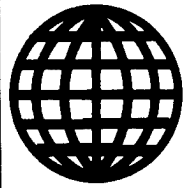


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# ***JPRS Report***

# **China**

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## GENERAL

### Prospects for U.S.-European-Japanese Coordination

HK0708062990 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 14, 16 Jul 90 pp 24-25

[Article by Lin Huisheng (2651 2585 3932): "New Trends in U.S.-Japanese-European Tripartite Coordination"]

[Text] Although the coordination has just started, it has gained great momentum. The trend of the three leading powers to exert influence on the world merits attention.

In early July, the Western nations held two important meetings: the NATO summit held in London on 5-6 July and the G-7 summit held in Houston on 9-11 July. The NATO summit is its first meeting since the drastic changes in East Europe. In June, NATO invited Japan to attend a symposium on Asian-Pacific issues. Moreover, during his first visit to NATO headquarters on 3 July, Japanese Foreign Minister Taro Nakayama told NATO Secretary General Manfred Wornat that Japan supports a unified Germany as a member of NATO. Before the end of the year, a European Security Council [ESC] summit will also be held in Paris. Japan will attend the summit for the first time. The frequent meetings within such a short period between heads of state of the United States, West Europe, and Japan give us much food for thought. It indicates a new trend in the development of the world situation, that is, drastic changes have taken place in the Soviet Union and East Europe, the old balance has been smashed, and a new structure has not yet taken shape in the world. The United States, West Europe, Japan, and other major capitalist countries are trying to establish a new world order to be led by the three. Moreover, they have started adopting major policies and moves in this regard.

#### Ideas

On 8 January, Japanese Prime Minister Kaifu wrote a letter to President Bush before his visit to Europe in which he expressed his views on the East European situation and his intention to visit Europe. Figures from the Japanese Ministry of Foreign Affairs said that the prime minister insisted on establishing a new world order with Japan, the United States, and Europe as the leaders. Whether this will be successful or not depends on making the international community in the 1990's more peaceful and prosperous. Later, Kaifu delivered a speech in Berlin, comprehensively explaining Japan's so-called "new Europe policy." He said that one of the three main pillars of the policy is "close ties between Japan and Europe and the coordination of policies between Japan, the United States, and Europe." In May, Shoichi Kuriyama, Japanese permanent vice foreign minister, wrote an article saying that "the responsibility of establishing a new international order should be jointly undertaken by Japan, the United States, Europe,

and other advanced democratic countries; and coordination between Japan, the United States, and Europe is the key to world peace and prosperity in the future." "It is a basic topic of Japan's current diplomacy to coordinate with the United States and Europe on the one hand and undertake international responsibility on the other." Earlier this year, the United States also proposed its tentative new policy of "new Atlanticism" toward West Europe and "global partnership" toward Japan. During his talks with Kaifu in March, Bush once again stressed that "the United States, Europe, and Japan should carry out more frequent political consultations." West Europe also adopted a positive attitude toward coordination of the three powers. Howell, chairman of the British Lower House's Foreign Affairs Committee, delivered a speech at the end of January advocating that the "the world dominated by the superpower structure" should move toward a U.S.-European-Japanese "tripartite structural world." During his visit to Japan in mid-April, French Defense Minister Chevenement expected "Japan to be further involved in the major issues affecting the world." This is tantamount to drawing Japan into the U.S.-European coordination across the Atlantic Ocean.

Under the guidance of this policy, the move toward U.S.-European-Japanese tripartite coordination has been further enhanced. On the policy toward East Europe, the United States, Europe, and Japan first proposed the establishment of a "European Rejuvenation Development Bank" based on the 24 Western industrial nations making overall arrangements for aid to the East European countries. Then, the financial sources of the International Monetary Fund were increased by 50 percent in early May to meet the "increasing need for credit by the East European countries." Not long ago, Japan and the United States decided to establish a "political and military consultative organ" whose members included the U.S. secretaries of state and defense and the Japanese prime minister, director general of the defense agency, and other senior officials. The organ would hold annual meetings to discuss the Asian-Pacific strategic situation, Japanese-U.S. military relations, world environmental protection, and other issues. As both Japan and the United States were worried that the intensifying trade frictions since the beginning of this year would harm the ally relationship between the two countries, they held several rounds of structural consultations in an attempt to coordinate their economic relations. To enhance coordination, Japan and Europe resumed on 29 May the ministerial-level meetings between Japan and the European Community which were suspended for three years. A spokesman for the EC said "it will be a milestone in strengthening political and economic relations between Japan and the EC."

It is noteworthy that NATO specifically invited Japan in mid-June to attend a meeting of senior diplomatic and defense officials and some experts of the United States, Europe, Japan, and other countries to discuss Asian-Pacific issues. NATO held such a special meeting for the

first time in 40 years. This was also an official meeting to which NATO invited Japan to attend for the first time. Following that, Japan was invited to attend for the first time the NATO summit held in early July. Experts believe that the West is attempting to increase the functions of NATO and the U.S.-Japanese security system. They also have the strategic idea of linking the two through a certain form.

#### Cause

The strengthening of U.S.-European-Japanese coordination is a new essential trend which appeared under the circumstances of a decline in the Soviet Union's strength and influence, a disintegration of the two-tier U.S.-Soviet structure, and the rapid development of multipolarization in the world situation. It has the following basic meaning: First, develop the so-called "victorious" achievements attained by the West in the cold war and establish a new world order with the predominance of Western capitalism; second, prevent intensification of contradictions between the Western capitalist powers when the "threat from the Soviet Union has declined"; and third, give more play to Japan in the world's political affairs, particularly in Europe, and at the same time enable Europe to gradually get involved in Asian-Pacific political affairs. This trend indicates the reality of the change in economic strength and position within the Western countries under the law of uneven political and economic development of capitalism as well as the need to maintain stability within the Western Alliance.

Tremendous changes have occurred in the European situation. While celebrating with joy the "victory" of the West in the cold war, the Western countries are also worried about the increasing contradictions and differences within the West in the new situation. This is the main reason for them to strengthen coordination. Following the tentative idea of a "common European home," the Soviet Union recently proposed a new European security idea of a "great European committee" to meet the needs of West Europe's deep-rooted concept of "Europe for the Europeans" and to sow discord between the United States and Europe. However, there are still sharp differences between the United States and Europe on the future new structure of European security: The United States and Britain insist on giving further play to NATO; France proposes strengthening the EC; and West Germany wants to strengthen the ESC because it is eager to solve the external problems of German unification. The Soviet Union has always stressed the role of the ESC. The contradictions and differences within the West will inevitably weaken their position in dealing with the Soviet Union.

The current focus of U.S.-European-Japanese coordination is Europe. The United States and Europe want to make use of Japan by introducing it to European politics. In this regard, it corresponds to the reality of Japan's increasing economic strength. Moreover, they intend to bring Japan's economic strength into the overall strategic track of the West. Japan is currently one of the countries

from the West with the highest favorable balance of trade and most foreign exchange reserves. Meanwhile, it is also a country that has undertaken the fewest international commitments. In today's drastically changing world, a distinct characteristic of the developing international situation is that the role of military strength is declining while that of the economy is increasing. Both Japan and Europe have recognized this point and made use of it. With its sound economic strength as the lever, Japan attempts to become a "political power" in the world. However, the United States and Europe want Japan's economic strength to better serve the overall interests of the Western Alliance.

Moreover, mutual political utilization and restriction, and mutual economic dependence and competition constitute an essential factor in U.S.-European-Japanese coordination. To maintain its status as a world power and its leadership role in the Western Alliance under the situation of its relative decline and the rapid development of world multipolarization, the United States increasingly needs the coordination of European and Japanese political and economic strength. Deeply worried about the prospects of German unification, West Europe, particularly Britain and France, want the United States and Japan to contain the unified Germany. On the other hand, Japan attempts to make use of U.S. and European economic dependence on it to gain more ground in the European market and to use vigorous participation in European affairs as the springboard to become a "political power" in the world.

#### Prospects

Although the strengthening of U.S.-European-Japanese coordination has just started, it has gained great momentum. Generally speaking, it is unlikely that the United States, Europe, and Japan can establish a "supra-NATO" organ or connect NATO and the Japanese-U.S. security structure in the form of a treaty. It may be possible to make full use of, transform, and expand the existing coordination mechanism. The possible forms include:

1. The establishment of a "club of rich nations" mechanism based on the G-7 summit. The annual G-7 was originally a temporary forum to discuss and resolve the economic problems of the Western nations. However, it has changed and become a "club of rich nations" mechanism. Apart from discussing economic problems, it also discusses political issues. Besides internal issues of the West, it is also involved in more external issues. Permanent expert conferences or groups may also be established under the summit in the future to frequently carry out coordination of policies.
2. Invite Japan to join the NATO summit and ESC and form a U.S.-European-Japanese security coordination mechanism. Since June, Japan has already participated in NATO activities. Following the conclusion of the NATO summit, it is likely that Japan will send permanent observers to NATO headquarters. Later, Japan will

attend various conferences of the ESC and become a de facto "first Asian member nation of the ESC." As a result, the United States, Europe, and Japan can coordinate their position on the establishment of a new European security system and also carry out consultations and discussions on their global military and security policies.

3. Propose that Japan and a unified Germany become permanent members of the Security Council and deprive the permanent members of their veto power so that the West constitutes the majority in the Security Council and the United Nations can be better utilized by the West. In recent years, there has been an increasingly strong voice in the West which proposes that Germany and Japan become permanent members of the Security Council. At a time when the United Nations has difficulties with expenses, it is more likely that Germany and Japan will make use of their financial superiority to join the Security Council.

Viewed from the developing trend, when tripartite U.S.-European-Japanese coordination becomes a regular mechanism, it will play a certain role in maintaining a balance of interests and easing the contradictions within the Western nations, containing and exerting pressure on the Soviet Union, and threatening and meddling in the affairs of the many Third World countries. Many countries have heightened their vigilance against the dangerous tendency of the United States, Europe, and Japan to use their coordination to meddle in the internal affairs and harm the interests of other countries. Meanwhile, it should be noted that competition between the United States, Europe, and Japan has increased and that coordination can only mitigate their contradictions to a certain extent but cannot resolve their conflicts of fundamental interests. Thus, their coordination will be limited.

#### **Soviet, Japanese, South Korean Relations Viewed**

*HK0708044390 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 14, 16 Jul 90 pp 22-23*

[Article by Wang Lan (3769 5695): "Subtle, Mutual Competition Among the Soviet Union, Japan, and South Korea"]

[Text] In 1989, the Soviet Union took the diplomatic offensive in Asia by improving its relations with Japan and South Korea. Its major objective was to absorb capital and technology from Japan and South Korea which it badly needs. More than a year has elapsed, however, and there has not been much progress in Japanese-Soviet economic relations. In stark contrast, the Soviet Union and South Korea have not only made remarkable progress in economic relations, but also made breakthroughs in their political relations.

#### **Slow Progress in Soviet-Japanese Relations**

The slow progress in Soviet-Japanese economic relations is attributable mainly to the barrier which they have

difficulty breaking through: namely, the issue of the northern territories. With strong economic backing, and convinced that the Soviet Union will have to ask its help, Japan demands that the Soviets first return the four northern islands before developing economic links. In view of its most immediate interests, the Soviet Union softened its stand a little at the beginning of the year. Nevertheless, its attitude has recently toughened. On 27 April, Gorbachev delivered a speech in IZVESTIYA saying: "Our country has no surplus territory, and we still uphold the stand of the Helsinki Agreement: namely, that we recognize the postwar practical stand which includes mutual nonaggression on border areas." In the meantime, the Soviet Union informed Japanese reporters of its intention to officially develop the four northern islands. This has undoubtedly brought talks to a stalemate.

As far as Japan is concerned, it is in keeping with the great trend of world detente to develop its relations with the Soviet Union. Japan also has this need itself. Politically, it hopes to stabilize the Soviet Union, this being favorable to strengthening itself. Economically, it has always fixed its eye on the vast Soviet market. In pressing the Soviet Union for concessions on the northern islands, Japan also considers its strategy.

Japan has always maintained that Soviet military strength poses a potential threat to itself. In recent years, Japan has continually disseminated the "Soviet threat" argument, holding that the disarmament talks between the United States and the Soviet Union over the past year have not touched upon their troops in Asia. Although the Soviet Union unilaterally reduced its troops in the East, they have been upgraded, not weakened, due to the introduction of the modernization program. Therefore, one of Japan's objectives in restoring the four northern islands is to weaken the Soviet military strength in the Far East. Only on this premise can Japan develop its economic relations with the Soviet Union.

#### **South Korea Acts First**

Since No Tae-u became president of South Korea, he has vigorously pursued "northern diplomacy." In July 1988, he made a declaration saying that he was willing to establish relations with the Soviet Union, China, and other socialist countries, so that South Korea will ultimately be able to improve its relations with North Korea. During this time, the Soviet Union also expressed its hope of strengthening relations with countries and regions in the Pacific, including South Korea. Gorbachev himself also clearly mentioned the probability of establishing economic relations with South Korea. Since the 1988 Olympic Games in Seoul, their relations have developed quickly. In April 1989 they set up reciprocal trade offices in Seoul and Moscow. Although they are of a nongovernmental nature, they have in fact opened up the window for dialogue between the two governments. In December both countries established consular relations.

Since the second half of 1989, South Korea has been exploring the probability of establishing diplomatic relations with the Soviet Union, and has been working hard in this direction. The Soviet Union however, still has some hesitancy in this respect, and has to take into consideration its relations with other countries. Therefore, it is in no hurry to establish official governmental relations, while vigorously strengthening the economic exchanges between the two sides. This March, No Tae-u sent Kim Young-sam to the Soviet Union to carry out negotiations on the issue of establishing diplomatic relations. During Kim Young-sam's visit, Gorbachev held secret talks with him. After the meeting, Kim Young-sam said that the two countries would soon establish official diplomatic relations. Moreover, the Soviet Union also said that "no hindrances exist." However, it stressed that there will have to be a process from "quantitative to qualitative change." This June, No Tae-u met with Gorbachev in San Francisco. After that, South Korea said that the two presidents agreed unanimously, that official diplomatic relations would be developed "in the near future," and that they agreed on expanding economic, scientific, technological, and cultural exchange and cooperation.

At present, relations between the two countries are developing well. Economic activities are very brisk and trade volume has increased considerably. Their bilateral trade volume last year more than doubled, reaching \$600 million, and that of this year is expected to exceed \$1 billion. Since the second half of last year, areas of cooperation have included investment, technical cooperation, contracting for engineering projects, cooperation in the exploitation of resources, and others. According to the latest reports from South Korean newspapers, the Soviet Union requested a \$5 billion low-interest loan from South Korea, but it is considering offering a \$4 billion loan instead. The Soviet Union also hopes to further expand economic cooperation, and welcomes South Korean enterprises to invest. It also hopes that South Korea will compete with Japan in developing Siberia and the Far East region.

Outwardly, Japan supports South Korea in its vigorously developing economic relations with the Soviet Union. However, it objects to this inwardly, because this will weaken Japan's appeal to the Soviet Union and will also enable the Soviet Union to apply pressure by using the contradictions between Japan and South Korea. As early as last November, in response to Japan's statement that "no talks on economic cooperation will be held unless the territorial question has been resolved." Yakovlev, secretary of the CPSU Central Committee, made a remark on his visit to Japan, "Is it not equally good to attract West Germany, the United States, and South Korea to develop Siberia and the Far East region?" It seems that the Soviet Union is roping in South Korea to cope with Japan, by using the contradictions arising from the development of its relations with South Korea.

South Korea's economy is mainly export-oriented. However, currency devaluation, labor-capital disputes, and

the great increase in wages, have affected the competitiveness of its export products, thus dealing a hard blow to its export trade. Signs of economic recession have appeared in South Korea. If it uses Soviet resources and occupies the Soviet market, it will be able to find a partial substitute for the American market with which it is gradually intensifying economic friction. This will be favorable to South Korea. Although South Korea is Japan's political ally in northeast Asia, they have culminated enmity through history. The South Koreans have an intense hatred for the Japanese nationality. Moreover, South Korea is unwilling to sacrifice its own economic interests to maintain accord with Japan. Therefore, as long as the Soviet Union and Japan are unable to resolve the problem over the four northern islands, South Korea will not have to worry about Japan, and will act first in developing its relations with the Soviet Union.

#### **'Unprecedented' Changes in U.S.-European Relations**

*HK0108093190 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 13, 1 Jul 90 pp 2-4*

[Article by Ji Yin (1323 1377): "European-U.S. Relations Undergoing Unprecedented Readjustment"]

[Text] **The "Yalta" structure has been smashed and West Europe no longer regards the Soviet Union as a real menace. Political and economic problems have become prominent and the strategic foundation of the U.S.-European alliance has been shaken.**

Now a transition has been effected in the whole of Europe from the "Yalta" structure to a new structure. The East European situation and Soviet-East European relations are undergoing profound changes, as are the West European situation and U.S.-West European relations. The overall readjustment of European-U.S. relations, characterized by the new replacing the old, has started. Such readjustment is unprecedented.

#### **Controversy Over the Blueprint for a New Europe**

When the Berlin Wall was dismantled last year, the United States was immensely proud for a time, believing that it had won the cold war. Now the tune has changed as the United States has realized that the winner is West Europe rather than itself. Thanks to the end of the cold war, the military factor in East-West relations and its role have declined enormously, and the role and influence of the United States have also weakened correspondingly. The leading position of the United States in the Atlantic alliance has been fundamentally shaken.

Over the past 40 years or so, the leading position of the United States was established on two main pillars: First, U.S. military protection of West Europe; and second, U.S. economic superiority over West Europe. Regarding the two main pillars, drastic measures have been taken against one while the foundation of the other has been shaken. Under the situation of confrontation between

NATO and the Warsaw Pact in the past, West Europe, which was subject to Soviet military threat and political pressure, had to depend on U.S. military protection, particularly nuclear protection. As West Europe no longer regards the Soviet Union as a terrible menace, it has greatly eased its dependence on U.S. military protection. For example, West Europe was always sensitive to reduction of U.S. military forces in Europe. Now West Europe has taken a calm attitude and also welcomed the U.S. proposal to drastically reduce its military presence. This is a logical result of the changes in East-West relations and the European political situation. The joint efforts made to resist the Soviet Union, a coagulant of European-U.S. relations, have weakened, thus shaking the strategic foundation of the Atlantic alliance.

As for U.S. economic superiority, it is something of the past. As an integrated unit, the European Community [EC], which is capable of sitting down at the table as equals with the United States, has increasingly become a competitor of the United States. At the G-7 summit last July, the United States consented to the EC taking the lead in offering economic aid to Eastern Europe. This indicated the increasing economic strength of Western Europe and the corresponding decline in the U.S. economic position. Thanks to U.S. military protection in the past, Western Europe paid a price and made economic and political concessions. As Western Europe has eased its dependence on U.S. military protection, it is no longer willing to pay the price. As a result, European-U.S. economic frictions have become white-hot. Moreover, the nature of the economic frictions has also changed. The dispute over open market and protectionism in the past was manifested mainly in the trade wars that focused on a number of commodities, such as the frozen chicken war and the copper and iron war. Now it has exceeded the scope of a trade war and become a regional competition between blocs. It involves the economic interests of various areas and is also related to political interests.

Focused on control and decontrol, European-U.S. relations have always been full of contradictions. On the premise of recognizing the leading position of the United States, Western Europe has always tried to obtain an independent position and right to speak in the alliance so that its political position could match its growing economic strength. As tremendous changes have occurred in the European situation today, European-U.S. contradictions have exceeded the scope of a control and decontrol struggle, smashed the "Yalta" structure, and brought an end to rule of Europe by the United States and the Soviet Union. Now the time to realize Europe's long-cherished wish has come at last. Western Europe no longer holds that the leading position of the United States is natural. Instead of limiting itself to obtaining an independent position in the alliance, Western Europe wants to independently design a new Europe in light of its own interests following the disintegration of the European postwar structure. Of course, the United States is not willing to give up its leading position in the alliance and

will design a blueprint for a new Europe in light of its own interests. Hence, the focus of European-U.S. contradictions has been shifted onto a blueprint for a new Europe.

#### Who Shall Be the Leader?

President Bush stressed that the United States "should continue to exist as a European force with widespread significance, that is, politically, militarily, and economically." While sketching the U.S. blueprint for Europe at the Berlin Journalist Club on 12 December last year, U.S. Secretary of State Baker summarized it as "a new Europe based on new Atlanticism." He regarded NATO, the EC, and the European Security Council [ESC] as the three major organs for moulding a new Europe, in which NATO is principal and the other two organizations are secondary and play a supplementary role. They cannot replace NATO or become its competitor.

Bush said that NATO is a matter of life and death to the U.S. position in Europe. True, the United States can only maintain its leading position in Europe through NATO. For this reason, NATO is still the spindle of U.S. policy toward Europe. For a long time, NATO has played the dual role of the United States exercising control over Western Europe and checking the Soviet Union; moreover, its role in controlling the allies can only be exerted by checking the Soviet Union. As the Soviet Union has lost Eastern Europe and the Warsaw Pact is merely an empty shell, the United States has had to replace its policy of checking the Soviet Union with "overhead containment." Hence, it will be more difficult for the United States to exercise control over Western Europe through NATO.

Although the role of NATO is flagging in Western Europe, it is believed that it can still play a certain role of stability at a time when drastic changes have taken place in the European situation. The existence of NATO will be necessary for a period of time as it can prevent relapses in the Soviet situation and check West Germany. As to the roles of NATO, the EC, and the ESC, it is obvious that Western Europe pays more attention to the latter two in which Europeans account for the majority. By and large, a new Europe will be established on the basis of the EC. Although a new Europe cannot reject the United States, the latter cannot continue to play a leading role. A fundamental question is: How long can NATO exist? Western Europe holds that the existence of NATO is transitional and a new European security setup should be sought outside NATO to replace one day the outdated cold war structure based on the two major blocs. Hence, the consensus reached between Europe and the United States on maintaining the existence of NATO is also transitional.

#### The Position of the EC in the Future

To date, Europe has not yet proposed a clear and complete blueprint for a new Europe. With the 12 federal

nations of the EC as the core, French President Mitterrand proposed coordinating the loose "European Federation" ideas of both the East and West. Although this proposal is not accepted by all West European countries, the establishment of a new Europe on the basis of the EC is the common guiding ideology of Western Europe.

For a long time, military issues, including military confrontation and the arms race, have occupied a key position in East-West relations. With the end of the cold war and the decrease in East-West confrontation and increase in their cooperation, political and economic problems have occupied a key position. European military and security arrangements can only be an outcome of political arrangements and changes in the political situation. A new Europe will be established on the basis of political and economic arrangements rather than military blocs. In such a situation, NATO, as an outcome of the cold war and a military alliance, is no longer suitable. However, the role and influence of the EC, as a strong economic entity, increases with each passing day. It is advancing toward the target of establishing a unitary internal market in 1992, which will be attractive to Eastern Europe and play a role that cannot be filled by the United States. West European countries believe that the EC, which was established on the basis of a split Europe, is the only European organization that can play an important role in a unified Europe. The neutral West and North European countries are also drawing close to the EC which is now trying to play a key role in designing a new Europe.

Although the EC is a large economic and trade group, its member nations have a certain degree of political cooperation, coordinating their policies and stands on a number of major international issues. As to the security issue, it is limited to discussion of economic and political aspects of the security issue which do not involve the military. Because of the turning point in the European situation, the EC had to reconsider its integration progress and future plan. The EC is facing a major choice: Deepen or expand? The majority of the countries represented by France insist on accelerating the pace of integration so that the EC can become the core of the whole of Europe and keep a unified Germany firmly within the network of integration. However, Mrs. Thatcher insists on maintaining close ties to East European countries instead of seeking currency and political integration. It seems that those insisting on deepening have got the upper hand. According to the French-German joint proposal, the EC summit held in Berlin on 28 April proposed that the originally planned unitary market and currency alliance should be established on 1 January 1993 and further efforts should be made to develop a political alliance, which would include common diplomatic and security policies. It is still hard to tell whether this target can be achieved, but it shows that, at a time when a new structure is replacing the old one in Europe and the role of the United States in Europe is flagging, the attempt for political alliance which failed on numerous occasions in the past is rising

again. The EC is trying to become a political entity from an economic entity so as to play an important role in molding a new European structure.

Thanks to the progress of integration of the EC and increasing economic and political influence, there have been some changes in U.S. policies. In view of the EC's target of setting up a unitary internal market in 1992, the United States sought measures two years ago to deal with "economic barriers," that is, the problems in European-U.S. economy and trade. Now the development of the EC has threatened the economic interests of the United States as well as the status of the United States in Europe in the future. On the one hand, in molding a new Europe, the EC competes with the United States politically; and on the other hand, because of the drastic reduction in U.S. nuclear and conventional forces in Europe and the economic forces of the United States being excluded further from Europe, it will be very difficult for the United States to maintain its political influence in Europe. For this reason, the United States has to recognize the EC as an equal partner, economically as well as politically, and on this basis, plan to establish new relations with the EC.

Apart from regarding NATO as an important link between the United States and Europe, the United States also started establishing "structural and consultative relations" with the EC and building a new bridge across the Atlantic Ocean. This new strategy of the United States has important political significance: The objective is not limited to merely maintaining its economic and trade interests. More important is that the United States can instill a new Atlanticism into the progress of the West European alliance and obtain the right to speak in molding a new Europe. West Germany has agreed to establish a regular consultative system with the United States from the head of state to the ministerial level. However, it opposes the United States becoming the 13th member nation of the EC.

#### **There Is No Sign of a New Security Structure Yet**

Under the two-level structure, the West European security system does not constitute a utopian independent system. Instead, it is dependent on the United States and is actually a branch of the U.S.-Soviet security system. Because of the drastic change in the situation in Eastern Europe, the approaching unification of Germany, and unification of Europe which is on the agenda, changes have been effected in the strategic security environment of Western Europe. Thus, it is necessary to relevantly readjust the West European security and defense system that is based on U.S. military protection.

Apart from striving for a greater role in NATO, Western Europe is also attempting to explore a new European security structure from two aspects. One is for Western Europe itself to move from the current limited, loose

defense cooperation to a closer, comprehensive cooperation and to gradually establish a West European independent security system; another is to seek a new European security arrangement within the scope of the ESC to replace the old system based on the two major blocs. At the time when East-West military forces are moving toward a low-level equilibrium and the split in Europe is coming to an end, it is a major issue to determine whether the establishment of a West European independent defense system or giving play to the pillar role of NATO in Europe is appropriate. It seems that the common security policy sought by the EC is focused on strengthening Western Europe's right to speak on the question of European security. Its political significance outstrips the military one.

The ESC is the only European organ composed of all European countries, the United States, Canada, and the Soviet Union. Some West European countries, including the neutral West and North European nations, insist on establishing a new European security system within the scope of the ESC. As the United States is worried that the European security system might replace the security structure of NATO, it has reservations on the issue, believing that the system can only play the role of a small-scale United Nations at the most. If not properly handled, it might become another League of Nations which cannot ensure European security. What is the structure of the new European security like? There is no general picture of the issue yet. This is still an important unknown factor in the development of the European situation. However, we can be sure of one point: On the question of European security, the voice of the United States will be weakened while that of West Europe will be enhanced.

Western Europe depends on the United States while the latter controls the former. This is the old European-U.S. relationship based on jointly checking the Soviet Union. This relationship is gradually moving toward partnership established on a new basis: That there is a consensus in U.S.-European politics and economy which requires cooperation, and there are also contradictions between the two which require competition. Europe and the United States hold identical views on shifting the political and military demarcation line eastward and expanding the front of the West. There is also contradiction between the two, as Western Europe wants to become the master of a new Europe while the United States wants to continue to play a leading role. On the whole, the contradiction between Europe and the United States is profound. As each needs the other, cooperation will still be the essential and basic trend.

#### Status of U.S.-PLO Talks Analyzed

HK0608143790 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 14, 16 Jul 90 pp 20-21

[Article by Shi Jian (2514 3386): "Before and After the United States Discontinued Dialogue With the PLO"—first paragraph is SHIJIE ZHISHI introduction]

[Text] At a time when the Israeli ultrarightists had set up a cabinet and the Palestinians in the occupied territories

were being massacred in cold blood, the United States, under the clamor of its Congress and pro-Israel Jewish groups, did something to the detriment of Palestinians. The peace process in the Middle East met with a heavy blow.

Some recent occurrences have come in the way of the Middle-East peace process. On 20 June, President Bush declared a breakoff of the U.S. dialogue with the PLO. This event evoked strong repercussions in the Arab world and the international community. This negative decision made by the United States is generally considered throughout the world as a heavy blow to the peace process in the Middle East.

The United States justified its move by saying that the PLO had failed to take effective measures to solve the recent terrorist-connected problems typified by the attack that happened at the beaches of Tel Aviv on 30 May.

Information has it that six speedboats of the Palestine Liberation Front attacked two beaches in the south and north of the Israeli capital Tel Aviv. The United States maintained that this was a terrorist activity from the sea and that the Israeli "populace was the target of the attack," requiring the PLO to openly condemn this attack and mete out punishment to the culprits. Israel and pro-Israel Jewish groups in the United States seized the opportunity to make a great to-do about it, demanding the United States break off its dialogue with the PLO. On 31 May, Palestinian President Arafat delivered a statement, making it clear that the PLO armed forces had nothing to do with the attack and expressing his surprise at the reaction of the United States. On 11 June, the PLO headquarters issued a formal declaration, condemning all forms of violent military operations aimed at the populace on the one hand and, on the other, making it clear that they would continue to seek peaceful solution to the Arab-Israeli dispute through negotiation. At the same time, Egyptian President Mubarak and other leaders of the Arab countries kept warning the United States not to break off its dialogue with the PLO. King Hussein of Jordan pointed out on 10 June that breaking off the dialogue would pose a greater danger to the Middle East peace. However, the U.S. Government refused to accept the declaration of the PLO as adequate in meeting its conditions and decided to break off the dialogue.

The dialogue between the United States and the PLO started not long before Reagan left office. In the past few years, the PLO, taking advantage of the ever-developing uprisings of the Palestinians on the occupied territories, has taken a series of flexible and practical measures. After Palestine was founded as a country in November 1988, the PLO accepted Resolutions 242 and 338 of the UN Security Council. They abandoned terrorist activities, acknowledged the existence of Israel, and made clear their position of seeking a political solution to the

Middle East problem and the problem of Palestine. Arab countries and the international community appraised highly the initiative that PLO had shown in their peace-making effort, and urged the United States and Israel to change their own stands. On 16 December 1988, the United States modified its formerly rigid policy toward the PLO and started direct dialogue with the latter. After he became the host of the White House, President Bush went on to adjust the U.S. policy toward the Middle East, set the guideline of "taking minor steps" in settling Middle East problems, and decided to continue the U.S.-PLO dialogue. Within a period of 18 months, as many as 20 rounds of dialogue were held. Although no substantial progress had been made in settling major problems through the dialogue, the two sides, which had always kept away from each other, found their channel for the direct exchange of views and promotion of mutual understanding. This is of positive significance to the peace process in the Middle East and has won applause and support from Arab countries and the international community.

The international media and the observers of Middle East issues believe that the breakoff of U.S.-PLO dialogue bears some relevance to the recent changing situation in the Middle East. After the rightwing government was set up in Israel, it stuck to its uncompromising policy toward the Palestinian uprisings and Arab-Israeli peace talks, making the Middle East situation more complicated and elusive. The U.S. Congress and pro-Israel Jewish groups became active, constantly pressuring the U.S. Government to continue to side with Israel in its policymaking. This is why some people think that breaking off the dialogues was a gift to the new Israeli Government from the United States. What the United States did has undoubtedly fanned the flames of the arrogance of the Shamir government and placed a new obstacle before the peace process in the Middle East.

Just as pointed out by the media in the Arab countries, what the United States did was turn back the wheel of the Middle East peace process and its consequences soon found their expression. On 11 June, the PLO Executive Committee held a special meeting in Baghdad to discuss the suspension of the U.S.-PLO dialogue. The PLO concluded that the United States is now carrying out a policy hostile to Palestinian people and the PLO. For this reason, the PLO decided to discontinue any contact of Palestinian officials with U.S. representatives or special envoys and the Israeli Government. In the eyes of the media, Arab-Israeli peace talks have once again reached rock-bottom.

Arab countries, one after another, issued statements condemning the United States. They sharply pointed out that the United States, in effect, instigated Israel to oppress and suppress Palestinian people. At a time when people were still indignant about the brutal massacre of the Palestinians in the occupied territories and the suppression of uprisings by the Israeli Army and police, the United States also did something to the detriment of

Palestinians. This makes Arab countries deeply concerned about the future Middle East peace process and the aggressiveness of the Israeli rightwing forces. The League of Arab States suggested that the United Nations hold a special meeting to discuss the ever-deteriorating situation in the occupied territories that had been brought about by the U.S. breakoff of its dialogue with the PLO.

West European countries are also critical of what the United States did. The EEC summit meeting held in Dublin on 26 June expressed concern about the U.S. decision to discontinue its dialogue with the PLO. Many of the heads and foreign ministers of West European countries held that the United States had shown a lack of consideration. They even criticized the United States for having made a serious mistake. The meeting argued that on Middle East issues, all channels for dialogue and negotiation should be kept clear.

Naturally, however, observers also believe that the United States, in order to concentrate its energy on handling European affairs at present, only wants to see that nothing goes seriously wrong in the Middle East, and therefore the U.S. Government is unlikely to leave no leeway for itself. When declaring that the United States had decided to discontinue its dialogue with the PLO, President Bush was positive about the significance of the U.S.-PLO dialogue in the Middle East peace process, expressed his willingness to resume the dialogue at any time, emphasized that any peace process must go under the precondition of ensuring the security of Israel and the rights of Palestinians, and said that the United States wished to see development in the peace process. President Bush and Secretary of State Baker have time and again urged the new Israeli Cabinet to accept the U.S. proposal for an Israeli-Palestinian dialogue.

The international media maintain that would be not only in the interest of the people in the Middle East countries but also for the good of the United States itself if the U.S. Government could resume its dialogue with the PLO at the earliest date, impose enough pressure on Israel so as to effect a change to the latter's position, and take practical measures to propel the Middle East peace process.

#### **Synopsis of Issues Covered in U.S.-Soviet Summit**

*OW0408113390 Beijing BAN YUE TAN  
[SEMIMONTHLY TALKS] in Chinese No 12,  
25 Jun 90 pp 52-54*

[Article by Yang Can (2799 3503): "A Number of Agreements Are Signed, But Differences Still Exist—A Preliminary Analysis of the U.S.-Soviet Summit"]

[Text] Soviet President Gorbachev and U.S. President Bush held a meeting in Washington for four days from 31 May-3 June. During the meeting, the two countries signed 15 agreements, including those on the destruction of chemical weapons, verification of underground nuclear tests, the development of bilateral trade and

cultural exchanges, environmental protection, sea and air transport, and oceanographic and atomic research, issued two statements on a treaty concerning the reduction of offensive strategic weapons and on the conventional disarmament negotiations in Europe, and exchanged views on German unification and other regional issues. Compared with the U.S.-Soviet summits of the 1970's, this meeting reached the largest number of agreements; however, the differences between the two sides on some major issues are very clear.

A treaty on reducing offensive strategic weapons was an important subject of this meeting. In a joint statement, the two countries confirmed the basic content of the treaty on which they had reached agreement; they also indicated that they would continue to hold negotiations on the clauses of the treaty to which they had yet to agree and that they would strive to draft the text of the treaty and to have it signed by their leaders within this year. The main points of the treaty on which the two countries have reached agreement are: Within seven years, the three kinds of strategic vehicles—intercontinental ballistic missiles, submarine-launched missiles, and heavy bombers—which the two sides possess will each be reduced to less than 1,600 vehicles; the nuclear warheads they have deployed will be reduced to 6,000; the weight of missile delivery [dao dan tou zhi zhong liang 1418 1734 2121 2367 6850 6852] each side possesses will be reduced to less than half of what the Soviet Union now has. Air-launched cruise missiles with ranges of over 600 kilometers will be counted in the limited number of warheads as stipulated in the treaty. No limits will be set in the treaty with regard to sea-launched cruise missiles with ranges of more than 6,000 kilometers, but each side will issue politically binding statements on the number of such missiles they may each deploy, and the total should number no more than 880. The treaty will also prohibit the production of new heavy missiles and new missiles carrying more than 10 warheads each.

