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# ***JPRS Report***

# **China**

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# China

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## NATIONAL AFFAIRS, POLICY

### Zhou Shulian Comments on Socialist Market Economy

93CE0014A Beijing JINRONG SHIBAO in Chinese  
7 Sep 92 p 3

[Article by Zhou Shulian (0719 0647 5571): "A Socialist Economy Is a Market Economy—No 5 in a Series on Socialist Market Economy"]

#### [Text] Why Do We Say That a Socialist Economy Is a Market Economy?

Whether a socialist economy is a market economy is a matter that has long been debated in theoretical circles. While the disputed issue before the Third Plenary Session of the 12th CPC Central Committee was whether a socialist economy is a commodity economy, the "Resolution on Economic Reform" of the Third Plenary Session of the 12th CPC Central Committee clearly pointed out that a socialist economy is a planned commodity economy. After that, some comrades noted that a socialist commodity economy is a socialist market economy, while others commented that a market economy is a distinct characteristic of capitalism, so opposed the term socialist market economy. Comrade Deng Xiaoping had indicated in November 1979 that a market economy is not limited to capitalist society, but can also be practiced in a socialist society. Then, in his speeches on his tour of southern China this spring, he made the following remarks: Whether planning or markets are emphasized is not an essential distinction between socialism and capitalism. A planned economy is not the same thing as socialism, because capitalism also practices planning, while a market economy does not equate to capitalism, as socialism also has markets. Both planning and markets are economic methods. Comrade Deng Xiaoping's profound analysis and scientific conclusions have ended this long debate, so are of immeasurable significance to our theory and practice.

Historically, market economy has undergone a process of development and change. Capitalism practiced market economy before the emergence of socialism but, for a time afterwards, capitalism practiced market economy to the exclusion of planning, while socialism practiced planned economy that excluded markets. While it was roughly right in these two cases to say that market economy was limited to capitalism and planned economy to socialism, things changed sharply later, since the Second World War in particular, when capitalist countries now also practice planning, even to the extent of some being called planned economies, and socialist countries also have markets, with some also being called market economies. So it is unrealistic and thus wrong under these conditions to continue to say that market economy is equivalent to capitalism and planned economy is the same thing as socialism. The scientific thesis that Comrade Deng Xiaoping has adhered to ever since 1979, correctly reflects the objective conditions

and laws that the current world's socialist and capitalist countries use to deal with the relationship between planning and markets.

While some comrades oppose the term socialist market economy out of concerns that it will lead to privatization or a state of anarchy in social production, such concerns are unnecessary. As planning and markets are both economic methods, instead of an essential distinction between socialism and capitalism, capitalist countries can practice market economy premised on private ownership, while socialist countries can also practice it based on public ownership. As long as we practice and recognize a market economy premised on the dominance of public ownership, it certainly will not lead to privatization. Neither will recognizing a socialist market economy necessarily lead to a state of anarchy in social production. As countries with capitalist market economies also make every effort to prevent anarchy in social production through enhanced macroeconomic regulation and control, we with socialist market economies are even more capable of acting in accordance with objective economic laws, by improving our macroeconomic regulation and control to ensure the planned nature of our national economy. Just as Comrade Deng Xiaoping has said, "while our past practice of a planned economy was naturally a good method, many years of experience have proved that using this method alone hampers development of the productive forces, so that we should combine planned and market economy to better free them up." It should be pointed out that the above concerns involve a lack of knowledge, existing misunderstandings, and doubts about a market economy, concerning which term I also used to have personal doubts. We should conscientiously study Comrade Deng Xiaoping's southern-tour speeches, so that we can enhance our understanding, dispel these doubts, and boldly recognize that a socialist economy is also a market economy.

#### On Acknowledging the Substantive Meaning of a Socialist Market Economy

Is there substantive meaning to the term socialist market economy? Some comrades note that there is only a nominal difference between the terms socialist commodity economy and socialist market economy, but not a substantive distinction, while others comment that the change of recognition from a socialist commodity economy to a socialist market economy is not merely one of terminology, but also has substantive meaning. I lean to the latter view. While a commodity economy is also, admittedly, a market economy, in a certain sense, because a commodity economy is inseparable from markets, a commodity economy also differs from a market economy. For instance, a small-scale commodity economy cannot be called a market economy. As some cities in feudal Chinese society had fairly well developed commodity economies, which could be considered the seeds, but not a market economy, a commodity economy can become a market economy only when its socialization and marketization have developed to a certain level, which justifies some comrades saying that a market

economy is a developed commodity economy. An even more essential feature of a market economy is that the market price force is the essential disposer of its public resources. While everyone knows that government directive planning was the disposer or basic disposer of public resources in our traditional socialist planned economy, and that a socialist commodity economy was proposed precisely to change this, by enabling the market price force to play a greater role in the disposition of public resources, the demands on the disposer of public resources are not as clear in a socialist commodity economy as in a socialist market economy. A socialist commodity economy can demand that either the market price force or the planning mechanism act as the essential disposer of public resources, or that planning and market forces play an equal role in the disposition of public resources. In order to develop our socialist commodity economy, while we demanded that "the state regulate and control the markets, which in turn guide enterprises," which helped us to understand how we could allow market forces to act as the essential disposer of public resources, our experience up to the present remains that the essential disposer of public resources is still planning and not markets. This involves objective difficulties in our economic reforms, as well as the unclear demands made by a socialist commodity economy on the disposer of public resources. Recognizing a socialist market economy means clearly demanding that the market price force be allowed to become the essential disposer of socialist public resources, which will better clarify the aim and accelerate the pace of our economic reform.

Making the market price force the essential disposer of socialist public resources will require the following: 1) that enterprises become independent commodity producers and managers with market dominance; 2) that a complete market system be formed, with markets for not only commodities, but also key elements, where there is competition, and where departmental and local divisions are broken through to form uniform national markets. It will also require changing the governmental form of business management, by changing the past method of direct government management of enterprises, and establishing a macroeconomic regulation system of mostly indirect management. Therefore, pointing out that a socialist market economy means more emphasis on the role of markets, enterprises, and businessmen, also implies that government interference in enterprise microeconomic affairs must be reduced.

I would like to return to the matter of acknowledging the meaning of a socialist market economy to our economic reforms. As the current state of our state-owned enterprises is very unsuited to the demands of a socialist market economy, we need to deepen our reforms, by converting our enterprise operating forces to make them more suited to such demands. It is worth noting that while everyone agrees that most state-owned enterprises should become commodity producers and managers, our understanding of this is certainly not unanimous, even to

the point of being quite inconsistent. For instance, while some comrades oppose "freeing enterprises from their status as government appendages," and others remark that state-owned enterprises "cannot be made responsible for both their profits and losses," how can state-owned enterprises become commodity producers and managers if they remain government appendages and cannot be made responsible for both their profits and losses? In order to clarify our enterprise reform aim, we need to fully and thoroughly understand the essential features of enterprises as commodity producers and managers. A summary of the experience of countries with market economies shows that in order for enterprises to become genuine commodity producers and managers with market dominance, they must have the following features: 1) enterprises must be market-oriented, by producing commodities for the purpose of exchange on markets; 2) enterprises must have independent decisionmaking power; 3) enterprises must have the sole responsibility for both their profits and losses; 4) enterprises must have expanded-reproduction capability; 5) enterprise operations must be aimed at profit-making; 6) the responsibilities of government and enterprises must be separate. While socialist state-owned enterprises may have other demands on them, as commodity producers and managers they still need these features, which other demands should not infringe upon. While a few state-owned enterprises (such as certain natural monopolies, public welfare facilities, and military industries) must continue to be state-run, so should or can not become commodity producers and managers, and naturally cannot be required to have these features, the majority of state-owned enterprises that should become commodity producers and managers must meet these demands. It is thus obvious that we need to classify our demands on and guidance of state-owned enterprise reform and operating forces conversion.

From the perspective of market economy demands, I do not endorse the popular argument that state-owned enterprises are relatively independent commodity producers and managers. As genuine commodity producers and managers, state-owned enterprises should have complete independence and responsibility for their own operations, including their profits and losses. So-called relative independence is actually incomplete independence and responsibility. Most state-owned enterprises now have a certain amount of independent decision-making power and responsibility for profits and losses, being responsible at least for their profits if not for their losses. So according to the relative independence demands, they have already completed their reform mission, which is obviously not so. So independence means complete independence, which should not be saddled with the "relative" qualifier. We still need to pay more attention now to the matter of enterprises having the sole responsibility for both their profits and losses. What does this mean? While we have called it enterprises using their income to meet their expenses, we now say that it should mean enterprises using their own assets to meet their responsibility for profits and losses, and going

bankrupt when assets do not cover liabilities. It is not the whole story to say that enterprises having the sole responsibility for both their profits and losses means simply using their income to meet their expenses. In order for enterprises to have sole responsibility for both their profits and losses, they must have certain prerequisites, such as management being separate from government administration, autonomous operations, their own assets, competitive markets, and a rational pricing system. While most state-owned enterprises still do not have these prerequisites, thus still have difficulty being solely responsible for both their profits and losses, market economy demands mean that state-owned enterprises as commodity producers and managers must and can have the sole responsibility for both their profits and losses. While more focus has been put on the matter of autonomous operations than on that of sole responsibility for both profits and losses, until this latter issue is dealt with, it will remain hard to either resolve a whole series of deeper problems in our national economy or to evolve and develop a market economy. In order to spur state-owned enterprises to take on the sole responsibility for both their profits and losses, we must base our actions on conscientiously conducting pilot projects and reviewing experiences, and then go on to actively promote shareholding.

#### **A Socialist Market Economy Will Mean Speeding Up the Conversion of Government Functions**

While more attention is now being paid to converting government functions, it needs to be emphasized that such conversion must contribute to freeing enterprises from their subordinate relationship to government administration, and to separating the responsibilities of government and enterprises. Until this matter is dealt with, it will remain hard for enterprises to gain either management independence or the sole responsibility for both their profits and losses, so that they will not be able to become genuine commodity producers and managers. Separating government administration from enterprise management means that enterprises should not be government appendages, but that government should have government responsibilities, enterprises should have business responsibilities, and enterprises should not be in a subordinate relationship to government administration. Business management, not being separate from government administration, exists not only in socialist societies, but in feudal and capitalist ones as well. The history of these societies shows that they all underwent a process of enterprises fighting for independence to free themselves from being government appendages and become commodity producers and managers. The key to government service to business is breaking enterprises free from their subordinate relationship to government administration, by changing the "mother-in-law to daughter-in-law" relationship of government to enterprises, which, by not breaking out of, not only makes it impossible for government to serve business, but even adds to unnecessary interference in enterprise operations. It is only when business management is separate

from government administration that government is free from enterprise microeconomic affairs, so it can perform its own macroeconomic control function well. In a socialist market economy, it can be said that markets are the foundation and planning is for guidance. Government must provide the conditions for the normal operation of a market economy, by establishing order, and through guiding economic activity to designated goals through macroeconomic regulation, while handling matters that markets cannot deal with well or at all. Recognizing a socialist market economy will also help to clarify government responsibilities, by promoting government performance of its own functions.

#### **We Need To Free Up Our Thinking To Adapt to a Socialist Market Economy System**

Proposing a socialist market economy clarifies that the basic aim of a market economy is to establish a socialist market economy system. While this will mean further freeing up our thinking, striving to eliminate all ideological obstacles to reform, and "guarding against the right, it means mainly preventing leftism." Reform is conscious action, reform goals, measures, methods, and pace are all determined largely by ideas and understanding, and practice has proved that every reform advance runs into ideological obstacles, which requires repeated freeing up of thinking. It can be said in a certain sense that freeing up of thinking is the key to reform. China's reforms are advancing under the theoretical guidance of "socialism with distinct Chinese characteristics" that was initiated by Comrade Deng Xiaoping. We clearly remember the party's presentation of the enormous promotional role that the theory of a socialist commodity economy would play in our economic reforms. Until then, many had refused to recognize that a socialist economy is a commodity economy, that state-owned enterprises are socialist commodity producers and managers, or that a socialist market system can exist, instead being tied up in the distinction between "capitalism" and "socialism," which were severe obstacles to economic reform. While the theory of a socialist commodity economy greatly liberated people's ideas, by freeing reform from the limitations of the old system, contributing to the drawing up of policy legislation, such as the "Enterprise Law" and the "Bankruptcy Law," and promoting reform, it did not essentially eliminate many ideological obstacles. Views still varied on many issues, such as whether state-owned enterprises needed independent management, to be solely responsible for both their profits and losses, to become dominant investors, or to have corporate ownership, and whether it was necessary to recognize and expand the role of socialist businessmen, the crux of which remained the distinction between "capitalism" and "socialism." So we remained faced with a huge mission of better freeing up our thinking. Comrade Deng Xiaoping's speeches on his southern tour elevated people's thinking to a new plane, bringing a new ideological liberation throughout China. Recognizing a socialist market economy and implementing its demands will be bound to contribute to

essentially eliminating many ideological obstacles to economic reform, and to guaranteeing the victorious completion of our reform mission.

#### **'Internal' Document Analyzes Economic Situation**

92CE0675A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 7, 1 Jul 92 pp 32-34

[Article by Wu Shishen (0702 1102 3234), XINHUA reporter: "Internal Document Reveals Mainland Economic Situation"]

[Text] *Originally published in the "Selected Internal Reference Materials," a "secret" CPC publication, this article is the party's internal report and analysis on the current economic situation of mainland China in the second quarter of this year. The writer, Wu Shishen, is a XINHUA reporter.*

With the completion of the improvement of the economic environment and rectification of the economic order, China's economy has entered a new phase of development. The first four months of this year have gone by, and what new changes and problems have occurred in the economic situation? A few days ago, comrades of the State Planning Commission, the State Statistical Bureau, and other departments answered questions raised by the reporter.

#### **High, Fast, Brisk, Active, and Stable**

[Question] What are the characteristics of the economic situation since the beginning of this year?

[Answer] Judging by conditions in the first quarter, the characteristics of the economic situation can be summarized in five words: "high, fast, brisk, active, and stable." First, the rate of industrial growth was high. The total industrial output value rose by 18.2 percent over the same period last year; industries under all kinds of ownerships maintained a fairly high growth rate; and the output value of large and medium-sized enterprises and the value of exports delivered by them rose by 18 percent and 23.7 percent respectively over the same period last year. Second, investment grew at a fast rate. Investment in fixed assets by state-owned enterprises rose by 36.6 percent; investment in equipment renewal and technological transformation and investment in basic industries increased at the fastest rate in recent years; and the number of new investment projects was increasing sharply in all parts of the country. Investment by local governments grew by 52 percent, nearly 30 percentage points higher than the growth of investment by the central government. Third, the market was stable, and purchasing and marketing were brisk in both urban and rural areas. The total volume of retail sales rose by 16.3 percent; urban residents were buying more expensive consumer goods; high- and medium-grade goods were in great demand; and institutional consumption remained high with no sign of abating. Fourth, relations with the outside world were very active. The total volume of imports and exports increased by 17.2 percent, and more

goods were exported than imported. There was a new upsurge in the use of foreign funds, with an all-time high average of 46 foreign investment contracts signed and \$27.8 million of foreign capital brought in daily. Fifth, the financial and monetary situation was relatively stable. Domestic revenues increased by 16.4 percent, which was 6.3 percentage points higher than the increase in expenditures; on balance, revenues were 11.4 billion yuan more than expenditures; and the gap between bank deposits and loans continued to narrow. The situation indicates that the national economy has again entered a phase of more rapid growth, but the momentum of economic growth was somewhat stronger than expected.

[Question] While industrial growth is gaining speed, the overstocking of finished goods is also getting worse. Doesn't this mean that industry is growing blindly and impulsively?

[Answer] There are two aspects to this question. On the one hand, as of the end of March, funds tied up by finished goods totaled more than 120 billion yuan, up 15.4 billion yuan from that at the end of the last year, which is a fact. The overstocked goods included mainly sugar, beverages, tobacco, chemical products, machinery, electrical and electronic equipment, nonferrous metals, etc., of which some were seasonal increases (such as sugar) and some were unmarketable products. On the other hand, with the increasing growth rates of production and marketing, the trend of dropping enterprise profits was being reversed gradually, and after falling continuously for three years to a record low level, profits began to go up. In the first quarter, the profits and taxes turned over to the state by state-owned enterprises in the state budget increased by 16.5 percent; the proportion of enterprises which lost money dropped by 3.3 percent to 37.1 percent; but the total loss increased by 6.4 percent. It was further demonstrated that high growth rates could improve economic performance, but no significant improvement was made to the low economic performance as a whole.

[Question] Both industrial output and investment grew at higher rates in the first quarter of this year than they did in 1988. Does this mean that the economy is already or becoming overheated?

#### **No Clear Sign of Overheated Economy**

[Answer] The current economic growth rate is indeed a little too high, but it is obviously different from the overheated economic growth in 1988. In 1988, there was a serious imbalance between total demand and total supply, and prices were soaring, causing anxiety and panic buying, but this year's rapid economic growth is basically within the limits permitted by the objective conditions. At present, the gap between total supply and total demand is only 4 percent; about 90 percent of essential goods are in balance between supply and demand or in short supply; and prices are relatively stable. Moreover, the high growth rate in the first quarter was preceded by two years of low growth rate and to a

certain degree was of a recovery nature, but the high growth rate in 1988 was a continuation of the sustained overheated economic growth in previous years. The two cannot be mentioned in the same breath. Therefore, although the economy seems to be growing at a rather high speed now, there is no obvious sign of overheated growth. Of course, we must watch out for tendencies to blindly speed up production, compete for investment, and start new projects.

[Question] There has been a sustained drought in the north and an unbroken spell of wet weather in the south for a rather long period now. How will the agricultural situation be affected this year?

[Answer] In the last winter and spring, most areas in north China were hit by a sustained drought, while rather extensive damages were caused by excessive rains in the south, adversely affecting the growth of summer grain and oil-bearing crops and the quality of wheat sown. Since the beginning of spring, governments at all levels took active and effective measures to support agricultural production and paid serious attention to field management to resist the drought, protect the seedlings, and achieve a good harvest. At the same time, large amounts of money and supplies were made available. Agricultural loans in the first quarter increased by 2.07 billion yuan over the same period last year, and retail sales of agricultural means of production in the first quarter totaled 26.4 billion yuan, a 15.8 percent increase over the same period last year. Especially since March, rains and snows have fallen all over the country, and the drought has become less serious. At present, the condition of the summer grain seedlings is gradually improving. However, because of the prolonged drought previously, the growth of the summer grain crop as a whole is not as well as it was in the same period last year. Moreover, because of the reduced area sown to summer grain, and because of possibly more serious than usual plant diseases and insect pests resulting from the warm winter, we should not be too optimistic about summer grain production.

#### Mounting Inflationary Pressures

[Question] What changes have taken place in the market price situation since the introduction of the grain price readjustment measures?

[Answer] Judging by the situation in the first quarter, prices have remained stable with a tendency to go up. The general price level has risen by about 5 percent; the cost of living index for workers in large and medium-sized cities is up by a two-digit figure; and in some places more prices have risen and by larger margins. Because supply and demand are still basically in balance, the rising of the general price level is at present still basically in line with economic growth. There are, however, also some new changes. First, from a price management viewpoint, the market prices, falling with a tendency to stabilize last year, are now stable with a tendency to rise. Second, prices in cities are rising from an already high

level, and the rising trend is spreading from large and medium-sized cities to small cities. Third, prices tend to rise in all reproduction links, including production, construction, circulation, and consumer prices. Particularly the pressure of cost to push prices up is increasing, and potential inflationary factors are growing. Therefore, the price reform in all localities should be pushed forward actively and cautiously to prevent major price fluctuations.

[Question] Will the economy exceed the growth rate set by the state plan this year? How can we maintain a suitable economic growth rate?

[Answer] Judging by the social and economic environment since the conclusion of improving the economic environment and rectifying the economic order, a period of rapid economic development has begun, and it is very possible that this year's economic growth rate will exceed the 6 percent target. According to initial estimates, this year's gross domestic product will grow at a rate equal to or higher than the average growth rate of the past 13 years, but the growth will be uneven between sectors and areas. Specifically, gross domestic product will grow by 8-10 percent; industry, 12.3-15.6 percent; investment, 15.6-23.1 percent; and total consumption, 15.6-18.5 percent. However, the economic growth rate for the whole year should be kept at about 8 percent. At this growth rate it is possible, first, to maintain harmony between industry and agriculture, while allowing industry to grow at a fairly fast pace; second, to conduce to readjusting the economic structure and improving economic performance, while maintaining reasonable growth in social demand; and third, to keep the retail prices from rising above the level set by the state plan and the living costs of urban residents from rising over the 10 percent mark to maintain market stability and public confidence. If the economy grows too fast, tensions may result in social and economic life.

#### Major Goal of Macroeconomic Regulation and Control

[Question] At present, there is strong pressure in all parts of the country to speed up economic development. Under the circumstance, how can we strengthen macroeconomic regulation and control and avoid blindness in economic development?

[Answer] Indeed the enthusiasm with which people in all walks of life are calling for accelerated economic development is unprecedentedly high. This is a good phenomenon. We should warmly support the enthusiasm and also give it positive guidance. To be specific, this means that we should not only strive for faster economic growth but also try to optimize the economic structure, improve economic performance, and avoid obvious inflation. This should also be the major goal of the next phase of macroeconomic regulation and control. First, while maintaining steady growth of the primary industries and striving for good agricultural harvests, we should make speeding up the development of the tertiary industries an important part of speeding up economic growth, with the

emphasis on transport, communications, commerce, finance, insurance, and social services. At the same time, it is necessary, in strict accordance with state industrial policies and market capacity, to readjust the internal structure of the secondary industries, speed up the development of the basic industries, and adopt effective measures to check the blind development of the manufacturing industries. Second, we should keep the scale of credits and cash flow under strict control. Third, we should properly handle the relationship between reform, development, and stability and avoid causing major social shocks. We should pay attention to changing the traditional thinking that to speed up development means simply to invest in new projects. Reform must take into consideration the endurance of all concerned and proceed in a coordinated way. At present, while paying attention to reforming the enterprise management mechanism, we must also pay attention to reforming government organizations to really change government functions, properly control the macroeconomy, and invigorate the microeconomy.

#### **Dai Yuanchen Criticizes Improvement, Rectification**

HK2110102092 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 0914 GMT 19 Oct 92

[By Mai Shilong (7796 5535 7893)]

[Text] Beijing, 19 Oct (ZHONGGUO TONGXUN SHE)—Dai Yuanchen, a researcher at the Economics Institute of the Chinese Academy of Social Sciences, has frankly pointed out that as far as the improvement of the economic environment and rectification of the economic order in the past few years was concerned, since more administrative controls were exercised to effect a greater supply than demand, the buyers' market that thus emerged was in fact formed at the expense of reform. It did not give an impetus to reform, but has instead affected the reform process.

