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24 November 1992



# ***JPRS Report***

# **China**

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## NATIONAL AFFAIRS, POLICY

### Background to Development of Market Economy Theory

93CE0058A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 39,  
5 Oct 92 pp 13-14

[Article by SSu Fu (2448 1133): "Second Movement for Emancipation of Mind"—Market Economy Theory Was Not Easily Developed"]

[Excerpts] [passage omitted] Relevant departments are holding emergency meetings to demand that the news media widely report the successes over the last 14 years in China's reform and opening up to the outside world. Although this is the consistent practice of public opinion departments, speaking of the general mood, people seem to be very receptive to this kind of propaganda, because at the very least it adds to the atmosphere of continuing reform and expanding the opening up to the outside world, and reports the latest information on the continuity of the policy of reform and opening up to the outside world.

#### "Market Economy Forum" Causes Shockwave

Beijing's economic theory circles are quite lively, and what is most noticeable is the "market economy forum" held by JINGJI RIBAO and the World Survey Institute.

[passage omitted] Ever since Jiang Zemin in June of this year delivered a speech at the Central Party School in which he put forward the proposition of a socialist market economy, the Chinese Communists' high-level theoretical group has engaged in discussion that constitute an intense publicity campaign in which a series of symposiums have been held, and some publications have carried many articles. After the major article by Chen Jinyu [7115 6651 3768] and Zhong Pengrong [6945 2590 2837] of the Survey and Research Section in the General Office of the CPC Central Committee, was carried on the front page of the 11 July JINGJI RIBAO, this discussion became more lively. Subsequently, there appeared some other articles in JINGJI RIBAO. The atmosphere for the discussion was not very strong at that time. It is said that the article by Chen and Zhong was meant to be published a little earlier, perhaps because of caution, or perhaps because the people who uphold the old planned economy theoretical system did not feel very comfortable and hoped to prolong the time difference for the change in theory. But no matter what is said, at this time the Beijing newspapers were still more withdrawn than the Shanghai newspapers, some figures in theoretical circles, who were resentful, criticized a certain newspaper for taking a frigid attitude toward the market economy issue.

In September, the news circles and the economic theory circles finally got moving. This was related to the fact that the drafting of the 14th CPC Congress documents at Yuquanshan was about to be completed. The drafting of

the 14th CPC Congress took a lot of effort. This was related to the composition of the personnel in the drafting group. They had come from different departments and their views were not the same. When the market economy was being interpreted, the debate became quite fierce. The historical evolution of the planned economy became even more the point at issue. Opinions varied on the effect of the plans. Therefore, it is estimated that the final formal text, while containing wording that ensures the principle of a market economy, in aspects such as the historical evolution of the planned economy, will contain quibbles and concession on theory. Things were done in this way in order not to provoke the other side and in order to complete on schedule the work of preparing the 14th CPC Congress documents.

However, the compromises on theory in the end displeased a number of scholars who had always advocated the market economy. With a blinding and deafening effect, the economic forum appeared at the end of the report. This was a series of discussions and activities related to the market economy. As of now, it has been done two times. Attending the first discussion meeting were many authorities on theory who in recent years had been given the cold shoulder, such as Tong Dalin [4547 1129 2621] and Wu Mingyu [0702 2494 3542] and also powerful main reformers Du Runsheng [2629 3387 3932], Xiang Nan [7309 0589], and Tang Ke [0781 0344]. In addition, important talented persons such as Liu Guoguang [0492 0948 0342], Liu Ji [0492 0679], and Gong Yuzhi [7895 5148 0037] took part in the Yuquanshan document drafting. On 28 September, at the second discussion meeting those taking part, in the main, were well-known economists and young and middle-aged specialists in economic theory; and economics professor Wu Jinglian [0702 2417 8834], of "Wu market" fame, made the main speech. Most of the young and middle-aged theoreticians were scholars who had risen to prominence in recent years. Taking part were people such as Fan Gang [2868 4854], Lu Jian [4151 0256], Guo Shuqing [6753 2885 3237], Gao Tiesheng [7559 6993 3932], Lou Jiwei [2869 4949 0251], Ma Kai [7456 0418], Shi Xiaomin [4258 1420 2404], Li Xiaoxi [2621 2556 6007], Feng Bing [7458 1629], and Qu Zhiqiang [1448 1807 1730]. Some were economic Ph.D.'s, and others were heads of departments or bureaus in the central ministries; and all of them had a certain influence on policy.

#### Establishment of Market Economy Theory Experiences Several Setbacks

On 22 September JINGJI RIBAO devoted almost all of its front page to the publishing of four speeches at the discussion meetings: those by Tong Dalin, Li Yining [0632 0110 1380], Wang Shu [3769 2992], and Liu Ji. It was rare for a forum to put forward for the first time articles in such a prominent position and space, and it caused immediate sensation. Shortly afterward, the forum published in succession the articles by Gong Youzhi and Liu Guoqing. According to relevant public figures, Liu Ji's article reflected certain threads of

thought in the draft of the 14th CPC Congress documents. In the article he said that the planned economy was effective in the 1950's, but that afterward it was the reverse. He cited several views of people trying to defend the planned economy, and in general reflected the documents draft's position in separating the government and enterprises, and that only if the government does not exercise direct control over the enterprises and lets them go on the market will there be a market economy.

It is said that although the "market economy forum" was promoted by press circles and theoretical circles, it was also related to a conversation with Wan Li and a recent conversation with a responsible person of JINGJI RIBAO. Wan Li said that he agreed with the idea of having a market economy under macroeconomic regulation and control, and clearly put forward the proposition that China must make the change from a planned economy with a high degree of centralized power to a market economy. He also called on JINGJI RIBAO, in its publicizing of the market economy issue, to play a role of guiding public opinion.

With regard to the 14th CPC Congress report, he passed on the last words of Hu Qiaomu [5170 0829 2606], the Chinese Communists' senior statesman on theory, when he was on the point of dying. He said that on his deathbed Hu Qiaomu expressed his great concern about the drafting of the 14th CPC Congress report. Some of the old ideas about socialism cannot be used today, and some figures in theoretical circles are very grateful that this is so.

Liu Guoguang, Liu Ji, Gong Yu, and other important officials who took part in drafting the documents also took part in the forum's discussions, a fact which already suggested a theoretical trend toward the market economy in the 14th CPC Congress report, and there is no doubt about this trend. A relevant public figure revealed that one of the key figures in the drafting group was Zheng Bijian [6774 1801 1017], a former secretary to Hu Yaobang and now vice president of the Chinese Academy of Social Sciences. He will take an important post in the Propaganda Department of the CPC Central Committee. On this basis someone predicted that, in the new round of reforms, public figures who endorse the market economy will occupy the leading positions in propaganda and theoretical circles.

Certain newspapers and periodicals and certain figures in theoretical circles who in the previous stage had always been extremely active have been withdrawn and silent on the market economy issue, and the appearance of the "market economy forum" has even put them in a passive position on theory. But some of them, finding excuses to console themselves, said: "The central documents are now being drafted, so is there some points to be vied for by speaking up early?" Admittedly, the market economy is an open secret. That people procrastinate in expressing their opinions publicly is because they harbor phantasms in their minds, looking forward

to the abolishment of this viewpoint at the policy-making level, or to integrating the two ways of thinking, or at the least being able to haggle over theory.

But the current situation is gradually becoming clear, and the socialist market economy has already become the general goal and theoretical framework in the Chinese Communists' further reforms. It is as significant as the theory put forward in the years of the initial stage of socialism, and should be said to of even more significance. Therefore, some experts on theory have called it "the second movement to liberate the mind," and the spirit and banner of the second wave of reform.

#### Market Economy Becomes Common Knowledge

Since summer began, those putting stress on the market economy have included not only Jiang Zemin but also Li Peng, and after them the one who has proposed most clearly that the superiorities of both plan and market should be displayed, viz., Deng Xiaoping. He proposed a sharp theoretical question: Why can't socialism run a market economy? The article "On Changing Our Minds" by Fang Jiwen [2455 0579 2429], which was published in Shanghai's JIEFANG RIBAO, in line with the speech made by Deng Xiaoping not long ago when he inspected the Capital Iron and Steel Complex, clearly proposed "a change from the traditional consciousness of a planned economy to the idea of a socialist market economy."

Therefore, to some people the proposing of a market economy seems a lofty act, but is also to be expected. The problem now is, as Wan Li said in an internal speech, that these people will only do things according to plan and they fear that they do not have the capability to run a market economy; in addition their ideas are outmoded and they feel they are unsuited. From a look at the repercussions of the market economy forum, strong responses were in the majority and endorsements were in the majority, especially by those at the operational level. Despite the favorable and encouraging response, the raw report retreated from the market economy.

It should be said that the response by the theoretical circles is the gauge measuring the depth of the reforms, and is also the sensitive, concentrated embodiment of the expectations for the 14th CPC Congress. This is clear proof that those in the theoretical circles who have been silent over the past several years have been revived. [passage omitted]

#### Analysis of Current Domestic Investment

93CE0042A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 36,  
14 Sep 92 pp 22-23

[Article by Ping Shan (0393 1472) and Ch'ang Chang (2545 4545): "Analysis of the Present State of Investment on the Mainland"]

[Text] In the major address of his southern tour, Deng Xiaoping spelled out the direction that China should

take in economic development, reform and opening up, so that the national economy can turn quickly toward vigorous growth. Recently, fixed capital investment, which is the basic driving force behind growth in production, has expanded 1.3 times as fast as industrial production. In light of this, some people are worried that the economy might be overheating, and that further acceleration in demand for investment might lead to renewed inflation. Some believe that this is normal in times of rapid economic growth, and that China could not achieve its economic development goals if things were otherwise. To make a more accurate assessment of the state of investment in China, we will analyze the conditions and problems affecting investment at present, and also make recommendations for improving the management of investment.

### **Factors in the Growth of Demand for Investment**

#### **1. Sources and Channels of Funding Are More Varied**

In the total fixed capital investment completed in 1991, 81.4 percent of investment in capital construction came from extra-budgetary sources, and 34.4 percent was raised by enterprises themselves; 98.4 percent of investment in renovation and transformation came from extra-budgetary sources, and 49.1 percent was raised by the enterprises themselves. Of total fixed capital investment from January to May of this year, extra-budgetary funds made up 83.7 percent of investment in capital construction, and funds raised by enterprises themselves made up 38 percent; investment for renovation and transformation, 98.6 percent was in extra-budgetary funds, and enterprises themselves raised 48.4 percent. Growth in the proportion of extra-budgetary funds in investment is a necessity for reform and opening up, and the development of the commodity economy. But at present, the mechanism for restraining the return on investment and for macro-adjustment and control, are both imperfect, expansion in extra-budgetary investment will surely make it difficult to control either the composition or the magnitude of investment. Especially, investment in processing industries is growing too rapidly, while stagnation in basic industries is worsening. Economic efficiency has shown no marked improvement, to increase investment in the basic industries to make the composition of industry more rational, will necessarily add to the burden that investment puts on the Chinese national budget. Since there is a deficit, the government will have to take out an overdraft from banks. Because of increased pressure on banks to lend money for investment, they also will be forced to issue investment loans that exceed what their funding sources can sustain in the long run. Ultimately, there will be no alternative but to issue more money to support development of basic industries, and thereby further expand the scale of investment.

#### **2. Power To Make Cross-Jurisdictional Authorizations and Approve Investment Is Being Further Devolved**

According to statistics, investment for capital construction on the part of units owned by the whole people, as a

proportion of all investment throughout society, fell from 83.3 percent in 1987 to 39 percent in 1991. While far-reaching changes have occurred in the sources and channels of funds for investment, there has been no fundamental change in the mechanism of enterprise management. Investment management, once highly centralized, has evolved into a system of pluralistic decision-making. The requirements of local social and economic development are often in conflict with the goals of the central government in macro adjustment and control. Authorizations that cross jurisdictions are very common. In 1991, more than 60 percent of newly-begun capital construction projects worth one million yuan or more were approved across jurisdictional lines. This year, under the impetus of reform in the enterprise management system, and to push enterprises to become more market-oriented as soon as possible, not only has the national government basically devolved the authority to approve projects that involve mainly funds raised by enterprises themselves; but provincial, and city level local governments have also made large-scale devolutions of authority to approve projects to lower-level governments and departments, and even to medium and large enterprises.

#### **3. Total Funding Is Growing More Rapidly**

Between January and May of this year, China completed 87.4 billion yuan in fixed capital investment, 39 percent more than in the same period last year. This is the greatest rate of increase in that period in recent years. At the same time, with the economy picking up, the large amounts of credits and funds accumulated in the last few years may be turned to ultimate demand, so that the total amount of money in circulation will greatly increase. Since 1990, to overcome market weakness, and start an economic upturn, a great deal of funds have been expended. Especially in 1991, all the major funding channels grew rapidly. Bank loans increased by 23.9 billion yuan over 1990, and net indebtedness increased noticeably faster than production. For urban residents, current deposits, and currency on hand, increased 72.3 percent over the same period last year.

#### **4. An Irrational Distribution of Profit Rates by Industry, and the Present System of Allocating Government Spending and Taxation, Results in a Tendency to Pursue Parochial Interests**

Analyzing productivity over the last few years, we find that the rate of profit and tax payments on capital was about twice as high on light industry as on heavy industry. Within heavy industry, it was relatively high for the machinery and electronics industries, and higher for processing industries than for the raw materials and mining industries. This kind of situation strongly misdirects investment in enterprises. Some light industries, such as tobacco, earn no profits to speak of, but what they pay in taxes is several times, or several tens of times, greater than the average level for industry. Under the present spending and taxing responsibility system, local

governments can still benefit greatly from them. Moreover, disregarding the level of their local production capabilities, and the market situation, they do their utmost to advance new projects that use local resources, but cannot realize economies of scale, are wasteful of energy, and high in cost, so that projects in the "several small industries" go on despite efforts to stop them.

#### **Problems That Appear in the Process of Rapid Growth of Investment**

##### **1. Projects in the Processing and Textile Industries Are Still the "Big Items" in Growth of Investment**

The rapid growth of investment is stimulating production increases and the opening up of new facilities in the mechanical and electrical products industries, and in the textile industry. From January to May, fixed capital investment by the mechanical and electrical products industry increased by 65 percent over the same period last year, which was among the largest increases of all industries. In terms of industrial production, production of light industry grew 15.8 percent, more than in the previous year; and production increases for typical products of the mechanical and electrical industries, such as generators, industrial boilers, machine tools, automobiles, ships, program-controlled switchboards, and large-scale integrated circuits, varied from 40 to 200 percent. They are some of the products that showed the greatest proportional increases. Among newly-begun projects in basic capital construction, and renovation and reformation, of one million yuan or more, the number of projects in the mechanical and electrical products industry increased 1.8 times, and total investment planned by Hong Kong increased 1.2 times. The number of projects in the textile industry increased 92.9 percent, and planned total investment increased 56.2 percent. These are the largest increases for newly-begun projects.

##### **2. The Move to Smaller-Scale Investment Will Make Structural Adjustments More Difficult**

Because the market mechanism is imperfect, the decentralization of investment decision-making will necessarily lead to a reduction in the scale of the average investment per project. From January to May of this year, among newly-begun projects of 500,000 yuan or more at state-operated enterprises, local projects accounted for 82.7 percent of the total investment planned, an abrupt doubling or more from the 40 percent of the same period last year; the average amount of investment in newly-begun projects of 500,000 yuan or more dropped 41 percent, to 2.30 million yuan this year, from 3.89 million yuan in the same period last year; and the average amount invested in projects of one million yuan or more dropped from 9.04 million yuan to 8.61 million yuan. Investment in infrastructure projects rose 40 percent, but the number of projects rose 374 percent. Reduction in the scale of investment projects in the processing industries, is not favorable to the realization of economies of scale, or to adjustments in the industrial structure.

##### **3. Reductions in Investment Effectiveness Will Adversely Affect Further Increases in the Efficiency of Industrial Production**

Because the agenda for construction projects is becoming longer and longer, the number of building projects has increased by 7,993 over the same period of last year, or 17 percent, and the total investment being planned has increased 166.5 billion yuan, or 19 percent. Especially, projects in basic capital construction are being undertaken in large numbers, and the construction cycle is lengthening because there are many new projects, so that too much capital is tied up in them. This also may impact on prospects for raising the effectiveness of investment. The drop in the rate at which projects are completed and put into operation, and especially the inability to put urgent projects into operation on schedule, will affect the entire mission of industrial production.

##### **Some Suggestions To Improve the Management and Control of Investment**

Investment is on a very large scale at present, and moreover it is still on an upward trend, which tends again to worsen the structural problem. This situation should receive serious attention, and every effort should be made to ameliorate it. In a system where financial resources are dispersed, and users of capital are of many kinds, placing the emphasis of macro adjustment and control on the scale at which investment is taking place will not be effective. The investment orientation regulatory tax, which has already been enacted, cannot meet the new situation either. It cannot solve the problem of dividing local revenue among the national and local governments, or the complex problems of inspecting, and collecting taxes on large projects and assorted smaller projects. Therefore, taking the long view, a market competition mechanism should be established, to adjust the magnitude and composition of investment; and in the near term, the only thing to do is to put the focus of effort in adjustment on funding sources.

##### **1. Improve Control Over Lending**

Since investment makes up less than two-tenths of the Chinese national budget, the function of borrowed funds is not limited to directly advancing an increase in investment. When loans of current capital are being issued in large amounts, this will both support rapid industrial growth, and furthermore, stimulate demand for capital, and increases in inventory (converting some overcapacity in production into overstock in distribution). Therefore, in keeping with the requirements of adjustment according to industrial policy, in combination with control of investment, the lending of current capital should also be strictly controlled. Capital raised by enterprises for themselves constitutes more than one-third of all investment, and all of it is raised through specialized banks. The various specialized banks should be instructed to keep tabs on the uses to which self-raised capital is being put, and to assist the central bank by being directly involved in controlling investment. Now

the investment company of the State Planning Commission, is effectively equivalent to a small planning commission. In line with the current trend of reform, it should become the equivalent of a holding company for investment banks.

### **2. Correctly Guide Investment of Social Capital While Review and Approval Authority Is Being Further Liberalized**

In investment management, the principle of combining guidance and control should be adopted. Approval authority for ordinary projects in capital construction has basically been devolved. Authority to review and approve ordinary capital construction projects of up to 200 million yuan, has been devolved to provincial level governments, and cities under the jurisdiction of counties. Capital construction projects of over 200 million yuan must be reported by the State Planning Commission to the State Council for approval. Renovation and reformation projects, so long as they are in keeping with China's industrial policy, require no approval if they are under 200 million yuan, but the Economics and Trade Office of the State Council must report projects over 200 million yuan to the State Council for approval. After enterprises have become more market-oriented, they should be encouraged to pursue projects in new technology, and the development of new products, where funds they raise themselves constitute 80 percent or more of funds invested. When authority to review and approve investments has been further devolved, then a strict "investment reporting and recording system" should be established at the same time, so that the central government will have a good idea of what is going on, to the benefit of national monitoring and management of investment. Besides this, the funding system should be reorganized and further improved, so as to concentrate funds for construction on a small number of industrial departments in the basic industries, and guarantee the funding sources for construction in the basic industries, during the period of systemic redirection.

### **3. Vigorously Develop Tertiary Industry, and Propel the National Economy Into a Benign Cycle**

Construction in tertiary industry, which mainly consists of transportation, communication, commerce, social insurance and social service, etc., must further accelerate. In keeping with the spirit of the State Council's fifth directive, all investment authority over infrastructure facilities, when they are directly related to tertiary industry, and the amount is less than 200 million yuan, should be devolved; as for projects over 200 million yuan, the Economics and Trade Office should report them to the State Council for approval. At the same time, investment guidance and financial subsidies should be provided to advance the development of tertiary industry.

### **Scholar on Macroeconomic Management**

*HK1211033292 Beijing JINGJI RIBAO in Chinese  
17 Oct 92 p 2*

[Article by Dai Yuanchen (2071 0954 2525), research fellow at the Economic Institute of the Chinese Academy of Social Sciences: "Macroeconomic Administration in the Socialist Market Economy"]

[Text] By affirming the market-orientation of reform, and avoiding the frivolous remarks about the socialist or capitalist nature of the market-orientation, we can enable reformers to go full steam ahead. However, this does not mean that China's current economic operation is a market economy. We have to continue reform and nurturing, and make advanced studies of all kinds of problems which are likely to be encountered in the course of our advance toward a socialist market economy. How should we improve macroeconomic management? This is an important aspect of the problems to be studied in advance.

To explore macroeconomic management, it is necessary to first observe the changes in the mechanism. A comparison between a market economy and a planned economy shows that there is a fundamental difference in operation mechanism. The former is a demand-bound economy, while the latter is a resource-bound economy. In China, the change in the two mechanisms has just started. What are the behavioral characteristics in the course of this change? What changes have taken place in the government's policy readjustment and enterprise self-regulation? These are questions to be explored in the course of promoting reform.

The exploration of macroeconomic management will also involve policy and strategic changes, such as a change from extensive, quantitative development strategy to an intensive, efficient one, from import substitution development strategy to an export-oriented one, and from an investment and demand promotion economy to a consumption demand one, which will give rise to changes in macroeconomic operation and set new management requirements. Moreover, in macroeconomic management, it is necessary to frequently handle the relations between the state, the collective, and individuals, and between the central and locality, which involve the process of national income distribution and structural changes in the course of entering a market economy. When the policies and strategies are clear, it will be easier to handle the major points in macroeconomic management.

