

JPRS-CAR-92-083

4 November 1992



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JPRS Report

China

19980113 046

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NATIONAL AFFAIRS, POLICY

Analysis of Current Economic Expansion

93CE0004A Beijing JINGJI CANKAO BAO in Chinese
7 Sep 92 p 1

[Article by Bao Yueyang (0545 2588 7122): "How Long Will the Express Train Run?"]

[Text] As 1992 began, the image of China's economy was that of taking an "express train" that was sustaining an excessively high rate of speed. From January to July, industrial production jumped 19 percent, investment in units owned by the whole people rose 35.6 percent, and for social commodities the total volume of retail sales rose 14.2 percent. For the first half of the year the overall economic expansion reached 12 percent.

22 Successive Months of Rapid Growth

This is the 22nd consecutive month of rapid economic growth. In October 1990, the nation's industrial production broke free from the shadow of a down hill slide, and the rate of growth reached more than 12 percent, marking the prelude to high speed pick up of the economy, and after this, investment and consumption also caught up. In 1991, industrial production, investment, and social commodity retail sales all maintained their double-digit growth. Under a situation where agriculture was affected by substantial flooding, the overall economic growth rate still reached 7 percent. This year, China's economy, through a restoration of growth, switched to high-speed growth, and the rate of growth has been the subject of debate at home and abroad over whether or not the economy is overheated.

As for the question of whether or not the economy is overheated, the State Statistics Office has a clear verdict. At present a number of people are concerned about the following: How long can the high-speed growth of China's economy be sustained? When will the "express train" change to the "slow train?" Will it or will it not be a train that will have its "brakes slammed on" like in 1989?

Accelerated Accumulation of Contradictions, Expansion of Ultimate Ends

There are few willing to make a definitive forecast concerning the trend of economic growth. Nevertheless, during this reporter's most recent contact with researchers from such units as the State Statistics Office, the State Economic Information Center, the State Planning Committee, the State Council Development Research Center, they generally believe that if China's current economic operational mechanisms and economic structures do not undergo major change, the rapid speed of economic growth will not be able to be sustained for a long period of time.

Experts believe that there is a periodicity to China's economic movement, and at present we are indeed in a

period of expansion. This expansion not only involves the release of the capabilities accumulated in the period of administering and rectification, but also is very much related to the various types of "fine tuning" measures that have emerged since 1990. In particular, there is the wider degree of flexibility when it comes to credit and investment, which has pushed the economy to forcefully rise and develop. For this reason, this economic expansion is clearly characterized as being investment led. Last year the total fixed investment rose 18.6 percent compared to the year before, and in the first half of this year, total fixed investment increased by 28.5 percent over the same period last year.

Investment-led growth places vigorous demands on the quality of investment, and facilitates the flourishing of heavy industry, and the market for consumer goods is relatively stable, and demand for light industrial goods has consistently remained steady. This means that this economic expansion shows a clear difference from previous instances of economic expansion. Because of this difference, the contradictions between overall supply and overall demand have not been consistently intensified, and this is a major reason why no overheating has emerged in the economy.

Hence, the economy, though it is not overheated, is still rapidly accumulating various types of contradictions behind the facade of a high growth rate.

One of these is that there have been too many new business openings, and the scale of construction is on the large side. According to a cadre of the Ministry of Finance's Integration Office, recently there have been a large number of localities that have come to the Ministry of Finance asking for money, but the great majority are low level duplicated construction items, and also are extensive type methods of economic development. This type of unchecked tendency not only will make investment resource allocation irrational, but will also result in waste of precious funds.

Second, the supply of investment should be made somewhat tighter, and prices should rise. According to information from the Materials Ministry, in the first half of the year the country's overall capital goods price level rose 6.4 percent compared to a similar period last year, and a month by month acceleration trend has emerged. According to a survey of 70 commodities, price rises from the 40 percent level earlier in the year rose to 64 percent at the end of June. Steel products used in construction overall were in short supply, and in some regions were out of stock. At the same time, that rail transport capacity is insufficient is abundantly clear, and in the first half of the year, the satisfaction rate of transport did not reach 70 percent, 10 percentage points lower than for the same period last year.

Third, the investment structure is irrational, as the proportion of basic industrial investment has been reduced, and the proportion of investment in processing industries has risen. In the first half of the year, among

the fixed investment for units owned by the whole people, the proportion of investment in energy resources dropped to 24.4 percent from 28.1 percent in the same period last year, the proportion of investment in transportation and postal and telecommunications dropped from 15.3 percent to 14.5 percent, the proportion of investment in processing industries rose from 12.2 percent to 13.8 percent; of investment in technological upgrading, the proportion used to increase output reached 33.9 percent. This situation is being sustained, and will make China's currently irrational industrial structure even more irrational, and when a period of contraction arrives, the shock will be even greater.

Fourth, bank loans are increasing quite rapidly, going substantially beyond the originally determined scale, and the withdrawal of currency from circulation has been reduced to a large degree in comparison with the same period last year. At present the clamor of various demands for expansion of credit is quite loud, and the latent inflationary pressure is increasing substantially.

In addition, industrial production has still not cast off the structure characterized by low efficiency of growth, and in large and medium-sized cities commodity prices are tending to rise.

The above factors will very rapidly manifest themselves when it comes to restriction of economic growth. A pessimist would compare the current economic situation in China with a car accelerating on a bumpy road, inevitably leading to a point where it cannot move. This analogy, though it does not seem fitting, does point to a latent danger. According to the State Economic Information Center's most recent forecast, at the end of this year or next year, at a certain time economic growth will reach a peak, and after this it will gradually enter a period of contraction.

The Only Way To Reform and Have Stable Growth

Experts believe that the contraction after the end of the expansion period will not be like the 1989's sharp slide, and will be expressed as a slowdown in the speed of growth. Due to the contraction of 1989, severe administrative measures and policies to tighten finance and credit were adopted. This time, due to the basic balance between overall demand and overall supply, estimates are there will be no need to adopt emergency brake methods. Therefore, the shock of the contraction will not be too great.

Are there methods for progressively prolonging this period of expansion, or greatly reducing the dynamics of contraction? The answer of experts is affirmative.

At present, the quality of China's economic movement is low, and amid high growth there is a fair amount of inefficient growth. Inefficient growth wastes resources, and effects the rate of growth. In addition, inefficient growth accumulates to a certain degree, and certainly will result in the economy going down the wrong road. Thereby we cannot but expend the cost of stagflation,

and again readjust. Reducing inefficient growth will benefit sustained stable economic growth. This is the first method.

China's basic industries are very weak, and the last time the economy overheated, a number of "bottlenecks" emerged in terms of energy resources, transportation and raw materials. This time transportation "bottlenecks" have also emerged, and become the primary factor limiting economic growth. Strengthening basic industries and expanding bottlenecks are naturally important paths to maintaining rapid economic growth. This is the second method.

At present the western regions still have not come to life, and the economic growth rate lags far behind that of the eastern regions. If the economic growth of the western regions rises in the near term, this will delay the onset of a national economic recession, and will contribute to further stable growth. This is the third.

These three points in fact all have profound links with the economic system and the operational mechanism. The first two points touch on structural issues. These include the existing industrial structure, the structure of investment and the structure of production. Readjustment of the industrial structure primarily should go through reform of the system, breaking down regional and ministerial dividing lines, not hesitating to use methods such as bankruptcy and annexation, and the surplus production factors among existing industrial enterprises must be transferred to tertiary industries, accelerating development of trade, transportation, communications, banking, insurance, housing, scientific and technical services, and information consulting. Readjustment of the investment structure will be determined by reform mechanisms. First is using a profit mechanism to readjust the structure of investment, appropriate readjustment of the scope of investment by the center, expansion of the quantity of government bonds issued, and stressing strengthening construction of basic infrastructure. At the same time, economic levers should be used to regulate investment in processing industries. Second, regulating the distribution of excess profits, primarily to systematize price relations. When it comes to readjustment of the product structure, it is necessary to implement in an integrated manner the "Regulations on Transforming the Management Mechanisms of Industrial Enterprises Owned by the Whole People," and pushing enterprises genuinely towards the market.

Economic development of the west is directly related to economic reform and the opening of the interior and frontier regions to the outside. From the present situation it is evident that there is great enthusiasm for opening up the interior and the frontier regions, there is much courage, but it is necessary to look at the actual results to see if they are significant or not.

As this article is going to press, news was pouring in that China had freed up a large set of capital goods prices, and had canceled out of plan capital goods price limits,

making people's deep enthusiasm for the reform process accelerate. In accordance with this, it is also possible that next year's economic development will surprise the experts.

Article Discusses Regional Economic Activities

92CE0703A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 92 pp 52-58

[Article by Zhang Keyun (1728 0668 0061): "A Study of the Problems in China's Regional Economic Activity"]

[Text] In recent years, theoreticians, industry circles, and policy departments have all paid considerable attention to the problems of growing inter-regional economic disparities and conflict. Numerous factors have given rise to these problems, the solution of which will require fairly systematic study. The aim of this article is to focus on China's regional economic¹ activity in conjunction with macro-economic adjustment and control and micro-economic activity, to study in a somewhat systematic way the manifestations of the various major economic problems and their ramifications and causes, and to explore targets, models, and countermeasure frameworks that will lead to more proper and sensible regional economic activity.

I. An Analysis of the Unique Features of China's Regional Economic Activity

The frequently changing varieties of regional economic activity in China are numerous, and no matter which period one examines, conflict and poor cooperation have always been the defining traits.

In the 30 years prior to reform, China operated under an economic system of central planning with power consolidation. The central government, as sole possessor of economic interest, did not acknowledge the independent regional economic interests. Two inter-related forms of behavior inevitably arose from this: First, local areas lacked motivation to develop regional economies, since, under the "communal rice pot" system, efforts in the area of economic labor had no relation whatsoever to the achievement of regional economic interests. Second, with production incapable of meeting the demands of economic interests, the various regions turned to seeking profits in allocation of production concessions. The various levels of local government "sought out concessions," vying for investments and planning quotas from higher levels or from the central government to provide for the production development and market supply and demand in their own areas. Inter-regional cooperation was achieved through administrative manipulations, while the objective requirement of mutual benefit between regions was given scant consideration. Because the key elements of production and the product flow between the administrative regions was strictly controlled by planned directives, the objectively existing cooperation requirements between enterprises and regions were stifled, deformed, or dissolved. As a result, no systematic effect of multiplied growth could be

achieved in the economic activities of different regions. Although the economies grew at a nice clip, economic relations were not sensible and the latent contradictions in the economic spheres became stronger and more numerous. With the growth of economic system reforms, the single economic interest of the central government came to be replaced by the plural economic interests of such entities as the state, regions, enterprises, and individuals. The economic interests of regions and enterprises were given recognition in state policies, and to a certain extent, they led to successes. Yet, the policies failed to produce timely and effective conditions of guidance and restraint that were required to realize these interests, and hence, many contradictions arose that had never existed before while others that had been stable and low-lying in the past suddenly became stark, complex, and multi-formed. Exacerbated conflict became the common feature of these contradictions. Not only were the pre-existing conflicts in allocation territories not eliminated, but conflicts in such areas as production, circulation, and exchange became increasingly more pitched.

The regional economic conflicts that have arisen since the advent of reforms can be roughly classified into three phases: The first phase (1979-1984) was characterized by blind compositions and introductions. Under the backdrop of such reform measures as "each eats from his own kitchen," the various regions strove for financial revenues, fighting with each other to invest in the processing industries where large and quick profits on high-priced goods were to be had, and competing to introduce the foreign equipment and technology required for these processing industries which resulted in numerous reduplications of efforts. This led to a nation-wide investment frenzy, with regional production mixes tending to become alike, enterprise scales becoming uneconomic, and the supply of processing capacities, energy resources, and raw materials becoming severely imbalanced. The second phase (1985-1988) was marked by raw material wars. With raw materials in critically short supply, governments, enterprises, and even individuals of every region joined the ranks of combatants seeking raw materials, all done to ensure that the processing capacities in their own areas did not sit idle. There were many raw material wars including "hog wars," "wool wars," "silk-worm cocoon wars," etc., arising one after another in heated pitch. With the selling price of material commodities being forced skyward through panic buying, the cost of intermediate- and end-products rose in succession, overall commodity prices throughout the country skyrocketed, and currency inflation grew worse by the day. At the same time, distorted price signals led to a false demand for agricultural by-products and raw materials. Under the alternate influences of rising prices and growing production quantities, the markets became glutted with certain agricultural by-products and raw materials leading to massive waste and nonutilization of resources. The third phase (1989-present) has been marked by market blockades. The austere policies adopted to cool down the over-heated economy

increased market pressures and demand restrictions on the enterprises. Some seller markets became buyer markets, the markets began to slump, economic growth in the various regions tailed off, and markets became the crucial element in enterprise development, growth in local financial income, and higher incomes for laborers. Consequently, the steady spread of inter-regional market blockades designed to protect local markets and the ubiquitous protectionist measures achieved through economic, administrative, and even legal means have only led to greater market slumps, worse economic tail-spins, and more severed inter-regional alliances, among other things. In addition, with currency tightening policies in effect, not only do the enterprises find it difficult to realize product value, but turnover funds are in critically short supply, enterprises cannot repay debts to each other, and local governments, with the aim of promoting local economic development, meddle in fund circulation areas, establishing such debt resolution principles as "us first, others second" which only complicates the problem of "triangle debts."

Regional economic activity is always marked by problematic cooperation. Regional economic cooperation is a requirement for stronger regional economic interests. Early on, in 1980, the State Council promulgated "Provisional Regulations on the Promotion of Economic Alliances" which demanded that we "accentuate the positive and avoid the negative, exploit superiorities, preserve competition, and promote alliances." To date, over 100 regional economic alliance organizations and cooperative networks have been created throughout the country. However, with unending conflict and a sea of blockades bogging down regional economic activity, regional economic activity alliances obviously operate under great difficulties of every imaginable type, with the vast majority cooperating to a minimal degree,² and the latent superiority of cooperation being far from fully exploited. Many local governments and enterprises appeal for strengthened cooperation on the one hand, while they build up blockades with the other. This sort of contradictory behavior in the regional economies is the starkest feature one notices in the course of China's regional economic activity.

II. An Analysis of the Causes of Heightened Conflict and Problematic Cooperation in the Course of Regional Economic Activity

The causes of the contradictions in China's regional economies, with their heightened conflicts and problematic cooperation, are fairly complex, and only an analysis that looks at the various levels involved can provide a comprehensive grasp of the unsuitable regional economic activity and the contradictory causes giving rise to the same. In what follows, I will explore the matter on three levels.

A. Root Causes

The root causes of the stark contradictions in regional economic activity can be traced to the failed implementation of system reforms. This manifests itself in three areas:

1. The lines of demarcation between the administrative management powers and the economic adjustment and control powers of the government itself are not clearly drawn. Areas that the government should manage are either not managed or are not managed well, while in areas that the government should not manage it meddles with impunity. The result is that policies fluctuate, enterprises have no vitality, inter-regional economic relations are chaotic, and a breeding ground is created for such socio-economic problems as power being utilized to "seek concessions" where the duties and powers of government officials are not delineated.

2. The jurisdictional issues between the central and the local governments are not clearly resolved. This is a major cause of inter-regional conflict. Expansion of local autonomy solely through the financial system of contracting responsibility meant that motivational mechanisms for promoting regional interests were vigorously established, yet, it did not provide a restricting mechanism to ensure the correct use of local autonomy powers. Because jurisdictions are not well delineated, on the one hand foundations are lacking for the delineation of normal economic rights and interests, and the various levels of government haggle over how to divide income, while power enhancement and contract making lack standard, rigorous guidelines. On the other hand, local governments exceed their powers, using the clout they have at hand to act as "general managers" over the local enterprises, preventing the export of raw materials from their regions during times of high market demand, and blockading the market when market demand is insufficient. The regulations and policies implemented by the central government to break through these blockades have been met with obstacles in every region.

3. A nice and cozy relationship has existed between enterprises and government, with the status of government economic regulator and production power owner being blurred. Although the "Enterprise Law" stipulates that enterprises shall enjoy 13 distinct autonomous powers, the majority of these powers have been appropriated by various levels of local government while few have actually become workable parts of enterprise life. Not only have the enterprises been unable to free themselves from inappropriate administrative meddling, but new ranks of "grandmotherly overseers" have been added. Under the vise-like control of local government, enterprises lack sufficient conditions and stimuli to heighten efficiency and end up floundering in contradictions. On the one hand, they try their best to extricate themselves from government control over their management functions with the hope of becoming completely independent and autonomous economic entities. On the other hand, when they cannot adapt to such unfavorable

economic conditions as insufficient raw material supplies and market slumps, the enterprises still must pray for governmental assistance. With the powers of autonomy not being fully realized, enterprises usually have to go out "in search of concession" from governmental departments to improve growth conditions and employee treatment. Currying favor, entertaining quests, and bribery are oft-employed methods of "seeking concessions." This sort of behavior inevitably erodes the government's ability to adjust and control the economy, partially or completely dissolving quantity and mix policies. Even worse, in some areas there are rich and arrogant enterprises and captains of industry who dominate the economies, meddling in and even dictating the actions of local government. Also, local governments and enterprises have banded together for the common good. They become quite capable of forming partnerships to deal with the central government and other localities, to contend for central government investments and subsidies, to launder their wealth through the enterprises, to take cuts from monies that should be paid to the central government, and to resist or even prevent intrusions from other regions. One can see from all of this that, with the failed implementation of system reforms, government, enterprises, and individuals at every level all must take responsibility for inappropriate regional economic activity, and that it is not enough to simply point the finger of blame in one direction.

B. Major Causes

The following areas are major causes:

1. Policies have not been coordinated. This became evident when, after financial revenue contacting and the release to lower levels of authority to examine and approve certain investments and foreign trade went into effect, inappropriate price systems were not ameliorated, production policies were not regionalized, and insufficient consideration was given, when allocating interests among regions, to the mutually beneficial possibilities to be derived from the various economic policies. Given these circumstances, the local governments, as holders of an economic interest, could apply the economic levers at their disposal to guide fixed asset reserves toward the production of high-priced, large profit-gaining products and fixed asset growth in the direction of departments and industries most capable of maximizing financial revenues and foreign exchange acquisition; and they encouraged local enterprises to contend in the domestic markets for raw materials and foreign trade materials, to blindly introduce technology owing to a failure to share information, to block off markets from each other, to depress prices and dump products on foreign markets to gain foreign exchange, all of which transported our domestic regional conflicts abroad and damaged the overall interests of the nation. In addition, with uncoordinated policy guidance, the players in regional economic cooperation had different expectations and motivations, they defended themselves from each other or even impeded each other, and the level of regional economic cooperation was difficult to raise.

2. Imperfect market development. The imperfect development of China's markets shows itself, on the one hand, in less than ideal key market elements, and on the other hand, in the narrow and differentiated market spheres. Key market elements mainly include the economic participants in the market, the adjustment and control figures in the market, market exchange rules, market concepts and risk awareness, the material base of market alliances, etc. Prior to reforms, people denied, in theory, the existence of the commodity economy. They treated it as a conceptual system deserving of scorn. In practice, they carried out a product economy, stifling the creation or improvement of key market elements and rejecting market regulation. Since the advent of reforms, key market elements have remained highly imperfect, although, in theory, the people acknowledge the necessity of market regulation, and in practice, they have gradually replaced planning regulation with market regulation. Enterprises have failed to truly become independent economic actors in the market, the various levels of government that act as adjusters and controllers of the market have not standardized their activities, market exchange rules are full of holes, are often distorted, and frequently operate on numerous channels, market concepts and risk awareness remain weak, and the material base for market alliances is woefully inadequate. Since the founding of the nation, the penchant for localized markets has not yet been broken due to such things as the imperfections in the key system and market elements themselves, etc. Currently, small scale markets still exist in certain backward areas and minority regions, regionalized market development remains difficult, and a unified, nationwide market remains a pipe dream. As long as the above-mentioned two problems remain and systemic maladies are not cured, it will be difficult to standardize market behavior and market signals will not take on meaning and exert their coordinating role in economic activity.

3. Regional economic growth has been imbalanced. The concentration of economic activity and population in the eastern region has been a constant theme in China since the days of the Song Dynasty. The eastern region of China enjoys obvious geographical superiority compared to the central and western regions of China. During the large-scale "three lines of construction" of the Third-Five Year Plan and the Fourth-Five Year Plan, a substantial base of modernized construction was put down in the central and western regions. However, the central and western regions' "double profits" were eroded³ by price distortions, exacerbating the inter-regional economic growth disparities. After reforms, the gap between east and west widened because of the regional economic policies that were tilted toward the east. Thus, with contradictory conflict existing in the regional economies, the western region was bound to adopt various protectionist measures to keep its own interests from leaving and to reap larger market shares when nationwide redistributions were made. The source regions for material supplies began developing processing industries to reverse the erosion of their "double profits" which added

fuel to the flames of conflict already existing with other regions. This, as a result, induced or stimulated regional economic conflict throughout the nation.

C. Ordinary Causes

Certain pre-conditions are required to develop a commodity economy. Without these pre-conditions, a strong possibility of improper regional economic activity will exist, regardless of which systems or policies are used. Ordinary causes for China's improper regional economic activity include a chronic inability to improve a poor infrastructure and weak awareness and understanding of how a commodity economy works.

The previous analysis in no way exhausts the causes at work. However, for the most part, it is an improvement on the limitations of analyses which adopt a single point of view or which generalize and fail to distinguish between primary and secondary features.