U.S.-Soviet talks on reducing strategic weapons began in 1982, and the objective of reducing by 50 percent the number of strategic weapons was not set until the Reykjavik summit. So far the treaty has yet to realize the above objective, from which one can see its evident limitations. Some experts in the United States believe that the treaty will reduce about by 30 percent its strategic weapons. The ceiling to be stipulated in the treaty will be quite different from the actual numbers of strategic weapons possessed by each side. The warheads the United States and the Soviet Union now each have are more than 10,000. A large number of warheads are not counted according to the calculations stipulated in the treaty. For instance, each U.S. bomber can carry 20 air-launched cruise missiles, but the treaty counts only 10; a Soviet bomber can carry 12 missiles, but only eight will be counted. In addition, a large number of missiles and warheads that are not yet deployed are not included in the ceiling. The treaty sets no limitations whatsoever on improving the quality of strategic weapons by the two

countries. The United States can still deploy high-precision strategic weapons, develop defensive strategic weapons, and continue to produce/cruise missiles, Trident submarine-launched missiles, and B-2 stealth bombers. The Soviet Union still can continue to deploy mobile missiles, modern submarines, backfire bombers, and cruise missiles. In short, this treaty is to reduce only part of the huge U.S. and Soviet nuclear arsenals, and the strategic weapons the two sides possess after the treaty-stipulated reductions will still account for more than 95 percent of the world's nuclear weapons. So the cold war, characterized mainly by military confrontation, is far from being over as both sides have asserted.

During this meeting, the United States and the Soviet Union also signed an agreement on destroying and stopping production of chemical weapons. The agreement provides: In 1992 both sides will begin to destroy their chemical weapons on a large scale; they will destroy at least 50 percent of their weapons before 1999 and reduce their stockpiles to 5,000 tons each before 2002. They will cease producing chemical weapons after ratification of the agreement by their legislatures. Both sides unanimously advocate concluding a world convention banning chemical weapons.

The United States and the Soviet Union also signed several agreements on improving bilateral relations during the summit, of which the trade agreement signed by the two governments is particularly noteworthy. Because of the extended U.S. trade embargo against the Soviet Union after the war, trade volume between the two nations is so small as to be insignificant. The volume of bilateral trade in 1989 was merely \$5 billion, with the United States enjoying a huge surplus thanks to its grain sales to the Soviet Union. The signing of the agreement paved the way for the eventual granting of most-favored-nation [MFN] status to the Soviet Union. For this reason, the U.S. press believes that the signing of the trade agreement is the primary economic goal of Gorbachev's visit. In the short run, however, this agreement will not have much impact on trade between the two nations. First, there are not many Soviet goods suitable for export to the United States; second, there are conditions to be met before MFN status is granted. Bush already said that he will not ask Congress to grant MFN status to the Soviet Union before it passes laws allowing its citizens free entry and exit. Some members of the Congress even linked MFN status with the Lithuanian issue and the introduction of a market economy.

The military status of a reunified Germany was the issue on which the United States and Soviet Union had the sharpest differences. It was also the focus of contention between the two sides. The United States wants the reunified Germany to be a member of NATO, arguing that this arrangement will be the best guarantee of the security of the various European nations as well as the Soviet Union. But the Soviet Union contends that a reunified Germany should be neutral, to be eventually incorporated into a pan-European security structure. Before that happens, Germany should follow the

"French model," that is, belonging to NATO politically, but not participating in NATO's military organizations. The Soviet Union also proposed that a 35-nation Europe Committee replace NATO and the Warsaw Pact as the permanent security organization in Europe. Differences between the two nations on the German issue will affect progress in the reduction of conventional arms in Europe and become a major problem in their bilateral relations in the days to come.

During the summit, the leaders of the two nations also held informal talks on regional conflicts. The two sides indicated that they should cooperate with each other to ease regional tensions. On the questions of Afghanistan and Cambodia, leaders of the two nations indicated that "free and fair elections" should be held. On the issues of Middle East and Central America, the two sides reiterated their respective stands without making new proposals.

The summit was held at a time when the situation in Europe was undergoing tremendous changes. The many agreements reached by the two sides show that each side has something to ask of the other and they both want to maintain the momentum of detente. Therefore, they both compromised and made concessions. However, the sharp differences between the United States and Soviet Union on Europe and Lithuania will add complexity to their bilateral relations.

## NORTHEAST ASIA

### Japan Seeks Involvement in European Affairs

90CM0347A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 12, 23 Jun 90 pp 13-14

[Article by Chen Jiehua (7115 3381 5478): "Japan Eagerly Seeks Participation in European Affairs"]

[Text] As the curtain is just now going up on the 1980's [as published], Japan's Premier Toshiki Kaifu, disregarding the intense publicity campaign in preparation for Japan's domestic elections, hurriedly flew off on a tour of Europe that saw him visit various countries of East and West Europe. He furthermore selected a location where East and West Europe meet—the same Japanese Embassy in West Berlin that served as such during the former days of the Third Reich—to announce a "new policy toward Europe," namely, "We must actively support the democratization of Eastern Europe, and must assist it in establishing a new order." "Japan can look forward to playing an important role not only in economic but also in political respects." Later, in his policy speech in the Diet in February of this year, he proposed a strategy of "active participation in the construction of the new international order," and explained Japan's European policy against a broader background. This is an important expression of Japan's eagerness to participate in European affairs and of its intention to exercise the influence and play the role of a "politically great nation."

The center of the great changes in the international situation is in Europe, and Europe is precisely the area in which Japan's international influence is at its weakest. To demonstrate Japan's presence in Europe and inject itself in European affairs, Japan has exerted efforts in the following four directions:

#### A. Efforts To Establish a System of "Joint Control of the World" by the Japan-U.S.-Europe Triangle

To conform to the rapid changes in the international situation, Premier Kaifu visited the United States in March of this year and agreed in principle with Bush: Within the framework of a harmonious triangular Japan-U.S.-Europe interaction, to additionally establish a new organization. Later, the U.S. State Department put forward some concrete ideas: Establishment of a system of deputy foreign minister meetings of seven Western countries for frequent and irregular meetings, as conditions warrant, to survey and discuss political and diplomatic affairs and matters of military security. In this manner, a deputy foreign minister meeting will be added to the regular summit meetings and frequent finance minister meetings of the seven Western countries, to provide a forum for contact between the Japan-U.S. alliance and NATO, which will allow intensified contacts and cooperation between Japan and the NATO organization in matters of security.

Japan believes that in the above-referred to "Japan-U.S.-Europe triangle" there are actually only two sides, the Japan-U.S. relationship and the U.S.-Europe relationship. No treaty bond in political and military matters exists between Japan and Europe. In recent years, Japan, therefore, attached greatest importance to its diplomatic relations with Europe. Four months after Premier Kaifu's visit to Europe, Foreign Minister Nakayama visited Yugoslavia, as well as the Czech and the Slovak parts of Czechoslovakia; and during May and June 1988, Premier Takeshita paid two visits to Europe, in particular to the various countries of Western Europe. Japanese diplomatic history has no precedent for so lively a diplomatic activity targeted toward Europe. Its purpose, as Kaifu expressed in a personal letter to Bush before his visit to Europe, is "the necessity to form a new world order with the triangular leadership of Japan, the United States, and Europe." Within this framework, Japan would gain the opportunity to involve itself in European affairs.

#### B. Actively Injecting Itself Into the East European Situation and Encouraging the Changes That Are Now Unfolding There

In his speech in West Berlin, Kaifu stated that Japan hopes that a "new order" will be established in East Europe, in which he perceives the following as Japan's objectives:

In economic respects, to assist East Europe "in carrying out an economic reform, of which the core shall be restoration of the system of private ownership and

development of free market economy." In political respects, to "actively support the democratization of Eastern Europe."

Kaifu said that Japan could play an important role in economic and political respects in the following manner:

1. Financial assistance. Japan is granting Poland and Hungary assistance in the amount of \$1.95 billion; Japan is actively participating in Western assistance to East Europe to the total amount of \$600 million in the plan to create mobility of monetary units.
2. Providing urgent assistance by means of grain supplies. It is planned to buy Hungarian surplus grain and to present it without charge to Poland.
3. Comprehensive assistance to the key economic plan decided upon between the World Bank and Poland.
4. The Ministry of International Trade and Industry is to invite every year several hundred middle- and high-ranking cadres from East Europe to come to Japan for advanced training, to assist in the training of well-qualified managerial personnel who will be needed in the future market economy.
5. Enhancing political cooperation. In his discussion with the Hungarian premier on 16 January 1990, Premier Kaifu spoke of increased personnel interchanges and political cooperation, periodic discussion meetings between the various ministries of the two countries, and establishing contacts between the various parliamentary committees of the two countries. When Foreign Minister Nakayama visited Yugoslavia and Czechoslovakia in May, he also set up a system of periodic deputy foreign minister meetings for mutual discussions.

After granting Poland and Hungary some crucial assistance, Kaifu declared, "Regardless of which of the East European countries it may be, as long as the country in question actually conducts reform with the aim of democratization and changing to market economy, we shall act in concert with the other developed Western countries and show ourselves ready at all times to actively render assistance."

The objectives that Japan has in mind when so greatly emphasizing the changes in the East European situation are:

1. Dismantling the postwar Yalta system, as a matter that may also prove beneficial to Japan's demand that the Soviet Union return the four northern islands. Japan believes that, as a consequence of the ongoing rapid disintegration and weakening of the Soviet bloc, Japan will be able to reap certain benefits with respect to its national security. Premier Kaifu expressed it very clearly, "The reform in the East European countries has not only an important impact on the fundamental situation of the postwar international order, but is also of important significance for stability in the Asian-Pacific region."

2. Expanding political influence in Eastern Europe. The Japanese foreign minister believes that to "leave Japan out of decisions of such importance as the assistance to East Europe and allowing Japan only to come in at the end is a way of doing things that we don't agree with. In the past, Japan merely disbursed money, and then left it completely to the recipient country how it wanted to spend the money. In future, Japan will want to dispense money, but will also want to dispense decisive opinions." In geopolitical respects, East Europe shows a duality: On the one hand it has broad relations with the Soviet Union, and on the other hand it has traditional links to West Europe. Located in the eastern part of Europe, it can expand its activities to the Soviet Union and also, toward the west, penetrate the European Economic Community.

3. Stepping up economic penetration of East Europe. Manpower is cheap in East Europe, and it has a well-educated population. Investments placed in East Europe can therefore look forward to very good prospects as regards commercial benefits.

Since 1989, Hungary has enacted a company law, an investment law, and a law on the operation of private businesses, which allow the operation of private enterprises, and of enterprises financed to 100 percent by foreign capital. This opens the way for Japanese enterprises to directly set up factories in Hungary. Most recently, C. Itoh and Company, Limited, bought some shares of the Hungarian Agricultural Products Trading Company, which had been transformed into a privately owned enterprise. Japanese business personnel stationed in East Europe are unanimous about the fascinating attractiveness of expanding activities into Hungary in order to open up a window to East European and Soviet trade. If trade with the Soviet Union and East Europe could be settled in foreign exchange, Japan could participate directly in trade between CEMA countries. If the European Economic Community would allow East Europe to join, Japan could participate in the trade between East and West Europe.

### C. Active Participation in All-European Affairs

Recently, the Japanese Government has said, "It is necessary for Japan to have a greater voice in a Europe that is presently searching to establish a new order." For this reason, Japan has decided to participate as an observer at the summit meeting on European security, which will be held at the end of 1990, and at the various meetings on European security that will be held this year and next year.

The fact that West Europe is rapidly growing stronger and the Soviet Union is weakening rapidly is beneficial for Japan in that it reduces the Soviet threat against Japan. Within West Europe arises a united, strong Germany, and this may provide a real possibility for Japan to take advantage of the contradictions between the various large countries of West Europe and penetrate the European Economic Community.

In the past, Japan refrained from involvement in questions of European security, but its present conduct seems to indicate an important turn in Japan's diplomacy, namely a turn from a purely economic involvement to an emphasis on gaining a larger voice in political matters.

#### D. Expanding Japan's Influence in Cultural and Ideological Matters

Some Japanese politicians and scholars believe that the special ideological characteristics of the Japanese people are "compatibility, complaisance, and cooperativeness," characteristics that are exactly those that are now and in future needed in the world. With the need for these characteristics in mind, Japan established—during the regime of Premier Yasuhiro Nakasone—the "International Institute of Japanese Culture" at Kyoto, which engages in this special line of study and which has published a book on *Compatibility, a Japanese Mentality*. Japan hopes to apply its mentality of "compatibility and complaisance" in place of the "confrontational, oppositional, and intolerant" mentality that is characteristic of Europe, and thereby help realize Japan's economic and political objectives.

#### No Tae-u's Visit to Japan Described

90CM0307A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 11, 8 Jun 90 pp 8-9

[Article by Chen Jiehua (7115 381 5478): "A Vital Link in Japan's Foreign Relations in Asia—No Tae-u's Trip to Tokyo"]

[Text] As proof of increasing importance attached by Japan to developing its diplomatic relations in Asia, South Korean "President" No Tae-u accepted a Japanese invitation and paid a formal visit from 24-26 May. No Tae-u had originally been scheduled to make the trip in November 1988, but a number of problems that fall forced a delay. This time it was made with a background of increasing Japanese diplomatic participation in Asia.

To effect No Tae-u's Japanese visit and that of a visit to South Korea by the Japanese emperor, Japan's Foreign Minister Taro Nakayama visited South Korea 29 April-1 May. Also in Seoul in that same period was Mutsuki Kato, chairman of the Liberal Democratic Party Political Coordination Committee.

During the talks, South Korea requested two points: 1) that Japan stop fingerprinting South Koreans residing in Japan; and 2) that South Koreans in Japan no longer be required to carry an alien registration card. On the first point, Japan agreed to waive the requirement for all South Koreans in Japan who are "eighth-generation" residents. As to the second, she would look for an "appropriate" solution.

This visit by Nakayama paved the way for No Tae-u's visit to Japan. But South Korea had yet one more requirement, which was to have the Japanese emperor

officially make atonement for the past history of aggression against Korea. This demand had originally been presented during Chun Doo Hwan's visit to Japan in 1984. At the time, Emperor Hirohito gave a rather ambiguous answer that "the unfortunate past events involving the two nations were really regrettable and must not be repeated." South Korean public opinion was that this was "unacceptable." For this reason, this demand was now being raised again.

In a 17 May interview with Japanese reporters, No Tae-u stated that "the Japanese perpetrators of past wrongs against Koreans must apologize to their victims and express sincere apologies and acknowledgment of guilt. Whether an apology would be in the name of the emperor or a different form is not important."

The news spread quickly to Tokyo. That same day, leaders of the Liberal Democratic Party openly said that No Tae-u's demand for an imperial apology was wrong, adding that Japan had already "reflected upon the past colonial rule and war and that is why it is now increasing its economic cooperation. Why is it necessary to go further so as to have to lie prostrate?"

The next day, South Korean circles reacted strongly. The out-of-power Party for Peace and Democracy and the Democratic Party of South Korea attacked, saying "it is outrageous that not only have there been no regrets for the past, but they talk rubbish." Seoul television continually broadcast for several days a special program on "the problem of Japanese aggression against Korean culture." The anti-Japanese fever in South Korea suddenly rose again.

To make sure No Tae-u could visit as scheduled, Japanese Prime Minister Kaifu on 15 May announced to the Budget Committee of the Diet that "we are going to reflect frankly upon Japan's historical wrongdoings and apologize." But the South Korean Government was implacable, replying that "even an apology by Premier Kaifu on behalf of the emperor would not be acceptable."

On 24 May, No Tae-u arrived in Japan and received the highest welcome honors in diplomatic protocol, the emperor and empress personally presiding in a welcome ceremony at the Akasaka Guesthouse. The Japanese arranged for five occasions to meet with the emperor: welcome ceremony, audience, banquet in the Imperial Palace, a walk on the imperial grounds, and a personal farewell talk. This was unprecedented in Japanese diplomatic protocol.

On the evening of No Tae-u's arrival, the emperor invited 150 dignitaries from various walks of life to a welcome banquet in the biggest palace, Toyuake Dono. In midst of the fete, the music suddenly stopped. The emperor rose to his feet to the surprise and sudden uneasiness of some of the guests. In the following instant, he solemnly and carefully read an "imperial text" that had been revised several times: "The people of your nation suffered grievously from an unfortunate past

brought upon you by our nation. We cannot repress our anguish." He seemed to choke back his emotions. A short speech took more than five minutes to deliver. Mr. No tautly and solemnly listened to the simultaneous interpretation. When the speech was concluded, there was solemn respect within the whole palace. The orchestra struck up South Korea's "Patriotism Song" (its national anthem). At this time, No Tae-u got to his feet and warmly shook the emperor's hand three times and drank a toast. One word of apology, even though half a century late, removed a hundred years of South Korean resentment and generations of anger.

In addition to the imperial apology, in his initial meeting with Mr. No, Prime Minister Kaifu also pledged that, "on behalf of the Japanese Government and the people of Japan, the unfortunate past relationship between Japan and Korea will be forever remembered solemnly. Sincere reflections of regret and forthright apology are expressed for the suffering and anguish endured by the people of the Korean peninsula due to our past acts." Kaifu's use of the term "Korean peninsula" was designed to encompass both North and South Korea in the expression of regret. Kaifu expressed his intention to have the Education Ministry incorporate the unfortunate historical events and the government's regrets into school texts to educate the generations to come.

The next day, when No Tae-u addressed the Japanese Diet, the leaders of both houses also expressed regrets on behalf of Japan's legislature.

No Tae-u stated that while "Japan's measures of regret had not reached a satisfactory level, but it has admitted guilt and so we must accept it accordingly and strive to establish a new era of harmony."

The expression "establish a new era of harmony" has been used three times by Japan and South Korea. The first time was in 1965 when relations were restored; the second in 1984 on the occasion of Chun Doo Hwan's visit to Japan; and now. Today, Japan and South Korea have close ties. In the 1960's, when relations first began, mutual trade was a mere \$200-300 million. It reached \$30 billion in 1989. Also in 1989, 1.92 million people exchanged visits between the two countries.

Today, both sides talk about establishing "superior person" relations in the future. The meaning is mutual trust and frankness. No Tae-u used the forum of the Japanese Diet to criticize Japan in "exerting its utmost to improve the trade balance and open its market as to the United States and Europe," asking that Japan do the same in the case of South Korea. He further complained that "Japan seemed to lack the courage to compete and was overly passive in the transfer of technical know-how."

Kaifu replied using a Chinese proverb that meant one must be true in word and deed. He expressed determination to restore Japan's honor and reputation. To dispel the impression that Japan had been miserly in the transfer of technology, and to obtain South Korean

support for Japan's increased political activity in Asia, Japan to a large extent satisfied No Tae-u's requests. For example:

—No Tae-u wanted to establish a "New Material Evaluation Center" in South Korea as its best material research base. Japan agreed to support it with 400-500 million yen, provide needed materiel without compensation, and admit South Korean researchers.

—According to South Korean requests, establish a Joint Scientific Study Committee to enhance mutual scientific cooperation in such areas as air and space, life sciences, and oceanography.

—Reach an accord for peaceful use of nuclear energy. Have a yearly conference on nuclear safety measures and mutual early warning of nuclear-related incidents, information exchange, support, and medical treatment.

—An accord to preclude charging fees for frequent visiting permits and visas to encourage mutual exchange of personnel. Good for up to a year, both sides agreed to waive fees for such documents (each visit limited to 15 days) so that repeat visits would not be subject to additional fees.

—An accord for rescue at sea.

—Mutual trade now has reached \$30 billion, but South Korea has a slowly growing adverse trade imbalance with Japan. In 1989 it was \$4 billion. For this reason, both sides agreed to set up an Economic Coordination Committee to work out economic trade problems.

—Kaifu expressed an intention to start off from a "humanitarian standpoint" and use 4 billion yen as a foundation to provide help to Korean victims of the atomic bombs in Japan (20,000 Koreans died).

—In the area of political cooperation, Foreign Minister Nakayama stated cautiously that Japan in September will propose the formation of a "Committee of Asian Foreign Ministers" which was endorsed by South Korea.

—Both sides expressed a desire to increase liaison in crisis management for stability of the Korean peninsula.

When No Tae-u bade farewell to the emperor on the 26th, he extended an invitation to visit South Korea, a long awaited gesture by the Japanese Government and the Imperial Palace.

Thus, the agreement for mutual visits has resolved the long-time "old grievances" between Japan and South Korea. But the "new era" will also have "new contradictions." For example, with regard to Japan's steadily increasing defense capability and possible intention to fill the vacuum from U.S. withdrawal from Asia, No Tae-u stated very clearly that "the various Asian nations

do not concur that Japan should replace the United States to serve as the guarantor of security for northeast Asia."

Japan seeks South Korea's political support of its increased role in international politics. So Japan pushes for stronger ties in the "new era." But South Korea seeks to take advantage of Japanese technology yet casts a wary eye on Japan. So No Tac-u quotes a Chinese proverb: "A gentleman's relations are as diluted as water." One word, "diluted," subtly but accurately reflects the detached sentiment and wary feeling that South Koreans have for Japan.

## EAST EUROPE

### Bulgarian Socialist Party Triumphs in Election

90CM0353A Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 14, 16 Jul 90 pp 2-3

[Article by Chun Yu (2504 7183): "Having Concern for the Interests of All Strata of the Population, Emphasizing the Integration of Democracy and Socialism—Election Victory Won by the Bulgarian Socialist Party"]

[Text] After instituting a system of plurality of political parties, and in accordance with the new election law passed by the National Assembly, Bulgaria held the first "democratic elections" since its liberation 45 years ago, competed in by a number of political parties. Throughout the country, 40 parties and election coalitions participated in the election, in which 6.33 million qualified citizens cast their votes, that is 90.79 percent of an electorate of 6.5 million. In the two rounds of voting on 10 and 17 June, the Bulgarian Socialist Party (formerly the Bulgarian Communist Party) achieved a victory, gaining 211 parliamentary seats, 52.75 percent of the 400-seat National Assembly. The main opposition party, the Union of Democratic Forces [UDF], gained 144 parliamentary seats, which is 36 percent. The "Movement for Rights and Freedom" (the Muslim party) gained 23 parliamentary seats, or 5.75 percent; and the Peasant Union gained 16 seats, or four percent. The balance of six seats was taken up by other parties or persons not affiliated with any party.

Although the outcome, the victory of the Socialist Party, the successor to the Bulgarian Communist Party, was not completely unexpected, it was also not something that could be foreseen. A preelection public opinion poll indicated that the Socialist Party indeed had the upper hand. The campaign program of the Socialist Party showed a consideration for the interests of all strata of the population, and was thus well attuned to the psychology of the majority of the people, also indicated that socialism still enjoyed prestige among the general public. However, in other East European countries it was mostly the rightwing parties that were victorious in elections with plurality of contesting parties. Moreover, the contest in the present Bulgarian elections was an extremely fierce one, with the largest opposition party, the UDF,

continuously gaining in strength. It was therefore very difficult for the party that had originally been in power to come out victorious.

This election was extremely hazardous indeed. When the curtain opened on this election, the 40 political parties and party coalitions that participated were split into two large mutually opposed camps.

The Socialist Party was on one side. At the end of last year, it had just weathered a storm of political turbulence. Unfavorably affected by its political and economic mistakes, and under the onslaught of Western ideas, it had to endure fierce criticism from within and from outside of the party, and it was only in April of this year that it changed its name. In its election program it had stated that the Bulgarian Communist Party "has been remolded into a party that now opens the large gate which leads to democracy." The program also declared that only by an integration of the two great ideas, democracy and socialism, is it possible to build up a happy and humane society. The program proposed a peaceful transition to democratic socialism. In economic respects, the Socialist Party proposes to institute a rapid and controlled economic reform, to accelerate the transition to market economy, and, while developing the system of private ownership, to institute competition on equal terms between the different ownership systems.

On the other side, there were the various opposition parties, headed by the UDF. Their common aim was to drive the ruling Socialist Party from power and to take over political power. However, when it comes to the immediate interests of the various parties, there is much contradiction and disparity between them. The UDF was established on 7 December 1989 and is now a coalition of 16 political parties and organizations. Its election program said that in political and economic respects it intends to institute capitalism, completely on the Western pattern, a statement that had very much of a market among the youths and intellectuals, and was highly effective in the capital and in other big cities. The UDF's slogan was "45 years is enough, this era is ours."

In the rivalry between the forces of the various political parties, the fiercest confrontation was between the Socialist Party and the UDF. On 1 May, both parties held mass rallies in Sofia. The Socialist Party claimed that 500,000 attended its rally. The UDF's rally was on an even larger scale. There had been occurrences of mutual unrestrained insults and scuffles between the two crowds, but there have been no serious fights. Prior to this, Bulgarian President Mladenov had put forward the proposal that all parties jointly sign an "agreement not to pursue their election aims by force or by illegal methods." That proposal was supported by the signatures of more than 4 million citizens. On 4 May, the leaders of the main political parties, among them the UDF, initialed the agreement. However, on 21 May, when the agreement was to be officially signed, the leader of the UDF suddenly changed his mind and refused to sign, which caused quite a public outcry.

As the day of the general election approached, things heated up. On the evening of 7 June, the Socialist Party and the UDF held rallies to pledge mass effort in the election. The UDF had specially invited American "singing stars of world repute" to liven things up, and gave a fireworks display at the end of the meeting. On 8 June, Lilov, head of the Socialist Party; and Zhelev, chairman of the UDF, held an animated television debate. Lilov fiercely attacked the "labor pains cure" of an overnight introduction of market economy proposed by the UDF, and he eloquently argued that this method would be harmful to the interests of the broad masses; this gained him votes from some of the electorate.

Later, when a sampling of votes indicated that the Socialist Party was ahead, the UDF organized large-scale protest movements, charging that the election had been "unfair, and that malpractices had occurred." Throughout the country, students held demonstrations in many cities, also sit-ins, hunger strikes and other such activities. During these disturbed days, the Socialist Party issued a statement demanding that the opponents show "political wisdom" and not drive Bulgaria to the "brink of disaster."

On 14 June, when results of the first round of voting were announced, showing that a majority of seats were won by the Socialist Party, the chairman of the Socialist Party, Lilov, made the statement, "The Socialist Party will continue to reform and transform itself into a modern Marxist political party, constituting the political leftwing in Europe and in the world. After the general elections, a broad coalition government will be formed, and if other parties will not participate, the Socialist Party will invite specialists in various fields to organize a broad government of specialists. He also indicated that although the UDF was an opponent in the election campaign, it is also a political partner, and the Socialist Party will continue its dialogue with them and will strive to achieve a harmonious understanding." As soon as the UDF realized that the game was lost, its chairman, Zhelev, finally proclaimed, "The UDF recognizes the outcome of the general election as a reflection of the present proportion of forces in Bulgaria. The UDF will not form a coalition government with the Socialist Party, but will continue its struggle in the role of the largest opposition party in parliament."

After the results of the second round of the election were made public, Premier Lukanov (Socialist Party) stated, "This is a ballot in which the people have expressed their trust; it is the first time that our Socialist Party gained victory in fair and free elections." On 20 June, President Mladenov proclaimed that the newly elected National Assembly officially assumed its duties as of that date. The new struggle for the Socialist Party has now begun, namely to form a new government.

### Implications of Czechoslovak Multiparty Elections

90CM0348A Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 13, 1 Jul 90 pp 5-6

[Article by Yuan Geng (1354 1649): "Multiparty Competition in the Czechoslovak General Election"]

[Text] The political forces represented by the various Czechoslovak parties held a roundtable conference on 11 January of this year and decided to hold general elections in June. Thereupon, the presidium of the Federal Assembly fixed 8-9 June as dates for the election. The election took place at the fixed time and elected a House of the People and an upper house of 150 persons in each of the two bodies of the Federal Assembly. At the same time, the people elected the Czech National Council and the Slovak National Council. This is the first "free" election with multiparty competition conducted since the dramatic changes in the Czechoslovak political situation half a year ago. It is reported that 96 percent of the electorate most enthusiastically cast their vote in this election.

Results of the election, according to officially published Czechoslovak figures, showed that the "Civic Forum," headed by incumbent President Havel, and its ally, the Slovak "Public Against Violence" organization, came out victorious. In the House of the People and in the upper house, they had gained 46.6 and 45.9 percent, respectively, a total of altogether 170 seats. They won 126 of the 200 seats of the Czech National Council, and 46 of the 150 seats of the Slovak National Council. The Communist Party gained second position, with 13.6 and 13.7 percent, in the House of the People and in the upper house, respectively, a total of 47 seats. In the Czech National Council and in the Slovak National Council, the Communist Party gained 30 and 20 seats, respectively. The Czech People's Party and the Christian Democratic Union, composed of the Czech Christian Democratic Party and the Slovak Christian Democratic movement gained a total of 44 seats. The Moravian and the Silesian Movement for Autonomy and Democracy gained 3.5 and 3.5 percent of the votes, respectively, a total of 16 seats. The Slovak National Party gained 15 seats, and the remaining 12 seats were taken up by other smaller parties.

The present general elections in Czechoslovakia lasted 40 days; 22 parties and organizations had nominated over 3,500 candidates who participated in the election campaign, and there had been very fierce competition. During these 40 days, each party exerted maximum effort to propagate its propositions. The streets of Prague were plastered with election slogans and propaganda posters of every color and type, a simply dazzling display. The following are the political proposals of the "Civic Forum" and the "Public Against Violence" organization, which were born in November of last year at a time of acute turbulence in the political situation: Establishment of a pluralistic political system, instituting market economy, returning to Europe, and gradual political and economic merger with Western Europe. The

campaign slogan of the Christian Democratic Union was opposition to socialism in any form, withdrawal from the Warsaw Pact and from CEMA, implementing military neutrality, and establishing close relations with the countries of Western Europe. These two parties are very powerful, and there is no substantial difference between them in the political web, but in the end they still openly hurled recriminations against each other in connection with certain specific questions. What particularly caused a public outcry was that the leader of the "Civic Forum" and vice minister of the interior revealed 48 hours before the election through the press that the chairman of the People's Party, Bartoncik, had cooperated with the security agencies during the time of the communist regime and had provided the government with information on opposition parties, such as the "Charter 77" movement. The leaders of the People's Party immediately called a press conference to refute the charges, and said reproachfully that to enact this kind of performance 48 hours before the election is "highly disreputable conduct." People still believe that this dispute is one of the reasons why the Christian Democratic Union, in which the People's Party participated, suffered a setback in the election.

As for the Communist Party of Czechoslovakia [KSC], some political forces launched an unbridled attack against them, demanding a general reckoning and the confiscation of all KSC property. Some people staged mass rallies and hunger strikes in support of these objectives. The chief procurator in Prague proposed to declare the Communist Party illegal and to suppress it. Four parties, the Czechoslovak Social Democratic Party, the People's Party, the Socialist Party, and the Slovak Democratic Party, jointly issued a statement demanding that the National Assembly adopt legal measures prohibiting all activities of the Communist Party. President Havel also came out in support of hunger-strike activities demanding that the KSC turn over all its property, but he opposed suppression of the Communist Party, because he believed that banning the KSC would run counter to the Czechoslovak system of political pluralism and thus would be contrary to law. He also believed that one must not establish collective guilt for the entire KSC, as there are also some good men in the KSC. The presidium of the Czechoslovak Federal Assembly also pointed out that the proposal of the four parties demanding suppression of the KSC is inappropriate. At the same time, the KSC launched a widespread election campaign and engaged in struggle against all activities directed against it. The leaders of the KSC personally met with the masses and explained the policies of the KSC. The KSC proposed to establish democratic socialism, to protect the interests of the working population, and opposed returning state-owned property to private owners or selling it to foreign capitalists.

Public opinion believed that the fact that the KSC could win the position of second-largest party in parliament indicates that the KSC still has the support of a considerable proportion of the people, also that the continued unrest in the political situation has many people reconsider certain questions of the past. The Executive Committee of the KSC issued a statement in connection with the outcome of the general election to the effect that they have now "overcome various pressures and threats, preserved the party, avoided splits in their ranks, and defended their legitimacy."

The victory of Havel's "Civic Forum" too was achieved only through arduous struggle. During the first stage, the people's trust in the "Civic Forum" was somewhat on the decline, and they had also to face challenges from other parties. During the election campaign they raised the banner of a "gentle revolution," and at the same time took advantage of their position of power to engage in effective propaganda to win over the electorate; Havel made a special tour of all provinces of the state. As to how, after its election victory, the "Civic Forum" will solve all the various problems that the country is facing, people are adopting a wait-and-see attitude. The outcome of the election also shows the people that parties with nationalistic coloring and nationalistic programs have entered the Federal Assembly and the national councils, forming a political force that must not be overlooked. We now have to watch and see what effect this may have on future developments in the political situation of Czechoslovakia.

According to the rules of the Czechoslovak Federal Assembly, the term of office of delegates newly elected to parliament is two years. The Czechoslovak News Agency reports that President Havel has entrusted the present premier, Marian Calfa, with the formation of the new government. The new cabinet will possibly include representatives of other parties, but will exclude the Communist Party. The Christian Democratic Movement has declared that it will not join a coalition government. After the election of the Federal Assembly government, the president will be elected. The coordinating committee of the "Civic Forum" has already announced that Havel will be its candidate for the presidency.

Foreign observers believe that the internal situation in Czechoslovakia is presently complicated, that there are sharp ethnic conflicts, that contradictions are developing between the "Civic Forum" and its former allies, that the economic situation is still deteriorating, and that misgivings and doubts among the people are growing. Even the "Free Democratic Party," an ally of the "Civic Forum," also declared in one of its statements: "Social and ethnic conflicts are getting worse, and a tense situation has spread over all of Czechoslovakia, a condition that must not be underestimated."

### 'Internal Document' on Overseas Student Policy

90CM0247A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 216, 16 May 90 pp 21-23

[Unattributed report: "The Spirit of the 'Conference of Education Attaches (Consuls) From PRC Embassies and Consulates' Was Expressed in Directives To Crack Down on Overseas Students Based on an Assessment of the Situation in the PRC and Abroad—(An Internal CPC Document)"]

[Text] Explanation: The PRC State Education Commission held a "Conference of Education Attaches (Consuls) From PRC Embassies and Consulates" in March 1990. The speakers at the conference included He Dongchang [0149 2639 2490], vice minister of the PRC State Education Commission; Teng Teng [3326 4696] (who outlined the situation in the Soviet Union and Eastern Europe and the work of the CPC Central Committee Propaganda Department); the heads of the Ministries of Public and State Security (on policies concerning organizations, such as the Front for a democratic China and Chinese Alliance for Democracy; Zuo Zhengfeng [1563 2398 6912] from the Ministry of Foreign Affairs (on U.S. and Canadian Government policies); and the head of the CPC Central Committee Organization Department (on the task of party organization among overseas students in the United States and Canada). He Dongchang gave the summary report, which was authorized by Li Peng. The following is a brief introduction to the aspects of the speeches given at the conference which closely affect overseas students in the United States and Canada.