An important policy decision in macroeconomic management is the selection and formation of the policy objective, which includes formation and selection of economic growth, employment rate, and price hikes. At present, people are enthusiastic and there are lots of comments on how to accelerate economic growth. This shows that China's popular feeling is to firmly grasp the opportunity, develop our country, and strive to scale

new heights within a few years. Nevertheless, the acceleration of growth cannot deviate from reality, cannot be overheated, and should not repeat the past mistake of seeking high targets. For this reason, acceleration of growth and steady growth are identical, and not contradictory. We should not judge growth by simply viewing the figures. Instead of generally saying that 6 percent is overcooled and 10 percent is overheated, it is necessary to make concrete analysis in light of conditions at the given time.

The comprehensive development of a socialist market economy will further release the economic potentials bound by the old system, open up wider, expand the tertiary industry, upgrade the technology of old enterprises, develop newly developed industries and non-public economic sectors, and bring about rapid economic growth. Hence, there are more favorable factors in the 1990's than there were in the 1980's for rapid growth. However, there are also factors limiting the rapid growth. Viewed from the industrial structure, energy, transportation, and communications will mainly be limited by the bottleneck phenomenon. Unless we are determined to adopt a policy of energy export over energy import and ease the bottleneck through trade and exchange of resources, economic growth will be affected. As the bottleneck in transportation and communications cannot be settled through importing transportation capacity, it is necessary to make comprehensive arrangements for railway, highway, water, and air transportation, so that the growth in transportation can meet the requirements of economic growth. If the bottleneck problem can be properly resolved, the economy will not be overheated even when its growth is faster than in the 1980's. To check inflation, we should also proceed from practice. China's policy of curbing inflation does not mean that there will be no inflation. Naturally, price hikes caused by excessive and centralized issue of currency are unwise. However, inflation is a comprehensive reaction to various economic policies. It would be unrealistic to completely avoid it. If we say that price hikes caused by demand are occasional, the price hikes caused by costs will be a factor which continues to play a sustained role in the 1990's. If the inflation rate is 0, it will be impossible to attain growth of 8 to 9 percent, or may even be below 5 percent. Therefore, it is necessary to make a choice of the composition of economic growth and inflation, select a plan in light of this composition, and flexibly undergo counter-periodic adjustment. In a word, it is indeed a difficult job to accelerate the growth and avoid overheating. However, the contribution of economists is necessary precisely because of the difficulties in the job.

An important link in China's advance toward a socialist market economy is to effect a change in the enterprise operation mechanism so that enterprises can become the main body engaged in market operation activities. However, the key to whether a change can be effected in enterprise operation mechanism lies in a change effected in government functions and self-reform of the government. When the government has changed its functions,

the administrative means of exerting pressure on the lower levels and increasing quotas will be changed into economic means, devotion to building a market environment, and allowing the market to coordinate the economic behavior of enterprises. Apparently, this is a new topic in macroeconomic management. As to the specific application of the means of macroeconomic management and regulation, it involves financial taxation and tax rates, bank credit and interest rates, income distribution, wages, and bonuses, foreign exchange management and exchange rates, and other aspects which should be improved in light of the characteristics of a change in economic structure toward a market economy. It is necessary to take note of the difference between macroeconomic means and micromechanism. The micromechanism can carry out concrete analysis and flexibly readjust in light of the specific conditions of enterprises, while macroeconomic management means and policies are based on stability, because stability is conducive to enterprises and individuals making forecasts and to rationalization. To sum up, macroeconomic management, under the traditional structure, exercises direct control and regulation in many fields by assigning mandatory quotas. When we have changed to a new market economic system, the market economic parameters will be used to exercise indirect control and regulation.

#### **Journal Urges Development of Minority Areas**

*HK0511100092 Beijing JINGJI GUANLI in Chinese  
No 7, 5 Jul 92 pp 13-17*

[Article by Ma Maozong (7546 5399 1350) and Li Yuan (2621 3768 1344): "Proposals for Speeding Up Economic Development in Areas Inhabited by Minority Nationalities—Jottings on Studying the Spirit of the Central Nationalities Work Conference"]

[Text] In the middle of January this year, the CPC Central Committee and the State Council convened the Central Nationalities Work Conference in Beijing. This was a conference at which the people of all nationalities throughout the country advanced hand in hand in building socialism with Chinese characteristics. The speeches given at the conference by General Secretary Jiang Zemin and Premier Li Peng gave us very great encouragement. In order to better implement the spirit of the conference, we would like to discuss some of our superficial views on how to speed the economic development of areas inhabited by minority nationalities.

#### **Speeding Economic Development of Areas Inhabited by Minority Nationalities Is an Historic Strategic Task Facing Us**

Our country has 55 minority nationalities, with a population of close to 100 million. They are mainly concentrated in the central and western areas of the mainland and in the border regions. That is to say, they live mainly in the 10 provinces and autonomous regions of Inner Mongolia, Guangxi, Xinjiang, Xizang, Ningxia, Sichuan,

Yunnan, Guizhou, Gansu, and Qinghai. Since the establishment of New China, the party and the state have continually paid great attention to the problem of the economic and social development of areas inhabited by minority nationalities. Back in the 1950's, Comrade Mao Zedong in "On the 10 Relationships" pointed out: "We must earnestly and sincerely help the areas inhabited by minority nationalities to develop economic construction and cultural construction." In the 1960's, he also pointed out that it was necessary to help the border areas inhabited by minority nationalities "to do well in economic work," so that "agriculture, animal husbandry, and industry become more prosperous annually and the people's lives improve year by year." In the "Constitution" passed by the NPC in 1982 it is stipulated: "The state gives financial, material, and technical assistance to the minority nationalities to accelerate their economic and cultural development." Through several decades of effort, and especially since the implementation of the reform and opening up, a great change has occurred in the backward economic situation in areas inhabited by minority nationalities. In 1990, the gross industrial and agricultural output value of minority nationality autonomous areas reached 227.3 billion yuan, a growth of 9.8 times over the 1952 figure. In this, the gross industrial output value grew by 46.3 times. Areas inhabited by minority nationalities which in the past have had virtually no modern industry now have a large number of industrial enterprises. According to statistics, the provinces and regions of Guangxi, Inner Mongolia, Yunnan, Guizhou, Xizang, Xinjiang, Qinghai and Ningxia in the central and western regions of the mainland now have over 1,200 medium and large industrial enterprises, comprising 9 percent of the national total. In 1990, completed gross industrial output value constituted 31 percent of the gross industrial output value of these regions. These are the backbone for developing the economies of the areas inhabited by minority nationalities. The building of the medium and large enterprises in these areas constitutes historic progress and this has essentially changed the economic situation in our country's central and western regions.

The 1990's is a crucial period in our country's socialist modernization and also in promoting the common progress and prosperity of the various nationalities. The economic development of the areas inhabited by minority nationalities will directly affect the smooth realization of our country's overall modernization goals. We must deeply understand this issue from the high plane of strategy and, in the overall process of the "four modernizations," we must fully stress the gradual elimination of differentials left over from history, by speeding the development of areas inhabited by minority nationalities. According to statistics, from 1952 to 1990, our country's GNP grew by 25.2 times, while that of the areas inhabited by minority nationalities grew by 14 times. From 1978 to 1990, overall GNP grew by 2.37 times, while that of the areas inhabited by minority nationalities grew by 1.69 times. These two sets of figures show, on the vertical level, that the economic

development of the areas inhabited by minority nationalities has been quite swift. However, seen horizontally, they show that the economic development of areas inhabited by minority nationalities still lags behind the level of national development.

The speed of economic development of the areas inhabited by minority nationalities is relatively sluggish and in some provinces and regions population growth is excessive. This has led to the situation whereby per capita GNP in these areas has seen a slippage in the national rankings. For example, comparing 1989 with 1978, Gansu slipped from 13th to 24th position, Qinghai slipped from sixth to 13th position, and Ningxia slipped from 12th to 17th position.

It should be recognized that for a period, and especially in the early stage of reform and opening up, the accelerated development of the economy and science and technology in the developed eastern region meant that this area advanced first. This was necessary and historically inevitable because, only in this way, was it possible to strengthen our country's economic power and thereby better spur on the economic development of the central and western regions, including the areas inhabited by minority nationalities. It is now only nine years to the year 2000. The objective situation requires of us that, at the same time as we sustain the development of the eastern coastal region, we must speed the economic development of the central and western regions and especially of the areas inhabited by minority nationalities. We must place this historic strategic task on the agenda and make efforts to welcome the new century by achieving coordinated development of the eastern, central, and western regions, and reducing the disparity between the areas inhabited by minority nationalities and other areas.

#### **Proposals for Accelerating Economic Development of Areas Inhabited by Minority Nationalities**

1. Deepening reform and accelerating the pace at which the areas inhabited by minority nationalities in the central and western regions open up to the outside.

First, we must further emancipate our thinking and raise the understanding of cadres and the masses in areas inhabited by minority nationalities about the pressing nature and importance of reform and opening up. We must widely and deeply engage in propaganda and education on the theory and practice of developing a socialist commodity economy, gradually eliminate the influence of ideological concepts from the natural economy, and establish a concepts of competition, of the market and of openness which are suited to a planned commodity economy. We must bravely push enterprises towards the market, so that they are tempered in intense market competition. Second, we must make use of the geographical superiorities of the areas, expand their trading links with neighboring countries and, on this basis, expand in the direction of combining industry and trade and technology and trade. For example, Inner

Mongolia could adopt the mode of "linking up with the south and opening to the north" and expand economic and trade links with Mongolia and the Russian republic; the Xinjiang Autonomous Region could adopt the form of "imports from the east and exports to the west," expanding economic and trade links with Kazakhstan, Uzbekistan, and other countries, so that it becomes a bridge linking our country with the various countries of the Middle East and Europe. The provinces and regions of Yunnan, Guangxi, Guizhou and Xizang could open up the southern door and develop economic and trade relations with the various countries of South Asia. Third, we must further develop regional cooperation between provinces, regions, and cities; engage in close cooperation in the areas of funding, technology, resources, and trade; form a wide-ranging economic network; and achieve a situation wherein the various sides mutually support each other with their respective superiorities. Fourth, we must actively use foreign funds and particularly stress drawing in investment from the governments and enterprises of countries in the Middle East region, neighboring countries, and countries which have religious relationships. We must use such funds in projects which will earn foreign exchange through exports and which involve advanced technology, to accelerate the technical transformation of existing enterprises, especially medium and large backbone enterprises, and raise the capacity of enterprises to respond to change.

2. Taking the development of resource industries as the main orientation and establishing comprehensive regional industrial systems.

The industrial development of nondeveloped areas usually involves a process which has extraction and mining industries and raw materials industries as the starting point. Following development of the resources, economic strength increases, which in turn spurs the development of many related industries, gradually forming a comprehensive industrial system. The development of its eastern region by the former Soviet Union had resources production bases as its center and there was development of a comprehensive industrial system involving various related processing industries. For example, using the Tyumen oil fields as the center, a comprehensive industrial system involving many processing industries was formed. With coal development as its guiding element, the Kuzbass Comprehensive Regional Center was established. Through developing extraction and mining industries in its west, the United States finished the first trunk railroad connecting its eastern region with the west in 1875. Subsequently, in the west of the United States cities such as San Francisco and Los Angeles, which were based on intensive processing industries, developed. Today, the areas inhabited by minority nationalities in our country already have a certain industrial base. Under the precondition of avoiding both duplicate construction and industrial convergence, we should take the development of resources industries as the guiding orientation, and in a planned and gradual way, establish various sorts of comprehensive industrial systems involving processing industries

related to the resource industries. Then, by increasing the added value of their products and improving economic performance, it will be possible to further develop the economic resources conserved in the western regions. In terms of method, the eastern and western regions can cooperate in development, in building plants, and cooperate in transforming the existing enterprises. In terms of project arrangement, the eastern regions can collect together their strengths to develop industries which consume quite small amounts of resources and which have high added value; the western regions can develop those industries which can give full play to resource advantages and which have quite high added value. This will allow both the eastern and the western regions to develop their own superiorities, each will have a role to play, and the overall national economic and social results will be continually improved.

3. Taking the experiences of the advanced coastal regions for reference and strongly supporting and correctly guiding the development of township and small town enterprises.

The new force constituted by township and small town enterprises and their speedy development is one of the great achievements of our country's reform and opening up. They play an irreplaceable role in enlivening the market, expanding exports, strengthening the collective economy, assisting agriculture, and arranging employment for the surplus labor from the villages. Some comrades point out that the poverty of the minority areas in the central and western regions of the mainland is "poverty within riches," noting that these regions have rich mineral underground lodes and broad grasslands and water resources above ground. The differentials between these regions and the developed eastern provinces and regions are seen not only in the cities but also, more importantly, in the rural areas. Thus, if we want to achieve quite swift development of the areas inhabited by minority nationalities in the central and western regions, so that they reach a comfortably-off level by the year 2000, it is necessary to take the road of developing township and small town enterprises. In the development of township and small town enterprises, we should base ourselves on developing the resources of the regions and first develop resource industries and resource processing industries. For example, they could establish mining industries for coal, rock salt, rare-earth minerals, manganese, and phosphorous; building materials industries; small-scale hydroelectricity operations, agricultural and nonstaple food processing industries; nationality utensil industries; and so on. Those regions with the conditions can also develop externally-oriented deep processing industries by "linking up internally and extending externally." At present, the enterprises, including state-owned industries, of the eastern region in Guangdong, Shanghai, Jiangsu, Zhejiang and Fujian; the "three types of enterprises which are partly or wholly foreign-owned"; and township and small town enterprises are increasingly facing the pressing problem of obtaining materials. Their two roads of development are

to seek out materials abroad or to seek materials from the hinterland. The areas inhabited by minority nationalities in the central and western regions, while developing township and small town enterprises, should grasp this opportunity and use their own resource superiorities and their cheap labor to develop various sorts of horizontal links with enterprises in the eastern regions. In this respect, there are the following proposals:

A. Relevant departments should as quickly as possible formulate a series of policy measures which will encourage the exploitation of resources and the development of township and small town enterprises in the areas inhabited by minority nationalities in the central and western regions. The areas inhabited by minority nationalities should, in accordance with the "Autonomy Law" and taking the experiences of the eastern region for reference, take firm steps to formulate laws and regulations which assist the development of township and small town enterprises.

B. In developing township and small town enterprises in accordance with the principle of considering the whole country as a single chessboard, it is necessary to subordinate plans to the industrial policy orientation of the state and the region, to guard against duplicate construction and blind development.

C. The various levels of government in the eastern region and in the areas inhabited by minority nationalities in the central and western regions must place on the agenda as important work the strengthening of links between governments, so that they act as bridges in establishing harmonious links between township and small town enterprises.

D. The areas inhabited by minority nationalities in the central and western regions should, through various avenues, tightly grasp the training of cadres and workers in township and small town enterprises, so that they are suited to the development of the overall economic situation.

E. The state could consider providing appropriate support and preferential policies on the financial, tax, and credit levels.

4. It is necessary to tightly grasp the sorting out of the price parity between upstream and downstream products so as to reverse the situation of low profit rates for resource products.

For a long period, the areas inhabited by minority nationalities in our country's central and western regions have mainly produced raw materials and primary products. As they were subject to the restrictions of a unitary planned economic system, there has always existed the problem of the planned prices of upstream products being low and profits flowing to the areas in which processing industries were located. There is an urgent need to put this situation in order. It must be recognized, however, that readjusting the industrial structure between regions is not something which can be done

overnight or in one step. Rather, it will require quite a long period of time. At present, the pressing task is one whereby, with reference to international market prices, we should gradually readjust the prices of resource products to swiftly resolve the problem wherein the production of resource products national economic results are good but enterprise economic results are poor. As a transitional measure, we can consider, prior to putting the pricing system in order, reducing the problem of the profits of enterprises in areas inhabited by minority nationalities in the central and western regions flowing to the east, through the method of profit return. Otherwise, the state financial administration could give the enterprises in these regions appropriate subsidies.

5. Further promoting targeted support and economic and technical cooperation between the eastern and western regions.

In order to strengthen national solidarity and strengthen the economic and cultural construction of minority nationality regions, the party central committee and the State Council made the following decision in 1979: Beijing will support Inner Mongolia; Hebei will support Guizhou; Jiangsu will support Guangxi and Xinjiang; Shandong will support Qinghai; Tianjin will support Gansu; Shanghai would support Yunnan and Ningxia; and the whole country will support Xizang. This was an important policy decision. Practice has proved that this has had benefits for both the supporting and supported areas. As far as the minority nationality areas are concerned: 1) It has promoted the technological transformation of some key enterprises, improved operations management, and improved economic results; 2) it has promoted product development in some enterprises, raised product quality, and increased types and varieties; and 3) it has promoted intellectual development and resolved many difficulties in production and construction.

In future, this targeted support and cooperation will, on the basis of summing up many years of practical experience, see major development. It is proposed that the contents of targeted regional support and cooperation should be gradually enriched, to try to make such activities more fully effective.

A. Areas inhabited by minority nationalities should bring into play their spirit of initiative, "open up the door," actively "spread out," and actively "invite others in."

B. The supporting provinces and cities should, in accordance with the spirit that "it is better to teach people techniques than to just give them aid," unreservedly spread advanced technology and modern management experiences to similar industries in areas inhabited by minority nationalities, to better assist the economic development of the targeted province or region.

C. The State Council should establish specialized organs to manage this work. At least twice a year, major efforts

should be made to sum up and exchange experiences, to continuously open up new situations and push targeted support and economic and technical cooperation to a new stage.

D. A state "targeted support project fund" should be established. This should be controlled and utilized by the departments of the State Council who are responsible for targeted support work.

6. Making overall arrangements and "managing five aspects concurrently," so as to help the areas inhabited by minority nationalities to accelerate economic development.

In accordance with the principle of "the whole country forming a single chessboard," we must in a focused way increase capital construction and technological transformation investment in areas inhabited by minority nationalities in the central and western areas. In the next few years, of the total investment in fixed assets and total bank credit supplied to whole-people units, there should be an appropriate expansion of the proportion invested in the areas inhabited by minority nationalities in the central and western regions. Proceeding from macroeconomic development and social benefits, in accordance with the principle of priority for minority nationality regions, we should arrange for more medium and large projects to be established in the areas inhabited by minority nationalities in the central and western regions. In order to turn around the passive situation whereby "the peacock has flown to the southeast" and where the enterprises in areas inhabited by minority nationalities retain few profits and lack competitiveness, for those enterprises which are in accord with state industrial policies, we should implement a "two low and one high" economic policy. This is a policy where rates for credit extended to enterprises is low, product tax rates are low, and staff and workers' wage remuneration is high. In the arrangements for the state's "three scientific and technological funds," including arrangements for the "Bumper Harvest Plan," the "Spark Plan," the "Prairie Fire Plan," and the "Torch Plan," in the same way as the World Bank provides soft loans, there should be "charcoal sent during the winter," and in a focused way, arrangements should be made for the economically and technologically backward areas inhabited by minority nationalities. To the degree which state financial strength allows, we can appropriately increase the "food and clothing funds for impoverished minority nationality regions" and greatly promote the development of poverty-alleviation work. The relevant managing departments should consciously arrange for foreign gratis assistance projects and low-interest credit projects to be implemented in the areas inhabited by minority nationalities in the central and western regions.

7. With self-reliance as the main part and external assistance as a supplement, one's foothold should be based on one's own strengths.

This is a basic point in speeding the economic development of areas inhabited by minority nationalities. As has been noted above, since the establishment of the PRC, the party and the government have continually concerned themselves with and promoted the economic and cultural development of the areas inhabited by minority nationalities. However, it should be recognized that, in a country as huge as ours, the areas inhabited by the minority nationalities have a population of 150 million and land area of 6 million square kilometers. If we want to realize the second- and third-step strategic goals in these areas, the minority nationality cadres and the masses must bring into play the spirit of self-reliance and arduous pioneering, struggling forward and rousing themselves to catch up. Only thus will they be able to gradually reduce the gap between these areas and the developed areas and realize the anticipated goals.

8. Grasping the training of skilled personnel, greatly developing education in science, and raising the quality of labor.

This is a basic guarantee for invigorating the economy of the areas inhabited by minority nationalities. In the future economic development of these areas, and especially the realization of the second- and third-step strategic goals, the crux lies in fostering skilled personnel who have a grasp of modern science and technology and modern management techniques and in raising the quality of the broad masses and laborers. We must make the broad number of cadres and the masses recognize that "science and technology are primary productive forces" and that economic development must rely on scientific and technological progress and on high-quality laborers who have grasped modern science and technology and specialized skills. We must make the broad masses of cadres and the masses understand that a region which is flooded with illiteracy and ignorance of science will have difficulty realizing the four modernizations. Only by raising understanding will it be possible to properly implement the training of skilled personnel and develop education in science. It is proposed that the various levels of government in the areas inhabited by minority nationalities in the central and western regions should put efforts into developing education in science (including both vocational education and popular education). In particular, it is necessary to stress the fostering of one's own cadres, staff, and workers through practice. That is, through the method of "studying war through engaging in war." At the same time, it is necessary to conduct mass anti-illiteracy (cultural and scientific illiteracy) activities in factories and villages.

#### **Developing International Cooperative Business To Make Greater Contributions To Speeding Economic Development of Areas Inhabited by Minority Nationalities**

Through studying the spirit of the Central Nationalities Work Conference, the entire staff of our China Nationalities International Trust and Investment Corporation, under the leadership of the leading party group of the

State Nationalities Commission and in accordance with the spirit of improving service and doing more real work, decided to tightly grasp the "three types of work" and to implement the "two slantings," so as to greatly promote the economic development of the areas inhabited by minority nationalities.