III. Target Directions for Improving Regional Economic Activity and Selection of Adjustment and Control Models

The chaos in regional economic relations has become a comprehensive problem today. It has led to a host of microeconomic and macroeconomic problems which have deeply hurt every region. The people insist on an end to the regional conflict and on greater regional economic cooperation. It will not be easy to improve regional economic activities, and before I suggest ways of resolving the problems, I must clearly set out the targets for improvement in regional economic activity and I must select completely realistic and scientific adjustment and control models.

Based on current conditions in China, improvements in regional economic activity should be carried forward in an orderly fashion on two different levels. The target of the first level is coordinated growth within the regional economies. To achieve this first target, regional conflict must be overcome and standardized competition must be put in place. Organic intra-regional order must be set up for economic competition and cooperation, predicated on the exploitation of each area's superiorities within the region, and a unified, regionalized market must be established. The target of this level is not an ultimate target, and so, certain inter-regional economic contacts must be maintained throughout the process of reaching this target, and we must prevent regional economies from setting up their own systematic trade barriers. The target of the second level is to achieve a thoroughgoing division of regional labor so that all regions of the country enjoy concerted development. Only when systemic reforms are fully in place and the first level target has been mainly achieved is there a possibility of establishing and perfecting a unified, nationwide market to achieve this target. The first level target is a temporary one, but it is also a foundation from which the second level target can be reached. Thus, it should not be carried too far.

To ensure the achievement of our targets, we must select the correct adjustment and control models for regional economic activity. There are three basic adjustment and control models. The first one adopts a laissez-faire policy of government noninterference in regional economic activity. The main feature of this model lies in its total reliance on market forces, impelling the various regions toward coordinated growth as they compete. Early capitalist societies basically adopted this model. It over-emphasized the role of market regulation, while completely rejecting planned regulation. Today, this is an untenable model in a capitalist or socialist society. Experience has shown that this model usually fails to live up to expectations. When competition is keen, coordination is difficult between regions with different levels of development, and greater regional disparities and conflicts are common. In some countries, regional conflicts have even evolved into political and racial contradictions under this model. Thus, since the 1950's, the national and local governments of many nations have broadened their participation in regional planning and development, the formulation of macroeconomic regional policies, etc. China is a large nation with low-level development, a wealth of regional resources, and obvious disparities in economic development. Our market mechanisms are highly imperfect, we have yet to form regional markets or unified, national markets, and, if we simply imitate the adjustment and control models for regional economic activity used by market economy systems, our pre-existing contradictions will only get worse and severe social disruption will result. Thus, this model cannot be used in China. Under the second model, the government enjoys plenary intervention into regional economic activity. The main feature of this model is its total reliance on forced intervention through administrative means in the activities of the regional economies. This model completely denies the existence of market regulation, while over-exaggerating the role of planning. China's 30 years of pre-reform experience clearly prove the woeful inadequacy of this model that gives no consideration to the laws of commodity economy development. Although, under this model, strong-arm measures can provide temporary relief for some contradictions, in the end, only the symptoms get cured, never the causes. Thus, this model too is unsuitable for China. The third model combines market regulation with planned regulation. The main feature of this model lies in the way it simultaneously exercises the roles of market regulation and planned regulation. Our reforms are now evolving in this direction, and stand as the inevitable choice for improving China's regional economic activity. However, the establishment of this adjustment and control model will require that we first resolve certain theoretical and practical issues that have yet to be cleared up. Among them, how to best exploit the roles of market regulation and planned regulation and achieve coordinated intra-regional and inter-regional growth. These remain major problems for current reforms.

IV. A Framework for Improving Our Regional Economic Activity

I have only been able to put forth a rough framework for simultaneously exploiting the roles of market regulation and planned regulation in a way that organically combines the two.

Systemic reforms occupy a core position. Systemic reforms must be in place as a foundation and prerequisite for the resolution of other issues. From the standpoint of regional economic activity, a series of relationships must be taken care of in a systematic and coordinated way before a regulatory model combining market regulation and planned regulation can be effectively built.

A. Set Straight the Relationships Between the Central Government and Local Governments

The main issue in setting straight the relationships between the central government and the local governments lies in clearly delineating the subject-matter jurisdiction and the financial jurisdiction of the central and local governments. First, legislative means must be used to delineate subject-matter jurisdiction between the central and local governments. With sensible restrictive mechanisms dealing with responsibilities, powers, and limitations thereon of the central and local governments as they pertain to running the nation and dealing with local affairs,⁴ we must scientifically establish the scope and limitations of central and local government powers to adjust, control, and manage the economy, and we must make the actions of the central and local governments more legalized, more sensible, and their adjustment and control more scientific and standardized. In addition, the financial powers of the central and local governments must be sensibly demarcated through legal means. The exercise of governmental administrative functions requires the possession of certain financial powers. A shared taxation system, founded on unification and perfection, must be achieved where central and local governmental revenues are sensibly delineated and "one level of revenue goes to one level of government that has its own specified subject-matter jurisdiction and its own budget."

B. Set Straight the Relationship Between Government and Enterprises

Enterprises are the building blocks of the national and regional economies. Abundantly vital enterprises are a prerequisite for abundantly vital national and regional economies. Setting straight the relations between government and the enterprises will require that government's administrative and economic management functions be precisely demarcated. The key to accomplishing this lies in clearly establishing the styles and scopes of economic management for the different levels of government and in earnestly wiping out institutionalized corruption in economic management. The central and local governments are not management units at a particular level but rather adjusters, controllers, and servicers for the

economy. The emphasis in clearly establishing government's economic management style should be placed on "government regulation of the market" since the government cannot directly meddle in enterprise management operations. We must put an end to the practice of local governments being administratively involved in enterprise activity and stop letting partial, temporary local interests be the sole motivator for economic management by local government. This pretty much requires that government's economic management scope be clearly established. Direct governmental intervention and management should be limited to those areas with a broad-based effect on the national economy and the people's livelihood. This would include such things as the infrastructure, management of national lands, national defense industries, etc. Even in these areas the government should exercise its management powers in accordance with market demands to the greatest extent possible. In other areas, the government should mainly exert indirect adjustment and control in the area of production policies and regional economic policies through market regulation and inter-regional economic relations. To keep local autonomy powers and local economic interests from being confined within the scope of local administration, the central and local governments should adjust and control key elements so that they are coordinated within mutually beneficial or cooperative regions of economic growth and regional relations rather than within administrative regions of the same, comprehensive adjustment and control should be based on comprehensive economic regions, appropriate degrees of adjustment and control tilting should be made to benefit problematic economic regions, and the economic interests between the central and local governments should be tied in with the comprehensive socioeconomic and environmental development of the nation as a whole and the local regions. Thus, scientific, multi-leveled economic scope delineations must be made for the nation, and from this foundation we must organize the formulation and implementation of regional economic programs.

The key to setting straight the relations between governments and state-owned enterprises and to invigorating large- and medium-size state-run enterprises lies in clearly demarcating central and local government's economic management powers and ownership powers over state-owned assets. Recently, scholars have proposed various different reform plans dealing with the issue of control and management of state-owned assets. The proposals have included stock ownership, socialized ownership, the contracting system, distribution of profit taxes, etc. Regardless of which plan prevails, it must do away with government meddling in enterprise operations and internal management and it must form the enterprise into truly vigorous commodity producers and managers. The relations between government and enterprises should be as follows: Enterprises pay profit taxes in accordance with laws that are adjusted and controlled by government consistent with its proper subject-matter jurisdiction; government is responsible for formulating

national economic development plans and regional programs and for providing information on production development, market supply and demand, and improvement of the infrastructure, etc., and for adjusting and controlling production and regional growth, but is not responsible for directly meddling in enterprise production, supply, and sales.

It must be stressed that government's scope of direct management over the economy should not be too broad. Yet, government's adjustment and control scope should include all territories of economic activity. If government only gives consideration to adjustment and control over partial areas of economic activity, it will be difficult to ensure coordination among the different policies and measures.

C. Set Straight Inter-Regional Relations

Under broad, socialized production, two conditions must exist for the creation of appropriate regional relations: namely, a foundation of broad, specialized production and sensible regional economic policies.

Broad, specialized production requires sensible division of labor and cooperation within labor areas to exploit regional superiorities. The basic conditions for broad, specialized production mainly include: perfection of markets, infrastructures, and appropriate regional disparities, among other things. Two areas of work must be done well to perfect markets. First, market mechanisms and key elements must be perfected. Second, the scope of unified markets must be broadened, gradually breaking down the insularity of localized markets, regionalized markets extending throughout the nation must be set up as soon as possible, the achievement of a unified, national market must be approached, and appropriate competition and cooperation must be encouraged among regional enterprises. Perfection of the infrastructure basically means improving on the highly sluggish and backward transportation and communication services we now have so that free-flowing channels of modernized commodity circulation and information transmission can be achieved. The huge regional disparities are a serious and real cause of obstructions in market development and commodity exchange, and the government ought to attach full importance to development and construction in the backward areas so as to prevent even greater inter-regional economic disparities. Otherwise, sensible divisions of labor and cooperation founded on the exploitation of superiorities will never be achieved. With fairly large disparities in development levels among the various regions, the starting points, motivations, and goals for growth among the regions will be different and coordination of the same will be difficult. Improvement of the foundation of broad, specialized production is mainly for the purpose of fully exploiting the role of market regulation.

There are two aspects to building an appropriate, scientific system of regional economic policies—macroscopic

regional economic policies and regional economic development policies. The construction of macroscopic regional economic policies mainly involves establishing the key points and directions for production in the regions and coordinating regional relations. To date, China has not come up with a fairly concrete macroscopic regional economic policy. The central government should organize forces to study such things as regional production policies and regional policy coordination so that a network of production policies is put in place in China. Where allocation of regional interests are concerned, specific policy preferences should benefit regions in a mutual and sensible way and should not parcel out hardships and fortunes in an uneven way. Regional economic development policies are a package of policies formulated by the government to regulate regional economic growth. Policy measures include such things as intra-regional production layout policies, financial policies, credit policies, investment policies, etc. These policies should be set out by the central and local governments consistent with the respective subject-matter jurisdictional limits and they should be coordinated with the macroscopic regional economic policies. Formulation of regional economic policies mainly is designed to exploit the role of planned regulation.

Footnotes

1. This article studies both the economies of local administrative regions, as well as unified economies within and between administrative and regional economies confronted with unique issues.
2. See also, Zhang Keyun, "China's Regional Economic Cooperation and International Economic Cooperation," in *China Development Report*, 4 July 1991.
3. For details, see Guo Fansheng [6753 0416 3932] and Wang Wei [3769 0251], *Poverty and Development*, the Zhejiang People's Publishing House, 1988.
4. Refer to the language of the State System Reform Commission's Composite Reform Project, "A Blueprint for the Delineation of Control and Local Government Subject-Matter Jurisdiction," in GAIGE No 5, 1990.

Article Views Current Prices of Capital Goods

93CE0041A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 8, 17 Aug 92 pp 17-19

[Article by Dai Dingyi (2071 1353 0001) of the Information Center, Ministry of Materials: "Views on Current Prices of Capital Goods"]

[Text] I. Price Hikes Accelerate for Capital Goods, Some Materials Have Seller's Markets

The current market prices of capital goods have the following main features: The general price level is rising higher and higher. Some materials have a seller's market with skyrocketing prices. In some cases, the price is only

nominal, and no supply is available. The price gap between different regions is further widening.

1) Nationwide, the general price level of capital goods rose 7 percent in May compared with the same period last year. A review of monthly price hikes shows that the magnitude of rise increased each month. Prices during the first quarter, with slight fluctuations, registered an average rise of 4.5 percent over last year's corresponding period. The magnitude of rise jumped to 5.5 percent in April and reached 7 percent in May, which was the month marked by the biggest price hike since last year.

2) The rising prices of rolled steel have been a leading cause for the above phenomenon. In May, the general price level of rolled steel was up 7.9 percent over last year's corresponding period. In particular, the prices of rolled steel used in construction skyrocketed well above the preset ceilings and topped the highest records in the past. The prices of 6.5 mm steel wire and 20 mm corrugated steel bars were generally in the region of 2,100 yuan, about 400 yuan higher than the prices early this year. Actually, in many localities the prices were only nominal because no supply could be obtained from the market. Led by the price hike for rolled steel for construction purposes, prices also rose steadily for other steel materials used in industry. For instance, the market prices of six mm plates and 0.5 mm cold-rolled sheets were both 100-200 yuan higher in May than at the end of last year.

The trend of price hikes was even more pronounced in June. In Jiangsu, Shanghai, and Zhejiang, the prices of steel wires, after breaking the 2,000 yuan mark, soared quickly to a level between 2,400 and 2,500 yuan. In Liaoning the prices also reached 2,400 yuan. Prices between 2,800 and 3,000 yuan were registered in Shenzhen and Zhuhai.

3) The price gap has widened between different regions. For instance, the difference between the highest and the lowest prices of 6.5 mm steel wire was about 100 yuan at the beginning of this year. The gap expanded to 800 yuan in mid-June. Prices in coastal areas exceed those in the hinterland, and they are higher in the south than in the north. All along, some cities in Guangdong, Hainan, and Fujian have taken the lead in the new price tide.

4) For most other materials, demand has increased and prices have gone up. In May, cement was 199 yuan a ton on the average, surpassing the price for the same period last year by 9.7 percent. Compared with the same period a year ago, the market prices of ordinary plate glass and embossed glass rose 17 and 13 percent respectively, logs 5.7 percent, and lumber and plywood 3.1 and 7.7 percent respectively. Market supply of coal has been tight in some localities. In May, the average coal price nationwide was 142 yuan per ton, 2.2 percent higher than the price at the beginning of the year, and because of the transportation problem, supply was short in some localities. At the end of May, bituminous coal in Hangzhou was as high as 250 yuan a ton; in Wuxi and Shanghai, the

prices were 218 yuan and 194 yuan respectively. These topped the prices at the beginning of the year by 30-80 yuan per ton. Among nonferrous metals, aluminum has registered a remarkable rise in price and may become the next hot item on the capital goods market. For other nonferrous metals, prices are relatively stable. Markets for industrial chemicals remain either stable or sluggish. There has been no improvement in the markets for caustic soda and soda ash, while the prices of plastics have continued to drop.

II. Rolled Steel Prices Have Not Reached the Peak, Capital Goods Prices May Register a Double-Digit Rise This Year

1) Investment in fixed assets is the primary motive force in the present round of economic growth. Increasing investment is still a principal way to speed up economic development in all localities. The scale of investment is bound to expand with the advent of the busy capital construction season and the absorption of more capital from abroad. On the other hand, increased investment has spurred the growth of heavy industry. From January to May, the heavy industry registered a 20 percent growth, and 93.3 percent of its products were sold, outstripping light industry by 4.2 and 3.7 percentage points respectively. Production and sales of some machinery and electronics equipment were brisk. These features will cause the capital goods market to develop at a quicker pace than the consumer goods market. Accordingly, the prices of capital goods will rise faster this year than the retail prices of consumer goods.

2) Inadequate transportation facilities have seriously hampered the flow of materials, adding to the supply-demand imbalance between different regions. Take coal as an example. Now, the total supply and demand are balanced nationwide. However, there are large stockpiles in some localities, and overstocks in mining areas are restricting normal production. On the other hand, because of inadequate transportation facilities, the price of coal in some provinces and municipalities is shooting up, and secondary coal dealers have begun playing such illegal tricks as adulterating coal with gangue. Recently the state has taken measures to accelerate coal transportation, but in doing so, it has also affected the transportation of rolled steel and other materials. Now, the black-market charges for getting railroad cars to transport goods are rising, and so are the loading and unloading fees. This will further push up the prices of rolled steel and other materials. China's transportation problem is a major factor restricting its economic development. It is estimated that the present transportation capacity can only meet about 60 percent of the requirements. The transportation problem has an even greater restrictive effect than insufficient capital, energy, raw and processed materials and is also harder to resolve. Its influence will exist for a long time to come.

3) The rise in the foreign exchange rate has increased the costs of imports, and therefore, raised the "threshold value" for using international resources to help balance

domestic supply and demand. For instance, steel wire on the international market is about \$250 per ton. At the rate of six yuan to \$1.00, the cost of imported steel wire, including freight, customs duty, and value-added tax, will be about 2,300 yuan per ton. If the exchange rate rises to seven yuan to \$1.00, the import cost will exceed 2,500 yuan per ton. Now, steel wire is in very short supply in our country, but some steel wire is still exported. The reason is that the domestic price is lower than the international price. According to an analysis based on the current upward trend of our exchange rate, the domestic price of steel wire has to be in the region of 2,500 yuan per ton to attract international resources into our country.

4) Continuing reform and developing the commodity economy will inevitably cause the prices of capital goods to rise faster. This is because our prices of capital goods are comparatively low, and that we are relatively short of these resources. We will not analyze this in detail here. Presently, there are two specific phenomena: One is the effect caused by the raising of the planned prices, such as the higher coal price and higher railroad transportation charges. The other is that there is a relatively big rise in the number of business units dealing in capital goods. This has created some false demands and increased the intermediate expense in the circulation of supply.

There are other price-affecting factors, such as soaring material costs and the effect of price forecasts made by the public. A comprehensive analysis shows that the upward trend of capital goods prices will not change in the near future. So far, the rolled steel price has not reached its peak. The January-May price index for capital goods was 5.6 percent higher than the same period last year. The rise for the whole year may exceed 8 percent and even reach a two-digit figure.

III. Make Overall Planning To Prevent Excessive Rise in Capital Goods Prices

The above analysis reveals that the rise in capital goods prices has resulted from a combination of factors. As to how to understand the price question and what measures to adopt in solving this question, we must take all factors into consideration, make overall planning, and proceed from the cardinal requirements of continuing reform, opening wider to the outside world, and quickening economic development.

Viewed from the long-term objective, the rise in capital goods prices is a normal trend as well as an inevitable result of intensive reforms, expanded openness, and accelerated economic restructuring. It is normal for the prices of capital goods to rise somewhat faster than consumer goods as long as the rise does not lead to an overall inflation. As a matter of fact, China's capital goods prices will not climb without limit. First, demands for these goods are conditioned by other inadequacies—inadequate transportation facilities being a primary factor at present. Second, rise in domestic prices is

circumscribed by international prices. Most items currently noted for big price hikes are those materials or varieties of materials whose domestic prices are considerably below the international prices. As for those materials whose domestic prices are close to the international prices—such as steel sheets among the rolled steel products, nonferrous metals, and plastics—the market price fluctuations are comparatively small.

From the viewpoint of reform, acceleration of production and construction will push up the prices of capital goods. On the other hand, however, high prices of capital goods will restrict the blind development of production and construction, and promote the effective use of resources. For this reason, macroeconomic regulation and control should not aim at administrative interference in pricing. Instead, it should subject production enterprises and construction projects to regulation by market forces. To this end, it is necessary to quicken the reform of the enterprise mechanism and the investment system. We should set up an economic mechanism that relies on market regulation to rationalize the transfer of assets and distribution of resources.

Viewed from the need for opening wider to the outside world, China should participate step by step in balancing the supply and demand of energy as well as raw and processed materials in the great international market. To do so, it is necessary to raise the domestic prices to a level comparable with the international prices. This is an inevitable trend. On the other hand, China is striving to join the General Agreement on Tariffs and Trade. For this purpose, we have to reform our import system and lower the tariffs. At the same time, we should also prevent the severe impact caused by increased imports. Raising the foreign exchange rate is, therefore, a must.

From the overall economic perspective, the current high prices of capital goods, which have not touched off a full-scale inflation, may be considered allowable. The present problem, however, is that the prices of some materials are rising too fast and too much. This may give rise to some new contradictions. For instance, because of the varied capabilities to stand the price impact in different localities, more regional problems may be encountered in the distribution of resources. Excessive price hikes may influence the people's sentiment about prices. Due to the further widening of the gap between planned and nonplanned prices, some transactions that should be conducted at order-placing meetings may be concluded outside the meetings, thus disrupting the normal order of commodity circulation. In view of this, we must strengthen price monitoring, work out an overall price plan by taking all factors into account, and make fine-tunings of the plan at appropriate times so as to maintain a generally stable capital goods market. As an example at this time, we may consider importing some urgently needed rolled steel products and give preferential treatment to such imports in terms of customs duty and value-added tax as a way to control the skyrocketing domestic prices.

Consumption Strategies for Urban, Rural Areas

92CE0701A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 92 pp 45-49

[Article by Zheng Jingping (6774 0079 1627), Qiu Xiaohua (6726 2556 5478) and Du Yu (2629 1342), all of the Compilation Office of the National Bureau of Statistics: "A Brief Discussion of the Strategy of Trading the 'Hot Points' of Personal Consumption in Urban and Rural Areas"]

[Text] As China's economy has developed, the standard of living has risen, and the market mechanism has become more robust. Consumption, as a constituent part of China's national economic activity, has come to have a more and more important place and function in the development of the national economy. In the 80's, a pattern took shape where the focal point of consumption in the rural areas was housing, and the universal acquisition and change of durable goods was the focal point in urban areas. This not only, in total amount, lent great force to the rapid development of the China's economy, but also had a marked influence on the industrial structure. The 90's will be a crucial period for China in its move from bare sufficiency to affluence. Without doubt, a major subject of current study in macroeconomic policy, deserving of careful thought, is what sort of strategy to choose for the development of consumption, so that the people can once again reap real benefit, and China's economy can continue its rapid growth of the 80's, shrinking the gap between China and the developed countries.

I. A Look Back at Personal Consumption in the 80's

The most obvious characteristics of personal consumption in China in the 80's were the "concentration" of consumption, and the difference in "focal point" between urban and rural residents. The word "concentration" here means within the two groups of urban and rural residents. In that period, especially before 1988, there was a high degree of uniformity in the objects of consumption, within the two great blocks of consumers in the urban and rural areas. This was because of close similarities in income level, consumption interests, the range of goods available, consumer likes and dislikes, the consumption environment, etc. This was reflected in "wavelike" trends in consumption, where noticeable "hot points" appeared. In rural areas, the prolonged and noisome "home-building craze" can be called the most characteristic feature of consumption among farmers. In cities, no change in personal consumption has been so great as the universal acquisition and change of durable consumer goods.