#### I. The International and Domestic Situation

- Although Karl Marx's basic theory of scientific socialism was right, it is still necessary to firmly criticize those Marxist-Leninist theories which are obsolete.
- The changes which are taking place in the Soviet Union and Eastern Europe do not represent the mainstream of historical development, but are rather a severe setback to socialist progress.
- Ceausescu's failure was due to his not staying in touch with the masses and running the economy badly, and also to meddling by the Soviet Union.
- The current international situation is similar to that from 1894 to 1914 as to the peacetime development of capitalism and the second appearance of international opportunism in the international workers' movement.
- Gorbachev's new thinking repudiates Stalin even more thoroughly than did Khrushchev, and is not good for the international communist movement.
- The changes in the Soviet Union and Eastern Europe are causing difficulties. Their peoples are just beginning to face hard times, during which economic reforms will not succeed due to the unrest. Eastern Europe has a foreign debt of \$178 billion, on which its current foreign aid is just barely able to pay the interest. Poland's policy of market deregulation is economically unfeasible. The Soviet Union is still faced with the problem of Lithuania. While the administrative division of West Germany is now enveloping the East German zone, Hungary and Czechoslovakia are baffled and, except for East Germany, the other Eastern European countries are having trouble getting by.
- The sharp nationalities crisis and economic decline that exist in the Soviet Union have led to many anticommunist organizations being set up there.
- The path of reform which the PRC is following persistently is not one of social democracy, but rather of socialist self-improvement.
- The superiority of the CPC is that we have achieved a decade of reform successes without being affected by ideas of social democracy. Otherwise, we would have been unable to withstand the recent wave of unrest throughout the world.
- Colleges and universities are a severely afflicted area, in which only one-third of students persisted in their studies, while a considerable number of basic-level organizations were involved in the disturbances due to a lack of fighting spirit. The unrest in a few schools, such as Shenzhen University, was caused by their officials, and Guangdong Province has dismissed its president.
- Since the incident in Romania, more reactionary slogans and posters have appeared and, although the changes in the Soviet Union are calm on the surface, they have felt its impact.
- Although we were satisfied with the results of the social investigation of students during winter vacation, as to prices and the anti-pornography campaign in particular, there are still grievances against party members.
- Although problems among party members must be exposed, the anticorruption campaign must not be used to repudiate the leadership of the party.
- There is a problem with the direction in which public opinion has gone in the last decade.
- Repudiating Mao Zedong Thought is equivalent to repudiating the history of the CPC. The Soviet Union has totally repudiated Stalin.
- Although we won a major political battle and improved our economic and ideological fronts in 1989, it will take a very long time to change things, and we cannot hope to accomplish it very quickly.
- While domestic prices for food have decreased, those for clothing have increased. We are experiencing industrial production difficulties because consumer funds and group purchasing power were reduced so much. Entertainment at state expense has been reduced 88 percent in Jiangxi Province. We are now experiencing a market slump in which products are so overstocked that there is a 30,000-vehicle oversupply of automobiles, however, our agricultural situation was better in 1989 than in 1988.
- Some 3.5 percent of the factories throughout the PRC have shut down, some manpower has had to be returned to the rural areas, and our electronics industry is experiencing the worst difficulties.

## II. Policy Directives to PRC Embassies and Consulates on Overseas Students in the United States and Canada

- PRC policy on overseas students must be raised to the high plane of international struggle and competition for our talented personnel. We must hold high the banner of patriotism and expose and crack down on the few who are unpatriotic. The competition for talented personnel will be a protracted struggle. PRC personnel stationed abroad on the front lines are now engaged in a very hard struggle that will affect our destiny. As all personnel in PRC embassies and consulates are fighting independent battles, they must be allowed to take action on many issues on their own initiative until they receive instructions.
- As the United States is holding our overseas students as hostages, we must not shirk our responsibility to them. Our embassy personnel must understand this issue from a struggle perspective instead of simply considering it a matter of supervision.
- As we cannot expect all of our overseas students to return to the PRC, we must take a pragmatic approach by expanding our progressive forces, uniting with moderates, and isolating reactionaries. The struggle must be reasonable, to our advantage, and restrained. As certain aspects of the current situation are somewhat similar to those of an underground party, our party organizations in the United States cannot be made public.
- Although there is some patriotism among our overseas students, there is little love for socialism. We must deal with them correctly, work hard, and not lose hope that the situation in the PRC will improve.
- We must expand the ranks of and cherish those in category 1, because there are only a few percent who should be supported. Vacillating elements must be dealt with correctly, by distinguishing them from those who oppose our government, and dividing key ones into the categories of those who have always been unshakable and those who are easily swayed. Policy must be used to influence those in categories 2 and 3, as well as some in category 4, for which good examples should be set as to the matter of passports.
- We must keep a close watch on the extent of the crackdown against those who are opposed to us, and not be overeager to crack down on those who have taken cover. We must crack down on them in steps, cracking down first on those who are despised even by honest Americans.
- The lesson that we have learned from the United States is that the CPC's task will be a protracted one. Those who are unshakable should be organized, contacts should be maintained with those who are vacillating, and reactionaries should be eliminated. If we can make most of our overseas students look patriotic and convince some of them to return home, it will be all right even if only a small percentage of them truly support socialism.
- We must focus our efforts on convincing the masses of moderates by ensuring that our slogans and goals are correct. Instead of calling most of our overseas students unpatriotic, we should say simply that they are extending their stay overseas in order to earn more money. As the All-U.S. Independent Student Union is saying just this, we should publicize the patriotism of our overseas students.
- We must emphasize the building of party organizations and the role of friendship associations among overseas students, in order to counteract the activities of the Independent Federation of Chinese Students and Scholars, the Front for a Democratic China, and the Chinese Alliance for Democracy.
- We must speak with two tongues, publicly about patriotism and obedience to the law, and privately to key party members about socialism and communism. Some key party members will be put on a third front to conduct secret activities and be ready at all times to replace those on the second front.
- We must set up certain moderate organizations, such as clubs, to conduct recreational activities. They should be fairly low-key and united to win over moderates to our side.
- Our foreign announcements should not say that we are not asking our overseas students to return home to serve their country, or that we do not want them. It is understandable that, for various reasons, they may not want to return home temporarily. We can extend their stay overseas if they need more time, and help those who have difficulties. As we believe that most of them are patriotic, we should welcome those who want to return home, but not pressure those who want to stay. We can make an impact on them later by a redistribution of several cases, such as passport extensions.
- Although those who change their visas from J-1 to F-1 can be treated as overseas students studying at their own expense, they must be differentiated. As to those who can exchange their passports, we will welcome repayment of training expenses by those who want to, but not try to force it from those who do not, and not be too particular about such trifling matters. Those who do not repay their training expenses will owe us a favor. We must explain to them that this is a matter of right and wrong, and that they are wrong whether they repay or not. The passports of a few students (about one percent) must be dealt with on an individual basis. As for a few key reactionaries, we must rescind their status as overseas students, expel them from the CPC, discharge them from public employment by the PRC, and refuse to allow them to return home. As most students are still patriotic and attached to their country, we can make an impact on them in the long run, because they will have a hard time getting by in the West.
- We will not investigate those who take actions to keep from having to return home because they wish to emigrate.
- As to the United States and Canada, we will temporarily stop sending them official overseas students, but send them only visiting scholars. Employees whose work units do not agree to give them work leave to go abroad to visit their spouses, can be

treated as having temporarily stopped working without having their names removed from the work rolls. It would be better if five percent of our overseas students returned home than if 100 percent did, because this five percent will have withstood the test of fire.

- We must work hard with our overseas students in category 1, because we hope that they will all return home. We must also maintain contacts with those in leading academic circles. We must do a good job of finding work for those who return home, and not send such young people abroad in the future. The work at 36 colleges and universities has suffered from their sending of 7,000 students overseas.
- Letting students go overseas before they had studied in the PRC long enough to understand our national conditions was wrong and has made it hard to recruit graduate students in the PRC. The "five-year" stipulation (that students who want to study abroad at their own expense must study for five years in the PRC first) will prevent many of our students from studying here only long enough to go abroad for graduate studies and then simply being recruited elsewhere. We must announce that they must either study first in the PRC before studying abroad or not study abroad at all.
- Although sending college graduates overseas to study social sciences has been a failure, the overseas study fad can be useful if it can be combined with the PRC's national conditions to produce patriotic students who will return home because they love socialism.
- The Ministry of Public Security announced on 7 January 1990 that it was revoking the passports of people such as Wan Runnan [8001 3387 0589], Chen Yizi [7115 0001 6171], and Yan Jiaqi [0917 1367 0366]. The Ministries of Public Security and Foreign Affairs have agreed to revoke the passports of over 100 other leaders of the Chinese Alliance for Democracy, the Front for a Democratic China, and the Independent Federation of Students and Scholars by stages and in the following major groups: 1) prominent figures whose objectives are to overthrow socialism and overturn the government, and key figures in the Front for a Democratic China, the Chinese Alliance for Democracy, and the Democratic Party; 2) leading elements who incited, plotted, and organized the rebellion, and attended and supplied material at the U.S. Congress evidence hearings; 3) those who have publicly asked for political asylum; 4) major press and media leaders who have persistently opposed the government and the party and who have publicly advocated antiparty views; 5) vile people who have collaborated with, established ties to, and plotted to raise money for anti-Chinese and anticommunist forces both in the PRC and abroad. We will choose five or six people of poor character from the first group, such as Wuer Kaixi [0710 1422 7030 1585], to crack down on first.
- Although it is understandable that most of those who were involved in lobbying the U.S. Congress for the All-U.S. Independent Student Union were drawn in

because they were in the United States, their leaders, such as Liu Yongchuan [0491 3057 1557] and Han Lianchao [7281 5114 3390], must be dealt with sternly.

- We must make up names for those whom we crack down on. These kinds of people were called "traitors" during the War of Resistance Against Japan. We must think up resounding names to call them, instead of allowing them to be called "dissidents."
- After our policy is realistically revised, we must win over more overseas students to rally round our side, in order to keep the United States from trying more tricks. This policy must be drawn up to contrast overseas student forces, in order to win over moderates by cracking down on one faction and consolidating the other.

### III. Party Organization Tasks Among Overseas Students

- We must organize party members who have stood firm to take part in party activities in groups of three to five or, where limited by conditions, with only one contact. Those with confused ideas will be assigned a party member contact for continuous observation, so that they can be straightened out before their confused ideas spread.
- As long as party members who have won the right of residence (mainly in Canada) are patriotic, their party membership will temporarily not be revoked, but they will be regarded as special party members. However, those who have accepted Western ideas and become publicly antiparty will be expelled from the party.
- Those who have violated principles or established contacts with others who have quit the party, will be expelled from the party. Overseas students must be dealt with according to their particular circumstances, and individual requests to quit the party will be approved upon verification. Party members whose cases are temporarily unclear because they were coerced and have since withdrawn their requests to quit the party can be treated individually either by revoking their party membership or allowing them to stay in the party for observation. Individuals who did not know that someone else had signed a request to quit the party on their behalf will not be considered to have quit the party.
- We must build stronger organizations by clearing out and allowing those who desire it to quit, and organizing those who have done well into groups or giving them only one contact. Party members must be told before they go abroad that all party membership registrations will be transferred to PRC embassies and consulates.
- Since 1981, we have had a document which suspends the party memberships of those who have not returned home for long periods of time and which counts them separately when party censuses are taken. Those studying abroad at public expense who do not register with us or pay their party membership

dues for one year will be considered to have voluntarily given up their party membership.

- Party organizations exist in order to struggle, through which their vigor is preserved. Only by carrying out party organization tasks well can our work among overseas students be done well. While our party organizations may have collapsed and our party organization activities may be nonexistent in the United States and Canada, our party members are still there. Those who join the party merely to change it are not Communists.
- The first step of our work is to control party organizations, and the second step is to emphasize friendship associations. Our party admission requirements can never be too strict or too demanding. According to our underground party methods, every school has several reliable party members who are organized into small branches, whose key members can be retained.

#### IV. PRC-U.S. and PRC-Canada Relations

- When Elsberg came to the PRC to discuss plans for the resumption of the Fulbright Scholarship exchange, he said that Americans also hoped that Chinese students would not create disturbances.
- PRC-U.S. relations have been at a low ebb since the "4 June incident," and have now almost reached their lowest point. The United States has not responded very strongly to our lifting of martial law and releasing of people, but has merely generally welcomed it. Since the human rights report came out, our relations have become more strained again. PRC-U.S. relations are not likely to improve in the immediate future.
- Although U.S. policy on the PRC was previously agreed to by both parties, it has now divided them into two factions. One faction thinks that the PRC's standing in the tripartite relationship among the three great powers has been lost or weakened, the PRC has to look to the United States for modernization funds and technology, sanctions can force the PRC to submit, and PRC reforms are now being reversed. The other faction thinks that the carrot must be combined with the stick, the PRC's strategic place in containing the Soviet Union and our impact on the South Asia region should not be lost sight of too readily even though our tripartite standing has declined, and, thus, they must maintain a dialogue with us while condemning us for the "4 June incident," in order to help us back onto the path of reform. Although this is President Bush's viewpoint, the bottom line is that the obstacles to PRC-U.S. relations that were created by the "4 June incident" will not be easily overcome.
- President Bush's stand is as follows: 1) to preserve the status quo; 2) to maintain pressure; 3) to allow for unforeseen circumstances. Although the objectives of the two U.S. political parties are consistent, their assessments of the situation are different, a conflict we can take advantage of. President Bush is applying the stick to the issue of overseas students, and the carrot to that of satellites.
- Although the overseas students issue hinges on both domestic and international factors, it has been interpreted a little more satisfactorily abroad. We must keep the pressure on the governments of the United States and Canada. Although we protest the U.S. executive sanctions, we must renegotiate with them according to our needs.
- The United States has two cards in their hands. One is human rights report and the other is report on our "five-year" stipulation. It will also debate our most-favored-nation treatment in May. The United States is using the overseas student issue as a heavy bomb to pressure us.
- We hold only the few cards of the Fulbright Scholarship plan, continuing to send students overseas, our peace team, and releasing people. We are standing with drawn bows so that Americans are unable to make head or tail of our plans. Successfully exposing and cracking down on the leaders of the Independent Student Union would put pressure on the U.S. Government.
- Our "five-year" stipulation that students who want to study overseas at their own expense must first study for five years in the PRC was a domestic announcement only, and must be adhered to even though it has struck home in the United States. It does not change things that the matter was made known to the public when its full text was published in THE WASHINGTON POST.
- Until U.S. sanctions are lifted, there cannot be much development in PRC-U.S. relations and our overseas student policy will not change.
- Pressure must be maintained on Canada as to the immigration issue, which is being negotiated by Teng Teng, vice minister of the State Education Commission, and Liu Huaqiu [0491 5478 4428], assistant minister of MOFERT [Ministry of Foreign Economic Relations and Trade] and director of its Department of U.S. and Oceania Affairs. Although we have temporarily stopped sending students to Canada, this is not a long-range plan. The United States and Canada are different in that the United States hopes that our overseas students will return home to bring their roles into full play, but Canada wants them to immigrate, is plundering our talented personnel, and must be made to sign an agreement with us on the matter.
- U.S. success in establishing better relations with the Soviet Union would increase the pressure on the PRC.

(Note: The following are the directives issued at the Conference of Educational Attaches (Consuls) From PRC Embassies and Consulates concerning working policies and party organization work among overseas students in the United States and Canada, and future policies on sending students to study there.)

The PRC now has more than 50,000 overseas students in the United States and Canada, we are faced with very

grim and complex conditions in our work among them, and the situation has turned into an intense political struggle and competition for our talented personnel. The U.S. Government has completely accepted the four items in the U.S. Congress's (1989 Emergency Bill To Relax Restrictions for Immigrants From the PRC), therefore, exempting our tens of thousands of overseas students who hold J-1 visas from their duty to return home and serve the PRC. In order to plunder our talented personnel, the government of Canada has changed its regular immigration procedures and, calling this an "exceptional case," is encouraging large numbers of our overseas students to immigrate (It is understood that about 6,000 have already asked to undergo immigration formalities). These acts that have been taken by U.S. and Canadian authorities to wantonly interfere in our internal affairs and plunder our talented personnel, as well as their long-range policies toward our overseas students of infiltrating and corrupting their minds with the theory of "peaceful evolution," have played a significant role in changing the minds and splitting the ranks of our overseas students. About 70 to 80 percent of our overseas students who are studying in the United States and Canada at public expense will not return home in the immediate future, will be detained for a long time, or will immigrate. About 10 percent of our overseas students took an active part in anti-PRC government activities. A little more than 100 of them are key antigovernment figures who have ganged up with rightwing anticommunist forces in the United States and Canada, reactionary forces in Taiwan, and fugitives from the PRC, to plan and organize anti-PRC government activities and try in vain to establish a bourgeois republic. A core of less than five percent of our overseas students have a high degree of political and ideological consciousness and strong patriotic feelings.

### **I. Working Policies on Overseas Students in the United States and Canada**

We must uphold a high degree of international political struggle, hold high the banner of patriotism, enhance our ideological and political indoctrination, rely on and expand our key forces, unite to win over most of our overseas students, and expose and crack down on the tiny minority who are key antigovernment figures.

Our work must be carried out in accordance with these policies. The basic focus of our work among our overseas students for the immediate future must be to make them appear to be patriotic, rather than trying to get them to return home.

We must fully understand the necessity, protracted nature, and difficulties of our struggle against infiltration and subversion.

### **II. Specific Principles for Distinguishing and Dealing With All Categories of Personnel**

Having summed up the political stands expressed by our overseas students and the attitudes they have taken toward the government of the PRC, the administrative

sanctions and immigration policies of the U.S. and Canadian Governments, and the issue of returning home to serve their country, we have drawn up the following five categories with which to distinguish our overseas students, and corresponding measures for dealing with those in each category:

**Category 1.** Those who have a relatively high political consciousness, have a correct stand on and understanding of antigovernment activities, have refused to accept immunity from returning home or to apply for immigrant status, and are able either to return home to serve their country, or to accept the demand of our government (embassies and consulates) that they undergo the relevant formalities on temporary stays overseas: These are our supporters. We must firmly cherish, support, and teach them how to unite with the moderates in order to gradually increase the number of our supporters. As complex circumstances overseas may cause them to be attacked, we must take firm steps to protect them. If it is impossible for them to continue their studies or work in the United States or Canada, they can either transfer to another country or return home to continue and complete their studies. After they return home, proper steps must be taken to apply preferential policies to them in areas such as work arrangements, scientific research conditions, evaluation of professional titles, permanent residence registration and housing, and going abroad again. Based on need, some of them can continue to study or work overseas, in order to bring their political roles into full play by uniting and organizing overseas students.

**Category 2.** Those who have patriotic feelings, hope their socialist homeland will become prosperous and powerful, and, although they may not have been able to completely agree with our principles and policies for a time, have not taken political stands that are basically opposed to the government of the PRC, and have been able to maintain contacts with our embassies and consulates. Although, for personal reasons, they do not plan to return home in the immediate future and some may stay overseas for long periods of time or even apply for immigrant status, they have not yet decided whether they want to join the ranks of those with foreign citizenship. We must treat them realistically, take a lenient approach to them, continue to maintain contact with them, and agree to extend their overseas study and work deadlines, so that they can enjoy overseas student treatment. We can accept their applications to exchange their ordinary passports for personal reasons if they offer to repay their overseas study expenses. We can handle their applications even when they cannot repay these expenses for various reasons, as long as they explain their situations to overseas PRC embassies or consulates and fill out (passport exchange applications). We can explain to our overseas students who are studying at public expense in other countries that they will be treated leniently and do not have to repay up to two years of state-subsidized expenses, to keep from setting off a chain reaction.

**Category 3.** Those who have been deeply affected by Western values, hold dissident political views on our principles and policies, and do not plan to return home to serve their country, but have not yet taken an active part in anti-PRC government activities: Some of those in this category have already changed their visa categories or obtained permanent right of residence, and may have foreign citizenship in three to five years. Although we must still try to teach and win them over by pointing out that it is wrong for them to accept special immunity or immigrant status from the United States or Canada without authorization, we can still regard and treat them as overseas students who are studying at their own expense. They can be treated the same as those in category 2 when they apply to us to exchange their ordinary passports for personal reasons, which we can do after they explain their situations to overseas PRC embassies or consulates and fill out (passport exchange applications).

**Category 4.** Those who have taken an active part in antigovernment activities: We must criticize, teach, and wage the necessary struggle by argument and reasoning against them, and adopt a policy of dividing and demoralizing them. While we must exercise strict control over them when dealing with matters such as passport extensions, we can deal with them on an individual basis if they change their attitudes. We can cut off their scholarships, demand that they repay all overseas study expenses, and stop treating them as overseas students. We must not allow them to return home or allow their dependents or relatives to visit them. Those who show true signs of repentance can be dealt with as those in category 3.

**Category 5.** Key reactionary elements who took an active part in organizing and planning antigovernment activities: We must expose and crack down on them. We must choose their leaders who had the most influence and committed the worst crimes to be publicly exposed and cracked down on at the right time. We must crack down first on the few evil leaders of organizations such as the "Independent Federation of Student and Scholars in the United States" and the "Canadian Students Federation," such as Liu Yongchuan, Han Lianchao, Xu Bangtai [1776 6721 3141], and Qu Xiaohua [4234 2556 6985]. When there is absolute proof of their crimes, their overseas student status will be rescinded, they will be ordered to repay all of their overseas study expenses, the expiration dates of their passports will not be extended, and some of their passports may be revoked. Until they have taken real steps to renounce their antigovernment stands and repent, they will not be allowed to return home, their former units will discharge them from public employment, and their dependents will not be allowed to visit them.

Our general principles will be to rely on and expand our key ranks (category 1), unite with and try to win over the majority (categories 2 and 3), divide and demoralize

those who took part in antigovernment activities (category 4), and ruthlessly expose and crack down on the tiny minority of key antigovernment elements (category 5).

Party organizations and party members must be conscientiously sounded out and investigated, and the following corresponding steps should be taken against them based on their respective conditions:

1. Based on struggle conditions, party members with firm political stands and strong beliefs in communism should be organized in various ways (generally in the form of small groups to study policy). Party organizations should break down mostly into small groups and adopt secret forms of struggle in order to bring their political and organizational roles into full play and should be regarded as the key to uniting and winning over the masses of overseas students.

2. Party members who have confused ideas, vacillating stands, and seriously individualistic ideas, but have not lapsed into the quagmire of antiparty and antigovernment forces, can be given one-way contacts, regarded as key peripheral forces to be won over, and continue to be observed and tested through actual struggle.

3. Party members who have obtained permanent residence rights abroad (including immigrant status) but have relatively good political attitudes, love their homeland, and have accomplished certain useful things for the PRC will temporarily not lose their party membership, but will be assigned special contacts.

4. Party members who have lost faith in communism and totally accepted bourgeois values but have not taken part in antiparty and antigovernment activities will now have their contacts with party organizations cut off. Those who wish to quit the party can be treated accordingly. All those who have publicly taken part in antiparty and antigovernment activities will be expelled from the party.

### III. On Building Party Organizations and Dealing With Party Members

In light of the policies of the Governments of the United States and Canada toward our overseas students and their attempts to plunder our talented personnel, we must take the following steps to put pressure on them, make a further response, and carry out a corresponding struggle:

1. We will stop sending overseas students to the United States and Canada at public expense to pursue graduate degrees.

2. The visiting scholars we send to the United States and Canada must be politically mature and reliable and have plenty of actual work experience for longer periods of time. Moreover, we will send fewer of them to the United States and Canada.

3. PRC personnel can go to visit only overseas student relatives in the United States and Canada who have been

working toward graduate degrees for more than one year. Family visits are limited to spouses. Visits by spouses who are in our service to overseas student relatives in category 4 must be strictly controlled, and visits to those in category 5 may not be approved.

### Role of Intellectuals in 1989 Democracy Movement

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[CONTENDING] in Chinese No 151, 1 May 90  
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[Article by CHENG MING special correspondent Ming Lei (2494 5623) reporting from Paris: "The Democracy Movement's 'Manipulators' Discuss Chinese Intellectuals"]

[Text] [Box p. 31]

The months of April, May, and June mark the season in which we commemorate the historic 1989 Chinese democracy movement. It is in May that our focus should come around to discussions of the Chinese intelligentsia, because the May 4th Movement symbolizes the Chinese intelligentsia's bold participation in the social movement to abandon China's traditional weak and passive role. However, at this late hour, after the 71st anniversary of the May 4th Movement, the growth of intuitive knowledge has outstripped the growth of courage among Chinese intellectuals, and it has come to pass that "astute but cowardly" behind-the-scenes "manipulators" stirred up a major controversy in the 1989 Chinese democracy movement, this major popular social movement. Are these Chinese intellectuals, after all, weak and timid? I visited two gifted intellectuals, democracy movement participants now in exile in France, who have been censured by the CPC as "turmoil manipulators" and for whom nationwide arrest orders have been issued. From the beginning, these two young theoreticians were the intellectuals at the heart of the 1989 Chinese democracy movement. They were "manipulators" in fact as well as in name. One of them even stood boldly at center stage with the students to direct the movement. I feel this role that Chinese intellectuals played as "manipulators," who stirred controversy, whether from center stage or behind the scenes, could not have been more appropriate. If the majority of Chinese intellectuals, like these two, are dissatisfied with mere idle talk about national affairs, and show it by acting upon their instincts, they will indeed "manipulate" events and there will still be hope for Chinese society. [end box]

*Wang Runsheng [3769 3387 3932] was born in 1955 and holds a masters degree in philosophy from the Chinese Academy of Social Sciences. He is an educated youth who has worked in the countryside and mountain areas, and prior to his exile he was a deputy director and associate professor at the Theoretical Research Office of the Political Research Institute of the Chinese Academy of Social Sciences. Simultaneously, he was the chief editor of a series of ideological primers such as Tradition and Change and The Cultural Ethics Series. In 1987 he was*

*chosen by the magazine ZHONGGUO QINGNIAN [CHINESE YOUTH] as one of "China's 10 greatest young thinkers." In the 1989 Chinese democracy movement Wang participated in drafting the Beijing intelligentsia's "Open Letter of 21 April" and its "May 16th Manifesto," and he organized the intellectuals' petition drive. Wang also convened the preparatory and founding meetings for the Union of Beijing Intellectuals, took charge of drafting the "Founding Declaration of the Union of Beijing Intellectuals," and participated in organizing the "25 May" intellectuals' march. On 17 August 1989 the CPC issued a national wanted circular for Wang, who, when faced with arrest, fled to France early in December to seek political asylum.*

### Wanting To Act as Manipulators, But Not Daring To Act

**Ming Lei (henceforth referred to as Ming, for short):** You were one of the organizers of the Union of Beijing Intellectuals during the 1989 Chinese democracy movement, and you had already had close contact with the students and Beijing intelligentsia prior to the student movement, so you have a rather deep understanding of the involvement and attitudes of the intellectuals during the movement. Since the movement was defeated it has been both praised and disparaged. Please comment on this phenomenon.

**Wang Runsheng (henceforth referred to as Wang, for short):** Most of the outside world believes that the Chinese intelligentsia did not commit themselves to the 1989 Chinese democracy movement until rather late. This is not true. Let me tell you about the situation among Beijing intellectuals. After 15 April 1989, when Hu Yaobang died, Beijing intellectuals felt that something bad was going to happen, because as early as the end of 1988 some of them had already experienced an intense feeling of impending crisis. At that time many salons in Beijing were simultaneously discussing critical problems in Chinese society. For example, SHIJIE JINGJI BAODAO [WORLD ECONOMIC REPORT] organized a "Symposium on the Issue of Global Membership," during which it borrowed this concept of "global membership" for the purpose of examining critical situations then current in Chinese society. We intellectuals were of the unanimous opinion that something bad would definitely happen in 1989, because at that time problems in various aspects of Chinese society had already worsened to a near explosive degree. At the end of 1988 I had already appealed in GUANGMING RIBAO for the need to resolve issues of social fairness, bureaucratic corruption and so forth, and at that time I launched the slogan "Punish the children of high officials to appease the masses." Without this, it would be impossible to gain the cooperation of the masses in reform. In the process of reform, Zhao Ziyang made one fairly major blunder: He did not establish any new social standards during the transitional phase of social reform. For example, many people were very unhappy about his "theory of unavoidable corruption," which caused him to lose support among the masses and party cadres alike.

In April 1989, after the student strike, several young student thinkers and I held meetings to discuss the actions that intellectuals should adopt and the role they should play in the student movement. A few well-known intellectuals among the Beijing intelligentsia went out among the students as soon as the student movement began in April, but their actions were consistently suppressed. In fact, most of those who did participate intensely in the democracy movement did not escape. When the student movement had just begun, intellectuals did not show their faces, but the authorities were already well aware of their activities. Generally speaking, the input of Beijing intellectuals into the democracy movement was less than satisfactory, and all throughout the movement only a small minority of them truly and steadfastly committed themselves. But this was not because intellectuals only wanted to be backstage manipulators and not participate fully; rather it was because very few were willing to assume even a backstage role. The truth of the matter is that the Chinese intelligentsia lacked the courage even to act as behind-the-scenes manipulators. Even so, the open letter that we intellectuals addressed to the CPC, the Standing Committee of the NPC [National People's Congress], and the State Council on 21 April nevertheless garnered 200 signatures and gave the students emotional support and encouragement.

#### **The Factors Which Influenced Intellectuals To Commit to the Democracy Movement**

**Ming:** In recent years there have been pretty good signs that Chinese intellectuals have a sense of social responsibility, but they seem to have limited themselves to issuing statements and expressing opinions on public issues. When it comes to actually taking action, it seems as though they are extremely cautious. In your opinion, what motivated intellectuals to participate in the 1989 Chinese democracy movement?

**Wang:** There were two motives behind the intellectual participation in this movement. First, of course, was our own desire to participate in and support this movement. Second, we acted out of a sense of morality, and this was the most important factor. Actually, the students rebuked the cultural theoreticians, saying that these well-known people had been enlightening the students for years, but when the time came, they all ran away. The students were saying this at the time, so the intellectuals felt the pressure of public opinion and forced themselves to come forward and speak out. Without a doubt, the intellectuals' values were very close to the students' demands. From the beginning, two factors affected intellectual commitment to the student movement: First of all, several decades of political movements have made it difficult for intellectuals to forge ahead in disregard of any consequences; the fear of later trouble is extreme, and they have an inexpressible dread of the Communist Party. An additional factor was their pessimism about the outcome of the student movement: a pessimism that derived from many years of experience. From the 1979 Democracy Wall Movement to the 1980 campaign and

the 1987 Antiliberalization Movement, many times movements have stirred up the Communist Party and caused it to shift to the right. In particular, the 1986 student strikes resulted in the ouster of Hu Yaobang. These are the factors which made intellectuals extremely cautious about participating in the student movement.

#### **Comparing the Courage of Several Generations of Intellectuals**

**Ming:** Many people say that Chinese intellectuals only wanted to act as backstage manipulators. Which intellectuals do you think were most courageous during the 1989 Chinese democracy movement, and how many took part in the actual operations of the student movement?

**Wang:** From the beginning of the student movement until its end, intellectuals did take part in the actual operations, but they were few in number. Most of the slogans displayed at the student demonstrations on 17 and 18 April were first discussed in small meetings of intellectuals and later made their way to Beijing University. By the middle of April some intellectuals were dividing the participants in the student movement into three echelons: the front, middle, and rear echelons. Those people in the rear echelon did not appear in public. Now it looks as though this policy was useful in that it indeed made it possible to reserve some people and conserve our forces. During the middle of April I was ready to be thrown in jail at any time: I said so to many people. At Beijing University the most influential individual was Wang Dan [3769 0030], who had a great deal of contact with us even before the movement began. When Wang Dan accepted guidance concerning the organization of the movement, it came not from Fang Lizhi [2455 0536 0037] and Li Shuxian [2621 3219 8300], but from young intellectuals. Students from Chinese University of Political Science and Law also sought to consult with me during the student strike. Therefore, when the student movement began intellectuals had already made some direct input, and it was not all behind-the-scenes declarations on the nature of our positions. During the latter phase of the student movement, after the declaration of martial law, the Joint Conference of Intellectuals was born, and this amounted to the intelligentsia taking a stand with the Beijing Autonomous Student Union. Moreover, this was a front-line command.

Of course, intellectuals varied in their degree of input and their style. They were terrified to establish organizations, to set up direct contacts with the students, or to be criticized for manipulation. In the "26 April editorial" there was already a sense that there was a murderous intent to capture the manipulators, and this was a warning to us. Therefore, if intellectuals made the choice to participate directly in the student movement, they were in much more danger than the student leaders themselves and had to have a great deal of courage indeed. Under the circumstances, very few were so brave. If you were to divide the courage of intellectuals into different generations, the students would represent

the fourth generation and we would represent the third. I think the third generation of intellectuals displayed more courage than the second generation. The fourth generation—the students—had little to worry about, so of course they were the bravest. The second and third generations faced approximately the same sort of real danger: Their families were already involved and they had much to be apprehensive about. The primary reasons that the third generation could adopt a braver stance were that they were more determined and had a stronger sense of morality, and they were less servile in their nature. Servile behavior under the domination of the Communist Party seems to have completely disappeared in the fourth generation of intellectuals. We can see that for the most part all the intellectuals who took part in the student movement, whether at the front lines or behind the scenes, were third-generation intellectuals. Of the second generation, the most courageous intellectuals were Yan Jiaqi [0917 1367 0366] and Bao Zunxin [0545 6690 0207], and, of the two, Bao was the bravest. During the student strike it was Bao Zunxin who dared to make contact with the students, whereas Yan Jiaqi wished to maintain some distance from them. However, some of the students also wanted to protect the famous intellectuals, so, of their own accord, they maintained some distance from the latter so that the Communist Party could get nothing on them.

#### The Role of Intellectuals in the Democracy Movement

**Ming:** Did intellectuals play a major role in the 1989 Chinese democracy movement? What was their relationship with the students in the square?

**Wang:** In the final analysis, it is difficult to assess how great a role intellectuals played in the 1989 Chinese democracy movement. For example, we cannot definitely say what effect the many private contacts we made with the students had in the end. Although close contacts between the intellectuals and the students indeed influenced the thinking of the student leadership and their plan of action after the student strike, each plan of action was issued by the Autonomous Student Union. When the standing committee of the Autonomous Student Union discussed issues, those student leaders who had sought guidance from the intellectuals did not necessarily have the upper hand. Even if the Union of Beijing Intellectuals made a decision, more often than not it could not put it into effect. The Beijing Autonomous Student Union itself and the direction of its actions certainly could not control the entire progress of the student movement. After the student strike progressed to a certain degree, the overall movement picked up a certain mood which fed on itself. Therefore, in this sense it is very difficult to make a specific assessment of how much effect intellectual guidance had on the movement. It is also hard to say whether the Beijing Autonomous Student Union consistently dominated the student movement; there is no way to verify it. In fact, during the final stage in Tiananmen Square, the more impassioned and offensive one's stance, the more one held sway. No one heeded the more conservative and compromising

policies. Given this mood-driven activity, even the best political strategy would have been powerless to change it. At that time the students on the square said that "If anyone on the square does not wish to go forward, no one will be able to go forward." Now people criticize the students for not understanding the art of politics, for being unable to compromise, and so forth. But this is all armchair strategy: If those people had been on the scene themselves they could not have done anything.

There is no way to verify how large a role backstage intellectual guidance played in the student movement, but there is concrete evidence of influence in certain areas. First of all, from the beginning there were some intellectuals who took part in directing the student movement and who participated directly in front-line activities. Second, the intelligentsia's open letter and declaration of support for the students gave them considerable encouragement. Third, the close private contacts and discussions that intellectuals had with the students influenced the formulation of guiding political principles behind the movement.

However, to prevent the Communist Party from getting anything on them, during the student strike intellectuals tried to avoid direct public contact with the students and participated in no organizations. Aside from these two things, intellectuals could have participated in the marches or petition drives, but nobody was willing to take the lead. Granted that this was the case, nevertheless only a very few Chinese intellectuals participated in the activities of the student movement, and there were also very few students who were willing to act as movement leaders. In their hearts they were very unhappy with the government, but they were terrified and did not dare to act.

#### The Outcome of the Democracy Movement Was a Historical Accident

**Ming:** Some people feel that the "4 June massacre" that tragically ended the 1989 Chinese democracy movement was historically inevitable. Under the tradition of the dictatorship of the people in China, is there any place for historical accident?

**Wang:** I believe that the outcome of this movement was completely a historical accident. At the time we had no expectation of success, but neither did we know that it would end in this kind of tragedy. In the early weeks of May, when several intellectuals and I gathered to discuss the developing student movement, we figured that the Communist Party could choose one of three methods to handle the student movement: First, it could publicly make concessions and to a limited degree acknowledge some of the student demands. Second, the Communist Party could have it both ways, by refusing to retract its version of the "turmoil," promising to deal with some student demands, but then at the end seizing several freedom seekers as a warning. I felt that this scenario was most likely, and was prepared to sacrifice several intellectuals to prison in exchange for some substantive

progress. Third, we thought the Communist Party might put down the movement and refuse to admit any errors, but we never thought that they would open fire. That was something nobody even considered. This does not demonstrate that our appraisal was wrong or naive, because we did not make these predictions out of our own wishful thinking. We considered the question from the perspective of what was in the Communist Party's best interests in all areas. The decision to open fire and crush the movement came exclusively from the mind of Deng Xiaoping, not from within the party ranks or as a result of the current nature and attitude of the Communist Party. The result of the vote on whether to enforce martial law is obvious. Zhao Ziyang opposed it, Hu Qili [5170 0796 4539] and Qiao Shih [0829 4258] abstained, and Yao Yilin [1202 0181 2651] and Li Peng endorsed it. Behind, in the key roles, were Deng Xiaoping and Yang Shangkun [2799 1424 2492]. Therefore, I feel that the "4 June massacre" that culminated the 1989 student movement was entirely the fortuitous result of an action ordered by Deng Xiaoping in a moment of weakness. It was not inevitable at the movement to end in this fashion.