What is meant by the "three types of work" is: 1) Actively drawing in foreign funds and developing international cooperative business. In using foreign funds, we will orient towards the world and develop cooperative relationships in all aspects with the various regions of the world. At the same time, we must open up a new road and place the focus on the countries and regions with which there is much ethnic contact. Our country's 55 minority nationalities all have their own customs and religious beliefs. Based on this characteristic, our corporation will actively develop international economic and technical cooperation with those countries with which the minority nationalities have close ethnic contacts. 2) Greatly developing business within the country and mainly orienting towards areas with many minority nationalities. China is well-known for its vast territory, great resources, and huge population. Actually this involves the two aspects of the areas where the minority nationalities are concentrated being "vast in territory and rich in resources," and the Han nationality having the "huge population," complementing and supplementing each other. At the same time as our country is developing cooperative relationships in all aspects with the various regions of the world, it will also collect funds and engage in financing within the country, mainly using the funds in developing the economy of areas inhabited by minority nationalities. 3) Centralizing strengths to promote the technological progress of areas inhabited by minority nationalities. Comrade Xiaoping has pointed out that importing technology to transform existing enterprises needs to be done in 1001 aspects. We understand that this includes both promoting the technological advance of large-scale backbone enterprises and also promoting the technological progress of a large number of medium and small enterprises spread over a wide area. In accordance with the principle of jointly enjoying rights and interests and jointly bearing risks, our corporation will cooperate with the various areas inhabited by minority nationalities and will grasp firmly, as important work, the promotion of technological advances in areas inhabited by minority nationalities and strive to achieve results as quickly as possible.

The so-called "two slantings" are: 1) A slanting towards minority nationality regions. Under the guidance of state macroeconomic policies, the principles of economic development and industrial and financial policies, we must focus investment in the areas inhabited by minority nationalities in the central and western regions of the mainland, to promote the development of resources in these regions and speed the pace of their economic development. 2) A slanting towards existing enterprises. In the minority nationality areas, many industries still need to be developed.

In terms of investment orientation, there is a need to grasp key points and avoid spreading investment everywhere. The focus needs to be on transforming existing enterprises, assisting enterprises to readjust their product structures, raising the grade of products, and ensuring that enterprises take the road of expanding reproduction mainly through intension to continually strengthen product competitiveness.

We are determined to fulfil our duties and our responsibilities, to work as one with concerted efforts and make a due contribution to the prosperity and development of the areas inhabited by minority nationalities.

## PROVINCIAL

### Survey Conducted on Hunan Enterprise Price Reform

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[Text] How are current price conditions for enterprises? What opinions and needs does the factory director, as the company representative, have regarding the improvement of enterprise price conditions? On this issue, the Hunan Province Urban Survey Team recently conducted a survey of the factory directors of 200 enterprises in eight of the province's cities. The response rate was 85 percent. Among the 170 enterprises surveyed, 45 were large enterprises, 83 were medium-size enterprises and 42 were small enterprises. In terms of economic efficiency, 107 enterprises are profitable and 13 are breaking even. Ninety-seven enterprises set their prices mostly according to state guidelines, 34 enterprises mostly set their own prices, and 39 enterprises set their own prices. The collected survey results show the following views, opinions, and needs of factory directors:

1. Price management authority is overcentralized, and there are serious obstacles to passing pricing authority to lower levels.

The contradiction of overcentralized control over pricing has not been fundamentally solved. Fifty-seven percent of enterprises still base their product prices mostly on state-set prices; 20 percent mostly set their own prices, with secondary use of state-set prices; and only 23 percent of enterprises set all their prices. To enliven enterprises, the state and concerned departments have in recent years handed down some price-setting authority to enterprises. But 78 percent of factory directors believe that the price-setting authority was not actually handed down to the enterprises, but was instead withheld on the departmental, industrial or regional level. In 23.5 percent of those cases, it was withheld by the region, and in 12.1 percent it was withheld by the responsible department. Also, when responsible departments handed down price-setting authority, the market prices for products were subject to the restrictions of industrial pricing coordination. This type of enterprise accounted for 64.4 percent. Of the factory directors who

experienced the above-mentioned circumstances, 39 percent expressed dissatisfaction with their enterprise's current pricing authority. Only 4 percent expressed satisfaction, and 57 percent were relatively satisfied.

2. A strong reaction to increases in raw material prices, and an outcry for control over rising raw material prices.

Factory directors share the feeling that "the factory director's job is difficult, and enterprises are difficult to run." To run an enterprise well, the factory director faces all kinds of difficulties and obstacles, such as funding shortages, a weak market, heavy burdens and so on. In terms of the pricing issue, 38 percent of factory directors believe that the price of raw materials has increased too much, and enterprises have had a hard time coping; 20 percent of factory directors believe that product prices are too low; 12 percent of factory directors believe that the proportion of state-set prices is too large, and that enterprises have no autonomy in setting prices. Therefore, 51 percent of factory directors believe that pricing measures to enliven enterprises should primarily be directed at controlling raw material prices; 11 percent of factory directors believe in increasing product prices; 38 percent of factory directors believe in expanding the autonomy of enterprises in setting prices.

3. It is difficult for enterprises to absorb increases in the price of raw materials, and leads to insufficient motivation.

Among the 170 enterprises surveyed, only three, or 1.8 percent, were able to completely absorb [price increases]; 116 enterprises, or 68.2 percent, were able to absorb some; 51 enterprises, or 30 percent, were not able to absorb them at all. In terms of scale, economic efficiency, and price-setting situation of enterprises, their ability to absorb was directly proportional to the size, economic efficiency, and the proportion of state-set prices. Enterprises that could wholly or partially absorb accounted for 80 percent of the large enterprises, 67.4 percent of medium-size enterprises and 64.3 percent of small enterprises. Among the profitable ones, 81.3 percent were able to absorb; 76.9 percent of those breaking even were able to absorb; 44 percent of those operating at a loss were able to absorb; and 61.5 percent of those that set their own prices were able to absorb.

Regarding how to absorb the effects of increases in raw material prices, 61 percent of factory directors place their hope on increasing product prices and the state cutting taxes and taking less profit. Only 39 percent of factory directors believe in relying primarily on enterprises tapping their own potential, economizing and absorbing it internally within the enterprise. This sentiment on the part of factory directors reflects insufficient motivation to have enterprises absorb the rising cost of raw materials. The survey also revealed that large and medium-size enterprises and enterprises with mostly state-set prices or mostly independently-set prices were better able to absorb increases in raw material costs, compared to small enterprises and enterprises that set

prices entirely independently; but their motivation to absorb was less than that of small enterprises and enterprises that set prices entirely on their own. This is due to differing management mechanisms. Most large and medium-size enterprises are state-run, and their business ability comes primarily from external conditions, and partly from internal economic demands. Therefore, they generally do not face strong survival crises or the strong affects of development. Also, small enterprises and enterprises that set prices entirely independently are in the thick of market competition, and have a strong survival instinct. It is just as one factory director from a small enterprise said: "When raw material prices increase, we cannot rely on the government to give us a tax break or raise product prices or put restrictions on market competition, so we can only succeed by working hard internally, strengthening management, increasing production efficiency, and relying on management and technology."

4. Policies are in place, but pricing is not in place.

In recent years, the state has presented a series of pricing reform plans, and has adjusted a portion of product prices. But in the process of carrying them out, situations have arisen in which policies are in place, but pricing is not in place. Among the 120 enterprises of the 170 surveyed that were within the scope of the state pricing adjustments, only 20.8 percent have the required measures in place; the measures are partially in place at 55 percent of them, and are still not in place at all at 24.2 percent. Because the price of raw materials has increased at a faster rate than product prices, 81 percent of the factory directors believe that the income after the pricing adjustments was offset by the increase in raw material prices. Only 7 percent of the factory directors responded that it truly benefitted the enterprises; another 12 percent of factory directors responded that it all went to responsible departments.

5. The heavy burden on enterprises is the primary factor restricting improvement of economic efficiency.

According to the survey, 52 percent of factory directors believe that the main factor affecting the increase in economic efficiency is excessive burdens; 31 percent of factory directors believe that it is unfair pricing; only 17 percent of factory directors believe that it is an issue of enterprises having responsibility for their own management.

6. Pricing reform must open up as well as control.

Most factory directors wholeheartedly approve of the first stage of pricing reform. Fifty-nine percent of factory directors believe that the first stage of pricing reform was generally appropriate; 23 percent of factory directors believe that the pace of pricing reform has been a little too fast; another 18 percent of factory directors complain that the pace of reform has been too slow, and that controls are too heavy. On the basis of their wholehearted approval of the first stage of pricing reform, factory directors expressed their own opinions. Sixty

percent of factory directors believe that pricing should be completely opened up, so that the market can adjust them or enterprises can set their own prices; 37 percent of factory directors believe that state pricing guidelines should be implemented; and 3 percent of factory directors want state-set pricing. Factory directors also pointed out that pricing reform should be implemented in coordination with other types of reform, to avoid fighting in isolation. Opening up pricing is the trend in pricing reform, but the state should strengthen macroeconomic control. Opening up pricing does not mean abdicating responsibility.

7. Improve the pricing situation for enterprises and enliven enterprises.

Factory directors have a common concern over how to improve the pricing situation for enterprises. Based on their concern for the interests of their own enterprises, they expressed these views and needs regarding the pricing situation for enterprises. They mostly agreed on the following points: 1. Make a planned, step-by-step adjustment of pricing on products with state-set prices, and clear up pricing contradictions to create an environment of fair competition for enterprises. 2. Enterprises should have pricing autonomy. Some also said that enterprises should have pricing autonomy vis-a-vis foreign trade. 3. Improve, perfect and implement methods for setting trial prices on high-quality, high-value or new products, promote technical improvement and increase product quality. 4. Break down the barriers between industries and between regions so that products can freely circulate, and fair competition can develop between regions and between industries. 5. Appropriately control excessive increases in raw material prices. The adjustment of raw material prices should benefit the development of basic industries, and benefit the follow-up adjustments made by industry organizations. 6. Continue to reorganize the "two-track" pricing system for production materials, so that enterprises can create fair and equitable conditions for competition. 7. Earnestly take control of the "three kinds of chaos," and lighten the burden on enterprises.

## FINANCE, BANKING

### Finance, Banking System Reform in 1990's

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[Article by Jin Yan (6855 1484) Chinese Economic System Reform Master Plan Task Force: "China's Financial System Reform During the 1990's"]

[Text] This article suggests a basic line of thought for reform of China's finance and banking system during the 1990's that is rooted in China's realities, uses socialist market economy as a basis, and that borrows from contemporary successful western financial theories and practical experience. We believe that in a commodity economy system, it is markets that play the leading role

in the allocation of resources. It is against this background that the finance and banking system and financial development in every country operates according to the same basic laws; thus, there is no need to emphasize the distinctiveness of one's own country and to negate common laws and the successful experiences of other countries.

### I. Brief Summary of China's Financial Reform From 1980 to 1991

During the past 12 years of greater financial activity and financial reform, changes of a fundamental nature have taken place in China's finance and banking system and its operating mechanism. Specifically, diversification of finance and banking institutions, the creation of new financial instruments, and the development of financial markets have resulted in more savings being converted to investment, many enterprises thereby receiving timely finance capital from outside sources. This has produced both investment opportunities and profit making opportunities, and it has spurred economic growth and an increase in revenues. That marked changes have occurred in China's finance and banking institutions is incontestable, but finance and banking reforms have just begun to change the financial system's function in promoting the allocation of social resources. The reforms of the 1990's will be substantive, and they will also be more complex and more difficult.

Diversification of finance and banking institutions and founding of a central bank. The designation in 1984 of the Chinese People's Bank as the central bank marked the beginning of diversification of China's finance and banking institutions. As of the end of 1991, in addition to the central bank, China's finance and banking system institutions included five national banks (the Industrial Bank, the Agriculture Bank, the Bank of China, the Construction Bank, and the Bank of Communications), which may establish branches and sub-branches in all jurisdictions. It also included four regional commercial banks, 377 financial investment trust corporations, 66 securities corporations, 19 financial corporations, nine financial leasing corporations, 58,200 rural credit cooperatives, and 3,421 urban credit cooperatives. Clearly, during this period China substantially completed a transition from the old system of a "singular" banking system to one in which diverse finance and banking institutions exist at the same time.

Financial markets have begun to take shape. Chinese regional bank inter-bank lending markets have developed, 200 billion yuan in inter-bank loans having been made nationwide in 1991. Nevertheless, China's currency markets are not very well regulated. First, loan periods are long, finance and banking institutions lending funds not for the purpose of regulating the money supply, and especially not for the purpose of augmenting legally required reserves, but mostly as a source of loan funds. This results in some abnormal phenomena as follows: On the one hand, specialized banks have 12.6 percent more reserves than the central

bank requires them to have, while on the other hand, the amount of inter-bank lending is still as much as 100 billion yuan. Second, in the absence of a nationwide unified market, the annual interest rate on a loan for the same period of time differs by as much as 1 percentage point between one area and another. Third, the central bank's standard interest rate is entirely at odds with the loan market interest rate; thus, the central bank has no ability at all to regulate and control the loan market.

The most far-reaching reform of the previous period was in the Chinese capital market, particularly the formation of a securities market. As of the end of 1991, 37.7 billion yuan worth of negotiable securities of all kinds had been issued, with 6.5 billion yuan worth of negotiable securities being traded in the market. First the Shanghai, then the Shenzhen securities exchange opened, substantial development of stock market pilot projects occurring. As of the end of June 1992, 40 different stocks were listed on the two securities exchanges, stock shares having a market value totaling more than 6 billion yuan, and more than 1 million members of the public directly investing in stock. (Footnote) (RENMIN RIBAO 7 Jul 92 p 2) Nevertheless, development of the Chinese securities market has been artificially limited to a substantial extent, and many problems exist, principal of which are: Rather few kinds and amounts of securities, and a not entirely rational mix of securities that does not satisfy the public's demand; securities dealers are small, scattered, and vary in what they offer; the issuing and redemption system and the warranty system are not soundly based, impairing the reputation of securities; no securities grading system exists; and interest rates on different kinds of securities make no sense, virtually all of them being close to the state-prescribed interest rate limit rather than corresponding to the reputation of the issuer. This makes a determination of the degree of risk impossible. Securities trading quoted price, trading price, and final settlement methods are fairly antiquated; information is not available, no uniform nationwide market has taken shape; development of the primary market and the secondary market is uncoordinated, the secondary market lags markedly; no securities market control system has been established; confusion reigns; and more must be done on laws and regulations pertaining to the securities market.

Halts and shortcomings exist in the reform process. In the past, finance and banking reform in China proceeded step by step from top to bottom in a planned way; thus, it was always under government control. Halts, and even reversions to the old system were extremely obvious in the reform process: Political system and ideological restraints, particularly troubles from problems named "capitalism" and "socialism," too much emphasis on a "distinctively Chinese character," rejection of successful western advanced experiences and international practices, such as reform of securities markets, occasioned controversy and reversals. Stumbling blocks to intensification of enterprise system reform such as inability to clarify the bounds of enterprise equity rights, and the

lack of a developed internal limitation mechanism in enterprises made the solidification of credit and creditor's rights and debt restraint impossible, and some banking business reforms could not be conducted. Impaired by the guiding thought behind macroeconomic policy, and hobbled by the planning system, the pricing system, the investment system, and the fiscal system, some finance and banking reform measures could not be implemented. Even so, deficiencies noted in the previous stage of reform will greatly help conduct the next step in finance and banking reform.

1. A change has occurred in the guiding thought of the central bank. Impelled by reform of market orientation, one major task of the central bank was to perfect the financial market mechanism. It could not use the pretext of an incompletely developed market as a means of expanding arbitrarily its own authority and scope of meddling in social credit activity. During the period 1988-1990, the central bank greatly strengthened plan control of social finance and banking activities, thereby inhibiting, to a certain extent, the growth of the financial market mechanism, and particularly weakening the position of the specialized banks and finance and banking institutions as main players in the market. Thus, social credit activities contravened operation of the laws of value and tended to be abnormal and distorted. This was the case, for example, for credit activities like "official [1601 1604] credit issuance," "spot credit," and "special-purpose loans."

2. None of China's financial institutions had ever completely gotten out from under the shadow of subordination to the government. One important reason for this was the "old boy network" in the incumbent personnel appointment and dismissal system. Thus, administrative interference in the affairs of banks and other financial institutions from governments at all levels, departments in charge, and the central bank had a "professional" effect that hurt the effectiveness of macrocapital. Under this system in which "official status" held a commanding position, political risk always existed in bank credit activities. To avoid this "political risk," some persons in responsible positions in finance and banking institutions felt constrained to magnify the "economic risk."

3. Not only was the monopoly pattern in finance and banking not destroyed, but rather it was strengthened further; thus it was never possible to shape a standardized competitive environment. Consequently, finance and banking efficiency fell.

4. Improvements made in finance and banking markets were far from sufficient. The blockading of one region by another, the lack of financial instruments, and the lagging development of securities markets caused the development of financial markets to lag behind development of commodity markets. To a certain extent, this hurt the further development of the country's commodity economy.

5. Virtually nothing was done about reforms by which the market would decide interest rates. Quite the contrary, plan control over interest rates was greatly strengthened. During the previous period of reform, interest rates never came close to functioning in setting the price of capital and allocating resources. On the contrary, they were held down to a certain extent.

6. The independence of the central bank on monetary policy was never established because of factors in the political system.

7. The reform that would have permitted the use of negotiable paper in final settlement of credit was abandoned in mid-course. Because of the upset caused by the "triangular debt" problem in 1989, the originally agreed upon settlement reforms were mistakenly cancelled and revival of the "bank collection and acceptance" method, which was an expression of the planned product economy, was ordered. Afterward, there was no choice but to begin reform all over again.

8. Some short-term emergency measures were made permanent, indicating a reversion to the old system. For example, the "cash control regulations" have not been rescinded to this day, and they obstruct normal commodity trading; "wage fund control," whereby banks pay cash to enterprises for wages against labor unit-approved base figures for wages, is still in effect; and control over the scale of credit that city and countryside credit cooperatives may issue also appears to have been made permanent. All of these measures should be abolished during the next step in reform.

9. Supervision and control of finance and banking has always been mostly by administrative decree, central bank documents being used for the most part. It has not been regulated by law, nor has it gradually moved toward legal system supervision and control. This will become a major impediment to finance and banking reform in China during the 1990's.

10. Insurance reform has always been a weak link in China that was not given serious attention during the previous reforms. Now the incongruities have become pronounced, and it is too late to do anything about them.

## **II. Finance and Banking Institution Reform: Diversification and the Establishment of Independent Entities**

Without doubt, past reforms have made some headway with the diversification of finance and banking institutions, but diversification is just the beginning of finance and banking reform; it is far from over. Experience during the past several years suggests that diversification of finance and banking institutions does not mean that finance and banking institutions have emerged as independent entities as well. Even though the idea has been proposed many times that the specialized banks "should be run like business concerns," and "should be responsible for their own profits and losses, seek their own equilibrium, be self-limiting, and find their own ways to

develop," these ideas have never borne fruit. Now, it seems that because no finance and banking enterprise organizational system exists in which equity rights are spelled out in the Chinese finance and banking system in which state-owned banks (particularly the specialized banks) are the main entity, further reform of China's finance and banking is basically limited.

Because of the lack of a clear-cut demarcation of equity rights, no independent benefit entity exists in the finance and banking organizational structure. Consequently, no distinct microeconomic trail blazing entity and motivating mechanism exists for finance and banking reform, so standardized financial market exchanges cannot be fashioned. Only when guided by benefits can financial market exchanges become more balanced. Laws and regulations cannot substitute for the interest mechanism to provide guidance. Therefore, the stimulation mechanism is incomplete and market exchange is bound to be distorted for lack of a clear-cut equity rights entities, and a benefits mechanism. As a result, traces of direct government intervention may be found everywhere in all financial trading.

Among China's financial institutions today, equity rights are spelled out only in urban credit cooperatives, foreign-owned banks, and some nonbanking financial institutions having a shareholding system. In these financial and banking institutions, the motivation to make a profit is well-defined, and the stimulus mechanism is well-developed. Since the finance and banking organizational system as a whole lacks defined equity rights, financial transactions are skewed. As a result, the aforementioned finance and banking institutions employ irregular market transactions to make profits on the side. For example, they may use the distorted interest rate structure for arbitrage. They may use improper methods to obtain low interest central bank credit and feed on the fruits of differences in interest. They may use "rebates" to attract savings deposits, or they may charge fees that benefit individuals, but shift risky loans to national banks, etc. Clearly, the problem is not that the equity rights of some finance and banking institutions have been clarified, but in the establishment of a finance and banking organizational system in which the delineation of equity rights is clear-cut. This conclusion does not mean privatization of finance and banking institutions. The specific form of ownership does not rule out clear-cut equity rights, nor does it rule out the "personalization" of assets on a certain equity rights foundation.

Destruction of finance and banking monopolies and entrance barriers will increase the "degree of freedom in entering" finance and banking. Previous reforms did not de-monopolize China's finance and banking business; instead, they increased this monopoly. First, the savings deposits of the four major specialized banks—the Industrial Bank, the Agriculture Bank, the Bank of China, and the Construction Bank—went from 65 percent to 74 percent of the national total in 1991. Second, 95 percent of all central bank low interest loans went to these four

major specialized banks; and third, the four main specialized banks enjoyed greater preference in their settlement business, their foreign exchange business, and in the establishment of branches and sub-branches.

Monopoly in China's finance and banking business produced two results, both of which are detrimental to future finance and banking reform.

First, monopoly precludes competition. It results in China's finance and banking business never being able to shape a regular competitive environment, and thus it caused a decline in efficiency and the quality of service in the finance and banking business. It was very difficult to imagine that the Agriculture Bank would incur losses in 1990. In recent years, the number of overdue and bad loans of the four main specialized banks has risen, and the number of finance and banking criminal cases has risen dramatically all because of the lack of competition, overstaffing, an increase in fees, and lack of strict controls. Meanwhile, some banks attribute their not very high returns to the "policy loans factor."

Second, monopoly causes finance and banking monopolization of interest. This means that a large number of people try to get a piece of the business, leading to improper practices and corruption of central bank officers in charge. It also makes local governments and government departments want to get into finance and banking, and when their regular organizations are unable to obtain permission to do so, some variously disguised banks and financial institutes are bound to appear. Once these financial institutions under various guises that are not covered by regulation, supervision, and control reach a certain number, the finance and banking order is upset, and risk greatly increases in the finance and banking business as a whole to the detriment of economic development.