Personal consumption in the 80's, characterized by the "home-building craze" in rural areas and the "more and better durable goods for everybody craze" in urban areas, was said to include some unhealthy elements. However, taking an overall view, it was positive and wholesome, and had a positive effect in propelling China's rapid economic growth in the 80's. Judging from

the input-out table of 1987, each 1 percent increase in personal consumption sparked growth of 0.48 percent, or 12.3 billion yuan, in total social production. Changes in the "hot point" of consumption also directly brought on adjustments in the industrial structure. The heightening of consumer consciousness also had a positive effect on the transformation of the management mechanism at enterprises.

However, the wave of personal consumption in the 80's, characterized by the "home-building craze" in rural areas and the "more and better durable goods for everybody craze" in urban areas has left behind certain difficult problems for China's economy, and for personal consumption in the 90's.

First, imbalances have appeared in patterns of personal consumption. In rural areas, although housing space has expanded rapidly, consumption of durable consumer goods still lags behind. Especially, educational and recreational consumption is still rather weak. Leaving aside, for the moment, color televisions and refrigerators, only 63 percent of households have radios (including radio-tape recorders), and less than 60 percent of families have writing desks. Among urban residents, the lack of coordination in patterns of consumption is even more striking. On the one hand, consumption characterized by the rapid universal acquisition of durable goods, ceaselessly expands and renews. On the other hand, there is the limitation of poor housing. In the last 10 years, the average per capita living space for urban residents has increased from 3.9 square meters to 7.1 square meters, but after they add one piece of furniture after another, and then one electrical appliance after another, their conditions still seem crowded. If they also contemplate a complete set of household amenities, then their housing conditions will seem to them, more and more backward.

Second, the mix of consumer goods being produced is seriously out of line with the mix of goods being demanded. Stimulated by the wave of consumption of the last few years, and impelled by considerations of local interest, production capacity for some consumer goods has developed blindly, and exceeded present income and consumption levels. Let us take four large items (television sets, refrigerators, washing machines, and radio-tape recorders) as examples. Calculating the total number of households based on an average of 3.5 people per household, and based on the present ownership rate, without considering such factors as population increases or replacement of electrical appliances, then, except for refrigerators, if we run present production facilities at full capacity for only 0.4 to 1.6 years, we can raise the ownership rate among urban residents for color television sets, washing machines, and radio-tape recorders above 100 percent. Meanwhile, the rural market is affected by relatively low income, a poor consumption environment, and psychological and cultural factors, and cannot be developed without far-reaching reform.

Third, the lack of products that serve as "hot points" for personal consumption is plainly becoming a constraint on new growth in China's national economy. In urban areas, because of the "wavelike nature" of consumption crazes, the markets for color televisions, refrigerators, and other durable consumer goods have reached the saturation point, but new "hot points" for consumption have not yet appeared. Therefore, there is a discontinuity in consumption. In rural areas, because the rate of increase in farm income is slowing, consumption by farmers is also contracting. In 1989 and 1990, total retail sales of social products, compared to the preceding year, actually dropped by 9 percent and 3.1 percent respectively.

The market weakness of the late 80's was, to a great extent, a manifestation of the three great contradictions described above, as well as the forceful retrenchment required during the period of administrative rectification. Although, in the 80's, we didn't have any clearly defined personal consumption strategy, the "hot points" of personal consumption appeared spontaneously. But as China's economy has developed, consumption has come to have a larger and larger effect on the economy. If we do not take positive action, and provide macro direction, then we will lose the initiative in macro adjustment and control.

II. Analysis of Personal Consumption Patterns in the 90's

As we enter the 90's, the choice of a personal consumption strategy to form new "areas of growth" in the national economy, has become a hot topic in theoretical circles and policy-making agencies. According to one school of thought, we should restrict consumption, and once again adopt a policy of developing heavy industry. According to another school of thought, we can develop private automobiles into a new hot point for personal consumption by urban residents, and a new area of growth for the national economy. There is still another school of thought that says we must use the commercialization of housing and new durable consumer goods to stimulate consumption by urban residents.

We believe that the choice of a strategy for developing personal consumption must be founded on China's national situation, and an examination of the facts. First, it must suit China's national situation, and be able to promote the continued, stable, and coordinated development of the national economy. Second, it must be beneficial to the realization of the overall goals of economic reform. Third, it must give regard to coordinating relations between the cities and countryside, so that both urban and rural residents can benefit. In light of the above principles, the first school of thought cannot be accepted; it would go back to the old way of production for the sake of production, and wreck the coordinated development of the Chinese economy. The second and third schools of thought are concerned only with urban residents, do not take the great masses of rural residents into account, and do not give regard to the

coordination of relations between the cities and the countryside. Moreover, universal ownership of private automobiles is not realistic in China, in view of such factors as the high population density, the scarcity of cultivated land, the shortages of energy, the backwardness of the roads and municipal administration, etc. We believe that we can form a strategy for personal consumption in the 90's, centered around trading the "hot points" of personal consumption in the cities and the countryside during the 80's. The idea is, under the direction of macro-economic policy, and through reform in the housing system for urban residents, to make housing into the "hot point" of consumption for urban residents; and through development of the construction industry and the rural economy, and the opening of markets, gradually to spread the ownership of electrical appliances, and other durable consumer goods, to the rural villages, forming a "hot point" for consumption by rural residents. The idea is also, by centering on these two "hot points," to promote the healthy development of personal consumption, and thereby propel the development of the whole economy.

There are many clear advantages to implementing a consumption development strategy centered around trading the "hot points" of personal consumption of the cities and the countryside.

1. There will be a marked rise in the living standards of urban and rural residents, and the gap between the cities and the countryside will gradually shrink. In the cities, if we can increase the living space per person to 10 square meters from the 7.1 square meters in 1991, thus attaining the international standard for affluence, then the consumption standards of urban residents will ascend to a new plateau. First, under present crowded conditions, consumers can get a great deal of use out of even a small improvement in housing conditions. Second, improvements in housing conditions can correct imbalances in the consumption patterns of urban residents, and will greatly improve the efficiency of consumption in general. In rural areas, if we are to raise the ownership rate of major durable consumer goods, such as television sets, radio-tape recorders (radios), etc., above 60 percent, then both the incomes and the consumption levels of farmers must rise quite a bit. The multitude of rural residents will then enjoy the fruits of modern science and technology, and taste the flavor of modern life, and there will be a great rise in their familiarity with scientific and technical culture. Moreover, they can then buy more than 60 million television sets, and more than 25 million radio-tape recorders. Speaking of China as a whole, the consumption levels of urban and rural residents will tend to come into harmony, and further shrink the gap between the cities and the countryside, in keeping with the socialist principle of shared prosperity.

2. It is appropriate to China's national situation, and can create an "area of growth" for new development in the Chinese economy.

To begin with, it can ameliorate the shocks that come with economic adjustments. In the 90's, the main task facing China's national economy will be to readjust the economic structure, and to increase economic efficiency. Especially, we must solve the problem of relative excess production capacity in the durable consumer goods industries. However, at present China's social insurance system is still being built, and the national economy, which is still at a low overall level of development, will be hard put to withstand the shocks brought on by changes in industrial structure. This dictates that readjustment of China's industrial structure must proceed gradually. Besides, taking a long view the productive capacity of China's durable consumer goods industries are not excessive, when compared to the huge market in the rural areas. Therefore, it is not appropriate to force the durable consumer goods industries simply to shut down their productive capacity that is in relative excess, nor is it appropriate to deal an unwarranted blow to the development of these industries by making them fight a price war. What is appropriate, is to alleviate the shocks involved in structural readjustments by expanding markets in rural areas and increasing demand, while at the same time there is culling through competition. We should make the greatest possible use of the productive capacity of China's economy to assure social tranquility.

Next, China's present economic base is capable of accomplishing the implementation of this consumption strategy. First, the main requirement of the consumption strategy that we have suggested is greater development in the construction industry, the construction materials

industry, and related consumer goods industries. The construction industry is one of the easiest to develop (or it may be said, one of the easiest to enter), because its capital and skill requirements are low. The construction materials industry in China is not very advanced, but in terms of the introduction and application of technology and equipment, it shouldn't present too much difficulty. As for the related consumer goods industries, some of them have, at present, productive capacity to spare, and what must be built from scratch is within the scope of what China's light industry can accomplish. The most important thing is that, aside from energy, there are almost no firm constraints on this consumption strategy in the area of resources. Second, judging from China's experience in economic development during the 80's, it is achievable. Looking at the cities, overall population grew by 46.6 percent in the 80's. Assuming 50 percent growth in the 90's, we will need to build about three billion square meters of new housing by the year 2000, an average of 300 million square meters per year. In 1990, 170 million square meters of new urban housing were built. As the economy grows, and the housing system is reformed, an average of 300 million square meters per year of new urban housing is attainable. Speaking of universal ownership of durable consumer goods in the rural areas, we may judge from the actual situation in the highly developed coastal provinces on the coast and elsewhere. Assuming only that average per capita annual net income can reach attain 1,000 yuan (an annual growth rate of 4.7 percent), then we can achieve considerable increases in the ownership rate of durable consumer goods (see table below).

Ownership Rate in Percent of Durable Consumer Goods in Rural Areas of Selected Provinces and Municipalities, 1990

	Net income per capita	Black and White TV's	Color TV's	Refrigerators	Washing Machines	Radio-Tape Recorders
All of China	630	39.7	4.7	1.2	9.1	17.8
Beijing	1261	65.1	28.7	22.9	63	47.3
Shanghai	1665	24	25	28.7	45.4	33.2
Tianjin	1069	76.8	17.8	9.8	38.0	36.8
Zhejiang	1045	49.1	8.8	5.9	5.6	20.8
Guangdong	952	40.5	9.8	1.17	4.3	41.3
Jiangsu	884	48.2	6.2	1.5	15.0	19.2
Liaoning	776	66.7	10.0	1.38	29.3	21.8
Fujian	764	49.1	5.2	1.4	4.0	21.5
Jilin	717	65.9	3.7	0.81	24.9	22.3
Heilongjiang	671	59.3	5.09	0.09	19.5	16.5

Third, by implementing a personal consumption development strategy in the 90's, we can find new "areas of growth" for the Chinese economy. The first requirement for the improvement of housing conditions of urban residents, is for greater development in the construction industry. Development of the construction industry can provide employment for large numbers of excess rural workers, and thereby increase farmers' incomes, making it possible for personal consumption by rural residents to

increase, and furthermore spurring the market for durable consumer goods to expand to the rural villages. Growth in the construction industry will spur growth in the construction materials industry. Improvement in residential housing will surely require a rise in the standards of interior furnishings, and decorative materials, kitchen facilities, and sanitary equipment will follow. Growth in the construction and building materials industries, and a rise in the level of personal

consumption, will again require more growth in such basic industries as energy, transportation, postal and electronic communication, etc. From this, a positive cycle will initiate, where growth in construction leads to employment for surplus rural labor, leading to more income in rural areas, leading to a growing rural market, leading to growing demand for durable consumer goods, leading to improvement in rural life, leading to expansion and growth in the construction industry. Generally, this consumption strategy can incite a series of chain reactions, in the end stimulating the growth of the whole economy.

Of course, it will be no easy thing to carry out a personal consumption policy for the 90's. We still have many difficulties to overcome.

To begin with, we are constrained by an inadequate level of personal income. This is especially noticeable in rural areas. Since reform and opening up, growth in rural income has come mainly from large-scale increases in prices for sideline products, and from the growth of town and township enterprises into powerhouses. But in the 90's, there will be fiscal difficulties, as well as the moderating influence of contradictions between supply and demand. It is unlikely that prices for agricultural sideline products can continue to rise on a large scale, and the cost of agricultural production will rise. As for town and township enterprises, their products are of lower quality because of the level of their technology and equipment. They are unlikely to grow as rapidly as they did in the 80's, and especially their profitability is liable to decline markedly. Therefore, increases in rural income are likely to be sharply limited.

Second, we are constrained by the backwardness of China's basic industries, such as energy, transportation and communication facilities. In the 80's, China's basic industries made great strides, but their progress was much less than what China's economic development requires. Looking at energy production, on the one hand, it accounts for a relatively low proportion of industrial production, only about 9 percent; and on the other hand, its deployment is irrational. The coal industry is mainly concentrated in several northwestern provinces. In the flourishing coastal areas, supplies of electrical power and petroleum are tight everywhere, and the supply of electrical power supply is even poorer in the vast rural areas. This situation doubtless makes the spread of electrical appliances in the rural villages areas more difficult. Looking at the condition of communication equipment, not only are standards low overall, but much electrical communication equipment is obsolete. Because the coverage of radio and television stations is low, and relay stations are few, radio and television reception is extremely poor in the vast remote regions.

Third, there is the effect of sluggishness in the supply of building materials. In advanced countries, new housing construction is done mainly with reinforced concrete frameworks, hard plastics, and other new building materials. But in China, at present, construction is done

mainly with brick and wood. In 1990, reinforced concrete structures made up only 28 percent of newly-built housing. Large-scale construction of residential housing is subject to constraints in the areas of resources and capital. It will not do to rely on brick and wood. We must increase the proportion of other kinds of structures. We need to import new building materials and technology from abroad, and to develop new building materials through research.

Fourth, in urban areas there are the constraints of the present housing system. Right now, China's housing system is really a kind of "welfare" housing system, as reflected in the unreasonably low proportion of expenditures for living costs that goes for housing. In 1990, it was only 0.73 percent. In other countries, urban residents generally spend about 10 to 15 percent for housing. In this kind of low-rent, highly subsidized "welfare" housing system, the unreasonably low rental receipts are not even sufficient to cover maintenance expenses. Not only is there no way to accumulate funds necessary for the development of the construction and real estate industries, but also the burden on the state becomes heavier and heavier, affecting the normal development of housing.

However, if we can only choose the right breakthrough point on the basis of a unified understanding, and moreover link up the implementation of this consumption strategy with development of the national economy and reform of the economic system, then with hard work, this consumption strategy can still be carried out. What we call a unified understanding, is just one that thoroughly emancipates our thinking from the old framework of stressing production and devaluing consumption, and gives full recognition to the place and function of consumption in China's economic and social development in the 90's. A consumption development strategy centered around trading the "hot points" of personal consumption in the cities and the countryside during the 80's, to improve the lives of the people, form new "areas of growth" for the development of China's national economy, and propel the development of the whole economy and society, is both necessary and possible. As it is implemented, this fact will come to be universally recognized. The breakthrough point, formed by the whole pattern of consumption, will be reform in the urban housing system. Right now, housing reform is unfolding continually throughout China, but it doesn't meet the needs of the strategy described above, either in terms of its content or the speed of its progress. To comport with the implementation of a personal consumption strategy for the 90's, we should take forceful steps to speed up reform of the housing system. One step should be to set forth clearly, as soon as possible, what the goals and processes of housing reform are. In light of the internal requirements of the socialist planned commodity economy, the goal of China's housing reform is to bring housing into the commercial and social economy. That is, we must sever the relationship between housing and the work unit, and make housing

into an industry and a part of the social economy, in accordance with the regulations of the planned commodity economy, and under the leadership and management of the state. We will form a pattern of diversified housing usage, where a small number of people own private homes, most people rent housing from real estate companies, and a very few people rent out housing to others. Moreover, we will determine rational prices and rents for housing through competition in the marketplace. We will create a positive cycle in housing development by raising rents, managing rationally, and maintaining houses from rent. Second, it is necessary for leading cadres to take the initiative. Housing reform affects a lot of people, especially some leading cadres with vested interests. Only leading cadres can take the whole situation into account, taking the lead in supporting and participating in housing reform with all their strength, and only then will it be possible to implement housing reform on a sound basis. Third, is to do a better job of selling housing reform, to make the people understand the meaning and goals of housing reform, gain their understanding and support, and incite them to participate with enthusiasm. Fourth, is to improve the legal framework for the real estate industry, by making and enforcing laws that will establish a regular way of doing business in real estate. This will both assure a certain degree of planning, and also avoid monopolization, creating conditions favorable to competition among real estate companies, and promoting prosperity and growth through fair competition. Of course, implementing a consumption strategy of trading the "focal points" of consumption of the cities and the countryside, is a project in systems engineering; no single action can realize the whole strategy. Therefore, at the same time that we apply ourselves mainly to housing reform, we should take effective steps to raise the income levels of farmers. We must also consciously speed up the establishment of basic facilities, in such basic industries as energy, communication, transportation, etc. We must vigorously develop tertiary industry, so as to create the conditions for raising the quality of consumption, making consumption more convenient, and employing surplus rural labor. We must continue enterprise reform, so that industrial and commercial enterprises can consciously pursue the satisfaction of customers in the marketplace as their purpose in business. By raising management standards, they will provide the markets with merchandise that people want to buy, and create the conditions for raising the pay of their staff and workers.

It should especially be pointed out that, since the beginning of the 90's, the differentials between income levels have widened steadily. Since the changes in consumption in the 80's, differences in immediate consumption interests have appeared among the people; and because of their choosiness, there will probably also be differences in their consumption of nonessential items. Therefore, the "hot points" of consumption will be far less compact in the 90's than they were in the 80's. This requires that enterprises, while they assume that "housing" and "durable consumer goods" will be the "hot

points" of consumption, must also concern themselves with understanding consumer psychology, and tastes of various strata of the population, and developing other consumer goods that focus on consumer interests to satisfy their manifold demands, and advance the rapid growth of China's economy.

Note

Statistics used in this article are taken from the *China Statistical Yearbook*, "Results of a Survey on Urban Family Income in China" (1990), "Results of a Survey of Rural Households" (1990), and "China Input-Output Table" (1987).

QIUSHI on Conversion of Research Results

HK0610110992 Beijing QIUSHI in Chinese No 14,
16 Jul 92 pp 22-26

[Article by Yu Changyou (0060 7022 0645), Ministry of Metallurgical Industry Department of Science and Technology director, concurrently Automation Research Institute president: "How Scientific Research Institutions Promote Effective Conversion of Research Achievements"]

[Text] When we adhere to the theory that science and technology are the primary productive force, an important link is to grasp well the conversion of scientific research results to realistic production forces to accelerate the application and popularization of the results. Since reform of the scientific research structure, our Ministry of Metallurgical Industry Automation Research Institute has continuously explored in practice the channels for promoting effective conversion of research results, and initially accumulated some experiences.

Our institute is a large-sized research organ directly under the jurisdiction of the Ministry of Metallurgical Industry, and boasts five research centers as well as nine production lines and workshops for intermediate testing. The institute now has 1,500-odd workers and staff members, of whom professional personnel and technicians account for 55 percent, with 175 senior technological experts. While deepening reform since 1988, our institute has exerted great efforts to grasp well the conversion of scientific research results, and promoted the combination of science, technology, and the economy, and the institute itself has also undergone very great development. Over the past four years, our institute has acquired 44 prizes for scientific research at national and ministerial levels; the 86 important scientific research results scored during the Sixth Five-Year Plan and the Seventh Five-Year Plan have all been applied to the transformation, expansion, and newly built engineering projects of metallurgical enterprises; its six categories of new products in intermediate testing reached domestic advanced level, and were put into scale production; some 10 of its projects with whole-ranging technology for automation systems were completed, of which five reached the world advanced level in the 1980's; it has also developed and manufactured 40-odd

categories of new products to form a whole range for automation projects; and in addition, a number of its exemplary projects were completed. During the Seventh Five-Year Plan, under the condition that the budget which the state allowed the institute had gradually been reduced to zero, the institute's economic returns increased by a wide margin: In 1991, the volume of horizontal contracts amounted to 220 million yuan, up by 3.5 times from 1987, and it had realized an annual per capita profit exceeding 10,000 yuan for two consecutive years.

How did the institute manage to promote the effective conversion of scientific research results? Our experiences are mainly as follows:

Firmly Establish the Concept of Converting Results

The major task for scientific research institutes is to bring up a greater number of talents and turn out more results, while rapidly converting them to production and the market. In the past, we lacked knowledge of the latter; consequently, the effects were poor. In the dozen years or so between 1973, when the institute was founded, and the beginning of scientific and technological restructuring, our institute suffered from the problem of stressing scientific research while neglecting the conversion of its results, and of scientific research being gravely divorced from production. Statistics show only around 10 percent of the institute's scientific results were adopted by production units during this period, whereas the bulk was shelved in the form of samples, presents, exhibits and patent rights, and underwent aging. Since 1986, the state had implemented reform of the fund-allotment system with research institutes and centers of a development type, and the crisis of survival compelled us and many other scientific research institutes and centers to start implementing the contracting system with scientific research topics. The broad masses of scientists and technicians left their offices and the institute one after another to look for topics in enterprises and production sites. Thus a situation emerged in which scientific research was linked closely to production. However, with the development of the situation, the limitations of contracting responsibility with topics were increasingly making themselves felt: Fulfilling the contracted indexes at all costs, being impatient for success, paying little attention to new scientific and technological inventions in the long run; repeated and dispersed topics, which tended to be small; mutual blockading and creating hurdles between groups, with rather great internal contradictions; and when there were increasingly fewer contracts to obtain, an increasingly greater amount of "rounding-off" work. This being the case, it was very difficult for scientific and technological forces to form multitiered arrangements and a momentum of working in coordination to tackle bottlenecks; it was quite beyond the institute to take up whole-ranging research of large projects strong in comprehensiveness and tasks for developing, intermediate testing, and processing in batches; scientific research work deviated from the major battlefield of economic

construction, represented by large- and medium-sized enterprises, and "research projects" could only be found in some small-sized enterprises and enterprises in townships and towns. The economic returns were not high, and could only maintain the institute's basic expenditure. At the same time, the wave of reform and opening up ruthlessly pushed scientific research institutes and centers toward the commodity economy's large domestic and world markets, while large- and medium-sized state-owned enterprises voluminously imported foreign advanced, insured whole-ranging technology of automation. Our institute could find no way into those enterprises, while failing to find a retreat; the creation and conversion of scientific and technological research results were bogged down in an impasse.

