranking one among all the factors that attract foreign students to study in Shanghai, which 82% of students consider to be very important or relatively important. Moreover, "Shanghai is an international metropolis" and "China's fast developing economy" rank second(74.2%) and forth(67.6%) respectively in the survey. As China's economic and political power continue to grow, other countries have realized the need to acquire more knowledge of

China. In this respect, Shanghai, one of the most modernized financial center in China could serve as the ideal destination to observe China's contemporary economic development and cultural change and provide great opportunities to foreign students who aspire to engage in foreign trade with China in the future. For them, learning Chinese could help them understand China better, especially its enterprise culture and economic culture and it is a precondition to carry out their economic and trade cooperation with China in the future.

In the light of surveys conducted in other countries such as the UK, the USA, Germany, France and Australia, unanimous conclusion is drawn as follows: the quality of education is the primary factor that foreign students come to these countries, which is agreed by 90% of foreign students. The survey carried out in Shanghai, however, shows that factors regarding to the quality of education aren't all that important------ "there are good universities in Shanghai" and "there are majors and courses I'm interested in" only rank third and fifth respectively. The approval rating of both isn't exceed 70%, which demonstrates that on one hand, Shanghai's education quality hasn't obtained approval from other foreign students compared with other countries and its education capacity must be improved; on the other hand, foreign students who study in Shanghai have different motivation and expectation, compared with whom study in other country/region and those in other countries and regions in that foreign students come to Shanghai want to grasp Chinese and combine it with another professional knowledge if possible while foreign students go to other countries and regions aim to receive better education.

Second, Foreign Students' Satisfactory Degree of Chinese Teaching Is Not High.

According to survey, 75% of foreign students are taught in Chinese, 17.4% in English and the others in their mother tongues such as French, German or both languages (Chinese and English). While few students choose not to learn Chinese, most of them (including students who are not t taught in Chinese) take course of Chinese.

Among students take courses of Chinese, only 62.7% feel very satisfied or relatively satisfied. While in other countries, the rate is much higher. In Australia, for instance, the number is 87% and Britain, 84%. According to the global survey, the average is 82%. As is mentioned, to learn Chinese is the primary factor that foreign students come to Shanghai. However, the data shows that the the quality of Chinese teaching in colleges and universities of Shanghai couldn't meet the needs of foreign students.

If subdivisions of Chinese teaching are investigated, it is obvious that students have different evaluation on each section. Most students feel satisfactory towards faculty's mandarin, professional knowledge and professional ethics whose degree of satisfaction is around 70% while teaching methods and textbooks are the least satisfied. Most foreign students compliment teacher's professional ethics and their dedication to teaching Chinese knowledge but complain about the traditional teaching methods featuring lecturing and memorizing but neglecting interest and inspiration. It is universally acknowledged by them that practice and workshop should be ushered in in the class so that it could meet their need of daily life and professional work such as trade negotiation.

The least satisfied part in the teaching content lies in the outdated vocabulary and textbook, out of line with daily life. A fair number of foreign students point out that some vocabularies are impractical, especially in daily communication.

Third, The Lack Of Chinese Support Service In Shanghai's Colleges And Universities.

In Shanghai, foreign students, especially those taught in Chinese meet even more severe language problem than foreign students in other countries. Only 29% of students in the UK admit that they cannot understand teachers out of language problem; while in Shanghai the number is up to 45.5%.

In other countries, except from language teaching, it is a commonplace for them to provide students with additional language support. Over 70% of colleges and universities in Britain offer addition English support and over 80% of foreign students in Australia have experienced such language support. There are all kinds of language support service. For instance, the cooperation between language-teaching teacher and major-teaching teacher offer extra academic reading and writing courses; academic proceedings are deliberately compiled for students with academic language; foreign students and local students in the same major work in pairs to improve their academic language; network resources are fully made use of to develop online language teaching package so that they could teach themselves or set message board and discussion board for foreign students to interact with other students and faculty.

Although some universities in Shanghai pair foreign students with Chinese students as language partner, for most of time, foreign students have to depending on themselves to overcome the language problem. According to the questionnaire survey, near half of foreign students (45.6%) have never received Chinese support service and only 22.2% students feel satisfied with it.

Forth, Foreign Students' Overall Feeling Of Studying In Shanghai Is Affected By The Quality of Chinese Teaching.

As aforementioned, to learn Chinese is the primary factor that foreign students come to Shanghai. Facts are that according to statistics, their Chinese is greatly improved during their stay in Shanghai. Albeit that, only half of students (54.0%) tick the option "I'm satisfied with my progress in Chinese" in the questionnaire. For the rest, the Chinese teaching and language support in Shanghai don't live up to their expectation.

Data shows that students' overall feeling of studying in Shanghai is greatly affected by the quality of Chinese teaching and language support service. Compared with students whose satisfaction degree of Chinese teaching and language support service is high, students whose satisfaction degree is low are not content with Shanghai and unwilling to recommend it to their relatives. In statistics, there is a huge gap between these two students.

Fifth, Measures To Enhance Chinese Teaching For Foreign Students.

To learn Chinese is the primary factor that foreign students come to Shanghai which Shanghai could take advantage of. That is, Shanghai should endeavor to construct courses and majors taught in English as well as develop a differentiated market so as to provide more competitive education service for foreign students over other countries and regions and attract more foreign students to Shanghai. However, by far Chinese teaching and complementary support service is not sufficient to meet the need of foreign students, causing negative impact to their overall feeling towards Shanghai. How to improve the quality of Chinese teaching and the Chinese support service would be an urgent problem for universities and government to solve. In this respect, there are some suggestions as follows:

1.Advance the publicity of Chinese teaching.