Dai Yuanchen is a well-known figure in mainland economics circles for setting forth the viewpoint that "reform needs a macroeconomic environment in which supply is somewhat greater than demand." He upheld his own viewpoint during an interview with this reporter, even though this viewpoint has been queried by a considerable number of experts and even authoritative persons in economic circles. He pointed out that the disadvantages of the three years of improvement and rectification outweighed the advantages. Comparatively speaking, the improvement and rectification allowed the mainland to have a more relaxed economic environment, which was conducive to reform in this sense. However, it brought greater drawbacks to reform. As far as this process of readjustment was concerned, since more administrative controls were exercised at the expense of reform in order to have greater supply than demand, it did not give an impetus to reform but affected the reform process.

When talking about the lessons drawn from the three years of improvement and rectification, Dai Yuanchen said the greatest lesson learned was the issue of speed. Generally speaking, development speed during the improvement and rectification declined from 16 percent to five percent, which was only one-third of the original growth rate, and growth of secondary and tertiary industries also declined. Only primary industry, that is, agriculture, did not decline, and the cost to industry was even greater.

Dai Yuanchen said that because of the improvement and rectification, the process of transferring the rural labor force to nonagricultural fields had stagnated for several years, which had allowed a large rural labor force to accumulate in the mainland, one which exerted very great pressure. This was another aftereffect of the improvement and rectification. At present, there is an estimated floating population of 3 million in Beijing and the figure in Guangdong is allegedly up to 6 million, and huge populations have migrated to other parts of the country every year. The improvement and rectification kept inflation under control, but the price was too large.

Dai Yuanchen pointed out that following the call of the Central CPC Committee for the rapid development of tertiary industry, the 14th CPC Congress has advocated the establishment of a market economy, which implies a suggestion to release employment pressure accumulated in previous years as soon as possible. Moreover, the report delivered at the 14th CPC Congress has explicitly advocated expediting economic development to march to a market economy at a faster pace and bring initiative from all fields into play to strengthen reform. Overall, this is reasonable and indispensable.

#### **People's Consumption Standards Noted Rising**

OW1810024092 Beijing XINHUA Domestic Service  
in Chinese 0704 GMT 16 Oct 92

[By reporter Wu Shishen (0702 1102 3234) and reporter trainee Wei Fang (7614 2455)]

[Text] Beijing, 16 October (XINHUA)—The Chinese people's standards of consumption have been rising in the last 14 years since the adoption of the reform and opening policy. Increasingly diverse ways of consumption and a demand for high-grade goods show that the mode of consumption today is one of people who are beginning to seek a comparatively comfortable life after having had their basic food and clothing problems resolved.

According to figures released by the State Statistics Bureau, the per capita spending of urban and rural people rose from 175 yuan in 1978 to 803 yuan in 1991. After adjustment for inflation, the actual average annual growth was 6.5 percent, which was substantially higher than the 2.2 percent average annual increase during the preceding 26 years. In rural areas, where there is a much greater variety of goods for selection, people are spending money on improving the quality of their lives

by building houses and purchasing newly developed consumer goods. In urban areas, people are spending more and more money on purchasing goods for daily use, especially high-grade durable goods, and not simply on food and clothing to meet their needs. While consumption rises, the quality of goods also keeps improving.

As for diet, most families are looking for food of better quality after having had enough to satisfy their needs. During the past 14 years, the per capita consumption of cooking oil, pork, beef, mutton, and poultry has multiplied. Currently Chinese people's per capita annual consumption of meat and eggs has exceeded that of people in medium and low-income countries in Asia and is approaching that of people in medium and high-income countries. The World Bank has confirmed that Chinese people's daily per capita calorie consumption is 2,637 large calories, approaching the level of people in medium-low income countries.

In urban areas, people dressed in colorful, new-style, and beautifully designed clothing have replaced those people who dressed like "blue ants" or "gray ants" 14 years ago; and demands for comfortable, high-grade, and beautifully designed clothing that suits consumers' individual personalities is increasing. Peasants, too, are looking for pretty and well-designed garments, and not simply durable garments for just keeping warm. In fact, Chinese people's consumption of textile products today has exceeded that of people in medium income countries.

With respect to household appliances, the people's trend of buying practical as well modern and high-grade goods has become increasingly conspicuous. During this 14-year period, the number of washing machines, refrigerators, television sets, cassette recorders, electric fans and other household appliances owned by every 100 families has multiplied, ranging from a dozen times to dozens of times. The number of families owning the "new six big-ticket items"—television sets, refrigerators, washing machines, receiver-cassette recorders, cameras, and electric fans—has approached that of people in medium and high-income countries. Some families even own stereo components, video recorders, air conditioners, and even cars. The process of owning the "new six big-ticket items" has also started among people in rural areas.

People's housing conditions have changed enormously. Living quarters are no longer merely shelters now, they have to be comfortable and spacious. Compared with that of 10 years ago, the per capita living space of urban residents has increased 3.3 square meters, and increasingly beautiful and luxurious fixtures are used for household decorations. Peasants' adobe houses are being replaced by houses built with concrete, bricks and wooden materials.

People's spiritual lives have become increasingly diverse. In 1991, urban people's per capita spending on cultural and recreational articles as well as books, newspapers, and magazines was 81.8 yuan, or 1.7 times higher than that of 1981; and peasants' per capita spending on

cultural activities has increased by more than 10 times. An increasingly number of people today are spending their own money on travelling, sightseeing, visiting exhibitions, and attending dancing parties, concerts, and karaoke soirees.

### **Beijing Sets Up Industrial Shareholding Group**

*HK1309054392 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1105 GMT 2 Sep 92*

[Report by Li Gang (2621 0474): "China Sets Up Its First Joint-Stock Group Company"]

[Text] Beijing, 2 Sep (ZHONGGUO XINWEN SHE)—The China Engineering and Mechanical Group Company, the first joint-stock group company in China, was founded in Beijing today.

Formed with funds from 17 production enterprises and two special companies, the China Engineering and Mechanical Group Company is a limited company and an enterprise with comprehensive functions which transcend regions, departments, and levels. The company offers special services in scientific research, production, sales, and project contracting, as well as technical services related to engineering and mechanics.

According to the group company regulations, the group is composed and is operating completely in accordance with standard rules. The members undertake limited responsibility in proportion to the size of their share in the group.

At the first meeting of the board of directors, which was held last month, the shareholders' representatives elected the director and general manager. This represented the first time that the government did not appoint the director of a state level group company.

Zhao Mingsheng, director of the group company, revealed the group's development goals: Taking the U.S. Caterpillar Corporation and Japan's Omatsu Corporation as an example, to strive to transform the group into one of the seven largest engineering and mechanical enterprises in the world through a decade of strenuous efforts, and to enable the major products of its member units to reach advanced international standards and to enable their services to reach the standard of Japan's Omatsu Corporation. Furthermore, by working hard for a year or two, the group intends to transform the China Engineering and Mechanical Group Company into a large enterprise group which is composed of China's backbone engineering and mechanical enterprises, whose capital is pooled through shares, and which carries out diversified operations, markets its goods worldwide, and plays a leading role in trade.

**Article on Development of Enterprise Groups***HK2010150992 Beijing JINGJI GUANLI in Chinese  
No 6, 5 Jun 92 pp 42-46*

[Article by Liu Gang (2692 0474): "The Present Situation and Development Trend of China's Enterprise Groups"]

[Text] In the wake of in-depth reform development in the economic system in the 1980's, a new form of economic organization, that is, enterprise groups, grew out of nothing and from small into large ones. As of this moment, there are about 2,000 enterprise groups undertaking various trades in China, and they play a significant role in economic construction. In their development throughout the past decade, China's enterprise groups experienced four development stages, namely preparation, establishment, development and consolidation; and are now at the stage of perfection and maturity. To China's enterprise groups, this is a very significant stage as it plays an important part in determining whether the enterprise groups may form a close linkage of assets, whether or not the enterprise groups are marked by relatively perfect functions and structure, and whether or not they can be a pillar of the national economy as a whole. Therefore, certain current issues concerning the enterprise groups, such as their development trend; problems and difficulties developing in the enterprise groups in their development, and countermeasures to them; and so on, arouse the interest of the areas concerned. This article will discuss the above issues in depth on the basis of an on-the-spot investigation of more than 30 enterprise groups in Beijing, Tianjin, Shanghai, Hebei, Shandong, Hubei and so forth.

**I. Development Trend of China's Enterprise Groups**

The investigation indicated that China's enterprise groups developed in six basic trends, showing us a distinct development trend and bright prospects.

**1. Development from a combination of production, science and technology, and capital to a technology and financial group.**

China's enterprise groups grew in the process of lateral economic combination and specialized production cooperation. In the course of development, a productive enterprise needed correspondingly science and technology, finance, trade and services from enterprises engaging in relevant areas. A combination of production and science and technology was the basic condition for developing social productive forces. In recent years, many scientific research-production combines developed into science and technology development groups. For example, China Keli High Technology Group, Great Wall, Langcao, Changjiang Computer Group and so on. They pooled expertise in areas such as qualified personnel, knowledge, technology, information and so on for comprehensive development, which promoted the capability of enterprise groups to upgrade products and their market competition, and was favorable to the

import, assimilation, and innovation of advanced technology. Capital was the "blood" of enterprise groups in their operations. A close combination of industrial capital and financial capital was inevitable in a high-level development of the productive forces in society. Currently, there have emerged in China combinations between banks and enterprises, or financial groups headed by banks, such as China International Trust and Investment Corporation, Everbright Industrial Corporation, and so forth. Furthermore, 17 large enterprise groups have already established their financial companies for internal financing purposes.

**2. Implementation of the shareholding system was inevitable in the intensive and extensive development of enterprise groups.**

Enterprise groups were gradually formed and developed according to their needs for specializing cooperation relations, producing corresponding products, matching production techniques, and establishing other economic and technology links. Following an expansion in the production scale of enterprise groups, however, the issue of how to boost the binding force of an enterprise group, and the loyalty of its member enterprises, has become one that plays an important role in the development of the group. Judging from our practical experience in the past decade, it became an inevitable trend that the relations of property ownership were used to perfect the internal management of an enterprise group. In arranging the property ownership of an enterprise group through the shareholding system, we divided all assets of an enterprise group into certain equal shares, which were generally classified as state-owned shares (accounting for more than 51 percent), public enterprise shares, collective enterprise shares, workers' individual shares, society and legal entity shares, foreign-funded enterprise shares, and so forth. Group companies (parent companies) used capital to link up subsidiary companies and associated enterprises by holding the shares of and having stakes in the latter. This was an important means of standardizing an enterprise group. For example, practical experiences of Beijing Dongan Group, Jialing Industry Joint-Stock Group, Wanbao Electric Group, and Shanghai Vacuum Electronic Devices Joint-Stock Company Limited proved that to actively develop stock groups was an important way for rationalizing the internal assets relations of the groups, and for boosting the capital strength of the groups; and was a significant way to promote an intensive and extensive development in enterprise groups.

**3. Expansion in the size of enterprise groups.**

Recently, provinces and municipalities such as Jiangsu, Shanghai and Beijing have expanded the size of enterprise groups by combining powerful enterprises, and have achieved prominent results. Shanghai Municipality merged four television factories, two rubber tire factories, and two bicycle factories into large groups; Jiangsu Province grouped the Suzhou Great Wall Electric Fan Factory, the Chunhua Vacuum Cleaner Factory, and the

Xiangxuehai Refrigerator Factory into the Sijia Electric Appliances Group; and Beijing Municipality merged the Mudan Television Factory and the Dongfeng Television Factory into a group. These groups obviously held a favorable position in their respective trades in terms of production scale, product quantity, and sales volume.

#### 4. Diversification and comprehensiveness in the operations of enterprise groups.

In their early days, most of China's enterprise groups operated with their internal economic and technological links, and their functions were relatively simple. In recent years, there was a trend that enterprise groups developed in all directions in accordance with the commodity economic development and the need for competition in both domestic and overseas markets. By making use of the overall advantages and advantages of their member enterprises, enterprise groups not only produced a variety of products in their trades, but also accumulated others assets and diversified their operations by merging with, leasing, and contracting enterprises in other trades. The scope of operations of the Jinjiang Group in Shanghai, the Jinshi Bicycle Group in Jiangsu Province, the Banqiu Industrial Group and the Wanbao Group in Guangdong Province, and so forth respectively covered machine-building, construction, chemicals, science and technology, commerce, foreign trade, finance, light industry and textiles, shipbuilding, transportation, real estate, tourism, information, and other industries. As they combined production with other corresponding services, their operations became diversified and their comprehensive functions promoted each other, and they achieved the results in combining economies, as well as economies of scale.

#### 5. Enterprise groups developed in the direction of becoming export-oriented and multi-national.

In the wake of the in-depth development of reform and ever-growing international trade and technology and economic exchanges, more enterprise groups in China took the international market as their area of strategic operations. For example, the Shandong Baima Machine-Building Group, which took Jinan No. 1 Machine Tools Factory as the core, put forward the principle of "giving the domestic market to others while competing in the international market." In 1990, its machine tools were exported to more than 40 countries and regions and generated \$4.5 million in foreign exchange, which accounts for 70 percent of its total output value. At present, this group has a branch company in the United States. Wanbao Electric Group in Guangdong generated foreign exchange mainly by exporting large electrical home appliances. In 1990, its exports generated some \$50 million in foreign exchange, and it became one of the world's eight largest refrigerator producers. The Saige [6357 2706] Group of Shenzhen has established cooperative relations with more than 100 companies in over 10 countries and regions. It has invested and established enterprises in Kenya and East Europe, and has acquired

the Yigao [5669 7559] Computer Company in Hong Kong and 95 sales outlets in the United States.

#### 6. Development of large enterprise groups was included in the state plan.

In accordance with the characteristics of a planned commodity economy, beginning in 1986, the State Planning Commission, joined by relevant departments of the State Council, listed separate plans for 15 large enterprise groups which played an important role in the national economy. Under the condition whereby the proportion of state mandatory production plan dropped and interests were shared among the central authorities, localities, and enterprises, the separate plans applied to certain large enterprise groups. This helped the state to directly control certain important materials and to strengthen macroeconomic readjustment. At present, over 80 percent of power generation equipment and over 60 percent of medium-sized truck output in China are controlled by the state through the separate plans for enterprise groups. This played a positive role in putting an end to the situation where the production of medium-sized vehicles was unorganized, chaotic, and duplicated. Since these large enterprise groups had advantages over individual enterprises in terms of stimulatory function and economies of scale, the state could convey its industrial policies and major principles to the groups' internal levels through enterprise groups, thereby directly or indirectly influencing the production and operational direction of a large number of medium and small enterprises.

The above is a conclusion about the development trend of China's enterprise groups. It is a general summary rather than objective conditions for each enterprise group turning such a development trend into reality. Therefore, we must proceed from the specific conditions of each enterprise group, and constantly make innovations, so as to continuously perfect them.

#### Major Current Problems in China's Enterprise Groups

In order to develop China's enterprise groups in a steady manner, we must promptly solve the following problems:

##### 1. The principle of "three no-changes" was a major obstacle for the development of enterprise groups.

Enterprise groups were a form of economic organization that involved different regions, different trades, different departments, and different countries who took public ownership as the core and were a combination of different kinds of ownership. The major purpose of forming enterprise groups was to improve marginal productivity through the optimal arrangement of production means and an expansion of production scale. However, the principle of "three no-changes" obstructed and severed economic and technological links among members of an enterprise group so that a large number of enterprise groups were "grouped" but not "united" together, and there was a saying that "nine out of 10 groups were shells." By reforming, we have to readjust the separation

of materials and interests between departments and regions, which were formed under the old system. But the essence of "three no-changes" was to prohibit any change in the vested interests of departments and regions, which was contrary to the primary goals of the reform. Although some groups minimized in recent years to a certain extent the obstacles of the "three no-changes" by means of contract, leasing, capital contributions, mergers, changes in production, and separate plans, there had been no significant breakthrough in the "three no-changes" situation (in particular, there was no change in profit delivery to fiscal authorities).

2. There was a misunderstanding about the development of enterprise groups.

At present, although relevant departments of state made certain explicit statements about the characteristics of enterprise groups, people are still confused about their understanding of enterprise groups in actual economic life. Some administrative corporations, trust-type combines, large joint enterprises, and groups of loosely linked enterprises call themselves "enterprise groups" so that there is no uniform statistic criteria and statistical figures became distorted. Some administrative departments took enterprise groups as legal persons and required them to register themselves in the same way a group company (parent company) did, and there was a duplication of assets registration. Some localities, departments, and enterprises did not have a correct motivation for developing enterprise groups. Some provinces, cities, and trades established regional or closed groups and monopolized their areas and trades to protect vested interests. Some administrative corporations "changed the license plate" into "enterprise groups" in order to be included in the separate plans. Some enterprises took the lead in forming enterprise groups in order to raise their status in the administrative ranks, and so forth. If we allowed such a chaotic situation to continue to develop, it would be inevitable that it would develop in the same manner as did those companies which were subject to readjustment and consolidation. Hence, we must seriously deal with the situation and promptly adopt measures to check it.

3. Combination between financial industry and enterprise groups was plagued by problems.

To a very large extent, the development of enterprise groups needs the support of the financial industry. At present, there are very few cases where China's banks have stakes in enterprise groups, and it is very difficult for enterprise groups to form strong financial strength. In addition, only a very few enterprise groups have internal financial companies. As reform in the financial system fell behind the pace of reform in enterprises, there was an insufficient supply of "blood" for enterprise groups, and this was unfavorable to work rationalizing internal property ownership relations through the shareholding system.

4. It was difficult for enterprise groups to run their own import and export businesses.

After developing for 10 years, there were a large number of enterprise groups in China capable of running their own import and export businesses. Nevertheless, only 3.2 percent of state-owned large and medium-sized industrial enterprises currently have the right to run their own import and export business. As enterprise groups based in China and geared to the needs of the world, it is difficult for them to have timely access to information about the international market, they will miss opportunities, and they will not bring their advantages into play when they cannot run their own import/export business.

5. Enterprise groups were weakly linked and their size was small when compared with overseas enterprise groups.

At present, most of China's enterprise groups are linked up through production cooperation, contracts, and administrative power. Very few of them are linked by assets. According to our statistical investigation among 1,311 units under 18 enterprise groups in 10 provinces and cities, 12.5 percent of them are totally merged by their assets; 5.9 percent of them had capital contributed by their enterprise groups; 2.2 percent of them were new units funded by enterprise groups; 0.9 percent of them were invested in by other member enterprises; and 9 percent of them were totally linked by assets, while the rest of them were linked by administrative powers and contracts. Therefore, some groups could not stand market fluctuations and disbanded or existed only in name when they encountered difficulties. Proceeding from the size of China's enterprise groups, a prominent characteristic is that there are too many small enterprise groups and too few large ones. At present, China's largest enterprise groups is the Dongfeng Auto Group. Its fixed assets (original value) are only worth 6.1 billion yuan, and its annual sales revenue is 10 billion yuan. In 1990, the sales revenue of those 55 enterprise groups which were included separately in state plans totalled 120 billion yuan (approximately \$21 billion dollars), or only one-sixth of that of General Motors of the United States (with sales of \$126.98 billion), or equivalent to Xin Re Tie [2450 2480 6993] of Japan (with sales of \$20.77 billion).

6. The administrative development tendency among enterprise groups is serious.

At present, the formation and development of China's enterprise groups is mainly manifested as a kind of administrative act, rather than a marketing act of enterprises. The administrative power of government departments plays an important role in the formation of groups, but they do not actively participate in their formation when most enterprises encountered difficulties because of a decline in their economic results. Some government departments set up enterprise groups mainly because this was favorable to exercising a high

level of centralized control over enterprises and minimizing the scope of administration by government departments. They took enterprise groups as an intermediate administration organization between the government and enterprises and took the formation of enterprise groups as a means of calling back enterprises and revoking their decisionmaking powers; consequently, enterprises encountered new contradictions in their autonomous operations. In the process of forming enterprise groups, both departments and local governments undertook action on the basis of their economic and political interests. The current financial system where each "has its own kitchen for cooking" and the practice which takes output value as the major index for assessing the performance of government leaders caused many local governments to mainly proceed from their local interests and take increases in output value, as well as their fiscal revenues, as their goal in forming groups. Judging from relations between the state and enterprise groups, this did not separate the duties of government from those of enterprises, so that the state made excessive administrative interventions in enterprise groups, various departments could intervene in enterprises, and administrative means were used instead of economic or legal means.

7. The state did not rationalize the administrative system concerning enterprise groups and the internal management system of enterprise groups.

Ever since the state started reforms, its policies, laws, and regulations have been mainly focused on individual enterprises. Except for a few enterprise groups under separate plans, relations between most groups and administrative governmental departments were not rationalized in terms of production, planning, credit, taxation, materials, technological transformation, foreign exchange, and export rights. Moreover, the internal management system of enterprise groups was far from perfect, and the phenomenon of establishing groups by factories was rather common. Most groups have not accomplished the transformation of replacing their internal organization structure with companies, have failed to rationalize property ownership relations by using the shareholding system, and have failed to develop an effective management system and measures. Enterprise groups are still in the process of exploration and experimentation in terms of organizational structures and personnel management.

#### **Several Suggestions on Promoting the Development of China's Enterprise Groups**

1. To work out plans for the development of enterprise groups and establish a centralized administrative organization.

At present, we should work out short-term and long-term development plans for enterprise groups in accordance with the State's Eighth Five-Year Plan and the 10-Year Program and in accordance with the development order

of industries while taking into consideration the technology and economic characteristics of different trades and different regions, their supply-demand situation, and the extent of association among trades. Through the formation of groups, we should increase concentration in key industries, encourage a rational division of labor and cooperation among enterprises, promote a rational flow of the factors of production, and avoid the duplication of production at low levels and in regions. As for newly established enterprise groups, we must improve their status and perfect them. For industries and trades which are inappropriate for group development, we must not force them to form groups. According to the requirements for an appropriate scale of economics, different industries should have a unique enterprise structure. Basic industries should take large joint enterprises and enterprise groups as the core; processing and manufacturing industries must establish enterprise groups that are marked by inherent links and where large, medium-sized, and small enterprises develop in a coordinated manner; and large enterprise groups, which play an important role in the national economy and people's livelihood and which produce goods for nationwide and transregional distribution, should be subject to policies on receiving major support. Judging from the high plane of China's economic development strategy, the development of enterprise groups is a project involving different regions, different trades, and different countries and which will last through the next century. In view of China's present problems concerning enterprise groups, as well as its objective needs, it is suggested that the State Council should set up a "leading group for enterprise groups" with a vice premier in charge of industry as the leader and with responsible comrades from the State Council Production Office, the State Planning Commission, and the State Commission for Structural Reform as deputy leaders and responsible comrades from the Ministry of Finance, the People's Bank of China, the Ministry of Foreign Economic Relations and Trade, and the State Administration for Materials, the State Assets Administration, the Statistics Bureau, the Taxation Bureau, the State Administration for Industry and Commerce, and other relevant departments as members of the group. Under the group should be an office responsible for routine work such as planning, coordination, studies, statistics, information, and so forth.