Therefore, monopolies such as this are not as desirable as entry into the finance and banking business under certain standards. Stability in the finance and banking business lies not in establishing barriers that prevent entry, but in the use of a series of strict standards that increase supervision and control. This has been the experience of all countries. This will be a fundamental change in the next step of reform of China's finance and banking institutions. The important thing here is a change in ideas.

It now appears that China's future finance and banking organizational system should be founded on completely independent equity rights, and be consistent with the development of a socialist market economy that includes a cluster of eight kinds of finance and banking institutions of different size and all types as follows: a) a not very large number of large commercial banks; b) regional or local commercial banks; c) national banks having a policy function; d) urban credit cooperatives; e) rural credit cooperatives; f) nonbanking financial institutions (trust corporations, securities corporations, finance corporations, and leasing corporations); g) sino-foreign joint

venture or foreign banks; and h) all kinds of insurance companies of a different character.

Finance and banking institutions under the foregoing new framework will have four features as follows: a) diverse ownership forms, including state-ownership, shareholder ownership, and cooperative ownership; b) breakdown by kind of business, e.g., banking, securities, investment, trusts, and policy financing and banking; c) all these finance and banking institutions will be businesses that have no macroeconomic regulation and control that have and that compete equally; and d) large, medium, and small institutions will develop simultaneously.

### III. More Far-Reaching Financial Markets

How financial markets develop holds decisive significance for the next step in finance and banking reform. First, all of the numerous kinds of finance and banking institutions will have to do only regular trading in financial markets, develop equal competition, and become innovative in finance and banking. Second, the future overall configuration of finance and banking in China will employ a finance and banking market mechanism and financial markets as a means of translating more savings into investment. At the same time, every effort will be made to lower trading costs and to increase finance and banking efficiency throughout society to achieve an optimum allocation of resources. Second, to a very great extent, future central bank monetary policy will be exercised through the role of financial markets on the various kinds of finance and banking institutions, thereby removing government economic units from the picture. During the 1990's, China may be able to complete the three unifications of financial markets, namely: nationwide market unification, unification of currency markets and capital markets (securities markets), foreign exchange markets; and unification of domestic markets and international markets. Therefore, current reform actions must aim at attainment of the aforesaid goals.

A. The pattern for capital in China prior to reform and opening to the outside world might be characterized as "mostly state accumulations mostly for state use." Such a form of capital stifled the creativity and enthusiasm for socialist labor of the citizenry. The result was "low cost, low growth, and low returns," meaning relatively low cost of social capital transactions, the relatively low speed of economic development, and relatively low overall economic returns.

The changes that have taken place in the capital pattern today might be characterized as "mostly residents accumulations applied mostly to the market." This means that as a result of very great changes in the pattern of distribution of national income, the citizens' savings have become the main channel for building a source of capital, finances and banking serving as a medium for transferring them to economic construction. However, since this transfer process is basically distribution under the rubric of state plan, state plan must take account of

requirements in all regards, including fixed assets loans, working capital loans, procurement loans, and the scale and kinds of shares and bonds issued. The state's burdens are too great, and the result is "high costs, high growth, and low returns" by which is meant, that since individual citizens are the main source of accumulations, finance capital transaction costs have inevitably risen greatly; redefinition of the pattern of all main interest groups in the process of reform resulted in a rise in the interest in investment of principal entities that resulted in high economic growth; nevertheless since the state undertook too much and promised too much in the use of capital without any change in the enterprise operating mechanism, overall economic returns did not rise but fell.

The direction of reform must be a change in the way capital is formed from "citizen accumulations primarily to use of the market primarily." The state must be principally responsible for ensuring that funds are raised and used for basic industries such as energy, transportation, and raw and processed materials, as well as for infrastructure, allowing the market to provide the need for capital in processing industries and ordinary enterprises in general. So long as a certain amount of economic growth occurs and a certain supply of currency is available, capital should be raised through market competition. Survival of the fittest will ensure the flow of the limited amount of available capital to enterprises that produce high returns, thereby promoting increase in overall economic returns.

B. Capital structural imbalance in China's financial markets. Prior to 1980, no direct financing was done in China. Since reform, direct financing has developed rather rapidly, but the amount is still very low as a percentage of total social capital. Figured in terms of the balance at the end of 1991, direct financing of industrial and commercial enterprise in China totaled 67.95 billion yuan, and indirect financing (loans) totaled 1.759 trillion yuan, the former amounting to only 3.8 percent of the latter. (Footnote) (The direct financing balance consists of enterprise debentures + state key construction bonds + state investment bonds + capital construction bonds + the face value of stock shares issued; the indirect financing balance includes rural credit cooperative loans and agricultural loans. Source of data: Chinese Securities Association: *Securities Market Data* No 1, p 13; People's Bank of China Annual Report 1991 p 11) By comparison with other nations of the world, direct financing in Japan was 18.3 percent of the total, 59.5 percent in the United States, 78.8 percent in the United Kingdom, 19.8 percent in Germany, and 21.7 percent in France. (Footnote) (Japan Yoshifu Suzuki *Modern Japanese Monetary Theory*, Chinese translation, Sanlian Press, Shanghai 1991 p 15)

Risks in direct financing are spread among the investors, thereby giving expression to the investors self-judgment and risk-bearing mechanism. At the same time, the direct pressure on enterprises is very great and restraints on incurring debt strong. By comparison, there is greater

attention to returns on capital. With indirect financing, all the risks are concentrated in the banks, and in China, in particular, they are concentrated on the specialized national banks. Since the division of equity rights in China is not clear-cut and restraints on enterprises incurring debt with state-owned banks is not strong, banks bear a greater risk. This is detrimental to both efficiency in the use of credit funds and to the stability of the banking business.

C. Need for active development of bond markets. Bonds are a financial instrument fairly well suited to China's circumstances. At the present time, China's securities market is largely a bond market. During the Eighth Five-Year Plan and for some time thereafter, China's securities markets will continue to be mostly bond markets. We need to increase the kinds of bonds and the amounts issued. The principle of linking interest rates to the reputation that a bond enjoys must be adhered to, interest rates for bonds being adjusted to enable maintenance of a reasonable interest rate structure among bank savings deposits, treasury bonds, finance bonds, business enterprise bonds, and other bonds. A bond redemption system and bond issuance security must be established and approved. A redemption fund system must be established that provides for the withdrawal of a reasonable percentage for a change in the nominal security method. Guarantors must bear real economic responsibility. The method of offering bonds for sale must be reformed, a change made from the sale of treasury bonds mostly through administratively assigned procurement to financial institutions contracting the buying and selling, and specialized banks acting as sales agents for the most part, with the gradual promotion of open auctions and sales contracting through competitively priced tenders. Conditions must be created that permit market trading of treasury bonds that institutions hold.

D. Actively and steadily push for stock market pilot projects. A stock market is an indispensable companion to reform of the enterprise shareholding corporation system, and it is also necessary in the transformation of enterprises into market entities.

Certain enterprises having requisite conditions should be selected for the issuance of internal unmarketed shares after which a number of well-run enterprises among them are further selected for the issuance of shares to society at large. The issuance of both internal shares and marketed shares must be standardized. Enterprises that issue shares must be real shareholding system enterprises whose shareholding system has been transformed, or a newly founded share system enterprise that meets share system requirements.

The stock market pilot projects in Shanghai and Shenzhen must be run better. Once management of the stock market in both places has been improved, the scale of share issuances of both markets can be expanded and the number of corporations marketing shares increased. In addition to Shanghai and Shenzhen, depending on how

the share system pilot projects work out, a number of share system enterprises elsewhere having requisite conditions might be selected for the trading of their shares on the Shanghai and Shenzhen securities exchanges. Some financially sound and well-managed institutions dealing in security may be selected as new members of the Shanghai and Shenzhen securities exchanges to expand the coverage of the two securities exchanges.

Some institutions dealing in securities may be selected in some provinces and municipalities for the trial operation of investment funds, or fund management institutions might be organized for the specific purpose of operating investment fund businesses. The issuance of investment fund certifications might be used to amass individual's investment funds for centralized securities investment, and for buying and selling.

Further improvement of the securities market organization system. Establishment of a developed securities market requires the building of a highly efficient, standard securities organization system that covers a complete line of securities.

Further improvement of the already established "two exchanges and one network" (i.e., the securities exchanges in both Shanghai and Shenzhen, and the nationwide financial market price quoting, trading, and information centers), using satellite communications lines to connect securities traders in all locations will speed up transmittal and settlements, and establish a fair, highly efficient, open, and unified market nationwide.

To change the current situation of small and scattered securities dealing institutions, energies should be concentrated on the building of several nationwide, financially strong, large securities corporations able to function as main channels.

To ensure that securities markets will be "open, fair, and just," a number of assets evaluation corporations, accounting offices, evaluation corporations, and investment consulting corporations should be established to conduct impartial evaluations of marketing corporation assets, to audit their profits and losses, and to grade their trustworthiness.

Securities markets should be gradually opened to the outside world, and used to raise foreign capital. Expansion of the issuance of special renminbi-denominated shares should be used as a means for the joint establishment with foreign securities institutions of investment funds, the funds of some good enterprises selected for marketing on the Hong Kong joint exchange to attract foreign capital.

#### IV. Fundamental Reform of Monetary Policy

Macroeconomic monetary policy tied to credit planning is incompatible with the socialist market economy and has become a dead end. Credit planning, which was instituted in 1988, is a three-in-one form of planning that

uses the amount of increase in credit, savings account plans, and cash issuance plans. The process of drawing up and implementing the plan shows that savings account plans and money supply plans are beyond the ability of the central bank to control, and that the scale of credit is coercively implemented through administrative means. They lack both a scientific theoretical and methodological basis and cannot reflect real economic operating needs.

Results from the enforcement of monetary policy in China deviate from projected plans more than those of central banks in any other country of the world. In planning for the scale of credit, the maximum deviation amounts to as much as 1.35 fold and the minimum deviation is 17 percent, and these are all positive deviations. In specific years, and even as late as early December, plans for the scale of credit had to be adjusted. In money supply, both positive and negative deviations occurred between projected plan and actual implementation, both positive and negative deviations occurring, the deviation value being substantial.

A. The facts show that continuation of a monetary policy tied to credit planning is not workable for China. Because of imponderables in market demand and the economic behavior of business concerns and individuals, as well as the increasing tendency toward market guidance of inherent variables in the macroeconomy such as prices, savings, investment, and sales, it is impossible to predict accurately the operating orbit of the foregoing variables when drafting credit plans, nor is it possible to use credit plans to arrest the actions of principal economic entities. The most convincing proof is that past credit plans were based on planned economic growth rates, planned degree of increase in prices, and constant interest rates when, in fact, changes in the country's economic system had long since placed these variables beyond plan control. For example, in early 1990 the planned scale of credit was set at 170 billion yuan, which was 8 percent of GNP for that year, and the rate of increase in retail prices was set at 10 percent. It was also announced that "scientific forecasts" had been exceeded in drawing up the credit plan; and the amounts would definitely not go beyond plan. The result was three readjustments in the scale of credit in the middle of the year to 270 billion yuan, and the actual amount issued was 273.1 billion yuan. Actual GNP growth for the year was 5.2 percent, and prices increased by only 2.1 percent.

During the 1990's, no longer should China's monetary policy rest on tinkering with credit plans; instead credit plans should be discarded. In particular, control over the scale of credit should be completely abandoned, nor should plan control be exercised over the amount of direct financing (the amount of bonds and stocks issued). It should be replaced with a monetary policy that employs the extent of increase in the currency supply as a bridging criterion.

B. Full restitution of the right of all banks and financial institutions to make their own credit decisions. So long

as all banking and nonbanking financial institutions meet the assets and indebtedness percentage norms of the monetary supervision and control authorities, where credit is invested the amount should not be subject to restrictions. So long as they meet all the standards that the securities control authorities prescribe, all enterprises should have the right to issue stocks and bonds without reporting the amount upward level by level for approval. Facts show that it is unrealistic to prescribe in advance a total amount of social credit. Only by decontrolling scale limitations on financial institutions can the capabilities of the country's financial system be used to the full, and only then is it possible to move ahead with more pervasive financing and reform of financing.

C. Actually, one of the difficulties with the foregoing reforms lies in separating bank business done for policy reasons from business done for commercial reasons. One may conclude that in future finance and banking business, credit for policy reasons for which the state prescribes the use and that enjoys preferential interest rates will still exist, but as the market comes to play an increasingly important role in society, the amount of credit issued for policy purposes will gradually become a smaller and smaller percentage of total credit. There are two ways of separating business done for policy reasons and commercial reasons, both of which can be employed in the next step of reform.

The first way: setting up separate institutions. Future business of a policy nature will be for investment in basic industries and for state grain, cotton, oil, and special materials reserves. The Construction Bank might be reorganized to become a long-term credit bank responsible for providing credit for national infrastructure and basic industries, and the Industrial Bank, the Agriculture Bank, and the Bank of China might be reorganized as group banks, their main offices being responsible for business of a national policy nature, and the banks under their jurisdiction (full funding or proprietary) might become independent commercial banks responsible for handling commercial business.

The second way: separate handling of business. Investment for policy reasons would continue to be handled by long-term credit banks, the People's Bank confirming the kind, interest rates, and total amount involved for other business of a policy nature, apportioning a percentage of credit to be provided to savings institutions under state ownership throughout the country to make up the amount required. Institutions unable to provide their percentage would have to subscribe to a like amount of People's Bank special deposits (at lower than the interest rate for credit for policy purposes), the People's Bank supplying the credit that these banks were to have provided.

D. Timely promotion of open market business in reforming central bank credit control methods. Under the present finance and banking system, central bank credit has become a piece of fat meat that everyone fights over. Every year nearly 80 billion yuan more in central

bank credit is distributed in a helter-skelter way among banks, among regions, and among banks and financial institutions. The process is arbitrary to the extreme. This direct way of issuing credit creates a situation in which "whoever gets the money has the advantage." The result is very great ullage. For example, "spot credit," "specially approved credit," "official [1601 1604] credit issuance," and "special purpose credit" are never repaid, state-owned financial resources consequently being drained away. Today, all ministries and commissions, all jurisdictions, all projects, and even some business enterprises may obtain credit directly from the central bank (usually by getting a specific amount of funds through a special bank credit transfer). This way of doing things has the effect of blurring the distinction between central bank monetary policy and commercial bank business. In the name of "macroeconomic regulation and control," branch banks at all levels seek larger size, seek more funds, and do all possible to feed off the fruits of differences in interest rates. Several large nonbanking financial institutions in the country have tied up central bank credit for a long period of time to make profits from feeding off of the fruits of differences in interest rates. Even more serious is the randomness of the central bank's nonmarket quota, and the enormous difference between interest rates within plan and actual market interest rates. This results in numerous profit-making economic organizations striving to get money by fair means or foul, which seriously corrodes the finance and banking cadre corps.

Central bank loans are the main business of the central bank (66.5 percent). (Footnote) (*Chinese People's Bank 1991 Annual Report* p 10) Calculations based on data for 1985-1991 show a 4.8 fold multiple between the amount of increase in central bank assets and the total amount of increase in social credit (not including direct financing). Therefore, after deciding on the money supply as a monetary policy intermediary goal, central bank credit will become the main control variable. As of the end of 1991, domestic banks and financial institutions had a net debt with the central bank of 215.05 billion yuan, or approximately 16.2 percent of the savings account debt. (Footnote) (Numerical values from "Central Bank Reduction of Financial Institution Deposits in the Central Bank for Financial Institution Total Credit," *Chinese People's Bank 1991 Annual Report* pp 10-11)

Such commercial bank "excess borrowing" from the central bank is rare in other countries. Nevertheless, since this is the case, it also provides favorable conditions for the central bank to use credit funds to regulate and control bank credit behavior as a next step. The only escape is to promote open market business to prevent the topsy-turvy mechanism whereby specialized banks and nonbanking institutions demand credit from the central bank. Conceivably, central bank open market business might use the following specific operating methods. It might employ all operating methods at the same time, or it might employ just one of them.

The first method: Use of treasury bonds as a financing instrument. With the diversification of the kinds and due dates of the country's treasury bonds, treasury bonds will become an important financial asset for individuals, entrepreneurial units, banks, and other financial institutions. (Footnote) (As of the end of 1991, China had an unpaid treasury bond balance of 97.3 billion yuan outstanding. See *Securities Market Data*, Issue 1, p 13. Forecasts call for 160 billion yuan by the end of 1992, and 300 billion yuan by the end of 1995).

By permitting domestic banks and financial institutions to hold a certain amount of treasury bonds, the central bank can dispose of treasury bonds through the open market, thereby regulating the amount of currency in circulation. As a starting point for the use of this method, the country's large specialized banks could be directed to use cash on hand to purchase a certain percentage of treasury bonds. The beauty of this method is that international practice offers a precedent that can be followed. China's treasury bond market could be connected with the currency market; and monetary policy could be dovetailed with fiscal policy, tightening and loosening done in tandem. The disadvantage of this method is that under China's special circumstances, the independence of the central bank has not been spelled out in law; and whether government financial departments can redeem treasury bonds when they become due is a problem.

The second method is to issue central bank short-term finance certificates. Central Bank finance certificates could be bought and sold in currency markets. The specialized banks and financial institutions would first buy a certain percentage of central bank finance certificates; individuals would not hold them, nor would they circulate as currency. The Central Bank would regularly issue finance certificates at various interest rates and for different lengths of time, buying back finance certificates from the secondary market at the same time. This would achieve the goal of regulating bank lending capabilities and the supply of currency. This method would pose no difficulties in operation. Actually, central bank finance certificates would enjoy a reputation similar to "standard treasury bonds," becoming an assets operation for banks and financial institutions. They might become "secondary reserves." This method could also function to make the interest rate at the time of issuance and the market price of finance certificates become a base point for interest policy.

The third method is for the central bank to auction credit at regular times. After predetermining the amount of credit to be issued on a certain day, all banks and financial institutions would bid competitively (on the interest rate they would pay), the credit going to the highest bidders. Both long- and short-term credit would be issued, short-term credit predominating, the amount repaid when due. This method would also pose no difficulties in operation. The central bank could designate several banks as eligible for credit, all other institutions not being permitted to bid. The problem with this method is that the central bank's advance forecasting of

the amount of credit to be issued, its matching of due dates, and the interest rate would have to be fairly precise; otherwise, should cutbacks become necessary, the central bank would be unable to recover the certificates since the due date had not yet arrived.

The fourth method is for the central bank to enter the domestic foreign exchange market to buy and sell foreign exchange. This would both serve foreign exchange policy, and could also regulate the currency supply. This method could be only a supplement to the aforesaid methods. Actually, this method does not qualify as open market business; however, since the Chinese People's Bank holds foreign exchange assets directly, and since all the country's banks and financial institutions hold foreign exchange assets as well, the use of foreign exchange to finance central bank capital is also workable. Furthermore, this kind of business would also directly affect the foreign exchange assets of entrepreneurial units and renminbi exchange, which would play a role in adjusting the domestic money supply.

E. Letting the market set interest rates. Contemporary "Financial Deepening Theory" as represented by American economists R. Maijinnong and E. Shao suggests that in the process of financial reform and more pervasive financial activity, developing countries must pay particular attention to the role that interest rates play. They must allow interest rates to achieve market balance, so that they both reflect the actual supply of capital, and also reflect opportunity costs of future consumption that replaces current consumption. The two economists predict that such interest rates would rise, but they maintain that only by letting the market set interest rates can the intermediary role of finance be brought into play, public savings account potential fully tapped, the savings account placement efficiency rate increased, the investment structure optimized, technological innovation accelerated, and the quality of the amount of capital available increased. In addition, it will help exports and attract foreign capital. Thus, the key element in developing countries financial reforms is to let the market set interest rates according to financial deepening theory. Then interest rates produce a major effect on savings, investment, technological innovation, employment and income, all of which are of crucial importance to economic development (Footnote) (Please see Maijinnong: *Currency and Capital in Economic Development*, Chinese translation, Shanghai Sanlian Bookstore, 1988; and Shao: *Financial Deepening in Economic Development* Chinese translation, Shanghai Sanlian Bookstore, 1988).

It must be admitted that during the previous stage of financial reform, the gradual rise in the country's interest rates played a very great role in marshaling savings, i.e., elasticity in savings interest rates appeared. Nevertheless, a rise in interest rates does not mean that the market determines interest rates. A high level planned control type interest rate structure still precludes the market mechanism. For example, China's loan interest rates cannot reflect actual supply and demand for capital, and business enterprises' demand for loans does not make

interest rates elastic. Thus interest rates cannot play a role in the allocation of funds and in the regulation of the structure of investment. A system whereby savings are attracted by high interest rates and loan funds are distributed by low interest rate credit plans rather than by both parties to market supply and demand determining interest rates on the basis of factors such as risk is itself a skewed interest rate system. This state of affairs has had a detrimental effect on China's financial reform. When interest rates cannot function as a weight in banks independent operating rights, the banks' risk capital management mechanism cannot be perfected. When interest rates do not function to regulate the allocation of resources (or capital) and more and more funds lie idle throughout society, the waste of resources that results cannot be made good.

Although earlier financial reform skirted the setting of interest rates by the market, and tried to use increases in interest rates and controlled fluctuations as a partial substitute for the interest rate market mechanism, the setting of interest rates by the market is ultimately a stage in financial reform that cannot be skipped. In particular, with the further development of financial markets and financial innovation, further development of securities markets, and more choices for individual investment, a market interest rate mechanism is bound to take shape in the economy just as in a commodity economy where market prices are bound to overwhelm plan prices and play the dominant role.