#### **Domestic Factors Will Determine Whether There Is a New Upsurge in the Democracy Movement**

**Ming:** Right now many fine democracy activists are under arrest or have been forced into exile abroad. Will this affect the strength of the democracy movement in China? Under what circumstances would another upsurge in the democracy movement occur?

**Wang:** An upsurge in the democracy movement is very difficult to predict, particularly in an autocratic society. During the recent student movement, which individuals became student leaders was also decided by chance. Those who did become student leaders were by no means the most outstanding of the students. Now, some student leaders have been arrested or have gone into exile abroad, but this certainly does not imply that there are no more Chinese university students who are so courageous and insightful. There are still a great many such people. However, they need an opportunity or some turning point to bring them to action, and this kind of opportunity is always rare in China. Oftentimes an explosion must be touched off by some incident. The social conditions necessary to produce a new democracy movement still exist. The other conditions depend upon whether inner wrangling breaks out again within the party, and whether there is some concrete incident, such as the death of Deng Xiaoping for example, that will act as the fuse to ignite an upsurge in the democracy movement. Many people erroneously believe that the events in East Europe and the Soviet Union will reignite the democracy movement in China, but this is impossible. Foreign events cannot provoke an upsurge in the democracy movement in China; only domestic events and factors within the CPC can do so. Of course, the above factors would promote a peaceful democracy movement. If the pressure of CPC control over society grows too great, there is also the possibility that a violent

democracy movement will arise. For instance, perhaps there will be localized mass uprisings such as occurred in Romania. If it does not occur in the Romanian pattern, then the upsurge of a peaceful democracy movement would undoubtedly require an intensification of internal power struggles within the party.

**Ming:** There are now many democracy organizations overseas. Do you think foreign democracy movements could affect the mainland? What influence did foreign democracy organizations have on the 1989 Chinese democracy movement?

**Wang:** Since the earliest inception of the democracy movement, no matter what foreign democracy organizations have done it has had a very limited effect on the democracy movement on Mainland China. If there is another upsurge in the democracy movement in China it will undoubtedly because the conditions I mentioned above have already matured. The impetus of the democracy movement derives from the domestic situation, not from that overseas. However, it is significant that foreign democracy movements do everything possible to influence the Chinese democracy movement. The 1989 Chinese democracy movement did not arise from the influence of foreign democracy movements, but one thing is sure: We are affected by the medium of foreign public opinion, and we derive encouragement from the support of public opinion abroad. When the CPC was proclaiming the foreign democracy organizations to be "reactionary organizations," the legitimacy of the CPC had not yet been forfeited. The common people of China had not yet lost faith in the rule of the party, they were merely very disappointed. Since the "4 June massacre" the situation has changed completely, and the CPC has forfeited its legitimacy. Therefore, if foreign democracy organizations present a good image and really make an effort in China, although their role will not be decisive it should nevertheless not be underestimated. If other outstanding students who have not been exiled can study abroad and come up with theories for building a better China, that might be a tremendous help to the future of China.

*Zhang Lun [1728 0243] is one of the small minority of Chinese intellectuals who participated in the actual front-line operations of the 1989 Chinese democracy movement. He is a close comrade-in-arms of the democracy movement's "old soldier," Wang Juntao [3769 6511 3447], and was deeply influenced by Wang's ideology. When the 1989 Chinese democracy movement began he actively threw himself into the student movement and fought side by side with them until his strength gave out and he was forced to evacuate Tiananmen Square. His assignment in the square was that of general director of public security, responsible for ensuring the security and maintaining order among all the students in the square and directing the interception of military vehicles. Zhang Lun was born in 1962, did postgraduate research in the department of sociology at Beijing University, and taught in the political science department of China University of Geology. Simultaneously, he was the chairman of the*

*Office of Chinese Cultural Research at China's most influential local public academic organization, the "Beijing Academy of Social and Economic Sciences," where he conducted many important, positive social and economic research projects such as surveys of the political and cultural mentality of Chinese citizens.*

### Intellectuals Should Do More

**Ming:** You had a very close association with the 1989 Chinese democracy movement, yet from the time of the movement's inception until you went into exile abroad, you never granted an interview to the press, although you were constantly on the front line in Tiananmen Square. Please tell us what you did in Tiananmen Square.

**Zhang Lun (referred to below as Zhang, for short):** At the beginning, on 15 April, I went in my own capacity to Tiananmen Square to mourn and deliver a wreath. Thereafter, I spent nearly every day on the square until 30 May, when I got too sick. So I participated directly in the student movement and witnessed its entire development with my own eyes. I have participated in all the student movements in Beijing in the past few years and have had a great deal of contact with the students. This occasion was no exception. After the student fast began I formally became a part of the Beijing Autonomous Student Union command post on the square and worked together with the members of the union's standing committee. Finally I assumed the position of general director of public security on the square. This position was fraught with tension: I had to maintain order throughout the square and intercept military vehicles. However, I do not wish to be called one of the leaders of the democracy movement, so I have not said much since I went into exile. I am only an ordinary young scholar.

**Ming:** As general director of public security on Tiananmen Square, what are your feelings about exile abroad?

**Zhang:** When I was in hiding on the mainland I was very calm; I felt close, both spiritually and geographically, to my friends. But since I left China my spirits have been low. For one thing, I feel far from my homeland and can no longer feel the beat of her pulse. Second, I feel farther and farther away from my friends, and I have had many qualms of conscience since I reached safety. I was forced to leave the square on 30 May because I was sick and my strength was waning, so I was not able to be there on 4 June. I did not flee the square, but as general director of public security, because so many other kids and people sacrificed themselves, I feel a deep sense of disgrace that I did not die on the square. Not only was the movement defeated, but so many people died that we who escaped by chance can boast of no credit to ourselves. When I think of my friends who are in prison and those who died, it is very hard to rest easy.

**Ming:** You are one of the very few intellectuals who joined the front lines of the student movement and fought side by side with the students. Based on your

experience in the movement, what is your opinion about the courage of Chinese intellectuals in shouldering their social responsibilities?

**Zhang:** During the 1989 Chinese democracy movement the fact that Chinese intellectuals took the initiative upon themselves to participate in the movement is truly a major step forward, and one that is worthy of affirmation. But on the other hand, the movement also revealed many failings among the Chinese intelligentsia, such as their weakness and utilitarianism. Of course, these are the evil consequences of many decades of despotism. However, I feel that, in the wake of the Cultural Revolution, the intelligentsia should have done more than they did. They did not acquit themselves very satisfactorily, stopping too often at mere declarations and statements, and lacking the courage to take the step toward concrete action. The attitude that Chinese intellectuals displayed during democracy's fight for existence, our struggle for light instead of darkness, is something that should serve as food for thought for the Chinese people. It is essential to record this for posterity. I observed during this movement that Chinese intellectuals lacked a kind of moral courage as far as any real action was concerned. No matter how talented people say they are, these intellectuals lacked the moral courage to take any concrete action in the face of truth, and therefore I feel they cannot have produced much in the way of remarkable scholarship, either. During this movement, when the demonstrations began I felt that if I did not join the front ranks I would never again be qualified to discuss democracy and freedom with the students, because there is always a process of active striving that must take place in between the speechifying and the achievement of the ideal. In the context of China's social situation, the 1989 Chinese democracy movement arrived before its time. Nevertheless, we cannot rationalize away our weakness and timidity, because assessing the rationality of the movement's success or failure and taking action to safeguard the truth are two different things. Rationalizing why we lacked the moral courage to act as a rear-guard support force is itself synonymous with weakness and timidity. Actually, the students in the movement criticize the intellectuals because so very few of them took an active part in the movement.

### A Defeated General Dares Not Talk About Courage

**Ming:** You have stressed that you, yourself, were not a leader or a talent behind the democracy movement, and you have strong objections to the attitude of certain self-styled leaders of the democracy movement who have sung their own praises abroad. Is this the message you wish to send, through this interview, to foreigners who care about the Chinese democracy movement? Now you can explain your objections.

**Zhang:** First I want to emphasize that the 1989 Chinese democracy movement arose entirely spontaneously, and it also evolved spontaneously from a student movement into one in which the whole people participated. No one individual could have been strong enough to lead it.

Within the movement, many people made contributions according to their respective viewpoints and instincts, and history will judge them fairly. Many of those still alive who truly participated in the movement, whether they are imprisoned or keeping silent, know the truth in their hearts. Each person knows best what he did or did not do. "A defeated general does not dare to talk about courage," and we are the "heroes" of a defeated movement. With so many friends suffering in prison, and given that many students and common people sacrificed their precious lives, while most ordinary Chinese people continue their silent struggle, I feel that those of us fortunate enough to live and escape are not qualified to boast too much about our own contributions to the movement. Of course, we should talk about what we did, but we must not take credit for what someone else did or inflate the things that we did do. Let me mention in passing the foreign broadcast media: They should take notice of those individuals who truly put in a great deal of effort, rather than just scramble after the few stars of the democracy movement who have been covered in the press. The public, when dealing with reports and editorials on the movement, should be fair-minded and objective, and not indiscriminately crown just anyone with the title of "leader of the democracy movement," or flatter some individuals excessively. This only makes certain people involved in the democracy movement unable to judge themselves objectively. At the same time, it does a disservice to those who truly were leaders of the democracy movement or the student movement, and the competition for flattery and the self-congratulations corrupt the general atmosphere of the democracy movement. As the Chinese people say, no one is a leader just because he proclaims himself one. If some of my friends consider themselves to have been leaders of the democracy movement, then they must take historical responsibility for the defeat of this movement. Amidst all the laurels and the applause, they cannot accept the credit for leadership and yet refuse to take responsibility for the mistakes which defeated the movement. What is the rationale for saying that the triumphs belong to them, but the losses belong to someone else?

#### **Overseas Democracy Movement Organizations Must Combine Forces**

**Ming:** Do you have any particular opinion about the current growth of democracy movement organizations overseas?

**Zhang:** I know that when the battle for democracy began we discussed the issue of qualifications for participation in the fight. We should acknowledge that during the Cultural Revolution many people made contributions from various angles. The crucial importance of the current democracy movement lies not in the past, but in the present and future. Anyone who opposes the fascist regime and who struggles to establish a prosperous, powerful, democratic, and free China, so long as he actually makes sacrifices and works toward this ideal rather than acting only for the benefit of individual or

small-group interests, should be regarded as a comrade-in-arms, because, after all, our enemies are in the minority. From this perspective, we should not haggle over any particular qualifications for participation in the fight. Those of us who work for the democracy movement from abroad have produced limited results on the mainland, so we should combine forces with more people.

**Ming:** In the democratic cause you were a close comrade-in-arms of Wang Juntao. I feel that from the beginning of the movement on 5 April, Wang Juntao made history by staunchly taking concrete actions on behalf of Chinese democracy. He made good on his word and was an outstanding intellectual. What do you think?

**Zhang:** I worked together with Wang Juntao, Chen Ziming [7115 1311 2494], and the others for many years, and it was through them that I came to recognize the idealism and spirit of sacrifice among the people involved in the democracy movement that began on 5 April and in the Xidan Democracy Wall movement. Of course, they also had keen insight and profound social experience. For example, as early as the public acclamation over Deng Xiaoping's second rehabilitation, Wei Jingsheng [7614 0079 3932] warned that we must guard against a Deng Xiaoping dictatorship. They truly made an enormous contribution toward the development of the Chinese democracy movement. Today, when the participants in the 1989 Chinese democracy movement are being eulogized by public opinion both at home and abroad, I still would rather offer these plaudits to this circle of friends. These friends have one further distinguishing characteristic: They have a profound understanding of Chinese society, and they have not abandoned their efforts in the struggle for democracy merely because of the ignorance, backwardness, and privation of the Chinese common people and peasantry. It is true, they have made history through their actions, and they have not waited for any particular movement to arrive in order to act as its manipulators. I feel that in some respects the participants in the 1989 Chinese democracy movement, including myself, should learn from these friends.

**Ming:** What practical things do you think those in exile can do on behalf of Chinese democracy?

**Zhang:** I am very unwilling to come out in the open, because I am hiding at a friend's home, which involves him in this matter, and if I come out in the open there will be very painful repercussions for him. I had wished that I had died in the square protecting the students, but since I am still alive I must display the courage an intellectual should have in order to endure any distress and to accept the challenge of building a new life in a place far from my homeland, where I do not understand

the language and have no place to live. We must also clearly understand that democracy movement participants in exile abroad can only act as auxiliary troops in any developments at home. Given this fact, we can still try to accomplish some things on behalf of Chinese democracy: For example, we can maintain the pressure of international public opinion on China, transmit the

news of East European and Western democracy into the mainland, and serve as a bridge linking the interior of China to the outside world; and we can study democracy and do a good job of building a theory of Chinese democracy. To make these efforts more efficient, the organizations of the overseas democracy movement must combine forces.

## NATIONAL AFFAIRS, POLICY

### Enterprise Funds Remain Tight

90CE0267A Beijing JINGJI RIBAO in Chinese  
1 Jun 90 p 3

[Article by Liu Xiaohai (0491 0876 3189)]

[Text] Tight funds have seriously inhibited development of the national economy. While the state has continued to inject some capital into the process, the contradictions associated with a tight money supply have not let up. This writer feels that the chief contradiction facing industrial production at present is not only a problem of available funds, or that of amounts, but that of a block in the circulation of capital funds. The infused funds have not been able to circulate because they have been stifled by the pressure of an overstocked inventory. If this problem in the circulation of capital funds is not resolved, it will become increasingly serious: with more of the funds infused, the greater the pressure from inventory accumulation, and the heavier the load carried by industrial enterprises. Profits and taxes based on the value of the output will diminish and the tight supply of funds will remain unresolved.

Take the 338 enterprises in the city of Jinzhou that took out loans from the Industrial and Commercial Bank as an example. At the end of 1989, the amount of circulating funds in loans was 1.14 billion yuan. Compared with figures from the previous year, this shows an increase of 190 million yuan with a rising spread of 16.7 percent, and a reduction of 39.76 million yuan in total industrial output value, a drop of 31.1 percent. The spread for the drop in profits was even greater, reaching 36.3 percent. Statistics available at the end of February this year, as compared with that for the previous year, also showed that the amount of circulating funds in loans or credit extended also increased by 22.79 million yuan, while the total industrial output value was also reduced by 13.19 million yuan, a 2.4 percent drop, and a 69.9 drop in profits. Now why, in face of a continuous increase in the amount of funds poured in, do profits and taxes on output value continue to drop? Moreover, loans and credit are continuously requested of banks. But where has all this money gone?

A survey of enterprises concerned shows that in most cases, the enterprises' overstocked inventory takes a chunk of this money, and debts owed others take a chunk. Most of the viable funds that banks continually pour into enterprises is translated into dead weight inventory stashed in warehouses or goods shipped out yielding no return. All this happens as outstanding loans continue their vertical rise.

Let us set aside any discussion of debts that enterprises owe each other. Why do these loans drag on and on—the more funds are injected, the more funds are needed, and inventory accumulation becomes increasingly heavy. According to what we can grasp at present, the following conditions are generally noted:

First, the old accumulated inventory has not been disposed or taken care of in time. In recent years, most individual enterprises have been operating on contracts or leases for durations of five years. Usually, the enterprise contractor or lessee has already received a batch of old inventory. Because disposal of inventory was not specifically mentioned by management offices at the time the contract was drawn up, the contractor would just as soon leave the accumulated inventory alone, without further thought of disposing it. Since the accumulated inventory frequently has problems with quality or other specifications, its disposal requires lowering the price to sell it. Price reductions lead to loss, which in turn results in lowered profits or a net loss. Such action directly affects completion of contract guidelines.

Second is the realization that production continues, even with the accumulated inventory, so this overstocking continues to pile up. In correcting this situation, some enterprises cannot adapt to changes in the external environment, and find themselves unable to regulate the production structure in a timely way. Because the goods produced either do not meet specifications, are of poor quality, or priced too high, their marketing becomes a problem. A voluminous inventory piles up, the enterprise incurs losses to the extent that the payroll cannot be met, the workers are furloughed, and all production ceases. To maintain stability, some local governments even allow their banks to float loans which quickly settle into a vicious cycle of production—overstocking—production. It cannot be denied that it is necessary for the government to inject money to stabilize the market, for without stability, how can there be economic development? Some economists say that the state's proposal to first maintain stability before all other tasks is very proper, whether in retrospect or in prospect. Without social stability, nothing can be carried out, and stability is a prerequisite in economic development. However, a stable foundation hinges on economic development. Only with continuous economic development can society be more stable. For without a stable economic foundation, social stability cannot last long. Social stability and economic development complement each other. The two cannot counter each other; rather, they promote each other in a mutual exchange.

Third is the simultaneous activity of startup, production, and overstocking. Because of weakness in the present market, and the effect of some unforeseen factors, large and medium-sized priority enterprises, including "doubly-insured" enterprises designated by the state, are also experiencing inventory accumulation problems. While the state has adopted some protective policies toward these enterprises, under a tight capital funding situation, the state still puts up to a hundred million yuan of circulating capital to support and assure normal production for these enterprises. However, the results have not been all that satisfactory.

Fourth is the blind production that goes on without some coordination between production and marketing. This is also one of the causes of inventory accumulation. An

agglutinating flux, an urgently needed substitute for the imported product, especially with its good quality and low cost, is an example. Because of a lack of coordination, domestic enterprises were not operating at full capacity, and domestic users were wasting foreign exchange for imports in a situation that further contributed to inventory overstocking. In another example, because latex gloves sold well on the international market a couple of years ago, some domestic enterprises were fighting to make them. In Liaoning Province alone, over 300 lines were brought in. In a situation where the marketing picture was unclear, production continued blindly, creating a great inventory accumulation that led most enterprises to stop production, or to convert to another product line.

How can we realistically resolve the causes of inventory accumulation, this obvious problem that is stifling economic development? This writer thinks we must start in the following areas:

1. Dispose of old inventory accumulations as quickly as possible. Enterprises must be encouraged to actively dispose of this overstock, and take a practical view of the losses that incur from keeping it around. First, the enterprise must try to absorb it. Second, they must suitably adjust the basic contract to fulfill its obligations, dispose of the inventory accumulation, and keep any fresh inventory accumulations from being written into the contract contents. Third, financial agencies must help to gradually make up the losses. Enterprises cannot adopt the idea that when profits are great, the take (income) is great, but when losses occur they can be ignored. At the same time, attention must be given to educating enterprise operators to overcome behavior associated with short-term contracts.
2. Take effective measures against enterprises that continue production in face of inventory accumulations piling up. Enterprises must be encouraged to convert to another line of production, be given assistance to operate according to economic principles to restructure their product line in the direction of scientific and technological improvements. At the same time, enterprises that are not making this transition, or whose products have no market, must be terminated, better early than late.
3. Pay attention to transferring start-up capital funding to large- and medium-sized enterprises. The problem of capital funding for industrial production at present is not about the amount of the loans, nor about links in the production chain, but about the fact that the capital funds do not, or cannot, circulate—a blocked circulation resulting from a soft market. Introducing startup capital funds into production links is not as good as releasing a small flow of capital and allowing it to flow downstream into circulating channels. That is, introduce more capital funds into commercial agencies buying materials and goods and support more savings in the business sector, and thus allow commercial enterprises to utilize their pool of savings. For those individual enterprises with temporary inventory accumulations caused by some

objective factors, they should be suitably regulated and be given some economic leverage in the form of bank or tax credits to help them over their temporary difficulties.

4. Strictly adhere to the principle of fixed quota marketing, using marketing to guide enterprise production. Enterprises must implement quota management of capital funds derived from finished goods, and stop or reduce production, or convert to another line to deal with goods produced in excess of quota, and to prevent new inventory accumulation. This way, a basic balance in the production-marketing base is assured to promote production development.

5. Strengthen marketing to continually open up new markets. Enterprises must change their heavy emphasis on production and indifference to marketing in order to give heavy emphasis to marketing. They must also change their attitude whereby attention is given to cities with little regard for the rural villages, emphasizing instead the opening of agricultural markets and strengthening marketing potential for developing a rural market.

6. Improve the production-marketing link, and prohibit blind production with eyes closed. We suggest that all local governments take charge of production-marketing coordination in their own localities. Practicing a small circulation of funds in the local economy will lead to practicing a greater circulation in the national and international economies. However, to prevent the practice of local protectionism and blockades, we must operate according to economic principles to promote stable development in the state's economy.

## PROVINCIAL

### Fujian Outlines Financial Plan for Rest of 1990

90CE0394C Fuzhou FUJIAN RIBAO in Chinese  
29 Jun 90 p 1

[Article by FUJIAN RIBAO correspondent and the provincial Department of Finance: "Meeting of Finance Bureau Directors' From All Over the Province Calls for Development of the Economy To Gain Sources of Revenue"]

[Text] A conference of finance bureau directors from prefectures and municipalities, and from key counties (or county level cities) throughout the province concluded in Xiamen on 28 June. This conference emphasized study of the province's current financial receipts and expenditures situation, and actions to be taken during the last half of the year to increase revenues and curtail expenditures to insure a balanced budget for the province.

Before the conference, provincial CPC Committee secretary Chen Guangyi [7115 0342 3015] made some important remarks. He said that CPC Committees and governments at all levels should give great attention to economic work. They should regularly study government financial problems, feeling neither blindly optimistic nor

at a loss what to do. Right now special emphasis must be placed on enduring lean times and getting through difficulties together. During the second half of the year, a good job should continue to be done in conducting a major examination of finances and taxes, and the double increase and double economy campaign [the campaign to increase production and practice economy, and to increase income and reduce expenses] is to be continued.

Provincial Governor Wang Zhaoguo [3769 0340 0948], and Deputy Provincial Governor Chen Mingyi [7115 2494 5030] held informal talks on the morning of the 28th with prefecture, municipal, and country finance directors attending the conference, and made important speeches.

The conference noted that marked achievements have been scored in the province's improvement of the economic environment and rectification of the economic order, and in the deepening of reform. In addition, new experiences have been accumulated. Nevertheless, new conflicts and problems have also appeared. For the first five months of the year, the province's financial revenues were approximately 100 million yuan less than the amount that plan calls for by this time, while financial expenditures increased 16.4 percent during the same period. If revenues do not fulfill plan, and expenditures cannot be controlled, a balanced budget will be impossible, and the government will also be unable to allocate more money to support production and construction. Thus, we must earnestly do the following several tasks.

1. Develop the economy and stabilize the economy to make a contribution to political and social stability. Good performance in government financial work requires both attention to generating funds and amassing finances and the control and use of finances. The province's economy today is still a speedy benefit type [sudu xiaoyixing 6643 1653 2400 4135 0992] in which production does not rise and it is difficult to increase government revenues. Therefore, governments at all levels have to think in terms of production, and be concerned about production, taking the initiative in doing more for enterprises to help them solve their concrete problems. Support for, assistance to, and encouragement of enterprises is a fine tradition in the finance and tax system. Government finance and tax units must do all possible to come up with ways to make production rise, particularly to make the production of large and medium enterprises rise.

2. Fulfillment of the 1990 government revenue quota must be assured. Finance and tax departments at all levels have to both spur production to increase revenues and also organize revenues. They must effect a balance between receipts and expenditures, and also show concurrent concern for the interests of all parties. They must both assure that basic needs are met, and also support key construction. Handling these relationships well is very difficult. Therefore, revenue quotas must be fulfilled, and this will require that everyone do a lot of arduous and painstaking work. They will have to collect

every bit of revenue that should be collected within the purview of policy regulations, and deposit all of it in the treasury. The party and government at all levels will have to study government financial problems regularly, and finance and tax departments will have to take the initiative in reporting to party and government leaders requesting instruction. The provincial government will do all possible to support finance and tax units in the performance of their work.

3. Efforts to control and conserve on government financial expenditures to realize balanced government budgets throughout the province. By broadening sources of income and reducing expenditures, and by accumulating funds over a long period of time, poverty can be turned into riches, but spending money recklessly without budgeting is worrisome. Scientific management of finances, and painstaking budgeting is a required duty that is part of arduous struggle. When we urge arduous struggle, we do not mean not spending money, but rather not spending money recklessly or ill-advisedly. Money has to be spent in places where it will "incubate." It has to be spent where it will return value and benefits. Under today's circumstances of government financial difficulties, special emphasis has to be placed from the beginning on enduring lean times and getting through difficulties together. All levels have to halt making new expenditures, reducing expenditures and increasing disbursements. For all fairly substantial expenditures, the government must institute "designated person" examination and approval. Places that go into the red because of failure to take account of their own capability to do desirable things, and find themselves in money management troubles are not to be loaned funds by the province, nor are they to be helped solve their problems at the end of the year. Departments and units that spend freely and commit serious waste without concern for the national interest are to be put on notice.

### **Suggestions for Easing Guangzhou's Market Slump**

*90CE0394A Guangzhou GUANGZHOU RIBAO  
in Chinese 11 Jul 90 p 1*

[Article by Xu Zhi (6079 2535), Director Municipal System Reform Committee: "Remedies To Ease the Market Sales Slump"]

[Text] The market sales slump is the main factor limiting current economic development. The task of easing the market sales slump should be handled as a major contradiction.

Reasons for the market sales slump are various. The slump may be attributed to both the structure and to cutbacks, and there are reasons both outside enterprises and inside enterprises. We have to proceed from the situation as it exists today, taking multiple actions to solve the problems. The writer believes the following eight particulars may provide some choices.

1. Acceleration of a readjustment of the product mix under market guidance. Products that are not easily marketable and for which markets cannot be found within a short period of time should no longer be produced, production switched rapidly to other lines. Efforts should be made to develop readily marketable new products (new products, new designs and colors, and new varieties), premium products (premium quality), beautiful products (attractive designs), and cheap (low in price) products. Doing this will require speedy trial manufacture of new products, and more technical transformation of enterprises to bring about a situation in which one generation of products is being produced, another generation is being trial manufactured, another generation is being researched, and yet another generation is being thought about so that new products come out in a steady stream.

2. Cooperation between industry and business for better sales promotion. First of all, fullest use should be made of the numerous outlets, the quick action, the wide network, the high prestige, the availability of information, and the good storage and transportation conditions of state-owned enterprises, and of supply and marketing cooperatives as main channels, and as "reservoirs," sending more industrial goods to them for sale. At the same time, full use should be made of subsidiary channel businesses in promoting the sale of commodities. Enterprises' sales forces should also be enhanced to sell products remaining after commercial departments have made their purchases. Industry and business should convene joint order-placing meetings and sales exhibitions for joint production and marketing, and they should intensively develop rural and inland "factory goods" markets. Flexible and varied sales tactics and operating methods should be adopted such as sales at reduced prices, making deliveries, after-sales service, and guaranteed lifelong repair of certain durable consumer goods in order to increase product sales.

3. Various action should be taken to stir the zeal of supply and marketing personnel. Sales commissions should be paid on the basis of sales volume, a fair sales commission percentage being set that also takes account of the value of the products sold and the difficulty in selling them. A sales commission should be withheld from receipts on the basis of the actual amount of money withdrawn from circulation through sales. Subject to the approval of departments concerned, a percentage should also be withheld on the basis of sales volume solely for business expenses and bonuses for sales personnel. Personnel who make conspicuous contributions to the sale of overstocked items should be given appropriate bonuses.

4. Stable policies that encourage privately owned enterprises and individually owned enterprises to operate actively in accordance with the law. Except for designated state monopoly commodities as well as commodities that by regulation may not be sold by privately owned or individually owned enterprises, such enterprises should be encouraged to sell all others. They may also engage in the long distance transportation and sale of fresh and live commodities (such as vegetables, melons, fruits, and aquatic prod-

ucts), and local specialty products, as well as the wholesaling of certain small commodities used in daily life from which restrictions have been removed (small sundries, small writing materials, and small knitgoods) as well as clothing, shoes, and headwear.

5. Guide consumption to stimulate purchasing power. The problem today is not a lack of purchasing power in society, but rather that large amounts of consumption funds are kept in savings accounts and idle purchasing power. Attention should be paid to publicizing the correlation between production and consumption, the correlation between thrift and economizing and the improvement of one's standard of living, and the correlation between living within one's means and being able to spend in various ways to guide the people in rational consumption. It is also necessary to somewhat lower interest rates paid on pooled funds and debentures in order to encourage a proper degree of consumption.

6. Suitable loosening of the controlled purchase of certain products. Controls should be appropriately relaxed on commodities that enterprises use in production operations, purchase of which is controlled, and on some commodities that food and beverage service businesses need to improve their businesses, purchase of which is also controlled. Products, which administrative and entrepreneurial units need to improve their operating efficiency (the purchase of which is controlled), should also be freed from controls provided the freeing from controls does not increase prescribed administrative operating expenses, and provided economizing norms are also fulfilled, units using funds they themselves have accrued through economizing to buy them.

7. Efforts to expand exports. The internal slump may be remedied externally. All industrial wares needed in international markets whose export the state does not restrict should be used to expand exports.

8. Improved enterprise control to increase economic returns. All basic tasks and the rules and regulation system related to fixed production quota control, cost control, funds control, quality control, and economic accounting should be further perfected, efforts made to lower consumption of electric power, fuel, and raw and processed materials, to accelerate the turnover of funds, to economize on production operating expenses, to lower production costs, and to increase the market competitiveness of products.

#### **Guangzhou Seeks Stronger Lateral Economic Ties**

90CE0394B Guangzhou GUANGZHOU RIBAO  
in Chinese 12 Jul 90 p 1

[Article by correspondent Wu Jianhong (0702 1017 4767): "Economic Coordination Departments at All Levels in the City Actively and Steadfastly Promote Lateral Ties To Stabilize Guangzhou's Overall Economic Situation"]

[Text] Despite the new situation in improving the economic environment and restructuring the economic

order, as well as the deepening of reform during the first half of 1990, Guangzhou unswervingly and steadfastly worked at the formation of lateral economic ties, making a contribution to the stabilization of the city's economy.

Since the beginning of 1990, economic coordination departments at all levels throughout the city have focused on the overall situation to stabilize the economy and stabilize production. During the campaign for improving the economic environment and restructuring the economic order, they explored new methods for promoting lateral economic links. Emphasis has been on work in the following regards:

Taking the development of raw and processed materials as the emphasis, they widened channels for the development of coordination on materials, preparing the where-withal for industrial production. Incomplete statistics show a total of more than 100 million yuan in materials as having come into the city during the first half of the year, and departments concerned have also improved the development of all forms of economic cooperation with domestic sources of supply of resources. The city has now built a relationship with the Wuhan Iron and Steel Complex, and the Baoshan Iron and Steel Complex, and it has signed a cooperative letter of intent with the Anshan Iron and Steel Complex. It is also exploring the establishment of cotton supply bases in Xinjiang and Shandong.

It has improved regional cooperation by emphasizing the opening of markets, building bridges and opening avenues to markets for the city's "factory goods." Since the first half of 1990, the city's economic relations with inland areas have developed further. All sorts of fairs showing "factory goods" have been held frequently in all jurisdictions in an effort to promote sales. The Municipal Economic Cooperation Office and the Municipal Economic Committee jointly organized more than 250 enterprises from all over the city to go to Ji'nan to operate a large products fair to boost the reputation of "factory goods" in Shandong. The Southern Mansions Department Store sent people out and invited people in. It both organized sales displays in Guangzhou of commodities from outside the city and got Dalian to operate a fair in the store, and it also organized sources of supply to the interior, jointly running a Guangzhou products fair in Lanzhou. Lanzhou has preliminarily selected 5 million yuan worth of commodities from Guangzhou.

Continued efforts were made to advance economic ties between the city and the countryside, emphasis being placed on the readjustment and consolidation of city and countryside jointly-operated industrial projects. Since early 1990, the city and all prefectures and counties have worked in concert with economic coordination departments to carry out a complete readjustment of city and countryside jointly operated industrial projects throughout the city. When problems were found, all parties coordinated at once to solve them. The Panyu

County Economic Coordination Office made skillful arrangements, using where it would do most good 20 million yuan in loans for city and county supported joint city and countryside operated industries, thereby enabling the development of 80 projects.

## FINANCE, BANKING

### Securities Market 'Flourishing'

90CE0407A Beijing JINGJI CANKAO in Chinese  
19 Jul 90 p 2

[Article by Liu Fan (0491 0416): "Involving Large Amounts and With Brisk Transactions, Business on China's Securities Market Is Flourishing—Concerned Specialists Plead for Enhancement of the System"]

[Text] Since the beginning of this year, with the increased stabilization of the financial situation and the downward adjustment of the interest rate for deposits and loans, China's securities market is showing excellent prospects. Negotiable securities issued between January and April amounted to 30 billion yuan, 3.57 times the amount issued during the corresponding period of the preceding year; the total amount of transfers reached 1.83 billion yuan, an increase of 3.05 times compared with the corresponding period of the preceding year, with redemptions amounting to 8.1 billion yuan, an increase of 3.3 times compared with the corresponding period of the preceding year.

Among negotiable securities issued in the market, state treasury bonds amounted to a total of 3.8 billion yuan, which was 12.7 percent of all issues. The issue of guaranteed-value government bonds, because of the delay in the transmission of their purchase plans, was this year extended by an issue of 3.74 billion yuan, a task that has now already been smoothly completed. In April, the Industrial and Commercial Bank, the Agricultural Bank, the Bank of China, the Construction Bank, and the Bank of Communications started issuing finance bonds to a total amount of 7.2 billion yuan, thereby completing 29.3 percent of the planned issue.

Presently, negotiable certificates of deposit play a major role in the securities trading market. From January to April of this year, a total of 20 billion yuan have been issued, which is 66 percent of all securities issued. A large number of these certificates of deposit are short term, of many grades, easy to store securely, and yield an adequate rate of interest; they are therefore well liked by the general public. Short-term finance bonds, because of the financial facilities they offer, also continue to be much favored by enterprises and by the general public. From January to April, a total of 1.09 billion yuan of finance bonds have been issued.

Trading in the market in state treasury bonds transactions from January to April amounted to 1.7 billion yuan, which was 3.1 times the amount transacted during the corresponding period last year. This year, there has been a greater variety of state treasury bonds available to the market. State treasury bonds issued before 1988 could be traded in the market, and trading of treasury bonds issued in 1989 was also started on a trial basis. After straightening out and consolidating matters, the security transfer organization has initially resumed business.

Enterprise shares issued between January and April amounted to a total of 250 million yuan and transactions amounted to 73 million yuan; this amounted to increases of 2.3 and 6.2 times, respectively, compared with last year. In the shareholding system, which is extensively being tried out in the Shenzhen Special Economic Zone as a pilot project with three measures—namely conversion of available assets into shares, issuing new shares, and issuing bonus shares—shares have been issued in the amount of 188 million yuan, accounting for 63 percent of the total shares issued at Shenzhen over the years. In this state of affairs, when it is not possible to satisfy the strong demand of the citizenry for investment opportunities, trading in shares has experienced an unprecedented upsurge.

Viewed from the standpoint of the nation as a whole, the securities market is developing quite unevenly, and many problems still remain to be solved. For instance, the 1989 plan provided for key enterprises to issue 3.5 billion yuan of bonds, but for various reasons only 600 million yuan in bonds were issued up to April of this year, thus fulfilling only 12 percent of the plan, a fact which had serious consequences for key construction projects.

At the same time, transactions in the transfer market for finance bonds, enterprise bonds, and large-denomination negotiable certificates of deposit amounted to only 26 million yuan, a decline of 16 percent compared with the corresponding period of last year, constituting only five per 10,000 in encashments of the above-stated bonds. There cannot be an overall redemption of all these various bonds, the terms for redemption are not uniform, and this is creating a great inconvenience for the transfer business. Moreover, the system for trading in negotiable securities is still very incomplete, and black-market trading in state treasury bonds and shares is rampant; this must be resolutely suppressed.