2. Rationalizing property ownership relations in enterprise groups by using the shareholding system.

The shareholding system is not a particular product of capitalism. Rather, it is an effective way for organizing socialized mass production. Judging from our experience in using the shareholding system to standardize property ownership relations among members of the same group, this helped separate ownership from the operational rights, separate government administration from enterprise management, separate administrative control from assets management, and create conditions for merging, transferring equity, contributing capital, and leasing

enterprises so as to eventually break through the obstacles of the "three no-changes." Furthermore, the adoption of shareholding system plays a role of encouraging groups to form investment centers, profit centers, cost centers, and research and development centers; establish capital links among parent companies, subsidiary companies and associated companies; and boost ties and loyalty among enterprise groups.

3. Formulate corresponding policies, laws and regulations, and encourage enterprise groups to develop in a steady and healthy manner.

Enterprise groups are a mixture of macroeconomics and microeconomics under the conditions of a planned commodity economy. They put numerous medium-sized and small enterprises under the state's plans and industrial policies, prevent individual enterprise groups from acting blindly, and help boost the macroeconomic readjustment and control capabilities of the state. Therefore, relevant comprehensive administrative departments of the state, particularly fiscal, financial, and foreign trade departments, should study and work out a set of policies and measures for supporting and developing enterprise groups. They should revise the "Enterprise Law" and add clauses concerning enterprise groups, and they should promptly work out a "Company Law" so that China's enterprise groups may grow in a steady and healthy manner in accordance with state policies, laws, and regulations.

4. Grasp the experience of experimental units in transferring state-owned assets for operations and explore new ways of managing state-owned assets.

The State Council has approved experiments in transferring state-owned operational assets by the State Assets Administration at experimental units, namely the Dongfeng and Jiefang Heavy Automobile Groups and the Dongfang Power Generation Group. In other words, the group company of the enterprise group concerned operates and manages the state-owned assets of its subsidiaries and is authorized equity rights to act on their behalf, thereby forming relations between parent and subsidiary companies and strengthening their assets link. Through such transfers, relations between administrative departments of state-owned assets and the group company is a kind of property ownership relationship. This kind of relationship is basically different from subordinate administrative relations under the old system, in which enterprises were directly controlled by government departments. This will play a highly positive role in smashing the trammels of the "three no-changes."

5. Greatly develop export-oriented enterprise groups and multinational companies.

To develop export-oriented enterprise groups and cultivate a certain number of world-class multinational companies is an effective way for China's enterprises to participate in international competition, and this will play an important role in determining whether China's economic strength will grow in the international economic environment in years to come. By selecting and encouraging qualified enterprise groups to pool the limited financial and material strength of their member enterprises together, unify their production and sales, and unify their export trademarks, we may quickly boost the reputation of these groups' products and will promote their ability to generate foreign exchange, while giving full play to the advantages of the enterprise groups in terms of economic strength, economies of scale, and technological personnel, thereby quickening the pace of invigorating China's economy.

6. Proceed from reality and encourage the development of enterprise groups in a transitional manner.

Since China is still in the process of replacing the old system with the new one, the conditions for a general establishment of the relations of parent and subsidiary companies in enterprise groups are still absent for the time being. By summing up the practical experience of Shanghai and other places, we may take it in a gradual and transitional way so that there will be smooth development. In other words, core enterprises should mainly carry out the "six unifications" in the economic activities of their closely linked enterprises. As for principal enterprises (the parent company and its subsidiary companies), they should be the core enterprises which undertake contracts from the upper level, carry out planning, make and repay bank loans, handle export matters, and be responsible for preserving and increasing the value of state-owned assets and responsible for appointing and dismissing cadres in the closely linked enterprises. This approach has yielded better results in our practice.

7. Strengthen theoretical studies on enterprise groups.

China has developed enterprise groups for 10 years. Our rich practical experiences needs to be seriously summed up and concluded to form a theoretical basis for guiding the in-depth development of enterprise groups. Therefore, state departments in charge of economic administration, departments in charge of social sciences studies, and departments in charge of press and publications should strengthen their connections and cooperation, organize all kinds of activities to study theory, let everyone debate difficult points regarding the theory of enterprise groups, and carry out intensive studies and explorations to gradually perfect a theoretical system regarding China's enterprise groups. At the same time, relevant departments should promptly organize training and study classes to propagate and popularize theory and common knowledge about enterprise groups to guide China's enterprise groups to develop in a steady and healthy manner.

### Journal on Reform of State Enterprises

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[Article by Chinese Academy of Social Science Economics Institute research group members Du Haiyan (2629 3189 3601) and Guo Jingang (6753 2516 0474): "A Feasibility Study on State Enterprise Reform"—This study was a key social science project by the Economics Institute during the Seventh Five-Year Plan, jointly funded by the State Social Sciences Fund and the Ford Foundation, and involved the participation of scholars from China, the United States, Britain, and other countries; Dong Fureng (5516 6534 4356) and Tang Zongkun (0781 1350 3540) were project directors.]

#### [Text] I. Reform Program Proposal Background

Reform of state enterprises has always been a hot topic in socialist economic theory and is the central link in economic reform. In the economic structural reform, however, it also happens to be an aspect that lags behind other work. Since the introduction of the system of contracted responsibility on a large scale in 1987, we have been unable to come up with perfect, yet feasible, measures or to make new and substantial progress in conducting the reform of state enterprises in greater depth. ("An Analysis of the Two Rounds of Contract Implementation Throughout the Country" by Du Haiyan, GAIGE No 3, 1992) Thus, making greater efforts to study the question of state enterprises is of important theoretical as well as practical significance.

Our reform of state enterprises is now at an important turning point. The characteristics of our present system suggest that, with the exception of a few super-large state enterprises which maintain lukewarm and intermittent relations with the market because they have monopoly as well as control over rare resources and products under state policies, the overwhelming majority of enterprises have entered the market to a greater or lesser extent and have begun to learn to survive and develop according to the law of value and the relations of market supply and demand. ("Dual Behavior of State Enterprises During Economic Reform" by Dong Fureng—paper presented at 1992 Guilin international seminar) In the meantime, due to the lack of distinction between government and enterprise functions and the backwardness of macrocontrol measures, frequent changes in the autonomy handed down to state enterprises under reform become an economic norm and the drawbacks in the internal system of enterprises become firmly entrenched. For this reason, coupled with the lack of clear thinking in reform, state enterprises have thus far been unable to find solutions to the problem of having weak mechanisms of stimulation and constraint but no risk mechanism. This structural backwardness leaves the existing state enterprise system unable to meet the needs of the development of the commodity economy. ("Autonomy, Market Structure, and Stimulatory System of State Enterprises" by Du Haiyan and others, JINGJI

YANJIU No 1, 1990) This is fully reflected in changes in the efficiency of state enterprises.

In the early stage of our economic reform, state enterprises accounted for 87 percent of social industrial assets and over 90 percent of industrial output. At present, these two indices have dropped to 82 percent and 52 percent respectively. The relative rate of output (output in relation to assets) of state enterprises has been dropping at two percentage points a year. In other words, over one-third of state enterprises have yet to bring their efficiency into full play. In 1991, 27.8 percent of state enterprises were in the red, with losses amounting to some 31.05 billion yuan, equivalent to about two-thirds of the annual profits realized by state enterprises. This low efficiency indicates that the contradictions in the state enterprise system have become very acute. Thus, it is necessary to accelerate the reform of state enterprises in order to put an end to the present state of passiveness in which they now find themselves.

In a broad sense, working out a basic concept for intensification of the reform of Chinese state enterprises on the basis of rational knowledge is of utmost importance to the formation of a new model of socialist commodity economy and the establishment of long-term objectives for economic structural reform. The reason is that reform of state enterprises, which covers many aspects, including the restructuring of the property, organizational, stimulatory, management, and operational structures within state enterprises, will touch on the equity, employment, distribution, and management systems in society; the development and perfection of the market; as well as the re-designing of a macrocontrol system and the transformation of the economic functions of the government. In other words, it is a mammoth project which reflects, from a particular angle, the transformation of the economic structure as a whole. We can say with certainty that the success of the reform of state enterprises will have a direct bearing on the success of the economic restructuring reform as a whole. This increases the practical significance of the reform of state enterprises.

On the basis of theoretical study and quantitative analysis, we hereby put forward a comprehensive program for the reform of state enterprises, to be used for reference purposes by the authorities concerned.

#### II. Taking Equity System as Point of Departure: Separation of Government and Enterprise Functions

In the course of the reform of state enterprises, management autonomy swung like a pendulum; the stimulatory system was not implemented in a balanced way; the growth of the market mechanism slowed down and dropped out of sequence; competition and soft budgetary constraints existed side by side; the rate of return fell as investment swelled; and losses were registered in both enterprise assets and profits. The reason for all this is that we have not effectively changed the organizational form of the property relations of enterprises, thereby creating obstacles to the effective implementation of the reform of state enterprises. Hence, we can say that the backwardness of enterprise property system reform has adversely affected the effects and progress of the economic structural reform as a whole.

In the reform of property relations in state enterprises in the past, two basic concepts were put forward for tackling the problem of "fictitious equity." The first was the "internalization of parts of the equity." Under this concept, a board of directors comprising the owner, the managers, and representatives of ordinary workers is formed within state enterprises. The board of directors will exercise the ownership rights of the corporate body as the counterpart of the ultimate ownership represented by the competent departments formed naturally in the course of reform, thereby creating a situation where government functions and enterprise functions are separated. This will help restrict or resist administrative intervention in enterprises, forming a corporate mechanism within enterprises to impose constraints on them in the interests of the owners. However, the results of practice indicated that because boards of directors organized by competent departments as representatives of the owners on the strength of administrative authority did not have a rational interests structure, they cannot function as owners, cannot effectively restrict the actions of enterprises, and cannot ensure the appreciation of assets and the reaping of normal returns. Moreover, there is a tendency for the government to increase its administrative intervention in state enterprises in some ways in this kind of reform. The second concept is the "externalization of artificial equity." Under this concept, the owners' rights, such as the right to plan regulation and control, the right to allocate investment funds, the right to manage financial matters and the right to appoint personnel, which were divided between different functional and competent departments of the government under the traditional system, will be centrally exercised by an independent state asset management bureau. Through the establishment of these separate organs, the administrative and ownership functions of the government are separated, thereby achieving the separation of government and enterprise functions on the basis of clarifying the identity of the owners. At present, state asset management bureaus have been established by governments at various levels. However, the actual results are far from those anticipated mainly because it is difficult to redistribute the interests between different government departments. This has turned the state asset management bureaus into dummy organs without clear-cut tasks, functions or rights. Moreover, without breaking from the traditional system where enterprises are run by the government, whether or not these organs can effectively exercise their functions as owners remain to be seen. ("Several Questions on Deepening the Reform of State Enterprises in China" by Du Haiyan, JIANGSU SHEHUI KEXUE No 1, 1992)

We can see that these two concepts have one point in common and that is, they both attempt to use "the method of artificial organization" to resolve the problem of the absentee owner. We may call this a logical option for deepening the reform of state enterprises on the basis of the organizational structure of property relations. (Footnote 1) (World Bank experts also put forward a similar proposal in 1988 after their inspection of Chinese

enterprises; see GUOJIA TIGAIWEI JIANBAO No 67, 1988) However, the key to whether or not this reform can achieve substantial progress lies in how the division of functions is set after structural reform. Scientifically set functions are the prerequisite for all division of labor in society; they are also the basis upon which social organs can effectively play their role. Under our proposed plan for the reform of state enterprises, state asset management bureaus established according to the administrative and regional divisions of governments at various levels will exercise the administrative management functions of the government and will be responsible for the planning, coordination, guidance, and supervision of state enterprises. In more specific terms, they will formulate development plans for the state economy as well as policies for the management of assets. They will coordinate the business objectives of various state asset groups and executive bodies, the government's objectives for social and economic development, and the interrelations of different state asset interest groups. At the same time, they will, on a macro-economic level, provide guidance for the development programs of various state asset groups and executive bodies and supervise the appreciation of state assets and distribution of earnings, but will not be responsible for the management of state enterprises.

In line with this organizational development, efforts should be made to effectively change the economic functions of the government. Competent government departments at various levels are to cut their ties with state enterprises and assume new economic functions, namely, to formulate government programs and policies for different trades, conduct statistical accounting, and provide information and counseling services. This fundamental change in government functions can truly bring about the division of government and enterprise functions and create the precondition for the elimination of the government's administrative intervention in state enterprises. On the other hand, it lays the foundation for the streamlining of government organs and the promotion of the political structural reform. Only in this way can we ensure the effects of the structural reform of state enterprises and truly pave the way in institutional terms for public-owned enterprises to enter the market and adapt to the commodity economy environment.

### III. Restructure Public-Owned Equity Entities: Shareholding by Public Institutions

After the division of government functions, it is necessary to restructure the equity entities in society and establish state asset holding companies which have an independent corporate status and which assume the powers, responsibilities and interests of owners to exercise the functions of the ultimate owner. This will resolve the longstanding problem of the absentee owner in state enterprises. ("Analysis of Policy Models for Reform of State Enterprises" by Morris—paper presented at 1992 Guilin international seminar) State asset holding companies can take three basic forms:

The first type are large state enterprise groups established on the basis of existing state enterprises. These enterprise groups will be formed between related trades, products, or markets and do not belong to government departments in any particular region or at any particular level. They will only be responsible for the maintenance of asset value and the appreciation, earnings, and development of the assets they hold.

The second type are state asset operation companies which have the status of economic entities. These companies will not directly manage or use the assets. In their capacity as owners, they will monitor the asset allocation efficiency of a number of state enterprises, or subsidiaries. In order to avoid oligopoly, state asset operation companies should be intertrade and transregional entities that can permeate one another and compete on an equal footing.

The third type are various sorts of foundations, such as energy and transportation foundations, science and education foundations, social security foundations, pension foundations, and various types of trusts. In their capacity as institutional corporate owners, they will exercise their functions as owners over a range of enterprises, enterprise groups, and state asset operation companies, using the proceeds of their property to implement and develop public welfare.

In fact, under the modern commodity economy, ownership by families or individuals has been replaced in some countries and regions by public institutions, corporate organs, and corporate entities as the real holders of most social capital. At the same time, as the mutual penetrability of capital markedly increases, various backward forms of traditional equity organizations which bar the entry of outside capital are gradually phased out. The main reasons for the above changes in the organizational structure of equity are the rapid changes in the structure of market demand, as well as the fact that the shortened industry and product cycles have become the norm of the modern commodity economy. In order to adapt to these changes, it is necessary to flexibly readjust the structure of social capital as well as the direction of allocation to ensure the maximization of returns on social capital. Thus, it is obviously a very valuable option to transform, in accordance with the internal laws of the modern commodity economy, the traditional state-owned equity organizational structure based on trades and administrative division and establish profit-oriented corporate holding companies in their stead.

The basic functions of these new corporate holding companies will be as follows:

1. To exercise their functions as equity entities. Corporate holding companies will assume all the functions of equity entities. For instance, they will partake in making decisions relating to state-owned assets, sit on the board of directors as shareholders, and appoint managers. They will partake in making decisions relating to the distribution of returns on assets and examine and approve

financial and profit-sharing plans of their subsidiaries. They will also partake in making decisions relating to the disposal of assets, be responsible for the reorganization of property relations and the handling of insolvency and liquidation, and bear economic risks for their decisions.

2. To exercise their functions as investment entities. Seen from sample statistics, the present situation of high investment and low efficiency is, to a large extent, a direct result of local governments functioning as basic investment policymakers. There are two reasons for this situation. One is that the absence of an investment responsibility system has resulted in a "Parkinson phenomenon," whereby the larger the scale of investment, the more necessary constraints are lacking. The other reason is that investment is subject to the administrative functions and social objectives of the government and is not efficiency-oriented. It will no doubt be conducive to improving investment quality for various state asset holding companies, which are financially independent of the government, to exercise the functions of social investment entities on the basis of assuming responsibility for their own profits and losses.

3. To exercise their functions as public welfare entities. By means of legislation, parts of state-owned assets will be allocated to various types of social foundations for use as basic funds. These foundations will then be responsible for the running and management of public welfare. How well they manage their assets will determine the development prospects of their cause. Running public welfare undertakings as enterprises can, on the one hand, change the present situation where welfare undertakings are completely dependent on government allocations and often have to work on a shoestring budget. On the other hand, it can help overcome the present problem where such burdens are so heavy on state enterprises they seriously affect the latter's economic efficiency. In order to ensure the proper exercise of these functions, the government needs to give preferential treatment, in such areas as taxation, to holding companies which exercise these functions.

#### IV. Ways of Implementing the Shareholding System: Artificial Auctions

Seen from the objective laws governing the operation of the commodity economy, the implementation of the equity shareholding system in state enterprises is the fundamental direction for deepening enterprise reform and eliminating the backwardness of the traditional equity system. The advantage of transforming the traditional equity system through implementing the shareholding system is that it is possible to create a competitive market system and establish mechanisms which can fully stimulate competition while effectively controlling the competitive behavior of enterprises and bearing the actual risks of competition, thereby achieving effective allocation and use of assets in the whole society.

In fact, consensus has already been achieved to a large extent among theoretical circles, enterprises, and government departments on implementing the shareholding system in state enterprises. Steps have already been taken to put this plan into practice. The present problem is that this reform has only been carried out on a small scale. By early 1992, only 89 enterprises in the whole country had made public share issues. At present, only 34 enterprises are listed on the Shenzhen and Shanghai Stock Exchanges. (Most of the other enterprises are shareholding companies in name but are cooperative enterprises with share acquisition by staff members and workers in reality. According to a survey conducted early this year by the State Commission for Restructuring the Economy in 34 provinces, autonomous regions, directly administered municipalities and cities independently listed in the state plan, staff members and workers hold 86 percent of the shares issued by nominal shareholding companies.) In respect of the huge amount of state-owned assets which are valued at trillions of yuan, such an insignificant amount of equity capital will not be of much help to changing the whole state-owned equity structure and its operational mechanisms. Moreover, we are also deeply worried that the listing of such a small number of shares will lead to a serious imbalance between supply and demand in the stock exchanges. This will mean that share prices will skyrocket and will be seriously divorced from the dividend income which the shares can actually generate, thereby creating a completely fictitious market. The equity shareholding system, which is a very valuable plan for the reform of state enterprises, may die an immature death as a result of a stock crash due to the mishandling of the stock market.

In the course of economic reform in the past, we usually resorted to the method of "experimentation, summing up, and popularization" when introducing a new reform measure. However, there are inherent obstacles to experimentation with the shareholding system. Fundamentally speaking, there are essential differences between experimenting with the shareholding system and its popularization. The former refers to restructuring the property structure on a microlevel and its economic significance mainly lies in raising capital. The latter refers to the transformation of the equity system in the whole society and its aim is to regroup and reallocate social assets. Thus, in implementing the equity shareholding system, we cannot stick to the old method of gaining experience at selected spots. Efficiency in the transformation of the equity system and the scope of implementation are in fact closely related. Hence, the key to implementing the equity shareholding system lies, not in having individual enterprises issue a small number of shares, but in converting into shares the huge amounts of state-owned assets which account for an absolute proportion of existing assets in society.

In order to effectively reform the state-owned equity system and ensure the healthy development of the shareholding system, we propose three ways of accelerating the implementation of the equity shareholding system.

The first way involves group equity holding, which means to implement the shareholding system in existing large enterprise groups, with cross holdings at every level between the mother enterprise and its subsidiaries. Through this method, the first type of holding companies cited above will be formed, thereby perfecting the internal organizational structure and property system of the enterprise groups. It will also improve the quality of policy decisions regarding assets as well as the efficiency of asset allocation on a microlevel.

The second way involves liability equity holding. At present, some enterprises have more debts than assets. ("Creditization and Capital Efficiency of State Enterprises" by Du Haiyan, JINGJI YANJIU No 4, 1992) These enterprises have opted for insolvency as an easy way out. This is not only no answer to debt repayment but will leave a host of actual social and economic problems. Creditors also do not want to suffer losses because enterprises have been forced into insolvency. The implementation of the international practice of liability equity holding in these enterprises may be a realistic approach to the popularization of the shareholding system. This practice is particularly applicable to the large number of state enterprises which have more debts than assets and which have been living entirely on bank loans. Relying on asset operation companies formed by banks to reorganize these enterprises in their capacity as shareholders will help improve the quality of decisions made with regard to assets and will promote the transformation of the social structure.

However, these two ways are only suitable to enterprises which account for a fraction of the huge amount of state-owned assets. Since this kind of reform will only involve structural readjustment on a small scale, it is relatively easy to accomplish and can be taken as the starting point for the full-fledged implementation of the shareholding system. In order to implement the shareholding system throughout the whole country, it is necessary to resort to the third and most standard way, that of "artificial auctions." ("Separation of Functions: Key to Reform of Equity System of State Enterprises" by Tang Zongkun—paper presented at 1992 Guilin international seminar) In more specific terms, this means establishing capital markets on two levels and reforming the shareholding system in two stages.

On the first level, that is, the capital market for the auctioning of artificial shares, government state-owned asset management bureaus at various levels may auction artificial shares of existing assets of state enterprises to various state-owned asset holding companies. Specialized finance companies or other banking institutions may be asked to work out the bottom price of shares for each enterprise on the basis of the book value and current market price of its existing state-owned assets as well as its output capacity and efficiency. The artificial shares thus formed will then be auctioned to various holding companies on the market according to the price quoted and the auctioned equity will be transferred to the holding companies as capital. The share of dividends

going to the government will be passed on to the holding companies in the name of special state-owned asset tax by way of contracts.

On the second level, that is, the capital market for securities transactions, holding companies are to make public issues of shares, thereby realizing the socialization of state-owned equity. The socialization of equity covers two aspects, one of which involves the selling of shares to corporate organs. Through this means, it is possible to restructure social assets, introduce the mechanism of competition, and promote the effective implementation of the state's industrial policies. The second aspect involves selling shares to individual residents. Through this means, it is possible to absorb household savings, thereby alleviating the pressure posed by personal savings in the form of deposits on the market. A more important means is to make use of the marginal regulatory force of personal equities in society, on equity relations as a whole. This ultimate form of ownership can ensure the effective operation of the shareholding system throughout the whole society.