Therefore, China must immediately begin reform that permits the market to decide interest rates. The first thing to do is to decontrol interest rates on direct financing (mostly on all kinds of bonds), the bond issuers making the decision. Second, once a national unified currency market exists, a genuine interbank short-term funds lending and borrowing market standard interest rate must be formed, the central bank using things such as discount rates and open market transactions to influence that interest rate. Third, the central bank should control only the central bank savings and loan interest rate, interest rates on individual savings accounts and all other interest rates being completely decontrolled. Fourth is the establishment of a method for figuring interest that is in keeping with market interest rates, or else a method for figuring interest that is decided by business enterprises and banks themselves.

**F. Improvement of finance and banking supervision and control functions.** The goal of central bank monetary policy is to stabilize the currency. This is a total currency supply concept. In addition, once finance and banking institutions become more diversified, and the finance and banking business becomes freer, the central bank will have to do more policing of the commercial banks. The purpose of this work is protection of depositors interests, preventing banks from taking too many risks that impair the stability of the finance and banking business and damage the public's interest. Such central bank supervision and control work is entirely different from the present administrative interference. Central

banks in western countries have had much successful experience in this regard from which we can learn some lessons. Examples include; limitations on the bank assets-debt ratio, limitations on the proportion of risk capital and supervision of the scope of bank business; regulations on an ample supply of bank capital; limitations on bank buying of corporation shares, and participation in real estate and securities dealings; regulations on the ratio of capital to savings and working capital; regulations on the percentage of bank loans to a single customer, etc. Work of this kind was never done in the past because banks were not regarded as risky enterprises dealing in currency. Not to do it in the future will not do. Furthermore, it must be a main task of the central bank.

The central bank's securities control function must be spun off. In view of China's existing organizational system, for the central bank to continue to be concurrently in charge of securities control is bound to be detrimental. Securities control has nothing to do with macroeconomic monetary policy. In most countries of the world, with the exception of Singapore and Germany, securities control institutions are largely of two kinds: One is the Japanese kind, which is under control of either the Ministry of Finance or the Ministry of Industry and Trade. The other kind is the American kind, which is under control of a special securities control commission. The trend of development in China shows that securities control work will be a complex and onerous task better performed by other than the central bank. Therefore, this function should be taken out of the central bank, and a special securities control commission founded.

#### **V. Internationalization of Finance and Banking**

During the 1990's, China's finance and banking must break new ground in becoming internationalized; otherwise, it will be unable to keep pace with the opening to the outside world of the country's economy. Finance and banking industry participation in international competition for greater internationalization is not just objectively required, but it holds benefits of a fundamental nature. First, it permits funds to be raised in the international market at a lower cost. Second, international competition improves the efficiency and the standardization of China's finance and banking business. Third, it helps link together domestic and foreign financial markets.

During the 1990's, we can be a little more courageous in attracting more foreign-owned finance and banking institutions to China. Once China joins GATT, the pace of bringing in foreign-owned finance and banking institutions can be speeded up a bit. First is expansion of the area to which foreign-owned finance and banking institutions are introduced, acting with all speed to expand the area to all coastal cities and Beijing. Second is an expansion of the kinds of foreign-owned finance and banking institutions that are brought in. Insurance companies and securities companies might be allowed in addition to banks. Third is to permit foreign-owned

finance and banking institutions to deal in renminbi within China. This is the most crucial link in the opening of finance and banking to the outside world. It appears that impediments to entry and limitations on the business of foreign-owned finance and banking institutions can be relaxed somewhat, control and supervision being increased. At the same time, domestic banks should be actively encouraged to open branches and sub-branches abroad.

Reform of the foreign exchange control system requires, first, bringing the foreign exchange rates closer to the market foreign exchange rate. Second is reform of the foreign exchange retention system, making a transition from quota retention to spot exchange retention, and abolishing the foreign exchange control system by the end of the present century. Third is the establishment of a nationwide unified open foreign exchange market permitting free buying and selling in domestic foreign exchange markets.

In addition, conditions must be created for making renminbi a freely convertible currency. The renminbi must be allowed to go outside of China freely. Foreign exchange certificates should be abolished. The renminbi must first become freely convertible within China in a gradual transition to becoming an international currency.

## LABOR

### Journal Discusses Remuneration for Managers

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[Article by Chen Bingshou (7115 3521 2087): "Tentative Thoughts on Wages of Enterprise Managers"]

[Text] In accordance with the government's plan to support reforms on the labor, personnel, and wage systems, many enterprises are conducting experimental reforms on the post and skill wage system. In their experiments on how to properly handle relations between enterprise managers and staff and workers is a question that urgently needs to be studied and resolved. In this article, I will attempt a brief discussion on this issue in the light of practice in metallurgical enterprises.

#### I. Considerable Disparities Among Enterprises

In metallurgical enterprises where the post and duty wage systems are implemented, the handling of the relations between the duty wage of managers and the post wage of ordinary staff and workers differs from enterprise to enterprise. The main differences are as follows:

1. The ratio between the duty wage of managers and the highest post wage of workers is different. For example, in the Baoshan Steel Works, the ratio between the duty wage of factory-level leaders and the post wage of smelting group leaders is 2:1. In the Benxi Steel Works,

the ratio between the duty wage of managers and the post wage of smelting group leaders is 0.98:1. In the Jinzhou Ferroalloy Factory, the ratio between the duty wage of the plant director and the highest post wage of electrolysis workers is 0.8:1. In the Wuhan Steel Works, the ratio between the duty wage of managers and the highest post wage of workers is 1.2:1.

2. The ratio between the duty wage of managers and the minimum post wage is different. For example, it is 3:1 in the Baoshan Steel Works; 2.6:1 in the Benxi Steel Works; 3.5:1 in the Wuhan Steel Works; 1.9:1 in the Jinzhou Ferroalloy Factory; 3.5:1 in the Tianjin No 3 Steel Rolling Plant and Special Steel Plant; and 4.2:1 in the Hainan Iron Mine.

The labor assessment factors for managers of metallurgical enterprises are roughly the same. Thus, there should not be too big a disparity between enterprises in the ratio between the pay scale for managers (income not fixed in accordance with enterprise performance) and the wages of staff and workers.

#### II. Reasons for Disparities

1. The government has not made clear stipulations in this regard. While emphasizing the need to give preferential treatment in wage distribution to hardship posts and posts involving filthy, strenuous, and hazardous work on the first line of production, the government has yet to issue a document to guide enterprises on how to handle the question of managers' wages. The ratio between the highest wage level for managers and the minimum wage level for staff and workers, as well as the ratio between duty wage and post wage, have not been clearly spelled out. Thus, the level of the duty wage of enterprise managers can only be fixed in the spirit of increasing the wages and benefits of workers on the first line of production, as there is no basis on which to do so.

2. Different enterprises have their own line of reasoning. When fixing the level of post and duty wages, the managers of some enterprises have taken the initiative to lower the level of the duty wage of leading personnel at various levels in order to fully arouse the enthusiasm of workers on the front line of production. The Benxi Steel Works, the Tianjin No. 3 Steel Rolling Plant and the Tianjin Special Steel Plant belong to this group. Other enterprise managers have adhered to the principle of fixing wages in accordance with labor assessment factors. In the course of reform, they have rationally readjusted wage relations between different types of personnel. While giving preferential treatment in wage distribution to posts on the front line of production, they have also observed the need to give preferential treatment to posts involving a higher level of technology and greater responsibility, as well as to staff and workers who have rendered greater contributions, thereby bringing the wage relations between different types of personnel into better balance.

3. Difficulties in implementation. The main difficulty is that, because the post wages of production workers

include hardship allowances, such as allowances for working in high temperatures, their actual wage increase is less than that for enterprise managers. For example, in the Benxi Steel Works, a manager's duty wage is 66 yuan, and the actual wage increase is 47 yuan, which is more than double the allowance given to smelting workers for working in high temperatures. If the duty wage of managers is raised again and the magnitude of a single actual wage increase is too great, it will be very difficult to put it into practice.

### III. Principles for the Readjustment of Wage Relations

To each according to his work is one of the basic features of socialism. The principle of to each according to his work applies not only to ordinary staff and workers, but also to enterprise managers. Managers' wages should also be fixed using the scientific method of labor factor analysis.

Thus, when we increase wages and benefits for posts on the front line of production, we should also make unified arrangements for the wages of enterprise managers and increase their wages and benefits.

1. Enterprise managers should be given higher wages because of their responsibilities, qualifications, ability, and contributions. Those who have exceeded their contracted tasks should also be given the necessary rewards. This is an objective requirement in the practice of a planned commodity economy, as well as a necessary measure for arousing the enthusiasm of enterprise managers. The principle of material benefits is applicable to ordinary staff and workers as well as to enterprise leaders.

2. Wage increase must be conducive to the rational arrangement of wage relations between different types of personnel in enterprises. The duty wage of managers not only affects the managers personally. It is an important issue mainly because it also concerns a large number of leading cadres of secondary factories and mines as well as workshops. To begin with, it concerns the wage relationship between workshop directors and workers on the front line of production. Workshop directors have hundreds of workers under their direct leadership, and some of them are promoted from among outstanding workers. Thus, while increasing the wages and benefits of workers on the front line of production, it is necessary to make corresponding increases in the wages and benefits of workshop directors. In the Tianjin No. 3 Steel Rolling Plant, for example, section chiefs found their wages slashed by 39 yuan when they were promoted to the post of workshop deputy director. This is obviously not in keeping with the principle of to each according to his work.

3. Appropriately giving enterprise managers higher remuneration in accordance with the principle of to each according to his work is something acceptable to workers. In our surveys, we discovered that the understanding and mentality of ordinary staff and workers on the question of distribution was as follows: Wages and

benefits for enterprise managers should be increased, but the increase must be appropriate.

### IV. Two Suggestions

1. Efforts must be made to clarify as quickly as possible the proportional relationship between the highest wage level for enterprise managers and the minimum wage level for staff and workers.

Based on feasibility studies, we deem that the proportion of the highest wage of enterprise managers to the minimum wage of staff and workers (including subsidies for nonstaple foods, grain, and oil) should be kept to between five and six times, or about five times for large and medium-sized enterprises and over six times for very large enterprises. There may be some disparities in this kind of proportional relationship in managers' pay scales, as enterprises do differ in performance and contributions. These should mainly be based on the following six factors:

1. The wage level of enterprise managers over the years. In 1956, the Ministry of Metallurgical Industry stipulated that the highest wage level for the Anshan and Baotou Steel Works should be 370 yuan, which was more than 12 times the minimum wage of staff and workers, or 3.3 times the highest wage. In 1963, the Ministry of Metallurgical Industry stipulated that the highest wage level for managers of large metallurgical enterprises should be 310 yuan, which was 10 times the minimum wage of staff and workers, or 2.8 times the highest wage of workers. In 1985, the government stipulated in a unified way that the highest wage level for managers of very large enterprises should be 270 yuan, which was 7.3 times a worker's minimum wage, or 2.4 times a worker's highest wage.

2. The wage income of enterprise managers over the years. During the 1950's and 1960's, most managers and secretaries of large metallurgical enterprises were senior cadres. Their monthly wages were about five times the average monthly income of staff and workers.

3. The existing wage level of enterprise managers. At present, the highest wage for managers of large metallurgical enterprises is over 400 yuan. For example, in the Wuhan Steel Works, the highest wage level for managers is 452 yuan, which is 7.5 times minimum wage, or 1.6 times the highest wage.

4. The actual income of enterprise managers. According to statistics in statements and reports, the annual income of principal leading cadres of the general plant of the Baoshan Steel Works from wages, bonuses, and subsidies in 1991 was 1.8 times the average income of staff and workers. The income of the director of the Tianjin No 3 Rolling Steel Plant in March 1992 was 376 yuan, which was 1.31 times the average income of staff and workers.

5. The minimum wage includes subsidies for staple and nonstaple food as stipulated by the government in a

unified way in 1979, 1988, 1991 and 1992. Such subsidies amount to 26 yuan in the Beijing area.

6. The wage parity with leading cadres of state organs and public institutions of comparable specifications and the tolerance level of the staff and workers of enterprises.

In 1988, the State Council pointed out in its regulation concerning the wages of enterprise managers: "Depending on the fulfillment of the terms stipulated in management contracts, the annual income of enterprise managers may be one to three times higher than the average annual income of the staff and workers in their respective enterprises. For those who have made outstanding contributions, income may be suitably higher." This provides a basis for fixing a suitable proportion; for the majority of metallurgical enterprises, the total income of managers may be calculated at about twice the average income of staff and workers. The basic wage of enterprise managers may also be calculated at about twice the average basic wage of staff and workers. At present, the average basic wage of staff and workers is about two to 2.5 times that of the minimum wage, while the basic wage of the majority of middle-aged enterprise managers has not reached the highest in their pay scale. Thus, it is appropriate to keep the ratio of managerial wage levels to minimum wage levels for staff and workers to between five and six times.

2. Properly handle the question of the wages of enterprise managers through the implementation of the post and skill wage system.

At present, we are experimenting with the post and skill wage system. We must make the best of this opportunity to readjust the wage relations between different types of personnel (workers, professional and technical personnel, and managerial personnel), and properly handle the question of management wages.

Wage incomes includes basic wages and total wages, which are at once interrelated and different. They should be handled separately. The overall concept is that the basic wage level of enterprise managers (including skill wages and duty wages) should be fixed according to the scale of the enterprise and its place in the national economy, and in relation to the lowest wage of the staff and workers. The total wage of managers should be fixed according to the performance of the enterprise, the contributions of the managers, as well as changes in the wages of the staff and workers. The tentative suggestion is:

1. The basic wage level. Based on a suggestion made by the Ministry of Labor that starting wage levels in the basic wage of staff and workers should be set at 85 yuan (for six types of wage areas and the metallurgical trade), we have drawn up this blueprint for our tentative post and skill wage level for metallurgical enterprises: In large integrated enterprises, the highest wage of managers is 516 yuan, or 5.8 times the minimum wage of staff and workers, which is 88 yuan. Of this wage, 388 yuan is skill wages while 128 yuan is duty wages. At the same time,

we have also designed a number of higher post and skill wage levels in an effort to encourage enterprises to strive to improve their performance and adopt a higher wage level while increasing the total basic wage.

The highest skill wage for managers of large integrated enterprises is generally fixed at about seven times the minimum skill wage of staff and workers. The duty wage of managers of large integrated enterprises is fixed at four times the minimum post wage. Similar arrangements have also been made in the wage levels of managers of large and medium-sized enterprises.

2. The coordinated reform of basic wages. To properly control and adjust the magnitude of pay rises for enterprise managers, it is necessary to adopt a transitional method in the coordinated reform of wage levels. At present, two methods are adopted in metallurgical enterprises. The first method is to adopt a transitional post and duty wage level. This transitional level is lower than the official level and will gradually be adjusted to the appropriate level. The second method is to subtract from the sum of the existing basic wage and staff and workers' subsidies, one's own standard post and duty wages; then, taking this as the base figure for skill wages, eventually work out ways of achieving a coordinated increase in skill wages. In our opinion, the former method is more conducive to a steady transition. In pilot enterprises where post wages have already been introduced, those who have low duty wages for managers may, in future efforts to improve their wage system, bring their wages to the appropriate level step by step.

3. Bonuses. This is the major issue in the readjustment of proportional relations. Bonuses for managers are made up of two component parts, namely day-to-day bonuses and the year-end balance bonus. The day-to-day bonus is comprehensively assessed and issued in accordance with stipulated methods of reward, and single-item rewards are not issued. Annual bonuses are calculated and fixed according to relevant stipulations in the light of the fulfillment or overfulfillment of contracted tasks. Income receivable should be a multiple of the average income of staff and workers plus total income receivable minus annual income received. This will be the total annual year-end bonus.

4. Establish a scientific wage operation and management system. First, as in the case of ordinary staff and workers, a normal promotion system should be introduced for the skill wages of enterprise managers. Only when an enterprise has fulfilled its annual task and when wage increases have been arranged for staff and workers will managers be considered for promotion. Those who have made outstanding contributions may be given incentive promotions. Those who failed to fulfill their contracted tasks or were found to have neglected their duties should not be given incentive promotions or relegated to a lower wage category. Second, in the case of duty wages, there should be one salary scale for each post in order to give embodiment to the policy where people can be promoted or demoted in duties as well as wages. When a person has

left his post, he should no longer be paid his duty wage. Third, as in the case of ordinary staff and workers, duty and skill wage levels for enterprise managers may be suitably adjusted according to increases in enterprise performance wages and total basic wages. The wage level may be adjusted upward and downward. Fourth, there should be fixed methods of meting out rewards and punishment. Handsome rewards go with heavy penalties, and light rewards go with light penalties. Five, efforts should be made to guard against a situation where enterprises take things into their own hands in the distribution of wages and bonuses to managers, and where those who deserve more cannot get more while those who do not deserve more get more. The government should formulate relevant laws and regulations, while competent departments should clearly fix standards regarding managers' income. Wage increase and bonuses for enterprise managers should be discussed by worker congresses and authorized by the relevant department before they are implemented.

### Journal on Administrative Organ Wages

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[Article edited by Liu Fuyuan (0491 4395 0997): "On How To Establish a Normal Wage Increase Mechanism for Staff and Workers in Administrative Organs and Institutional Units"—Taken from the No 6 issue of the "Bulletin of the Wage Reform Theory Group Under the Chinese Academy of Social Sciences"]

[Text] In November of last year, we invited comrades from the Economic Research Center under the State Planning Commission to our academy to talk about the problem of a wage increase mechanism for staff and workers in administrative organs and institutional units. We now provide for reference an edited version of a speech given by Comrade Zuo Chunwen (1563 2504 2429).

#### I. The problem of the current structural wage system.

The structural wage system, which has duty wages as its main part, has been in place for seven years. When this new wage system was first established, the staff and workers of administrative organs and institutional units saw quite large wage increases, and this played a definite positive role. However, various problems of irrationality have accompanied virtually the entire course of the new wage system.

1. The wage increase mechanism is still not normal. From 1985 until now, our country's economy has achieved quite great development and has also seen serious inflation. However, it was only from October 1989 that the wages of staff and workers in administrative organs and institutional units were all raised at least one grade, with the majority of those with the conditions being promoted two grades. Such wage increases are very abnormal. Seen from the macroeconomic level, the

wages do not rise correspondingly in accordance with growth in the national economy, and do not provide appropriate compensation for staff and workers in accordance with the degree of inflation. Seen from the microeconomic level, the persons who receive wage increases, and the amount of increase they receive, are not really decided by the work achievements of the person. Rather, on the basis of universal readjustment by one grade, the decision on whether any person was to be promoted two grades was taken on the basis of the years of service of the person and the number of years they had been in their post.

2. The structural wage system, which has duty wages as its core, initiated the "official post standard." The implementation of a structural wage system which has duty wages as its main part resolved quite well the problem of dislocation between duties and remuneration, which existed for a long time. However, as a normal wage increase mechanism had not been formed, only one avenue for wage increases of staff and workers existed—a promotion in duty post. At the same time, as our country's universal promotion in grade for staff and workers lacks openness and competitiveness, the improper practices in universal promotion in post grade are even more difficult to avoid.

3. The principle of distribution according to work cannot be implemented, and egalitarianism has become increasingly serious. This is specifically manifested in the fact that the differential between the highest and the lowest wages of the staff and workers of administrative organs and institutional units has become increasingly small. If we compare the situation before and after the reform of the wage system, in administrative organs the differential between the two was reduced from 25.2:1 to 10.2:1, while in institutional units, there was a reduction from 6.2:1 to 5.1:1. After 1985, on top of the universal promotions and standard wages, because the wage bonuses were distributed equally, wage differentials were further reduced. People vividly described this situation of increasingly serious egalitarianism as being an expansion from the "terrace" to the "plain."

#### II. How are we to understand the relationship between normal wage increases and financial administration?

Seen from the relationship between the various problems of the wage system, the lack of a normal wage increase mechanism is the cause, and the other problems are results. This is because, analyzing from the wage mechanism, if a normal wage increase mechanism is established, other problems such as egalitarianism and the "official post standard" will be avoided. However, why is it difficult to establish a normal wage increase mechanism for staff and workers in administrative organs and institutional units? The departments which make wage policy often ascribe the difficulty to the tightness of state finances, and that the state financial administration cannot provide sufficient funds to increase wages. This is not an objective reason. Certainly, the tightness of state financial capacities is one difficulty in increasing wages,

and particularly in increasing wages by a great amount. However, in no case can this be a reason for obstructing the formation of a normal wage increase mechanism. Seen from the actual situation, in recent years the state has, in a situation where finances were tight, still provided much money to increase the wages of staff and workers. In 1985, at the beginning of the reform of the wage system, the state financial administration provided 4 billion yuan for wage increases. This indicates that there was no shortage of money. After this, administrative organ and institutional units carried out two sets of flexible promotions, as well as the 1989 universal promotion. This shows that the establishment of a normal wage mechanism is not just a matter of having enough money. Rather, the crux lies in essentially changing the distribution system, and this change must break down the concept of egalitarian distribution as a precondition.

### III. Egalitarianism emerges from simplification.

It should be recognized that egalitarian distribution is a shortcoming of our country's traditional system, but is also a product of the traditional system. Thus, its existence has a certain social base, and not only has this taken root among the general staff and workers, but also had a marked effect on those who make decisions on wages. In various senses, if we are to break down egalitarianism, we must start with the decision makers. The difficulty of the problem lies in this, because the decision makers are already used to the practice of giving egalitarian wage increases. Speaking rationally, in choosing a wage increase mode for the staff and workers, it is naturally the simplest and easiest to follow the egalitarian method. The adoption of any new method which gives expression to the principle of distribution according to work will be much more complex. This is perhaps a subjective factor affecting the establishment of a normal wage increase mechanism. Regardless of whether one accepts it or not, this subjective factor is fully manifested in the process of decision making on wages: Up till now, the decision-making departments have not formally put forward any policy plans for establishing a normal mechanism for wage increases. Rather, they have given people only the method of universal promotions in grade.