### **Coordination of Macroeconomic Control, Monetary Policy**

*90CE0262A Chongqing GAIGE [REFORM] in Chinese  
No 3, 20 May 90 pp 76-82*

[Article by Xu Meizheng (6079 5019 1767): "Macroeconomic Financial Regulation and Control and Monetary Policies"]

### **[Excerpts] [passage omitted] I. Macroeconomic Financial Regulation and Control in the Initial Period of the Founding of the Central Bank**

In September 1983 the State Council decided to let the People's Bank of China exercise exclusively the functions of central bank and let the newly-established Industrial and Commercial Bank of China take over the industrial and commercial credit and savings services of the People's Bank. Since then, a two-tier banking system led by the central bank has begun taking shape.

The founding of the central bank was an important step toward establishing an indirect control system, but it did not and could not establish an indirect regulation and control system immediately. During the initial period of the founding of the central bank, its funds were not separated from the funds of different specialized banks. Because of this, and because of the joint accounting system of all banks, the practice of eating from the same big pot still existed in credit fund management. Under the principle of "attracting more deposits and issuing more loans," specialized banks issued too many loans, and when there was a discrepancy, they would use the big-pot system to force the central bank to cover for them by supplying more money. Because of this, in October 1984 the central bank decided to reform the management system of credit funds and adopted the management method of "unified planning, keeping funds separated, ensuring that loans are covered by actual deposits, and coordinating loans with deposits." The central bank separated its funds from the funds of specialized banks and reformed the joint-bank accounting system. The main content of this reform was that the central bank loaned specialized banks a certain amount of money (including new issues of money) at the beginning of every year according to its plan, and the headquarters and branches of all specialized banks then had to keep their loan balances within the amount of these loans. Such balances are no longer allowed to be simply picked up by the central bank after the fact, which in the past resulted in the excessive issue of money. This reform enabled the central bank to exercise indirect control over the scale of loans by specialized banks through its loans to specialized banks (which is referred to as relending in China, and is namely the basic money supply of the central bank). This is a way for the central bank to effectively establish an indirect financial macroeconomic regulation and control system. But due to a lack of experience, the central bank then decided to use the balance of its loans to specialized banks at the end of 1984 as a base for the amount of relending funds it would issue to specialized banks in the future. Because of this, specialized banks competed with one another in issuing loans in order to raise the loan base the central bank would assign to them; this would allow them to receive more loans from the central bank the following year. Because of this, and also because of the economic overheating and the vigorous demand for loans, the central bank lost control over credit at the end of 1984.

The credit expansion in 1984 caused industry to grow at high speeds in 1985. The growth rate was 25 percent in January, 22 percent in February, and 25.2 percent in March. The loss of credit control and the excessive money supply at the end of 1984 and the excessively high growth rate of industrial production in 1985 attracted the attention of the central bank. In the first quarter it began readjusting the monetary policy and properly tightened the money supply. With regard to the credit situation, credit was not tight in the first quarter; the tightening began in April. However, since the first quarter the amount of foreign exchange in the money supply declined every month. It fell by three billion yuan by the end of the first quarter, 8.5 billion yuan by June, and 17 billion yuan by year's end. A decline in the share of foreign exchange means a reduction in the amount of currency in circulation. The growth rate of money circulating in the market fell from 49.5 percent to 26 percent. In the meantime, in order to effectively control lending by specialized banks while exercising indirect control through its relending funds, the central bank decided to exercise direct control over the amount of loans issued by specialized banks. It reduced the amount of loans by using quotas to control loans and it abandoned the practice of "the greater the deposits, the greater the loans." This may have enabled it to effectively control the total amount of loans, but it was not conducive to arousing the enthusiasm of specialized banks and enlivening finance and the economy.

There was a time lag in the tight monetary policy. By November 1985, the industrial growth rate had fallen below 10 percent. By February 1986, it had dropped to 0.9 percent. The State Council warned that a slide in production should be prevented. In accordance with these instructions, the central bank began to readjust the monetary policy. Loans grew in March, and after April they increased by a fairly large margin. By August, industrial circulating funds had increased nearly 30 billion yuan, an increase of 20 billion yuan over the same period in 1985. While credit expanded, the monetary policy was also adjusted. Fixed fund loans were still controlled by quotas, but circulating fund loans were taken off quota and direct controls. Loans were allowed to increase as the amount of deposits increased. The central bank relied on its control of the basic money supply (namely its relending funds) and reserve funds to exercise indirect control over the amount of loans issued by specialized banks. The readjustment of the monetary policy and the change in monetary policy measures enabled economic growth to gradually recover. By October, the industrial growth rate exceeded 10 percent and reached 14.1 percent. In December it reached 20 percent.

The readjustment of the monetary policy and changes in policy measures by the central bank in early 1986 were correct. They successfully prevented a slide in production, revitalized the monetary situation, and accelerated economic growth. But they also had some problems and defects, namely the failure to appropriately tighten

money supply in the latter part of the fourth quarter of 1986, which resulted in excessive credit expansion. In December the increase in credit was especially steep. In that month alone, the central bank's temporary loans increased by 13 billion yuan, which accounted for 65.9 percent of the total amount of central bank loans issued in the whole year; circulating fund loans increased by 46.2 billion yuan, an increase of 20 billion over the same period in the previous year and equal to 40 percent of the total amount of circulating fund loans issued in the whole year. With regard to monetary policy measures, switching from direct control to exercising indirect control over loans issued by specialized banks by using the central bank's relending and reserve funds was an important reform. But it had some technical problems. For instance, the headquarters of the central bank allowed its branch offices to issue temporary loans according to a certain percentage of above-quota reserves (money deposited by specialized banks in the central bank in excess of reserve funds). This made it impossible for the headquarters to effectively control the total amount of temporary loans, which is the basic money supply of the central bank. In addition, branch offices of the central bank were willing to issue more temporary loans as a result of the intervention and influence of local governments. This was another technical reason for the excessive credit expansion at the end of 1986.

In view of the problems of excessive loans and loose credit at the end of 1986, in 1987 the central bank decided to strengthen the management of its relending funds and implement a monetary policy that was neither too tight nor too loose by strictly recovering loans it issued in 1986. Over 10 billion yuan of temporary loans were recovered in the first half of 1987. At the same time, it changed the rule allowing its branch offices to issue temporary loans according to a certain percentage of above-quota reserves. Instead, the amount of temporary loans was to be controlled by the central bank according to a specified ratio. This enabled the central bank to effectively control the basic money supply, and thus control the scale of credit.

Another success of the financial macroeconomic regulation and control in 1987 was that, at the end of the third quarter, the central bank readjusted the monetary policy effectively and in a timely manner. The central bank noticed that loans increased sharply when economic growth accelerated. It also thought about the tendency of specialized banks to expand the base figure of loans at the end of a year. Because of this, the central bank resolutely adopted a series of regulatory and control measures at the end of the third quarter: they raised the ratio of reserve deposits by two percentage points, raised the interest rate on central bank loans, and gave special deposits worth five billion yuan to credit cooperatives. These measures tightened money supply properly. That year the rate of increase for loans and cash both dropped below 20 percent, which was the lowest in recent years. The appropriate retrenchment of the monetary policy controlled credit expansion and guaranteed economic

growth. The central bank's success in financial macroeconomic regulation and control in 1987 was achieved by constantly summing up past experiences and perfecting the financial macroeconomic regulation and control mechanisms.

## II. Expansion and Retrenchment in 1988 and 1989

Document No. 1 of the CPC Central Committee in 1988 proposed speeding up the steps to reform and opening up. The implementation and deepening of the foreign trade, enterprise, and local financial contract systems aroused the enthusiasm of local governments, enterprises, and workers. Industrial production increased rapidly. In the first half of 1988 it increased 17.2 percent compared to the same period in the previous year. It increased even more in the second half of 1988. Along with the rapid growth of industry, inventories of goods plummeted and prices of capital goods increased. On the consumer market, not only did the retail price index increase every month, reaching 16.5 percent in June, but a trend of panic buying also appeared. In connection with this, loans increased sharply. In the first half of 1988, loans by bank and credit cooperatives increased by 82.1 billion yuan, an increase of 47.1 billion yuan over the same period in the previous year. The People's Bank of China had planned to recover temporary loans worth 20 to 25 billion yuan in the first half of 1988, but it only recovered 400 million yuan. [passage omitted]

Because the central bank did not have the independent authority to decide monetary policy, and because its regulatory and control system was not perfect, the People's Bank was in a very passive position. They tried to adhere to the tight monetary policy adopted at the 1987 National Planning Conference, but they had to support economic growth. As a result, credit expanded as the economy increased rapidly. Under these circumstances, instead of saying that the central bank purposely implemented a loose monetary policy to stimulate the rapid growth of the economy, we should say that the monetary policy was passively adjusted to meet the needs of high economic growth.

The growth rate of industry sped up again in August. In that month, the industrial growth rate was 18.3 percent, the retail price index was 23.2 percent, and the trend of panic buying appeared again on the market. In accordance with the instructions of the State Council, the central bank decided to tighten the money supply and implement a monetary policy of retrenchment. It raised the ratio of reserve funds by one percent, beginning 1 September. It raised interest rates on savings deposits and loans and began offering value-guaranteed savings deposits for deposits with maturity periods longer than three years. It also controlled the scale of credit extended by banks and non-bank monetary institutions. Between September and December 1988, loans increased by 61.3 billion yuan, which was a decline of 40 billion yuan and 60 billion yuan compared with the rate of increase for 1986 and 1987 respectively. This shows that the central

bank practiced retrenchment with great intensity between September and December 1988.

In 1989, the central bank continued implementing the monetary policy of retrenchment based on the retrenchment carried out in the fourth quarter of 1988. Retrenchment measures adopted since September 1988 have been of two types: one type controls the amount of loans, and the other raises interest rates and guarantees the value of savings deposits, especially for those with maturity periods longer than three years.

The effect of loan reductions is directly expressed in the decline in enterprises' demand and their ability to make payments, and means a decline in their deposits in banks. Loans were first tightened in September 1988. During the three-month period between September and December, enterprises' deposits dropped by 35.3 billion yuan. In December, due to the increase of loans, enterprises' deposits increased slightly.

Because of the retrenchment in the fourth quarter of 1988, enterprises' deposits declined by a large margin. Since the effect of the retrenchment continued and extended into 1989, the retrenchment of loans was not that intense in 1989. In the first nine months of 1989, loans increased 60.1 billion yuan, a decline of only two to five billion yuan compared with the same period of 1986 and 1987. However, enterprises' deposits declined substantially compared to the same periods in 1986 and 1987. In the first quarters of 1986 and 1987, enterprises' deposits declined 5.5 billion and 17.7 billion yuan respectively (which were normal seasonal declines). Enterprises' deposits picked up in the second quarters. By September, they had increased by 17.1 billion and 26 billion yuan compared to the beginning of 1986 and 1987 respectively. In 1989, however, not only did enterprises' deposits decline substantially in the first quarter, falling by 47.5 billion yuan in three months, but they continued to fall after the second quarter compared with the beginning of the year. By September, enterprises' deposits were 3.6 billion yuan less than at the beginning of the year. Compared with the corresponding periods of 1986 and 1987, this was a decline of 20 billion and 30 billion yuan respectively. This shows that, because the retrenchment of 1989 was carried out in addition to the retrenchment of 1988, the effect of the 1988 retrenchment was inevitably extended to 1989. Therefore, although the increase in loans in the first nine months of 1989 was not much smaller than that in the previous two years, the retrenchment of enterprises' demand was very powerful, and was expressed as a sharp decline in enterprises' deposits. This is why enterprises had such a hard time making their payments.

Because of this, if we analyze the loan situation in 1989 without considering the fourth-quarter retrenchment in 1988 and without analyzing the effects of retrenchment on loan control, we will not be able to correctly judge the effects of retrenchment or the economic situation. Because the retrenchment began in September 1988 and

not in January 1989, the retrenchment policy was implemented for a whole year, from September 1988 to September 1989, and not just for nine months. In September 1989 the industrial growth rate had fallen to 0.9 percent, compared to 20 percent in September 1988. This corresponded to the time lag in China's monetary policy, which was approximately one year.

Another monetary policy measure was to raise the interest rate, mainly of savings deposits, and guarantee the value of savings deposits with a maturity period longer than three years. Because a high inflation rate caused runs on banks in 1988, in September the central bank decided to raise interest rates and begin offering value-guaranteed savings deposits. Offering value-guaranteed savings deposits stabilized savings deposits, caused them to gradually pick up, and played an important role in controlling consumer demand. Between February and August 1989, savings deposits in urban areas increased nine to 15.1 billion yuan every month. Between January and September, the savings deposits in urban and rural areas increased a total of 99.9 billion yuan. The increase in urban savings deposits was 82.4 billion yuan, 40 billion yuan more than in the same period of 1988. Between January and September 1989, the average savings rate in urban areas (the ratio of savings to cash income of urban residents) was 30 percent, much higher than the 18 percent of 1988 and the 23 percent of 1987.

The effect of retrenchment created by raising interest rates on savings deposits effectively curbed consumer demand. Between January and September 1989, retail sales of social commodities increased 12.3 percent compared to the same period the previous year. Retail sales of consumer goods increased 12 percent; after deducting the price factor, retail sales actually showed a decrease. The rate of increase continued to decline month after month.

In sum, the tight monetary policy adopted since September 1988 and other retrenchment measures adopted to control the purchasing power of social groups and fixed-asset investment effectively curbed social demand. This caused the excessively high rate of industrial growth to gradually fall and caused price increases to gradually slow down. In the meantime, new situations and problems in economic life also developed. For instance, after September 1989, the industrial growth rate dropped too quickly, the number of workers laid off or switched to part-time production increased, and the market became sluggish.

In accordance with instructions from the State Council, the central bank readjusted its credit plan and increased credit in the fourth quarter in order to prevent a slide in production. While increasing credit, the central bank paid attention to readjusting the credit structure and provided support for those industries and enterprises which required support according to the industrial policy.

### III. Perfecting Financial Macroeconomic Regulation and Control and Developing the Regulatory Function of the Monetary Policy

The above is a review of the financial macroeconomic regulation and control exercised by the central bank since its founding. The central bank continuously perfected its macroeconomic regulation and control system on the basis of constantly reviewing its experiences. [passage omitted] Based on the experience gained by the central bank since its founding, in order to develop the macroeconomic regulation and control functions of the monetary system, we need to carry out reforms and make improvements in the following areas:

1. Give the central bank some autonomy in regulating the money supply. The central banks of other countries all have the power to regulate the money supply independently, although the degree of their independence varies. The governments of other countries give their central banks such power because monetary policies play a decisive role in the movement of the economy. If other sectors constantly interfere with central banks when they use monetary policies to regulate the economy, they will not be able to regulate it effectively or in a timely manner. Currently China's central bank does not yet have such power. This restricts the central bank when it uses monetary policies to regulate the economy. For instance, if the central bank decides to raise interest rates to check inflation, in China it must consult with different departments under the State Council. Some departments may worry that higher interest rates will raise enterprises' production costs and thus reduce their income. Some departments think that higher interest rates can increase investment cost and thus adversely affect capital construction. Some departments worry that higher interest rates mean higher export costs and thus can adversely affect exports. Such consultations may result in disapproval. When they finally reach a consensus in such consultations, they may have already missed the opportunity to make such a move. Because of this, we should give the central bank a certain amount of power to regulate the money supply on the basis of perfecting the regulation and control system.

2. Perfect the regulation and control system of the central bank. If the state gives the central bank greater monetary regulation powers in the future, the central bank's responsibility will be greater. To assume such responsibilities, the central bank must have a strong and powerful macroeconomic research department. This is because it needs to judge the macroeconomy and economic movements correctly if it wants to formulate and readjust monetary policies correctly. Foreign experience is worth learning from. For instance, the economic research bureau of the central bank of Thailand has 200 employees and about 10 departments, including industry, agriculture, and finance, responsible for investigating and analyzing economic situations in all fields. The research department of the U.S. Federal Reserve System (the Central Bank) has 300 employees, and 150 of them have doctorate degrees. The central bank of

Japan has an investigation and statistics bureau with 200 employees and a general bureau with 50 employees. The former is responsible for mastering all economic and financial situations and information at home and abroad; the latter is responsible for making comprehensive analyses of economic situations on the basis of these materials, and proposing monetary policies to the board of directors of the central bank. China's situation is far behind in comparison. Our current central bank has an investigation and statistics department, but it has a staff of only 40 people. It is impossible for them to master information and data of economic movements in all fields in a systematic way. Because of this, at present, vigorously consolidating and strengthening the economic research department is an important link in perfecting the financial macroeconomic regulation and control system. This department should not only have a considerable number of researchers, but they should also be high-quality researchers. They should not only correctly analyze and judge economic situations, but also study the relations between and the patterns of monetary policies and economic movements.

3. Reform and perfect the system of the central bank's branches. Currency is an important issue which concerns the whole system. Losing control over currency will result in losing control over the macroeconomy. If a local area expands the money supply and causes inflation, this will inevitably spread to its neighboring areas, and then to the whole country. Therefore, today the central banks of all countries have centralized all monetary regulation and control powers in their headquarters. Branches only have the right to enforce regulations or make proposals.

Currently the branches of China's central bank are established according to administrative divisions. China's economic system is undergoing reforms. Administrative functions and enterprise management are not separated in many areas. Branches of the central bank have the tendency to become localized. All this affects the enforcement of the monetary policy. For instance, in the first half of 1988, in order to support the rapid growth of local economies, some branches of the central bank could not recover central bank loans according to the temporary loan recovery plan issued by the headquarters; some exceeded the loan limit set by the headquarters by issuing excess central bank loans, which resulted in credit expansion.

In order to overcome the tendency towards localization in the branches of the central bank, guarantee the implementation of monetary policies and draw on the experiences of foreign countries (the branches of central banks in other countries usually are not established according to administrative divisions and branch presidents rotate regularly), the branches of China's central bank might possibly be established according to economic zones, and branch presidents might be appointed and removed by headquarters and regularly rotated among branches. This could guarantee the implementation of monetary policies from the organizational system.

We should also study the authority the branches of China's central bank deserve to have in monetary regulation. The power to make decisions concerning monetary policy should be centralized in the headquarters of the central bank. There is no doubt about that. But because China's territory is vast, its economic development is uneven. Under the prerequisite that the headquarters of the central bank has overall control, each branch might be given a certain amount of regulatory power. For instance, there are seasonal differences in the use of funds between an economic zone dominated by agriculture and one dominated by industry. Because of this, it might be feasible to give each branch a certain amount of seasonal regulatory power within the scope of the total amount of the relending funds of the central bank.

4. Perfect monetary policy measures and regulation and control mechanisms. Since its founding, the central bank has alternated direct control with indirect control. With the former, they exercise direct control over the scale of credit. In other words, they use quotas to exercise control over the amount of loans issued by specialized banks. With the latter, they exercise indirect control over the overall scale of credit through the use of the relending funds of the central bank, the reserve fund ratio, and interest rates on central bank loans. Although direct control can effectively control the total amount of credit, it is not flexible and is liable to stifle the economy. Because of this, after credit and the expansion of aggregate demand is under control, we should go back to relying mainly on indirect regulation and control, and use direct regulation and control as supplementary means.

Since currently prices are distorted, money markets are waiting to be explored, reforms which incorporate specialized banks are still in the initial stages, and rediscount rates and open market operations cannot yet be used by the central bank as policy tools. Currently the most important policy measure of the central bank is the relending funds it issues to specialized banks, or in other words its regulation of the basic money supply. The success of financial macroeconomic regulation and control in 1987 and the loss of control over credit in the first half of 1988 are both related to the management of the relending funds of the central bank.

The loss of control over credit in the first half of 1988 also shows that the central bank needs to strengthen the management of the above-quota reserves of specialized banks (that part of deposits of specialized banks in the central bank that is above the required amount of reserve funds) and the management of funds for account settlement. In the first half of 1988, in order to support the high-speed development of local economies, specialized banks in all localities used central bank loans to expand credit and used above-quota reserves to issue loans. At its peak, the total amount of above-quota reserves of four specialized banks reached 50 billion yuan. It dropped to 38.5 billion yuan in March 1988 and to 16.8 billion in September, which was below the critical line of reserves

needed to meet payments. As a result, in the first half of 1988, above-quota reserves became the source of funds feeding the expansion of credit of specialized banks. When the money supply was tightened in the fourth quarter and above-quota reserves dropped below the critical line, an all-round payment crisis occurred in specialized banks.

The experience of 1988 caused the central bank to pay attention to above-quota reserves. Beginning in 1989, the central bank stipulated that every specialized bank must maintain a definite ratio of above-quota reserves to deposits, and it exercised supervision to prevent above-quota reserves from dropping too low and causing a payment crisis. However, the central bank should also supervise and manage excess above-quota reserves, because when the economy overheats, excess above-quota reserves may fuel a credit expansion. In South Korea, in order to control credit expansion, the central bank used the method of special deposits to freeze the excess above-quota reserves of commercial banks. This experience is worth borrowing. With regard to the problem of specialized banks using settlement funds to expand credit, which occurred in the first half of 1988, the central bank is building a unified settlement system. The building of this system can speed up capital turnover and facilitate the macroeconomic regulation and control of the central bank.

In addition, financial macroeconomic regulation and control also needs the cooperation of other fields. Financial policy is an extremely important aspect. Currently, because China's reform is not coordinated, its finances face great difficulties. The increase in financial deficits increases pressure on the monetary policy. At the same time, when there are financial difficulties, problems which should be solved by financial departments are often shifted to banks. For instance, because of financial difficulties, instead of providing financial subsidies needed to support some industrial departments, interest rates are lowered for this purpose. As a result, interest rates will be distorted, and distorted interest rates cannot become an effective tool of monetary policy. The enterprise system poses another major problem for the monetary policy. Currently, China's enterprises, especially state-owned enterprises, cannot really assume sole responsibility for their profits and losses. When the monetary policy is tightened, some enterprises stop production but do not close down. The government has to assume their responsibilities. Since the treasury is short of money, the government must let banks issue loans to pay wages. When the monetary policy is loose, all enterprises, whether they are performing well or poorly, rush to expand. This aspect of the enterprise system shows that financial macroeconomic regulation and control lacks a corresponding microeconomic foundation. This makes it difficult to tighten or loosen monetary policy. In conclusion, in order to perfect financial macroeconomic regulation and control and apply the monetary policy effectively, the central bank should continue to perfect and improve the regulation

and control system on the one hand, and coordinate reforms in other fields on the other hand. The monetary policy cannot play an effective role unless price distortion, market division, and enterprise behavior distortions are improved through the deepening of the reform.

### Report on Shanghai's Securities Market

90CE0407B Beijing JINRONG SHIBAO in Chinese  
18 Jul 90 p 2

[Article by Tang Renrong (3282 0088 2837): "Strong Interest in Securities Investments Persists—Summary of June Activities on Shanghai's Securities Market"]

[Text] To alleviate the overconcentration of redemptions by citizens of treasury bonds from various years falling due on 1 July, all enterprises and industrial units have organized advance registration and will start continuous payments beginning 21 June. Because purchasing power in the market has increased greatly, there has been a great upsurge of investments in securities, and this caused market quotations in June to go higher and higher. In June, Shanghai's securities market exhibited the following three characteristics:

First, high interest in securities investments by private citizens. In May, due to ample propagation by Shanghai's news media, knowledge among Shanghai's citizenry was greatly enhanced as to forms, methods, and risks of investments in securities. As of the last week in June, a considerable part of the cash resulting from the encashment of some of the 1982, 1983, and 1984 treasury bonds and of the 1985 treasury bonds moved into the securities market, showing up as increased purchasing power in the market. After 21 June, large investors used capital obtained from encashments to buy various kinds of securities. On 21 and 22 June, there were as many as 2,000 visits by investors to the Haitong Securities Company. Over-the-counter transactions exceeded 8 million yuan, of which over 95 percent were sales transactions. The great investment enthusiasm of the general public was not only reflected in the market of negotiable securities but also in the market of new issues. On 26 June, bonds of the Chlorine and Soda Factory's Shanghai main plant, issued to the general public by the Shanghai Haitong Securities Company and the Shanghai Wanguo Securities Company, were subscribed to in the amount of over 10 million yuan within only three days.

Second, the large rise in security prices. With the brisk investment interest shown by the general public, large amounts of all kinds of securities were eagerly bought up, resulting in considerable price increases. On 30 June, the buying price of 1987 treasury bonds was 113.80 yuan per 100 yuan of face value, and their selling price was 115.80 yuan, that is, 5.30 yuan above the closing prices for both on 31 May, or an appreciation of 4.7 percent. The annual rate of return declined from 17.2 percent of 31 May to 14.80 percent. Quotations for 1986 and 1988 treasury bonds increased by 3.80 yuan and 4.50 yuan, respectively, per 100 yuan. The annual rate of return on 26 June had declined to about 12.4 percent. In June, the

Shanghai securities market, which for the last few weeks had not been much favored by the public, showed a new turn. After various share prices had registered some increases in the preceding months, they again showed new rises, most of them by about 6 yuan per 100 yuan of share value. The main reason for the rise in share prices was the stable progress of the national economy and a corresponding decline in the rate of return in the bond trading market.

Third, strong performance in the area of long-term investments. In June, Shanghai's citizenry was distinctly interested in long-term investments. Among the 1986, 1987, and 1988 treasury bonds, investors particularly welcomed 1987 treasury bonds due on 1 July 1992. Because of brisk purchases, prices rose considerably. In June, the price of 1987 treasury bonds had risen by 5.30 yuan per 100 yuan, while 1986 treasury bonds had risen by only 3.80 yuan. During the three days from 21 to 23 June, the Haitong Securities Company sold more than 4 million yuan of 1987 treasury bonds over the counter. Long-term investments were also reflected in the share market; many investors invested their capital in shares, and in June, transactions in shares did indeed show a certain increase. There was also a considerable influx of investments from outside of Shanghai by purchases being placed for shares in the Shanghai share market.

The great eagerness of Shanghai's citizenry to invest in securities reached new heights in June. Because quotations in June were exceedingly high, conditions in Shanghai's securities market will be relatively stable in July; there will be a slightly upward tendency within general stability.

## INDUSTRY

### Industrial Production Increases; Inventories Up

90P30068A Beijing JINGJI CANKAO in Chinese  
23 Jul 90 p 1

[Summary] New findings on the industrial sector resulting from interviews with material supplies, statistics, and concerned industrial departments indicate that industrial enterprises in various localities are making great efforts to increase production in all categories but are still facing the stockpiling problem.

There is an outstanding contradiction between increased production of rolled steel, timber, coal, cement, and other important materials and the stockpiling of these items.

Rolling steel reserves, for example, grew by 10.4 percent at the end of May compared with the same period last year, despite the more than 50 percent decline in import volume from the comparable period of last year. Output of rolled steel for the first five months this year increased 1.86 million tons, but 90 percent of this, or 1.67 million tons, went to inventories.

Coal, with an increased output of 28.71 million tons for the first five months of this year, had 10.65 million tons more in reserves at the end of May than in the beginning of the year, a 47.7 percent increase in reserves over the same period last year. One third of the increase in coal output went to stockpiles.

Timber, in spite of the 13 percent reduction in output over the same period last year under the state plan, still had 2.72 million square meters more in stock at the end of May than in January. This stockpiling increase represents 14 percent of the timber production for the first five months of this year.

Although cement production was supposed to be curtailed under the state order at the beginning of the year, current reserves are sufficient for 119 days. The amount exceeding the three-months warranty period alone has reached 3.87 million tons.

Overall, pig iron, copper, lead, caustic soda, soda ash, tire, plate glass, bicycles, watches, televisions, electric fans, knitting wool, and other industrial products all had larger inventories at the end of May than in the beginning of the year.

Moreover, the stockpiling of rolled steel, timber, coal, cement, and other materials takes place mainly in enterprise production and circulation departments. At the end of May, for example, rolled steel reserves in state-owned steel enterprises and material supply departments increased by 1.13 million tons, or a 68 percent increase in overall steel inventories. Timber reserves in forest regions and material supply departments increased 2.78 million square meters, exceeding the maximum additional timber reserve figures set by the state.

In calling on all localities to actively promote industrial production and pay attention to production growth while emphasizing product quality, to avoid using substitutes, and to develop new products and apply new techniques, experts also stress appropriately marketing the products, avoiding at all cost blind pursuit of output value increases, and practically and effectively reaching fixed quotas and promoting products according to market demand.

### Ministry To Develop Second-Hand Commodity Markets

90P30072A

[Editorial Report] JINGJI XINXIBAO, a Chinese-language national economic weekly published in Wuhan, reported on page 1 of its 24 July issue that the Ministry of Light Industry has decided to develop light industrial second-hand commodity markets throughout China. The ministry claims that this new policy measure is based on China's current market conditions and will have broad economic implications.

According to the report, the concerned departmental officials in the Ministry of Light Industry gave the

following reasons for the new policy: to boost the consumer goods market, which is large but has little consumer buying power (over 100 million households, or 500 million people, with low income), to quickly infuse rural markets with durable goods so as to more rapidly replace old products with new ones, to fully utilize the value of unused commodities that have been replaced, to satisfy growing demands for higher living standards, to facilitate development of new product varieties, and to increase employment opportunities.

The operational scope for second-hand commodities will primarily involve overhauling, repairing, and refurbishing those durable goods that still have use value, washing machines, fans, air conditioners, and furniture.

In a recent meeting called by the ministry, participants identified four concerns over this marketing mechanism: 1) Since second-hand commodity marketing is a non-profit social service enterprise, the state must carry out support measures in response to market fluctuations and price differentials; 2) To protect consumers, second-hand goods must enter into a service network for guaranteed repair and maintenance; 3) Before being sold, all second-hand commodities must undergo safety inspection and meet performance standards in accordance with regulations; and 4) Handling of service networks, maintenance warranties, and supply of parts must be improved and a reasonable fee scale established.

### Expanded Steel Production Planned

*HK2208023390 Hong Kong HONGKONG STANDARD (BUSINESS POST) in English 22 Aug 90 p 3*

[Text] China is seeking to expand steel output by 3 million tons a year in the next five years.

Zhang Fulin, vice-chairman of the China Metallurgical Chamber of Commerce, said in Hong Kong yesterday that China's steel output had increased by 2.76 million tons a year in the past decade.

Mr Zhang, who was in Hong Kong to promote a Metallurgical Industry Expo China 90 in Beijing in November, said there had been a breakthrough last year.

"In 1989 we reached a total output of 61.58 million tons," he said. "We will try to reach 64 million tons this year and add 20 million tons by the end of this century."

However, Mr Zhang conceded that China's steel industry still faced many problems. These included the noncontinuity of government policy and the inability of the national economy to develop steadily.

The iron and steel industry had been put high on the national economic agenda.

Mr Zhang said he did not know how much the central government would invest in the industry.

It was seeking foreign investment or loans to finance the industry.

Questioned about reports that some steel plants in China were seeking finance in Hong Kong, Mr Zhang said the industry was keeping close contact with foreign banks.

However, he did not expect any new loan would be signed in the near future.

He said China had established 24 joint ventures in the past year with foreign funds. The total capital of joint production enterprises was U.S.\$230 million (HK\$1794 million).

### Soda Ash Output Ranks Third in World

*HK1808055990 Beijing RENMIN RIBAO in Chinese 11 Aug 90 p 1*

[Report by Cheng Yuwen (4453 3768 2429): "China's Soda Ash Output Exceeded Three Million Tons in 1989"]

[Text] Tianjin, 10 Aug (RENMIN RIBAO)—The broad masses of workers in the soda ash production front have displayed the spirit of Hou Debang and relied on their own efforts to promote production. As a result, China's soda ash output has been increasing and become the third highest in the world following the United States and the Soviet Union. This year, China has put an end to its history of importing soda ash from other countries. This was disclosed by Gu Xiulian, minister of the chemical industry, at a meeting held in the Tianjin Soda Factory today to mark the 100th birthday of Dr. Hou Debang, a pioneer of China's chemical industry.

At present, there are 58 soda ash enterprises in China, but in the period just after liberation, there were only two. These enterprises are capable of producing 5.17 million tons of soda ash a year. Six large ammonia soda and four large joint soda plants in our country are among the world's largest soda plants. In 1989, China's total soda ash output reached more than 3 million tons. It is expected that it will reach 3.6 million tons this year, which will not only satisfy the domestic needs, but also can be exported.

### Statistical Bureau Lists Major Industrial Firms

#### Top 20 Listed

*HK2408102790 Beijing CEI Database in English 0829 GMT 23 Aug 90*

[Text] Beijing (CEI)—The following is a list of 20 biggest industrial firms in terms of net fixed assets in 1989 released by the State Statistical Bureau:

1. Northeast China Power Corporation
2. North China United Power Company
3. Shanghai Baoshan Iron and Steel Works

4. Central China Power Administration
5. Shengli Petroleum Administration
6. East China United Power Company
7. Daqing Petroleum Administration
8. Northwest China Power Administration
9. Zhongyuan Petroleum Prospection Administration
10. Anshan Iron and Steel Works
11. Liaohe Petroleum Prospection Administration
12. Qilu Petrochemical Corporation
13. Guangdong Power Administration
14. Xinjiang Petroleum Administration
15. Wuhan Iron and Steel Works
16. Shandong Power Administration
17. Sichuan Power Administration
18. Daqing Petrochemical General Plant
19. Shanghai Petrochemical General Plant
20. Benxi Iron and Steel Works

The above businesses had net fixed assets of more than 2.9 billion yuan in 1989, and the top seven, more than 10 billion yuan.

#### Leading Producers

HK2208032090 Beijing CHINA DAILY in English  
22 Aug 90 p 2

[Text] Power and steel producers topped the lists of 500 leading domestic industrial giants in terms of net fixed assets and turn-over of taxes and profits.

According to a survey by the State Statistical Bureau, the Dongbei (Northeast) Power Corporation was the biggest Chinese enterprise with 14.6 billion yuan-worth (\$3.1 billion) of property last year.

The Capital Iron and Steel Corporation was the nation's largest contributor, recording 2.5 billion yuan (\$531 million) in profits and taxes last year.

The top 500 enterprises were chosen from 12,000 major Chinese enterprises throughout the country on the basis of their economic performance in 1989.

The first group of 500 firms possessed a net total of 345.2 billion yuan (\$73.4 billion) of property, accounting for 61.6 per cent of the total net properties owned by the nation's medium- and large-sized enterprises, or nearly 40 per cent of the total owned by national industrial enterprises.

The second group of the top earners paid a total of 90.4 billion yuan (\$19.2 billion) in taxes last year, or 61.5 per cent of the total provided by all medium- and large enterprises, or 40 per cent of the total provided by all Chinese industrial enterprises.

In the first 100 of the 500 biggest firms, those from the coal industry accounted for more than 25 per cent. And petrochemical, steel, oil and power industries each had more than 10 firms.

In the first 100 of the 500 top tax-payers, cigarette factories accounted for 40 per cent and petrochemical plants 16 per cent.

Following the Dongbei Power Corporation came the Huabei (North China) Power Corporation, Shanghai Baoshan Iron and Steel Complex, Huazhong (Central China) Electricity Administration, Shengli Oilfield Administration, Huadong (East China) Power Corporation, Daqing Oilfield Administration and Xibei (Northwest) Electricity Administration. Each of the seven had net property worth more than 10 billion yuan (\$2.1 billion).

The Capital Iron and Steel Corporation, Anshan Iron and Steel Corporation, Huadong Power Corporation and Huabei Power Corporation were the top four tax payers, each paying more than 2 billion yuan (\$425 million) in taxes and profits.

#### Ningbo Rings Up Telecommunications Advances

OW1908191890 Beijing XINHUA in English  
1331 GMT 19 Aug 90

[Text] Ningbo, August 19 (XINHUA)—Ningbo City began to replace the five dialing numbers of its telephone system with six numbers from zero hour today.

Since the State Council approved Ningbo as one of the 14 coastal cities opening to the outside world in 1984, telecommunications has developed rapidly. The city has imported a 14,000-line program-controlled switchboard from Sweden and opened a 960-line microwave telephone project to Hangzhou and Shanghai.

Ningbo has 22,000 telephone lines now. It has direct dialing service with 182 countries and regions, fax services with more than 200 countries and regions and express mail deliveries to 60 countries and regions.