The advantages of this two-step plan to implement the shareholding system can step up the transformation of the equity system in society. By first transforming the organizational structure, we can overcome the contradiction posed by operational difficulties in the public listing of shares on the transformation of the equity system, bring the positive role of the shareholding system into play without undue delay, and increase the efficiency of state-owned assets. At the same time, this will also enable us to cause a relative slowdown of the pace where share ownership is converted into securities and eliminate the negative impact a stock market storm resulting from share speculation may inflict on the reform of the shareholding system, thereby increasing the efficiency of the shareholding system and deepening the reform of state enterprises.

On the basis of the implementation of the shareholding system, we should establish normal systems for bankruptcy and elimination (including systems for the bankruptcy and elimination of enterprises and holding companies) and promote the reorganization, transfer, and merger of state-owned assets throughout society, to: Resolve the longstanding problems of state enterprises, such as weak constraints on property, poor economic results, and eating from the big pot of the state; increase the efficiency of assets; and to ensure the unification and normalization of property income. We should also strive to tackle the problems on the part of state enterprises since reform, such as letting their actions get out of control and having soft budgetary constraints on their development, as a result of an imbalanced stimulatory system, which has competition but no elimination and which provides strong stimulation but weak constraints. By establishing a property system which ensures that competition and elimination go hand in hand, stimulation and constraints are well balanced, and income corresponds with risks, the causes of low efficiency in state enterprises can be eradicated ("Present State and

Future Prospects of Reform of State Enterprises in China" by Du Haiyan—paper presented at 1992 Guilin international seminar)

#### **V. Reform of Operational Mechanisms: Steering State Enterprises Into the Market**

Like all other social changes and progress, the reform of state enterprises has its own logical relations. In recent years, there have been many discussions and many concepts have been put forward on the readjustment of internal operational mechanisms. However, practice has shown that unless the organizational structure of equity relations in state enterprises is changed, reform in this respect will either require twice the effort or keep repeating itself on a superficial level. After straightening out the equity system of state enterprises through the shareholding system, the transformation of operational mechanisms can then be put on the agenda of the day. In the final analysis, the transformation of the mechanisms of state enterprises means cutting off the umbilical cord between enterprises and the government and steering state enterprises into the market. ("Coexistence of Two Structures and Steering State Enterprises Into the Market" by Dong Fureng—paper presented at 1992 Guilin international seminar)

In order to steer state enterprises into the market it is, first of all, necessary to differentiate between competitive and noncompetitive enterprises. Noncompetitive enterprises refer to the so-called natural monopoly and social welfare enterprises. Natural monopoly enterprises refer mainly to those enterprises that can operate most economically and with minimal social cost as an exclusive operator in a given market. Because of their monopoly of natural resources and their exclusive market share, these enterprises do not have to be subject to the constraints of market norms established on the basis of competition. Social welfare enterprises directly serve residents. In their operation, direct conflicts between public welfare objectives and pecuniary objectives are difficult to avoid. Under the circumstances, the indiscriminate application of market rules and pecuniary mechanisms on these enterprises will undoubtedly distort their operational mechanisms and destroy their social efficiency. Thus, the segregation of noncompetitive enterprises from the rest becomes a precondition in transforming the operational mechanisms of state enterprises. Hence, steering state enterprises into the market will only involve those competitive enterprises where market rules are universally applicable. These enterprises must take market supply and demand as their direct guide, take market price parameters as reference, and take making profit as their objective. In order to steer enterprises into the market, it is first necessary to achieve a single objective in enterprise behavior. Enterprises must have independent mechanisms of stimulation and constraint and accept the result of market competition. At present, state enterprises have to work for government administrative, public welfare, and social security objectives in addition to economic objectives. State enterprises are so overburdened by these

objectives that they not only fall short of their operational targets but also fail to attain their other objectives. Under the circumstances, if state enterprises are merely assessed on the basis of their ability to make profits, abnormalities will arise because this may not tally with the functions of these enterprises. This is the institutional cause of state enterprises getting out of control and the market losing its order in the course of reform. ("Behavior of State Enterprises During Current Inflation" by Du Haiyan, JINGJI YANJIU No 2, 1989) Hence, we say that the problem of multiple enterprise functions is the direct obstacle to enterprises gaining entry into the market.

In order to free state enterprises from their many objectives, the key lies in reforming the traditional system of high employment, low income, and plentiful welfare in state enterprises. Reform in this respect covers three structural links. First, the implementation of an unemployment and unemployment insurance system. Society (the government) will assume responsibility for employment objectives and re-establish an employment system in society. Second, the elimination of the public housing distribution and subsidy system. Home ownership schemes will be introduced so that staff members and workers can rely on their income and personal savings to take care of their own housing needs. Third, the reform of the traditional system of free medical care by establishing medical insurance and social security systems where expenses are jointly borne by society (the government), enterprises, and individuals. Thus, steering state enterprises into the market involves more than the restructuring of the enterprise system. It also involves a range of social reorganization and institutional development.

The next problem is that, while steering enterprises into the market, it is necessary to step up the development of market organizations and market mechanisms. This also covers three basic links. First, it is necessary to establish a support system of factor markets, including capital, labor, technology, and information markets, so that inputs can flow in all directions in society. This is a condition for steering enterprises toward the market. Second, it is necessary to speed up the transition from the double-track price system to the single-track market system. The double-track price system, which unavoidably distorts information and undermines the market information system reflecting the degree of scarcity of resources, will result in wastage and loss of resources. Price is the function of market supply and demand, the result of negotiations between the buyer and the seller who share the same information in market competition. Thus, fixing prices according to the same set of market rules is the basis for the market structure. Third, it is necessary to establish market order and norms. The uniformity and normalization of rules, be they traditional market transaction rules established by usage or modern market rules established on the strength of government authority and legislation, are the basis for the effective operation of the market.

### State Investment Company To Issue Group of Bonds

OW2010032192 Beijing XINHUA in English  
1314 GMT 19 Oct 92

[Text] Beijing, October 19 (XINHUA)—The state investment company has decided to issue a second group of bonds starting on November 10.

Approved by the State Planning Commission and the People's Bank of China, the money raised will be used for the construction of key projects.

With an annual interest rate of 10 percent, the 420 million yuan in bonds will have a term of three years.

The China Trust and Investment Company for Rural Development has been entrusted with issuing the bonds.

## PROVINCIAL

### 13 Years of Liaoning Housing Construction Noted

SK0510050992 Shenyang Liaoning People's Radio  
Network in Mandarin 1030 GMT 4 Oct 92

[Summary] Over the past 13 years, Liaoning Province has invested 23.64 billion yuan in building 120 million square meters of housing in the urban areas, 3.7 times more than the total sum of 30 years from the founding of the PRC to the convocation of the third plenary session of the 11th party Central Committee. The average per capita living space increased from three square meters in 1978 to 6.2 square meters, an increase of more than 100 percent. During the past 13 years, the province renovated 15 million square meters of old houses in the urban areas, providing new houses for more than 2 million families. From 1989 to 1991, the province built 36.26 million square meters of residences and 112 small housing communities each covering an area of 50,000 square meters. The comprehensive development rate reached 41 percent. In 1991, it renovated 1.8 million square meters of dangerous houses, solving the housing problems of 15,000 families whose previous average per-capita living space was less than two square meters.

### Liaoning To Appraise Foreign Equipment Investment

SK1310110792 Shenyang Liaoning People's Radio  
Network in Mandarin 1030 GMT 11 Oct 92

[Text] The provincial bureau for import and export commodity inspection has recently decided that from October, it would begin appraisal of property invested in by foreign firms. In importing production equipment, we found in recent years that some foreign firms intentionally inflated the price of equipment or replaced new and superior equipment with old and inferior ones, thus causing false investment and evasion of taxes, and affecting production. To safeguard the interest of the state and the legal rights and benefits of foreign-invested enterprises, the provincial bureau for import and export

commodity inspection and the provincial financial department have jointly issued several regulations on inspection of property invested by foreign firms. It is stipulated that from now on, equipment whose price is set by foreign firms and that is funded by foreign-invested enterprises, must have its variety, quality, quantity, and value inspected and appraised by the commodity inspection departments.

### **Shandong Views Achievements, Development of Harbors**

*SK0210155792 Jinan Shandong People's Radio Network in Mandarin 2300 GMT 1 Oct 92*

[Summary] Since the enforcement of reform and opening up over the past 10-odd years, Shandong Province has scored marked achievements in building new harbors and expanding the facilities and functions of existing harbors. The province has now 23 coastal harbors with 155 berths and docks. From among these berths and docks, 37 are more than 10,000-tonne deep-water berths whose annual handling capacity reaches 77.55 million tonnes. The province has opened nine harbors to the outside world. From among the 23 harbors, 20 are locally owned harbors whose annual handling capacity reaches 70.5 million tonnes. Over the past 10 years or so, the province has invested 250 million yuan in capital construction projects of harbors. The province has built up to now five 10,000-tonne deep-water berths independently. By the end of this August, the coastal locally owned harbors handled more than 9 million tonnes of freight, a 31.3 percent increase over the same period of 1991. From among this freight, the volume of export commodities reached 2.25 million tonnes, a 73.2 percent increase over the same period of 1991. Profits accumulated by provincially run seaports during the period from this January to August reached 23.13 million yuan, a 77.2 percent increase over the same period of 1991.

## **FINANCE, BANKING**

### **Inflation Blamed as Main Cause of Triangle Debts**

*92CE0694A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 7, 15 Jul 92 pp 5-6*

[Excerpts] Currently, China's economic theorists hold the following views on the factors contributing to enterprise triangular debt: One view holds that enterprise triangular debt is caused by overstocking of finished products, which squeezes enterprise circulating funds. Another view holds that enterprise triangular debt is caused by shortfalls in capital construction funds. Still another view holds that enterprise triangular debt is related to loose regulations on settling financial accounts, and our mistaken view and approach that "debts are reasonable and beneficial."

I believe that enterprise triangular debt is unquestionably related to the three aforementioned factors, but these are not the fundamental reasons that enterprise triangular debt occurs. Just think: First, if commodity overstocking causes enterprise triangular debt, then why do enterprises with brisk sales (such as Shanghai's Baogang) also have triangular debt? Going back a step, if commodity overstocking is a major cause of enterprise triangular debt, then what factors lead to commodity overstocking? Second, if regions and departments use the causes of capital construction fund shortfalls to explain their deliberately low estimates for construction projects to gain approval, this is clearly one-sided. In real economic life, some units undeniably take a "fishing approach to construction" without getting complete construction funding, but this is not the entirety of economic life. Moreover, if incomplete construction funding is the cause of enterprise triangular debt, then the problem should be easy to solve, and by merely perfecting the investment management system and making planning more scientific, the goal of eliminating triangular debt would be more easily achieved. But the problem is not that simple. Third, the conclusion that the looseness of regulations on settling financial accounts and our mistaken view that "debts are reasonable and beneficial" cause enterprise triangular debt also fails to identify the crux of the problem. Because these are only noneconomic factors that lead to enterprise triangular debt, they have a certain effect on creating enterprise triangular debt, but they are also easy to solve. People need only to correctly understand that serious regulations on the settling of financial accounts will contribute to the desired results. For example, credit collection, fines for overdue payment and so forth are very effective methods of clearing debts. Enterprise triangular debt is an economic phenomenon, and the exploration of how this phenomenon developed should also begin with an analysis of economic factors. This is the only correct course for solving the problem.

Based on the above analysis, I believe that commodity overstocking and shortfalls in capital construction funds are only superficial causes of enterprise triangular debt. Thus, based on this reasoning, instituting a policy of "credit control coordination planning" is only a stopgap measure, not a cure. Proponents of the commodity overstocking theory and the funding shortfall theory believe that commodity overstocking and funding shortfalls both result from insufficient funds, because commodity overstocking squeezes enterprise circulating capital, which results in insufficient enterprise funds. Funding shortfalls are also clearly due to insufficient funds. As a result, people who take this view believe that triangular debt can be cleared by merely injecting funds, thus more easily achieving targets. But in reality, despite the large infusions of state and enterprise funding to clear triangular debts, triangular debts have not only not been cleared, but they have grown as the clearing has increased. According to statistics, in 1990 Liaoning Province cleared a total of 14.5 billion in triangular debt, equivalent to 90.6 percent of the total triangular debt at

the start of that year. But by the end of May 1991, the total triangular debt had grown to 26 billion. In terms of the entire country, the same thing is true. In 1989, the entire country cleared more than 80 billion yuan, but at the end of 1989 there was still more than 100 billion in debt. In 1990, the State Council established a leading small group on clearing triangular debt, which devoted great effort in the area of clearing triangular debt, resulting in the clearing of more than 150 billion nationwide. However, despite the fact that the amount cleared in 1990 far exceeded the amount outstanding at the end of 1989, after the clearing, the amount owed in payment for goods at the end of 1990 also far exceeded the amount outstanding at the end of the previous year. Concrete practice shows that relying solely on injecting funds to clear enterprise triangular debt is a failed approach. It also shows that we still have not truly located the fundamental cause of enterprise triangular debt.

What, then, is the fundamental cause of enterprise triangular debt? I believe that the fundamental cause of enterprise triangular debt is price increases, because price increases cause commodity overstocking and funding shortfalls. One common view holds that an unsound commodity structure causes commodity overstocking, and when the commodity structure is unsound, production does not satisfy the needs of consumption, which leads to a weak market and commodity overstocking. I believe that this is a completely meaningless, circular argument. A weak market causes commodity overstocking, commodity overstocking causes enterprises to lack circulating funds, lack of circulating funds leads to a decline in purchasing power, and a decline in purchasing power causes a weak market. This interpretation is unconvincing.

Triangular debt is an economic phenomenon, but more accurately, it is a currency circulation economic phenomenon. Therefore, triangular debt is closely connected to currency circulation. Triangular debt is in fact due to lack of funds, but this lack of funds is not caused by the state not putting enough currency into circulation. On the contrary, as luck would have it, this lack of funds is caused by the state putting too much currency into circulation, which leads to price increases and inflation.

The Marxist theory of currency circulation tells us that the currency needed for commodity circulation is directly proportional to total commodity prices and

inversely proportional to the rate of currency circulation. In addition, total commodity prices depend on the total amount of commodities for sale and on price levels. Therefore, based on particular currency circulation rates and amounts of commodities for sale, the amount of currency needed for commodity circulation depends on price levels. For example, if the currency circulation rate is five and the amount of commodities for sale is 10 billion, the amount of currency needed for circulation should be 3 billion. However, in the real economy, there is only 2 billion of currency in circulation, which leaves a shortfall of 1 billion in currency compared to the 3 billion needed. Because commodity circulation lacks the necessary amount of currency for normal circulation, this inevitably leads to price increases. Price increases cause consumers to buy less or not at all, which leads to sales difficulties for producers and commodity overstocking.

By the same argument, shortfalls in capital construction funding are also caused by price increases. Taking a micro view of an enterprise, say that a certain work unit has a 4 million yuan project, with 4 million yuan as the planned construction cost at the beginning of the year. Because of construction cycles, the project cannot be completed until the second year. But if prices rise, and the cost of construction materials increases 10 percent, the project's actual cost will be 4.4 million yuan. However, upper-level administrative departments will only allocate 4 million yuan in capital construction funds, based on the original plan, which will undoubtedly lead to a 400,000 yuan funding shortfall. Clearly, this funding shortfall will not be due to inadequate construction funding, but rather to price increases.

From the analysis above, it can be seen that price increases lead to commodity overstocking and funding shortfalls, and commodity overstocking and funding shortfalls in turn lead to enterprise triangular debt. Therefore, commodity overstocking and funding shortfalls are merely the superficial causes of enterprise triangular debt, and the underlying or root cause is price increases.

History has also shown that in 1988, China had its worst inflation and price increases, which led to the enterprise triangular debt that began to develop in 1989. Enterprise triangular debt followed inflation, and they developed in succession. This also shows that inflation and enterprise triangular debt are causally related. They are also highly interrelated, which can be seen in the data below.

|              |          |              |                   |               |                  |                  |                        | Unit: 100,000 yuan           |
|--------------|----------|--------------|-------------------|---------------|------------------|------------------|------------------------|------------------------------|
| Project date | Receipts | Expenditures | Receipt shortfall | Debt receipts | Currency surplus | Total investment | Rate of price increase | Rate of currency devaluation |
| 1988         | 2628.0   | 2706.6       | -78.6             | 270.78        | 192.18           | 4496.54          | 18.5%                  | 831.86                       |
| 1989         | 2919.2   | 3014.6       | -95.4             | 274.30        | 178.90           | 4137.73          | 17.6%                  | 736.52                       |

Source: Relevant data was collected and tabulated from the 1990 China Statistical Yearbook.

[passage omitted] The estimated size of production debt for 1989 was approximately 150 billion yuan, roughly equivalent to the 150 billion in debt actually cleared in 1990. Clearly, the size of the debt caused by price increases is roughly equivalent to the size of actual enterprise triangular debt in the real economy. This is definitely not a coincidence.

Based on the theoretical and empirical analysis above, I believe that price increases are the root cause of enterprise triangular debt. Therefore, clearing triangular debt requires paying attention to the following issues: One, when clearing triangular debt, avoid relying solely on injecting funds. Assuming that commodity supplies do not increase, solely injecting funds to clear debt will only lead to even greater price increases, which will in turn exacerbate enterprise triangular debt. This is also the cause of "clearing debt on one side while debt increase on the other" and "incurring debt immediately after clearing debt," which has occurred during China's debt-clearing. Second, enterprise triangular debt must be cleared from the root. In addition to injecting the necessary debt-clearing funds, it is even more important to apply energy to lowering price levels. Lowering price levels maintains price stability, and is an essential measure in clearing enterprise triangular debt. Third, the amount of necessary debt-clearing funds injected should be limited to the amount of currency devaluation based on the previous year's rate of price increases. If the cumulative characteristics of debt are taken into account, the debt-clearing funds injected in a given year can reasonably exceed this limit. But in terms of one period, the total accumulated debt-clearing funds in that period must be equivalent to the total amount of currency devaluation due to price increases.

### Stock Market Developments Reported

#### Risks, Prospects Viewed

92CE0681A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 239,  
16 Aug 92 pp 56-58

[Article by Situ Huifen (0674 1778 5610 5358): "Stock Market Risks and Prospects"]

#### [Text] Shenzhen: Future Financial Center of South China

During his inspection tour of Shenzhen, President Li Guixian [2621 6311 7639] of the People's Bank of China instructed Shenzhen to hurry to establish a financial market and forge ahead to turn itself into the financial center of southern China. Now that the central government has given the green light on the stock market and shares are being traded briskly, Shenzhen is confident that the goal can be achieved.

#### 100 Million Yuan Flows Into Shenzhen Daily

Noting the steady stream of capital (as much as 100 million yuan) that flows into Shenzhen from the Zhu Jiang delta and the entire nation everyday, Guangzhou

too would like to turn itself into the financial center of southern China. Huang Jisheng [7806 4949 0524], secretary of the Guangzhou Economic Structural Study Society, said that since it is a national special economic zone [SEZ], there are many policies in Shenzhen that differ from those in the interior. When the shares of an interior enterprise are traded on the Shenzhen market, the problem of policy continuity arises. "Already Guangzhou has made plans to become an international financial center in 15 years. As such it must expand its role and enhance its stature as the financial center of southern China." Banking reform is in full swing in Guangzhou as it goes all out to make itself the financial center of southern China.

That Shenzhen and Guangzhou are competing to be southern China's financial center shows that there is a realization in China, from the center to the localities, that the market economy is thriving in southern China and that its stock market and fund market cry out for liberation from the restraints of the planned economy.

#### Why Has "Stock Fever" Surged in China?

Stocks were first traded in China in February 1985 when Feiyue Acoustic Factory issued its own shares. In November 1990 and July 1991 a stock market was set up in Shanghai and Shenzhen, respectively, with the permission of the State Council. With the establishment of stock markets on a trial basis, stock ownership began to gain recognition in Chinese society as a legitimate tool of investment. But it was only after Deng Xiaoping's visit to the south where he restored the good name to the stock market that a stock fever swept across China and quickly acquired the momentum of a tidal wave, not only whipping up in its wake a securities craze but also dealing a heavy blow to the conservatism that had long held sway in the Chinese economy and to a financial management system divorced from the market economy.

Deng Xiaoping said, "Can socialism make use of things like securities and stocks? Perhaps, but experiment with them firmly." Once Deng Xiaoping said the word, the stock market ceased to be a capitalist monopoly and became a long-term economic policy in socialist China. Stockholders grew doubly confident and stock prices soared. Hong Kong too took a rosy view of China's "concept shares." Such optimism even rubbed off onto the B shares.

Shenzhen's stock market turned bearish for about 10 months in 1991 when stock prices fell 50 percent on the average. Despite heavy losses, many stockholders in Shenzhen and other corporate stockholders that have swarmed into Shenzhen from the rest of China still believe that stock ownership is a sure money-maker and choose to forget the past. Since the beginning of this year, there has been wave upon wave of heavy buying on the stock market. People continue to flock to the market, which is bustling with activity.

### Foreign Securities Experts Do Not Understand What Makes Chinese Market Tick

China's stock fever is a unique phenomenon that occurs just as the market economy is beginning to make inroads in China's consciousness. Hong Kong and foreign securities experts marvel at it but cannot explain what makes the Chinese stock market tick. There are several reasons why Chinese stock owners believe that buying stock is a guaranteed money-maker:

- 1) Stockholders know that the enterprises that issue stock are state enterprises. As long as China remains politically and economically stable, these enterprises will not go out of business.
- 2) Companies allowed to issue stock are good performers and have been chosen by the government from among many others. Moreover, if you buy stock, you get dividends. So why not? As for mismanaged enterprises, a government eager to save face would not let them issue stock.
- 3) The Chinese have saved over 1,200 billion yuan in consumption funds. Then there are the enterprises' idle funds, a small treasury in themselves. Yet there are few investment channels in China right now. The "millionaires Yang" of Shanghai made a fortune by speculating in stocks. They cannot but make others envious.
- 4) The two stock markets in Shenzhen and Shanghai have only a limited amount of shares while the number of people vying to buy shares is ever growing. Given this imbalance in supply and demand, some stocks are oversubscribed hundreds of times. Still there is no lack of prospective buyers.

The stock fever in China is a phenomenon unique to a developing nation making the first foray into stock trading. Laws and regulations pertaining to the asset appraisal system, accounting system, auditing system, and supervision of many companies whose stocks are traded on the stock market do not meet established international standards. The "Company Law," "Securities Law," and "Securities Trading Law" have yet to be perfected. Like a small but overloaded boat, the tiny number of stocks has a bumpy ride on a highly immature market. Naturally it is highly risky to deal in them.