Where did the hurdles preventing the conversion of scientific and technological results lie? Scientific and technological research results are products of science and technology with value and value in employment.

Before scientific and technological results are converted into commodities, they are just potential productive forces; only when they are converted to production and the market will they become real productive forces. Experiences of domestic and overseas economic development tell us the speed of conversion has a direct bearing on the level of economic, scientific and technological development and on the comprehensive national strength. The conversion of scientific and technological results is a large social systems engineering activity. Vertically, it includes research, development, intermediate testing, trial production, production, marketing and after-sales service; horizontally, it includes capital input, talent and materials, structure and policy, organization and administration, scientific and cultural environment, education and training, the technological market, as well as scientific and technological exchanges. At present, such phenomena existing in society as low prices for scientific and technological results, a weak concept of intellectual property rights, enterprises' short-term behavior, and neglect of product and technological development have all impeded the conversion of scientific and technological results. Our institute's malpractice in shelving the bulk of scientific and technological results reflected the fact that our concept of such conversion was not solid, and must be basically changed. We came to see that we must find our own position in the major battlefield of economic construction, and play a key role. To achieve this, it was necessary for us to adopt a series of effective measures, so that work in converting results would take the road of healthy development.

Work Hard To Open Up Channels for Converting Research Results

In the systems engineering of converting scientific and technological research results into real productive forces, work of scientific research institutes and centers is the primary and imperative link. Presently, the majority of Chinese enterprises are void of the capability for technology and production development; the technology

market's development is not complete and perfect enough, and its role is limited. Scientific research institutes of the development type must take up the task for the research and development of new high-tech products and systematic, whole-ranging technology, while optimizing their results into fixed models, and doing a good job of resolving the technical problems in production and application. Only then will it be possible to rapidly and efficiently convert the results into the production system. In this aspect, our institute has chiefly grasped work as follows:

1. Reform the operational mechanism, realize the industrialization of science and technology

To play a key role in the main battlefield of economic construction, scientific research institutes and centers primarily need to build a new operational mechanism full of vitality and vigor, which is conducive to the conversion of scientific and technological research results. In this aspect, they may refer to the experiences of such foreign corporations as Siemens to enable them to possess strong and solid strength for development in scientific research, while being able to directly turn scientific research results into qualified products and capacity for the operational type of scientific research, and implementing the unification of scientific research development, product manufacture, project contracting and service operation. In other words, it is necessary to introduce the operational and competition mechanism, to change the simple operational mechanism of scientific research into one of scientific research management. We call this the industrialization of science and technology. According to this train of thought, since 1988 we have carried out bold reform in the operational mechanism: In organic structure, the original independent research offices were abolished, with five research centers established based on different specialities, such as automation systems, instrument testing, electric transmission, metallurgical design, and alternating current attendance [shi fu 0174 2591], with every one being an organization and organ for unified operation in scientific research, design and production (engineering), and being capable of carrying through the whole process from scientific research to production as well as enterprises' production. In the ways of contracting responsibility and operation, we have implemented the measure of the institute in its entirety being in charge of signing all contracts with enterprises, whereas the research centers are under contracted economic and technological responsibilities to the institute. In the very year when reform of the operational mechanism was implemented, our institute decided to contract the electric control and transmission project of the Anshan Iron and Steel Company cold-strip machine tool. At that time, China had not yet succeeded in researching and developing a kind of upgraded transistor for which there was an urgent need in huge volume. We took the risk to contract the project, while giving play to the advantages of the new operational mechanism. As soon as scientists and technicians succeeded in developing the transistor, the production

department promptly put it into production and processing; when problems were found in intermediate testing, design personnel improved on it, and soon they succeeded in developing and producing qualified new products up to world advanced level, and saved some \$1 million for the state. In the wake of our institute scoring the first victory since entering the main battlefield, it has continued to complete one after another large-type automation projects for Baoshan, Tanshan, and Chongqing Iron and Steel Companies. Thus, our institute has entered a new phase of contracting automation systems engineering, characterized by "three electrics" (electric computer, testing, and transmission), with full technological responsibility, and the engineering electronic technology industry has initially taken shape, thus providing a prerequisite for the effective conversion of scientific and technological results.

2. Closely center around enterprises to manufacture urgently needed new products and organize tackling scientific and technological bottlenecks in key technology

The scientific and technological accomplishments of scientific research institutes and centers can best attract enterprises for their application. Our institute has adhered to enterprises' needs in making arrangements for scientific research development with explicit aims; consequently, its scientific research results enjoy such advantages of being progressive, practical, and highly efficient, and have been warmly received by enterprises. For example, the PLC [expansion unknown] feeding system for furnaces researched and developed by our institute has already been adopted by 20-odd iron and steel works, with every set earning an annual income between 100,000 and 1 million yuan. The automation system for ferroalloy furnaces, which was awarded the prize for tackling bottlenecks during the Sixth Five-Year Plan and the second prize for scientific and technological progress awarded by the Ministry of Metallurgical Industry, has already been adopted by nine enterprises. Its electrochemical automated machining for aluminum has already been popularized in 13 enterprises, and the institute has acquired some 10 million yuan in economic returns, while being awarded first prize by the Ministry of Machine-Building and Electronics Industry and a second prize from the Ministry of Metallurgical Industry.

3. Magnify intermediate testing, convert scientific and technological accomplishments into scientific and technological products

The creation of scientific and technological results is generally based on laboratory experiments or small-type simulating experiments. Whether or not they conform to requirements in application must undergo intermediate or industrial testing under production conditions, so that they will become mature scientific and technological products to be directly supplied to enterprises. Presently, most enterprises are incapable of doing so with the exception of a small number of large- and medium-sized

enterprises, which possess such capability and equipment for intermediate testing. That is one of the major causes that affect the conversion of scientific and technological results. Our institute has attached great importance to development in intermediate testing, while turning such testing into production capacity in a batch process with sound effects. We have imported part of the technological equipment, and completed and transformed six production lines for intermediate testing, such as parts, attendance, and electrical instruments. We have succeeded in building an experimental base for automation systems with systematic, whole-ranging technology and manufacture of new high-tech products, along with a computer laboratory for automation in processing and equipment control in addition to organizing a contingent of crack scientists and technicians for intermediate testing. Since 1988, we have supplied some 2,300 sets of various types of particular testing instruments one after another in the course of contracting projects, of which many reached the world advanced level of products in the same categories, and a number of such projects have been assessed to be fine-quality products by the Ministry of Machine-Building and Electronics Industry and the Ministry of Energy Resources, thus acquiring the qualification for production of the highest grade. In such new high-tech arenas as alternating current attendance, alternating current speed-adjusting control, and computer networks, a number of new achievements have also emerged, of which a number have already been put into production in lots, or applied to enterprises' production equipment.

4. Attach importance to systematic, whole-ranging technological development

For a long time in the past, single items of our research results had failed in enterprises' application, and systematic, whole-ranging technology was quite beyond our grasp; consequently, enterprises had to pay several times the expenditure for importing foreign whole-ranging equipment. This compelled us to be determined to research and develop systematic and whole-ranging technology. First, we managed to form into a whole range the scientific and technological research results in groups. For example, we have already developed 77 sets of whole-ranging automation instruments needed in the furnace, convertor, still milling, and continuous casting process needed in metallurgical enterprises, and the whole-ranging instruments have been put into use in the course of our contracting the systems engineering projects in these arenas. For another example, in the wake of our institute's research and development of a new high-tech product, an alternating-current, permanent-magnet, brush-free attendance generator, it has succeeded in developing a production line for generators in that category, while supplying whole-ranging control software, with broad prospects for its application. The system in question was awarded first prize for scientific and technological progress by the Ministry of Metallurgical Industry and a prize for achievement in the phase of tackling key bottlenecks by the State Science and

Technology Commission. Second, through digesting and blazing new trails of imported technology, we gave priority to developing systematic, whole-ranging technology in relation to automation engineering. For example, we studied the pacting instruments imported by Taiyuan, Baoshan and Anshan Iron and Steel Companies from Austria and Japan, while developing a new series of products based on Chinese enterprises' actual conditions, making them conform to the needs of production in domestic continuous casting. Third, we provided reserves and parts in batch process for enterprises' imported and China-made equipment. For example, our institute has provided an annual two to four sets of hydraulic oil tanks and their sealed devices for the imported 1.7-meter rolling mill of Wuhan Iron and Steel Company as substitutes for imported reserves; and it has provided various reserves and parts for the "three electrics" of Baoshan Iron and Steel Company, with hard currency in terms of some \$2 million saved.

5. Ensure good-quality, highly efficient, and whole-process technological service

Some of the scientific and technological achievements of scientific research institutes and centers are advanced and mature, but enterprises are unwilling to adopt them; an important reason is that enterprises are afraid lest scientific research units should lack the ability to provide them with sound post-sale service. Our institute has ensured the quality of technological service in three areas, thus enjoying a rather good reputation among its clients. First, ensuring the quality of scientific and technological products. The institute has established a quality-ensuring system, with the establishment of a quality and quantity measuring section as well as a quality and quantity testing center. Before products leave the institute, they must first pass strict testing and checking before acceptance, and those that fail such tests and checks are not allowed to be delivered to the clients. The thyristor power supply device our institute researched and developed went through the strict testing and checking of a related Japanese company, with the conclusion that "both its static and dynamic parameters are identical with this company's products in the same category." Now, we have already provided 200-odd items and 540-odd sets of the device to replace imported equipment. Second, ensuring quality of contracted projects. We organized forces to do a good job of the aftermath of "projects in the last phase," repeatedly check the quality of projects already completed, and spare no efforts to ensure the quality of new projects. A year after the completion of our contracted project on Anshan Iron and Steel Company's cold-rolling mill, we sent our men to check it on the site, and they found that three of the 1,300-odd condensers in the thyristor power supply device were out of order. They promptly replaced all the condensers with good ones; in addition, our institute spent \$20,000 to import a number of condensers as reserves. When our institute installed an automation system for Baoshan Iron and Steel Company's No. 2 furnace, some contact points and contacts

on the low-voltage control equipment provided by a factory were found to be mildewed, and the said factory was contacted. Eventually all the contacts were replaced. The Baoshan Iron and Steel Company authorities praised our institute for this in a circular. Third, ensuring whole-process service, from installation to tuning and testing, putting into production, technological training, consultancy in information, and maintenance. In May 1990, Taiyuan Iron and Steel Company asked for help from our institute because the electric transmission equipment on the imported initial rolling mill had become out of order; we promptly sent our engineers and technicians to the site, and soon removed the hurdle. Our institute's fine technological service has been praised by many enterprises, and has shortened the period for converting scientific and technological results, while promoting their yielding great social benefits and economic results as early as possible.

6. Ensure necessary capital input, magnify the staying power of conversion of results

To spur the effective conversion of scientific and technological results, ensure a certain amount of funds is involved in the scientific research development, intermediate experiments, contracting projects, operation, and service of scientific and technological research institutes and centers. The volume of funds involved in our institute's converting its scientific and technological results has been an annual 10 to 15 million yuan in recent years. It would be rather difficult to prepare such a large sum. We found a solution chiefly through five channels: First, boldly employing loans for science and technology; second, fighting for state support; third, tapping potentials for funds inside the institute; fourth, being sure in selecting projects, augmenting administration of projects, shortening work periods, and lowering costs to improve investment results; and fifth, doing a good job of running the institute's own bank, while implementing unified arrangements and rational employment of funds within the institute through the channel of internal loans. Over the past four years, we have invested 39.257 million yuan in infrastructure and capital construction with self-collected funds; of which 17.47 million yuan was invested in transforming and building five production lines for intermediate testing of new high-tech products; 7.262 million yuan was invested in transforming and building four laboratories; 4 million yuan was invested in medium and long-range development of topics; and 10.105 million yuan was invested in capital construction. Thus, the industrialization of scientific and technological results has been accelerated.

The Key Lies in Giving Play to People's Enthusiasm

We must rely on people to promote the conversion of scientific and technological results to real productive forces. Giving full play to the enthusiasm of scientists and technicians is the key for scientific research institutes and centers to promote the effective conversion of scientific and technological results. To achieve this, it is

imperative to continuously elevate the ideological, political and professional levels of scientists and technicians. However, it is also necessary to formulate and implement correct policy and institutions, to create conditions in every possible way for scientists and technicians to display their talents in converting scientific and technological results. To achieve this, our institute has exerted great efforts in giving play to people's enthusiasm, and implemented whole-ranging reform in the labor, personnel, and distribution systems as well as the administrative structure since 1988, while conducting reform in the operational mechanism of scientific and technological industrialization.

1. Reform the irrational labor and personnel system. First, we have broken the cadres' life-tenure system, and implemented fixed establishments, numbers of staff, and functions of administrative organs. Our institute has formulated a strict cadre-assessment system, with political integrity, ability, and administrative and professional accomplishments as the contents in assessment, which is conducted every year, and those who should be promoted, demoted, or removed from office should all be promoted, demoted, or removed to genuinely implement promotion and demotion. Over the past four years, approximately 20 cadres have been demoted or removed from office, while a number of qualified people, who have both ability and political integrity and are energetic in the prime of their lives, have been placed in various leading posts. Second, we have implemented optimal combination and a labor contract system among workers and staff members. Our institute has set up an office for surplus personnel, and those workers and staff members who were poor in their performances and surplus personnel in the wake of optimal combination were listed as personnel outside the establishment, whose bonuses would be removed, and whose wages would be cut after a year until they were assigned to new posts. Over the past four years, 69 workers and staff members have been on the list of personnel outside the establishment, the majority of whom were assigned to new posts after great efforts in improving themselves. Third, we have implemented the system of inviting applications for posts of professional and technological personnel. We have adhered to attaching importance to professional levels and contributions, and broken the framework of making appointments according to qualifications and seniority. In 1988, two senior engineers and six other engineers were not appointed, and their wages were cut back. This caused a great shock in the institute. Regarding those middle-aged and young professionals and technicians who have a high professional level with great contributions and the spirit of blazing new trails, they have been promoted ahead of schedule and appointed to leading posts. Reform in the labor and personnel system, with preferential treatment for those possessing superior abilities and penalties for those who are otherwise, has formed a crack contingent, with work efficiency greatly improved, and the whole institute has taken on an atmosphere of unity, dedication, going all out to make progress and blazing new trails.

2. We have reformed the distribution system characterized by egalitarianism. This chiefly means getting rid of "eating from the same big pot," genuinely implementing to each according to his work, the socialist distribution system, so that the practical interests of every individual are linked to his contributions, thus magnifying the inherent impetus as well as pressure in converting scientific and technological results into service. Primarily, our institute has implemented the system of contracted technological and economic responsibilities characterized by "four insurances, four links," with economic results from the contracted projects linked to distribution interests among the research centers and offices which directly bring in income. "Four insurances" means insuring economic returns, scientific and technological results, the quality of products or projects, and the staying power of scientific research; "four links" means linking to wages, bonuses, professional and technological professions, and housing. Thus a rather comprehensive, rational pattern of assessment and administration characterized by the unification of responsibility, authority and interests as well as of assessment, rewards and penalties has taken shape.

On this basis, we have adhered to three principles for the reform in the distribution system: First, the policy inclines toward the first line of scientific research and production that directly yields accomplishments and economic returns, the average bonuses of those personnel on the first line are 20 percent higher than those of personnel in administrative offices, including rear service, and those who have scored accomplishments may be repeatedly awarded. Those people who have participated in tackling bottlenecks in some national projects, and in the institute's own medium and long-range technological research and projects of product development may obtain bonuses 1.4 times the amount of average bonuses; those scientists and technicians who have scored important accomplishments will also get special rewards, including housing and cash. Second, the policy inclines appropriately toward cadres, with a bonus coefficient implemented among them, while insuring the embodiment of advantages of working on the first line. In the wake of implementing a bonus coefficient, the institute president enjoys the highest bonus among cadres; however, over 30 percent of the personnel on the first line enjoy a higher income than the president. Third, we have attracted personnel of administrative offices, including rear service, to go to the first line of scientific research and production, encouraged those departments with the conditions to implement semi-contracted responsibility and transit to full contracted responsibility to cut back the number of personnel in administrative offices, including rear service. The implementation of an inclining policy in distribution has resulted in the heightening of enthusiasm of personnel on the first line, while personnel on the second and third lines are taking an active part in serving the first line, with an arrangement in rational tiers from research development to production operation gradually taking shape.

The competition and stimulation mechanism was introduced in our institute's reform in the labor and personnel system and the distribution system, which has given full play to the enthusiasm, initiative and creativeness of the broad masses of scientists and technicians. They have plunged themselves into scientific research and production with a strong enterprising spirit and sense of responsibility, and greatly quickened the pace in the effective conversion of scientific and technological achievements.

Our institute has now succeeded in finding a position on the major battlefield of economic construction, and realized the first-step strategic goal of its development. Recently, the State Commission for Science and Technology has made a decision on establishing the State Engineering and Technological Research Center for Automation of the Metallurgical Industry in our institute. Our next strategic goal is to organize and establish a scientific and technological industrial group. The group will rely on fine scientific research institutes and centers as its backbone, with new high technology as guidance to form a huge electronic industry linked to engineering, and continuously present new technologies, techniques, and products to society. With this goal realized, we will be able to spur the conversion of scientific and technological accomplishments in a more effective way and make still greater contributions to enterprises' technological progress and the metallurgical trade joining the world's advanced ranks.

Commentary on Freeing Enterprises From Their 'Cage'

HK1010073292 Guangzhou NANFANG RIBAO
in Chinese 8 Oct 92 p 1

[Short commentary: "It Is Time To Let the Bird Fly High"]

[Text] The appeal to invigorate large and medium state enterprises has been made nationwide over the years. At present, although the external and internal conditions of these enterprises have improved somewhat, the overall situation is still far from satisfactory.

What are the reasons? The main reason is that many powers endowed to enterprises by the "Enterprise Law" are still in the hands of government departments. Some government departments always like to consider the enterprises as "birds" which are hard to look after. While holding them tight in the hand, they may die; but holding them loose, they may fly away. The most secure way is to keep them in a cage. Thus, enterprises can only jump in the cage set up the government departments. How can they fly high and give play to their abilities?

In order to create a major climate for birds to fly high, the key is to open the "cage" and let the "birds" return to nature and to formulate laws and regulations forbidding people from catching them and putting them into the "cage" again. Both the "Enterprise Law" and the "Regulations on Changing the Operational Mechanisms of

State-Owned Industrial Enterprises" recently promulgated by the State Council have provided guarantees for solving this key problem. The current problem is how to implement these documents. But the fundamental matter in implementing these documents is to streamline government organizations and change government functions so that government departments can return power to enterprises in accordance with the "Enterprise Law" and the "Regulations."

Now that the state-owned and cooperative commercial departments in this province and Shunde City are taking the lead in carrying out reforms of government organizations, the practice of their reform shows that government organizations have been streamlined through reform and there are less procedures for them in doing things. The vigor and vitality of the enterprises, which have more freedom in developing the economy in accordance with market regulations and the law of value, have been greatly strengthened. Practice by the state-owned and cooperative commercial departments and Shunde, which have let the birds return to the forest, should be commended by all other departments, cities, and counties.

Of course, advocating letting birds fly high in the sky does not mean that the government should wash its hands of business and that enterprises can do whatever they like. In great nature, there are also restraints by great nature; in the market economy, there are governing laws. After reform, government organizations may and should learn to use legal means to purify and regulate the market. Enterprises, which have more decisionmaking power, should also learn to restrain themselves by law and regulation and develop themselves in accordance with laws governing the market economy. When these two aspects are well combined, a major environment characterized by the "government guiding the market and the market guiding enterprises" will surely be created.

PROVINCIAL

Shen Daren Encourages Socialist Education Teams

92CE0697A Nanjing XINHUA RIBAO in Chinese
7 Aug 92 p 1

[Article: "Jiangsu Party Committee's Socialist Education Teams Assigned to Shuyang Scored Initial Victory; Letter From Party Secretary Shen Daren (3088 6671 0086) Gave Approval and Encouragement"]

[Text] The Jiangsu party committee's socialist education teams assigned to Shuyang County working with the local party committee and government have achieved notable results, guided by the spirit of comrade Deng Xiaoping's remarks made in his southern tour, the teams conscientiously carried out guidelines of the provincial party committee work conference by affirming the concept that economic growth should be realistic, by

devising plans to get rid of poverty and gain wealth, and by involving themselves in all phases of implementation. In the last few days of July, Jiangsu Party Secretary Shen Daren sent a letter to the teams pledging his full support, and encouraging them to continue to strive.

Comrade Shen Daren in the letter wrote: "I was very pleased to read your work report. In the four months working in Shuyang, the Jiangsu party committee's socialist education teams, guided by the local party committee and government, have performed a great deal of difficult and detailed work, and achieved very good results not only in terms of showing Shuyang how to go from poverty to wealth but also in terms of gaining some experience which will benefit other poor areas in Jiangsu Province as they proceed to deal with the poverty-to-wealth process. Therefore, in behalf of the Jiangsu party committee, I send all team members our regards and respect. We hope that you will follow your work plan and strive to achieve your goals. I believe you will achieve even better results. If the initial objective for this year can be realized, then early next year, we will convene in Shuyang an all-Jiangsu symposium so that representatives from all poor areas in the province can gather and discuss the poverty-to-wealth process."