However, although egalitarianism still occupies an important position in wage distribution, it is not immovable. The overall economic reforms and the reforms in the distribution sphere all show that deepening the reform of staff and workers' wages in administrative organs and institutional units, and establishing a normal wage increase mechanism so as to mobilize the enthusiasm of staff and workers and raise work efficiency, has reached a stage where it will brook no delay.

### IV. In establishing a normal wage increase mechanism, we must resolve the following problems of understanding.

1. The increase in the overall volume of the wages of staff and workers in administrative organs and institutional units must be coordinated with national economic

growth. The growth in the national economy is a decisive factor in the increasing of wages, and is also an innate variable in wage increases. Generally speaking, wages should grow following growth in the national economy, and the trend of growth in the two should be mutually consistent. The problems lie in which indicator is to be used to measure national economic growth, and what relationship should be maintained in the coordinated growth of these two elements.

A popular view and frequent method used in society is to use national income as an indicator in deciding the growth of total wages of staff and workers, and using the labor productivity as an indicator in deciding the average wage increases for staff and workers. The theoretical principle this follows is that growth in wages should be slightly lower than growth in national income and growth in labor productivity. Here wages have a wide meaning, including the wages of staff and workers of whole-people enterprises and collective enterprises, as well as the wages of staff and workers of administrative organs and institutional units. Here, we will not look into how effective this general method is, and will only further examine the question of how to assess wage increases for the staff and workers of administrative organs and institutional units. It is very clear that in a situation where wages in enterprises are linked with their own economic results, and the enterprise has autonomy in wage distribution, using national income to determine the growth of wages of staff and workers in administrative organs and institutional units is not a rational yardstick. First, national income includes agriculture, and generally the growth of national agricultural income is quite slow, usually lower than the growth in national income from other material production sectors. Further, the income of peasants is not determined by growth in national agricultural income. Thus, wages and national income do not share common specifications. Second, the wages of staff and workers of an enterprise are linked with the economic results of the enterprise. However, the economic results indicators which enterprises use to decide wage increases often have a very great "water content," and this inevitably results in the growth of the total wages of the enterprise exceeding the growth in national income. If the wage increases of the staff and workers of administrative organs and institutional units are decided on the basis of national income, the growth clearly will have no leeway. This shows that in the increasing of wages in administrative organs and institutional units, there is a need to select an appropriate assessment indicator within the scope of their own distribution.

Wage distribution in administrative organs comes under the category of redistribution of national income, and it is a part of national financial expenditure. Thus, financial revenue should be the yardstick for deciding wage increases for administrative organs and institutional units. That is to say, the growth in financial revenue will determine the increase in the wages of administrative organs and institutional units. In terms of the degree of

growth, the latter should be lower than the former. However, at present, we will also come up against the problem of structural reform. That is to say, reform factors will affect the growth or decline of financial revenue. However, we should do our best to establish wage increases for administrative organs and institutional units on the basis of the growth in financial revenue which is brought by national economic growth. In consideration of the abnormal changes which occur to financial revenue, in assessing a normal increase in wages, we need to adopt two supplementary measures: 1) The specifications of financial revenue need to have a comparable nature. 2) There needs to be a regulatory coefficient for the proportion which the wages of administrative organs and institutional units constitute in administrative and institutional expenditure, so as to deal with the problem where in special situations, financial revenue sees great fluctuations. This will allow us to guarantee the normal and stable growth of the wages of administrative organs and institutional units.

2. Individual increases in wages in administrative organs and institutional units must be decided by merit and accomplishments. In the past, in the process of universal wage grade promotions, the basic element which decided the growth in individual wages was one's length of service, and it had little to do with whether one's work was good or bad, or contributions were great or small. This is incompatible with the normalization of wage increases. If the increase of individual wages does not stress work achievements or efficiency, then the coordinated growth of the total volume of wages and financial revenue will be violated, and there will be no way to establish a normal mechanism for wage increases. Thus, establishing a scientific assessment indicator for increases in individual wages will provide the micro-base on which to construct an overall normal mechanism for wage increases. I believe that the achievements and accomplishments of individuals must have appraisal indicators in at least four areas: 1) The appraisal of the work capacity of individual staff members and workers. 2) The appraisal of work display. 3) The appraisal of work achievements. 4) The appraisal of the level of work.

3. We must establish a reference system for wage increases for staff and workers in administrative organs and institutional units, and from a broader angle, carry out readjustment so that there is a rational increase in wages. As wage distribution in administrative organs and institutional units is a component part of overall wage distribution, increases in enterprise wages must have an effect on it. As price rises are an important factor influencing wage increases, there is no doubt that they will have a major effect on the wages increases of administrative organs and institutional units. Thus, it is very necessary to include enterprise wages and prices in a reference system for the wage increases of administrative organs and institutional units.

The relationship between the wage increases in administrative organs and institutional units, and those in enterprises, should be generally fair. The former could

lag behind the latter, perhaps by a year. Such a practice would conform to the general theoretical logic of the primary distribution and redistribution of national income. Seen from the angle of wage determination, this is also tenable. This is because the wages of the staff and workers of administrative organs and institutional units is determined by state financial revenue, and state financial revenue is mainly determined by the economic performance of enterprises. Thus, it is in accord with objective choices that the wage increases of the staff and workers of administrative organs and institutional units lag behind the wage increases of staff and workers in enterprises.

In respect to the relationship between the wage increases in administrative organs and institutional units and prices, in principle, wage increases should be higher than price increases. The logic of this does not have to be explained in great detail. If the wage increases in a particular year are lower than price rises in the following year, there should be a greater increase in wages, so as to make up for the effects which the price rises in the previous year had on the lives of staff and workers.

The above proposal on a normal wage increase mechanism is only a rough idea in principle. If it was to be implemented, it would require a great amount of investigative research and analytical appraisal. On that basis, the indicators and parameters could be fixed. However, in order to ensure that these indicators and parameters do not become distorted in actual implementation, it is more important to establish a "Wage Increase Law" as quickly as possible. This is an important experience and lesson provided by our country's wage work over the last several decades.

#### Journal on Reform of State Organ Wages

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[Article by Sun Zhengmin (1327 2973 3046): "Comparison of Ideas on Reform of the Wage System in State Organs"]

[Text] In national economic activity, wage distribution in state organs comes under redistribution of national income and is directly subject to the restrictions of state finances. Added to this is the fact that the personnel in these organs are mainly engaged in state administrative and management work and it is difficult to calculate their work achievements. These factors have provided a certain degree of difficulty for state organs in implementing the principle of distribution according to work. Since liberation, the state has carried out reform of the wage system on two occasions, in 1956 and 1985, and successively established a graded wage system based mainly on administrative levels and a structural wage system based mainly on work post wages. Following the deepening of the economic structural reform, the existing wage system has become increasingly unsuited to the demands of the situation and reform of the state

organ wage system has again been placed on the agenda. Since the 13th CPC National Congress, and in accordance with the orientation by which the link with the institutional unit wage system is being unhooked, our country's theorists and practical workers have been engaged in initial explorations as to how to reform the wage system in state organs. The basic ideas and policy proposals are generally of the following three types:

### **I. Implementing System of Graded Wages Based on Duties**

This idea was put forward on the basis of summing up the experiences and lessons of our country's two wage system reforms. What is meant by a system of wages based on duties is a basic distribution system wherein wages are set on the basis of the duties shouldered by personnel in the organ (including leading and nonleading duties) and factors such as qualifications and years of service. In the specific planning of wage standards, different post wage standards should be implemented for personnel working at different administrative levels. Different grades of wage standards in accordance with different qualifications will be implemented for personnel working at the same administrative level, while persons of the same grade will also have different wage steps based on years of service. Thus, one duty will have grades and each grade will have several steps. Wage standards for adjacent administrative levels and grades should overlap to form a matrix arrangement.

The planners of the system of graded wages based on duties stress that this is not a revival of the simple graded wage system of 1956, nor a reproduction of the current structural wage system which has duty wages as its main component. Rather, it is a fusion of the two at a higher level. It has duty wages as its basis and it merges grade elements. It collects together in one system the advantages of the graded wage system and the structural wage system. In terms of structural planning, it discards the "single system" planning mode and also breaks away from the "repetitive, fan-like" planning based on duty levels. Instead, between the duty levels, it adds grades and within grades it proposes different wage steps. This will overcome the "one-sided models" seen in the past, which either over-stressed qualifications or over-stressed duties. It now has two parallel and irreplaceable wage increase mechanisms, involving pay rises through promotions and promotion in wage steps based on years of service.

The main foundation of the wage system based on duties is: State organ personnel engage mainly in administrative and management activities and their professions are stable, their grades are clear, procedures are standardized, and organization is tight. The responsibilities of organ personnel, the difficulty of their work, and their contribution is usually manifested in the duties they carry out. Thus, wage distribution should mainly be based on the duty level and the depth of qualifications and service record. The higher the duty level, and the deeper the qualifications and service record, the higher

the wages. The opposite is also the case. However, in administrative organs, the number of posts is limited and the higher the administrative level, the smaller the number of posts, resulting in a "pyramid structure" distribution. Even if there is an increase in the avenues of promotion for nonleadership posts, it will still be very difficult for great changes to be made to this "pyramid structure." Thus, for quite a proportion of workers, it will be difficult for them to increase their wages through promotion. In order to guarantee the stability and high efficiency of the work contingent in the organs, and maintain the normal functioning of the state apparatus, there is a need to have, in conjunction with annual examinations, regular rises in the wage steps of personnel. At the same time, in light of the wages of personnel at the same levels and under similar conditions in enterprises, the wage level of personnel within the organs can be raised correspondingly to achieve fair distribution.

In addition, those who propose this idea cite as proof the many countries (such as England and Germany) which have implemented a system of classified personnel grades. They claim that this shows that a scientific system of graded wages based on duties is suited to the characteristics of state organs, and should be the basic choice in the next reform of the wage system.

### **II. Establishing Graded Wage System Based on Work Posts**

This reform idea is based upon classifying work posts, which is popular in various countries of the world at present. Classifying work posts is a scientific personnel management mode produced in the course of modern socioeconomic development and the starting point and basis of all modern personnel management systems. It emerged first in the United States and Canada, and after World War II, became popular all over the world.

A graded wage system based on work posts is a basic distribution system, based on the results of the classification of posts, which sets wages in accordance with the level and grade of the personnel required. Here, the work post is not equivalent to duties. Rather, it is a combination of duties and responsibilities. Work post classification involves analysis, assessment, and sorting out professional work posts in state organs on the basis of the nature of the work, its difficulty, the responsibilities involved, and the qualifications required. The classifications for posts are then set down and explained, providing a scientific basis for determining remuneration standards and carrying out personnel management. Work post classification stresses "the task" as its center, not the "person." "People are chosen for the task" and "the remuneration is decided on the basis of the work." Work post classification results in a direct relationship being formed between work, qualifications, and remuneration.

The proponents of the graded wage system based on work posts hold that classification of work posts uses

scientific appraisal standards and methods to ensure that posts which involve work of a different nature, but which are the same or similar in terms of difficulty, responsibilities, and the qualifications required, are classified at the same level. Thus, work posts become comprehensive indicators of the responsibilities, abilities, qualifications, and position of the personnel and quite fully reflect differences in the labor of personnel. Setting wage standards mainly on the basis of work post grades more fully reflects the principles of equal pay for equal work and distribution according to work.

Externally similar to the system of graded wages based on duties, in terms of wage standard planning, the system of graded wages based on work posts has horizontal grades and vertical steps, which also form a matrix. However, the internal aspects it manifests are completely different. Here, the wage grades are based on classified work posts grades and are not related to qualifications. Similarly, wage steps are relative to the level one is at in the classification of posts. For workers at different post levels, there are different standard grades and the wage grades change with changes in the work post grade. Workers at the same work post grade, but who have been in their posts for different lengths of time, will be at different wage standard steps and wages will increase with years of service. Here, the wage grades and the wage steps have a mutually supplementing and irreplaceable distribution function. The diverse wage-determining factors which intersect and are applied comprehensively, can overcome the defects of the "official standard" in the existing wage system in state organs.

In addition, the proponents of the graded wage system based on work posts also advocate the use of a promotion and wage increase mechanism based in law, to balance the wage relationship between the personnel within the organ and those outside and to maintain rational wage relationships between the various personnel. Generally speaking, a regular promotion and wage increase system includes the two aspects of regular promotion steps within grades and regular increments in wage standards. Regular promotion within grades refers to where, in a situation where a worker is not promoted in grade he receives, in light of annual assessments, stepped promotions in wages within the grade. Regular increments in wage standards refers to where the state, taking reference from the wage increases of similar personnel in enterprises and the rate of increase in consumer price indices, readjusts workers' wage standards in a timely way, to maintain balanced growth in wages and maintain the value of wages.

In sum, the system of graded wages based on work posts stresses scientific classification and management by law, and requires coordinated reforms.

### III. Restructuring Structural Wage System

This line of thought advocates redesigning the existing wage system in accordance with the different functions of wages and taking the actual feasibility into full consideration.

The proponents hold that the structural wage system, in accordance with the different functions of wages, will divide the various factors which determine wages into different units. They consider that it is simple, flexible, and convenient in operation and that it is a quite advanced and rational wage system. The replacement of the wage system will involve changing the readjustment and redistribution of the structure of the interests of personnel, and thus, it must be carried out very carefully. New wage system reform requires fully respecting the reform results already achieved. The existing structural wage system, which is mainly based on work post wages, is basically feasible but there are some problems in operations due to the planning and operational mechanisms being imperfect. Through supplementation, readjustment, and improvement, we should acquire the constituent components to operate normally and to bring their due roles into play.

In terms of the specific planning of the structural wage system, comrades who advocate the abovementioned ideas do not hold identical views. Their commonly held views are: 1) We should maintain basic wages, raise the wage standards, and, in accordance with rises in basic livelihood costs for the staff and workers, engage in regular readjustments. Through technical handling, the current welfare subsidies and allowances should be entered into basic wages, so that they reach a level whereby the basic livelihood of the individual workers and their family members can be maintained. 2) The duty wages should be maintained, the number of wage grades should be increased, and the wage standards should be raised. Duty wages are the main aspect in implementing distribution according to work and it is normal to link wages and duties. The crux lies in combining duties with responsibilities and contributions, to really achieve a situation where responsibilities and remuneration correspond. The existing duty wage grades are too few in number and it is difficult to increase the differentials between them. Thus, there is a need to increase the number of these wage grades appropriately. At the same time, it will be necessary, following increases in national income and the raising of the level of wages in enterprises, to readjust the duty post wage standards appropriately. 3) The number of wage steps should be increased. Wage steps mainly manifest the abilities and work experience of the personnel and also the major aspects of distribution according to work. Increasing the avenues for promotion in steps opens up a new avenue for wage increases. This will allow those personnel who have difficulty increasing their income through promotion due to limited posts being available, to obtain better remuneration as their abilities and years of service grow. This will also alleviate pressure for post promotion. 4) The years of service allowance should be maintained,

with the standard being raised and the differences expanded, to give expression to differences in terms of years of service. 5) Incentive wages should be abolished and only bonuses retained, to harden the restraining conditions. Some others have advocated changing incentive wages into achievement wages, with differentiated levels, which can be disbursed on the basis of the assessment of achievements.

The comrades who uphold these ideas believe that the newly-designed structural wage system, although not differing greatly on the formal level from the existing structure and maintaining some of the major elements, opens up diverse avenues for wage promotions and increases the proportion of elements such as abilities, qualifications, and years of service in the wage structure. It also changes the structural design wherein the work post alone was the major element. It will be beneficial in overcoming the major defects in the current system and has a clear hue of reform.

#### IV. Concise Appraisal

The standpoint of the abovementioned three reform ideas are different and the proposals for planning and policies of the respective wage system models vary widely. The personnel classification system is a basis and starting point for all personnel management work. The choice of a wage system is an important link in personnel management, and in the same way, is subject to the restrictions of the personnel classification system. The first and the third ideas are essentially based on our country's traditional personnel grade classification system. However, they stress the decisive role in wages of "personal" factors, such as duties, qualifications, and years of service, and to a certain degree, reflect the professional characteristics of the work of the state organs. They manifest the traditional Eastern cultural values whereby "the official post is the principal element" and "there is differentiation between senior and junior." Under the graded personnel classification system, the division between posts is quite general and abstract and wages normally change with the incumbents. The wages are not very tightly linked with the work and this is beneficial to the flow of personnel. The graded wage system based on duties and the structural wage system have both appeared in our country in various one-sided forms. However, they are easy for society to accept, convenient to implement, and in particular, the structural wage system is realistic and feasible. However, the wage structures which both these ideas provide are fairly optimized., stressing the plural functions of wages and the diverse factors in deciding wages. They also strive to draw in the work analysis and appraisal systems of the classified post system and, through assessment of work, promote the implementation of distribution according to work.

However, these two wage reform ideas are subject to the limitations of post grades. They only stress "personal" factors, such as experience and grade in deciding wages, and ignore the work and responsibility these people have

to take on. The relationships between duties and responsibilities and between rewards and contributions are not close enough and it is easy for bad phenomena to occur, such as deciding wages on the basis of seniority; ignoring whether people have done much work or little work, good work or bad work; or even providing different wages for the same work. Therefore, it is difficult to eliminate the mechanisms which do not stress responsibilities and achievements but encourage blind vying for higher posts. At the same time, under the personnel grade classification system, it is mainly duties and qualifications which are used to measure differences in the complex work of personnel. Standards of differentiation which are too general, abstract, and difficult to grasp and differentials which cannot truly and objectively reflect the labor expended by personnel, result in the determination of wage standards losing its scientific nature and accuracy. It often occurs that, due to subjective conjecture and decisions, the degree of realization of the principle of distribution according to work is affected. For example, some personnel in state organs are engaged in specialized technical work which is far more complex and difficult and requires qualifications far in excess of those required for administrative leadership. Based on the principle of distribution according to work, they should be given quite high wages. However, in the wage system based on classified personnel grades, because they do not have leadership duties, and there is a lack of analysis and appraisal standards for work, their wages are inevitably lower than those of personnel who have leadership duties. This is clearly irrational. Although the proponents of these two ideas are aware of the problems noted above and try to compensate through the structural planning and operational mechanisms, it will be very difficult to achieve any essential change.

From this we can see that the first and third reform ideas essentially do not overcome the traditional modes of thought. They are stuck in the existing overall cadre system, lack scientific and meticulous classification, and are clearly aimed at just patching up the old system.

The second idea is based on a scientific work post classification system and is in accord with the demands of modern personnel management. It stresses the role of "task" factors, such as work and the responsibilities and qualifications required, in deciding wages. It has a set of work analysis and appraisal standards which are clear, standardized, scientific, and rational, by which wage grades and steps are set objectively. This means that the formulation of wage standards is done on a scientific and accurate basis, thereby avoiding the interference of subjective factors. By using work post grades to measure labor differentials between personnel at different levels, we can have personnel who do different sorts of work but who bear the same or similar responsibilities, who do work of the same or similar difficulty, and who require approximately the same qualifications, enjoy the same level of remuneration, thereby achieving a situation of equal pay for equal work. At the same time, the system of graded wages based on work posts also accords with the

requirement that workers in state organs are managed in accordance with the law. It plans a grade promotion and wage rise mechanism based on law, which provides a systems guarantee for the normal operation of the system of graded wages based on work posts. Comparing the systems of classification by work post and classification by personnel grade, we see that the former is a more advanced and scientific personnel classification system and that the wage system established upon it is also, inevitably, more advanced and superior. This is more in accord with the demands of the reform of our country's cadre personnel system.

However, the detailed classification of work posts and work requires a well-knit structure, complex procedures, and a major process and will involve a large input of personnel and material and financial resources. It will not be an easy task to carry out a wide-ranging investigation, analysis, and classification of posts. Further, the work post classification system over-stresses the relationship between wages and the "task" and looks lightly on "personal" factors. Wage grades do not change with people; they only change with changes in work. This is too rigid and not beneficial to bringing into play the stimulatory role of wages and motivating people's subjective dynamism. Our country has a long history of classification by personnel grade and we have long advocated "distinguishing between the senior and the junior" and "deciding wages on the basis of seniority." Added to this is the fact that our level of economic development is low, our personnel management work is not complete, knowledge of the law is weak and the phenomenon of "rule by man" widely exists. In such a situation, implementing a standardized classification of work posts and promoting the management of personnel matters on the basis of law will require wide-ranging exploration. The implementation of the system of graded wages based on work posts is certainly not something which can be achieved in the near future.

It is not difficult to see that the second idea has a thorough reform of the cadre system as a precondition. The establishment of a system of graded wages based on work posts is only one aspect of a series of personnel management systems to be based on classification of work posts. It is a completely new reform idea and has a strong hue of idealism.

Although the standpoints of the three ideas for wage reform are different, and they all have their own aspects to recommend them, they also share some common aspects. First, the three ideas try to expand the proportion of other factors in deciding the wage structure. They also open up diverse avenues for wage increases and manifest the different functions of wages. Second, the three ideas all place great stress on the design or transformation of the wage operational mechanism and they require the establishment of wage increase systems, which have as their main aspects promotion steps based on years of service, and balanced comparisons, to guarantee the normal operation of the new wage system. Finally, the three ideas all stress that wage increases

should give prominence to the achievement principle, and in the light of work assessments, the diligent will be rewarded while the lazy will be subject to sanctions. In balancing wage levels, it is necessary to give prominence to the principle of fairness, to realize equal pay for equal work.