### China Issues B Shares To Attract Overseas Capital

As it experiments with the stock market, China also has issued B shares to attract overseas investors. So-called B shares, issued by Sino-foreign joint ventures, are denominated in renminbi but are paid for in Hong Kong or U.S. dollars. The purpose of issuing B shares is to attract foreign-currency investment. Shares issued by Chinese enterprises for domestic investors is referred to as A shares as distinct from B shares.

The first batch of B shares was issued in February 1992. Right now in Shenzhen 15 companies have issued A shares and seven have issued B shares. In Shanghai, where 17 companies have issued A shares, there was

originally just one company with B shares. Now it has been joined by a second batch consisting of six other companies. B shares have also caught the attention of Hong Kong investors and two Chinese B share funds have been set up. The Swiss Bank, Xiaofu, Luo Fuqi [5012 1381 7871] and Sons, and other firms have been put in charge of marketing the second batch of B shares issued in Shanghai. The response has been quite favorable. It is estimated that \$3 billion in Hong Kong and overseas capital is pursuing \$300 million worth of B shares.

Despite its tiny number, B shares have opened up a way for the Chinese securities market to enter the international financial market and accelerated its adoption of international practices. In the future there is a possibility that B shares may be issued on an even larger scale and that enterprises will be selected to issue stock directly in Hong Kong and overseas.

### Chinese Enterprises Issue Shares in Hong Kong

The Haihong Group, a subsidiary of the China Merchant Steam Navigation Company, Ltd., issued shares in late June, which were oversubscribed 374-fold. The response was so enthusiastic that the Chinese were encouraged to go one step beyond issuing B shares: letting Chinese enterprises issue stock in Hong Kong to raise capital.

Officials from seven leading Hong Kong accounting firms, including Lowe, Bingham, and Matthews, Peat, Marwick, Mitchell and Co., De Qin, and Rong Yongdao, went to Beijing in mid-July to work out a detailed plan for 35 Chinese enterprises to issue shares in Hong Kong. Many difficulties remain to be ironed out before Chinese enterprises can issue shares in Hong Kong, especially the poor economic performance of state enterprises under the planned economy, a problem that cannot be solved in the near future. If the organization in Hong Kong that supervises the securities industry bends its rules a little by allowing a small number of enterprises to be traded on the local stock exchange, this will help end the structural overemphasis of the Hong Kong stock market on real estate and financial stocks and accelerate the shift of Chinese enterprises toward the market economy.

### Stock Fever Touching Off Securities Fever

As the appeal of the stock markets in Shenzhen and Shanghai spread from south to south, from east to west, it has also awakened the Chinese people's interest in banking. Realizing that securities are an investment tool, they find all kinds of bonds doubly attractive and are keen to give them a try. Some provincial and municipal leaders, including those of Shenyang, Chongqing, and Xiamen, were so eager that they issued shares to raise capital from among members of society. For this they have been severely reprimanded by the State Council worried that they would be copied by a host of other provinces and municipalities and the situation would get out of control.

Bonds issued by local governments one after another within their authorized limits take all shapes and forms, including some known as "investment fund bonds" that have attracted a lot of capital because they both yield a profit and pay dividends. In 1984, China ended the old practice of apportioning treasury bonds and tried allowing them to circulate and making them transferable. As a result, citizens no longer find them objectionable but have come to consider them a good place to put their savings. Ever since then China has issued a dazzling array of bonds in all forms and shapes such as finance bonds, enterprise bonds, transportation advance fund-raising bonds, investment bonds, so on and so forth. The volume of shares issued is ever-rising. Statistics show that the volume of trading on China's bond market had exceeded 22 billion yuan by the end of 1991 and is expected to top 100 billion yuan through 1992.

Rural and urban residents in China have 1,000 billion yuan in savings, in addition to 220 billion yuan in cash on hand. Since the stock markets cannot expand rapidly enough to steer all idle consumption funds in society into investment, the issue of bonds no doubt is a major means of pooling social funds today. The concern now is to prevent the indiscriminate issue of bonds, which will hurt investors' interests.

#### **Future of Chinese Economy Lies in Shareholding System**

China's securities market is expected to remain dominated by bonds for a long time to come. A shareholding system will help bring about the maturing of the stock market currently still in its infancy. The recent bout of stock fever, no doubt, will accelerate the experiment with the shareholding system. The shareholding system will also represent a better way to solve the underlying contradictions in China's economy.

About one-third of the large- and mid-sized enterprises in China today are losing money. Another one-third are actually losing money although you would not know that by looking at their books. The remaining one-third are profitable. Faced with this situation, an anxious Chinese government has prescribed many remedies, such as delegating power and allowing enterprises to keep their profits, improving the contract system, smashing the iron rice bowl, and ending "triangular debts." None of these experiments has worked. Three months ago, Deng Xiaoping, the paramount leader, became so alarmed that he paid a personal visit to the Shoudu Iron and Steel Complex. The effort by Shoudu to improve its profitability is expected to be replicated nationwide.

It is still too early to tell whether this prescription will work. Some economists and experts in China argue that only the shareholding system will resolve operating-mechanism-related problems in Chinese enterprises in a fundamental way.

#### **Shareholding System Would Undermine China's Ownership System**

In a shareholding enterprise, the highest power organs are the shareholders' meeting and the board of directors to which it entrusts its power. Such a power structure will inevitably undermine the "departmental ownership system" under which government departments at all levels, from the center to the local, run things in the name of socialist public ownership. After an enterprise adopts a shareholding system, it will enjoy some decision-making authority in its operations regardless of whether the majority of shares in the enterprise is publicly-owned, collectively-owned, or privately-owned. It is all but certain that government intervention will be reduced, truly realizing the separation of government administration from enterprise management. Thus the introduction of the shareholding system must be regarded as a "revolution" in the initial stage of Chinese socialism.

Right now China is not equipped externally for the introduction of the shareholding system on a large scale. For instance, there are no social unemployment insurance system, no labor system, and no capital goods market. Prices have not been adjusted or reformed. Under these circumstances, we must not overreach as we experiment with the shareholding system. For a long time to come, therefore, only the shares of a limited number of enterprises will be traded on the stock exchange and the supply-demand gap on the stock market will remain. President Li Guixian [2621 6311 7639] of the People's Bank of China pointed out in a speech in London that other than the two in Shenzhen and Shanghai, China will not necessarily open up a third stock market in the nation in the next three to five years, and with good reason.

#### **Foreign-Funded Banks Lose Money but Look Toward Future**

An important step has been taken in the reform of China's securities market. On the fund market, however, the old "bird-cage" economy still reigns, whether we are referring to the circulation channels of funds, the regulation and control of credit, or the management of financial institutions. In other words, the chain of command continues to flow from top to bottom, determining the scale of investment and the distribution of credit limits. The scope of operations of every specialized bank is delimited by the central bank, which enjoys a monopoly. All this seriously impedes the development of a market economy.

The Guangdong area has been trying to develop an export-oriented economy in the past 12 years or so. Of Shenzhen's 3,600 enterprises which are either wholly or partially foreign-funded, 90 percent are financed by Hong Kong capital. Importers and exporters as well as manufacturers need Shenzhen and Hong Kong financial institutions to provide international account settlement services, insurance, and the buying and selling of foreign

exchange. They also need them to put together syndicated loans. Already 16 foreign-funded banks, 21 representative offices, and one insurance company have made their way into Shenzhen, making the first dent in the monopoly of the Bank of China. However, foreign-funded banks are confined to doing business in foreign currency and are largely kept out of the depositing business where a majority of the clients are wholly or partially foreign-funded enterprises, off-shore foreign currency savings deposits, and the mortgage business. Many foreign-funded banks are now losing money but have a long-term strategic consideration: open up China's financial market in the future.

#### **Governor Zhu Senlin Wants the Central Bank To Ease Restrictions**

There is no level playing field between the People's Bank of China and the various specialized banks. Both the issue of funds and credit control are governed by mandatory regulations. As for local banks, they are subordinate to the central bank and are subject to all sorts of restrictions, which will not disappear anytime soon. For instance, banks in Guangdong Province must also abide by the lending ratios imposed by the Central Bank in a uniform fashion on all banks despite the former's ample deposits. Even banks drowning in deposits have no choice but comply with the limit.

Now both Shenzhen and Guangdong would like to speed up the pace of financial reform and build themselves up as the financial center of southern China, which is easier said than done given the strict financial control exercised by the Central Bank.

Under Guangdong Province's Eighth Five-Year Plan, which runs from 1991 to 1995, an estimated 75 billion yuan is needed to build up the transportation, energy, and basic industries and carry out technological transformation. Neither the Central Bank nor foreign investors can be expected to provide such a huge sum of money. A considerable portion of the funds needed must be raised inside Guangdong. Governor Zhu Senlin [2612 2773 2651] emphasized in his speech at the Shenzhen financial reform conference in June this year that the "banking industry is of vital importance if Guangdong is to overtake the four 'mini-dragons' within the next 20 years. This means that first and foremost the People's Bank must come up with a policy. It will then be up to Guangdong to apply the policy flexibly and to good effect." If you read between the lines, what Governor Zhu Senlin was saying was that the head office of the Central Bank should loosen its grip. Otherwise Guangdong would be like the bird in the cage, unable to spread its wings and soar.

#### **Standardization Urged**

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[ECONOMIC REPORTER] in Chinese  
No 32, 17 Aug 92 pp 16-18

[Article by Yang Aiyi (2799 7224 0308): "Securities Market Standardization Called Imperative"]

[Text] China's securities industry was established and developed gradually in the macroclimate of reform and openness. It was not until 19 December 1991 that the nation's first securities exchange was formally set up in Shanghai, followed by the second one in Shenzhen in April 1991 [as published]. Despite its late start, China's securities industry has been developing rather rapidly. During the first half of this year, the shares of over 40 companies with a total market value exceeding 60 billion yuan were traded on the stock markets in Shenzhen and Shanghai. More than 1 million people directly participated in stock investment. Meanwhile, shareholding enterprises in China have also grown considerably. According to incomplete statistics from the departments concerned, there were 3,220 shareholding enterprises of all types (excluding township and town enterprises under the shareholding cooperative system, Sino-foreign joint ventures, and enterprises jointly operated with domestic units) as of late 1991, of which 89 issued shares to members of the public. On the one hand, we have no experience in dealing with securities. Moreover, both the shareholding system and securities trading grew out of existing institutions. Objectively speaking, therefore, it is only inevitable for problems and conflicts to arise. This being the case, we have no choice but to put the following on the agenda: linking up with the international market and establishing a securities trading and management system that is consistent with international practices, standardized, and sound.

Between 3-5 August, a "Symposium on the Trading and Management of Securities on the Two Sides of the Strait" was held in Shanghai. It was organized by the China Association of Registered Accountants, the Hong Kong Accountants' Association, and at their invitation, the Taiwan Accountants' Association. The theme of the symposium was a vital issue in economic development in China: the financial, fiscal, accounting, and auditing management of the securities market. A broad and in-depth discussion took place on the operations and management of the stock markets in Shanghai, Shenzhen, Hong Kong, and Taiwan, including the trading of shares, account settlement, financial management under the shareholding system, accounting and auditing requirements and property appraisal of the companies that want to issue shares on the market and that of the securities market, so on and so forth. After understanding one another better, conference participants explored the laws of stock operation, the responsibilities of registered accountants, and specific ways to achieve cooperation.

### Improving Laws and Regulations Pertaining to Securities Trading and Management

The standardization of China's securities markets involves a broad area, including the improvement of the laws and regulations of securities trading and management, the overhaul of China's current accounting system to make it consistent with the accounting system commonly practiced in the world, the evaluation of state-owned properties, and the supervision of companies whose shares are being traded on the market.

Since Chinese shareholding enterprises are still in an experimental stage and China has limited experience in this field and has not adequately prepared for it, the only piece of legislation that has been promulgated thus far is the "Regulations for Enterprises Experimenting With the Shareholding System." In addition, four related documents were published in early June this year by the Ministry of Finance, State Administration of Taxation, State Administration of State Property, and the State Restructuring of the Economic System Commission, containing provisional regulations that deal with the accounting system, financial management, the taxation of enterprises experimenting with the shareholding system, as well as state property management. These documents certainly represent a positive way to reconcile some of the conflicts in local regulations. However, these documents still need to be amplified and improved. After a period of practice, moreover, we should come up with State Council administrative regulations as soon as possible. In some cases we would even need the National People's Congress to step in and pass legislation, such as a "Company Law," "Securities Law," "Securities Trading Law," and a "Law on Registered Accountants," so on and so forth, so that the entire securities market would be more standardized, with everything regulated by law. That way the legitimate rights and interests of securities investors would be guaranteed and the orderly operation of the securities market ensured.

### Accounting System To Close Gap With International Practices

Another issue that concerned symposium participants is how to make China's accounting system consistent with established international practices, or in mainland jargon, how to change the track and connect the track.

Before China embarked on reform and opened itself to the outside world, it basically followed Soviet accounting principles, based on the source of funds and how they were used. Accounting work was guided by the accounting system devised by the central government for each industry. This method was highly centralized, on the one hand. All practices were determined by the central government. At the same time, it was fragmented, with each industry following its own set of practices, and there was little common ground between one industry and the next. Under this system, enterprises typically were not allowed to dip into their bad account reserve fund and the rules for calculating the prices of

goods in stock were also rather rigid, which set it apart from the accounting principles commonly accepted in the world today. This presents considerable difficulties when we deal with the outside world.

Since the shareholding experiment went under way, a number of modifications have been made to China's accounting system, particularly in the Shenzhen SEZ where such items as "capital rights and interests," "property appraisal and increase in value," "long-term investment," and "securities investment" were added to the accounting system and the establishment of a "bad account reserve" was allowed. Moreover, regulations were drawn up for property depreciation and the pricing of goods in stock. As a result, the entire accounting system has been brought closer to international standards. To better serve the transformation of enterprises into shareholding concerns, China's registered accountants have initiated these tasks: 1) examine the enterprise's annual accounting reporting forms for the preceding three years, using the shareholding current year accounting reporting reform; 2) appraise enterprise properties; 3) examine the shareholding enterprise feasibility study report; and 4) examine and verify the capital stock and accumulation fund of an enterprise adopting the shareholding system.

Nevertheless, there are still differences between China's accounting system and that commonly practiced in the world. This is why A share companies now usually ask for help from domestic registered accountants to handle the four jobs mentioned above while enterprises issuing B shares must seek professional services from the domestic offices of international accounting firms approved by the Ministry of Finance. If an enterprise issues both A and B shares, it must retain both domestic and international accountants to do the work mentioned above. This explains the disparity between the over-subscription rates announced in the purchase documents for A and B shares.

Accounting reform has created an urgent need to improve the caliber of accountants. On the one hand, the corps of accountants must be expanded. Post-secondary institutions must step up recruitment and training. Noting the growing popularity of the accounting profession, reports say, more and more young people in Shanghai have been applying to accounting departments. Last year students admitted to the accounting departments of all post-secondary institutions in Shanghai had the highest scores among all freshmen in all disciplines. On the other hand, practicing accountants must be required to undergo retraining regularly so that they will meet the recognized international standards of their profession as soon as possible.

The Hong Kong Accountants' Association will do its utmost to help the reform of the accounting system in the interior. Huang Luohua [7806 3157 5478], executive director and secretary of registration for the association, told reporters that the association had recently created a Chinese study group to help China improve its accounting practices, intensify exchanges between Hong Kong and China, and assist the interior in training accounting professionals.

### Problems Turning State Enterprises Into Shareholding Enterprises

The Chinese system is traditionally a socialist system that pursues public ownership and economic planning. Its state economy is dominated by publicly-owned state enterprises. According to statistics for the last couple of years, state enterprises accounted for about 50 percent of the nation's gross value of industrial output and 70 percent of its total social assets, the original value of fixed assets, earnings turned over to the Ministry of Finance, and employment (townships). One approach in the reform of state enterprises now under way is the shareholding system. Turning a state enterprise into a shareholding system essentially means transferring the properties of the original enterprise legal person into the hands of newly created shareholding enterprise legal person. Since this process involves the transfer of properties, we must first take stock of the enterprise's assets (including liabilities), appraise the assets, and determine the rights of ownership. Then we can work out the total value of the state assets that the enterprise has used and convert them into shares.

According to Gu Fuyou [7357 4395 0147], senior adviser to Shanghai Accountants Office, three sets of issues arise when it comes to appraising state assets, converting state assets into shares, and cooperating with foreign businessmen: 1) Within the enterprise, overspending on workers' welfare, wages, and bonuses presents a problem. 2) Also within the enterprise, it would be difficult to include collective welfare facilities, such as bathrooms, cafeterias, day care center, and clinics. This is true for both sites and equipment. Thus far, however, no uniform appraisal standard has been worked out. One has to fall back on the specific circumstances of the enterprise in question. 3) Also absent is a property appraisal standard for environmental protection facilities including the costs of treating local pollution caused by water, electricity, and gas. Appropriate methods must be worked out to solve these problems.

In the experience of General Manager Wang Shi [3769 4258] of the Shanghai Wankue Enterprise Shareholding Co. Ltd., there are these additional issues in the process of turning a state enterprise into a shareholding enterprise that merit attention: 1) The proportion of state shares. Statistically the state shares of all enterprises whose shares are being traded on the Shenzhen and Shanghai stock exchanges exceed 50 percent, even higher in Shanghai. The current trend is for the percentage of state shares to increase, judging from the number of state shares in recently listed companies. Of the 11 companies in the second batch, the average percentage of state shares has climbed to 65 percent. Given the dominance of public ownership in the economy, it is only natural for the state to be the controlling shareholder, but it is an open question whether state shares should exceed 50 percent. The reason why state enterprises adopt the shareholding system is to change its mechanism. If the original shareholder remains in a position of absolute control in the reformed enterprise, we cannot say we

have fully achieved the purpose of changing the mechanism. If that is the case, the effective operation of the mechanism of the shareholding company would be hampered and the profound significance of reform through shareholding also would be diluted. We should be careful, therefore, to see that share ownership is properly decentralized after a shareholding system is introduced. 2) The management issue after state properties are converted into shares and securities. Generally speaking, state shares are immovable property, otherwise the percentage of state shares would be affected. The problem with such static management and the existing volume management of state shares is that it becomes impossible to increase the value of state shares, deprives state investment of its flexibility, and dampens the enthusiasm of the agency above for listing a subsidiary company on the stock market. In short, the shareholding system remains an experiment for state enterprises in China and involves a host of issues. We must continue to review what we learn from practice and improve it endlessly until it is gradually standardized.

### Shareholding Enterprises Must Put Their Shares on the Market Step by Step

China's securities market is still in its infancy and the number of publicly traded companies is minuscule. In contrast, there are 1,000 billion yuan in savings out there, creating a huge supply and demand gap, a problem spotlighted by the spectacle in recent days of a million people lining up in Shenzhen to buy new share lottery tickets. Be that as it may, the government absolutely must not hastily and suddenly ease its requirements for companies to be listed and allow a host of companies to trade their shares on the market within a short period of time. Such a move would be a blow to the stock market. The fact of the matter is that not every enterprise can be converted into a shareholding enterprise overnight. Enterprise reform is not only technically daunting, but also has a good deal of social impact. As such we must proceed carefully. In Shanghai this year, many enterprises will vie for the opportunity to take part in the shareholding experiment, but preference will be given to the following seven types of enterprises: 1) Enterprises directly involved in the development of the infrastructure and public utilities in Pudong; 2) enterprises directly involved in the city's major infrastructural projects or serving such projects; 3) large-sale industrial and commercial enterprises newly created in the Pudong district; 4) large-scale industrial and commercial enterprises whose output is mostly exported to earn foreign exchange or which are geared toward the attraction of foreign capital; 5) large-scale enterprises and institutions devoted to the development of high-tech and new industries; 6) large-scale real estate enterprises that renovate an entire block of land in the old city; 7) core enterprises that facilitate the organizational readjustment of an enterprise or help sort out the property rights relations in enterprise groups.

After enterprises are listed on the stock exchange, moreover, a uniform financial condition disclosure system

must be established for them under which they will be required to disclose pertinent information to the public at regular intervals. Also, an independent securities supervisory organization must be created to supervise the operations of the companies listed to protect investors' interests.

### **Shenzhen Stocks Popular**

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[Article by Wu Wen (0702 7186): "Shenzhen's Stock Market Craze"]

[Text] On 8-9 August, almost 1 million people from Shenzhen and around the nation swarmed into Shenzhen in a mad scramble to buy new share lottery tickets. As hundreds of thousands of people waited in line day and night, commotion broke out. The crowds were exhausted and the place got filthy. Public security personnel and armed police were called to maintain order round the clock. There were demonstrations in the streets. Cars were smashed. Disturbances broke out. Water cannons and tear gas were used. While the unrest has now subsided, its impact on the development of the stock market in Shenzhen and even the entire nation is profound.

### **The Sweet Taste of Buying New Shares**

In the four years since the stock exchange formally opened its door for business, more stock prices have risen than fallen. The handsome profits they have generated have inspired a stock-consciousness among members of the public, encouraging them in the belief that you become rich as soon as you buy some shares. Since the beginning of this year, there have been endless reports in Shenzhen about the issue of new shares, which were followed with deep interest by the public. Some people have benefited from the shares issued last year, whetting their appetite for yet more new shares, so neither people who had the luck of the draw last year nor those who did not were about to give up the opportunity to buy a new share lottery ticket. From everywhere they came, Shenzhen, north, south, east, and west, undeterred by the vast distances and ready and eager to try their luck.

Last year the new share purchase form cost 1 yuan apiece, mere peanuts. The result was that even some beggars became shareholders. So this year some people proposed pre-payment while others suggested that we take a leaf from Shanghai's book and raise the price of a lottery ticket and increase the probability of picking a winning ticket in the draw, while reducing appropriately the number of shares that could be purchased with each lottery ticket...There were ideas and suggestions galore.

Finally the plan for this year's new share lucky draw was announced prominently in SHENZHEN TEQUBAO and the mystery that had kept prospective share buyers

guessing was solved. According to the announcement, new shares with a total face value of 500 million yuan would be issued to members of the public in 1992, 5 million new share lottery tickets would be sold, and 500,000 tickets would be picked in a single draw. The cost of a lottery ticket would be 100 yuan. A total of 10 tickets could be purchased by producing 10 ID cards at any one time. The 100-yuan price tag did momentarily give people pause: If none is picked, 1,000 yuan would simply have gone down the drain. After reading the announcement more closely, however, they experienced a new surge of hope. First of all, the probability that they may hit the jackpot was one in 10. Second, it is true that a lottery ticket cost 100 yuan. But then even if your ticket is not drawn, you may have a chance to buy bonds that can be converted into shares. Moreover, the ticket can be used again next year. Thus the public's enthusiasm for investing in stocks was reignited. It can thus be seen that although Shenzhen might have set out to remind people interested in buying shares of the riskiness of the enterprise, it had only succeeded in luring speculators to join the already swollen ranks of potential stock investors.