When promoting college education in Shanghai through channels such as Overseas Education Exhibition and education website (www.shanghai-study.org), the municipal government should further highlight their advantage of Chinese teaching, complementary support service and opportunities for foreign students to be exposed to Chinese culture so as to attract more foreign students interested in China and Chinese to Shanghai.

2.Improve the quality of Chinese teaching

The government should organize experts in Chinese teaching from different universities to compile a high-quality Chinese textbook for foreign students, the content of which should be close to daily life and the times so that it will be easier for foreign students to communicate with Chinese students and residents, get used to Chinese surroundings, learn more about Chinese culture and befriend local people.

Regular training for International Chinese teachers should also be introduced, encompassing problems that foreign students may encounter in Chinese learning, advanced teaching methods in the world and lively instructional modes such as group discussion, scenario imitation and so on.

3.Make use of different channels to provide Chinese support service.

Universities should provide additional professional Chinese courses for foreign students in need, especially those who are not majored in Chinese but require professional language support. Hence, students could master most terminology and academic expression before their professional learning starts.

The government could organize universities where Chinese is the proponent discipline to develop software package of Chinese learning, including both common expression and professional expression so that foreign students may teach themselves if needed.

As for relative departments or administrations in universities, they could pair foreign students with Chinese students in the same major. To encourage Chinese students to participate in this program, university can offer certificate as aprove of their capability of cross cultural communication.

4.Promote experience sharing of Chinese teaching.

The International Cooperation and Exchange Office of Shanghai Municipal Education Commission could set International Chinese Teaching Alliance under Shanghai International Educational Research Association. This alliance would serve as a platform for foreign students and teachers to share experience deal with common problems in Chinese learning and carry out relative researches by means of regular seminars and site development.

International Chinese Teaching Alliance may also carry out regular research among foreign students by themselves or other research institution. Through longitudinal study, the alliance would notice the fluctuation of their study expectation and satisfaction degree and provide the improvements accordingly.

Translator/ Hua Zhiyun

# *Inviting Contributions to China Watch 2015*

To construct new-type think tanks, promote the conversion between research and policy-making advice, and provide more high-quality reports and advices, Fudan Development Institute and Centre for Think-tanks Research and Management in Shanghai decide to solicit contributions from Chinese and overseas scholars to *China Watch*. *China Watch* focuses on hot issues in various fields of China. In the first semimonthly, it selects the latest achievements of top foreign think tanks, themed by 'International Perspectives and Forefront Issues'; in the second one, it collects the policy analysis of Chinese experts, themed by 'Chinese Think Tanks and Contributions to Development'.

### *Requirements*

1. This contribution should be policy analysis or advice, reflecting author's deep thinking of forward-looking and comprehensive issues. Topics include but are not limited to Chinese domestic affairs, foreign policies, economy, society, education and other issues involving China's development.

2. The English edition could be articles published by foreign think tanks or major media in English (if the article is in other foreign language, please attach a 200-word abstract), or English research achievements of yourself. If the contribution is accepted by editorial department, it will be translated by the referrer or editorial department.

3. The Chinese edition is open to all the institutions and individuals. The topic is decided by yourself and the language should be succinct and not academic. 3000 words are proper, and there should be an introduction of the author within 100 words in the end. If the contribution is involved in sensitive issues, please burn it onto disc and post it to the editorial department with paper edition instead of sending it by email.

### *Notices*

1. Email address: centrems@fudan.edu.cn. Please fill the title of your contribution in the email subject and attach the following information (very important): Article, Author, Referrer, Address, Email, and Telephone Number.

2. One contribution at a time. Please not deliver more than one contribution at a time, or deliver repeatedly.

3. The contribution could be delivered to other publications and we'll reply in one month. If the contribution is accepted, the editorial department will reward it.

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## *Fudan Development Institute*

Fudan Development Institute (FDDI), founded on February 12th, 1993, is determined to build a first-class think-tank. Our research is directed towards issues of national development, striving to make contributions to make contributions to the development of society by through the integration of research resources and human talents of various disciplines. There are 7 domestic research institutes which Fudan Development Institute is incubating, including Financial Research Centre, Centre for BRICS Studies, Shanghai-Hong Kong Development Institute, Centre for Communication and State Governance Research, Contemporary China Social Life Data and Research Centre, Institute of Social Research, China Insurance and Social Security Research Centre; 3 overseas research institutes, including Fudan-UC Centre on Contemporary China (University of California), Fudan-European Centre for China Studies (University of Copenhagen), Fudan-Tec Monterrey Research Centre for Studies on China-Latin America (Monterrey Institute of Technology and Higher Education); China Financiers Club; 2 secretariats of major forum, including secretariat of China University Think Tank Forum and secretariat of Shanghai Forum.

## *Centre for Think-tanks Research and Management in Shanghai*

Centre for Think-tanks Research and Management in Shanghai, led by Shanghai municipal Party committee and relying on Fudan University, commits itself to incubating and promoting the capacity of Shanghai university think tanks, constructing a domestic and international known Shanghai university think tank system. It provides management through serving, seeks integration through internal communication, gathers impact through international talks, guards the quality through assessment, achieves status through contributions, and sets up a communicating, marketing and international talking platform founded in Shanghai, serving the whole nation and taking the whole world in view. The Centre aims to integrate the resources of Shanghai universities and think tanks, transfer the research into results, offer suggestions to the government, spread the ideas of think tanks to the mass, realize the social value of academic achievements, incubate composite scholars with consulting capacity, push forward the discipline construction of universities, and promote the development of new-type university think tanks.

CHINA WATCH

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