I believe that the first and third ideas, on the basis of drawing reference from the work analysis and appraisal used in work post classification, can be used as transitional models in the reform of the wage system in state organs. In particular, the third idea can be used as an initial goal. The second idea, on the basis of drawing in compatible superior elements in the personnel grade classification system, can become the long-term goal for the reform of our country's state organ wage system. Seen from the development trend of personnel management systems in various countries around the world, the two systems of classification by work posts and classification by personnel grade both have strong and weak points and have mutually complementary elements. Thus, our country's state organs should choose a personnel classification system with classification by work posts as the base and with compatible superior elements from the personnel grade classification system being drawn in. With this as the foundation, a system of graded wages based on work posts should be established. This is in accord with the demands of modern personnel management.

## AGRICULTURE

### Liu Zhongyi on Current Agricultural Problems

93CE0070A Beijing JINGJI RIBAO in Chinese  
29 Sep 92 p 1

[Article by Song Honggang (1345 4767 1511): "Agriculture Minister on the Eve of National Day Discusses the Situation—Rate of Overall Agricultural Economy Growth Markedly Quickens"]

[Text] On the eve of national day Minister of Agriculture Liu Zhongyi summarized the 1992 national rural economy. He happily summed it up this way. This year rural areas overcame such unfavorable factors as several serious natural disasters and continuing price falls and difficulty in selling major agricultural products and exhibited stepped up economic reform and overall accelerated economic growth.

Liu Zhongyi first presented the rate of development of the rural economy. This year agriculture can look forward to a good harvest. It is predicted that this year grain and cotton both will fulfill the state plan and oil-bearing crops will nearly fulfill the state plan. The development of several agricultural products that were freed up, such economic crops as cured tobacco, silkworm cocoons, vegetables, and fruits, tends to be very good. Livestock production could maintain 14 years of sustained growth. Overall aquatic product production is predicted to reach

14.6 million tons, an 8 percent increase over the previous year. Total value of output for rural enterprises could reach 1.4 trillion yuan or more, an increase of approximately 30 percent over last year.

When discussing adjustments in the agricultural product mix and the structure of the rural economy, Liu Zhongyi said that appropriate adjustments in the structures of various industries and product mixes leading to the rural economy's taking the initiative have obtained initial results and have maintained the general stability of the rural economy. Various localities with an actual total reduction of grain planting area by more than 24 million mu and expansion of the economic crop area by more than 11 million mu, increased the share of economic crops planted to 18 percent from the previous year's 17 percent, making the mix of grain and economic crops more appropriate. In grain crops, the area planted in long-grained nonglutinous rice, which is comparatively lacking in quality and salability, was reduced by more than 10 million mu, and the share planted in soybeans and high grade paddy was expanded. There also were rather large adjustments this year in the structures of the livestock and aquatic products industries. With many management and rural enterprise developments, the employment structure of the rural labor force changed. It is predicted that this year for the first time the rural labor force absorbed by rural enterprises will exceed 100 million people and reach more than 101.5 million.

Liu Zhongyi also said that science and technology is a greater factor in rural economic growth, that the establishment of agricultural social service systems is beginning to spread throughout the country, that a group of new technologies and new achievements are receiving extensive use, and that science and technology have already become a leading factor in promoting agricultural production and growth of the rural economy. Rural economic areas' opening to the outside has picked up speed beginning this year.

Rural economic results have improved somewhat, turning around the wavering situation of peasant income. Beginning this year, because of the increased force of market orientation and the stepped up pace of adjustment of the rural economic structure, rural economic returns have generally improved, thereby increasing peasant income. According to statistical estimates, in the first half of this year, per capita peasant income approached 400 yuan.

Liu Zhongyi summed up this year's rural economic situation by saying that generally speaking the situation is good and heartening, but at the same time we must be aware that the rural economy, as China's basic industry, still is facing several difficulties and problems. On the one hand, several layers of contradictions piled up over many years still exist. On the other hand, certain new problems accompanying the new situation in recent years await solution. These contradictions and problems are mainly exhibited in the following few aspects.

The first is that the continuing difficulty in selling major agricultural products still has not been thoroughly alleviated. The second is that the exchange relationship of industrial and agricultural products still is a long way from being smoothed out. The prices of several major agricultural products are low and the prices of agricultural means of production are inflated, affecting peasant income and enthusiasm for developing production. At the same time, it is unfavorable to the formation of the socialist market economy. The third is that there is not enough agricultural investment. Investment of funds and means of production especially has all along been rather tight. Agricultural production, especially planting production, lacks adequate developmental reserves. The fourth is that peasant burdens are rather heavy. In quite a few localities there still is the problem of arbitrary collection of fees and arbitrary apportionment.

#### **Agricultural Output Expected To Grow in 1992**

*93CE0070C Beijing JINGJI CANKAO BAO in Chinese  
29 Sep 92 p 1*

[Article by Fan Ping (5400 1627): "Creating the Environment for Adjusting the Structure, Another Bumper Harvest Year—Overall Growth of China's Rural Economy"]

[Text] It has been learned from the Ministry of Agriculture that analysis of this year's Chinese agricultural production and the operation of the rural economy indicates that this year is again a bumper harvest year and the rural economy is exhibiting overall accelerated growth.

It is understood that although this year's Chinese rural planting suffered numerous natural disasters, total yield of grain, cotton, and oil-bearing crops still can be expected to be somewhat higher than last year. Increases in livestock and aquatic products will reach approximately 10 percent, remaining securely in first place in the world. Rural enterprises, called "a new force suddenly coming to the fore," in sales income, taxes, and profits increased by 30 percent in the first half of this year over the same period last year. These outstanding achievements have caused changes in the employment structure of the rural labor force. The excess rural labor force that it absorbed and employed, for the first time, broke the 100 million barrier and increased by more than 5 million over last year.

Because of the accelerated pace of adjustment in the structure of China's rural economy and stronger market orientation, vast numbers of peasants closely watch the market for returns. According to statistics, in the first half of this year, peasant net per capita income approached 400 yuan, a 12 percent increase over the same period last year, and discounting the inflation factor, it could grow by nine percentage points. These data reveal that this year, by adjusting the rural product mix and the structure of the economy, increases in its

economic returns turned around the wavering peasant per capita income of the last three years.

This year China's export oriented agriculture also made a new breakthrough. The rate of growth of export exchange earned clearly picked up. According to incomplete statistics, in the first half of this year, rural enterprise export delivery figures increased by 58.8 percent over the same period last year and increases in high output value reached 21 percentage points. China's aquatic products industry, planting, and livestock products exports clearly increased and the grades of varieties also jumped to a new level. In the first half of this year, China's aquatic products exports reached 145,000 tons, a 9.8 percent increase over the same period last year, earning an export exchange of \$546 million, with a growth rate reaching 54.6 percent.

Minister of Agriculture Liu Zhongyi believes that sustained rapid growth of the rural economy is important for augmenting market supply, stabilizing prices, ensuring smooth progress in intensifying reform, and promoting accelerated development of the national economy. But the operation of the rural economy, China's basic industry, still has problems that have built up over many years and that accompany the new situation. For example, major agricultural products continue to be hard to sell, exchange of industrial and agricultural products is not smooth, agricultural investment is inadequate, and peasants' burdens are rather heavy, directly affecting the peasants' enthusiasm for production. Localities and relevant departments throughout the country can by no means treat these new and old problems lightly.

It has been learned that before the end of this year, the Ministry of Agriculture will be coming out with specific plans and arrangements directed at establishing agricultural social service systems, winter and fall field management, arrangement of next year's production, and stepped up promotion of enterprise development in the central and western regions to advance and assist all localities in solving these practical problems.

### **Coastal Region Abolishes Mandatory Farm Plans**

*93CE0070B Beijing JINGJI CANKAO BAO in Chinese  
29 Sep 92 p 1*

[Article by Zhang Baixin (1728 4102 2450) and Chen Xianfa (7115 0341 4099): "Coastal Region Agriculture Makes Great Strides Toward the Market—Abolishes the Mandatory Plan, Frees Agricultural Product Management"]

[Text] After Guangdong and Hainan totally freed the agricultural product market made up mainly of grain, Zhejiang and Fujian one after the other also announced abolishment or partial abolishment of the agricultural production mandatory plan, and eastern coastal provinces including Shandong and Jiangsu are preparing to reform their grain purchasing and sale systems. This

indicates that China's coastal region agriculture will take the lead in the transition to the market economy.

The coastal region is the most advanced region in China's rural economy and agricultural production. Despite the fact that since reform and opening up the state has successively freed up prices and management in aquatic products, fruits, and livestock, in staple agricultural products such as grain, cotton, oil-bearing crops, silkworm cocoons, tobacco, and cane sugar they have conducted a very highly centralized planned management system, mainly depending on administrative methods to organize production and circulation. In recent years, China's coastal region grain has had successive years of bumper harvest, agricultural product supply has been abundant, peasants' awareness of the commodity economy and ability to support it have increased, and the pace of market development has picked up, providing reliable assurance for across the board freeing of management and prices of agricultural products. Because beginning this year such provinces and municipalities as Guangdong, Hainan, Zhejiang, Fujian, Jiangsu, Shandong, and Shanghai one after another have reformed their agricultural product production and purchasing and sale systems, reduced the mandatory plan, expanded the market economy component, and completely or partially freed up agricultural product management and prices, it has truly oriented agricultural products toward the market.

To orient agricultural products toward the market, several coastal provinces and municipalities have actively adjusted and improved their agricultural structure to meet the requirements of the international and the domestic markets. For a long time, China's planting structure has been rather singular. Economic crops take up only 19.9 percent of the area throughout the country. Although a few provinces along the eastern coast through adjustment generally are higher than the national average, Guangdong Province has only reached 34.9 percent, Shandong Province is 29.3 percent, and Jiangsu is 22.3 percent. Beginning with this year's fall planting, several coastal provinces will appropriately reduce the areas sown in grain crops and expand the economic crops with comparatively higher economic returns such as fruits, vegetables, flowers and plants, and silkworms. In addition, there is an adjustment within agriculture at large with rapid development of the livestock and aquatic products industries. Fresh water fisheries and livestock alone made up two-thirds of Shunde, Guangdong's 1.29 billion yuan in agricultural output value for 1991 and this year this city also dug 10,000 mu in new fish ponds. At the same time, to adapt to changes in the market economy, to make the products that they produce sell well on the market, and to strive to sell them at a good price, peasants actively updated the varieties and produced high quality agricultural products. After learning of the news of the freeing of grain management and prices, the whole Jiaxing City, known as Zhejiang Province's "granary," next year will put forth a great effort to develop "Jiaxing sweet rice" and polished

glutinous rice, and reduce the planting area of early rice. Shandong, China's major fruit producing province, next year will increase its high quality fruit production by 20 percent and weed out some old, poor quality varieties.

Key measures in orienting agriculture toward the market are stepping up market development and enlivening agricultural product circulation. So, several coastal provinces and municipalities are leading the way in concentrating their efforts in market development. Shandong Province's investment in market development in the last five years has reached 1 billion yuan and they have developed nearly 7,000 open markets. Hainan Province has established wholesale agricultural product markets with more than 35 million yuan in fixed assets and 15 million yuan in liquid funds. Shandong Province set up a wholesale peanut market in Weihai, Zhejiang invested 20 million yuan to set up a grain and oil wholesale market in Jiashan County, in Guangdong Province 800,000 peasants entered into an agricultural byproduct circulation zone, and Fujian Province is preparing to set up a 1 million peasant transportation and sale contingent. Through them agricultural products are being oriented toward the domestic and the foreign market. The rate of coastal region agriculture product commodities has now reached 60 percent or more.

Several coastal provinces and municipalities have made a great many rather detailed preparations to orient agricultural products toward the market. They have set up information service networks and provided information to the peasants on domestic and foreign markets. At the same time, they have increased training of scientific and technical personnel and peasants, and adapted their industrial adjustments to new technical requirements. To avoid a tendency to overlook grain production, the government has carried out macroscopic adjustment and control and guidance of grain production. These measures have laid a solid foundation for the establishment of agricultural product markets.

### Zhengzhou Grain Market Reports Current Prices

93CE0070D Beijing JINGJI CANKAO BAO in Chinese  
6 Oct 92 p 2

[Article by Li Haifu (2621 3189 3940): "Information From the Zhengzhou Wholesale Grain Market—Wheat Prices Remain Stable, Miscellaneous Grain Prices Tend To Rise"]

[Text] On the Zhengzhou wholesale grain market after the summer grain harvest, wheat prices remained steady and miscellaneous grain prices continued to rise.

Zhengzhou wholesale grain market information department head Mao Heying explained that the highest price for August grade 3 white wheat was 830 yuan per ton, the lowest price was 810 yuan per ton, and the average price

for the month was 815 yuan per ton, an increase of 0.9 percent over last year's August price, essentially remaining even. The highest price for grade 2 corn was 650 yuan per ton, the lowest was 600 yuan, and the average price for the month was 630 yuan, an increase of 11.5 percent over the same period the previous year. The average price for the month for grade 3 soybeans was 1,825 yuan per ton, an increase of 33.2 percent over the same period last year. The price of grade 3 mung beans was 2,740 yuan per ton, a sharp rise of 9.6 percent over July. Bran and peanuts both had rather large increases. September is still exhibiting this trend.

Trade department's Mao Guoxian's analysis was that according to conventional practice after the wheat harvest, the price would go back down. But the August price of wheat rose a little over July, 0.6 percent, indicating a balance between supply and demand, and it is forecast that the price of wheat will remain steady for a period of time. Corn, soybeans, mung beans, and shelled peanuts in the near future will maintain their present price levels. After fall grain goes to market, they could decline to different degrees.

According to relevant data, the area planted in corn this year was reduced by nearly 6 million mu. Shandong, the main peanut producing province, this year reduced peanut production by one-third. Fluctuations in the prices of corn and peanuts, after the near term, could be restricted by the volume of production. But because the sharp rise in soybean and mung bean prices in recent months caused a larger area to be planted in them in comparison with fall wheat, it is forecast that after the new beans come on the market, the price will go back down.

### Peasants Become Major Purchasers of Farm Machinery

93P30012 Beijing JINGJI CANKAO BAO in Chinese  
22 Sep 92 p 2

[Summary] Since last year, peasant demand for farm machinery has increased steadily, with peasants becoming the major purchasers. According to the Ministry of Agriculture, in 1991 sales totalled 21.4 billion yuan and production reached the equivalent of 36 billion yuan. Although peasants welcome all major categories of machinery, machinery that helps them achieve notable increases in production, such as large- and medium-sized tractors and harvesters, does particularly well.

Last year, the overall power-generating capacity of farm machinery saw a net increase of 6.84 million kilowatts, including 450,000 additional sets of irrigation and drainage equipment capable of generating 1.28 million kilowatts. The production of tillers, windrowers, sprayers, mechanical harvesters, and small tractors also increased by 25, 26.8, 58.69, 29.11, and 12.48 percent respectively over the previous year.

### Most DPP Candidates Stick to 'Independence Card'

93CM0007A Taipei HSIN HSIN WEN  
[THE JOURNALIST] in Chinese No 289,  
26 Sep 92 pp 54-56, 59

[Article by Chen Chien-hsun: "Eighty Percent of the Democratic Progressive Party (DPP) Candidates Still Want To Play the Taiwan 'Independence Card'"]

[Excerpt] [passage omitted] This publication conducted an extensive public opinion survey of the 57 candidates who were nominated or drafted to the Legislative Council of the DPP so far (after the conclusion of its Central Standing Committee session on 16 September), in order to understand the candidates' views on the topic of Taiwan independence.

Of the 57 candidates, 49 people responded to our survey, with the exception of Huang Huang-hsiung, candidate from Taipei Hsien, who said he never expressed his views on any questionnaire-based surveys and refused to respond, and another seven people with whom this magazine had not yet contacted.

According to the respondents, after evaluating this year's political and economic situation at home and abroad, 66.7 percent of the candidates said that it was appropriate to raise the advocacy of Taiwan independence in the year-end election. Their views can roughly be summarized into the following points: 1) The termination of relationship between Taiwan and the Republic of Korea has increasingly isolated Taiwan, and diplomatic issues are closely linked with whether or not state sovereignty should be independent. 2) Most candidates held that if the relationship between China and Taiwan continues to develop in the way it is at present, the moves taken by the CPC and Kuomintang [KMT] will sacrifice the interests of most Taiwan people. 3) The issue of Taiwan independence has been gradually getting clear. Many candidates found from their private visits that the independent sovereignty issue was being slowly accepted by the people. When public policies were discussed with the people, it was found that the topic of national identity aroused attention. Therefore, how to talk about Taiwan independence was the key to the way this question of ideology was turned to be part of people's life.

Those who regarded it as inappropriate to discuss Taiwan independence at the present stage are mainly concerned with two things: checks and balance, and level of the voters' concern about the issue. For example, Legislator Chen Shui-pien considered himself playing the "check and balance card," and attached importance mainly to political integrity and supervision of the government. Legislator Cheng Yu-chen also said that the Legislative Yuan is different from the National Assembly, and there is no need to excessively stress ideology in terms of topics for discussion. Other candidates like Lin Hsi-yao of Yilan Hsien held that the voters would not have great interest in the topic of Taiwan

Independence; as a result, objectively, it was inappropriate to discuss the issue. The candidate from Miaoli Hsien, Huang Shui-ming, also held that local welfare and social policies were more important to the voters. The statistical results showed that 12.5 percent of the candidates considered it inappropriate to appeal for Taiwan independence.

Of the candidates, 14.3 percent remained undecided. For example, Legislator Yu Cheng-hsien said that the issue of Taiwan independence should be determined by the 20 million people in Taiwan, and he would remain committed mainly to public policies. Legislator Peng Pai-hsien said that it depends on the situation. If the international situation develops to the extent that the issue of Taiwan independence becomes a focal point at the end of this year, he will naturally express his opinions on this issue. A candidate for Tainan City, Wu Ching-yao, held that the most important thing to do is for the grass-roots units to serve the people and the issue of Taiwan independence is a matter of different people holding different views. A candidate of the same city, Yang Tse-chuan, maintained: In fact, it makes no difference whether we raise the issue of Taiwan independence or not. Legislator Hsu Kuo-tai also said that even if the issue of Taiwan independence is not raised this year, people know the DPP advocates independence.

Asked if they would include Taiwan independence as one of their political demands, 81.6 percent of the DPP candidates said yes. The only difference was the cleverness in applying tactics.

The tactic that most candidates would adopt is to extend public policies to the issue of national identity. However, from the interpretation of opinions, we discovered that most DPP candidates held that, as the voters placed hopes on legislators, it was impossible for them to fight the election campaign by just upholding the banner of ideology. They must consolidate their policies on addressing basic public issues that are of voters' immediate interests before proceeding gradually to the discussion of state sovereignty.

For the same question, 12.5 percent indicated that they will not list the Taiwan independence issue as one of their political demands. They had their own views. The candidate from Taipei Hsien, Tsai Hsien-chong, claimed that he would not even mention the Taiwan independence issue. He said: "I am fully aware of my role in the election campaign. If no one raises the issue, I will not do so either; but if someone raises it in full length, what is the use for me to raise it again?" The candidate from Chinman Hsien, Weng Ming-chi, added: "This issue does not exist in our constituency." He said: "I think the people of Chinman are concerned about whether or not the government system is democratic and liberal, rather than the pursuit of state sovereignty."

Of the respondents, 6.3 percent remained conservative in attitude. Legislator Hsu Kuo-tai of Taoyuan Hsien stated that he rarely discussed political issues. However

if someone raises the Taiwan independence issue, he would refute. Huang Rui-ming from Miaoli Hsien held that the DPP Central Committee should put emphasis on public policies at present. Legislator Peng Bai-hsien still contended that it would be of significance to talk about this issue at the appropriate time.

The fourth question in the survey asked about whether a definite advocacy of Taiwan independence would increase one's overall vote. The candidates had reservations about their evaluation, and 61.2 percent said that it would not necessarily be the case. The main explanation was that there are vast differences among the residents of different constituency and social stratum, and it is impossible to predict the number of people who have genuine concerns about the issue of state identification. Second, even if the candidates manage to raise their percentage gain of overall votes after airing their political views, it was still difficult to determine whether such result was influenced by Taiwan independence advocacy.

Nevertheless, Lin Chou-shui, candidate from Taipei's northern district, and Chen Wan-chen, candidate from Taiwan Hsien, both have constantly held a clear-cut position on Taiwan independence. Lin claimed that his recent private visits had shown a large number of supporters who favor Taiwan independence, and the advocacy of Taiwan independence was received better than last year. Chen held that her votes appeared to polarize, but in terms of the recent internal and external situation, the votes in her favor were increasing, which would help expand votes favoring Taiwan independence. Those who consider that the Taiwan independence issue could increase the percentage gain in overall votes accounted for 12.5 percent of the total number of candidates.

Another 22.9 percent of the candidates held that Taiwan independence advocacy would not help boost their votes. The candidate from Keelung City, Li Chin-yung, said that advocacy of Taiwan independence is not yet supported by middle-of-the-road voters. The candidate from Taipei Hsien and currently Taipei City Assemblyman, Chou Po-lun, also pointed out that there is a tendency to choose people rather than a party, and therefore, under these circumstances, the more one advocates Taiwan independence does not necessarily mean the more votes one will get. Lin Kuang-hua of Hsin-chu Hsien even believes in Chu Hsien, advocacy of Taiwan independence "will reduce, rather than increase, one's percentage gain of the overall vote."

In regard to voters' receptive level to advocacy of Taiwan independence, candidates views differ. Nevertheless, most candidates said that when visiting the people, since most discussions were focused on issues relating to livelihood, rights and interests, they had little opportunity to talk about the issue of national identity. As a result, they could not evaluate the issue subjectively. This case holds true particularly in counties that are primarily agricultural where the Taiwan independence issue is rarely mentioned. Legislator Wang Tsung-sung

from Nantou Hsien said that the voters' concerns are very real, "matters such as if street lamps break down."