### **Shenzhen Already Under Pressure**

On 7 August the "full" sign was up at all hotels in Shenzhen. Even the handful of seediest guest houses were filled with hordes of potential share buyers paying exorbitant rates and putting up with harsh conditions who had rushed to Shenzhen dreaming of a windfall from this adventure.

In reality, the Shenzhen municipal government, banks, and other departments involved already felt a certain invisible pressure at that point. Even before the announcement was made public on 7 August, 20 million ID cards had been sent or taken to Shenzhen. To get to Shenzhen in time for the lucky draw, some people from the mainland had been living in Shenzhen one or two months or even longer. In the evening on 7 August, lines began forming at all sales outlets. By 1000 or so the next morning, tens of thousands had already queued up.

Under the fiery August sun, the sea of humanity made mid-summer Shenzhen hot and sultry. There were crowds everywhere. All ships, cars, and trains bound for Shenzhen were bursting with people, people filled with hope and anxiety.

There was concern that things would go wrong. Already a string of robberies had occurred in the evening on 7 August. Some people from Guangdong who had returned to their hometown earlier to raise funds were robbed outside the city gate as they headed back to Shenzhen. The authorities concerned had made careful preparations, but there was only so much they could do. Pressure was building up and became overwhelming. The gap between subjective assumptions and objective reality got too wide.

The lottery tickets went on sale on 9 August. The crowds had been lining up for two days and two nights. The weather kept changing. There was disorder at many sales

outlets and over 10,000 people were milling outside the Industrial and Commercial Bank of Shenzhen. By 1100, even before the distribution of new share lottery tickets began, sale was halted at many sales outlets because of disorder. The police and public security personnel were forced to take tougher measures to maintain law and order.

#### From Dissatisfaction to Demonstrations

At about 2100 on 9 August, the crowds at all sales outlets were told that all 5 million lottery tickets had been sold out. You can imagine the dissatisfaction of those who had been lining up for two days and nights only to be turned away empty-handed in the end.

By 10 August, a black market in the sale of new share lottery tickets had already sprung up on the streets of Shenzhen; tickets were changing hands at anything between 400 and 600 yuan apiece. An extremely disgruntled public began flooding newspaper offices and radio stations with phone calls, asking questions. According to the announcement in SHENZHEN TEQUBAO, some sales outlets were supposed to have tens of thousands of lottery tickets for sale. In fact, these places were sold out only after several thousands were distributed. Public anger was rising. At around 1800, about 200 people gathered together and marched toward the offices of the municipal CPC committee and the municipal government, holding banners with the words "Oppose corruption, demand justice." Then they made their way to the railroad station. Upon their return to the municipal CPC committee office, they were joined by other Shenzhen citizens and people from the interior who were dissatisfied with the sale of new share lottery tickets, swelling the ranks of demonstrators and spectators to almost 10,000 at one point. A few people hurled stones at the police and smashed public security posts and bicycle sheds. To prevent the situation from spreading and getting worse, the Shenzhen police, jointly directed by the Shenzhen municipal CPC committee and municipal government, closed a stretch of Zhennanzhong Road from the Shenzhen Science Center to the Jingdu Hotel and sent anti-riot police to fire tear gas and high-pressure water cannons to disperse the demonstrators as well as the crowds who had gathered to watch.

#### Situation Has Been Quelled but Provides Us With Food for Thought

Later the Shenzhen municipal government called an emergency meeting overnight to find a way to close the gap between the supply of and demand for new share lottery tickets. It was decided that 500,000 new share exchange forms would be offered for sale at 300 sale outlets starting on 11 August. The probability of winning would not change. The decision was made to offer exchange forms for sale because it was impossible to print additional lottery tickets within a short period of time. The exchange forms could be traded in for real

lottery tickets in early September. The exchange forms went on sale without incident in the afternoon of the 11th.

There was a couple of surprises about the latest sale of new share lottery tickets. Reportedly, almost 40 million ID cards flooded into Shenzhen from out of town.

Everybody is saying that the latest stock fever was caused by, among other things, the huge difference in prices between the primary and secondary stock markets, with the former being so much more profitable. Even though the shares were overpriced when they were first put on the market, their prices quickly rose a dozen yuan or so. This has only whetted public appetite for the primary market. Moreover, the message conveyed by all media to the public is invariably that if you play the stock market, you make money. Newspapers too only carry stories of people making a killing on the market. This has convinced the public that the risk of investing in the stock market is not real. As for the hundreds of thousands of prospective stock buyers who had swarmed into Shenzhen from the rest of the country, they were even more wildly optimistic. They had heard that the latest new share lottery would be Shenzhen's "last supper" and came here in a speculative frame of mind, dreaming dreams of hitting the jackpot.

Since only 5 million new share lottery tickets were issued this time around (followed by 500,000 new share purchase exchange tickets), they still fell short of the total number of ID cards, not enough to meet the demand. But it was the fraudulent conduct in the sale of tickets that directly caused the people to lose control of their emotions and take to the street. Huang Xinhua [7806 2450 5478], a spokesman for the Shenzhen municipal government, admitted that some workers did act illegally in the course of selling the tickets but said that Shenzhen had set up a special group to investigate fraudulent practices. If the charges are found to be true, the results of the investigation will be made public. Shenzhen mayor Zheng Liangyu [6774 5328 3768] noted explicitly in a speech that corrupt and fraudulent conduct must be investigated and strictly punished to deter any imitators.

While the stock fever has died down, it has given us some food for thought. Everybody believes that we must review the experience and earnestly learn a lesson from it. Only thus will it contribute to the healthy development of the stock market and the deepening of financial reform.

#### Banks Issue More Than 1 Million Credit Cards

OW1710120692 Beijing XINHUA in English  
1138 GMT 17 Oct 92

[Text] Changsha, October 17 (XINHUA)—Credit cards issued by Chinese banks have exceeded 1 million throughout China, according to a bank official.

Chen Xiaoyan, director of the Credit Card Section under the Industrial and Commercial Bank of China, said that

on Friday [16 October] the bank started a nationwide 100-day promotion in 91 cities.

She said that the promotion aims at increasing cities issuing credit cards from 91 to 100 and increasing users of the Mudan (Peony) card from 670,000 to 1 million.

At present, the Bank of China has issued 400,000 Great Wall cards, second only to the Mudan card issued by the Industrial and Commercial Bank. Also, the Agricultural Bank of China has issued the Jinsui (Gold Ear) card and the Construction Bank of China has issued the Wanshida (Lucky for Everything) card.

Chen noted that consumption averages over 1,000 yuan per user of the Mudan card this year. The total consumption volume of the Mudan card has exceeded 5 billion yuan in China in the past months.

At present, the Mudan card is accepted by over 10,000 shops, restaurants and hotels and over 5,000 bank offices in China.

#### **Henan Agricultural Bank Revitalizes Enterprises**

93CE0008A Beijing JINRONG SHIBAO  
in Chinese 3 Sep 92 p 2

[Article by Tian Yongqiang: "Henan Agricultural Bank's Activities To Develop 'Thousands of Plans' Yield Effective Results, More Than 500 Enterprises Rescued From Closure and Suspension"]

[Text] A total of 512 rural enterprises in Henan Province were closed down and suspended due to poor management and other reasons. Right now they have resumed operation with their machinery running in full speed. They are full of vitality and busy producing and marketing their products. This is a new phenomenon produced after the Henan Provincial Agricultural Bank launched activities to develop "thousands of plans," and strengthened wise investment.

Since July 1991, this bank has done away with the outmoded traditional practice of confining the issue of credit to itself, and endorsed the guiding ideology that "the bank flourishes when the economy booms, and the bank prospers when enterprises thrive." It extensively launched activities throughout the province to make full use of wise investment, and go all out to support economic development. In recent years, a considerably large number of industrial and commercial establishments suffered losses because of poor management. In view of this situation, the agricultural bank and credit cooperative in the province took the initiative to suggest ways and means to help enterprises revitalize, improve management, and turn losses into profits. The bank's credit department staff members made more than 3,000 trips to visit rural enterprises and industrial and commercial establishments on its clientele list, particularly those that were in the red to help them conduct investigation, analyze problems, and find out reasons for the losses so as to provide remedies.

In carrying out activities to develop "thousands of plans," the agricultural bank in Nanyang Prefecture combined its effort to support and help enterprises with that of promoting production. It not only supplied these enterprises with funds, but also became their management advisors. It took the initiative to help enterprises recruit qualified staff members, improve management, establish rules and regulations, and revitalized a total of 84 enterprises. After inspecting the Jiefang Carbon Factory in Jiaozuo City which was shut down and suspended for two years and making full use of the bank's well-informed sources from all its branches in conducting a market survey, and analyzing and debating all related issues, the agricultural bank of the Jiefang District in the city resolutely suggested that the factory switch to the manufacture of carbon electrodes by means of carbon-arc technology. It also helped the factory recruit two senior engineers from Shanghai to supervise the operation in the factory. After successfully turning out products on a trial basis, the factory is now manufacturing products that meet high domestic standards, and filled the gap in the province. The manufacture of such products was also listed by the Jiaozuo City people's government as a "Spark Program" project in the Eighth Five-Year Plan. Right now, products from this factory are being marketed in northeast China, Guangzhou and other localities. Their annual output value is expected to reach 3 million yuan.

As of now, the Henan Agricultural Bank has offered a total of 10,540 valuable plans of all types, of which 7,044 or 66.8 percent have been accepted by the party and government departments at all levels, various enterprises and related departments. More than half of the 3,891 plans accepted by various enterprises have yielded effective results.

#### **Shanxi Industrial Bank Promotes Housing Reform**

93CE0008B Beijing JINRONG SHIBAO  
in Chinese 4 Sep 92 p 1

[Article by Sun Lingyan: "Shanxi Industrial and Commercial Bank Goes All Out To Promote Housing Reform, Vice Governor Wu Junzhou Welcomes Financial Institutions To Serve Housing Reform"]

[Text] With its focus on promoting housing reform, the Shanxi Industrial and Commercial Bank has paid attention to improving facilities, equipment, personnel training, location, and services. Right now, it has collected housing deposits totaling more than 740 million yuan, furnished loans in excess of 160 million yuan, and supported 95 housing projects with a total floor space of 400,000 square meters.

It is reported that more than 90 percent of the bank's branches and departments are doing business for the promotion of housing reform. The bank invested more than 2.5 million yuan to buy 98 microcomputers. In particular, the procedure for handling public reserve

funds devised by the bank branch in Taiyuan City over a six-month period has been appraised by the provincial science and technology commission and put into effect.

While paying attention to the issue of policy for doing business in promoting housing reform, the Shanxi Industrial and Commercial Bank also explored better ways to extend loans to real estate businessmen and the self-employed. One, it changed its practice of merely handing out loans to one of combining credits with investments, linking production with financing and serving customers doing either domestic or export sales. Last year, the real estate trust and investment company under the Industrial and Commercial Bank in Taiyuan City developed the 300,000 square meter Ifenyuan Sub-District on the west bank of the Fen River where it built more than 80 commercial residential buildings. It not only supported urban construction, but also built more houses to promote housing reform. Together with the Taiyuan bank branch, this company also made preparations to cooperate with the Hong Kong Huadajie Petroleum and Liquefied Gas Co. Ltd. to form a company to develop the three square kilometer New and High Technology Development District in Taiyuan City. Two, the Shanxi Industrial and Commercial Bank became more market-oriented, fully displayed its overall superiority by coordinating with branches at the higher or lower levels and with other banks in making investments on large projects. Three, the bank extended its businesses in support of export. Right now, it has made investments in nine coastal projects. Four, the bank made diversified developments in a comprehensive way, and enhancing their own performances and social efficiency.

When the reporter visited Shanxi's Vice Governor Wu Junzhou on the bank's supporting role in promoting housing reform, Vice Governor Wu fully reaffirmed the achievements made by the Industrial and Commercial Bank during the past few years to support housing reform. He pointed out that financing is a major issue in carrying out housing reform. Also, housing reform involves thousands of households, and it is an enormous job. All financial institutions are welcome to take the initiative to support the housing reform program, he added.

### **Banks Help Shaoxing Enterprises Regain Solvency**

93CE0008C Beijing JINRONG SHIBAO  
in Chinese 4 Sep 92 p 1

[Article by Lou Wenlong and Tian Hanyin: "Shaoxing Financial Institutions Help Enterprises Eliminate Losses, Solve Difficult Problems and Improve Performances"]

[Text] From the beginning of the year, the People's Bank in Shaoxing City, Zhejiang, has organized all financial institutions to develop various activities in "supporting, helping and impelling" the 440 state-run, collective and rural key enterprises in the city to improve economic

efficiency. It has attained remarkable results in this connection, and won unanimous acclaim from enterprises and society.

In February this year, the Shaoxing People's Bank organized all banks, cooperatives and other financial institutions in the city to form a small team of staff members specialized in exercising leadership, doing planning and promoting credit operations to visit one (or more than one) key enterprise on the bank's (cooperative's or institution's) clientele list to conduct investigation and look for existing problems. By providing information and offering suggestions on how to use credit and balance accounts, it helped enterprises overcome difficulties and tackle problems in production and operation, fund management and technical innovation. It also impelled each enterprise to strengthen its managerial mechanism and improve economic efficiency, achieved the goal of "supporting" each enterprise in tackling key issues, "helping" it overcome difficulties, and "impelling" it to solve problems.

Since development of the various activities to "support, help and impel" enterprises, a vast number of these enterprises have turned deficits to profits. At the beginning of this year, more than half of 440 enterprises that were "supported, helped and impelled" were either in the red or making negligible profits. Right now, significant changes have taken place. For example, 10 enterprises, with the help of the Shaoxing County Agricultural Bank, increased their growth rates in production and marketing by 30.7 percent and 45.3 percent respectively during the first half of 1992; and turned their total deficits of 781,000 yuan to a total profit of 206,000 yuan. Eight enterprises "supported, helped and impelled" by the People's Bank, the Communications Bank, the Industrial Bank, the Yuecheng Cooperative Bank and other financial institutions in Shaoxing City, had turned deficits to profits.

In addition, with the vigorous support of the financial institutions, nearly all the 440 enterprises mentioned above had successfully achieved technical innovation projects, quickened their pace in developing technical renovations and laid the necessary foundation for replacing the older generations of products by new ones. The People's Bank in Shengxian County helped the county's Paper Machinery Factory raise funds to develop technical innovations. It had helped complete one 480,000 yuan technical innovation project. Even more gratifying was the fact that with the development of these activities to "support, help and impel" enterprises, breakthroughs were made in the development of key construction projects in Shaoxing City. For example, the Bank of China in Shaoxing City was able to raise \$60 million in foreign exchange, half of the total investment needed by the Zhejiang Polyester Fiber Factory for the 60,000 ton polyester slicing project that was a key construction plan of the city, thus laying a good foundation for the successful development of this project.

### Jiangsu Insurance Businesses Flourishing

93CE0008C Beijing JINRONG SHIBAO  
in Chinese 4 Sep 92 p 2

[Report by Zhu Xinhua and Tang Hao: "Jiangsu Insurance Businesses Flourishing, January-July Rate of Growth 8 Percent Higher Than National Average Figure"]

[Text] From January to July 1992, the total volume of insurance business of the Jiangsu People's Insurance Company reached 1.302 billion yuan, a 52.9 percent increase over the same period in 1991, and a 8 percent increase over the national average figure. It was the highest level for the past several years.

Since this spring, Jiangsu has quickened its tempo in developing reform and opening up. Its economy has entered a new stage of high-speed development. With increased investment, managers of the various enterprises have begun to look for new ways to shift unforeseen risks. This has created a favorable external environment for insurance businesses. From January to July 1992, the total volume of property insurance business reached 603 million yuan, which included 250 million yuan enterprise property insurance, and represented an increase of 46.3 percent over the same period in 1991. Nearly 7,000 enterprises were new policy-holders. The Changzhou City Medical Station only bought property insurance last year. Later a fiery flood hit the station, the People's Insurance Company paid a 800,000 yuan reparation for the damages caused by the flood. The station leadership were greatly moved. This year, the station bought both full coverage property and cargo insurance policies. With the development of an export-oriented economy, the vigorous growth of the export and import trade, and the increase of Sino-foreign joint ventures and cooperative and wholly foreign-funded enterprises, breakthroughs were made in catering to foreign customers for insurance businesses in Jiangsu. From January to July 1992, the volume of insurance sold to foreign customers in Jiangsu totalled \$18.71 million, an increase of 45.5 percent over the same period in 1991, and approximately 20 percent higher than the national average growth rate.

Now, the personal insurance businesses are flourishing in Jiangsu Province, a growth rate of 71.7 percent as compared with the same period last year. The amount of insurance carried to cover marriage expenses for their daughters or sons was 3.3 times that in 1991. This kind of popular insurance in urban areas is now being extended to the countryside. In Yancheng City alone, 71,000 people bought this kind of insurance, including 31,000 new policy-holders this year. The amount of insurance reserve fund is 17 times that of last year. The amount of pension insurance sold in the province increased by 70.08 percent. In addition, families began to buy all kinds of insurance, and through a series of procedures. They buy property and life insurance, covering persons from childbirth to retirement; and obtain

all types of insurance in a selective way. Fan Jinsheng, head of the Heilin Township in Ganyu County, said it well: "One does not have to worry about any natural calamity, if he drinks one less bottle of wine. One can live in peace for a year, if he smokes one less pack of cigarettes." This reflects the expansion of rural and urban residents' consuming capacity in Jiangsu, and changes in their concept on spending.

In face of the ever-increasing competition on the insurance market, the nearly 5,000 workers and staff members in various departments of the Jiangsu People's Insurance Company have continuously improved and expanded services, and promoted insurance businesses at a higher speed. Farm insurance is regarded by the international insurance community as something difficult to handle because of the high risks, unpredictable factors and large compensation payments. Following the principle of "sharing profits and risks," the Jiangsu People's Insurance Company found new ways to support agriculture by acting on behalf of the local government, assuming joint liabilities with other co-insurance companies, and establishing a mutual-assistance foundation. In 1991, it paid indemnities totaling 43.51 million yuan for flood and waterlogging damages. After receiving compensation payments from the insurance company, peasants who were hit by the natural disaster said excitedly: "The People's Insurance Company is reliable and trustworthy!" Other peasants are now eagerly buying insurance. During the first half of 1992, the total volume of insurance businesses in Jiangsu Province rose by 102.65 percent compared with the corresponding period in 1991.

### INDUSTRY

#### Zou Jiahua Urges Developing Integrated Circuits

HK1910131392 Hong Kong CHING CHI TAO PAO  
in Chinese No 39, 5 Oct 92 p 24

[Report from the "China Economic News" column: "Zou Jiahua Says It Is Necessary To Develop the Integrated Circuit From a High Starting Point"]

[Text] Vice Premier Zou Jiahua has said: To reverse the backward situation in the integrated circuit industry, China has set about implementing a special plan for developing super-scale integrated circuits. It has made great efforts to grasp the high-grade, precision, and advanced technology for producing super-scale integrated circuit products and to achieve a certain production scale in the Eighth Five-Year Plan.

He added: A basic guiding philosophy for developing China's integrated circuit industry is that it should be geared to the market so it can meet demand. We should consider project construction and industrial development in light of national economic development and use demand to push the industry to reach a larger scale and a higher technological level. In integrated circuitry, we

should take the path of principally developing special-purpose circuits and give due consideration to the development of universal circuits. The former should be diversified and produced in different quantities to meet demand from various quarters. With regard to universal integrated circuits which are available abroad and which are very cheap, we can use imports to solve our problems. Zou stressed: It is necessary to pay full attention to the work of designing and developing a variety of integrated circuits. We should set up a number of product design and development centers in various parts of the country to boost the formation of an integrated circuit designing industry. We should also vigorously conduct international cooperation and try to import advanced technology and equipment and introduce well-trained experts from abroad as much as possible in order to develop the integrated circuit industry from a high starting point.

**Problems in Current Industrial Production, Sales**  
92CE0689A Beijing JINGJI GONGZUO TONGXUN  
[ECONOMIC WORK NEWSLETTER] in Chinese  
No 13, 15 Jul 92 pp 13-14

[Article by Gu Shengchu (6253 0581 0443)]

[Text] Since the beginning of the year, the pace of development in the national economy has obviously stepped up. Industrial production has been moving ahead at a good speed, the markets for production materials and consumer goods and that in foreign trade are booming, and with this, sales of industrial products have also increased. However, the marketing of all the goods produced is still lower than normal levels, for the picture of production in excess of sales has not changed basically, and inventories of finished products continue to grow, especially inventories of light industry goods where overstock is particularly severe.

From January to May, the current value of the gross output for all industries operating on the rural level and above increased 21.8 percent over that for the same period a year ago, while the current value of industrial sales grew 21.3 percent. The ratio of output to sales for goods produced was 91.57 percent, a rise of 0.47 percentage points over the figure for the January-April period, and a drop of 0.34 percentage points over that for the same period a year ago. The ratio of output to sales for light industry products was 89.57 percent, and that for heavy industry products, 93.3 percent. The ratio of output to sales for the national industrial product was 93.94 percent; for collectives, 86.3 percent; rural operations, 82.99 percent; and for all other types of operations, 91.54 percent. The ratio of output to sales for large- and medium-sized enterprises was 93.79 percent. When ratio of output to sales figures of identical product categories for the same period a year ago were compared, with the exception of ratio figures for collectives, rural operations, and large- and medium-sized enterprises which showed a rise, a drop was noted in all other product categories.

A special feature in the marketing of industrial products is that heavy industry items move faster than light industry products, that goods from national industries move faster than goods from collective industries, and products from large- and medium-sized industries also sell more quickly. As marketing conditions indicate, growth in the production materials market and in foreign trade exports is greater than that in the consumer market.

1. Boom and stability in the consumer market. From January to May, gross retail sales of commercial products in the domestic market showed a growth of 14.4 percent over that for the same period a year ago. Except during February and March, because of the holiday and regulation of food prices, growth for these two months were 16.7 percent and 18.5 percent respectively, but growth for April and May showed obvious drops to 9.7 percent and 13.7 percent respectively.