The city is now building a 134,000-line program-controlled telephone project with a loan provided by the Australian Government. The new project will be completed by 1992.

### Tianjin Development Zone Registers 189 Enterprises

OW1808203590 Beijing XINHUA in English  
0818 GMT 18 Aug 90

[Text] Tianjin, August 18 (XINHUA)—Foreign-funded enterprises in the Tianjin Technical and Economic Development Zone have reached 96 percent of the total.

By the end of June this year the number of registered enterprises amounted to 189.

The zone's total industrial output value, financial income and exports increased by 55 percent, 35 percent and 180 percent, respectively, in the first half of this year compared with the same period of last year.

## FOREIGN TRADE, INVESTMENT

### Fujian Governor Addresses Foreign Investment Needs

90CE0371A Fuzhou FUJIAN RIBAO in Chinese  
10 Jul 90 pp 1-2

[Article by Wang Bowei (3769 0130 0251): "Governor Wang Zhaoguo Speaks at the Provincial Government On-the-Scene Business Meeting: Guide and Encourage Investments by Hong Kong, Macao, Overseas Chinese, Taiwanese, and Foreign Businessmen; Suit Measures to Local Conditions and Encourage Extensive Land Development"; paragraphs in italics are a source-supplied introduction]

[Text] *The following are several key points and issues of importance at the present time:*

1. *We need to open up even more to the outside world and firmly establish a positive guiding principle on absorbing foreign capital.*
2. *We must diligently implement the State Council's "Temporary Management Method for Large-Scale Land Development Financed by Foreign Investors" and explore ways to attract more foreign capital during this period of rectification and improvement.*
3. *We need to continue to improve the existing "three kinds of partially or wholly foreign-owned enterprises," let them play the exemplary role, and increase the confidence of Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors in investing in Fujian.*
4. *We need to strengthen the infrastructure.*
5. *We need to strengthen the open cities and open zones ideologically and culturally.*

On 6 July, accompanied by Xi Jinping [5045 6602 1627], secretary of the Fuzhou City party committee, and Mayor Hung Yongshi [3163 3057 0013], Governor Wang Zhaoguo and You Dexin [3266 1795 7451] and Shi Xingmou [2457 1840 6180], vice governors, and leading comrades of the relevant departments directly

under the province's jurisdiction took a trip to Fuxing in Gushanxiang, Kuian in Mawei District, and to Choudong and Songxia in Changle County, sites Fuzhou City intends to develop into foreign investment zones, to make an on-the-spot investigation. They also held a provincial government on-the-scene business meeting in the Fuzhou Economic and Technological Development Zone to listen to reports by Fuzhou City on its effort to further open up and speed the development and construction of the Minjiangkou Investment Zone. They wanted to explore ways to take advantage of the present opportune time to promote the development of Fujian's coastal areas, including Minjiangkou, and make some solid advancement as the province opens up even more.

So far this year, Fuzhou City has done well in attracting Hong Kong, Macao, Overseas Chinese, Taiwan, and foreign investors. The number of new foreign investment contracts signed, the amount of foreign investment funding agreed on, and the amount of money actually invested this year have increased substantially over last year during the same period. The most important features so far are that investments are larger in scale and broader in scope than before; capital- and technology-intensive investments have increased significantly; Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors, especially Taiwanese investors, are eager to come to Fuzhou to inspect the area and discuss economic and business cooperation. They are especially enthusiastic about investing in land along the shores of Minjiangkou, and initial negotiations have made progress. The Minjiangkou area, with the Fuzhou Economic and Technological Development Zone and the Taiwanese Investment Zone at its heart and suburban Fuzhou, Mawei, Lianjiang, and Changle at its wings, is becoming a prime region for attracting foreign and Taiwanese investment to Fujian. Its development can have a very positive effect on the development of the Minjiang basin and northeastern Fujian as well as on the opening up of the entire province.

Governor Wang Zhaoguo analyzed the current opportunity for Fujian to open up to the world and gave full approval to Fuzhou City's success and experience in attracting Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investments. He pointed out new situations that leaders and relevant departments at all levels should attend to and new problems they should solve. At present, it is vital to act in the spirit of the State Council's "Temporary Management Methods for Large-scale Land Development Financed by Foreign Investors" and other relevant regulations, guide and encourage the Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors in a planned and systematic way, suit measures to local conditions, encourage large-scale land development projects, formulate programs, perfect policies, determine what is important, and move ahead in steady steps to open up even more to the outside world. Governor Wang Zhaoguo praised Fuzhou City's initiative and self-sufficiency in developing Gushanxiang's Fuxing Industrial Investment

Zone without asking the state for money. He also affirmed some of Fuzhou City's methods of using foreign capital to transform some old urban districts and pointed out the need to review experience, develop new ideas, and do an even better job in opening up more.

Taking into account Fujian and Fuzhou City's achievements in attracting Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investments and their effort to open up, Governor Wang Zhaoguo emphasized the following important tasks and issues of special concern:

1. There is a need to open up even more and to establish a positive guiding principle to attract foreign investment. In other words, Fujian welcomes Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors alike. The province welcomes large, medium-sized, and small projects. It encourages foreign investors to combine large-scale land development with single item and individual investment projects, to combine development of the raw materials industry with development of the processing industry, and to combine labor-intensive projects with capital-intensive and technology-intensive projects. The economic situation is ever-changing, and opportunity comes and goes. We must be firm and decisive in taking effective measures, seize the initiative, make the best of the situation, and strive for new breakthroughs in attracting Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investments.

2. We must implement the State Council's "Temporary Management Methods for Large-Scale Land Developments Financed by Foreign Investors," explore ways to absorb more foreign investment during the current period of rectification and improvement. At present, Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors are very eager to invest in large-scale land development projects. We must guide their investment direction carefully, lead them to comply with China's industrial policy, and steer the projects toward large-scale land development. Large-scale land development is a very policy-sensitive undertaking. We cannot act in haste, nor can we sit and let slip a golden opportunity. We must pay attention to the overall program, gauge our own ability, and stress the important points to advance the whole situation. We must review our experience carefully and make this a successful endeavor.

3. We must continue to perfect the existing "three kinds of partially or wholly foreign-owned enterprises," give play to their exemplary role, and increase the confidence of Hong Kong, Macao, Overseas Chinese, Taiwanese, and foreign investors in investing in Fujian. Today, there are nearly 1,800 "three kinds of partially or wholly foreign-owned enterprises" in Fujian Province. Whether they prove to be a success will be a test of the province's investment environment. To firmly establish one of them is to set an example for the others. We must not overlook the positive effects. We must further increase our work efficiency, improve our work style, and strive to improve the "intangible" investment environment.

4. We need to strengthen our infrastructure. Construction of the Fuzhou airport and port facilities at Minjiangkou as well as communications and other facilities requires comprehensive planning. We must make every effort to get things organized and proceed in stages. This is the basic condition for Minjiangkou's opening up to the outside world. During the period of rectification and improvement, we must pay attention to exploring ways to gather funds and put up the matching funds and necessary facilities that are a common problem when utilizing foreign capital. Fuzhou's Gushanxiang is experimenting with ways to come up with its own matching funds to finance its infrastructure construction when developing the investment zones. This is a sound approach which should be gradually perfected in practice.

5. We need to strengthen the open cities and open zones ideologically and culturally. The more we implement reform and open up to the outside world and the more developed the economy, the more we need ideological and cultural strengthening. In particular, we must emphasize party construction and honest government. This is what guarantees the socialist direction of our reform and opening up. We must never neglect it.

The two vice governors, You Dexin and Shi Xingmou, also spoke on Fujian's opening up and on the development of the Minjiangkou Investment Zone.

The on-the-scene business meeting also addressed the major problems and issues facing Fuzhou City's effort to further open up to the outside world. Relevant departments participating in the meeting indicated that they would provide more guidance and support to Fuzhou City on matters involving policies, funding, infrastructure, and large-scale land development so as to speed up the construction of the Minjiangkou Investment Zone.

#### **Liaoning Reports on 1990 Foreign Trade Situation** *90CE0371B Shenyang LIAONING JINGJI BAO* *in Chinese 5 Jul 90 p 1*

[Article by Xu Yonglu (1776 2569 6922) and Gao Zhiqian (7559 0037 7505) in column entitled "From the Chinese (Northeast Region and Inner Mongolia) Export Commodity Trade Fair Report": "Liaoning's Foreign Trade Prospects Are Good"]

[Text] LIAONING JINGJI BAO Dalian Special Dispatch—In recent years, because of changes in the international situation, global economic competition has intensified and trade protectionism has heightened. Meanwhile, in the international market for primary goods, supply is ahead of demand, causing prices to tumble. Since last year, some Western countries have imposed "economic sanctions" on China, and although the situation has eased today, there has been no significant improvement. Faced with these adverse conditions,

what kind of foreign trade prospect is Liaoning facing? This is a hot issue of concern to many people. The reporters obtained some answers from Wen Shizhen [5113 0013 7201], the vice governor; and Fan Hungxun [5402 3163 0534], the vice chairman of the Provincial Committee of Foreign Economic Relations and Trade, who spoke at the Liaoning Province Foreign Economic Relations and Trade Press Conference held in Dalian.

Liaoning Province's foreign economic and trade undertakings have seen vigorous growth. The province has established economic and trade relations with more than 10,000 customers from 140 countries and regions worldwide and is exporting more than 2,000 kinds of products abroad. In recent years, Liaoning's foreign export has seen continuous growth of great magnitude. Last year, the province exported \$4.446 billion worth of goods, 14.8 percent more than the year before. Between January and May of this year, the ports shipped \$2 billion worth of goods, 5.4 percent more than last year during the same period. Some especially gratifying features have developed in Liaoning's foreign trade situation: 1) The composition of export commodities has changed; the percentage of primary goods has dropped as the export of manufactured goods increases. The export of mechanical and electrical goods was worth \$288 million last year, a 33-percent increase compared to the previous year. The export of technologies has also increased significantly, reaching \$70.54 million last year. 2) There is a surge of exports by the "three kinds of partially and wholly foreign-owned enterprises." Last year, they exported \$130 million worth of goods, a 2.3-fold increase compared to the previous year. 3) The province has developed new markets. 4) many large and medium-sized enterprises have entered the world market. More than a dozen manufacturers in Liaoning are earning more than \$10,000 a year through exports. 5) Liaoning Province has developed 1,500 foreign export manufacturing plants and more than 300 special export plants and bases to guarantee the source of export goods.

Liaoning Province has made steady progress in utilizing foreign capital. Up to the end of May this year, the province has put \$5.22 billion's worth of foreign capital to work. This includes \$2.6 billion in direct foreign investment and \$1.17 billion in foreign government loans. This year 120 new foreign-invested enterprises [FIE's] have opened for business. Of the existing 867 FIE's, 375 have already gone into production or operation. The characteristics of Liaoning's foreign capital utilization are: 1) The province has utilized some foreign government loans to fund mainstay projects which have a major impact on the province's economic and social development. 2) There is a marked increase in the number of foreign investors investing directly in Liaoning Province, and they are making bigger investments. Liaoning Province has entered into several joint venture agreements with foreign investors; some projects are worth in excess of \$100 million. 3) The foreign capital is coming from a mix of new sources. While U.S., Japanese, and Taiwanese investments have been increasing

fairly rapidly, businessmen from Brazil, Bolivia, Holland, and Switzerland have also begun investing in Liaoning. 4) The foreign investments are heading in the right direction. Of the 270 FIE's approved last year, 93.7 percent of the contracted amount of investment is in production-oriented projects; 95.2 percent of them are foreign exchange-earning export enterprises, and eight percent are high-tech projects. 5) There has been a new breakthrough in the use of foreign capital to transform old enterprises. There are now more than 2,000 "grafted" joint-ventures operating under "one plant, two systems" where the Chinese side puts up plants and facilities as capital to attract foreign funds, equipment, technology, and management experience. Many key enterprises are successfully transformed. Some factories engage in multinational cooperation to achieve "multiple grafting," which entails a small investment and generates quick returns.

The three advanced, experimental zones that spearheaded Liaodong Peninsula's opening up to the outside world are making new headway. The Dalian Economic and Technological Development Zone, the Yingkou Fuyouquan Export Processing Zone, and the Shenyang Tiexi Industrial Transformation Zone are experimental zones among Liaodong Peninsula's open economic zones. These three zones have spent a total of 660 million yuan on their infrastructure and have a combined construction area of 1.46 million square meters. Together, they have approved 236 projects, with total investment worth \$2.56 billion, and among them are 176 FIE's, 93 of which have already gone into production, earning more than \$60 million a year through exporting.

## ECONOMIC ZONES

### Fund-Raising Channels for Pudong Development Viewed

HK0708105190 Hong Kong WEN WEI PO in Chinese  
3 Aug 90 p 2

["Special article" by WEN WEI PO Shanghai-based correspondent Ho Ping (6320 1627): "Funds for Pudong Development Simultaneously Raised in Five Ways"]

[Text] Shanghai, 2 Aug (WEN WEI PO)—August will be a month that catches people's attention, for the general planning and detailed specific policies for the first-phase Pudong Development will be presented, while the three newly founded Pudong Development companies will be officially in operation. All these will shape into another climax in the wake of the announcement of Pudong development last April.

### Building of Infrastructure Will Be Accelerated

Sources have it that the rate of developing Pudong will be accelerated. The original first-phase plan for Pudong development has undergone revision by a wide margin to the effect that the tasks for infrastructure construction as an initial phase in the entire "Eighth Five-Year Plan" are

required to be shortened to half the time. Thereby, a pressing problem arises as to how to raise the funds needed for Pudong development as quickly as possible?

It was learned that, at present, the People's Bank of China has approved of the Construction Bank preparing for the founding of its Pudong branch; at the same time, the Bank of Communications, Bank of Agriculture, and Bank of China are busy making preparations for the founding of their Pudong branches. With the promulgation of relevant policies in August, it is believed that foreign banks of monopoly capital, and joint-venture banks with Chinese and foreign capital will surface one after another in Pudong. "Monetary organs start off ahead of all trades when Pudong development has just begun." Such a situation will help in raising funds for Pudong development while pushing forward the opening up of the monetary business.

#### **Pressing Need of Voluminous Capital**

According to experts' analysis here, fund-raising plays an extremely great restrictive role on Pudong development. First, Pudong development calls for voluminous capital; an initial plan shows that 50 billion yuan will be needed in the first 10 years. When Shenzhen was developed in the 1980's, the capital involved was only 18 billion yuan over 10 years. The comparison shows that Pudong development has a rather great demand on capital, especially medium- and long-term demand. Second, the period for monetary demand can be rather concentrated, because Pudong is not entirely developed; part of it is undeveloped, part of it is developed, while another part is semideveloped. The present policy is that Pudong's outer Gaoqiao Free Trade District, Jingqiao Industrial District, and Lujiazui Banking and Trade District are to be constructed simultaneously, and they will have capital demands pretty soon. Especially when the rate for Pudong development is greatly accelerated, and the building of Pudong's infrastructure is required to come up in two or three years, the urgent need for capital is imaginable. In addition, the gap in the capital demand of the entire Pudong development is wide, the gap can be still wider in the foreseeable future because some projects will begin ahead of schedule.

#### **Raising Funds Rather Than Making Loans**

How to find a solution to the problem? It was learned that the top echelon has proposed a general orientation, namely, utilizing foreign capital rather than resorting to foreign loans, utilizing domestic capital rather than resorting to domestic loans. Beyond a doubt, this is very difficult to achieve, but it is necessary to work hard along this orientation to avoid running too heavily into debt. As to the fund-raising channels, when Premier Li Peng was in Shanghai in mid-April, he mentioned five channels for fund-raising for Pudong development, namely, absorbing foreign capital, central allotment of funds, investments from other provinces and cities, Shanghai's own funds, and people's funds. He called for the "five channels to work simultaneously."

Many difficulties and hurdles have surfaced in the course of fund-raising; however, many experts remain optimistic regarding the fund-raising for Pudong development. A government official engaged in policy research believes that the opening of Pudong development itself is the most favorable condition for fund-raising. Over the past few years, domestic funds have basically flowed to the southern coastal open areas. There is increasing magnitude in some areas with regard to the current fund-raising for Pudong development: First, greater magnitude in policy—all new policies for Pudong's opening up and development have already yielded results. Second, Pudong development has provided greater magnitude in space—much can be accomplished in an area of 350 square kilometers. Third, Pudong development has provided greater magnitude of essentials, for example, land prices rose as soon as the decision on Pudong development was made public.

#### **Expanding Sanctioned Land Leases**

Experts believed that expanding sanctioned land leases to develop real estate in joint efforts is an important fund-raising channel for Pudong development. Reviewing Shanghai's developmental history, Shanghai accumulated its funds chiefly by relying on its real estates. Shanghai's most valuable resources are its land and real estate. Although Pudong development has provided new magnitude, it is unlikely for Pudong to enjoy a fast increase rate of its economic results at present. Some experts suggest that the exchange of real estate between Pudong and Puxi, with the real estate of Pudong and Puxi simultaneously opening to domestic and foreign investors to gain profits from the difference in rent could be an important area for fund-raising. It was learned that the majority of Taiwan businessmen who went on an investigation tour in Pudong had demand for land, and would even purchase land through the "back door." Other experts proposed to encircle a plot of land of two or three square kilometers for "speculation," which would be helpful to land prices of entire Pudong.

#### **The Banking Business Has Much To Accomplish**

Banks in Puxi have one after another set up branches in Pudong. However, it does not help much if Puxi's existing practice is to transplant in Pudong intact even with the setting up of several banks with foreign investment. That is the unanimous view of several banks here. They hold the view that new business in a new district should be run in a new way, and the banking business should not be an exception. First, it is necessary to achieve banking's marketability. The accommodation of funds should be conducted through the market, including the circulation of bonds and stocks in the market. Second, it should be internationalized. Various measures of fund-accomodating should be adopted, including the cooperation of foreign banks in organizing a syndicate to issue stocks and bonds so that Shanghai banks may enter the world. And third, it is necessary to build groups. The concept of "building groups" is not

confined to organization syndicates, but the more important is the change of the bank's functions. Experts called for referring to Hong Kong banks' experiences, combining the bank's monetary capital with industrial capital to found a syndicate to unfold plural management including real estates. In addition, experts called for establishing local banks to invigorate banking and to set up a Pudong development foundation; at the same time, a solution must be found to the treatment of enterprises of Chinese investment to attract domestic capital.

### The Change in Development Strategy

Some signs have shown that marked changes have taken place in Shanghai's top echelon's strategy for Pudong's opening up and development. First, the proportion of the tertiary industry will be increased. Second, the pattern by which Hong Kong plays the part of the salesroom, while Guangdong plays the part of the factory will be applied to Shanghai and the Chang Jiang valleys. In short, the industrial setup in the Pudong new district will undergo greater changes. Experts' expectations for the strategy of Shanghai's economic development in the 1990's is that Shanghai is to develop big trade, including monetary trade, commodity trade, technological trade, and real estate trade to revitalize Shanghai and to give full play to Shanghai's role as a financial center. The key to whether Shanghai is capable of playing such a role lies in whether commodities and production essentials are concentrated in and dispersed from Shanghai, thus changing Shanghai's functions as a city. The change in such a strategic thinking will instill great vitality into China's economy.

Mayor Zhu Rongji and his entourage concluded his visit to the United States and left for Shanghai today. It was the first time that Zhu had spent such a long time in an almost nonstop visit to Hong Kong, Singapore, and the United States since he took the mayor's office. Moreover, this took place at a crucial moment of Pudong's opening up and development; hence its unusual significance. From now on, personalities at home and abroad will show greater concern for news from Shanghai.

### Shenzhen Reports Semiannual Economic Figures

90CE0410A Shenzhen SHENZHEN TEQU BAO  
in Chinese 23 Jul 90 p 1

[By Ou-yang Jia (2962 7122 0163)]

[Text] Reporters at a recently convened municipal party committee work conference have learned that, during the first six months of 1990, Shenzhen's major economic indicators have greatly improved compared with the same period in 1989 and that its economy is more prosperous.

Statistics from the departments concerned show that Shenzhen's total industrial output value for the first half of 1990 reached 6.65 billion yuan, a 27.8-percent increase compared with the same period in 1989. Of this amount, export output value increased 45.3 percent.

Export output value now accounts for 59.9 percent of total industrial output value, up from 52.7 percent for the same period in 1989.

Total industrial output value has increased steadily month by month since the beginning of the year. The figure for June was almost double that of January.

Export volume for the first half of 1990 for the whole city came to \$1.295 billion. Of this amount, the special zone accounted for \$1.176 billion, an increase of 32.3 percent. Of the total volume of exports, products produced in and exported from Shenzhen amounted to \$898 million, an increase of 53.4 percent and accounting for 78.6 percent of total export value.

Financial revenue within the budget for the entire city greatly increased compared with the same period last year. Expenditures declined, and the budgetary revenue and expenditure situation was excellent. The total volume of retail sales of social products came to 3.059 billion yuan, a 7.6-percent increase compared with the same period in 1989. The supply of capital goods has been excellent, and electronic products, which were in a slump, are now selling well. Market prices are stable, and the total price index for the cost of living for the first half of 1990 increased only three percentage points compared with 1989, while the consumer goods price index declined one percentage point.

From January to June, the total amount of foreign investment negotiated for came to \$315 million, an increase of 30.1 percent compared with the same period in 1989. The actual amount of foreign investment used compared with the same period in 1989 increased 0.9 percent.

During this same time, the size of Shenzhen's investment in capital construction was subject to control, and the proportion of investment in nonproductive construction declined.

According to a municipal government analysis, the reasons for the large growth in the economy during the first half of 1990 are as follows.

- The supply of electrical power gradually improved. The Nantou and other electrical power plants began operation; the amount of electrical power distributed by the province increased; the city bought some of its power from Hong Kong; and at the same time, some enterprises generated their own power. By using various means, the power shortage was alleviated.
- With respect to the expansion of industrial production capacity, 393 newly built enterprises went into operation in 1989. Product quality and output of the three kinds of partially or wholly foreign-owned enterprises continued to improve, and sales abroad got better each passing day.

—The state made appropriate increases in loans, thereby strengthening the efforts of Shenzhen's financial organizations and bringing about an easier turnover of funds.

—Our ability to break into international markets improved compared with the same period in 1989. Sales of electronic products that were in inventory picked up, and the volume of sales for products of our own such as bicycles, radios, and textile products gained on the international market.

While our economy has tended to prosper, Shenzhen is still faced with several problems. First, insufficient water and electricity is still a glaring contradiction. At present, there is still a 25-percent shortage in electricity. We must continue to take measures to conserve water and electricity. Second, the economic efficiency of some enterprises is inadequate. Third, the investment climate still has a number of imperfections, and especially the poor handling of administrative matters urgently needs to be improved.

#### **Update on Shenzhen's Shareholding Enterprises**

*90CE0410C Guangzhou NANFANG RIBAO in Chinese  
6 Jul 90 p 1*

[By Li Tongbo (2621 6639 3134)]

[Text] The reform of the shareholding system of the Shenzhen Special Economic Zone [SEZ] enterprises is moving forward in a sound and stable manner. At present, there are 83 shareholding enterprises throughout the city. Of these, five are standard enterprises whose shares are sold on the market. In the past two years, the operational scope of these enterprises has continually expanded and their economic strength has increased to the point where they have attracted the attention of domestic and foreign financial circles and of the city's residents.

The Shenzhen SEZ began its reform of the enterprise shareholding system in October 1986. As of now, these 83 shareholding enterprises, which came from both state-operated and collective enterprises as well as from newly established shareholding companies, have issued approximately 300 million yuan in shares. Shareowners include the state, enterprises, corporations, individuals, and foreign investors. Of these, individual shareowners account for 37 percent and public ownership shares account for the main part of the shareholding companies. Although the public ownership nature of these enterprises did not change, their status is now that of a shareholding company rather than having the state as the principle investor. Possessing corporate status, company management has independent operational authority. The companies pay the legal amount of taxes on dividends earned on company shares that the state has invested. This mixture of systems with its emphasis on a new system of public ownership and which is enabling enterprises to gradually break loose from the shackles of the old system is characterized by the following points:

—Shareholding enterprises have separated property rights from operational authority and have thereby produced mechanisms for self-restraint, self-accumulation, and self-development. According to the departments concerned, a survey of five shareholding companies—the Development Bank, Jintian, Wanliao, Dasheng, and Tonghai—has shown that, in the first half of the year since the shareholding system was put into effect, these companies have had an average increase of 215 percent in profits, 87 percent in net assets, 155 percent in fixed assets, and 63 percent in monthly wages of workers and staff personnel. In the past, the leadership of enterprises was appointed entirely by the state. Now the highest authority in limited-liability companies belongs to the board of directors. The chairman of the board is elected by the shareholders as their representative, and the company's general manager is chosen by the chairman of the board. In this way, enterprises have greater authority to decide personnel matters.

—The assets of enterprises under the shareholding system are owned entirely by the shareholders, and the financial system is also under their supervision. Each year, at a shareholders meeting held to review operational achievements and the financial situation, companies must accept the shareholders' advice. Yearend asset evaluations also must be subjected to notary supervision of assets evaluation offices and accounting firms. In this way, natural pressures and restraints are exerted on company general managers to do their utmost to properly administer the production operations of their enterprises.

—They have opened a new channel for the use of foreign funds. Statistics show that at present the special economic zone's shareholding system has, at the converted rate of exchange, attracted 70.71 million yuan in foreign funds.

#### **Retail Prices in Shenzhen Edge Downward**

*90CE0410B Shenzhen SHENZHEN TEQU BAO  
in Chinese 16 Jul 90 p 1*

[By Long Suixiang (7893 4482 7449)]

[Text] During the first half of 1990, the general level of retail prices in Shenzhen continued to fall, showing a decline of one percent compared with the same period in 1989. This was accompanied by negative growth.

Data from the municipal statistical department indicate that, from January to June 1990, increases slowed in every category of the retail price index and this occurred in a situation of stability. Of the eight major categories of products that were followed, the retail price indexes for the four major categories of food, cultural and recreational articles, medicines, and construction supplies, each fell 3.5, 1.8, 1.4, and 9.4 percent, respectively, compared with the same period in 1989.

The municipal government has this year strengthened its macroeconomic price adjustments. Every category has been markedly affected by measures taken to control price rises. Responsible comrades from the price-control department report that price controls were effective for the first half of the year, mainly through strongly affecting "market basket" prices. The differences between the wholesale and the retail prices of meat and vegetables were controlled, and the system for controlling market prices was expanded, thereby strengthening our microeconomic management. The prices of fresh vegetables, meat, poultry, and eggs, and aquatic products, all of vital concern to the masses, have dropped considerably and, as a result, brought about a decline in the general level of prices. In addition, systems of supervision and control such as the provision for flexible commodity prices and their control, principles of control, the system for reporting markups, the system for keeping a record of markups, and the price-control target responsibility system put into effect for 64 categories of major commodities of vital concern to residents have, through the coordinated efforts and joint management of the departments concerned, effectively stabilized price levels.

## TRANSPORTATION

### Port Ready for Eurasian Continental Bridge Opening

OW2208093290 Beijing XINHUA in English  
0135 GMT 22 Aug 90

[Text] Beijing, August 22 (XINHUA)—Lianyungang, a port city in east China considered the "Oriental Rotterdam," is speeding up preparations for the opening of the new Eurasian continental bridge.

The continental bridge, an international railway with its eastern terminal at Lianyungang and its western terminal at Rotterdam in the Netherlands, will be connected early next month when the Chinese section of the railway line links up with the Soviet railway system.

Located at the Yellow Sea on the east China coast, Lianyungang is a natural ice-free port. Since the mid-1970s, the Chinese Government has paid special attention to the expansion of Lianyungang, investing 1.5 billion yuan (320 million U.S. dollars) on port construction.

Eighteen berths, including 13 10,000-dwt ones, have gone into operation. Their total annual handling capacity is 15.4 million tons. Five more 10,000-dwt berths are still under construction.

Meanwhile, the port has set up an ocean shipping company, which has opened five international shipping lines and is trying to open more.

Construction of a 6,700-meter dyke linking two offshore islands with the coast is now being speeded up. After completion of the dyke, the harbor will expand from

three to 30 square kilometers and the length of the coast line of the harbor will grow by 6,000 meters. Then, it will be possible to build over 100 berths at the port whose annual handling capacity could increase to 60 million or even 100 million tons, making Lianyungang a major international port.

Lianyungang Mayor Wang Wenqing said the city government is revising its development program to adjust to the opening of the new Eurasian continental bridge. He said more attention will be paid to developing industries and services related to the continental bridge.

He said the city government has set up a special organization to coordinate transportation on the continental bridge.

A 51-kilometer network of railways able to transport a volume of 29 million tons annually within the port links all the port's berths with the continental railway bridge. Goods can be loaded directly from trains to ships or vice versa, greatly shortening the turn around time for ships and trains at the port.

Meanwhile, a marshalling yard with an annual capacity of 35 million tons has been built and put into operation at the railway station.

The port has opened air links and direct telephone lines to Guangzhou, Shanghai, Beijing and other major Chinese cities.

At present, the port has an annual handling capacity of more than 10 million tons. An integrated network of sea, rail, river, highway and air transportation has taken shape at the port.

Since the second half of last year, businessmen from many countries and regions, including Japan, the United States, Italy, Australia, the Korean peninsula and Taiwan, have come to inspect Lianyungang and hold talks on cooperation in transportation on the new Eurasian continental bridge.

## AGRICULTURE

### Modernizing Traditional Agriculture

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[Article by Li Zhou (2621 0719), Cai Fang (5591 2499), Jin Hehui (6855 0735 6540), Zhang Yuanhong (1728 0337 4767), and Du Zhixiong (2629 1807 7160), Rural Development Research Institute, Chinese Academy of Social Sciences; edited by responsible editor Lin Li (2651 4539) in March 1990: "On the Transformation of China's Traditional Agriculture Into a Modern One"]

### [Text] Symbols Indicating That China's Agriculture Is at a Stage of Transformation

In every corner of the world, agriculture has undergone three stages of development, namely primitive agricul-

ture, traditional agriculture, and modern agriculture. In China, the transformation from primitive agriculture to the traditional one took place during the Spring and Autumn Period, and the Period of Warring States. China's development of traditional agriculture was left unchanged throughout the period thereafter until the country was liberated, forming a traditional type of agriculture marked by intensive labor input, and high growth rate in land productivity. There were changes in the industry after the founding of New China. The application of new factors of production in agriculture was continuously increased in terms of variety and quantity, and the influence of new technology on the growth of agriculture became more apparent. Generally speaking, China's present agriculture is no longer a typical traditional one. This is specifically manifested by the following points.

1. The average annual growth rates of gross grain output, and land productivity are no longer at a low level as it was at the stage of traditional agriculture. Between 1952 and 1987,<sup>1</sup> the average annual growth rates of China's gross grain output, and its yield per unit area are respectively 2.62 percent and 2.93 percent.<sup>2</sup> This showed a marked difference from the traditional one, under which the average growth rate of gross grain output was only one percent, and there were few changes in its yield per unit area over the years.

2. There was a continuous introduction of new factors of production, so that traditional agriculture, in which the pattern concerning the allocation of factors of production was almost frozen, was put to an end. Between 1952 and 1987, the area plowed by tractors was increased from 136,000 hectares to 38,398,000 hectares, and the percentage of area plowed by tractors to the total area or arable land was increased from 0.1 to 40. The area under irrigation was increased from 19,959,000 hectares to 44,403,000 hectares, and the percentage of area under irrigation to the total area of arable land was increased from 18.5 to 46.3. The application of chemical fertilizer was increased from 78,000 tons to 19,993,000 tons, and the percentage of chemical fertilizer to the total amount of fertilizer applied was increased from 0.2 to about 50.<sup>3</sup> The variety of crops underwent from one to three changes. Between 1979 and 1982, the growing area for improved varieties of major crops was increased from 77,305,000 hectares to 87,738,000 hectares, and the percentage of growing area for improved varieties to the total area of arable land was increased from 75 to 85.1.<sup>4</sup> Obviously the tendency that the status, as well as roles, of new factors of production in the allocation of factors of production became more important, was different from traditional agriculture, in which the allocation of factors of production was more or less set forever.

3. Peasants were greatly influenced by their production experience in modern agriculture, and they became more enthusiastic about putting an end to the economic balance in the traditional agriculture. In the past decade,

following popularization of the contract responsibility system with payment linked to household output, as well as development of the socialist commodity economy, peasants no longer took their ancestors' agricultural experiences to be a forbidden area. They took an active attitude toward their work, no matter whether it involved the input of new factors of production, or the application of new technology to agriculture. Between 1982 and 1987 alone, the method of thin-film cultivation was popularized and applied to cover an area of 114 million mu.<sup>5</sup> Obviously, this was also different from traditional agriculture, which had long been regarded as an invaluable treasure regarding production passed on from one generation to another. Of course, we should also realize that because the transformation of China's agriculture from the traditional mode into a modern one is a very slow process, due to the temptation of that system, China's agriculture today still preserves some marked traces of the traditional one in terms of technology and economics. They are reflected by the following points: (1) Peasants still took their own needs as their prime goal of allocation of their resources. (2) Peasants did not understand, and lacked the capacity to, take risks. (3) Organizations practicing the traditional methods still occupied the dominant position.

Therefore, one may say that China's agriculture is at a stage of transformation from traditional to modern. A major task that China is facing is to strive to speed up the pace of transformation in its agriculture, and to complete the development of agriculture. The major problems that are affecting the transformational stage of China's agriculture are listed as follows:

1. Coordination between allocation of resources and the encouragement of agricultural production is yet to be achieved. Under a normal incentive mechanism, the allocation of resources (factors of production) for agricultural production reflects the extent of scarcity, and the option is toward the one that uses resources more favorably. This includes the selection of agricultural production structure at the national economic level, that various regions produce goods by a division of labor, and that each region plays its role in an international division of labor, under the signals of a clear or definite trend, and so forth. However, such signals are seriously distorted and there is disharmony in the incentive mechanism. The most outstanding example is that the incentive carried by the market price, which acts as an indicator, is not in harmony with the enforcement of mandatory policies. Under the conditions that peasants are commodity producers, they will inevitably determine their production according to the market price, so as to maximize their interests. At the same time, however, they have to accept the guidance or enforcement of macroeconomic plans, while the latter are policies in nature, and are often not in harmony with, or even contrary to, market signals. This, then, greatly undermines the efficiency of allocation of agricultural resources, as well as peasants' economic incentives.

2. Composition of technology is inharmonious with the inherent advantages of the factors of production. For China, the most important issue is that in the process of providing a diversified technology (which is a coherent characteristic of agriculture in the course of transformation), there is no preferential policy toward the provision of technology that promotes the inherent advantages of the factors of production. Another manifestation is that there is no distinctive advantages in modern agricultural technology in comparison to traditional agriculture, so that there is not enough motive to transform traditional agriculture. While China's agriculture labor force is abundant, its arable land is relatively scarce. The advantage of modern technology becomes unclear if we mainly aim at replacing the labor force, rather than effectively utilizing the arable land, in the selection of agricultural technology.