The Jiangsu party committee's socialist education teams were assigned to Shuyang in March this year. For all sectors in the county to support the common goal of promoting economic construction, the teams started off by making clear that their chief mission was to assist in economic development and that "prosperity for Shuyang and wealth to all residents" was both the starting point and the end goal of the teams' activities. The teams then encouraged county-wide discussions of the theme of "getting rid of poverty by aiming toward wealth and achieving moderate prosperity." The teams probed deeply and worked closely with the county party committee and government in analyzing how best to exploit Shuyang's advantages and potentials. The teams concluded that economic growth that generates wealth for the people and the county requires that coordinated steps be taken "to stabilize and renew the emphasis on agriculture, to promote multiple enterprises, to give a free hand to entrepreneurial exchanges, to concretely develop industries, and to carry out labor export on a large scale." The teams also called for implementing a "1-2-5 goal" this year: namely, for all peasants to increase their net income by 100 yuan, for the village treasury to increase its revenue collection by 20 percent, and for the income of village-level economic collectives to reach 5,000 yuan. In their practical work, the teams adhered to their plan and made adjustments as needed in implementation. In addition to providing appropriate material and financial support, the teams focussed on ideological training through education, policy explication, technical training and other aspects, and coordinated actions on all fronts to fight the multi-dimensional poverty-to-wealth battle.

With the teams and the local cadres and masses working together and with a common grasp of the reality, the

current conditions of Shuyang County's economic and social development are good.

- Agricultural production is yielding bumper summer crops. The total production of three grain crops was 371,000 tons, and per unit yield was 284 kg, an increase of 30 percent and 27 percent respectively, both historical records, compared to the same period last year.
- Diversification is developing across the board. With the market serving as a goal and guide, and relying on the land, great efforts were made to develop diversification. Compared to the same period last year, hog-raising increased by 4 percent, poultry and ducks 27 percent, cows 32.5 percent, rabbits 350 percent, aquatic products 10.5 percent, and procurement of silkworm cocoons increased 125 percent. The 10 "dragons" of the production plan such as raising or growing domestic livestock and poultry, fruit trees, flowers, vegetables, etc., have reached the embryonic stages.
- Industrial production is coming out of the valley. By combining the establishment of new industries with the reforming of old ones, industrial production reached a turning point. In the first half of the year, the total value of industrial production increased by 16.6 percent; independent accounting industries above the village level realized a taxable profit of 11.94 million yuan, 1.49 times higher than that in the comparable period last year. Implementation has begun on the eight key technological reforms identified by the Jiangsu party committee and government.
- Markets in cities and villages are increasingly active. The entire county is becoming specialized markets for seven of 20 commodities, such as cooking oil, wood, vegetables, flowers and vegetables, agricultural credit, etc.
- Pace of labor export is being stepped up. In the most recent two months or so, the county in an organized manner has exported some 8,000 laborers.
- Attracting investment to the county is openly pursued. The county party committee and government successively issued policies designed to attract investment, technology and personnel talent to the county, and to encourage labor export from the county. At present, concrete discussions are being held with sources in the north for such purposes. Initial steps are also being considered to attract and use foreign capital.
- Steps toward organizational reforms are being taken. At the county level, reforms led to changed roles and functions, and resulted in the establishment of 10 companies to handle commerce, material, food stuff, real estate, etc.
- Social climate is turning toward the better. Firmly maintaining the guideline of "grasping with both hands," coordinated management of public security

has been strengthened. In the April-June period, the rate of increase in criminal cases in the county dropped by 30 percent compared to the same period last year. Instances of letters and personal visits inquiring into or concerning civil disputes have also greatly decreased. The situation is conducive to a social psychology in which people, given social stability, are beginning to think of doing things and getting rich.

At present, Shuyang faces a serious drought of historic proportion. Comrades of the Jiangsu Party Committee's socialist education teams are suffering the same hardships with the masses; they fight drought night and day, many of them becoming sunburned and thin from exhaustion. But they are firmly holding the line in battling the drought. They are resolved to "take a stand against the drought to save the harvest, and not wavering in their goal established for the year."

Yang Xiaotang on Investment, Technology Reforms

92CE0697B Nanjing XINHUA RIBAO in Chinese
7 Aug 92 p 1

[Article by Zhang Xinshi (1728 2450 1395) and Xu Wanying (6079 1354 5391): "Increase Scope of Investment and Technological Content; Vice-Governor Yang Xiaotang (2254 2556 1016) Emphasized Need for New Standard for Technological Reforms"]

[Text] Increasing the scope of investment, technological content, and promoting a new standard for technological reforms in Jiangsu Province, these are the requirements that Jiangsu Vice-Governor Yang Xiaotang set forth 31 July at the closing of the Provincial Work Symposium on Technological Reforms.

In the first half of this year, Jiangsu's industrial production developed rapidly, and its economy entered a new stage of rapid development. In formulating new goals for economic growth, different areas in Jiangsu Province all put accelerating technological reforms in enterprises in a prominent position. Due to rapid increase of investment in fixed assets, notable results have been achieved. From an overall viewpoint, "over-heating" is not a problem in investment today, the quantitative increase is large only when compared to the low investment level of the last few years, and reflects special characteristics of recovery. When products have access to markets, product quality is good, and standards high, we should invest as much as we can in technological reforms, and carry out reforms as rapidly as possible.

Vice-Governor Yang pointed out at the symposium that all areas in Jiangsu Province should speed up opening and development. To quadruple output in advance, the crux is to have the right products, and to rely on new investment to foster and strengthen growth areas in the new economy. In terms of investment in the important projects or products, we must take into account the new characteristics of internationalization, mass production,

major markets and high technology; we should keep our eye on the entire world market in comparing and selecting projects and products. We should plan for large-scale projects with high-tech content, and we should boldly import turnkey industry with technology of advanced international standard, so we can produce goods with the scope, quality and grade that will enable us quickly gain a market share, and develop investment efficiency. We should firmly emphasize quality in organization and resolutely reform traditional enterprises. We should open up our enterprises, allow them to raise capital for technological reforms, and to capitalize through multiple channels. At the same time, we should import advanced management methods and software technology from foreign countries, raise the quality of enterprises, and increase ability to compete in the international market.

Vice-Governor Yang also demanded that all government departments and local authorities change their ideas toward managing technological reforms in enterprises; he urged that they be alert, flexible, decisive, delegate responsibility to fully develop initiative of all parties, and to strive for more and better projects. Yang also asked that all persons in charge keep a clear head, hold firmly to a scientific attitude, and fully grasp the importance of demonstrating and evaluating the merit of any project and organizational practice, so that within the target period, we can quickly bring about consolidated economic benefits and provide a strong guarantee that the economy of Jiangsu Province will once again enter a new stage.

FINANCE, BANKING

Taxation Director Jin Xin on Tax Reform

93CE0020A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 35, 7 Sep 92
pp 3-4

[Report by special correspondent Li Zhuo: "Jin Xin on the Feasibility and Necessity of Tax Reform"]

[Text] Tax reform is currently a hot subject in the economic reform in China. Recently, I conducted an interview with Mr Jin Xin, director of the State Tax Bureau, on this subject. In the interview, I asked him to discuss the guiding idea, principles, and the goal of the tax reform as well as the main contents of the reform.

The Existing System Is Flawed

Jin Xin said that since the beginning of this year China's reform and opening up have entered a new phase of development. The economy has been growing rapidly, and there has been overall deepening development of the reform in all spheres. There has been further progress with regard to the opening to the outside world. Such a new situation makes many new demands on the tax system, and as a result it becomes imperative to reform the tax system.

According to Jin Xin, since the Third Plenum of the Eleventh CPC Central Committee of 1978, China successively carried out two reforms, "changing profit into tax" and the comprehensive reform of the business tax system, thereby basically forming a multi-layered, multi-phased, and multi-tax system of taxation which is largely in line with the actual situation in China, and has enabled taxation to play its functional role. Taxation has become the main source of revenue for the state, the major means with which the state exercises macro-level regulation and control over the economy, and an indispensable component of the mechanisms of the economic management system and of the functioning of the economy. Nevertheless, the existing tax system is not perfect, but flawed in many respects, and therefore it cannot meet the needs of the economic development of the present time. First, the tax structure is not optimized, and there is no sound basis for some taxes. Most prominently, the existence of some taxes no longer suits the need of the economic development of the present time, while some taxes which are necessary have yet to be instituted. Such a situation has affected the demonstration of the overall effectiveness of the present multiple tax system. Second, there has been serious encroachment upon the tax base, as a result the real tax burden on the enterprises is much lighter than the nominal tax burden. Third, with regard to the distribution of tax authority, necessary centralization of authority has not been effectively achieved, while necessary decentralization of authority has yet to be entirely implemented. These problems have to be resolved as soon as possible in the process of further reform.

Jin Xin emphasizes that China's reform has now entered the stage of reforming the deep structures, and that some deep-structure problems in economic life can no longer be resolved by measures of decentralization and sharing gains. All this urges us to speed up tax reform, and establish a set of regulating mechanisms that can play a growing role in resolving deep-structure problems.

Advantageous Conditions for Tax Reform

Jin Xin believes tax reform requires strong policies, and involves the adjustment of the existing distribution of gains. As stronger general reform measures are being adopted, tax reform becomes very difficult and calls for painstaking, meticulous work. However, it is necessary to understand that the current situation provides good conditions for accelerating tax reform, and that the reform enjoys many advantageous conditions. First, after Deng Xiaoping made those important statements during his southern inspection, and after the meeting of the Central Politburo was held, there have emerged a consensus on some important theoretical issues and some common understandings. As a result, there is now a new, unprecedented situation concerning the reform and opening to the outside world, and reform and opening up are being accelerated. Second, China is now stable both politically and socially, and the economy is developing in the right direction. Consequently, the reform climate is rather relaxed, and there now exist

conditions for intensifying the reform to an appropriate degree. Third, accelerating reform and opening up is popular, and is supported widely among all social circles. Meanwhile, various sectors of the population have now become markedly more capable of bearing the consequences of the reform. All this has provided a solid social base for the reform and opening up. Fourth, China has gained a lot of experience during the tax reform carried out in the previous years. Meanwhile there have been necessary theoretical preparations and a large amount of ground-laying work for furthering tax reform in the last few years. Some of the preparatory work has resulted in preliminary plans. It may be argued that conditions are basically ready for accelerating tax reform and that time is now largely ripe. If we can seize the opportunity, emancipate our mind, dare to break away from existing restrictions, and conduct bold exploration, then we will be able to advance tax reform continually.

Principles of Tax Reform

Discussing the guiding idea and principles of tax reform, Jin Xin said that in accordance with the center's plan for accelerating reform and opening up and in consideration of the actual situation of taxation, the guiding idea for tax reform in the near term is: With the existing multiple tax system as the basis, to unify tax laws, centralize tax authority, make tax burdens fair, simplify the tax system, standardize distribution methods, impose order on distribution relationships, and strengthen taxation's role in revenue creation and in macroeconomic regulation and control, promote the transformation and improvement of the operating mechanisms of the economy and enterprises, and promote development of social productive forces, on the basis of enlivening large and medium-sized state enterprises, adjusting the economic structure, and raising economic efficiency. Under this guiding ideology, tax reform should follow the following principles:

First, it is necessary to push enterprises toward the market to enable them really to become independent commodity producers and operators. It is necessary to regulate the distribution relationships between the state and enterprises by instituting uniform income taxes, and reasonably adjust enterprise burdens to change the existing jigsaw-like distribution methods.

Second, it is necessary to reflect the state's industrial policy, and promote adjustment of the industrial structure. Instituting taxes, determining tax rates and tax policies must be based on considerations of the state-set development priority for industries, in line with the need of adjusting the economic structure, and conducive to rational allocation of resources and to rational flows of factors of production to promote faster, healthier development of the national economy.

Third, it is necessary to uphold fairness in tax burdens to create an external environment of equal competition for enterprises. Make the tax burden fair on enterprises of different categories, by using a unified income tax system and by perfecting the intermediate-phase tax

system to promote the transformation of enterprises' operating mechanisms and to raise economic efficiency.

Fourth, it is necessary to give full play to the active role of the center and localities in creating revenues. Under the precondition of maintaining unified tax laws and centralizing tax authority, gradually expand local taxation, and establish local tax systems. Meanwhile, give the localities corresponding tax authority to create conditions for establishing the fiscal "separate tax system."

Fifth, tax reform should be kept in line with the overall progress of economic reform, and coordinated with fiscal reform, price reform, and enterprise reform to suit the situation of reform in other areas on the basis of mutual facilitation. Create conditions for reform in other areas, through rationalizing and standardizing the tax system to eliminate the phenomenon of dragging each other's feet in the process of economic structural reform.

The goal of tax reform is to establish a socialist taxation system that has Chinese characteristics, and suit the needs of a planned commodity economy. This means to enhance the use of intermediate-phase and income taxes, improve local taxation, give full play to the role of other taxes, enhance taxation's functions of accumulating wealth and regulating the economy through standardizing the tax system, and continuously increase tax revenue with the growth of the economy. To achieve the goal, it is necessary to reform and improve the way in which different taxes are currently instituted, by abolishing or merging many overlapping or out-dated taxes, by instituting a few new taxes, and by simplifying the tax system to raise efficiency.

Content of Tax Reform

According to Jin Xin, the next step of the tax reform includes the following measures:

1. Reform enterprise income tax. Originally the income tax rate for state enterprises was to be lowered from 55 percent to 33 percent in three years, but effort will be made to accomplish the goal set by the plan sooner, by putting the plan in place all at once. At the same time, we will establish a unified income tax system for domestically funded enterprises. We will standardize pre-tax deductions and the criteria of itemization for enterprises, and replace pre-tax debt payment with after-tax debt payment to protect the tax base from encroachment. There will also be rather big adjustments regarding other relevant accompanying policies. Meanwhile, energetic study will be conducted on the feasibility of instituting uniform income taxes on both domestically funded and foreign-funded enterprises as the next step of tax reform.

2. Reform intermediate-phase tax. We will establish an intermediate-phase tax system that contains the three taxes of value-added tax, product tax and business tax, and is based on double-layered regulation. That is, we will completely implement the value-added tax first for the phase of industrial production and then for the phase

of wholesale and retail business, and cover those phases with overall regulation. Special regulation will be conducted with regard to product tax. We will standardize deductions for value-added tax, simplify the value-added tax by reducing the number of different rates, and simplify the calculation methods for value-added tax. At the same time, we will study and then determine the application scope and calculation methods of product tax, according to the needs of the state's macroeconomic regulation and control and the situation concerning the reduction of the number of value-added tax rates. To support development of the tertiary industry, we will conduct appropriate adjustments regarding business tax's categories and rates. We will reduce the gap between the nominal rates for intermediate-phase taxes and the real tax burden. In view of the need of the opening to the outside world, we will conduct appropriate adjustments regarding the unified industry and commerce tax's categories and rates to move it closer to domestic product tax, value-added tax, and business tax. We will conduct vigorous study on the feasibility of speeding up the unification of intermediate-phase tax systems for both domestically funded enterprises and foreign-funded enterprises.

3. Reform individual income tax. We will reform the existing systems of individual income tax, individual income adjustment tax, and urban and rural individual business-household income tax, and establish a unified individual income tax system. In view of the growth of the economy and people's income, and in consideration of international practices, we will expand the application scope of individual income tax. With regard to deduction of expenses, it is necessary to give full consideration to the actual situation of foreign personnel, and make appropriate arrangements. We suggest that while the tax law should contain general rules on such matters as expense deductions, the National People's Congress should authorize the State Council to make appropriate adjustments and announce those adjustments regularly, in response to changes in such areas as price and exchange rate.

4. Reform other taxes. We will expand the scope of application of resource tax, conduct appropriate adjustment regarding the tax burden, and formulate simplified calculation methods. We will reform the urban construction tax, and make it a really independent local tax. We will speed up the study of the feasibility of instituting a social security tax. We will promulgate inheritance tax regulations at an appropriate time. We will gradually abolish some taxes and simplify the tax system.

Jin Xin says the existing tax collection system will also have to undergo gradual adjustment and reform, as reform measures are announced one after another.

Foreign Banks Press Domestic Banks To Reform
93CE0012B Beijing JINRONG SHIBAO in Chinese
8 Sep 92 p 1

[Article by Jiao Ran: "Foreign Banks Are Coming—What Shall We Do?"]

[Text] A quiet revolution is going on in the financial industry in China.

Currently, there are 47 foreign-funded financial business institutions operating in the five special economic zones and Shanghai; financial institutions from 29 countries have established 218 offices in 14 open cities; and the State Council recently decided that foreign-funded banks can establish business organizations in seven cities, Dalian, Tianjin, Qindao, Nanjing, Ningbo, Fuzhou and Guangzhou. In addition, four foreign-funded banks and financial companies in Shanghai have acquired trader status in the foreign exchange trading center.

To open the door of the country to foreign banks was a major decision made in the process of reform in China, and 10 years have passed since the decision.

In 1979, the Long-Term Credit Bank of Japan opened its office in China, making it the first financial institution established by any foreign bank since the founding of New China. Since then, a number of well-known banks from Japan, the United States, Britain, France, Germany, Canada, and Sweden have also established offices in China.

But it is only recently that the landing of "foreign banks" aroused strong reactions from the financial industry in China. One reason is that China will reportedly permit foreign banks to engage in transactions denominated in renminbi, after having its seat in the GATT restored. Banks in the coastal regions will be more deeply affected by the lifting of restrictions on the financial sector. Local foreign trade firms want to have business dealings with foreign banks. Trained financial workers have also begun to flow to foreign-funded banks.

Our competitors are already standing in front of our door, what shall we do?

A bank official, once responsible for approving the establishment of offices of foreign banks, said that introducing foreign banks into China is a good thing, and meets the objective need of internationalization of the Chinese economy. Before reform, the product economy of three decades, China's banks engaged in only operations relating to deposits, loans, and remittance, becoming merely cashier offices. He said foreign banks have brought us new thinking, new concepts, and new practices. In the past we were proud of being a country with neither domestic nor external debt. But the economy failed to develop. Now economic construction is going on everywhere in China. We have learned methods of fund-gathering, and now have financial, securities and stock markets. There are more avenues of fund-raising.

The coming of foreign banks presents opportunities for learning from them and drawing lessons from their experience, but has also brought pressure. This is conducive to accelerating reform of banks in China. Foreign banks are characterized by fast account settlement, polite service, and extensive networks of branches. If

China's banks do not reform, and hold on to old practices, then business will go to foreign banks.

"Either you reform today, or others will force you to reform tomorrow." The general manager of the Communications Bank Dai Xianlong said that as a result of reform and opening up, China's banks now face an entirely new economic environment and international environment.

First, the debt structure of banks has undergone tremendous changes; 70 percent of the banks' money come from enterprise deposits, people's savings and financial bonds. Money has an inherent need for value increase. Banks can ensure payments in terms of interest and capital, and maintain development only by treating money as a commodity to be traded.

Second, banks now have different customers. Enterprises are no longer appendages of the state, but independent legal persons, which have the power and freedom to choose their own banks. Relations between banks and their customers are based on equality and mutual benefit. Banks can attract customers, and thereby develop only by providing more convenient, flexible services.

Third, a financial market has basically taken shape in China. Banks have begun to guide the flow of funds between themselves through market mechanisms. At present, money amounts to 200 billion yuan a year nationwide. Enterprises are also playing the role of investor. Now, enterprises can gather funds by such means as issuing bonds and stocks. People now also have the right to decide where to invest.

Fourth, China's enterprises will enter the world market, and foreign enterprises will enter China, the tide of the internationalization of banks is now irresistible.

Under the new situation, banks can win in the arena of the international financial industry only by developing in the direction of enterprise-like operation and internationalization, so as to turn banks into real banks.

At a recently held banking development symposium, bankers expressed the view that at the present moment it is first of all necessary to energetically develop commercial banks characterized by independent operation, independent control, independent responsibility for profit or loss, and independent development.

To develop China's commercial banks, it is necessary to boldly learn from foreign commercial banks in terms of their management methods and operational experience. This was a lesson the Communications Bank learned during its rapid development in the last five-odd years. As an experiment for China's financial reform, the Communications Banks has in recent years boldly learned from foreign banks in terms of their management experience, and actively explored ways of establishing socialist commercial banks.

The Communications Bank is a joint stock company, and this has added to the bank's vitality. The Communications Bank uses the asset/liability management method, thereby improving the bank's competitiveness in the international financial arena. In June this year EUROPEAN MONEY, an authoritative journal in international financial circles, declared that as one of the 1,000 largest banks in the world, the Communications Bank enjoys a net return on capital of 31.5 percent, the seventh highest in the world.

Practice has shown that to develop a market economy, it is necessary to develop commercial banks, and adopt mechanisms so that enterprises can choose banks, and banks can also choose enterprises. Instituting artificial restrictions, maintaining vertical and horizontal demarcations, and having a system of vertical fund allocation can only bring low efficiency in the use of funds.

According to financial experts, while opening the door for foreign banks, it is also necessary to push China's banks toward the market, and adopt to international practices. It will be difficult to meet the needs of the new situation of reform and opening up, if banks continue to be governmental institutions in charge of management, and carry out management in an administrative way.

According to a person in charge of the People's Bank, banks must truly free themselves from governmental institutions, and become true enterprises. To run banks, it is necessary to emphasize efficiency. The first thing a top official of a bank should do each day is examine the situation of money supply, but the first thing we do is read documents and circulars. Currently, China's banks are characterized by "one too many, three tendencies, and three excesses": Too many funds are tied up. There are tendencies of turning short-term loans into long-term loans, of turning long-term loans into indefinite things, and of turning credit funds into fiscal funds. An excessive amount of credit is being tied up by products in stock; loans of an excessive amount in total are not repaid in time; and there are an excessive number of cases of negative balances due to losses. If such a situation should continue, banks may hamper the development of the national economy.