A look at the makeup behind the gross retail sales figures of commercial products sold in the open society shows that one factor is the greater growth in consumption by social groups over consumption by individual citizens. From January to May, the retail volume of consumer products grew 14.9 percent over that for the same period a year ago. Of this, consumption by social groups grew 21.5 percent, 7.4 percentage points higher than the 14.1 percent growth for individual citizens. Second is the growth in retail volume. In businesses under the public ownership system, retail volume grew 17 percent, 11.3 percentage points higher than the 5.7 percent growth for collective businesses, particularly consumer cooperatives where their retail volume only grew 3.1 percent. Third is the strong showing of retail volume in joint ventures and individual businesses. They grew 34.8 percent and 21.7 percent respectively, over that for the same period a year ago. Fourth is the slow sales of ordinary daily-use products. These goods were affected by the regular appearance of newer models and the latest styles.

With a rise in the consumption level, consumer needs become more varied and complex, as consumer standards also rise. Name brand color television sets, automobiles, video cameras, refrigerators, washing machines, and some new domestic electrics are still great sellers. The consumption fever for the latest models of domestic electrics, new models of various upscale goods, real leather athletic shoes, magnetic cups, decorative items and other such consumer items which began in the cities and some regions where the economy had been flourishing, has lasted for about a year now, and is yet to abate. But most general industrial products and textile goods that are used on a daily basis are usually sold at cost or at a loss. According to the State Bureau of Statistics's comparison of sales volume for 34 important commodities, 14 products, or 41.2 percent, experienced a growth in sales volume over a similar period a year ago; two products, or 5.9 percent, had no growth, and 18 products or 52.9 percent, had a reduction in sales volume.

2. Brisk buying and selling in the production materials market. With the stepped up pace in developing the national economy, and the expansion of fixed assets investment, the need for production materials and the needs of the consumer are increased, and as the society's inventories are being depleted, the prices of goods are likely to rise more rapidly. From January to May, the gross volume of buying in the state's production materials system grew 37.6 percent over the same period a year ago, and the gross volume of sales grew 37 percent. Sales for 13 important materials, except for pig iron and rubber, which showed drops, the rest of the materials showed increases over the same period last year. Of these, steel products, copper, and aluminum showed increases of 42.8 percent, 38.6 percent, and 23 percent respectively. Mechanical and electrical equipment and automobiles showed increases of 73.5 percent and 32.6 percent respectively; soda ash and cement each showed growth of 20.1 percent, and 15.5 percent respectively.

By the end of May, gross inventories in the nationwide production materials system, as compared with inventories at the beginning of the year and at the same period a year ago, dropped 10.7 percent and 5.3 percent respectively. Of 13 important materials stored, inventories for 12 of them dropped. Of four important materials stored by society, inventories for coal dropped 0.6 percent over the same period a year ago; that for steel products dropped 14 percent, with turn-around time cut by 63 days. Cement inventories dropped 5.9 percent, and lumber, 21.2 percent.

Rises in the price of production materials have also stepped up. In one season, the gross price level of production materials rose 4.5 percent over that for the same period a year ago; for April, the figure rose 5.5 percent, an increase of 1 percentage point over that for March; for May, the figure rose to 7 percent, an increase of 1.5 percentage point over the April figure, making it the greatest increase in price for this year. Of these production materials, the price of steel products rose 7.9 percent over that for the same period a year ago. Construction materials in particular, have become a commodity in great demand and short supply on the market.

Since the beginning of this year, because of increased agricultural participation, sales of materials for agricultural production have risen and there is a great demand for agricultural machinery and equipment. From January to May, the retail volume of agricultural production materials increased 11.3 percent over that for the same period a year ago. From January to April, the total value of machinery sold by the China Agricultural Machinery Company increased 26.4 percent over that for the same period a year ago. Sales volume of motorized tricycles, trucks, and large- and medium-sized harvesting combines each increased 91.6 percent, 64.6 percent, and 44.3 percent respectively, over that for the same period a year ago. Sales volume of agricultural use power machinery and large- and medium-sized tractors also increased 22.1 percent and 11.5 percent respectively.

3. Continued growth of exports in foreign trade. From January to May, the value of industrial commodities for export shipped and delivered at current prices totalled 105.02 billion yuan, comprising 10.7 percent of the industrial sales at current prices, a 23.9 percent growth over that for the same period a year ago. This growth is higher than that in either the currently priced output or the output at time of sale. The value of export machinery and electrical equipment among these industrial commodities shipped and delivered increased 22.1 percent over that for the same period a year ago. From January to May, exports shipped through the Customs Office created foreign exchange of \$22.95 million, an increase of 14.4 percent.

Among problems facing current industrial production and sales, one deals with coordinating output and sales. This shows that the ratio of production output to sales is 5 percentage points lower than normal levels, and it is also lower than that for the same period a year ago, even though it has been increasing by the month. Second is the continued rise in inventories of finished products. At the end of May, capital spent on finished products by state-operated enterprises included in the national estimate increased over that for the first of the year by 24.16 billion yuan, an increase of 6.33 billion yuan over the same period last year, a growth of 4.8 percent. Third is production of light industry, textile and electronic products in excess of sales, resulting in serious inventory overstocks. Inventories from these three industries take up 70 percent of the total commodity overstock, with stores of refined sugar, yarns, textiles, and television sets particularly outstanding. In the first quarter, the ratio of output to sales for state-operated enterprises in the textile industry system was only 86.7 percent, 6.4 percentage points lower than last year's level. By the end of March, the capital spent on finished products had increased 16.8 percent over the figure for the beginning of the year. Textile industry statistics for the ten greatest commodities showed increased inventory stores for nine of them, with the one product having the most inventory increasing by 34 percent. By the end of March, inventories of finished products from 44,000 household enterprises in the light industry system had increased 20.1 percent over that at the beginning of the year, mainly in stockpiles of sugar from the chief sugar producing provinces and regions, adding another 3.3 billion yuan to the total figure.

As for developments in the production and sales of industrial goods, they show demand for production materials following expansion in fixed asset capital investment, an increase in agricultural participation, further growth in consumer needs, and an even greater purchasing power, a continual drop in inventories of chief commodities, and prices continuing their rising trend, all of which stimulate rapid growth in production. Products for foreign export are expected to continue their stable growth. The flourishing consumer market will continue to be brisk and stable. Production of some light industry goods will face some marketing difficulties

because of restrictions posed by changes in foreign and domestic marketing needs and slow revisions in product makeup. For this reason, industrial enterprises must further concentrate on improving their product makeup, and intensify their marketing research and projections, taking their cues from domestic and foreign market needs, to work on developing new products. By continuously adapting to changes in consumer needs, and using sales to stabilize or stimulate production, the kind of blind and rapid production that is oblivious to market demand and needs, inventory overstocks and economic

benefits will be prevented. This will assure industrial production to develop solidly under the premise of available markets and benefits.

### Gross Industrial Output Figures for Jan-Sep

HK1310101592 Beijing CEI Database in English  
13 Oct 92

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

|                         |         |         | (in 100 million yuan) |
|-------------------------|---------|---------|-----------------------|
|                         | 1-9/92  | 1-9/91  | up (pc)               |
| Total                   | 20370.6 | 17073.8 | 19.3                  |
| Including:              |         |         |                       |
| Export products         |         | 1919.8  |                       |
| Light ind.              | 9665.9  | 8260.2  | 16.0                  |
| Heavy ind.              | 10704.7 | 8813.6  | 21.5                  |
| State firms             | 12358.1 | 11007.6 | 12.3                  |
| Collectively owned ones | 6390.6  | 4963.4  | 28.8                  |
| Others                  | 1621.9  | 1102.8  | 47.1                  |

Note: The industrial output value is measured in 1990's constant yuan.

### Light Industrial Output Value by Area in Jan-Sep

HK1610115992 Beijing CEI Database in English 16 Oct 92

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

|                |         |         | (Unit: 100 million yuan) |
|----------------|---------|---------|--------------------------|
| Area           | 1-9/92  | 1-9/91  | Change over 1-9/91 (pc)  |
| Total          | 9665.86 | 8260.23 | 17.0                     |
| Beijing        | 248.82  | 235.63  | 5.6                      |
| Tianjin        | 237.41  | 217.53  | 9.1                      |
| Hebei          | 340.87  | 303.90  | 12.2                     |
| Shanxi         | 92.74   | 88.38   | 4.9                      |
| Inner Mongolia | 84.91   | 77.13   | 10.1                     |
| Liaoning       | 346.21  | 324.12  | 6.8                      |
| Jilin          | 164.23  | 157.11  | 4.5                      |
| Heilongjiang   | 207.12  | 205.45  | 0.8                      |
| Shanghai       | 746.94  | 673.47  | 10.9                     |
| Jiangsu        | 1329.70 | 1046.17 | 27.1                     |
| Zhejiang       | 829.05  | 664.28  | 24.8                     |
| Anhui          | 279.81  | 238.14  | 17.5                     |
| Fujian         | 275.42  | 229.51  | 20.0                     |
| Jiangxi        | 163.30  | 138.08  | 18.3                     |
| Shandong       | 840.36  | 684.26  | 22.8                     |
| Henan          | 348.70  | 297.11  | 17.4                     |
| Hubei          | 380.10  | 353.49  | 7.5                      |

|           |         |         | (Unit: 100 million yuan) |
|-----------|---------|---------|--------------------------|
| Area      | 1-9/92  | 1-9/91  | Change over 1-9/91 (pc)  |
| Hunan     | 247.40  | 224.97  | 10.0                     |
| Guangdong | 1276.57 | 1005.55 | 27.0                     |
| Guangxi   | 192.38  | 152.71  | 26.0                     |
| Hainan    | 31.53   | 24.83   | 27.0                     |
| Sichuan   | 453.33  | 409.38  | 10.7                     |
| Guizhou   | 69.19   | 64.05   | 8.0                      |
| Yunnan    | 159.81  | 142.20  | 12.4                     |
| Tibet     |         |         | 0.60                     |
| Shaanxi   | 140.11  | 136.50  | 2.6                      |
| Gansu     | 62.34   | 56.46   | 10.4                     |
| Qinghai   | 11.81   | 12.85   | -8.1                     |
| Ningxia   | 14.16   | 12.68   | 11.7                     |
| Xinjiang  | 90.64   | 83.69   | 8.3                      |

Note: industrial output value is measured in 1990's constant yuan.

### Output of Main Chemical Products in Jan-Sep

HK1510012792 Beijing CEI Database in English 14 Oct 92

[Text] Beijing (CEI)—Following is a list of the output of main chemical products between January-September of 1992, released by the State Statistical Bureau:

| Item                     | Unit     | 1-9/92  | 1-9/91  |
|--------------------------|----------|---------|---------|
| Chemical fiber           | 10,000t  | 151.97  | 137.50  |
| Sulphuric acid           | 10,000t  | 1067.84 | 976.14  |
| Dense nitric acid        | 10,000t  | 30.42   | 24.41   |
| Soda ash                 | 10,000t  | 325.01  | 286.74  |
| Caustic soda             | 10,000t  | 284.20  | 261.13  |
| Ethylene                 | 10,000t  | 143.49  | 126.82  |
| Calcium chloride         | 10,000t  | 177.23  | 169.40  |
| Pure benzene             | 10,000t  | 59.25   | 52.50   |
| Synthetic ammonia        | 10,000t  | 1737.77 | 1637.27 |
| Chemical fertilizer      | 10,000t  | 1597.99 | 1502.66 |
| of: Nitrogen             | 10,000t  | 1209.90 | 1132.06 |
| Phosphorous              | 10,000t  | 375.27  | 363.53  |
| Potash                   | 10,000t  | 10.10   | 6.83    |
| Chemical pesticide       | 10,000t  | 23.84   | 21.27   |
| Paint                    | 10,000t  | 81.11   | 71.59   |
| Dyestuff                 | 10,000t  | 11.67   | 10.89   |
| Pharmaceuticals          | 10,000t  | 16.37   | 14.59   |
| Chinese patent medicines | 10,000t  |         | 19.85   |
| Tyre                     | 10,000pc | 4105.09 | 2974.16 |
| Synthetic rubber         | 10,000t  | 27.56   | 25.06   |
| Film                     | 10,000m  | 12801   | 10948.0 |
| Color film               | 10,000m  | 12255   | 10634.0 |
| Plastics                 | 10,000t  | 231.00  | 195.31  |

Notes: t - ton, pc - piece, m - meter

**Output of Mechano-Electronic Products in Jan-Sep***HK1510012392 Beijing CEI Database in English 14 Oct 92*

[Text] Beijing (CEI)—Following is a list of the output of main mechano-electronic products between January-September of 1992 released by the China State Statistical Bureau:

| Item                           | Unit     | 1-9/92  | 1-9/91  | up (pc) |
|--------------------------------|----------|---------|---------|---------|
| Power Equipment                | 10,000kw | 867.24  | 687.93  | 26.1    |
| Alternating-current Motor      | 10,000kw | 3720.27 | 2869.70 | 29.6    |
| Industrial Boiler              | t        | 61270.0 | 45603   | 34.4    |
| Metal Cutting Machine Tools    | 10,000s  | 15.10   | 11.03   | 36.9    |
| Digital Control Tool           | s        | 4665    | 2850    | 63.7    |
| Precision machine Tools        | s        | 958     | 786     | 21.9    |
| Large machine Tools            | s        | 2683    | 1984    | 35.2    |
| Automobile                     | 10,000   | 78.26   | 52.33   | 49.6    |
| Truck                          | 10,000   | 37.75   | 30.05   | 25.6    |
| Tractor (over 20 h.p)          | 10,000   | 5.26    | 4.30    | 22.3    |
| Small Tractor                  | 10,000   | 114.80  | 110.72  | 3.7     |
| Locomotive                     | s        | 575     | 517     | 11.2    |
| of: Diesel motor               | s        | 409     | 389     | 5.1     |
| Steam motor                    | s        | 25      | 5       | 400.0   |
| Power motor                    | s        | 141     | 123     | 14.6    |
| Passenger car                  | s        | 1107    | 1143    | -3.1    |
| Freight wagon                  | s        | 18894   | 17096   | 10.5    |
| Internal combustion Engine     | 10,000kw | 6763.7  | 5233.3  | 29.2    |
| Fishing ship                   | 87       | 50      | 74.0    |         |
| Civil steel ship               | 10,000t  | 125.23  | 97.43   | 28.5    |
| Computer                       | s        | 192     | 232     | -17.2   |
| Mini computer                  | s        | 60064   | 62339   | -3.6    |
| Pocket calculator              | 10,000s  |         | 957.03  |         |
| Program-controlled Switchboard | 10,000s  | 232.20  | 38.09   | 509.6   |
| Film projector                 | 10,000s  | 0.80    | 0.69    | 15.9    |

Notes: t—ton, s—set, kw—kilowatt

**Nation World's Leading Electric Locomotive Producer**

*OW1410090292 Beijing XINHUA in English  
0757 GMT 14 Oct 92*

[Text] Changsha, October 14 (XINHUA)—China's annual production of electric railway locomotives has dwarfed that of any other country in the world.

During the past 13 years, which was highlighted by China's reform and opening to the outside world, China was able to produce 200 electric locomotives each year with different power, shaft type and handling capacities.

In addition, during the same period, the industry could produce one new type of electric locomotives every three years.

China's locomotive manufacturing started in 1958. But for the following 20 years until 1978, the country only produced about 140 electric locomotives, of only one type.

At present, China's electric locomotive manufacturing industry is taking an active part in international bidding to expand its business.

## SMALL-SCALE ENTERPRISES

### Number of Million-Yuan Private Enterprises Increases

HK1910071192 Beijing CHINA DAILY in English  
19 Oct 92 p 3

[Report: "China's Private Firms Thriving"]

[Text] China's private sector has more than 5,000 enterprises which possess over 1 million yuan (\$181,000) in capital among its 150,000-plus private enterprises on the mainland.

The revelation follows the latest survey by the State Council's Development and Research Centre.

More than 200 of the large private enterprises are based in Guangzhou, the capital city of Guangdong Province, the Shanghai-based XINMIN EVENING NEWS reported.

The private enterprises, which employ more than 10 million workers across the country, possess a total of 13 billion yuan (\$2.4 billion) in fixed assets and floating capital and their total output value accounts for 6 percent of the nation's gross industrial volume.

Private enterprise employees often earn more than their counterparts at state-owned enterprises. They can earn up to 180 to 380 yuan (about \$32.7 to \$69) on average each month, the survey found.

Specialists working in these enterprises can earn more than 1,000 yuan per-month (about \$182), the newspaper said.

In Wenzhou in Zhejiang Province, the average annual income of the 50 private enterprise owners questioned was more than 70,000 yuan (about \$12,730).

In addition, there are more than 14 million private household businesses in the country, which also employ a large number of workers.

The difference between private enterprises and private household business lies in the number of employees. If a concern employs more than eight workers, it qualifies as a private enterprise.

### Private Firms 'Likely' To Enter International Market

HK2110065992 Beijing CHINA DAILY in English  
21 Oct 92 p 2

[Article by staff reporter Li Zhuoyan: "Private Firms Now Likely To Engage in Business Overseas"]

[Text] Guangzhou—Private businesses in this capital of Guangdong Province are likely to appear in the international market soon.

"The city government issued new regulations to further the opening and reform policy earlier this year, and allowing private firms to get involved in business activities outside the country was one of the 30 included items," said Yao Guanghao, an official from the Guangzhou Administrative Bureau for Industry and Commerce.

That aroused great excitement among private business people, many of whom had an eye on the international market.

To answer the many inquiries from private business circles about the issue, the government recently issued a regulation on the correct application procedure for private business people who wanted to do business abroad.

"Guangzhou is the first place in the country to open an official channel for private firms to go abroad for business reasons," Yao said.

Some businessmen had already set foot in the international market, but had held out reasons other than doing business when they applied.

The regulation stipulates they can now apply with the approval of the Industrial and Commercial Administration Bureau, which is responsible for turning their applications over to the local Public Security Bureau or the Foreign Affairs Office, depending on the reason for the applications, Yao said.

A recent survey by the bureau showed that many of the private firms exporting their products were eager to go out of the country for business investigation, product exhibition or even setting up branches overseas.

More than 30 private firms in the city are exporting more than a million yuan worth (\$181,000) of products annually. A couple of them have exceeded 10 million yuan (\$1.8 million).

"But they have to export their products through the State's foreign trade companies at present," Yao said.

After they set up branches overseas, they will be able to export their products on their own, and provide after-sale service to their customers as well.

## CONSTRUCTION

### Real Estate Sector Faces Problems in Pricing

93CE0005A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 7, 17 Jul 92 pp 34-36

[Article by Zhang Huazhong (1728 0553 0022) and Liu Yunqing (0491 0061 7230): "Price Problems in Developing China's Real Estate Business"]

[Text] I. Development of Real Estate Business in China

China's real estate business has developed rapidly since the start of reform and opening up. By the end of 1990, 6.6 billion square meters of various kinds of urban

housing had been built, and about 25,000 square kilometers of urban land developed into state-owned assets in the nation's 467 cities and 11,000-plus towns as a result of investment in real estate, increases of 41 percent and 150 percent respectively compared with 1985. Calculated at 250 yuan per square meter for housing and 100 yuan per square meter for land, the total value of China's urban real estate is estimated at some 4 trillion yuan, constituting an enormous material basis for our economic development.

In 1991, real estate development and construction projects valued at 33.6 billion yuan and housing with a total floor space of 52 million square meters were completed by some 4,000 real estate development companies around the country, increases of 3.65 and 1.52 times over the 1986 figures respectively. And 30.5 million square meters of commercial housing were sold with sales proceeds amounting to 23.6 billion yuan, up 1.17 and 2.32 times respectively compared with the 1987 records. During the 12 years from 1979 to 1990, 1.5 billion square meters of housing were built in cities and towns across the country, and the accumulated amount of investment in housing construction was more than 280 billion yuan, three and six times the figures registered for the three decades preceding that period respectively. The average per-capita residential space increased from 3.6 square meters in 1979 to 7.1 square meters in 1990.

Real estate markets, after having disappeared for years, have been gradually reestablished and developed in China with the progress of reform and opening to the outside world. Housing transactions, including the selling and renting of housing units, are becoming increasingly brisk. In 1990, the number of real estate agents in China reached 1,000, and transactions were carried out on 39.9145 million square meters of housing in the amount of 7.679 billion yuan, showing an increase of 25.48 and 36.38 times respectively over 1985.

Reform of the housing system has made remarkable progress after several years of exploration and practical work. In 1986, the State Council designated Yantai, Bangpu, and Tangshan as experimental cities for reforming the housing system. In 1987 and 1988, it approved the housing reform plans for these three cities. Spurred on by experimental cities, housing reform has spread from a few medium cities to various county towns and big cities. So far, the following provinces and cities have mapped out and promulgated their overall housing reform programs: Beijing, Shanghai, Tianjin, Shaanxi, Henan, Sichuan, Hunan, Shandong, Jiangsu, Liaoning, Zhejiang, Chongqing, Chengdu, Changsha, Qingdao, and Guangzhou. In short, housing reform is now developing throughout the country.

In 1990, the State Council issued Decrees Nos. 55 and 56, which promulgated the "Provisional Regulations on the Concession and Transfer of the Right to the Use of Urban State-owned Land" and "Provisional Administrative Measures for Foreign Investment in the Development and Management of Tracts of Land." With the promulgation of

these regulations and measures, the reform of the land-use system has been put on a legal track. In coastal areas, 28 cities and 19 counties have launched pilot projects, one after another, for the lease and transfer of the right to use state-owned land. Four special zones, Shenzhen, Zhuhai, Shantou, and Hainan, have instituted on a full scale a paid land-use system. By September 1991, 16 provinces and municipalities had leased out 1,070 pieces of land, totaling 1,963.88 hectares. The lease fees received amounted to 2.406 billion yuan.

Despite its fast development, China's real estate business is still considerably behind that of developed countries. Statistics compiled by pertinent department show that in China the asset value created by the real estate sector accounted for only 3.6 percent of the total output value of the tertiary industry (1989). According to figures released by the American Realtor Association, the U.S. real estate industry created \$1.1-trillion worth of assets in 1987, or 23.5 percent of the country's gross national product. Domestically, there is a very serious imbalance between supply and demand in the real estate sector. With an average 12.05 mu of land and 1.72 mu of cultivated area for each individual, China is one of the countries with the least per-capita land and cultivated area in the world. With the development of the urban economy, however, the demand for land is ever-growing, while the already-scanty cultivated area per capita continues to shrink (during the past decade, arable land has diminished roughly at a rate of more than 5 million mu annually). How to use land reasonably and protect land resources efficiently has become an acute question in developing our national economy. As for housing demands, our urban population increases by 10 million annually, and 2.6 million young couples reach the marriage age each year. To meet growing demands, 150 million square meters of housing should be constructed each year during the Eighth Five-Year Plan period. At present, however, the annual housing construction area is only 100 million square meters, and only some 50 million square meters are completed each year. Nationwide, (districts under the town level not included in the statistics), there are 5.92 million urban families with inadequate housing, and 8 percent of them have an average per-capita residential space of less than two square meters. Plus, there are 31.8 million square meters of dilapidated houses. These shortcomings and problems not only indicate that our real estate business is still far from meeting the needs of economic development, but also tell us that there is much room to develop the work in this area. Solutions to these problems can only be achieved by reforming the land-use and housing systems and by expediting the development of the real estate business and market.