3. The system of agricultural development does not lead to harmonious coordination. People still need certain norms and constraints when they use the means of production to undertake economic activities. Being a necessary additional factor to the economic activities, the latter is provided by the system. In agriculture, selections and innovations of peasants are made within the existing framework of the system. Whether or not the conditions of such a system is good determines the efficiency of those selections and innovations made by the peasants. Moreover, those facilities which are necessary for the system are selected by the peasants and innovations in themselves. Being an economic entity marked by "economic reasoning," the peasants are usually capable to accurately balance their proceeds against their innovation cost under such system, thereby making the best selection and offering the best service under the system arrangement. Therefore, there are two systems provided to the peasants. One of them is to induce changes in the system, that is, peasants make their selections and innovations for the new system in accordance with the long-term relative price of the factors and products under the existing system. The other is to start mandatory changes in the system, which is a system arrangement not wanted, and cannot be handled by peasants. Nevertheless, mandatory changes in the system are still necessary. This is because some system arrangements may bring about substantial external effects. In other words, those arrangements may bring benefits to more people who are unable to urge all people vested with such benefits to take unanimous acts. This thus brings about the issue of "a free ride," thereby having fewer chances of making system innovations in reality than it is supposed to be, and cutting the aggregate proceeds of society. This is a difficult problem under the inducing system. On the other hand, the system that makes changes mandatory may make up for the deficiency in this respect. For example, under the circumstances where the foreseeable proceeds to be brought by changes in the system are excellent, the government may force people vested with benefits to take unanimous act. Nevertheless, the amount of information available to the government is limited. Sometimes, the government do

not know exactly whether or not a system arrangement can bring benefits to more people, so as to increase the aggregate proceeds of society. Furthermore, it is inevitable that the government is subject to the influence of several social groups which are closely related to the government and have a better position for negotiations. Consequently, there are differences between the mandatory system and the inducing system in terms of demand and proceeds. In other words, in order to make provisions under the system of mandatory changes become efficient, the provider of the system must carefully handle the scarcity of various factors. In the final analysis, therefore, changes in this kind of system are also induced. It can also be said that there is no unbridgeable gap between the inducing nature and mandatory nature of system provision. Since the "economic reasoning" of peasants is limited, a government may, when peasants make selections under an inducing system, give guidance regarding, or may even replace the inducing system by a mandatory one through its use of signals. Generally speaking, however, the major task of the government is to provide the peasants the necessary external conditions for their selections and innovation, and to correct distorted price signals. At the same time, the scope of provision under the mandatory system is a feasible one. For example, it may be used for necessary marginal innovations, to alter the conditions of the system through dialogue, and so forth. Though the limits of these two are not the absolute, we may draw the necessary ones through economic theories and practical work. We can see that under given conditions, certain types of services should be selected by the peasants, and certain types of system services should be provided by the government, so as to achieve the highest level of efficiency in terms of system arrangement. The urgent tasks, as well as systemic environment, that we should perfect in the transformation of China's agriculture at the present stage of development are organizations and market. While the former means the selection of the best form of business organization economies of scale, the latter refers to market in the broad sense, including the correction of the distorted prices in the market for factors of production and in the product market, in order to promote market development.

#### **Selection of Technology That Speeds Up the Transformation of China's Agriculture at Its Development Stage**

Theoretically, the most remarkable structural feature of an agricultural technology that suits a country's situation is that it matches its endowment of agricultural resources.<sup>6</sup> Moreover, it optimizes the replacement of comparatively unfavorable factors by comparatively favorable ones. It is just because the use of comparatively favorable aspects of natural endowment to overcome constraints of growth caused by comparatively unfavorable ones is a very important point of agricultural development. Therefore, countries which have little land often adopt a structure of agricultural technology that conserves land use, and gives priority to biotechnology, chemical fertilizer, and so on to replace

the importance of the land factor. Countries which have scanty manpower often adopt a structure of agricultural technology that conserves the use of the workforce, and give priority to machine-building technology, power, and so forth to replace the importance of the labor factor. Consequently, there are remarkable differences in preference over the selection of structure of agricultural technology. For instance, in the selection of crops, a country that aims at conserving land use attaches great importance to crop response to irrigation and the application of chemical fertilizer, and the input of live labor; whereas a country that aims at conserving the use of manpower attaches great importance to the extent of mechanization applicable in growing such crops.

Following the founding of the PRC, there were gradual changes in China's agricultural technology; and such phenomena were remarkable, be it the popularization of a fine grade of crop or a new farming technique, or the input of modern means of agricultural production, such as chemical fertilizer, machines, agricultural chemicals, and plastic film. Though the speed of changes in agricultural technology was not very fast, the results of such changes were obvious. The major indication was that the long-standing fluctuations in per unit area yield in traditional agriculture were ended. Nevertheless, this was only one aspect of the issue. If we take a rational use of those more favorable aspects of natural agricultural resources, and the urge to overcome unfavorable ones as the yardstick for China's selection of agricultural technology, we find that there is still problems in our selection of agricultural technology.

First, we place undue emphasis on the mechanization of agriculture. In fact, this is a result of our indiscriminate imitation of the Soviet pattern of agricultural growth. We do not mean that it is not necessary for China to achieve mechanization of agriculture. In the case of China, however, the most important point is to popularize agricultural technology that conserves land. Any agricultural technology that one-sidedly emphasizes the conservation of manpower does not conform to the national situation. Facts have shown that China did not make any remarkable achievements though we spent much effort in this respect. In China, between 1952 and 1965 when the average annual growth rate of machinery owned by each agricultural laborer was at its peak level, the average annual growth rate of land productivity was at a low. In particular, by comparing such figures of China to those of developing countries in the same period, we may find that: 1) The average annual rate of decrease in agrarian area owned by each agricultural laborer in China was 1.7 percent; whereas that of other developing countries was 0.4 percent. This indicated that China's average growth rate of agricultural man-year per unit of arable land was higher than that of other developing countries. 2) China's average annual growth rate of machinery owned by its agricultural laborers was 34.5 percent; which was almost 30 percent more than that of other developing countries. However, though

China's growth in agricultural laborers and agricultural machinery was much greater than other developing countries, its growth in land productivity was lower than other developing countries by 0.4 percent. The main reason that such poor mechanization of agriculture was adopted was because of the government's bias in the selection of technology, and because the pricing of those new factors for agricultural production derived therefrom became irrational. Compared to developed countries, such as the United States and Japan, in which the natural endowment was entirely different, the parity price of China's agricultural machinery, diesel oil, and electricity was low; whereas that of chemical fertilizer, and agricultural chemical was higher than that of grain. A point that is worth pointing out is that to a larger extent, the structure of such parity price was determined by the inducing system under the government's macro-economic readjustment policies, rather than the supply-demand situation of the market.

Second, there are no effective measures for popularizing agricultural technology that conserves land. China has long been proud of having a high per-unit-area-yield level of crops. In fact, it means nothing if we simply compare the per-unit-area-yield level of various countries without considering differences in their natural endowment. The level of per unit area yield is inversely proportional to the area of arable land per capita. Judging from China's level of arable land per capita, its land productivity is not high. In other words, China's actual land productivity (the result of which is obtained by substituting the figure of arable land per capita into a regression equation as an independent variable) is lower than its theoretical level. Compared to countries which share similar level of per capita arable area, China's land productivity is just a little more than that of Indonesia, and is lower than that of Japan, Korea, Egypt, Italy, the Netherlands, the FRG, and Britain.<sup>7</sup> What is wrong with this? We hold that if there are problems with our structure of agricultural technology, under no circumstances would they be simply faults in some technological aspects. Rather, they would be revealed as such and such deficiencies in various technological aspect. Summing them up, we may find that they, be it an inefficiency of irrigation, an inadequate application of chemical fertilizer, or an improper popularization of improved variety of crops, were caused by the lack of measures for scientific operation. On the other hand, this was caused by an ineffective scientific research for agriculture, as well as poor popularization of agricultural science and technology. Therefore, in the final analysis, the situation took place because of the lack of effective measures for popularizing land-conservation agricultural technology, including improper inducing facilities and inharmonious system arrangement.

China must take the road of invigorating agriculture by developing science and technology, so as to break through the constraints on agricultural growth. This is because the era in which we achieved agricultural growth by depending on a vast area of arable land has basically

ended. To make use of agricultural science and technology, as well as to improve land productivity by inputting corresponding factors, have become the only way to achieve agricultural growth. At present, China's average bearing capacity per unit of land has exceeded 0.5 person. According to the arguments of some scientists, the maximum agrarian bearing capacity under the traditional agriculture was 0.25 person per mu on average. In order to increase such capacity to 0.5, we must rely on technological advancement, and a large-scale input of chemical fertilizer, agricultural chemicals, irrigation, and improved crop varieties.<sup>8</sup>

It is widely known that advancement in agricultural technology is the basis for achieving growth in modern agriculture. But the point is how to select the direction of, and how to promote, technological advancement. We hold that we must first rectify all distorted phenomena in the supply of resources, and in their markets, so as to make them play their proper and decisive roles in changing the direction of agricultural technology, in inducing technological innovations, as well as in their development and production.

Over a long time in the past, China did not acknowledge that land carried a price tag, still less a price accurately reflecting the scarcity of cultivated land. Therefore, China paid little attention to conserving and protecting cultivated land, even though its per capita agrarian area was very small.<sup>9</sup> To date, China still does not voluntarily take cultivated land as the main factor for restricting its agricultural development. It still does not work out in its macroeconomic readjustment policies effective means for strictly prohibiting illegal occupation of cultivated land, so that cultivated land continues to decrease by 7 to 10 million mu per year. When selecting the structure of agricultural technology, it still does not adopt any method to replace land by other factors of production to improve land productivity. To date, it still puts special emphasis on large-scale operations which is mainly marked by an improvement of agricultural labor productivity. In many localities, income derived from laboring is still taken as the decisive factor for allocating agricultural productive forces. Therefore, once peasants have found job opportunities in nonagricultural areas, there will be the possibility that cultivated land will be left idle. Simply put, the consequences of neglecting land price are very serious. On the one hand, it distorts the parity price of industrial and agricultural products, as well as the internal parity price of agricultural products, so that the scarcity of China's agricultural resources is not reflected. On the other, it encourages people to allocate agricultural productive forces by ignoring the rate of land utilization as the key element. Therefore, it is possible that our transformation of agricultural technology will develop in the wrong direction if we fail to appropriately handle the issue of land pricing.

Under no circumstances should we handle the issue of land pricing by simply putting a price tag on a piece of land. Instead, we must, by opening up the market and readjusting the price of agricultural products, eliminate

the cause for the thinking that land is an unvalued item. This also further indicates that the transformation of agricultural technology does not simply mean an increase in the provision of new factors of production. To China, in particular, a change in the irrational system arrangements is as important as the increase in the provision of new factors of production.

In order to induce technological innovations, we must make the relative price of other agricultural factors of production correctly indicate the direction of substitution, in addition to accurately reflecting the scarcity of cultivated land. For instance, an increase in the input of chemical fertilizer is a very important aspect, but, at the same time, it should be applied on the basis of making good use of farm manure such as barnyard manure and green manure. Therefore, the price of chemical fertilizer must be fixed at the optimal point set by the supply of chemical fertilizer and farm manure. Let's take another example. The supply of agricultural laborers in China is rather abundant. As a result of uneven economic development, however, the scarcity of laborers has emerged in some localities that were first developed. Obviously, it is reasonable that under such circumstances, these localities substitute laborers by machines. Nevertheless, this is not the only way out. This is because under such circumstances, we may solve the scarcity by using laborers from localities where there is a relative surplus of agricultural manpower. We hold that the latter is a solution worth advocating. In other words, we must compare the relative price of factors of production in an open economic environment, so as to optimize the substitution of scarce factors of production by abundant ones.

In addition, to make the relative price of factors of production accurately reflect their scarcity, as well as the direction of substitution, another important aspect for inducing the transformation of agricultural technology is to form a perfect system for agricultural scientific research and popularization, and to increase the investment in agricultural research, education and relevant industries. We are not going to elaborate on this point since it has been repeatedly discussed in depth in many good articles.

### **To Materialize a System Environment for China's Transformation of Agriculture**

#### *1. How To Utilize Economies of Scale in Agriculture in the Process of Transformation*

Any selection of the form of economic organization can be summarized as a utilization of economies of scale. Under the prerequisite of giving consideration to the internal incentive mechanism of the organization, the yardstick for selecting a form of economic organization may be regulated as an utilization of the economies of scale in a unique manner and at the maximized level. We must, therefore, first analyze how to utilize economies of scale in agriculture at the stage of transforming agricultural development before studying the form of economic organization in agriculture at that stage.

In economics, the so-called economies of scale refers to those additional benefits brought by an increase in the ratio of factors of production under the circumstances that the assumed technological conditions remain unchanged. In reality, however, there will always be changes in the scale of farming in the wake of changes in technology, as well as in allocation of factors of production. Therefore, strictly speaking, such economies of scale cannot be used for direct observation. Originally, any increase in benefits caused by any complicated changes in the scale may be summarized as a kind of economies of scale under the above strict condition. But we simply take it as one of the many kinds of economies of scale in reality in order to make our exposition more direct.

In reality, economies of scale are mainly reflected in the following forms. The first one is an operation of more land by a certain amount of manpower, so that there are benefits derived from the change of scale. The second one refers to scale merits derived from a combination of scattered land plots. The third one refers to scale merits gained by farms directly from changes in areas other than the production process such as in public facilities, in markets, and in combination of industries. Thus, we can see that of these three types of economies of scale, the former two are internal ones, while the latter is an external one. In reality, there are four possible types of economies of scale: 1) economies of scale brought about by an increase of the input of factors of production, and that of their ratio; 2) economies of scale brought about by an expansion in the area of cultivated land by a certain amount of manpower; 3) economies of scale brought about by the combination of scattered land plots; and 4) economies of scale brought to farms as a result of an inflow of economic results from external environment. But then which of them is available at the transformational stage of agricultural development?

Let's first examine the possibility of existence of the first type of economies of scale. In reality, it is very rare to change the scale of operation without changing the technological conditions, or factors of production. In China, however, there were really cases of changing the scale of operation under restrictive conditions similar to the abovementioned ones. The first one was concerning the change of operation by individual peasants into the one by people's communes and production brigades. The second one was concerning the change of operation by production brigades into the one by households. Generally, such conditions at the time when these two changes were just completed might be regarded as those under which technology remained unchanged while both the factors of production and their ratio were changed. Therefore, we may discuss the possibility of the existence of economies of scale in agriculture under such circumstances. For the purpose of comparison, we may take the growth rate of major agricultural products during the First 5-Year Plan as a rough indicator showing the average result of small-scale operation prior to collectivization, take the corresponding rate of the Second 5-Year

Plan as the indicator showing the average result of large-scale operation after collectivization, take the corresponding rates of the Fifth and Sixth 5-Year Plans as indicators showing the average operation results prior to and after the adoption of the contract responsibility system with payment linked to output of households, as well as the practice of large-scale and small-scale operations. Facts have shown that the average growth rate of output of major agricultural products during the First 5-Year Plan was higher than that during the Second 5-Year Plan. Moreover, the average annual growth rate of output of major agricultural products during the Sixth 5-Year Plan was higher than that during the Fifth 5-Year Plan (see table). This means that such economies of scale were not reflected in agriculture in reality.

**Annual Growth Rate of Major Agricultural Products During Periods Under Comparison (%)**

	First 5-Year Plan	Second 5-Year Plan	Fifth 5-Year Plan	Sixth 5-Year Plan
Grain	3.5	-3.9	2.4	3.4
Cotton	4.7	-14.5	2.6	8.9
Oils	17.8(1)	-13.7	11.2	15.5

Note: (1) This was the figure of the restoration period due to the lack of data. Source: *China Statistical Yearbook (1988)*

Why is it that the possibility of existence of such economies of scale was not reflected? Generally speaking, there are two reasons. First, economies of scale consisted of inseparable factors of production was not clearly displayed in agriculture. In other words, such kind of economies of scale were originally an indistinctive one. Second, it was very difficult to measure the effectiveness of agricultural labor, and the cost of labor supervision was extremely high, so that in reality, we could not but take the approach of working out assessed workpoints beforehand at expense of an accurate measurement and supervision of labor. Inevitably, this brought about the situation where a person might have the same reward no matter whether he performed well or poorly. Consequently, the achievements made by a group of people were infringed upon by another group. The enthusiasm as well as the innovative spirit of laborers were thus dampened; and the efficiency of large-scale operation was undermined. Simply put, it is impossible to comprehensively utilize such economies of scale because they are originally an indistinctive one and often fails to make good for the loss of efficiency due to the lack of labor incentives.

Let's examine the possibility of existence of the second type of economies of scale. An expansion in the area of cultivated land by a certain amount of manpower may yield economic results in two respects. The first refers to economic results brought by the inseparable nature of factors of production, that is, the economies of scale under the first definition. The second one refers to economic results brought by an improvement of labor productivity. Though the former is not so obvious as the

case in industrial production, it is possible that such of economies of scale exist because it involves labor incentives but not the cost of labor supervision. According to studies of relevant scholars in 1980 the labor productivity of agriculture in Japan and France, where the scale of farms was small, was respectively 90.2 and 64.3 percent lower than that of the United States, where the scale of farms was large. This included the difference in the size of farmland, which was respectively 26.2 and 11.7 percent.<sup>10</sup> The average scale of operation by China's peasants was very small. In 1986, the average figure was 9.2 mu, which was just 14.23 percent of the 1960 average level of some Asian and African countries and regions. This indicated that, under the prerequisite that the mode of operation by households remained changed, it is a beneficial approach to achieve economies of scale at an appropriate level by increasing the area of land cultivated by agricultural labor through the shift of agricultural labor or an expansion of cultivated land.

Nevertheless, it must be pointed out that a host of facts, both in China and from abroad, have proved that though the practice of taking land area as the yardstick for judging the scale of farm expansion is remarkable in improving labor productivity, it generally does not improve the productivity of land. This is particularly true for developing countries, where an expansion of the size of farms often brings about a drop in land productivity. By analyzing the data collected between 1973 and 1979 by the UN Organization of Food and Agriculture on 15 developing countries, we may find that indexes such as the per-unit-area output, labor days, intermediate input, capital input, and intensity of land utilization (ratio of sown area to farm area) of these countries dropped in the wake of an increase in the size of farms. This included the elasticity value of per-unit-area output to the scale of farmland, which was a negative one. Take the analysis on 1986 sampling survey Fengdu County, Sichuan Province, as an example. The elasticity value of land productivity to the scale of operation in the county was -0.21. That is, in the wake of expansion of the scale, its value of land productivity diminished. China is a country where cultivated area is scarce, and where there is a large amount of surplus labor in agriculture, in respect of which the nonagricultural sector cannot totally absorb within a short time. Under these circumstances, the development of technological transformation in agriculture is guided by an indication that the cost of labor is relatively low whereas that of land is relatively high. Therefore, we should mainly focus on the pursuance of a higher land productivity. To expand the scale of land operation by force without considering the restrictions on the transfer of labor will inevitably bring about adverse effects. In conclusion, therefore, China presently does not have the conditions for any possible utilization of this kind of economies of scale.

Let's examine the possibility of existence of the third kind of economies of scale. It is a normal and possible that under the circumstances where land plots are scattered beyond the level of separability of factors of

production, we can obtain economies of scale by appropriately combining those scattered and odd land plots. In the above paragraphs, we have proved that the separability of factors of production are indistinctive in agriculture. However, we do not mean that in agriculture, the more subtle the division of factors of production the better, or that the factors of production can be divided indefinitely. On the contrary, we agree on the approach of combination. However, what we mean by combination is not the combination of factors of production in general. Rather, we prefer the combination of factors of production under certain conditions. Such conditions are: 1) the benefits of this combination must outweigh the losses; and 2) land productivity will not drop. In other words, it is just because the above two kinds of economies of scale fail to meet these two conditions that it is impossible for them to exist, or to become a common aspect, in China's agricultural transformation.

Has the extent of scatteration of land plots tilled by China's peasants reached beyond the level of separability?<sup>11</sup> The answer is in the affirmative. According to a typical survey across the country, China's average area of cultivated land in 1984 was 9.35 mu per peasant, and each land plot was divided into 9.7 pieces. The average area was 0.96 mu per piece. The area was reduced to 9.2 mu, and was divided into 8.99 pieces, in 1986. The average area was 1.02 mu per piece. These were average figures. In fact, there were a large number of land plots that were divided to an astonishingly small level. No matter whether such scattering of land plots was necessary to diversify the risks of operation, or whether it was done for the purpose of fair distribution, the scattering had reached beyond the level of separability. The output of land plots was improved simply because of technological advancement in, as well as a large-scale increase in, the input of other agricultural factors of production, which made the gain outweigh the loss. Thus, these economies of scale are common in China, and we should utilize it in a comprehensive way.

Lastly, let's examine the possibility of existence of the fourth kind of economies of scale. Modern agriculture is closely linked to market and community service facilities, transportation facilities, and so forth. Objectively, the economies of scale exist in the course of contacts between peasants and these external services. For example, peasants may obtain economies of scale with the help of an expanded scale of transaction activities in terms of purchase, sales, transportation, storage, irrigation, and financing. Relevant studies conducted by foreign countries showed that under the circumstances where other conditions remain unchanged, the per-unit cost of agricultural product transactions (including the costs of purchase, sales, credit, entering into contracts, litigation, and so forth) are in inverse proportion to the scale of transaction activities. This indicates that peasants may cut their own transaction costs, and gain the benefits of economies of scale by expanding their scale of transaction activities through cooperation in these areas.

Therefore, these economies of scale are common in China's agriculture. Besides, the peasants always want to utilize it.

In summing up, we see that though all of the said economies of scale exist theoretically, only the last two are, at the present stage, common in China's agriculture. We should comprehensively make full use of them. Though the first two kinds of economies of scale are not common in China, those localities that possess the necessary conditions should make use of them as well.

## *2. Household Operations and Cooperative Economy in Agriculture That Is Undergoing Transformation*

As both the third and fourth kinds of economies of scale are typical and practical approaches of utilization of economies of scale in agriculture that is undergoing transformation, the focal point of our work is how to design our operation modes, as well as economic organizations, of the agriculture in order to utilize them.

Our mistakes made in the collectivization of agriculture, our success in the contracted responsibility system with payment linked to output of households, and the above discussions on the utilization of economies of scale have thoroughly proven that operations by households are suitable for agriculture, in which the economies of scale do not play a distinctive role. In other words, it is typical in agriculture for the labor of peasants to be the focal point, while land and capital within the scope of a household is a basic microeconomic level of allocation or a level of assets operation. Under no circumstances must we ignore this level of assets operation without careful consideration. (It is not the only level of assets operation in agriculture, and we shall discuss this point in the following paragraphs.) This is because agriculture may display its potentially great economic benefits at this level. Reasons for this are: 1) Household operations may, to a very large extent, minimize conflicts within the operation body, thereby maximizing the initiative of laborers; 2) It may, to a very large extent, cut the internal loss of information, thereby minimizing the transaction costs within the operation body; 3) Allocation of resources at the microeconomic level is optimized, which helps push the marginal productive forces of factors of production toward their balanced state; 4) It helps induce changes in technology, thereby encouraging us to select a method of technological transformation in agriculture that suits China's conditions.

It must be pointed out that what we mean by household operations here refers to those operations that meet requirements for the development of a commodity economy. As both the scope and scale of the operation of assets under such an economy allows a larger capacity, they may thus be utilized for the purpose of economies of scale. It is just as we have discussed. It is not necessary for us to change the level of assets operation by households when we utilize the third and fourth kind of economies of scale. In respect to the second kind of economies of scale, it will become practical to gain scale

benefits, if the agricultural labor can be transferred on a large scale to nonagricultural industries, and the levels of both agricultural capital and equipment are raised. Besides, this does not require us to change the level of assets operation by households. We need to break through this level of assets operation only when we pursue the first kind of economies of scale. However, since it is difficult to measure agricultural labor, the cost of labor supervision is very high, and any approach of labor supervision without incentives is insufficient, the gain derived from the said breakthrough often cannot outweigh the loss. Generally speaking, therefore, it is harmful to pursue, and we must discard our inflexible attitude toward the pursuit of, this kind of economies of scale by changing the level of assets operation by households.<sup>12</sup>

Thus, we can see that the possibility of utilizing a practical economies of scale does not only require us to break through the level of assets operation by households. On the contrary, to insist on such operation is one of the necessary conditions in the utilization of a practical economies of scale. It is also one of the necessary conditions for realizing transformation in the development of China's agriculture. The key to understanding this point is that we should discard the thinking that household operations equal to small-scale production, and that we should establish a new thinking that household operations can become part of the large-scale production.

However, the level of assets operation by households cannot fully utilize the possible existence of economies of scale. Therefore, it is not the only form of assets operation in agriculture. We know that in agriculture, it is difficult for households to obtain that scale of transaction activities necessary to get the benefits of economies of scale, no matter whether they refer to the building and maintenance of basic facilities, or the purchase of factors of production and the sale of products. The situation becomes more prominent for agriculture undergoing transformation. How do we utilize this portion of economies of scale? One solution is to combine households into a collective economy to get such scale of transaction activities necessary to get the benefits of economies of scale. Nevertheless, facts have shown that this approach is not a successful one. That is, the probability of failure outweigh that of success. Another approach is to encourage peasants to cooperate in these areas, and form a cooperative economy<sup>13</sup> under the prerequisite of upholding the household operations, so as to get such scale of transaction activities necessary to get the benefits of economies of scale. Much research conducted at home and abroad indicated that it is highly possible that a cooperative economy like this will succeed.

Why do these two approaches bring about different results? First, it is because a collective economy negates the level of assets operation by households or individuals in terms of direction production. It simply takes laborers as a production factor and cannot accurately measure the

effective amount of labor contributed by, or conduct an effective and economically reasonable labor supervision of, the laborers. Therefore, the loss caused by the lack of labor incentives is much greater. On the other hand, cooperative economy upholds the level of assets operation by households. Laborers are not only one of the factors of production, but also the decision makers, and the direct beneficiary of labor results. Therefore, there is no loss caused by the lack of labor incentives. Second, it is because though the scale of transaction activities necessary for achieving economies of scale is seemingly greater in a collective economy, facts show that this is not always the case. This is because the pursuit of this form of organization with the help of a collective economy contains the elements of the fourth kind of economies of scale, and its role is very limited. Moreover, it is impractical to overcome such restriction by expanding the scale of the collective economy. In the 1960's, China replaced the mode of collective economy, which was marked by a two-tier ownership, and took large production teams as the focal point, by another mode of collective economy, which was marked by a three-tier ownership, and took production brigades as the focal point. This put an end to the situation in which we were in a passive position. Facts have shown that expansion in the collective economy is not a correct choice in our pursuit of the fourth kind of economies of scale. On the contrary, facts indicate the opposite; though it seems that a cooperative economy on the basis of household operation is, unlike the case of the collective economy, inconvenient to take any uniform actions. This is because the objective of such cooperation is very obvious, that is, to get benefits, or make the same amount of input to yield more benefits, that would otherwise be unavailable to them without cooperation. Thus, provided there is the possibility of existence of this kind of economies of scale, peasants will be willing to share such benefits by cooperation. Therefore, both the scope and the content of cooperation are broad and abundant. Third, it is because the scope and extent of indistinctness of property rights under the collective economy are larger than that of the cooperative economy, and because the degree of freedom enjoyed by peasants in joining and quitting an organization is smaller than that of cooperative economy, the collective economy is inferior to the cooperative economy no matter whether it refers to the short-term accuracy of selection, the suitability of long-term arrangements, or the timing of acts to correct improper actions and plans. Since there are great differences between the collective economy and the cooperative economy in these areas, they bring about totally different results. Of course, both the collective economy and the cooperative economy share many common points. Though we cannot clearly point out each of them, they share a distinctive difference that collective economy is based on economic cooperation that negates the level of assets operation by households; whereas cooperative economy is based on economic cooperation that affirms such level of assets operation. In other words, if we say that the collective economy stresses on a multi-level cooperation on the

basis of collective operation, the cooperative economy stresses a multi-level cooperation on the basis of household operations.

It is extremely important that we stress the cooperative economy in the course of transformation in agriculture. This is because the financial resources of China are extremely limited to meet the process. Neither the central government nor local governments (except for areas which have first become developed areas) can spare a huge sum of capital to create all conditions necessary for peasants to develop the fourth kind of economies of scale. Besides, it is impossible for peasants themselves to create such conditions. To put the case more accurately, even when the peasants are capable of creating the conditions in certain areas, they will be unwilling to devote their efforts to such creation because the resulting effects may be drained away. Therefore, we must depend on economic cooperation to develop the conditions, so that everyone can share the benefits of economies of scale.

Economic cooperation that expands beyond the level of household operations is more or less emerged shortly after the implementation of the contracted responsibility system with payment linked to output of households. An example is the purchase of farm animals and machinery through cooperation. Nevertheless, such economic cooperation depends on the primary social relations network. It can only solve problems concerning the share of benefits brought by a low-level economies of scale. Since this kind of economic cooperation often will not grow further, one cannot hope that it will gradually be developed and be helpful to solve problems the share the benefits at medium- and high-level economies of scale, such as the construction of irrigation facilities, transportation facilities, and so forth, which involve a larger scope of cooperation. Generally speaking, problems concerning the share of benefits at medium-level economies of scale may be solved by simply establishing a cooperative economic organization on a corresponding scale. The so-called corresponding scale refers to the external nature of economies of scale which is solely utilized by members of that cooperative economic organization and is not drained away.

Of course, it is common that the fourth kind of economies of scale exists in agriculture. Furthermore, peasants understand that cooperation, which may bring them benefits derived from such economies of scale, is different from the cooperative economic organization, which is formed to obtain such economies of scale. This is to say, there are conditions necessary to form a cooperative economic organizations that can bind the peasants together. Generally, the government must first give support. Second, it must ensure that benefits gained by every participant must be greater than the opportunity cost of cooperation. Third, participants must enjoy the right of withdrawal.<sup>14</sup> Fourth, the cooperative economic organization must have the power to dispel those who infringe upon others. We hold that if we can

correctly handle the above points, it is certain such cooperative economic organization can be developed.

Lastly, we must point out that to handle problems concerning the share of benefits at a high-level economies of scale simply by relying on the efforts of cooperative economic organizations, or federation of cooperative economic organizations are insufficient. There must be appropriate coordination from the government. The so-called problems concerning the share of benefits at a high-level economies of scale refers to the construction of basic facilities which take a long construction period, which involve a large investment sum, the use of which is prominently inseparable, and which play a role in a larger area. An example is the system of shelter-forests in the "three northern areas." The most prominent feature of these basic facilities is that their external nature is so large that it becomes difficult to measure the scope and extent of benefit drainage. The responsibility of investment in such agricultural basic facilities should usually be organized, and part of them should be undertaken, by the government. Any investment in agriculture by the government should first be those in such basic facilities.

In conclusion, we hold that we may give full play to the role of various kinds of economies of scale that probably exist by upholding the level of assets operation by households and by comprehensively carrying out various kinds of effective economic cooperation on this basis, together with the active coordination of the government.

### *3. Development of Markets in Agriculture That Is Undergoing Transformation*

After studying the causes of China's original agricultural economic system, we may find the following clue. For the purpose of implementing the economic development strategy that might help China catch up with and surpass the "capitalist economy," China adopted the method of centralizing the agricultural surplus by establishing price scissors for agricultural products. In order to make this method practical, China successively worked out policies of centralized purchase and distribution and established state-controlled rural economic organizations—people's communes. While the former became a circulation system of the original agricultural economic system, the latter became the production and operation systems of the original agricultural economic system. By following this clue, we may find that neither the establishment of price scissors for agricultural products, nor the implementation of centralized purchase and distribution, as well as the system of people's communes, conformed to the market mechanism. This common feature indicates that the essence of the original agricultural economic system acts against the market. The price of upholding this system that acts against the market is very high.

Indeed, to reform the original agricultural economic system and to transform agricultural development cannot be succeeded by simply depending on the market mechanism. Therefore, we should not take the market, which we have never tried before, as if it were perfect; or

take planned operations, which we implemented in the past, as if it had no saving graces, still less to go to the extreme and act against planned operations. The correct selection is to properly integrate planned operations with the market ones and to optimize their advantages. That is, we should apply planned and market operations in areas wherever it is appropriate in order to speed up the transformation of China's agriculture. Over the past decades, China has conducted many studies on planned operations. But it did not conduct adequate studies on the market. In view of this situation, we will only give a brief discussion of the development of markets in agriculture that is undergoing transformation.

We hold that to develop the market, and to fundamentally change policies that act against the market, are two sides of the coin. It is impossible for us to develop the market without fundamentally changing policies that act against the market. If we are willing to develop the market but not to fundamentally change policies that act against the market, it will be impossible for us to really eliminate the environment that is unfavorable to the market because the market cannot influence economic operations. Therefore, the correct selection is to change policies that act against the market, while developing the market. On the one hand, we should gradually discard policies that distort the prices of agricultural factors of production and agricultural products. On the other hand, we should cultivate factors of production and markets for products and use market mechanism to reflect the scarcity of factors of production and products, so that the factors of production will be utilized in a better way, and various acts of wasting agricultural products will be effectively checked. Of course, we must also adopt a series of transitional policies to ensure coordination between planned operations and the market ones, and between the opening up and development of markets.

We hold that the development of markets may follow the following order. First, we should restrict the government from exercising the right of intervention by force, and should gradually replace such intervention by force with an induced intervention. For example, we should make such replacement in policies concerning the purchase of agricultural products. Undoubtedly, in order to ensure the supply of daily necessities for urban residents, as well as stable prices, it is impractical to promptly abolish the state's policies concerning the purchase of agricultural products shortly after the market is opened up. We can only do so in a gradual way. Our specific assumptions are as follows. For a rather long period, we should fix the purchase amount of agricultural products and gradually increase the purchase price until this purchase price equals the market price. Then, we may replace the fixed purchase amount with the turnover of futures, thereby completing the change from policies concerning mandatory purchase into those concerning induced futures transactions. We should stipulate that the principle of fixing the purchase amount concerns whether or not one has food to eat and clothes to wear, but does not concern

the quality of his food or clothes. It is very important to grasp this point. This is because only thus can we maintain balance in the increasing demand of certain goods which is caused by population growth, and the decreasing demand of other goods which is caused by improved living standards. Hence, we can generally maintain uniform growth in both the fixed purchase amount and in the volume of demand for survival for a rather long period. Second, we should open up the products market. The purpose is, on the one hand, to encourage peasants to allocate their available resources in a better way according to market information and to display their advantages so as to get more benefits; and, on the other, to help urban residents improve their livelihood based on the increase in their wages and salaries, rather than based on a further suppression of agriculture or on an increase in consumption subsidies. Of course, this requires us to abolish the consumption subsidies for urban residents, as well as corresponding reform policies linked to price. Third, we should open up the market for factors of production. To open up this market is a very important aspect of promoting agricultural transformation. This is because distorted prices for factors of production will also prevent us from selecting the correct way of transformation. The market for factors of production includes markets for capital, labor, land and means of production. It is very obvious that to open up the capital market, as well as the labor market, helps us promote agricultural transformation. Nevertheless, there must be corresponding policies to eliminate the disadvantages. For example, when we open up the capital market, we must establish a government system of agricultural funds, and a system of agricultural development funds for agricultural economic organizations or peasants. When we open up the labor market, we must establish a labor management system, and a system for promptly making public information about labor demand. On the development of land market, our assumption is that, first, we should expressly announce that we shall no longer adopt administrative means to redistribute the right of land use and replace the existing contracts for land use with payments linked to output by certificates of land use and allow circulation of such certificates. Second, we should establish an administrative organization in charge of the circulation of land use certificates, so as to ensure the validity of the circulation. The organization should be mainly responsible for the following tasks: 1) Acting as a notary public, so as to ensure that the circulation of land use certificates is legally valid. 2) Examining credentials, so as to ensure that the certificates will be in the hands of peasants who want to use the land, and that productivity of land will be improved, or at least will not be undermined. To deal with this situation, we may set up a series of indexes for assessing and screening those who want to have land use rights. 3) Levying taxes on the circulation of land use certificates. In order to ensure that the circulation of land use certificates helps us realize the economies of scale in land operations and effectively prevent people from holding the certificates simply for the purpose of preserving or increasing the value of their assets, we

should adopt a system of fixed-rate aggressive tax, and levy such tax on holders of land use certificates. Hence, we can prevent incapable peasants from holding the land use rights and wasting the productivity of the land. Third, we should levy taxes on the basis of quality and area of land plots, so as to prevent peasants from leaving a land plot idle or using a land plot in a poor manner and to encourage the use of land, as well as the circulation of land use certificates. The opening up of markets for agricultural means of production is a controverted issue. We hold that if we only analyze the price of agricultural means of production, the move of opening up the market will indeed affect agricultural production. However, the situation will be different if we include the move of opening up the market for agricultural products in our analysis. This is because peasants determine the acceptable price of their means of production according to the market price of agricultural products. If the price of means of production is too high, the demand for them will drop sharply. Under these circumstances, suppliers of agricultural means of production dare not to ignore it. This is because the loss brought by overstocking of products to the suppliers will increase in proportion to the length of time. Therefore, they cannot help but cut the price until it becomes acceptable to the peasants, thereby achieving an equilibrium of supply and demand. Therefore, provided that the agricultural products market is opened up, there is no need for us to worry about the impacts of opening up the market for agricultural means of production. Besides, facts have shown that most of the cost of peasants' means of production are market price. This includes means of production which should be cheap according to the provisions of policies, but have the price increased each time they change hands before they reach the peasants' at the market price. Taking the situation as a whole, there is no large-scale overstocking of agricultural means of production (except for the poor ones) because of the price. It is common that their supply cannot meet the demand. Therefore, we can see that if there are problems in agriculture, they develop not mainly because the price of means of production is high. Thus, the move to solve problems by checking the price of agricultural means of production does not grasp the crux of agricultural problems. Simply put, to open up the market for factors of production helps promote agricultural development. If one sees that there are advantages as well as disadvantages, then the disadvantages are not equal to the advantages. Of course, we need corresponding policies in order to open up the market for factors of production. They include policies to increase the supply, so that supply and demand will reach an equilibrium. Furthermore, any attempt to achieve this without practical planning and arrangements will end in failure.