Are banks government institutions, or enterprises? Are they cashiers or economic levers? This question which has been discussed for many years still looms large over the financial industry. Now foreign banks are landing in large numbers, and the domestic market economy has basically taken shape. All this urges us to speed up reform of the financial system in China.

Industrial Bank Finances Housing Projects

93CE0012A Beijing JINGJI RIBAO in Chinese
16 Sep 92 p 2

[Article by staff reporter Wang Zhi: "Build Houses for the People—A Report on the Developing Real Estate Finance Business Conducted by the Industrial and Commercial Bank of China"]

[Text] After several decades of inactivity, the real estate finance business, which has always been important in the international financial industry, is developing rapidly again in China, with the development of reform of the housing system and the emergence of the real estate industry.

Many banks have begun to engage in "policy-related housing finance business" as part of the coordinated effort to reform the housing system. There is already a substantial amount of accumulated housing funds. At the same time, financial institutions have been investing heavily in the development of real estate. As a result, there is an unprecedented "heat wave" of housing construction sweeping from the north to the south.

As the largest bank in the urban financial industry of China, the Industrial and Commercial Bank of China has gained a solid position in this competition among financial institutions, due to such strengths as the broad coverage of its network of branches, a huge amount of capital, and the use of advanced technology and equipment. Currently, the Industrial and Commercial Bank has set up real estate credit sections in over 1,200 of its branches nationwide to handle real estate finance business. Those sections now have deposits in the amount of 6 billion yuan, and have issued loans in the amount of over 8 billion yuan. In the last several years, the Industrial and Commercial Bank has helped enterprises and individual employees build housing of over 60 million square meters by providing fund-raising services. Nationwide, real estate development companies have invested a total of 12 billion yuan in the real estate industry, and constructed 16 million square meters of commercial housing.

Not everyone can understand the meaning of these boring figures. However, Ren Jinsheng of the Taiyuan Shanxi Dazhong Machine Plant may appreciate the real benefit for him. Five years ago, with the help of loans of over 9.8 million yuan from the Taiyuan Real Estate Trust and Investment Company under the Industrial and Commercial Bank, the plant built housing of 37,000 square meters, and 630 employee families happily moved into their new residences. This amount of housing represented 80 percent of the total amount of housing built by Dazhong Machine Plant in three decades. Ren Jinsheng bought a two-room apartment of 57 square meters with 14,000 yuan. Of that amount, 2,800 yuan was paid in the form of a down payment, and the rest was paid with bank loans which will be repaid through deductions in monthly wages over 10 years. Previously, the three people in Ren Jinsheng's family lived in a small room. If he were to wait for the housing allocated by the plant, he would not be expected to get the housing before retirement, but he is only 35 years old this year.

This was the first work unit in Taiyuan where individuals had to pay money, and therefore stirred up the entire Taiyuan City. Many enterprises came to the Industrial and Commercial Bank to seek loans for

housing construction. This method of "individuals paying one-third, work units advancing one-third, and bank loans covering one-third" has been adopted by the State Housing Reform Office as one of seven models of housing reform—the "three-in-one model." The office has worked to popularize this method nationwide. At present, the Taiyuan Branch of the Industrial and Commercial Bank has issued a total amount of 118 million yuan in loans. Because of this, the Taiyuan Real Estate Trust and Investment Company under the Industrial and Commercial Bank is being given high regards, and has participated in international housing conferences in Ireland, Hong Kong and other places to exchange experiences.

The difficult point in housing reform is the lack of funds. The key to housing construction is to provide funds. It is exactly because the financial industry performs fund-gathering and raising functions that its role in this area becomes irreplaceable. Meanwhile, the financial industry itself has also achieved great development by performing those functions for housing construction.

After making some scary investment, the general manager of the Taiyuan Real Estate Trust and Investment Company under the Industrial and Commercial Bank Lu Jinming, who is referred to as the boss of the real estate industry of Taiyuan, concluded that the real estate finance sector should adopt the approach of rolling development, using a small amount of money to start a big project.

The big project he is talking about is Taiyuan's Fenyuan residential area now under construction. With 300,000 square meters in housing space, this residential area will be the largest of the 22 demonstration residential areas nationwide. The total amount of investment will be 200 million yuan, and the required starting funds will be 50 million yuan. Just as this residential area project was having difficulty getting started, the investment company, seeing a good prospect for the development of the residential area, invested 42.8 million yuan, and obtained exclusive selling rights. Nine buildings were sold while they were being completed. The company thus got 18.8 million yuan back within three months. The rate of loan recovery has been fast. At present, because of sufficient funding, the construction of the Fenyuan residential area is proceeding speedily, and maintaining high quality. The project has thus become the focus of attention among residents of Taiyuan City.

Not only in Shanxi, but in Shaanxi, Henan, Anhui, Liaoning and Chongqing the Industrial and Commercial Bank is also doing brisk real estate finance business. However because the traditional view of housing as a fixed asset not a commodity has not been eliminated, governments at various levels still tend to intervene administratively, creating many real obstacles. For instance, there is still no uniform policy governing the financial industry, and operation is difficult. There are many conflicts between the new and old systems, and one often feels at a loss. Macro-level regulation and

control are not effective, there have been conflicts between banks from time to time.

While analyzing the current state of the real estate finance business, the vice-president of the Industrial and Commercial Bank suggests that to cut down redundant investment, and promote the coordinated development of the real estate industry, it is necessary to establish and develop, as soon as possible, a real estate finance system comprising many banks. It is necessary to formulate uniform policies on credit, interest rates, and reserve funds on the basis of taking account of the special characteristics of housing reform, the real estate industry, and the financial situation. It is also necessary to change elements in the capital construction management system that no longer suit existing needs, such as project selection and funds certification, as well as the three-phase examination. We must guard against any kind of monopoly so that banks in their work can compete with each other on the basis of superior service.

The real estate industry is releasing the energy of China's financial industry that has long been imprisoned. Everyone in the industry is proud of what he is doing and has a full sense of mission, because they are not only working to gain rich profits, but also working for the countless number of Chinese who are looking forward anxiously to the day when they can have a warm, comfortable home!

Construction Bank Issues Bonds in Open Market

93CE0011A Beijing LIAOWANG [OUTLOOK]
in Chinese No 31, 3 Aug 92 pp 17-18

[Article by Li Shiyi (2621 0013 5030): "A Conspicuous Marketization Trend—A Visit to the People's Construction Bank"]

[Text] Attention to markets and enthusiasm about securities are two new major parts of China's current economic landscape.

The People's Construction Bank [PCB] proclaimed to the world that as the agent of issue for 3.3 billion yuan worth of central enterprise investment bonds from 10-29 June 1992, it would abandon the customary "administrative allocation" method and adopt international market rules, by inviting public bidding and organizing a consignment group for the purchase and exclusive distribution of these bonds through competitive market bidding. As this was a first for China, it aroused an enthusiastic response in banking circles.

A Major Fundraising Innovation

The word is that within five days, 35 securities intermediaries throughout China came forward to make bids, which totalled 8.57 billion yuan, or 1.7 times the original offering.

On 18 June, the PCB held a ceremony to open the sealed bids at the Jingfeng Hotel in southwest Beijing. Representatives from the State Planning Commission and the People's Bank of China [PBOC], as well as agents for the debtors and guarantors of the 3.3 billion yuan worth of bonds, acted as a competitive bidding oversight group to oversee the entire process, announcing the bidding-assessment results on the spot, i.e., that 24 bidding agents had won to form a bond consignment group. The members of this consignment group came from the five major economic zones throughout China, as well as our three major banking systems—the Industrial and Commercial Bank of China, the PCB, and the Bank of China [BOC]. The oversight group remarked that the competitive bidding was open, fair, impartial, and legal.

On 29 June, the consignment signing ceremony was held in the Great Hall of the People in Beijing. On 1 July, these bonds were put on the market throughout China. There were 800 million yuan worth of China petrochemicals enterprise investment bonds, 950 million yuan worth of China power enterprise investment bonds, and 1.95 billion yuan worth of state investment corporate bonds, with annual interest of 10.5 percent on five-year bonds and 9.5 percent on three-year ones.

PCB Vice President Su Wenchuan [5685 2429 1557] said at the consignment signing ceremony that "this is an attempt to reform China's traditional bond offering form, by drawing on the experience of the current practice in international money markets, in accordance with our study of the spirit of the speeches made by Comrade Deng Xiaoping on his tour of southern China this spring. Experience has proved that this is an effective and successful method." Bankers commented that this shows that mainland China's issuing of enterprise bonds is becoming marketized.

When I met PCB Vice President Su Wenchuan, I asked him the following questions: Why is this method being used? Since bonds can also be issued in the traditional method, is not using the international market method simply trying to be fashionable?

His response was that the situation demanded action because, as competition had already begun, those who did not change would be eliminated by it. This explanation made one feel that everything was fresh and new.

The Situation Demanded Action

When Su Wenchuan said that competition had already begun, he was referring to an earlier decision by the PBOC to break with tradition for the first time when offering central enterprise investment bonds in 1992, by adopting the form of market competition instead of, as in the past, calling the pertinent national departments and all national-level specialized banks to a meeting, at which offering amounts, maturity periods, and interest rates were set and then assigned by directive for all specialized banks to return and follow. He spoke as follows: The PCB this time was an outside competitor instead of an inside organizer. Everyone went into the

fray, with points going to those who kicked goals according to the rules, and the prize cups going to those who won. As to the PCB, this could truly be said to have been "the very first time that the new bride rode in the bridal chair," the reason being very simply that ever since its founding in 1954, the PCB had been shouldered with the duty of managing national capital construction investments. But the reform and opening up of the 80s sharply expanded its business, so that by 1991 it had over 700 billion yuan in assets, over 4,000 branches, and more than 20,000 business network points, and had become a large, vigorous bank in international and domestic credit markets. But while its business has expanded, its distinctive feature has become even more conspicuous, in that most of its funds are still used in support of national basic industries and infrastructure construction. In other words, it is a specialized bank that handles long- and medium-term credit business, while having dual finance and banking functions so that, for the state, it is a development bank whose prosperity is of importance to our national growth.

Su Wenchuan continued as follows: The PCB will issue 15.2 billion yuan worth of bonds in 1992, in the following two capacities: 1. It will act as the agent in issuing 6 billion yuan worth of central enterprise bonds and 4 billion yuan worth of central departmental bonds. 2. It will be the debtor in issuing 4 billion yuan worth of state investment bonds and 1.2 billion yuan worth of bank bonds. These bonds will mainly go to support long- and medium-term production development.

While it dealt with fixed assets investments, for which it issued bonds to finance, so that by traditional custom the PCB was naturally a planner, things had changed by 1992, so that it had become a competitor. As its administrative form had ended, and it was gradually beginning to compete in the banking world, it was faced with the following options:

Was the PCB to be a competitor or not?

If it was to be a competitor, then it naturally had to compete, because noncompetitors are so weak and too disgraceful.

To be a competitor, it had to win instead of losing. If it lost, it could hardly be called a construction bank, and the state would be forced to establish another development bank.

The situation was this demanding. June 1992 in Beijing was the most memorable time for the PCB. Our presidents, department chairmen, branch managers, and office workers all went into action to provide doorstep service, bring in business, and compare qualifications. When one said that he had shrunk the period between issue and cashing of bonds five-10 days, another said that he had raised his office efficiency by working less hours. Taking the two month period between issue and cashing of national treasury bonds as a yardstick, the PCB used negotiated and competitive bidding to finally shrink this period to just seven days for its current issue

of enterprise investment bonds. To bankers, time means interest, and can certainly mean money. With such a big difference between interest for seven days or two months, calculating large amounts such as hundreds of millions or billions of yuan would add it up to so much more!

With such sharp competition, the questions were whether you had abundant capital, a broad service network, a strong service capability, and the minimum issue cost. Through competition after competition, the PCB developed from a minor competitor into a champion.

These also were the aspirations of the judges—the PBOC and the State Planning Commission, all debtors—the central enterprises offering the bonds, and the guarantors—the central responsible units, because competition that lowers the cost of financing, shrinks the period of issue, and raises economic efficiency makes everyone happy.

Competition is the very lifeblood of markets. It produces efficiency, results, superior enterprises, and talented personnel. Competition is forcing us to abandon our old equipment that does not work efficiently, and to convert our old ways of thinking and operating methods that were unrealistic.

On Converting Our Thinking

What ways of thinking need to be converted? Su Wenchuan replied to this as follows: The relationship between banks and enterprises should no longer be a "father-son" one, but rather one between friends, because banks and enterprises are inseparable from each other. As this is determined by market laws, it forces you to convert.

Su Wenchuan continued as follows: As to the issuing of enterprise investment bonds, what enterprise does not wish to raise urgently needed funds at the lowest cost and for the shortest period of issue? This goal can be achieved through competitive bidding on open markets. This is precisely the economic reason for the PCB's inviting public bidding on its current commissioned issue of 3.3 billion yuan worth of central enterprise investment bonds, instead of closing its doors and practicing administrative allocation, which cannot achieve this goal. For instance, in issuing 2 billion yuan worth of three year bonds, the traditional method requires a payment of 50 million yuan in financing costs, while the market method costs only 11 million yuan. Who would want to spend more for less! Thus, as soon as one enters the market, the former administrative subordinate relationship is challenged and found to be ineffective, while profit forces come into full play to produce a new relationship. Banks and enterprises can no longer maintain a hierarchical relationship, but must be partners in fair competition.

Macroeconomically, while the state's capital construction funds used to come through allocation of state

revenue, our reform and opening up of the 80s changed the source of such funds from allocation of state revenue to loans from banks, so that enterprises' uncompensated use of funds has become compensated use (through payment of loan principal plus interest). Banks handle savings and loans, and enterprises go to banks for needed funds. Well-run enterprises make banking easy, and vice versa, so that bank and enterprise fortunes are intertwined.

Continuing reform and opening up has sharply changed the income distribution order of our national economy, by lowering the ratio of state revenue to national income to only 1:5, meaning that state revenue can no longer supply all capital construction funds. Meanwhile, our bank deposit makeup has also changed sharply, with a higher proportion of individual deposits, and lower percentages of enterprise and state revenue deposits. So banks are shouldered with two duties, one of paying interest on deposits, and the other of supporting enterprise production development, both of which require money, which banks certainly do not produce on their own. So it is not wrong at all to say that state revenue and banks shoulder the risks for Chinese enterprises.

As negotiable securities swept across China in the late 80s, no longer being a subsidiary political duty, but becoming a means of direct investment for individuals and enterprises instead, the enterprises that used to depend on bank loans have become market-financed, with banks as intermediaries. So the relationship between banks and enterprises has certainly changed. By the end of 1991, over 70 billion yuan worth of bonds had been issued throughout China, with the PCB having acted as agent in issuing more than one half of them. This year, 1992, is the year of securities, with 83 billion yuan worth of bonds to be issued throughout China, of which 60 percent are PCB bonds, including central and local enterprise bonds issued by our local branch agencies. This shows that the form of direct investment through stocks and bonds is on the ascendant. Enterprises are going to markets for money, and bank credit depends on markets, so that enterprises and banks are both being pushed toward markets, which has become the economic reality in today's China.

INDUSTRY

Current Industrial Production: Problems, Suggestions

93CE0017A Beijing ZHONGGUO TONGJI XINXI
BAO in Chinese 7 Sep 92 p 2

[Article by Li Xiaodong (2621 2526 0392) from the Industry and Communications Department under the State Statistics Bureau: "Current Problems in Industrial Development"]

[Text] Since this year, the pace of national economic development has been accelerated, especially investment in fixed assets has continued to increase, and there has

been an continuous demand for material consumption focused on production and construction. However, because in-depth contradictions in industrial economic structures have not been solved once and for all, a pattern emerged in which two things co-existing—supply of raw materials and investment-type products was slightly tightened, and supply of general processing industrial products exceeded demand.

The Status Quo of Industrial Production

1. Production exceeded consumption, and the use of funds for end products increased. From January to May at current prices the total value of industrial output by industrial enterprises at and above township levels amounted to 1,076.7 billion yuan, and sales value at current prices accounted for 986 billion yuan, with production exceeding consumption by 8.4 percent. The accumulated sales rate was only 91.6 percent, of which light industry sales rate made up 89.6 percent, with production exceeding consumption by 52 billion yuan; heavy industry sales rate was 93.3 percent, with production exceeding consumption by 38.7 billion. By the end of May the use of the "three funds" by industrial enterprises at and above township levels amounted to 625 billion yuan, an increase of 11.8 percent over that of the corresponding period last year, accounting for 43.4 percent of all circulating funds, of which the use of funds for end products was 269.4 billion yuan, an increase of 8 percent over that of the corresponding period last year.

2. There has been an obvious increase in the demand for the industrial consumption of raw materials for energy, prices have gone up, and stock of industrial enterprises decreased. From January to June this year, steel consumption by units at and above county levels increased by 14.03 percent; cement increased by 22.4 percent; sodium carbonate increased by 15.4 percent; and caustic soda increased by 2.84 percent. Along with the increase in consumption demand for raw materials, prices of raw materials saw continuous increase. In mid-June prices of wire rod went up from 1,714 yuan per ton at the beginning of the year to 2,580 yuan, an increase of 50.5 percent; prices of medium-thickness steel plates went up from 1,873 yuan per ton at the beginning of the year to 2,500 yuan, an increase of 33.5 percent; bituminous coal went up from 168 yuan per ton to 260 yuan, an increase of 54.8 percent; aluminum went up from 8,714 yuan per ton to 10,200 yuan, an increase of 17.1 percent; and cement went up from 209 yuan per ton to 280 yuan, an increase of 34 percent.

3. Machinery, electric appliances, electronics, textile industries experienced balance and stability in supply and demand. From January to June the total value of industrial output of machinery, electric appliances, and electronics industries amounted to 159.9 billion yuan, sales output value was 149.4 billion yuan, with the sales rate of products at 93.4 percent and production exceeding consumption by 7 percent.

4. Development of production inside the chemical industry is unbalanced, the contradiction of the production of some products exceeding their consumption increasingly worsened, and the use of the "three funds" continues to rise. The use of the "three funds" by chemical industrial enterprises from January to May was estimated to be as high as 43.46 billion yuan, an increase of 17.5 percent over that of the corresponding period last year, and an increase of 18.4 percent over the beginning of the year. New overstocks this year accounted for 3.81 billion yuan. Of which the sales rate of farm chemicals was only 78.9 percent, and the use of the "three funds" amounted to 2.34 billion yuan, an increase of 53 percent over that of the corresponding period last year, an increase of 50 percent over the beginning of this year, with 350 million yuan of new overstock.

Causes of the Problems

1. The structure of industrial production is irrational, leaving much room for further readjustment. Viewed from recent changes in industrial structures, due to the rapid increase in production of the processing industry, the proportion of the processing industry in industries as a whole amounted to 48.4 percent in 1991, even slightly higher than in 1988 when the processing industry was growing at an ultrahigh speed. Currently the processing industry is developing apparently faster than all industries. Though, in terms of output growth, China's basic industries (coal, electricity, and oil) are among the best in the world, viewed from the industrial development of China, they are still the "bottleneck" industries that restrict industrial growth.

2. Blind introduction from abroad led to a situation in which growth of production capacity exceeds the growth of demand, and the quantity of products overstocked continues to rise. Complete color television factories can be found in 28 provinces, regions, and cities (except for Tibet and Ningxia) across the country. There are 113 imported production lines, and the production capacity expanded from 10.146 million sets in 1985 to 22.795 million sets in 1990. But the market sales volume at the corresponding period was only 7.962 million sets. While producing and overstocking at the same time, owing to poor ability to form complete sets within the industry, a great amount of foreign exchange were spent on importing original parts. According to statistics by departments concerned, the importing of color television parts in bulk alone costs \$2 billion in foreign exchange every year.

3. Decentralization of decision-making and funds, and irrationality in distribution led to a low degree of production centralization, poor economies of scale on the part of enterprises, and markets being pounded by small enterprises. Since 1985, cotton spinning enterprises outside plans emerged swarming and can be found in the major cotton-producing areas across the country. They turned into a great force of village and township cotton spinning enterprises that have 50,000 enterprises and 4.6 million people. Not only the textile systems increased

some items, but also the foreign trade, commerce, supply and marketing, villages and townships, and farmland reclamation departments. Particularly, cotton-producing areas established a great number of cotton mills. Some of them have supply and marketing cooperatives in the front and mills in the back. According to rough estimation and calculation, 10 billion yuan more of construction funds was spent. At present, of the cotton spinning enterprises, those whose annual capacity fall below 10,000 spindles make up 60 percent, accounting for 1,259 enterprises. The average scale is only 3,800 spindles. These enterprises experience poor economies of scale. They cannot guarantee the quality of their products and have led to the stock-piling of a great quantity of textile products.

4. Owing to inattention to tap the inner potentialities and strengthen the internal management of the enterprises, product quality dropped, and market stagnation and stock-piling of products occurred. During the Seventh Five-Year Plan, only 17.7 percent of the quality of our newly designed products reached advanced international standards, only 25.9 percent reached general international standards, whereas the output value rate of excellent products fell below 30 percent, and the rate of losses caused by poor quality products made up 10 to 15 percent of the industrial output values. A comparison between 1990 and 1985 shows that the quality points of bicycles dropped from 94.2 to 91; the ratio of washing machines up to standard dropped from 89.4 percent to 87.9 percent; the ratio of cigarettes up to standard dropped from 99 percent to 89.8 percent; and the end product ratio of newsprint dropped from 92.9 percent to 92 percent.