## II. Price Problems Encountered in Developing China's Real Estate Business

Because our real estate business is still in the burgeoning stage and the property market has just begun to take shape, both the macro-regulatory and control mechanism and the micro-management method are far from being sound. Quite a few problems still exist at present.

Of these, the price problem is a striking one, which either directly or indirectly affects reform of our land-use and housing systems and hindered the further development of the real estate business and the formation of the property market.

A. The past few years have witnessed a sharp rise in the price of commercial housing. This has drawn strong complaints from all sectors. Statistics show that the prices of commercial housing averaged 802 yuan per square meter in 1991, a 1.74-fold rise over 1984. The housing price has risen by more than 20 percent annually, except for certain years which registered a hike of about 14 percent. Such a big annual rise has had a negative effect on the formation of commercial housing markets and reform of the housing system. In addition to such factors as rising prices of building materials and more sophisticated housing designs, the main reasons for skyrocketing commercial housing prices are lack of standards for setting prices and circumscribing the price fluctuations, excessive irrational fees and levies imposed on housing, and exorbitant profits sought by real estate development companies. According to Construction Bank statistics, the various levies and fees imposed on a commercial house account for about 11 percent of its selling price, while the real estate development company's profit is as high as 16 percent. Other investigations show that in certain cities, such as Luoyang, Siping, and Lanzhou, there are more than 19 kinds of levies and fees, which account for 20 to 30 percent of the selling price of a commercial house. Examples of highest profit rates earned by real estate development companies are: 38.24 percent on houses in Beijing's Gaoyongzhai Small District (Old District) and 40.39 percent in Niuerqiao Small District (New District) of Leshan in Sichuan.

B. Prices on housing markets are not well managed, but are in a disorderly state. Problems such as driving up and understating price reports to the government are quite serious. In 1991, the transaction prices of old houses on the markets nationwide averaged 235 yuan per square meter, up 80 percent from the 1985 average. Surveys conducted in some cities reveal that in the past one or two years, transaction prices of houses in bustling downtown areas have risen almost exponentially. For example, in 1989 the average house transaction price in Qingdao City was 361 yuan per square meter, and the highest transaction price 1,442.40 yuan per square meter. In 1990 the average transaction price was 556 yuan per square meter, and the highest transaction price 3,000 yuan per square meter. In 1991 the highest transaction price climbed to 4,040 yuan per square meter. In Beijing the highest transaction price of old houses reached 4,900 yuan per square meter. The highest house rent (annual rent) per square meter is 8,600 yuan in Chongqing, 3,000 yuan in Fushun, and 2,000 yuan in Hangzhou. Moreover, it is quite common that prices and rents are understated to evade state taxes and fees. Surveys conducted in Shaanxi Province reveal that, in general, prices reported to the government are at least 30 to 40 percent lower than actual prices, and in some cases

the prices are understated by more than 50 percent. According to investigations and analyses conducted in Lanzhou City, transactions on private housing alone total about 49.5 million yuan annually, but the amount under government management is only 15 million yuan. The balance of 34.5 million yuan is attributed to under-the-table deals. This problem alone causes an annual loss of more than 3 million yuan to the state in taxes and fees.

C. Land lease prices are out of control, and the problem of losses of revenue from state-owned land is serious. Presently, cases of lease and transfer of land-use rights are concentrated in coastal areas, and most of them involve foreign businesses. There are three ways to lease and transfer land-use rights, namely negotiation, bidding, and auction, of which negotiation is an essential one. Generally speaking, the negotiated prices are too low. In 1989 the average land lease price was 429.49 yuan per square meter. But it dropped to 110.92 yuan per square meter in 1990, or 74 percent below the 1989 level. Main reasons for the drop in land lease prices are: First, competition between different localities has resulted in indiscriminate reduction in prices. In some development zones, the price at which land is leased to foreign businessmen is even lower than the cost for developing the land. For example, the announced price for a certain 50-year land lease in Qingdao's development zone was 175 yuan per square meter, but the actual price at which the lease was executed was 90 yuan per square meter. The cost for developing the land was 166 yuan per square meter. This means that the actual lease price was 46 percent less than the development cost. Second, there are many covert land markets in China. Some units and individuals are conducting land-use right transactions along with housing transactions or dealing in land-use rights by exchanging land for other things, buying and selling land-use rights, or using land as investment. As a result, large amounts of state land revenue have gone to these units and individuals. Surveys conducted in some urban areas reveal that the annual loss of land revenue is about 5 to 10 million yuan in big and medium cities.

Price problems have become a core issue in further developing and improving China's real estate markets. Since last year, this issue has received the attention of government departments at all levels, and pertinent investigations and studies have been carried out in the vast majority of localities. Some localities have worked out and promulgated administrative rules and measures, and focused their efforts on regulating, controlling, and managing real estate prices. On the whole, however, the work of real estate price management has not been well undertaken. It has not been truly carried out in a relatively large number of localities. Nationwide, the work has yet to be further enhanced.

Enhancement of real estate price management has become a very urgent task in fostering and developing real estate markets, ensuring the smooth progress of the reform of the land-use and housing systems, and furthering the development of the real estate business. To accomplish this task, it

is necessary to unify our thinking, strengthen leadership, beef up the work force, map out ways and means for the regulation and control of real estate prices, and put the prices under proper management as soon as possible. In accordance with the principle of combining the planned economy with market regulation, we should gradually form a price regulatory and control system that covers the setting, appraisal, assessment, and supervision of prices so as to circumscribe price fluctuations and improve price problems.

## TRANSPORTATION

### Jilin Branch of North Airlines Starts Operations

OW3009075592 Beijing XINHUA in English  
0632 GMT 30 Sep 92

[Text] Changchun, September 30 (XINHUA)—The Jilin branch of North China Airlines has gone into operation.

The Jilin Civil Aviation Company, headquartered in this capital of northeast China's Jilin Province, has opened 15 domestic air routes. Ten international air routes are expected to be opened soon.

The company was founded August 8 as part of the State Council's efforts to reform China's civil aviation.

It has two kinds of airplanes, the Yun-7 and Yun-5, and undertakes passenger and cargo transportation business.

In order to promote economic and trade links between Jilin and the outside world, the company has decided to increase its investment this year and next.

### Shandong To Open New Air Routes Next Spring

SK3009122092 Jinan DAZHONG RIBAO in Chinese  
23 Sep 92 p 1

[Text] The Shandong Provincial Civil Aviation Bureau will open 13 new air routes and increase 29 scheduled flights during this winter and next spring.

The new air routes in Jinan are: Shenyang-Jinan-Guangzhou-Jinan-Shenyang; Jinan-Yantai-Jinan; Shenyang-Jinan-Haikou-Jinan—Shenyang; and Kunming-Jinan-Kunming.

The new air routes in Qingdao are: Shenyang-Qingdao-Haikou-Qingdao-Shenyang; Kunming-Chengdu-Qingdao-Chengdu-Kunming; Harbin-Qingdao-Wenzhou-Qingdao-Harbin; and Harbin-Qingdao-Ningbo-Qingdao-Harbin.

The new air routes in Yantai are: Harbin-Yantai-Shenzhen-Yantai-Harbin; Shenyang-Yantai-Haikou-Yantai-Shenyang; Shenyang-Yantai-Xiamen-Yantai-Shenyang; Chengdu-Yantai-Xiamen-Yantai-Chengdu; and Jinan-Yantai-Jinan.

## AGRICULTURE

### Song Shuyou on Mechanization Management Reform

92CE0708A Beijing ZHONGGUO NONGJIHUA BAO  
in Chinese 19 Aug 92 p 2

[Article by Song Shuyou, director of the Administration of Mechanization in Agriculture under the Ministry of Agriculture: "Pay Close Attention to the Work in Several Fields of the Current Management of Agricultural Machinery With Reform as the Motive"]

[Text] China's economy has been developing well recently. We are again facing a very good opportunity of development, we should try every possible means to seize the opportunity, boost vitality and strength with reform and opening up to the outside world as the motive, and manage agricultural machinery more efficiently.

At present and in the years to come, agricultural machinery management should pay more attention to the following fields:

(1) **Quicken the Pace of Reform and Opening Up to the Outside World.** Reform and opening up in the past 10 years or so led to distinct changes in China's society and economy. The most impressive were changes in the farm mechanization field, successful reform and readjustments were carried out in the last 10 years or so in the operation mechanism, modes of management, and guiding ideology of agricultural mechanization. Agricultural mechanization has grown at a relatively high speed and with good efficiency, mainly benefitting from reform. The future development of agricultural mechanization will still rely on reform. In terms of the current situation, comparatively big advances have been made in the agricultural machinery management departments. However, they have not yet fully emancipated their minds, adequately broadened their fields of vision, taken big enough steps, and completely eliminated the drawbacks of the old structure. Therefore, further emancipating the mind, implementing reform and opening up measures, quickening the pace of reform and opening up are the trend of the times, the fundamental measure to ensure that agricultural mechanization will progress smoothly, and our cause will survive, develop and be in an impregnable position in the great tide of commodity economy. Priorities of the current reform of agricultural machinery management departments are: First, it is necessary to run economic entities and develop socialized services in agricultural machinery in all units. We should widen our fields of vision, break the bounds of different regions and different departments, actively develop socialized services in all trades and professions by using our own strong points, and engage in agriculture, industry, commerce, the tertiary industry, and foreign trade. As long as we benefit economic development, boost national strength, improve people's living standards, observe discipline, abide by the law, and pay taxes in accordance with regulations we will boldly move

forward. Economic entities should integrate specific localities' resource advantages, or economic, technical, and geographical advantages, select key projects and key products, and carry out feasibility studies well. Currently, border trade is very active. Helping supply each other's needs and complementing each other's strong points will benefit both sides, and agricultural machinery departments should participate actively. Second, it is necessary to promote the progress of the market. The highly concentrated market was the main characteristic of the old structure. Reform must be oriented to bringing the role of market regulation into full play. At present, there are many nonmarket elements in agricultural machinery supplies and operation service links. For example, the sales link is monopolized by departments and regions and the prices of agricultural machinery operation are managed too rigidly. These practices exclude competition and markets and are detrimental to the healthy development of agricultural mechanization. We must remove regional blockades and departmental barriers, and encourage fair competition. Price ceilings on agricultural machinery sales, price standards for agricultural machinery operation, and policies designed to protect local agricultural machinery products formulated by some localities should be restudied and reconsidered. Prices of agricultural machinery and their operation will be determined by supply and demand, which will help improve the quality of agricultural machinery products and the rational distribution of production elements. Third, it is necessary to improve operation and management mechanisms. Agricultural scientific research, popularization, training units, and grass-roots service centers all have the task of improving operation and management mechanisms. The improvement of operation and management mechanisms is aimed at coordinating and unifying the relationship between responsibility, power, and interest, and between coordinating and unifying vitality and binding force. The key is to further give these units full decisionmaking powers in personnel management, the raising and use of funds, and operational activities, and give them a free hand in developing themselves through competition in the commodity economy. At the same time, it is also necessary to strengthen management, guide and standardize operational activities by using economic regulatory means and enacting laws, rules and regulations to meet the requirements of macroeconomic interests. We should not confine ourselves to a certain form when it comes to specific operation forms. In the light of the different characteristics of units and the different conditions of specific localities, different forms can be adopted, such as contract operation, leasing operation, and joint stock partnership.

**(2) Pay Close Attention to "High Output, High Quality, and High Efficiency" Agriculture in Developing Agricultural Mechanization.** Great efforts should be made to develop "high output, high quality, high efficiency" agriculture, and turn from mainly seeking the increase of quantity to mainly seeking efficiency. This is a great

turning point in the history of China's agricultural development. The goal, priorities, and guidances of agricultural mechanization should be readjusted accordingly. The key to developing high output, high quality, and high efficiency agriculture lies in science and technology. It is necessary to develop biotechnology to improve the quality of crops and enhance their ability to adapt to the environment, create conditions for the extensive application of biotechnology, and also develop engineering technology to improve the growing environment of crops. With mechanization as the main content, engineering technology can accomplish much in developing "high output, high quality, high efficiency" agriculture. We should stress the technological measures to intensively exploit and comprehensively use resources, increase the output and quality of agricultural products, and improve efficiency and benefits; further develop agriculture, forestry, animal husbandry, sideline production and fisheries; expand pre- and post-production, the intensive exploitation and use of resources, and the fine and intensive processing of agricultural products. Attention should be paid to the application trends of new and high technologies, such as agricultural bioengineering, computers, systems engineering, microwaves, and lasers.

**(3) Actively Participate in Invigorating Structural Reform.** Reforming government organs and transforming their functions are the inevitable need of China's economic reforms and development. Currently, local structural reform is being carried out. A proposition on the reform of the State Council's setup is being discussed. We believe, agricultural departments are characterized by scattered objects of management, numerous and jumbled departments, long regulatory periods, and low comparative advantages. There are relatively big differences between agricultural and industrial departments in the objects of management, existing regulatory strategies, and operation styles. The priority of agricultural departments' structural reforms must be expanding the fields of endeavors, strengthening economic regulatory strategies, offering better socialized services in pre-production, production, and post-production, establishing an agricultural administrative system that can meet the requirements of developing modern agriculture, put production, supply and marketing as well as domestic and foreign trade in a coordinated sequence, and has comparatively powerful ability to regulate. Agricultural departments should be strengthened, not weakened, and the agricultural machinery departments should all the more be strengthened, and not weakened once again. Efforts should be made to reform and strengthen the function to manage agricultural machinery in light of the new situation. In terms of micro operation mechanism, producers, managers, and consumers of agricultural machinery have fairly big decision-making powers. The practice of mainly using mandatory planning has changed to mainly stressing the economic interest structure. In terms of the development trend of agricultural technology, it is imperative to combine biotechnology and engineering technology, considering that the practical application of the latter is often comprehensive. In

accordance with the development of "high output, high quality and high efficiency" agriculture, the role of engineering technology will become increasingly important. In terms of practical conditions, agricultural machinery used by numerous peasant households in large quantities needs to be managed; the relationship between macro and micro interests needs to be readjusted; the machinery distribution and operation structures need to be optimized; and the structures of such agricultural machinery organizations as scientific research, production, popularization, maintenance, supply, and training, and their socialized services need to be managed and guided. Reforming, harmonizing, and intensifying agricultural machinery management organizations are the necessary conditions to ensure the healthy developments of agricultural mechanization at a stable pace, rational structures, and high efficiency. We should analyze and approach the structural reform from a historical viewpoint and development. In the previous structural reforms, agricultural machinery management organizations experienced the greatest changes. Through efforts in the last few years, agricultural machinery management organizations are being gradually improved. We should treasure our hard-won achievements, learn lessons from past events, make preparations at an early date, and take the initiative. We should analyse the functions that agricultural machinery management departments must exercise in the new situation. We should consider a proposition on the organizational setup in accordance with the requirements of agricultural mechanization being systematic, integral in nature, and according to the principle of "efficient and simple administration, unity, and usefulness," and further transform functions in line with the requirements of socialist market economy. The socialized services and management should be strengthened. In applying macro regulation and control, we should more frequently use laws and regulations as well as economic means. In the course of reform, we should conduct more studies, frequently report to leaders and departments in charge, conduct wider publicity, exchange more information, take the initiative, and do a good job in reform. We plan to organize a small-scale discussion meeting in mid-August to specially study the questions of function and structure. We urge all of you to do make some preparations for it.

**(4) Firmly Invigorate the "Three Fixings" Work of Township Stations.** First, implement various policies on agricultural service systems as quickly as possible. Second, programmes are to be worked out with full attention. All provinces (autonomous regions and municipalities) should report to higher authorities the calculated staff-organization figures and the current situation of the existing contingent of personnel as soon as possible so as to carry out the planned targets of personnel recruitment for this year. Third, as far as management structure is concerned, it is necessary to conscientiously implement the two No 1 documents, achieve the integration of regions of regions and departments at different levels, exercise dual leadership, and rationally define the limits

of duties and authority. Because the management of agricultural machinery needs to be unified in some aspects, county departments in charge of agricultural machinery should not relax leadership and management in such areas as operational guidances, personnel training, production planning, and state investment in agricultural machinery. Fourth, on measures to provide additional personnel after sizes are decided, the Ministry of Agriculture and the Ministry of Personnel are formulating a "Circular on Additional Personnel for Township and Town Agricultural Technological Popularization Organizations After Their Sizes Are Decided," which will be promulgated soon. Fifth, in regard to the question on funds, all provinces (autonomous regions and municipalities) can only increase and not cut the funds arranged through former channels for the existing personnel. Different treatment can be given to personnel according to their profession and qualification. The increase of entities they run can be used as complements. Special treatment should be given to old revolutionary base areas, areas inhabited by minority nationalities, frontier areas and poor areas. Sixth, after sizes are decided, the assets of collectives shall not be diverted to any other purposes and distributed, and the existing personnel should not be dismissed arbitrarily. All localities should explore and sum up their experiences in practice and come up with solutions at the appropriate time.

**(5) Do a Solid Job of Rejuvenating Agricultural Machinery.** The rejuvenation of agricultural machinery has attracted fairly wide attention, and advances have been made in this regard. In April this year, the office of the small group for rejuvenating old cars distributed a summary of the leading group's meeting, put forth comparatively comprehensive suggestions on the significance of rejuvenating large- and medium-sized tractors, upgrading scope and standards, formulation of plans, preferential policies, and recovery of old tractors. We should earnestly implement the spirit of the "Summary," improve the organizations in charge of the rejuvenating work, work out plans for updating large- and medium-sized tractors for this year and next and the last three of the Eighth Five-Year Plan, and formulate and carry out preferential policies and measures for fund raising. Agricultural machinery production, supply and marketing departments should supply agricultural machinery in line with the needs of the rejuvenating work.

**(6) Continue To Carry Out the "Iron Ox Cup" Contest Activities.** The "Iron Ox Cup" competition has achieved initial success in serving as a policy of stimulation. However, the main problems with the contest at present are that the activities are imbalanced in some aspects, become a mere formality in some localities, and there was a tendency to neglect practical results. To solve these problems, it is necessary to further expand what has been achieved in the previous activities and carry them forward more extensively and intensively. Efforts should be made to comprehensively and objectively examine and

sum up the experience of the activities in the preceding stage. Particular efforts should be made to comprehensively and objectively evaluate the results of the activities and evaluate them from an overall and integral viewpoint and with economic efficiency as the basic yardstick. We should not evaluate them exclusively by seeing how much investment has been made in agricultural machinery and how many new organizations have been set up, rather, we should, more importantly, see whether or not they have helped increase production and revenues in agriculture and whether or not the increased investment has gained fairly good results. We should work out a general plan for conducting the contest activities in the days to come on the basis of summing up the experience of the activities in the preceding stage. Localities that have not yet conducted the activities should work hard to do so, and those which have inadequately intensively carried out them should make every effort to ensure their success. In the days to come, prominence should be strengthened by conducting activities so that they will genuinely play a role in promoting mechanization in agriculture, increase production and revenues in agriculture, and improve economic efficiency.

#### **New Rice Strain Promises Breakthrough**

*OW1610141492 Beijing XINHUA in English  
1327 GMT 16 Oct 92*

[Text] Wuhan, October 16 (XINHUA)—Agronomists at the Central China University of Agriculture have succeeded in breeding a kind of rice by apomixis, a technique that is likely to lead to a new green revolution.

Apomixis is reproduction involving the specialized genitive tissues but not dependent upon fertilization.

Seed breeding experts Cai Detian, Ma Pingfu and Yao Jialin adopted the conventional method combined with the new method of tissue culture to breed the rice screening a large amount of cultured rice, wild rice and distant species.

The frequency of apomixis has reached 40-50 percent. When the hybrid dominance is fixed, it will be not necessary to breed seeds again but the hybrid will pass on from generation to generation like conventional varieties.

This method of seed breeding has shortened the time for breeding a new variety of rice by 50 percent, and the speed has been quickened by 100 percent. The new variety is also free from the influence of the weather during the flowering and earing stage.

#### **Liaoning Expects Bumper Harvests This Year**

*SK1910090392 Shenyang LIAONING RIBAO  
in Chinese 30 Sep 92 p 1*

[Text] Liaoning's rural economic situation has been very encouraging this year. Fairly good harvests are expected

in farming, forestry, animal husbandry, sideline production, and fisheries; the rural economic strength will be enhanced to a notable extent; peasants' pace in achieving a fairly comfortable life will be quickened; and the various rural economic targets set forth by the provincial government early this year will all be fulfilled.

Total grain output will be stabilized at 15 billion kg continuously. Rural cadres and ordinary people worked hard to combat spring cold, summer drought, low summer and autumn temperatures, and insects to reduce the losses caused by the frequent disasters to the minimum. Except for the southern and western parts of the province, which registered a decrease in production, all localities registered increases in production, making it an inevitable outcome for the province to stabilize grain output at 15 billion kg. Wheat output hit an all-time high; cotton output increased by 60,000 dan over last year; and bumper harvests were won in peanuts, beets, and flue-cured tobacco.

Forestry, animal husbandry, fisheries, and fruit production developed comprehensively. From autumn last year to spring this year, the province afforested 14.3 percent more areas than in the previous corresponding period. The output of meat, eggs, and milk is expected to exceed 3 million tons each, increasing by 12.2, 4.9, and 22.6 percent, respectively, over last year. The output of aquatic products increased by 8.7 percent over last year; and fruit output may exceed 1.6 million tons, up nearly 60 percent from last year. Nonstaple food supplies in urban and rural areas increased.

The growth rate and efficiency of township enterprises increased at the same pace. The annual output value of township enterprises is expected to surpass 70 billion yuan, up 15 billion yuan from last year; and their profits, value of goods for exports, and taxes will increase by 13, 37, and 16 percent, respectively, over last year. Township enterprises throughout the province are developing much more vigorously than in last year.

Capacity for comprehensive agricultural production was notably enhanced. The actual acreage of irrigated farmland totaled 15 million mu, up 1 million mu from last year. Twenty-two million mu of farmland, or 42 percent of the total, turned out high and stable yields. Fine seeds were used by and large in all major crops. Forest coverage reached nearly 30 percent.

Rural economic strength was further enhanced. The province's agricultural output value is expected at more than 30 billion yuan this year, an increase of more than 1 billion yuan over last year; its total product of rural society may exceed 100 billion yuan; an increase of 20 billion yuan; and per capita net income in rural areas may exceed 950 yuan, an increase of more than 60 yuan. A group of fairly better-off townships, villages, and households will emerge.

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