Of the candidates, 64.6 percent considered that is a must for the Party Central Committee to work hard to propagate the advocacy of Taiwan independence in the year-end election. Their reasons are: 1) Since the Taiwan independence issue is on the party's platform, naturally there is no reason not to continue to expound it so as to make the party's position known to all. 2) The Taiwan independence issue was not explained clearly, and was even smeared, in the National Assembly election last year due to the pressing time for electing members and the pressure of the mass media; therefore, the issue should be explained to people this year. 3) As far as making advocacy of Taiwan independence part of people's livelihood, we should refrain from making it a totem. If we express it in a milder way, the people will not necessarily find it hard to accept.

On this issue, 20.8 percent of the candidates had reservations. Judging from their opinions, some candidates held that the Party Central Committee had not done something really helpful to them. Some candidates even said: "In fact, it does not matter what the Party Central Committee advocates."

Legislator Chen Shui-pien indicated that based on the present situation, the Party Central Committee's playing the Taiwan independence card is insufficient to boost the number of votes. The priority concern is the number of seats the party can occupy. Li Chin-yung from Keelung City also said that although the advocacy of Taiwan independence should not be abandoned, tactics should be adjusted. The candidate from Peipei district, Fan Hsien-lu, maintained that the Party Central Committee's pursuit—public policies—has been in fact clear and definite.

This year, the Party Central Committee has stressed public policies all along. What are the candidates' views on last year's main topic, and this year's main topic of Taiwan independence?

Of the candidates, 45.8 percent revealed that public policies have direct influences on people because they are closely related to people's livelihood. The survey showed that no candidate believed that the advocacy of Taiwan independence would influence the public. However, in regard to the optional answer of "equally important" in the survey, many candidates said that these two issues should not be separated from one another, and that they are complementary. Legislator Hsieh Changting said that the combination of Taiwan independence advocacy and public policies was recognized in the declaration of the "Taiwan Welfare State War Front." In addition, Legislator Hung Chi-chang also said that the position of the state is the most important public policy and the two are inseparable.

On the question if the advocacy of Taiwan independence caused a lower percentage of votes captured in last year's election of members of the National Assembly, after

examining the event, 70.8 percent of all the candidates said that it was not the whole story. The reasons can be summarized as follows: 1) The division of constituency into small districts helps the KMT carry out vote-buying activities. 2) The KMT has exploited media violence to distort the image of the DPP. 3) The Party Central Committee fails to stick to its demands, the tactics it adopts are inconsistent; and advocacy of Taiwan independence cannot be explained clearly. 4) The party lacks members with practical experience, and there is disunity among candidates. 5) The party's platform is put forth hurriedly.

However, 10.4 percent of the candidates held that the primary cause for last year's poor performance was the panic among the people caused by the advocacy of Taiwan independence. [passage omitted]

### **Resignation of Finance Minister Intensifies Li-Hao Friction**

*92CM0017A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 292, 16 Oct 92 pp 26-28*

[Article by Ch'en Yu-hsin (7115 5940 9515): "Has Wang Chien-shien (3769 1691 3551) Caused the Tight Li-Hao Relationship To Break?"]

[Excerpts] The relationship between Li Teng-hui and Hao Po-tsun, Kuomintang [KMT] party members and heads of government, is drawn as tight as a lute string. If this analogy is not too far-fetched, then it was Li Teng-hui who not long ago compromised, and did not press for the promotion of the President's Chief of Staff General Chiang Chung-ling [5592 0112 5376] to the four star which avoided a confrontation, and was like playing a tune from the string without breaking it. But when Wang Chien-shien resigned as Finance Minister over land tax proposals, the Li-Hao lute string, however carefully it was played, was bound to snap.

Although the provincial and municipal assemblies demanded that Wang step down, and despite the pressure, it was not the main reason for Wang's resignation as Finance Minister if one examines how the issue evolved. When calls for his ouster reached a fevered pitch, sources close to Wang Chien-shien revealed that he would certainly not resign under pressure. Even though Wang felt strongly about being "an honest official that mismanaged a national affair," he nevertheless casually remarked that "the result is for God to judge."

Li Teng-hui, on the other hand, repeatedly made his views public, slapping Wang Chien-shien on the ear as it were, and put another perspective on the whole situation. It was at a banquet for KMT representatives that Li Teng-hui first cast doubts on basing land tax on the current real estate market value, saying that "the practicality of this is questionable," and again at the banquet for Taiwan's 21 county and city executives where Li criticized some of Wang's views on the issue to be "excessively moralistic, emotional and even political."

Although officials in the President's Office subsequently clarified that Li's comments were not especially aimed at Wang Chien-shien, but in politics at that level, who could have missed the tone of the lute string played by Li, particularly when he said "it's a question of administrative efficiency, not morality," which clearly referred to Wang Chien-shien who has the albatross of "social justice" around his neck.

It was most unusual for Li Teng-hui, as president, to openly criticize a minister in his cabinet. It was also unheard of when Wang Chien-shien countered a few days later by saying that "a society without justice has no future; we cannot deal merely with social reality and not consider justice." From this exchange we can see that the real reason for Wang's resignation was Li's policy opposition.

Originally, it was hoped that Li Teng-hui's "interference would be limited to" the finance and interior ministerial portfolios, but when Li indirectly pressured Wang Chien-shien to resign, the Li-Hao situation had to "start over from scratch" again. What began as a policy struggle has become an institutional turf battle between the President's Office and the Executive Yuan, and it is further escalated to a high-level Li-Hao struggle.

Wang Chien-shien is a trusted lieutenant of Hao Po-tsun, a super technocrat in the nonmainstream wing, and an open advocate of morality in the Hao Cabinet. If Wang resigned as a result of Li Teng-hui's remarks, then Li and Hao were confronted with two possible areas of conflict, one maintaining cordiality on the surface, the other dealing with the reality of a fragile relationship between the President's Office and the Executive Yuan.

The conflict first surfaced over personnel appointments. Although Wang Chien-shien was well liked by Hao Po-tsun, he did not have the respect of Li Teng-hui who thought that Wang tended "to speak without thinking," and therefore distanced himself, which possibly explained why Li spoke critically of Wang in public.

But recently, key people in the Hao Po-tsun's nonmainstream wing are closely examining the political trend of whether Hao will be asked to form another cabinet in February 1993. Their sense of crisis is palpable. If Li Teng-hui already has taken the first step by removing a key player in the Hao Cabinet, then people in the nonmainstream wing can certainly smell a crisis brewing.

Furthermore, if Li Teng-hui had backed down over the case of his favorite General Chiang Chung-ling, the question is would he again compromise over the selection of a replacement as Finance Minister? In terms of Li's personality and past actions, it is hard to imagine that he would compromise once again. [passage omitted]

In addition, the line separating powers and responsibilities between the Presidency and the Executive Yuan is likely to be strained further by the Wang Chien-shien incident. A tacit understanding has existed over the

division of labor with Li being responsible for the defense, foreign affairs, mainland affairs portfolios, and Hao the rest of the cabinet. Although there was cross-over from time to time, both parties generally managed to accommodate each other.

But after the Taiwan Independence Association flap last year, and the Inspection Bureau investigated the incident on campus and concluded that Hao Po-tsun had wrongly accused Sun Chen [1327 7201] and others, Li Teng-hui considered Hao's handling of the matter rash and impulsive, and the separation of powers and responsibilities between the presidency and the Executive Yuan began to be confused. Li has since intervened in several Executive Yuan's policies, and even operationally involved himself in setting the high-level executives conference agenda, turning it almost into a supra-Executive Yuan conference.

Although Hao Po-tsun announced that the Executive Yuan has not yet decided on the land tax proposals, Li Teng-hui proceeded to publicly expound his views and thinking on the proposals, which all but amounted to making policy pronouncement, and which certainly limited the decision-making leeway of the Executive Yuan. This kind of action breached the tacit understanding between the President's Office and the Executive Yuan, and with Wang Chien-shien's resignation, it made things even more difficult for Hao Po-tsun.

In domestic policy matters, Li Teng-hui has been reserved in the past until he got involved in the land tax issue, and in this case, Hao Po-tsun's role of necessity has to undergo some changes.

While Hao Po-tsun's assertive role in the cabinet has not changed at all, he unexpectedly took a low posture on the land tax question, and the only concrete direction he gave seemed to have been his telling Wang Chien-shien and Wu Poh-hsiung [0702 0130 7160] to "shut up" so that the Finance and Interior Ministries would not get involved in the fight.

Hao's unusually low posture might be explained by the complexities involved in the land tax issue, something he could not easily handle himself. That being the case, he might as well watch it from the sideline. But another possibility is that he has been appraised of Li Teng-hui's considered position on this issue, where Li was leaning toward making the current real estate market value as a basis for land tax. This made it difficult for Hao, for if he openly supported his favorite minister Wang Chien-shien, it would put Wu Poh-hsiung in a bind. It would also mean that Hao would have to publicly take a stance against Li. Since Hao opposed General Chiang Chung-ling's promotion before, Hao would have to rack his brain to decide whether to come to another confrontation with Li.

Li Teng-hui did not wait until the 6 October banquet for the county and city executives to make known his clear support for the land tax proposals. He had already said this in private meetings with representatives of people

from different areas, and it was known in political circles. Furthermore, the Finance and Interior Ministries originally took similar positions, but Wu Poh-hsiung later made a major policy switch. It was generally thought that Wu did this after he was appraised from other channels of Li Teng-hui's attitude, and he might even have acted under Li's direction. How could Wu Poh-hsiung afford to stick to his position and risk the opprobrium heaped on him by financial conglomerates?

Because Li Teng-hui intervened in the land tax issue, he put Hao Po-tsun in considerable difficulties but got Wu Poh-hsiung off the hook. Although Wang Chien-shien has the support of some 700 scholars on this land tax issue, he is nevertheless isolated in the political arena. The recognition on his part of the political environment can very possibly be an important reason for his resignation.

If the Wang Chien-shien resignation sent tremors through the political landscape, then in addition to shaking up the Li-Hao relationship, it also caused some damage to Li Teng-hui's personal prestige. This is because in the past Li had used morality to strengthen the base of his government, and if he now insisted that "it is matter of efficiency" in opposition to Wang Chien-shien's "justice" argument, then the people would likely sympathize with the tragic hero Wang Chien-shien. Furthermore, the attitude among the academic circle toward land tax reform has evolved from that of passive "support" in the past to an active "advocacy" role today. It would therefore be quite a blow to Li Teng-hui when these academics in their aspirations turn away from Li. [passage omitted]

#### **Editorial on Trade With PRC, Opportunities, Control**

*93CE0062A Taipei CHING-CHI JIH-PAO in Chinese  
21 Sep 92 p 2*

[Editorial: "On the Opening Up and Control of Foreign Economic Relations and Trade Exchanges Across the Taiwan Strait"]

[Text] Ever since exchanges across the Taiwan Strait have been opened up in recent years, both public and private circles have been concerned about and debating the matter of how to square the mutually beneficial foreign economic and trade relations across the Taiwan Strait with conflicting political relations. Last week's invitation by the Mainland China Commission for Direct Air and Shipping Services across the Taiwan Strait, and the other day's ending of the Mainland Working Conference, seem to show that the government's policymakers have made their current basic policy program one of gradually easing control of foreign economic relations and trade exchanges across the Taiwan Strait in exchange for a "goodwill response" from the PRC government.

But while simply hoping that bilateral economic, trade, and cultural exchanges could lead to a political consensus that would bring a "goodwill response" from the PRC may not be unrealistic, it is at least quite passive. Such tactics will obviously not work to get us more bargaining chips in accordance with the Taiwan Strait exchange principle favored by Premier Hao Po-tsun of "Taiwan taking the lead and the Mainland following along." In fact, Taiwan has to prove its "invincible" might in foreign economic relations and trade exchanges across the Taiwan Strait to force the Mainland to face up to reality and make political concessions.

But in order for Taiwan to acquire an invincible position in foreign economic relations and trade exchanges across the Taiwan Strait, we must first keep our political and economic policies from being controlled by mainland China. We have been forced to acknowledge in recent years that indirect trade across the Taiwan Strait and Taiwanese investment in the Mainland have both been growing at an alarming rate. As much as \$10.5 billion of our 1991 \$13.3 billion export surplus was with Hong Kong (meaning the Mainland). In light of the most recent trend of steady growth in our export trade with Hong Kong and continued decline in our exports to countries, such as the United States and Japan, our 1992 export surplus with Hong Kong is likely to account for more than our whole trade surplus this year. Thus, while the three exchanges across the Taiwan Strait have not yet been completely realized, the political and economic implications of the certain trend of growing mutual foreign economic relations and trade exchanges warrant a careful evaluation.

The growing foreign economic and trade relations across the Taiwan Strait are mutually beneficial, but do not necessarily mean that Taiwan is being controlled by the Mainland, Taiwan's GNP or overall economic might is actually only one-half or even less than one-half that of mainland China's, leaving us certainly in no position to compete. This means that in expanding foreign economic and trade relations across the Taiwan Strait, Taiwan needs to exercise some political control and choice to ensure that we are not controlled by the Mainland.

An examination of the implications of the foreign economic relations and trade developments across the Taiwan Strait shows that some of them are linked to the steadily growing Taiwanese investment in mainland China. Most Taiwanese enterprises that are investing in mainland China are doing so because of the dire straits they are facing in Taiwan, so are exporting their whole domestic plant and equipment through Hong Kong to mainland China, where they are operating as wholly foreign-owned or joint-venture enterprises. Meanwhile, they are still buying their raw materials in Taiwan, exporting them through Hong Kong to mainland China, and manufacturing them for export with local cheap

labor. Most of these Taiwanese manufacturers and business firms are being forced to invest in mainland China mainly because Taiwan's operating climate of high wages and real estate prices is making it impossible for them to continue to make profits here. While they generally cannot return to Taiwan whether their investments succeed or fail, they have shut down their operations in Taiwan and shifted them to mainland investments, meaning that they have given up their former land, plants, and workers. But as long as these lost resources are not idle or unemployed, they present no problem to Taiwan's economic growth, because the economic resources left behind by departing manufacturers and business firms are used in other production operations of higher economic value, so that they contribute to industrial upgrading, and do not lead to economic dependence on mainland China by Taiwan.

But while these manufacturers and business firms that have invested in mainland China are mostly small and mid-size labor-intensive enterprises, many other large and mid-size enterprises are also shifting their investments to the Mainland through registering under assumed names in other countries. They either have their greedy eyes on mainland China's domestic markets, or hope to take advantage of Taiwan-Mainland political relations to gain special investment privileges. These enterprises are looking to long-range future prospects as the appetites of Mainland authorities for foreign-funded enterprise investment grows. Their motivations for investing in mainland China are either the Mainland's protected domestic markets, or special privileges and huge profits due to preferential investment policies. As these enterprises not only remain "rooted" in Taiwan, but also retain much influence in Taiwanese political and economic circles, once their investments and profits become controlled by the Mainland, it is not an alarmist exaggeration to say that Taiwan's economic and even political development will become controlled by the Mainland as well. Thus, our future development of foreign economic relations and trade across the Taiwan Strait certainly should not depend completely on a passive, gradual opening up of exchanges in hopes of a goodwill response by the Mainland. Rather, we should set clear standards for investments in mainland China by Taiwanese firms. As to investments in the Mainland by small and mid-size labor-intensive enterprises that have problems in Taiwan, the government not only has no need to control them, but should even adopt a policy of guidance or assistance. But as to investments by large and mid-size enterprises through assumed names in third countries, the government should either clearly prohibit them, or at least adopt a control system of examination and approval in advance and oversight afterwards, so that their products, markets, and investments can be kept in hand. Only in this way can we keep foreign economic relations and trade exchanges across the Taiwan Strait aimed at the objective of Taiwan taking the lead and the Mainland following along.

**Editorial on Preparing for GATT Membership***93CE0096A Taipei CHING-CHI JIH-PAO  
in Chinese 1 Oct 92 p 2*

[Editorial: "Taiwan Should Take an Active and Positive Approach To Preparing for GATT Membership"]

[Text] The GATT Council has finally approved Taiwan's application for GATT membership and our establishment of a working group to take part in all GATT meetings and activities as a quasi-member and observer. This difficult achievement has written an important page in Taiwan's attempt to open up some international foreign economic relations and trade space. In light of the various difficult consultations and negotiations to come, everyone throughout Taiwan, as well as all ministries and commissions, should take an active and positive approach to the preparatory work, so that we will be able to join the GATT successfully with teamlike cooperation.

Ever since we applied for GATT membership on 1 January 1990, Mainland political obstruction has always revolved around the name issue. While our Ministry of Economic Affairs' National Trade Office had continued to pay a lot of attention to making progress in all GATT activities in these two years or so, by holding regular reciprocal discussions and mobilizing as much international support as possible, we had apparently made no procedural progress toward GATT membership. Even though we focused a lot of effort on explaining and sticking to the name issue, our "productive forces" in this stage were obviously not up to the task.

But as we have entered the stage of setting up a working group to negotiate substantive issues, our public focus has naturally returned to the possible shocks to and impacts on Taiwan of GATT membership. So it is not unusual to hear arguments, such as "while GATT membership may have some benefits, it will come at a very high cost to us." If such views proliferate to the point of stirring up nationalist sentiments, they might bring pressure to delay the progress of our GATT membership negotiations, which would certainly not be in keeping with the long-range interests of Taiwan's trade and industrial policies. This needs to be pointed out clearly as a warning to us all.

The view that all of our existing domestic industrial policies are already in line with GATT standards, so that whether we acquire GATT membership or not will not have much of an industrial impact on us, does not tally with the facts, so is inadvisable. On the other hand, the argument that GATT membership will cause too great of a shock that will be greater even than its benefits is similarly divorced from reality. As this organization already has 103 member countries, GATT membership being more detrimental than beneficial is a violation of common sense. So the more balanced and realistic view should be that while GATT membership may be a shock to a few industries, even to the point of being unbearable, its overall benefits will necessarily exceed individual industrial adjustment costs. Of course, all of this remains premised on our

acquiring GATT membership as an independent and sovereign tariff territory. It would be another matter if we were forced to accept GATT membership as a colony under the Hong Kong-Macao pattern or as a local government. This means that our negotiating objective should be mainly to strive for enough time to adjust our industries that will be impacted the most to reduce the inevitable adjustment costs, instead of allowing them to continue operating under conditions that are out of keeping with GATT practices. This should be our primary set objective for future negotiations, without which the unfair allocation of industrial benefits will lead to increased internal dissension that will be detrimental to the coming negotiations.

With this knowledge in hand, we can go on to look into individual industrial problems. The possible shocks to individual industries will come mainly from the more open industrial climate. In other words, the pressure from foreign industrial competition is likely to grow through industrial policy adjustments. Which industries and manufacturers will this actually affect? It is generally acknowledged that the impact of higher tariff or non-tariff barriers will be greatest on industries, such as automobiles, iron and steel, cement, banking, transportation, intellectual property rights, and farm products. Most of these industries produce for domestic markets, where manufacturers are distinctively large. There will be an extremely insignificant impact on small and mid-size enterprises that produce mainly for export, where GATT membership can exclude unfair foreign treatment, so will have a positive impact.

While large manufacturers that produce for domestic markets are likely to be affected the most, their better operating qualifications and necessarily stronger capability to sustain shocks, in addition to opening up to the outside world naturally also opening up domestic operations, which will provide large manufacturers with more opportunities for cross-industrial diversified operations, mean that after weighing its pros and cons, GATT membership will not necessarily have too great of a real negative impact on them. In addition, as domestic markets can be opened up only through marketing networks, where foreign manufacturers often must adopt the noncompetitive tactic of cooperating with domestic manufacturers, the real competitive threat is expected to decrease. This may apply to domestic durable consumer goods industries.

On the other hand, our most longstanding domestic industrial policy problem is the uncertainty of the adjustment time process. As to either policy adjustment or open-policy implementation, the greatest defects will be in overall planning and setting of timetables in advance. In our negotiations with foreign countries, if we can acquire adequate time for adjustment on one hand, while establishing a policy-conversion timetable on the other, we will be able to sharply reduce the risks of industrial policy uncertainty, which benefit should not be seen as insignificant.

In short, while GATT membership is bound to have an individual impact on some industries or manufacturers,

those affected will generally be large ones with better constitutions and more capability to sustain shocks, and will share in the open benefits, with industrial policy uncertainty likely to be reduced, so that the overall impact will certainly not be as pessimistic as they might imagine.

But to reduce the cost of adjustment, all ministries and commissions will have to renounce their departmental selfishness, with hopes for success being premised on a high degree of coordination and integrated teamwork operations. In light of this, we are recommending that the GATT membership working group act pragmatically and show the maximum cooperative spirit, so that its "foreign trade memoranda" and negotiations with key member countries will be of maximum national benefit.

In addition to the abovementioned essential preparations, we must also make advance provisions for the following three matters: 1. Ways to standardize Taiwan-Mainland economic relations and trade contacts. 2. Ways to adjust or completely eliminate our foreign exchange control (especially for foreigners) after our banking is opened up on a large scale. 3. Ways to

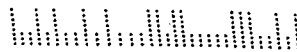
develop what is useful and discard what is not in our past mostly "bilateral" foreign economic relations and trade negotiating stance and replace it with a "multilateral" negotiating strategy. As to standardizing Taiwan-Mainland economic relations and trade preferences, while GATT articles (such as 21 or 35) can be invoked to help in the process, it will hinge mainly on the manipulation and interaction of Taiwan-Mainland political factors, with time being a key variable in its possibility or final resettlement. As to changes in our foreign exchange control system, we will need a foresightful and well-planned timetable, instead of further ambiguity. Finally, as avoiding bilateral negotiations will involve our longstanding custom of regarding foreign economic and trade relations as diplomatic bargaining chips, our foreign relations departments should first make good psychological preparations to prevent this from becoming a side-issue impediment. In short, we cannot treat our GATT membership preparations lightly, but rather should begin with psychological and conceptual adjustments, and proceed very carefully.

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