5. The impact exerted by such objective factors as imported goods that pounded at domestic markets, and operational capacity that fell short led to the stock-piling of products. Because the import of chemical fertilizers outside the plan became seriously out of control, the total supply volume of chemical fertilizers exceeded the demand of agricultural output. As a result, the stock of enterprises kept rising by a big margin. In 1991 China imported 18.22 million tons of chemical fertilizers, approximately 47.4 percent of the home-made chemical fertilizers, at the amount of \$3.231 billion in foreign exchange. The sum of home-made chemical fertilizers and those imported amounted to 143 million tons, 28 million tons more than the demand set by the Ministry of Agriculture.

Some Suggestions

How can the stock-piling of products be reduced? We suggest:

1. Further accelerate the readjustment of industrial structures and optimize the disposition of resources. While increasing investment in basic industries, we also need to strengthen coordination in many ways. What is of most crucial importance is to restrict the excessive growth of the processing industry, take drastic measures

to deal with the situation, reduce the volume of stockpiling, and cut down unnecessary waste. Efforts should be made to check up and overhaul enterprises that have poor economies of scale, readjust policies for economic development, and speed up the change of enterprise mechanisms.

2. Strengthen macro-regulation and control, and continue enterprise reform. At present, we need to further quicken the pace of reforming the pricing systems, finance systems, and enterprise mechanisms, and systematically restrict blind development and repeated construction. We need to work out rational industrial development programs based on forecasting the supply and demand in the market, provide guidance for directions to take and how much to produce in terms of the developmental scale and investment in products, and change our stand from paying attention to output and output value to attaching importance to quality and beneficial result.

3. Improve product quality and open up international markets. We need to fully take advantage of the opportunity for our country to join the General Agreement on Tariffs and Trade [GATT], make good use of GATT's favorable terms toward the developing countries, widen trading channels for import and export, promote the renewal and replacement of domestic products, and raise our export competitiveness.

4. In the areas of marketing and management, production and marketing policies must be coordinated and unified, and use the development of products to guide market consumption. In accordance with the principle of pushing enterprises to the market, we need to give enterprises management decisions. Enterprises must focus on quality and services to promote their marketability, participate in the market competition through technological progress, and guide market consumption based on product development.

Industrial Values by Areas in Jan-Sep

HK1610115792 Beijing CEI Database in English
16 Oct 92

[Text] Beijing (CEI)—Following is a list of the industrial output value by areas in China in January-September period of 1992, released by the State Statistical Bureau:

Area	1-9/92	1-9/91	(Unit: 100 million yuan) Change over 1-9/91 (pc)
Total	20370.59	17073.84	19.3
Beijing	641.07	567.19	13.0
Tianjin	516.65	452.20	14.3
Hebei	795.90	685.82	16.1
Shanxi	409.52	380.38	7.7
Inner M.	218.75	198.76	10.1

Liaoning	1268.38	1123.36	12.9
Jilin	443.73	395.45	12.2
Heilongjiang	667.46	638.16	4.6
Shanghai	1598.19	1340.45	19.2
Jiangsu	2532.73	1889.40	34.0
Zhejiang	1297.63	1024.53	26.7
Anhui	545.22	452.42	20.5
Fujian	446.30	370.00	20.6
Jiangxi	362.74	303.50	19.5
Shandong	1656.69	1354.05	22.4
Henan	771.20	654.52	17.8
Hubei	856.73	765.01	12.0
Hunan	587.88	516.48	13.8
Guangdong	1900.40	1471.09	29.2
Guangxi	346.65	275.44	25.9
Hainan	44.15	34.01	29.8
Sichuan	1065.69	924.27	15.3
Guizhou	185.70	161.63	14.9
Yunnan	314.96	275.72	14.2
Tibet			2.00
Shaanxi	359.00	325.33	10.3
Gansu	237.68	218.48	8.8
Qinghai	44.79	44.20	1.3
Ningxia	60.58	54.38	11.4
Xinjiang	192.24	175.61	9.5

Yunnan's Telecommunications Industry Makes Progress

HK0710035292 Kunming Yunnan People's Radio
Network in Mandarin 1000 GMT 4 Oct 92

[Text] In the course of reform and opening, Yunnan's telecommunications industry has made progress in great strides. At present, the telephone systems in 41 counties and cities have been incorporated in the nationwide automatic long-distance network. Residents in Kunming, Yuxi, Chuxiong, Dali, Simao, Dehong, and other prefectures, autonomous prefectures, and cities can now make direct calls to their relatives and friends in foreign countries. Another 19 cities above the county level have set up wireless paging systems.

Telecommunications service has also been made available to more and more rural areas. [Words indistinct] switchboards contain 7.02 million lines. Telephone service has been available to 40 percent of the villages across the province.

To make the telecommunications service further meet the needs of reform and opening up to the outside world, the provincial government recently decided to increase investment in the postal and telecommunications service from 1.5 billion yuan to 2 billion yuan, and to carry out

six key projects relating to postal and telecommunications service so that cities above the county level throughout the province will achieve automation of their telephone systems during the Eighth Five-Year Plan. By that time, the telephone systems in 85 percent of counties and cities across the province will be incorporated in the nationwide automatic long-distance network, domestic direct-dialing telephone calls will be available, and telephone service will be handy for people in all townships and administrative villages throughout the province.

AGRICULTURE

Provincial Leaders Discuss Agricultural Development

93CE0029A Beijing *NONGCUN GONGZUO TONGXUN* [RURAL WORK NEWSLETTER] in Chinese No 9, 5 Sep 92 pp 6-7

[Article: "Leaders in Four Provinces Discuss Development of High Yield, Premium Quality, High Performance Agriculture"]

[Text] Editor's Note: With the advent of the 1990's, China's agriculture entered a new development period. The development of high yield, premium quality, high performance agriculture has become the key component and a hot topic in current agricultural and rural work. The National Conference on the Exchange of Experiences in the Development of High Yield, Premium Quality, High Performance Agriculture that the State Council convened in Guangdong Province not long ago marks the beginning of a change in China's agriculture away from the former primary pursuit of increase in product yields and the satisfaction of the people's needs for food and clothing to a new stage of equal emphasis on high yields and premium quality, and increased performance. For the sake of an exchange of experiences among all jurisdictions to stimulate development of high yield, premium quality, high performance agriculture, we have excerpted speeches of leading comrades from four provinces for the consideration of the readership. [end editor's note]

Ling Botang [0407 0130 2768] Deputy Governor, Guangdong Province: "Development of Premium Quality, High Yield, High Performance Agriculture in the Midst of Reform and Opening to the Outside World"

Since the Third Plenary Session of the 11th Party Central Committee, the Guangdong Provincial CPC Committee and provincial government have moved ahead with reform and opening to the outside world guided by the correct lines, plans, and policies of the CPC Central Committee and the State Council. During the 1980's the rural economy began a transformation from product agriculture to commodity agriculture, and from traditional agriculture to modern agriculture; and during the 1990's, the rural economy entered a new period of

reliance on scientific and technical progress to develop premium quality, high yield, high performance agriculture, and full development of rural secondary and tertiary industries. Guangdong Province has done work primarily in the following several regards in the development of premium quality, high yield, high performance agriculture.

Reform of the Agricultural Product Assigned Procurement System and Operating Mechanism, and Removal of Restrictions on Market Prices To Set the Stage for the Development of Premium Quality, High Yield, High Performance Agriculture. With support from the Central Committee and state agencies concerned, the Guangdong Provincial CPC Committee and provincial government have conducted a series of reforms of the assigned procurement system in keeping with the situation as it has developed in recent years. In 1980, it reduced from 117 to 47 the kinds of agricultural products covered by assigned procurement and planned procurement, and in 1981 it further reduced the number from 47 to 25. In 1984, it removed restrictions completely on hogs, aquatic products, edible oil, and vegetables. In 1985, it abolished assigned procurement quotas for timber, controlling only the amount of timber felled to ease of circulation. In 1991, it abolished command style plans for cane sugar, instituting market regulation. In 1992, it canceled assigned procurement quotas for grain, all restraints being removed on grain dealings throughout the province except for the retention of a 600 million kilogram public grain quota. Today, except for silk and tobacco for which the province continues controlled procurement, the production, supply and marketing of all other agricultural by-products have moved toward a market orientation in the development of commodity agriculture, suiting general methods to specific circumstances under guidance of state plan.

Rational Readjustment of the Structure of Agricultural Production for Good Operation of Premium Quality, High Quality, High Performance Agricultural Bases. Guangdong is a grain-short province. Prior to reform and opening to the outside world, the province put all the emphasis on expanding the paddy field area with the result that for a long time the pattern of agricultural production centered solely around grain. Since reform and opening to the outside world, the provincial CPC committee and provincial government have used surveys, studies, and the summarization of experiences as a basis for the readjustment of crop patterns for some high dryland fields, low-lying and marshy fields, and outlying low yield fields as well as in areas where the per capita grain field area is large and the burden of farming is heavy. During the 1980's, the paddy field area throughout the province was reduced by 19.5 million mu, the ratio between the grain crop and cash crop growing area being readjusted from the 76.3 : 23.7 of 1978 to 66.4 : 33.5. Despite this reduction in the grain area, grain yields for the province as a whole increased more than 200 kilograms per mu, and gross output was 3.55 million tons more than in 1978.

To enable steady development of farming, forestry, animal husbandry, sideline occupations, and the fishing industry throughout the province, the provincial CPC committee and the provincial government instigated a large scale forestry program in which all citizens participated. More than 1 billion yuan per year was invested in afforestation, the goal being to plant trees on bald mountains over a five year period. In addition, 2 billion yuan was invested in a major water conservancy building program. At the same time, a decision was made to devote major efforts to operate agricultural production bases, and bases were built.

Today, there are more than 5,000 agricultural production bases, foreign exchange-earning export bases, and science and technology demonstration bases in operation at the township and town level and above throughout the province.

Establishment and Perfection of a Commodity Circulation Service System in Active Development of an Agricultural By-Products Processing Industry. First was the province-wide improvement of the understanding of the rank and file of cadres, staff members and workers in the importance of doing a good job of improving commodity flow and invigorating the rural economy. Second was vigorous efforts to build agricultural products country fair trade markets. During the past several years, more than 1 billion yuan has been invested in this undertaking at all levels throughout the province, a policy instituted whereby those who invest in building and operating them reap the rewards. A 71.05 square meter area containing all kinds of markets has been built, the number of markets increasing from 1,732 to 3,161. On average, each township and town has 1.6 country fair markets. Of particular note is the building of 132 fairly large agricultural by-products wholesale markets that have stimulated large scale trade across provincial and city lines. A multi-level, multi-form, multi-service market system has been preliminarily built throughout the province that has effectively stimulated development of rural commodity production. Third is the energetic building of agricultural product processing, freshness preservation, storage, and shipping facilities and enterprises. During recent years, jurisdictions at all levels throughout the province have invested more than 2 billion yuan in the operation of enterprises that add value through the processing and preservation of freshness of agricultural products. Currently, the province is able to store and preserve the freshness of 20 percent of its fruit output, and it is able to process 20 percent of all its aquatic products. Fourth is the establishment of a large commodity circulation corps. Today, more than 800,000 peasants and individual households throughout the province are active in the agricultural products circulation field.

Streamlining Government and Transferring Authority, Delegating Authority to Enterprises, and Changing the Functions of Agricultural Agencies, Improving Their Basic Level Service Role. In the course of reform and opening to the outside world, the CPC committee and

provincial government have streamlined government and transferred powers from the agriculture and forestry ministries, and from the Aquatic Products Bureau, and the Overseas Chinese Farm Administration, delegating authority to enterprises as development needs requires. Beginning in 1984, 107 forest farms and 62 forestry work enterprises in the Department of Forestry, 231 farms (institutes and stations) in the Department of Agriculture, 29 farms under the Overseas Chinese Farm Administration, 140 aquatic products companies (or stations) in the Aquatic Products Bureau; and a number of entrepreneurial units that could be removed from the agricultural departments concerned were handed over to local municipalities and counties, their personnel and property coming under centralized local leadership and control.

Improvement of Leadership, Coordination of Actions, and Organization of All Departments Concerned To Support the Development of Premium Quality, High Yield, High Performance Agriculture. By way of providing support to the operation of agricultural by-products processing enterprises, government at all levels offered preferential policies in the use of land, electricity, and water, and in the hiring of personnel. The agricultural sector concentrated energies on importing, nurturing, and spreading new varieties and breeds, on using new technology, on changing production conditions, and on operating production demonstration bases, and did a good job of providing services before, during and after production. The industrial sector provided vigorous support in the form of equipment and technical training for agricultural product processing industries. The communications and transportation sector, and the commercial sector did all possible to energize the circulation of farm products and to ensure the supply of agricultural means of production. The finance and banking sector did all possible to provide circulating capital and insurance for the development of agriculture needed for production, processing, and commodity circulation. The customs service eased the importation of varieties, breeds, and equipment. Little by little, the entire province fashioned a fine situation for joint efforts to develop premium quality, high yield, and high performance agriculture.

Wang Jiangong [3769 1696 0501] Deputy Governor, Shandong Province: "Change the Guiding Thought for Development of High Yield, High Performance, and Premium Quality Agriculture"

Today, vigorous development of high yield, premium quality, and high performance agriculture to bring about a leap from a sufficient food and clothing standard of living to a comfortably well-off one has become the key component of the province's agriculture and all rural economic work. It has become a voluntary action of the cadre rank and file and the public at large. In the development of high yield, premium quality, high performance agriculture, we insist on high yields as the foundation, premium quality as a prerequisite, and high performance as a goal, devoting efforts to work mostly in the following regards.

1. Updating of Ideological Concepts, Making High Yields, Premium Quality, and High Performance the Basic Guiding Thought for the Development of Agriculture. At the Seventh Meeting (Enlarged) of the Fifth Provincial CPC Committee in 1991, we explicitly cited the necessity for high yields, premium quality, and high performance to serve as the basic guiding thought for the development of agriculture, and the necessity for fully understanding the importance and the need for the development of high yield, premium quality, and high performance agriculture, understanding that this is not a concrete means for the development of agriculture but that it is an inevitable choice, and a fundamental and strategic matter in agricultural development under the historical conditions for developing a socialist commodity economy. It requires that leaders at all levels and the public at large steadily update their ideological concepts, changing the old ideas, old conventions, and old methods bequeathed by traditional agriculture to open the way to new ideas for the development of agriculture. Today, the idea of developing high yield, premium quality, high performance agriculture has struck deep roots in people's minds to become a consensus shared from top to bottom throughout the province, bringing about a new situation of high yields and high performance thinking, high yield and high performance discussions, and high yield and high performance actions.

2. Adherence to Large Scale Capital Construction of Farmland Water Conservancy, and All-Around Development of Agriculture, Steadily Raising the Overall Production Capacity of Agriculture. In 1989, the provincial CPC committee and the provincial government made the decision to wage a five to seven years war to ease the water shortage. At the end of 1991, the province invested 5.4 billion yuan to begin work on 1.13 million projects of various kinds. In addition, we gave major attention to the development of agriculture on the Huang-Huai-Hai Plain, to the development of the Huang He Delta and mountain areas, to the development of a courtyard economy, and to the development of coastal shallows. Nearly 4 billion yuan was spent on the four kinds of development, and remarkable benefits were realized.

3. Orientation Toward the Market, Readjusting and Optimizing the Industrial Structure. So long as steady increase in grain production can be assured, we must free ourselves from the burden of devoting such a large portion of the growing area to grain, using it for whatever brings returns. We must particularly encourage a "one township, one industry; one village, one product" program, energetically developing economic diversification to attain the goal of a township prospering when an industry thrives, and a village prospering when a product is produced. During the past several years, orchards and vegetable growing have developed very rapidly. In 1991, the province's orchard area covered 9.2 million mu, and the vegetable growing area covered 5.9 million mu in a respective 64.6 and 28.3 percent increase over 1985.

4. Active Promotion of Scientific and Technical Progress, Steadily Raising the Scientific and Technical Level of Agriculture. In giving emphasis to the development of high yield, premium quality, high performance agriculture, we put much effort into promoting a new scientific and technical operating mechanism for the planning of agriculture, science, and teaching as a whole, and that links science, resources and politics. This stimulated a partnership and cooperation between the party and government, and the agricultural, scientific and technical, educational, government finance, finance and banking, and materials sectors for the building and perfection of a vertically and laterally integrated four level county, township, village, and household network to promote science and technology. The role of scientific and technical progress in increasing agricultural output increased from 35 percent in 1985 to more than 40 percent in 1991.

5. More Socialized Services To Advance the Commercialization and Specialization of Agriculture. The first requirement is vigorous development of integration among trade, industry and agriculture; agriculture, industry and business; and production, supply, and marketing that enables those providing services, i.e., the turnkey enterprises, and those receiving services, i.e., the myriad peasant households, to fashion a benefit community that exchanges services and develops in common. Second is institution of regional farming, socialized services, and scientific management as operating methods to overcome the limitations of individual household operations and realize the economies of scale. Finally is active nurture and development of markets to build bridges between government and peasant households, impelling the peasants in the direction of markets to solve their "difficulty buying and difficulty selling" problems.

6. Genuine Improvement of Leadership of High Yield, Premium Quality, High Performance Agriculture. The province has specially established a high yield, premium quality, high performance agriculture leadership team headed by the deputy governor for agriculture and staffed by officers in charge of departments concerned. The provincial agricultural committee is specifically responsible for organizing, leading, and providing overall coordination for high yield, premium quality, and high performance agriculture. All cities, prefectures, and counties have also founded leadership teams and operating agencies in accordance with provincial CPC committee and provincial government requirements. Using provincial CPC committee and provincial government overall planning of the province's economy as a guide, all jurisdictions in the province have drawn up plans and programs for the development of high yield, premium quality, high performance agriculture. Eastern, central, and western prefectures have also acted on the basis of local realities to designate key points and the main direction of attack in developing high yield, premium quality, high performance agriculture, formulating concrete police actions to be taken.

Yu Xingde [0205 5281 1795] Deputy Governor, Jiangsu Province: "Need for Serious Attention to the Four Transformations"

Jiangsu Province has only about one mu per capita of cultivated land. Deliverance lies in accelerating readjustment of the structure of agriculture, vigorous efforts made to develop premium quality, high yield, high performance, high foreign exchange earning agriculture. Development of this kind of agriculture requires close attention to four transformations in our thinking and methods as follows:

First Is Acceleration of the Transformation From a Product Economy to a Commodity Economy. Development of a premium quality, high yield, high performance, high foreign exchange-earning agriculture requires establishment of commodity economy concepts, first of all. This means greater macroeconomic guidance, regulation, and control, and it also means observing objective economic laws to make the most of the guiding role of the market. Inasmuch as markets in Jiangsu Province have not yet matured, we believe that the process of developing premium quality, high yield, high performance, high foreign exchange-earning agriculture requires a major effort to develop markets first of all, efforts being concentrated in the near term on the building of a number of agricultural by-products markets. Second, it requires firm attention to the building of an organization in which agriculture, industry, and trade; production, supply, and marketing; planting, breeding, and processing are parts of a coordinated process that uses commodity circulation and foreign exchange-earning exports as a turnkey for guiding peasants in undertaking production.

Second Is Acceleration of the Transformation From Emphasis on Quantity to Emphasis on Returns. In the process of increasing output, returns must be the focus throughout, crop varieties and animal breeds selected and production organized on the basis of returns to be realized. In 1992 the entire province geared up in a major effort to increase the growing area for japonica rice in response to market demand, the growing area breaking the 20 million mu mark with a view to growing mostly japonica rice by the end of the Eighth Five-Year Plan. The growing area for low erucic acid and low liudai [4288 8384] content summer-harvested rape increased to 1.18 million mu in 1992, and 50 percent of the fall planting used this variety to provide premium quality edible oil and premium quality protein livestock feed. One important matter in improving returns from agriculture is making the most of the advantages of regional scale. We intend to use a comprehensive survey of agricultural resources as a basis for building 10 large economically diversified commodity bases in northern Jiangsu, suiting general methods to specific conditions there. Yet another important means of increasing returns is processing that adds value. In addition to building basis, we must develop technologically intensive and labor intensive agricultural by-products processing industries.

Third Is Accelerated Transformation From Traditional Agriculture to Modern Agriculture. First, we must continue to raise the level of modernization of production facilities, and continue to stress the building of high yield and consistent yield fields, building a number of "ton of grain fields." Second is the need to rely on scientific and technical advances, combining the fine tradition of painstaking and intensive farming with the application of advanced, modern scientific and technical achievements. In addition, ways must be actively explored to grow both grain and cash crops, to do intensive farming, to increase inputs and to get high outputs. We must promote multiple forms of agriculture such as the stereometric type [liti 4539 7555] farming type, the institutional [sheshi 6080 2457] cultivation type, the ecocycle type, and the added value processing type. We must also continue to give close attention to the exploitation of agricultural resources, moving ahead in depth and in breadth with their exploitation.

Fourth Is Accelerated Transformation From Reliance on Administrative Control to Business and Services. We plan to take action in the following five ways: First is a gradual reduction of command plans for agricultural production from governments at various levels, building an economic management and operating system that combines guidance plans with market regulation. Second is accelerated change in the functions of agencies concerned. The province's supply and marketing cooperatives have already founded supply and marketing (group) companies for a gradual reduction of administrative functions to make the earliest possible transition to completely economic entities. The grain and textile industry sectors are also in the process of drawing up plans for a transition to business style administration. Third is improved information services to guide agricultural production. Fourth is further improvement of the socialized services system to increase the functions of service organizations at the county, township, and village levels. Fifth is greater use of the scientific and technical, and the educational sectors in realizing the tremendous potential existing in agricultural production and the rural economy for a comprehensive rise in the level of agricultural production.

Shu Huiguo [5289 1920 0948] Deputy Governor, Jiangxi Province: "Steadily Perfect Development of a 'Three Highs' Agricultural Policies"

Development of "three highs" in agriculture (high quality, high yields, and high performance) requires continuation of reform and opening to the outside world, and further stabilization and perfection of policies in various regards.

First, it is necessary to stabilize and perfect the two-tier farming system in which the family output-related contract responsibility system is paramount, protecting and stirring peasant interest in developing "three highs" agriculture. In perfecting the two-tier farming system, the relationship between centralization and decentralization must be correctly handled, and attention given to

the four things to be given full rein and the four things to be upheld as follows: free rein to the superiority of peasant contracting of farming, upholding the principle of perfecting the two-tier farming system; free rein to the superiority of central administration for the development of a collective economy, upholding the principles of no egalitarian and indiscriminate transfer of the resources and contract rights of peasant households; free rein to the superiority of public ownership of land and other means of production, upholding the principle of protecting peasant household decision making authority in contracting farming; and free rein to the superiority of services provided both centrally and at specific levels, upholding the principle of proceeding from realities centralizing whatever should be centralized, and decentralizing whatever should be decentralized, combining centralization and decentralization.

Second is the need for further reform of the agricultural products circulation system, fostering and perfecting the market system. Full advantage must be taken of the present opportunity that the relatively comfortable supply situation, the difference between parity and negotiated prices, and the difference between procurement and sale prices provide to carry out a decisive policy for reform of the agricultural productions circulation system. Restraints on both the price and circulation of agricultural products, including grain, should be completely lifted in a single stroke, steps taken at the same time to remove restraints gradually on means of production markets. The foreign trade system needs reform, gradually removing restrictions on the export of agricultural products and the products of township and town enterprises, permitting all provincial and municipal agricultural departments to organize agricultural enterprises and township and town enterprises to handle the export business directly. Peasant participation in circulation must be speeded up, and continued emphasis placed on the building of basic market facilities, developing diverse methods for the exchange of agricultural products, notably wholesale and futures trading.

Third is further reform and perfection of the agricultural investment system that promotes the development of well-known, premium, special, new, and rare agricultural products. Priority must be given to investment that helps commodity grain and main cotton producing areas, priority support provided for the development of well-known, premium, special, new, and rare products, and priority support given to the export of foreign exchange-earning products.

Fourth is further development of socialized service entities for agriculture, liberalizing policies for the operation of such entities. Various kinds of services entities as turnkeys for commodity circulation, science and technology, capital, production, and processing must be developed and gradually serve as backstopping for economic strength to permit diversification of service organizations, completeness in the servicing process, substance in service operations, and making the service system an industry. All agricultural sectors including

farming, forestry, water conservancy, and township and town enterprises must keep pace with changes in government functions, vigorously link the development of technology and materials, operate all sorts of service entities that combine production, supply and marketing, and solve problems in failure to pay attention to commodity circulation in managing production, and needing services but having no means of getting them. Agricultural agencies must take their cue from services needed in the course of production, becoming full-service agencies that provide services before, during, and after production. In addition, they must enable all services having a bearing on the agricultural sector as well as all service organizations in society to develop in the direction of integration and progression of trade, industry, agriculture, science, and technology.

Farm Product Wholesale Markets Developing Well

92CE0696A Beijing NONGMIN RIBAO in Chinese
7 Aug 92 p 1

[Text] In recent years, especially since the second half of last year, our wholesale markets have developed at a very fast pace. According to the Ministry of Commerce statistics over 1,000 state-owned agricultural product wholesale markets now exist. Some agricultural product wholesale markets have formed a three level market structure consisting of primary markets (including free markets), regional markets and central markets.

Vegetable and fruit wholesale markets were developed first. By 1990 there were 1,340 vegetable and fruit wholesale markets. Sales totalled more than 12 billion yuan, comprising 70 to 80 percent of the total domestic market activity, of which 40 percent was earned by state-owned business cooperatives. The development of these wholesale markets have caused fruit and vegetable production to increase several times. Before the establishment of wholesale markets in Shouguang County, Shandong vegetable output was 850 million jin. At present this county's annual vegetable production is 2.5 billion jin, and output value 400 million yuan. The wholesale product market generates an annual income of 12 million yuan. The combination of large, medium-sized, and small markets day by day forms the local production, transitional and consumption markets. Consumers are less and less facing regional and seasonal limitations, and the quality of marketed fruit and vegetables is increasing daily.

Faced with the problems of "difficulty selling pigs," "difficulty buying eggs" and a weak chicken market, the pork, poultry and egg product wholesale markets have developed rapidly since they were set up. The meat product wholesale markets in Chengdu have been operating for only eight months, but the amount of contracted products is 500,000 tons, of which 455,000 tons are distributed to other provinces. Sales total 2 billion yuan which is double the sale amount before the wholesale market was established. In the first month that

Shanghai established its meat product wholesale markets, the amount of contracted products was 20,000 tons with sales of 100 million yuan. More than 20 of this kind of regional wholesale markets have appeared in Tianjin, Shenyang, Wuxi, Wuhan, and Guangdong. And 30 other meat product wholesale markets are in the building phase.

Early this year Guangdong and Tianjin established a southern and a northern grain market. In Zhejiang, Jiangsu, Anhui, Fujian, Tianjing and Henan tea wholesale markets are expanding. Li County, Hebei Province is building its domestic leather and fur wholesale market. In Xinjiang a livestock product wholesale market has recently been developed. In Inner Mongolia the sheep wool wholesale market is going to become the national sheep wool auction market. Shandong has established the largest domestic agricultural product wholesale market, and Hunan, Henan, Shanghai and Sichuan are also going to take the same step. Besides the central grain product wholesale market in Zhengzhou, grain and oil wholesale markets have been established in Harbin, Changchun, Jiujiang, Wuhu, Wuhan, Weihai, and Changsha. In addition, a series of regional grain markets have started to appear.

Outlook Good for Seeds in Border Trade Market

92CE0696B Beijing NONGMIN RIBAO in Chinese
6 Aug 92 p 1

[Text] Over the past three years our border seed trading market has developed rapidly. According to incomplete statistics from the five border provinces of Heilongjiang, Inner Mongolia, Yunnan, Guangxi and Xinjiang, the total amount traded is worth 47 million yuan, of which 23 million yuan is for export, and 24 million yuan for import. Barter materials include 3,500 tons of high quality seeds, 21,000 tons of fertilizer, 70 tons of insecticides, and other materials used for agriculture.

Since reform and opening up, the seed trade, similar to other forms of trade, started to enter the international market. However, due to weak financing and lack of

experience, the seed trade has always developed very slowly. After reestablishment of Sino-Soviet border trade in 1987, the border provinces followed the spirit of the central government's guide of "south cooperate and north open" and "circulating currency and prospering borders" to take the chance of their geographic advantage to rapidly develop border trade. At present most open ports have all developed seed trading work. Manzhouli City, as an open port of Heilongjiang Province, received only 200,000 Swiss francs from trade when the contract was first signed in 1988. But for the first half of 1992 it increased to 50 million Swiss francs which is more than several hundred times the amount traded in its beginning stage.

As seed border trade develops, there are more and more variety of products being traded. Besides seeds, the import and export products include the special products of agricultural and sideline occupations, commonly used products, light industry products, mechanical and electrical products, garments and steel materials, and 10 other kinds of products consisting of several hundreds of varieties. In addition, each border province actively exports laborers who go to partner countries to plant vegetables and grains, and supervise agricultural production.

The good point is that even though the seed trade started late and there exists certain difficulties and problems, the seed system has expressed great interest in improving the border trade. Over the past three years, research work on the seed trade and technological cooperation has continued without stop. The establishment of trading entities is a growing trend. The scope and depth of border trade contacts has greatly developed.

To promote the development of seed border trade, the nation's concerned work units recently held a meeting entitled "China's Border Seed Trade Discussion Meeting" in Heihe City, Heilongjiang Province. The meeting emphasized that the seed border trade work needs to take steps to liberate thoughts, update ideas, and push trade to a new stage so as not to lose present opportunities.

Further Background on F-16 Deal

93P30008A

[Editorial Report] According to articles in the 3 September issue of the Taipei daily LIEN-HO PAO, it was on ROC Armed Forces Day that the air force received the news. Officers and men at Chih Hang Air Force Base were thrilled to learn that their obsolete fleet of 1960s-vintage F-5E and F-104 jets would be replaced by F-16 fighters. This will greatly enhance air force strength and further ensure air safety in the Taiwan Straits. Some of the pilots have already finished F-16 training courses in the United States. According to an editorial in the 4 September LIEN-HO PAO, the recent PRC purchase of SU-27 and MIG-29 fighters from Russia has caused a great disparity in air force strength between China and Taiwan. Thus the purchase of F-16 fighter planes is important to Taiwan's safety and to peace and stability in the region.

The LIEN-HO PAO editorial also holds that the F-16 sale is based on the 1979 Taiwan Relations Acts, which emphasizes the upkeep of Taiwan's defensive power, rather than on the 1982 "17 August Communiqué," which was designed to phase out weapons sales to Taiwan. This represents a "breakthrough" in Taiwan-U.S. relations. Moreover, the editorial states, the new American policy will influence other countries' attitudes toward Taiwan. According to an article in the 4 September LIEN-HO PAO, President Bush sent a personal letter to Taiwan President Li Teng-hui to acknowledge the sale. This, the article states, raises questions as to how the letter was addressed, since Taiwan and the United States have no diplomatic relations. An official from President Li's office indicated that the highest national interest precludes making public the contents of this letter.

An article in the 3 September LIEN-HO PAO reports that Taiwan had been "paintakingly waiting" to purchase F-16 fighters for 11 years but had been turned down all along. However, the predicament of the U.S. economy, the end of the cold war, the slumping defense industry, and the upcoming election have forced Bush to change his mind. An article in the 4 September LIEN-HO PAO says that if the U.S. defense industry were prosperous, if Bush's poll ratings were as high as during the Gulf war, and if Governor Clinton did not pose a threat to his reelection, Taiwan would probably still be "in pursuit" of American F-16's.

Political Schizophrenia: MAC-MFA Contradiction Noted

92CM0415A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 286, Sep 92 p 6

[Article by Nan Fangshu (0589 2455 2592): "A Choice Between the Ministry of Foreign Affairs (MFA) and the Mainland Affairs Commission (MAC)"]

[Text] The frequently occurring conflicts in the division of labor of a government have to be regulated by higher national goals and policies. Contradictions at lower levels may be resolved at higher levels. However, the MAC and MFA in Taiwan are contradictory by nature, and no common ground can be found for the contradiction.

It is therefore obvious that we must make a choice between the two agencies. MFA seeks the recognition of our "national" status by the world community. Currently, it signifies a "two-China ministry" or "one China, one Taiwan." The establishment of MAC, on the other hand, is based on the "National Unification Principle" of "one China." It is the "one China ministry." There is no compromise between one and two. We have to delete either MFA or MAC.

There must be a choice between MFA and MAC, or there will be a fight at home because of the fundamental contradiction between the two agencies. The MFA is competing with the other side for legitimacy every day, and refuses to rule out double recognition. When it fails and breaks off diplomatic relations with others, it swears at its opponent for its isolation policy and attempt to strangle our diplomatic space. It asserts that our opponent should acknowledge our status as a political body. All such languages are "national languages." The basis of this ideology embraces things like "sovereignty." A look at MAC, on the other hand, finds that it uses a different language, advocating exchange, cooperation, and contact, etc. Two agencies, two sets of values, two goals, conflict with each other. No wonder such dead-locked conflicts spread in Taiwan. We are already engaged in an entangled fight among the "unification faction," the "independence faction," and the "Taiwan independence faction," before anything is ever done, bringing Taiwan into a best example of "political schizophrenia."

"Political schizophrenia" is an incurable and terminal disease. Its symptom is that every policy is upside down and becomes messed up. Taiwan does not have foreign policies and mainland policies. In the end, we will lose basic survival strategies. National separatism shows more or less schizophrenia. Today, two Germanies, two Vietnams, and two Koreas have ended their schizophrenia somewhat. Taiwan is the only place where political life is like a drunken god swinging back and forth with arguments of "faster," "slower," "cooler," and "hotter" strategies.

MAC? MFA? If we can't find a higher goal to combine the two, one of them has to be deleted. If we do not do it, the final outcome will be fighting among ourselves as result of schizophrenia, with outsiders just looking on us.

Cooperation With PRC Businessmen in Trading With CIS

92CE0028A Taipei LIEN-HO PAO in Chinese
13 Sep 92 p 11

[Report by Wang Yuan-hung: "Taiwan Businessmen Should Not Fight Battle Singlehandedly in Making Investments—Korean Businessmen March Forward With Large Investments"]

[Text] In September the temperature in Moscow can be 28 degrees centigrade. A group of Oriental and Western devotees of a South Korean religion called Unification were busy handing out hand-bills for contributions to build their churches. South Korea's businessmen and clergymen were quickening their pace in attacking Russia. Their enthusiasm was much greater than that of the Japanese businessmen who carried out their activities during the period of the Russian Empire years ago. The Koreans were far ahead of the businessmen from Taiwan and Mainland China in terms of organization and scale.

In last August, Taiwan's Economic and Trade delegation arrived in Belarus' capital, Minsk, where push carts at the airport bore the mark of Samsung, South Korea. When the delegation left the Ukrainian airport, it saw Samsung's huge advertisement on the billboard outside. Daewoo's large advertisements were often seen on Moscow's streets. Korean enterprises have run more advertisements in the Commonwealth of Independent States [CIS] than Japan's Sony and Honda.

Living in Moscow since his childhood, Tso Chen-kuan is an Russian of Chinese descent. He believes that rent hikes in Moscow are closely related with Korean businessmen's engagement in real estate speculation. Many Korean enterprises, large and small, have set up offices in Moscow. They often rent buildings in their entirety, and sublet them to others at a high price after fixing them up slightly, he said. All the tenants were foreigners.

Living in the communist world for many years, Moscovites know little about the real estate market. The monthly rent of a house may be as high as \$1,000 if someone engages in housing speculation and sublets it. Meanwhile, a similar nearby house may be as low as \$30, if the house is not the target of any speculator. Realizing that Moscovites do not know the market price, Korean businessmen have reaped huge profits by subletting their rented houses.

Korean businessmen often make large investments, a Taiwanese businessman in Moscow said. Right now, they remain in a stage of laying their foundation, and it is still early to say that they are making profits. Korean businessmen regard the future of the CIS as bright. Many Korean products are being sold on the local market at low prices. This has aroused great attention from the local people, he added.

Japanese businessmen are the ones who have been most affected by the Korean products on the market. The quality of Japanese products is good, but their prices are high. Most of the consumers cannot afford to buy Japanese products. Recently Japanese businessmen have cooperated with Taiwan businessmen to make use of Japan's global business network to do counterpart trading with the CIS.

Right now, six large Japanese trading companies have offices in Moscow. However, they are quite conservative. A representative of Japan's Iwai Company said that

they hope to sell Taiwan's cheap articles of everyday use to the CIS in exchange for Siberia's natural resources such as lumber, petroleum and mineral products, and sell these natural resources through Japan's global network.

A representative of another Japanese company believed that the CIS is still faced with many problems. The Japanese government does not encourage its businessmen to exchange goods with Russia. Japanese businessmen advocate the concept of building a counterpart fund for trading. They determine prices for their own products first, and charge to the accounts in exchange of goods from the CIS.

Japanese businessmen cannot do business on a large scale like their Korean counterparts, he said. In addition to CIS' own problems in terms of exchange rate, ordinance and transportation, problems in screening and approving export and import licenses and other problems that it cannot solve right away, another issue is that due to the great differences between the Japanese government and Russia on the four northern islands, the Japanese government is deliberately restricting Japanese businessmen in making investments in Russia.

Japan's current strategy is to do more trading, while making less investments; and use Taiwan's or Mainland China's cheap products in exchange for Russia's natural resources in the form of counterpart trading. With their limited income, the people in the CIS republics can only afford to buy articles of everyday use manufactured in Taiwan, Mainland China or Korea. In no way can Japanese businessmen cooperate with their Korean counterparts. Nor can they do business by smuggling goods on a small scale like the scalpers from Mainland China. Thus, their only choice is to cooperate with Taiwan businessmen.

Taiwan businessmen's influence in the CIS is limited. Many Russians often try to converse with Taiwan businessmen in Japanese when they see them, or mistake the latter for businessmen from Mainland China.

A research fellow of Russia's Committee for Foreign Trade and Economic Relations said that most of Russians do not know where Taiwan is. At best, a few of them know that a group of rich Chinese now live in Taiwan.

Taiwan's Economic and Trade delegation sponsored an investment symposium in Minsk. A map of Taiwan was hung at a corner of the site where the symposium was held. Many Byelorussians surrounded the map, gesticulating profusely. They only knew that Taiwan was in the vicinity of Mainland China, but they knew nothing about the relation between Taiwan and Mainland China.

Taiwan businessmen's investments in the CIS are also limited. A businessman from Taiwan made an investment and opened up a computer plant in Russia, but it was closed down because of devaluation of the ruble. Another enterprise invested in a petro-chemical plant.

With the exception of these, there only exist the trade relation between Taiwan businessmen and the CIS. Many Taiwanese products are being sold in Russia through Japanese businessmen.

There are more exchanges between Mainland China and the CIS. Goods manufactured by both countries were being exchanged in the old days of the Soviet Union.

Yang Szu-yung, a Chinese who lived in Moscow for a long time, said that in early days, Mainland China's best farm products such as pears from Tientsin and lichees from Southern China were being sold in Moscow, while Mainland China imported urea and other chemical fertilizer from Russia.

He said that after the deterioration of the Sino-Soviet relations, the volume of bilateral trade dropped tremendously. Following the recent dissolution of the Soviet Union, the CIS adopted an open-door policy. Barter trading has once again flourished along the border. Trade between scalpers along the Siberian Railways registered the fastest development. Recently Mainland China and Russia are holding talks, hoping to work out regulations for bilateral trading to eliminate the scalpers who are fighting their own battles singlehandedly.

In Russia, Chinese businessmen are not doing businesses only. Whenever there is a chance, many of them seek to obtain a residence permit or extend their residence permits. In view of the increasing number of Chinese who have applied for the extension of their residence permits, the Russian government has set up a special office to handle Chinese residence permits only. If Taiwan's businessmen plan to do business with the CIS, it is better for them to cooperate with Mainland Chinese businessmen. There are many Mainland Chinese businessmen who can speak Russian and understand the Russian habits and ways of doing things. If something happens, they can also solve their problems with the help of their Mainland Chinese partners or even the staff members of the "Chinese Embassy."

In general, the various CIS republics are short of foreign exchange, and their ordinances are incomplete. It is still early to make investments on a large scale. Barter trade is considered a comparatively safer business practice.

Taipei To Develop Ties With UN-Related Agencies *OW1509092392 Taipei CNA in English 0812 GMT 15 Sep 92*

[Text] Taipei, Sep 15 (CNA)—The Republic of China [ROC] will gradually develop relations with specialized agencies related to the United Nations and will apply to "re-join" the world body at an "appropriate" time, Foreign Minister Ch'ien Fu said Monday.

Ch'ien made the statement while addressing a seminar on the possibility for Taiwan to join a number of

UN-related specialized agencies. The seminar was sponsored by the Institute of International Relations, National Chengchi University.

The ROC withdrew from the UN in 1971 when it admitted Communist China.

Ch'ien pointed out that Peking's opposition has been the biggest stumbling block to Taiwan's "re-entry" into the UN. Peking has spared no effort to prevent Taiwan from entering any governmental or non-governmental international organizations.

Communist China has blocked Taiwan's efforts to join all UN-related organizations since it entered the world body, Ch'ien noted. It has also prevented the UN from including any information about Taiwan in official UN publications.

Communist China is a permanent member of the decision-making UN Security Council and its representative is now a deputy secretary-general of the UN Economic and Social Council, Ch'ien reported.

Against this background, Ch'ien said, it is unlikely for Taiwan to join the UN. "Even if we changed our national name, the problem could not be resolved easily," he added.

Nevertheless, the minister said, the government will do its best to gradually develop contacts with un-related specialized agencies, which are formed mainly to deal with such problems as communications, food and agriculture, health, and labor.

And when the time is ripe, Ch'ien said, the government will apply to join the UN under its official title.

At the moment, Ch'ien said, the country must increase its aid to less-developed countries and actively participate in various international activities in order to enhance its status in the world community.

Population Said 'Rich and Leisured,' Aging *OW2609101992 Taipei CNA in English 0745 GMT 26 Sep 92*

[Text] Taipei, Sep 26 (CNA)—The people on Taiwan have a daily average of six hours at their disposal, elevating them to the "rich and leisured class" as their annual per capita income approaches \$10,000, government statistics show.

The Council for Economic Planning and Development (CEPD) has recently completed a study of the citizens' daily life and found that their free time has increased from three hours and 39 minutes per day in 1977 to five hours and 55 minutes in 1990.

Their "busy" time—that spent on working, studying, commuting, doing household routine and nursing babies—decreased from a daily average of nine hours 44 minutes to five hours 55 minutes during the same period, CEPD said.

The study also finds that people here spent an average of two hours and three minutes watching TV or videotapes during weekdays.

On weekends, the time increased to two hours and 45 minutes, indicating the great role TV media play in people's daily life and the importance of quality TV programs.

Another tally of CEPD shows that the average household population in Taiwan has declined from 5.61 persons in 1964 to 4.16 persons in 1991.

CEPD said the declining trend foretells the aging of the population and possibly severe labor shortages in the coming years.

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