In summing up, we hold that under the prerequisite of upholding the planned economy as the major component, we should attach great importance to achieving the best arrangement between planned operations and the market ones, so as to help the market mechanism make contributions to China's agricultural transformation.

Taking the situation as a whole, the development of markets is favorable to such transformation. However, it is necessary for us to adopt corresponding policies in order to eliminate those disadvantages of the market mechanism.

#### Footnotes

1. 1952 was the year in which the level of China's grain, as well as other crops, broke a record for the first time since the founding of the PRC.
2. Calculation is based on relevant data published on pp. 248 and 253 of *China Statistical Yearbook (1988)*.
3. Calculation is based on relevant data published on pp. 224 and 233 of *China Statistical Yearbook (1988)*. Considering the fact that tractors were used mainly for transportation purposes, we use the area plowed by tractors to reflect the level of mechanization in agriculture.
4. Calculations were done on the basis of the *Statistics Book of China's Rural Economy (1949-1986)*, pp. 348-350. As the work of statistics began in 1979, and there were changes in requirements for the 1983 statistics, we only calculated figures in that short period.
5. Quoted from RENMIN RIBAO 10 October 1989.
6. The importance of endowment of agricultural resources to agricultural growth is much greater than for any other industries. An analysis by Keluge [0344 7627 2706] on factors to differences in economic growth between developed countries and developing countries indicated that differences in endowment of agricultural resources, as well as the resulting input of technology, could only account for the lesser half of factors that caused differences in the economic growth; and differences in manpower and capital accounted for the larger half of the factors. Studies conducted by Sushui [6643 3055] and Latan [2139 0982] indicated that for the purpose of agricultural growth, differences in endowment of agricultural resources, as well as the resulting input of technology, could account for more than 60 percent of total difference in such growth. In the endowment of agricultural resources alone, the difference could explain 33 percent of the total difference. This means that to study the structure of a country's agricultural technology so as to give play to the advantages of its natural resources in agriculture is a very important task.
7. A host of data indicate that China's actual amount of arable land is more than that reported by statistical statements. Therefore, China's land productivity will be much lower if we base our calculations on the actual amount of arable land.
8. See *The World's Resources (1986)*, 1987 edition, published by Energy Resources Publishing House, translated by the Committee for Comprehensive Investigation of Natural Resources under the Chinese Academy of Social Sciences.
9. According to our relevant analysis, any change in the per capita agricultural area will bring about, and is the main cause of, remarkable changes in land productivity, the input of chemical fertilizer and the ratio of irrigation; whereas changes in agricultural area owned by each agricultural laborer have minimal effects on the latter.
10. See "International Differences of Productivity in Agriculture and Their Causes" by Kawagoe Toshihiko and Hayami Yujiro in *Translated Economics Works*, No. 10, 1985.
11. Marginal benefits of factors of production become zero when the separability of factors of production reaches its limit.
12. In localities where nonagricultural industries are very developed, there are typical examples of successful collective agricultural operations. However, the main reasons for such success are the transfer of labor and a raise in agricultural capital and equipment, rather than because of breaking through the level of assets operation by households. Simply put, one can succeed under such circumstances without breaking through the household operations. An example for this is the success of state-run mechanized farms, which adopt the approach of household operations.
13. In China cooperative economy and collective economy are often regarded as different explanations of a concept. In order to avoid misunderstanding, we put forward the following definition: In a cooperative economy, either a household or an individual is an independent level of assets operation; whereas in a collective economy, neither a household nor an individual is an independent level of assets operation.
14. This is the case under the system of induction. In case that those who are not members may get such benefits, we must take mandatory means to deal with them and do not grant them the right of withdrawal, in order to prevent them from getting a free ride.

#### Agricultural, Industrial Price Differential Analyzed

90CE0364B Beijing JINGJI CANKAO in Chinese  
17 Jul 90 p 4

[Article by Jin Huanquan (6855 3562 6898): "There Should Be No More Drastic Narrowing of the Price Scissors"]

[Text] After 11 years of reform, the price parities between industrial and agricultural products in Zhejiang has finally become more reasonable; the price scissors have clearly narrowed. For this reason, we should not try to narrow the scissors difference much more within the next few years. Moreover, we should no longer simply raise agricultural product prices as the way to narrow the price scissors.

### **The Overall Price Parities Between Agricultural and Industrial Products Has Narrowed**

Before the Third Plenary Session of the 11th party Central Committee, the price system was not perfect. Agricultural product prices were too low, as was peasants' income. In 1979, as suggested by the Third Plenary Session of the 11th party Central Committee, the State Council raised the purchase price of agricultural and sideline products substantially. Statistics show that, in 1979, Zhejiang Province's agricultural and sideline product purchase prices were raised an average of 20.1 percent, a heftier price increase than at any other time since the founding of the PRC. The agricultural product procurement policy was restructured in 1985, and grain, oil, cotton, and some other important agricultural products were put under purchase contracts, letting some products follow state-set prices while others followed either the guidance price or the market-regulated price. Since this measure was put into practice, the overall purchase price of agricultural products has risen steadily.

By 1989, the purchase price of agricultural and sideline products had risen 216.5 percent above the 1978 level, increasing at an average rate of 11 percent a year. The huge margin of exchange between industrial and agricultural products in Zhejiang has narrowed substantially. The overall price ratio between agricultural and industrial products in Zhejiang has narrowed by 45.9 percent, closing at a rate of 5.4 percent a year. In other words, the same amount of agricultural products in 1989 could fetch 45.9 percent more industrial products than it could in 1978.

### **The Standard of Living in the Rural Areas Has Been Rising Faster Than in the Cities**

Comparing 1989 to 1978, because the purchase price of agricultural and sideline products has risen 216.5 percent, peasants' income has increased by 10.745 billion yuan. During the same period, retail prices of industrial goods in the rural areas rose by 71.3 percent, which raised the cost of living by 8.154 billion yuan. Taking that into account, the peasants' real benefit came to 2.591 billion yuan.

For many years, the state has made it a policy to reduce the price parities between industrial and agricultural commodities so as to raise the peasants' standard of living. Looking at the difference in cost of living between urban and rural areas, if the peasants' cost of living index equals 1, then the ratios of cost of living between the urban and rural areas are: 1978, 1.93:1; 1980, 2.03:1; 1981, 1.74:1; 1982, 1.46:1; 1983, 1.51:1; 1984, 1.45:1; 1985, 1.59:1; 1986, 1.73:1; 1987, 1.64:1; 1988, 1.61:1; 1989, 1.67:1. Clearly, living standards are rising faster in the rural areas than in the cities.

### **Narrowing Price Scissors Between Industrial and Agricultural Products**

Between 1979 and 1989, the price scissors between industrial and agricultural products in Zhejiang have

narrowed by a total of 39.5 percent, closing at an average rate of 4.5 percent a year, but the actual rate has been very uneven. In 1979, the gap narrowed by 11.6 percent; in 1980, the gap widened by 4.8 percent; in 1981, it narrowed by 0.2 percent; 1982, it narrowed by 12.2 percent; in 1983, the gap widened by 18.7 percent; in 1984, it narrowed by 17 percent; in 1985, it again widened by 1.4 percent; in 1986, it narrowed by 0.4 percent; in 1987, it narrowed by 8.1 percent; in 1988, it narrowed by 6.6 percent; in 1989, it widened by 6.6 percent.

The difference between industrial and agricultural labor productivity has an effect on how quickly or slowly the price scissors are narrowed at different times. In 1979, 1981, 1982, 1984, and 1986, labor productivity increased much faster in the agricultural sector than in the industrial sector, which speeded the narrowing of the price scissors between industrial and agricultural products. For example, in 1979, the index of overall price ratio between industrial and agricultural products was 83.3 percent, 16.7 percent smaller than in the previous year, but because during the same period the index of industrial labor productivity only rose by 7.1 percent while the index of agricultural labor productivity jumped 13.6 percent, the price scissors index between industrial and agricultural products fell to 78.5 percent, and the price scissors were quickly narrowed.

### **Two Suggestions**

1. We should not try to narrow the price scissors between industrial and agricultural products much more in the next few years. When industrial development reaches a certain level, we must gradually narrow the price scissors in order to protect agriculture, the country's foundation, and help raise peasant income, expand the rural market, and promote the nation's smooth and steady economic development. But there is a limit to how far we should narrow the price scissors. We must consider the national conditions and strength. On the one hand, to accumulate funds for the sake of achieving modernization is the duty of every citizen. To accumulate funds through the agricultural sector is also a matter of course. It facilitates the nation's industrialization and the technological transformation of the agricultural sector. In order to accumulate funds through the agricultural sector, besides levying a direct agricultural tax, an important means is to make use of the price scissors between industrial and agricultural products to shift a part of the value created by the agricultural sector to the industrial sector. On the other hand, if we try to narrow the price scissors to beyond what the country can bear, we will only impoverish the country.

2. We cannot narrow the price scissors by simply raising agricultural product prices. There are two ways to narrow the price scissors: One way is to raise the agricultural labor productivity rate; the other is to raise some agricultural product prices. It is necessary to raise some prices moderately, but raising agricultural product prices ultimately means the state must pay off the peasants.

The state's financial resources are limited and it cannot raise the price of agricultural products indefinitely. Therefore we cannot simply rely on raising prices. In the long run, the proper way to narrow the price scissors is to increase agricultural labor productivity.

#### State To Adjust Flue-Cured Tobacco Prices

90CE0346A Beijing JINGJI CANKAO in Chinese  
11 Jul 90 p 2

[Article by reporter Lu Donghua (4151 2639 5478): "The State Will Adjust the Purchase Price of Flue-Cured Tobacco"]

[Text] This reporter has learned from the China National Tobacco Corporation that, in order to stabilize the production of flue-cured tobacco, the state has decided to raise the purchase price of the new crop of flue-cured tobacco that reaches the market in 1990. The state has also formulated unified regulations to provide financial aid to raw tobacco production.

In this round of price increases, top-grade tobacco prices will remain the same; medium-grade tobacco prices will go up 14.2 percent; low-grade tobacco prices will go up 11.1 percent; poor-grade tobacco prices will go up 10.5 percent. When the new crop of tobacco reaches the market, the scope of regional price differential and the actual price difference will stay the same. The purchase price per 50 kilograms of Grade-4 Zhonghuang tobacco will be 107 yuan in Yunnan (106 yuan in Zhaotong Prefecture), 104 yuan in Shaanxi, 103 yuan in Jilin and Liaoning, 98 yuan in Heilongjiang, and 105 yuan elsewhere.

The state has formulated unified regulations to provide financial aid for tobacco production. There are two standards: One standard is for Yunnan, which pays 40 yuan per 50 kilograms of high-grade tobacco (first cure; same below) and 35 yuan for medium grade. The second standard is for all other provinces and pays 30 yuan for top-grade tobacco and 25 yuan for medium grade. The national average is 20.3 yuan. The price for recured tobacco is excluded from the regulation and transfer price and is based on the above financial aid standards plus 10 percent.

The China National Tobacco Corporation stressed that financial aid for tobacco production has been increased even though the state is unable to raise prices substantially, and it is intended to be a temporary measure to help tobacco production and should not be used as a tax base. Separate accounts must be set up to make sure that the money is spent on developing tobacco production.

This adjustment of cured tobacco prices will not affect the sale price of cigarettes. Air-cured and sun-cured tobacco prices may be adjusted separately by the State Administration of Commodity Prices and the State Tobacco Monopoly Administration.

#### Jiangxi Summer Harvest

40060059E Nanchang JIANGXI RIBAO in Chinese  
1 Aug 90 p 1

[Summary] The area sown to summer grain (barley, wheat and broad beans) in Jiangxi Province increased from 1,662,800 mu in 1989 to 1,680,400 mu; the per mu yield increased from 57 kilograms to 64 kilograms; gross output increased from 94,200 tons to 107,600 tons; and gross output of rapeseeds was 371,000 tons, an 86.7 percent increase.

### Intellectuals Accused of Political Expediency

90P30069A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 153, Jul 90 pp 75-77

[Article by Liu Xiaobo (0491 2556 3134): "Contemporary Chinese Intellectuals and Politics, Part X"; Part IX was published in JPRS-CAR-90-040, 29 May 90 pp 81-84]

[Text] (Marxism-Leninism having come to China, followed by Mao's Thought being instituted as the guiding ideology of the entire party and the whole people, the theory that "knowledge has a class nature" has caused the traditional politicization of knowledge and the bureaucratization of intellectuals to undergo new development and unprecedented strengthening.)

(Continued from issue No. 148)

In contemporary China, intellectuals should have as their first priority the achievement of intellectual independence rather than the right to political participation or economic rights. With intellectual independence, one naturally then has the right to participate in politics and has economic rights. However, because the autocratic policy as pursued by Mao Zedong for example of integrating the intellectuals with the workers is a political policy, so the intellectuals' struggle to win personal independence is political in nature. Only through such a political struggle can the intellectuals extricate themselves from their status as political slaves. For this reason, the struggle for intellectual independence is directly a struggle to overthrow an autocratic government and to establish a democratic government.

However, China's intellectuals must realize that this struggle is going to be a long-term, bitter struggle. The resistance comes not only from the despotic and brutal dictators and the ignorant and barbaric masses, but most of all originates with the intellectuals themselves. It comes from the pernicious habits formed over a long period of weakness, servility, selfishness, infighting, hypocrisy, and so forth. Thus, the first target for this struggle is the intellectual himself, the intellectual's self-questioning, self-criticism, and self-abnegation. It is on this basis that self-rebuilding takes place. China's long history of despotism and modern obscurantism's worst contamination of intellectual purity are directed at the source of knowledge—the contamination of the intellectuals themselves. So, if the intellectuals do not carry out a totally ruthless purge of their own ugliness and filth, they will not be able to cleanse society's contamination of knowledge. If intellectuals themselves are not first purified and sanctified, then society will forever be ugly and filthy. The ugliness and filthiness of the source of knowledge—intellectuals—will eventually contaminate the whole of society, causing all men to have no sense of shame but on the contrary to consider it a mark of pride and contentment that "the dung on their shoes also smells nice."

Chinese history proves that the first to reject the independence of knowledge are the intellectuals. "One serves the emperor if he excels in scholarship" was the earliest exhortation to this sort of rejection. The reason the dynastic tyrants took a fancy to Confucius was possibly just because he was the earliest to call intellectuals to the service of politics. The locus of the developmental path of the bureaucratization of China's intellectuals and the politicization of knowledge moved from "one serves the emperor if he excels in scholarship" to "the imperial examination system," from the intellectuals' voluntary service to the government to the systematized requirement for intellectuals to serve the government. To "tie one's head to a rafter and jab one's leg to stay awake" studying and then be unable to get an official posting—is this not too much of an injustice? After "10 years studying at a cold window, to continue studying into old age" and never seeing one's name on the lists of successful exam takers, never being allowed to wear the official robes—is not this to be a shame before one's ancestors, before the household gods? For this reason China's intellectuals have no basis for hating the viciousness of the tyrants or the stupidity of the masses. The most vicious, the most stupid, the most barbaric are the Chinese intellectuals themselves. Qin Shihuang "burned the books and buried the scholars"; Mao Zedong "destroyed the 'four olds' and established the 'four new ideas,'" using tyranny to eliminate knowledge. Tyranny and benevolent government are both dictatorial governments, both are deadly enemies of knowledge. Even more frightening, tyranny's destruction is limited to the flesh and bones of the intellectuals, whereas benevolent government has destroyed the souls of all the intellectuals in China. Is there any scholar who does not oppose Qin Shihuang's tyranny? But where are the scholars who have ever opposed the political service path of "serving the emperor because one excels in scholarship"? From ancient times to the present, have not China's scholars spent all of their efforts, all of their hopes, all of their goals on one day having their "names on the lists of successful candidates"? Mao Zedong lumped the tyranny of Qin Shihuang and the benevolent government of Confucius together; he both attacked and reformed the intellectuals; he united with them and exploited them. He used the sword and prison, but also made use of the tender touch and smiling face. Are not the modern-day intellectuals the same as the ancient scholars, complaining about the sword and prison, but accepting with pleasure the soft touches and smiles? I am convinced that, if at some time Mao Zedong wanted to meet a Chinese intellectual, even if that person were the world's number-one expert (not a Westerner), this intellectual would feel so flattered and excited in the days before seeing Mao, he would be unable to eat or sleep. A one-on-one meeting with the Great Leader would later be a means of showing off for the rest of his life. And even when he was dead and buried, this glory would be handed down to his wife, sons, and daughters, even to his children's children. How could this type of intellectual undertake the sacred mission of defending the purity, sanctity, and independence of knowledge?

For these reasons, I want to further say, up to this point no true intellectual class has formed in China. We have to begin in the wasteland, on top of the ruins. The question is not how to eliminate the pollution of the source of knowledge, but how to start from the beginning by digging a new pure source of knowledge. However, from a world view, we do not have to start on the ruins. The people of the West have already created an independent body of intellectuals, and, using the power of knowledge, have led men to create the two great miracles of science and democracy. These are more magnificent than anything humankind has ever created by relying upon flesh and savagery. Chinese people cannot solely take the building of the Great Wall as their pride. However, for the past several thousand years, we have indeed been taking it as our pride: from the Great Wall to the walls of the Forbidden City, to the innumerable walls throughout the country surrounding so many units. The most magnificent feat of Chinese inventiveness was the creation of the wall, but the wall is exactly the symbol of the Chinese people's isolation, weakness, and mutual distrust. In the realm of knowledge, we have also built a thick and hard wall composed of ugliness and tyranny. Today is the time for tearing down all walls. If the wall of politics were torn down, Chinese intellectuals could then face the world with an independent heart. Even if neither ancient China nor modern China or even present-day China had an independent intellectual class, it does not mean that in the future there will still be none. There are walls everywhere in China today, but this does not mean that the walls will remain forever.

Just as knowledge has its innate limits, so too intellectuals have their innate weaknesses. Intellectuals with their knowledge do not know all and cannot do all, and in the final analysis cannot completely eradicate the irrationality in humanity or the defects in human nature. However, within the realm of what knowledge can accomplish, it can at least have the strength to resist tyranny and ignorance, to create science and democracy. If knowledge—*independent knowledge*—has this sort of power only in the West, and never gains it in China, then we can only say: "It serves them right," and it proves that the Chinese people are impotent.

At this point I would like to quote a few lines from the ending of the *Communist Manifesto* and from *The Internationale*:

*In this struggle to gain independence of knowledge, to protect the purity of knowledge and its sanctity, the only thing intellectuals have lost is their chains, but what they have gained is their freedom. However, freedom is cruel, and it exacts a great price.*

*There has never been a savior; one cannot rely upon saints and emperors; to achieve the independence of knowledge, the intellectuals must depend upon themselves. Intellectuals do not want to be and could never be anyone's savior, because knowledge is not omnipotent. However, no person*

*should attempt to be the savior of the intellectuals. Intellectuals only want to be the savior of knowledge, and it is only the intellectuals who have the prerequisites to be the saviors of knowledge.*

"Knowledge is power." But we should add to that: "Only independent knowledge is true power."

"Intellectuals have wisdom." But we should add that: "Only independent intellectuals are truly wise."

To repeat: "Independent knowledge" is the god of the intellectuals in this world, and they should bow and kneel to worship it with complete sincerity.

### The Utilitarian Personality Which Does Not Uphold the Truth

China's fame in the contemporary world is not so much its ancient culture, or the great breadth of its land, nor the masses of its people, or even its bounteous resources, but rather it is that, in this long history, upon this wide land, and among this vast population, there is not the least accommodation for human freedom. Among human rights and freedoms, the most important is freedom of the mind—freedom of thought, of speech, of religion. This type of freedom is not just that one can think whatever one wants, that one can believe whatever one wants, or that one can say whatever one wants, but more that in one's faith one seeks transcendental absolute values; in one's knowledge one supports a scientific truth that transcends politics and morality; in one's mode of thinking one cultivates a forward-looking, hypothesizing, prophetic spirit; in one's character one has an independence that overstrides the masses' vested interests and individual feelings of gratitude or resentment. It is, in a word, a freedom that transcends the utilitarian. Chinese, especially Chinese intellectuals, lack precisely this type of freedom. As a result, it is not only that the entire nation is materially very poor, but even worse that the spirit of the entire population has atrophied. Spiritual atrophy manifests itself in submissiveness, ignorance, distaste for independent thought; it also manifests itself in an insensitivity toward the mysterious and the unknowable, a lack of a sense of the marvelous and of the exploratory urge, a preoccupation with real-life political utility and moral reputation. This is the narrow utilitarian character of the Chinese intellectual. It is the inevitable derivative of the Chinese intellectual's politicized character—effected by putting political value in the first place of any of life's options. Of course, as regards objective circumstances, the long-term presence of totalitarianism is a major external cause of the creation of such a character. A great many people have addressed this problem, and I do not want to repeat everything. Here, I want to speak to the internal causes of this type of political or utilitarian character—the utilitarianization of the intellectuals themselves.

The utilitarianized character of the Chinese intellectual manifests itself primarily in the following three aspects.

1. The political career (government service) is the first life-choice of Chinese intellectuals; it is the main path by which they achieve a certain social status. They think first of governing the nation and ruling the country, or of becoming totally loyal and capable statesmen. Only secondly do they want to become intellectuals. To become a scholar or a poet, as far as Chinese intellectuals are concerned, is a forced dead end. Only when their political future becomes dark do they of necessity agree to discard their political ideals and find occupation as a scholar or poet. Because of this, from the first moment of their education, Chinese scholars are inculcated with the conscious idea that knowledge serves politics (which in ancient times was stated, "One serves the emperor if he excels in scholarship," and in modern times is put, "Study for the revolution"). The preordained goal of eventually becoming a politician immediately limits the scope, attitude, range, and methods for study and research, causing them to tend overmuch toward narrow political expediency.

And so, it is not only the holders of power who promote politics as the master of knowledge, that knowledge is a tool of politics; the intellectuals themselves are in total agreement with this. Especially since Marxism-Leninism was introduced into China and since Mao Zedong Thought became the guiding ideology of the entire party, the entire Army, and the entire people, the theory that "knowledge has a class nature" has caused the already deeply rooted and long-established tradition of the politicization of knowledge and the bureaucratization of intellectuals to undergo a completely new development and unprecedented strengthening. The peculiar identity of the educated person as bureaucrat has been the most prominent characteristic of the intellectual in both ancient and modern China. Even those educated persons who have not yet served as officials also harbor, deep within their most secret hearts, burning political aspirations. Those intellectuals who have been forced from the political stage use their learning and literature as the tool to vent their frustrations over their disappointments in the political field, using it as a compensation for and a means to rehash old political defeats, and dream of some day returning to the political arena. One segment of China's ideological history is composed primarily of two components: One is praise for accomplishments and extolling of virtue produced when intellectuals have achieved their goals in politics; the other is the venting of spleen and indignation when they have lost out. The great majority of the more valuable learned writings and literary works all deal with defeats in office and obstructed official careers. After the Cultural Revolution, the majority of literary works and academic writings, if they did not praise the Cultural Revolution as great and wise, castigated the Cultural Revolution and the "antirightist campaign" as every kind of evil. Just as Confucius, Mencius, Qu Yuan and the other sages did, China's contemporary intellectuals all serve politics from both the supporting and the opposing sides. Even though after the Cultural Revolution the slogan "serve the people" replaced "serve politics," in China, "serving

the people" is still simply another variety of "serving politics." This is the same as the meanings of Mao Zedong's sayings "serve the workers, peasants and soldiers" and "serve politics."

What is more frightening, even if we suppose that "knowledge serves politics" and "the bureaucratization of intellectuals" is of some value, and even if we do not take "knowledge is superior to politics" as the primary value standard of intellectuals, and merely consider China's intellectuals within the stipulated limits of "serving politics," we will discover that the utilitarianized character of China's intellectuals lacks the most basic standard of political right and wrong. As to the Chinese intellectuals' attitude toward politics, the majority do not question the nature of politics, but only consider success or failure in politics. "The successful become kings, the defeated are traitors" is the main standard by which China's intellectuals judge political activities. Whether it is a dictatorship or a democracy is not important, what is important is who holds the power. When Mao Zedong occupied the chair of power, and wanted to overthrow Liu Shaoqi and Deng Xiaoping, the intellectuals on the one hand chanted "The East is Red, China has produced a Mao Zedong," and on the other hand shouted "Overthrow the renegade, traitor, and scab Liu Shaoqi." But then when Deng Xiaoping was restored to full power everyone competed with each other to compliment him, to sing his praises, and every slogan that Deng mouthed received the support of intellectuals throughout the country. They competed with one another to write about and lecture on "reform" and "practice is the sole criterion of truth." For another example, when Premier Zhao Ziyang put forth the slogans of the "double-track system," and "coastal development strategy," and "the great international circle," and "the initial stage of socialism," these all became grist for the intellectuals' mills. One sentence from the man in power, one personal visitat, could cause intellectuals to change their stand overnight. And if, in addition to this, one was made an official or was promised an award, that was even more a tremendous imperial favor, and the person could not but do one's best in loyalty and filial obedience. This type of character which considers political expediency as the only course to follow is still also deep-rooted among Chinese intellectuals in Hong Kong, Taiwan, and in Chinese communities overseas in the West. Of the Overseas Chinese intellectual who have been personally received by a party-government leader, few indeed are those who do not wave the flag and cheer. The recent performance by Hong Kong's famous economist Zhang Wuchang [1728 0063 1603] is a typical example. His "Zhao Ziyang's Autocratic Reform" was the direct product of just such a personal visitat. In the midst of a worldwide historical trend of everyone turning toward democracy, is it not rather difficult to understand the fact that an overseas intellectual puts forward a theory for the strengthening of autocracy? In the final analysis, this sort of thoughtless action by Chinese intellectuals has no theoretical or scientific

meaning, but is entirely an effort to extract some political capital by ingratiating oneself with the wielders of power.

Because of the Chinese intellectuals' absorption with political power and renunciation of political convictions, their political attitudes change with the changes in political power. Their most typical form of expression in politics is: "when they receive favors, rare are those who do not sing praises; when out of favor, rare are those who examine their own shortcomings." In order to scrounge up political benefit, they do not hesitate to set aside their convictions, truth, or integrity as the price to be paid; among the Chinese intelligentsia this is simply a routine occurrence. The majority of them have all sampled this trade secret. Among China's intellectuals in government office are very few dyed-in-the-wool "revolutionaries" or "counterrevolutionaries"; the majority are chameleons who at one time are revolutionaries and at the next instant are counterrevolutionaries. Success or defeat in politics determines the Chinese intellectuals' beliefs, value orientations, and attitudes toward the truth. Because of this, contemporary Chinese intellectuals idolize Zhou Enlai not so much out of a sense of gratitude, but more importantly because of the fascination he holds as an incredible political survivor. In other words, in their secret hearts, China's intellectuals are infatuated with Zhou's ability to maintain a stable position amid the power struggles. Despite the fact that on the surface the majority of China's intellectuals admire Qu Yuan's "nine times dead and still unrepentant" character, however, in the political arena they will not take Qu Yuan as their model: Zhou Enlai is the real model for contemporary Chinese intellectuals. The most prominent characteristic of this type of character is to approach everything from the standpoint of the individual's own political utility and to eliminate any political standard of right and wrong. As long as it makes it possible to keep one's official position, anything goes. When Marxism can be used as political capital, all intellectuals call themselves Marxists; when reform can gain one political fodder, each is a reformist. When the "new Confucianism" can reap official appreciation, then they all become hard-core "promoters of new Confucianism." This type of personality which considers only political success or failure is unable to take a moral stand in politics, and in learning and beliefs is unable to support any truth or belief that transcends politics.

(To be continued.)

### Scholar Discusses Traditional Culture

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[LITERARY WORKS AND CONTENTION]  
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[Article by Chen Junshan (7115 0193 1472): "On Traditional Culture"]

[Text] From the generalized viewpoint of today's pan-culturalism, "culture" is the all-encompassing sum total of social formation. Of course, there are still many

different ideas in regard to what culture is. That is not a bad thing. There is probably little divergence of views on the concept of "traditional culture"; for the most part it refers to Chinese traditional culture, or Chinese culture. Then again, of course, "traditional culture" seems to be all-inclusive, moreover it inevitably involves contemporary culture and Western culture; therefore, it is not a problem that can be clearly defined, nor can it be evaded. Why is this? It is because China has been poor and backward for a long time. Later generations always want to investigate old debts left by past generations. Putting it more moderately, they are trying to look for the roots of the people's slow progress. There are many roots, and if they are not clearly distinguished, bad roots could be taken for good roots and good roots could be taken for bad roots. This is no big deal, it's just that everyone must acknowledge the importance of earnestly distinguishing them. It is always better than having a mess. The demands of history and the existence of the question will not be stilled just because some "notable" screams "do not search for the roots." Everything will work out in the end, and it will instead make the arrogant "notable" look like a fool. This is also an interesting aspect peculiar to Chinese culture. So, for the past two years, "traditional culture" has been both a sensitive question and a hot topic of conversation.

Some say, for example, that Chinese traditional culture is a muddled mess that no one can clarify. This refers to the rotting volumes stored up in the libraries throughout the country. Others say that Chinese traditional culture is so muddled that it can be used to portray anything in dramatic works or television. They are talking about the uncertainty of some historical events. Much of this knowledge will meet with the disagreement of cultural scholars. But generally speaking, the contemporary Chinese does not actually know what is right. They are finding it harder and harder to sort out the valuable from the useless in the too heavy burdens left by their ancestors. This has to cause a dilemma—the burden is too heavy to carry yet leaving it behind would be a shame.

Actually, in modern times those who have lofty ideals early on thought of many methods. Some propose Chinese scholarship for substance and Western for utilization; some propose discarding everything (including Chinese characters); still others want to keep everything (including women's bound feet). Still others want to keep it flexible and keep or throw away according to the national state of affairs. And so forth and so on. Yet all of these lofty discussions are ineffectual. In the end they all seem to have been swamped in the great sea of the Chinese people's incomparable capacity to assimilate culture. In modern history, let alone the present, let's take the Great Cultural Revolution, a 10-year catastrophe. Traditional culture was thought to have been obliterated. The result was unspeakable. The question of Chinese traditional culture cannot be readily solved by any cursory examination. It is hard to comprehend even with thorough study not because it is incomprehensible, but because it is so complex.

One might say all kinds of things about the concrete substance of Chinese traditional culture, it's good or bad, take it or leave it, this should all be respected. But the capacity of the Chinese people for cultural assimilation cannot be taken lightly; it can cause all those people filled with righteous indignation and all those people with lofty ideal who overlook this point to gape in amazement. The so-called capacity for cultural assimilation is factors such as the influence of habits and customs handed down to all society during the era of the family, it is the traditional concepts and outward expansion of traditional consciousness nurtured by members of society during the era of social ideology; this outward expansion can pull back or it can engulf. Society's capacity for cultural assimilation is a surge, a wave, boundless and unrestrained; it can also be a calm and gentle sea filled with poetic emotions. The most notable characteristic of this capacity of the Chinese people for cultural assimilation is the rejection, elimination, or changing of extremes; the assimilation of extremes, bringing peace to the country. When an unusual cultural form appears, the capacity for cultural assimilation "becomes a unified whole," "resisting the outside in unison," showing an extraordinarily large resistance, or one could call it firmly defending against infiltration. But should such resistance or defense against infiltration fail, it transforms itself into a great tolerant force of construction, or one could call it a force of dilution as gentle as water. This is the basic quality of Chinese traditional culture. It is second to none among the peoples of the world, we can be proud of it, yet be concerned about it. Much has already been said about why we should be proud. Because of space limitations, this article focuses on why we should be concerned.

Half a century ago, Mr. Lu Xun lamented the fact that China had four major inventions; but while the Chinese used the compass to practice geomancy, divining location of structures, Europeans were using it to navigate the oceans. The Chinese used gunpowder for firecrackers, the West developed firearms. At the time, he did not say anything about the invention of paper and printing. Looking at it now, we have to admit that we are forced to learn from other countries as well, for example, importing paper pulp, film, paper manufacturing, typesetting, color print, and so forth. It is smart to learn the good things from other countries for our own use. Taking the initiative in importing advanced foreign techniques and developing it further smashes the conservative nature of traditional culture; it absorbs contemporary culture's progressive "bring-ism." That was how our ancient navigational technique and many others were included in the world's milestones of progress. But today, there remains many phenomena that still justify Mr. Lu Xun's sighs.

For example, in many towns and villages today, paper humans and paper horses are still burned at funerals to boost the stature of the deceased. In the early days, they depicted boys and girls. Later, during the era of the warlords, they were of ceremonial guards, all with Western guns and artillery, Western drums and Western bugles. As if President Cao Kun [2580 2492] were reviewing his troops. This is cultural assimilation. Now,

80 years later, there is a new assimilation. Some wealthy entrepreneurs give to their dead the paper images of Western buildings, cars, and motorcycles. Inside the Western buildings there are even colored lights and even refrigerators, washing machines. And the cars are Mercedes-Benz, Imperial Crown, Toyota, Suzuki, and the like. The models are all name-brand imports for the deceased to enjoy in the afterlife. The people in the towns and villages not only envy the rich, they marvel at such modernized funerals. Even the monks are modern as they perform celestial duties. In a certain magistracy, there is a Buddhist temple of the "geomancy grade" (even monks apart from the world of mortals are treated differently according to administrative grades). A smart-looking novice wearing an American-imported pair of glasses whose color adjusts to the light, stood before a Buddha in the temple casually directing a throng of obese worshippers. By his side, a Japanese tape recorder plays chants at a suitable volume while the rhythm of the wooden fish being beaten, the floating tones of the chimes, all make a pleasant harmonious sound. The tape played was the creation of the novice who directed an ensemble of the elder monks. If someone wanted a monk to expiate the dead, all that was needed was a monk with the tape player to go to the particular home. And what about the other monks? Out leasing a restaurant! The abbot in charge of the temple can quote the scriptures, but also tries to fathom television's "elderly disco" to supplement his meditations. This modern novice attracts the small almsgiver, proclaiming "monks can be in love." The small almsgiver buys incense, worships the images and donates renminbis to the contribution box. They are probably not clear what is traditional culture and detest it; yet they are unwittingly acting out the new roles in traditional culture. This kind of religious practice not only profanes the monks, it profanes science. But the disrespect for science does not end with the common people or the monks, but some educated youth also profane science. For example, using minicomputers to tell fortunes is now the rage. Those using the computers to tell fortunes are educated young people, and the majority of those having their fortunes read are educated young people. The darling young give money to ask the computers to calculate whether they should go into business, go abroad, be a government bureaucrat, or stay in school. They also ask for computations about an ideal mate, the kind of looks and personality needed in order to have an enriched life, and so on, and so forth. This kind of modern fortune-telling puts to shame all the old kinds such as the "eight diagrams," the "64 diagrams," "mourning garb," "calligraphy," "bamboo sticks," and so on. It cannot but cause modern science to grieve. To "plagiarize" the words of one youthful author, "The greatest absurdity is none other than the use of science to determine absurdity." Such is the power of Chinese traditional culture to assimilate, that it can smoothly and secretly absorb modern science into ancient absurdity! Aside from these, in geomancy, repairing tombs, reciting family trees, and so on, have all added new elements and need no further comment.

That the facts on what is happening in the eighties that have been mentioned above, from burning paper images to expiating the dead to fortunetelling, are clearly part of Chinese traditional culture is not surprising. What is peculiar is that the most modern culture has merged into some of the most backward areas of culture and given it fresh blood and increased longevity. This exposes the greatest weakness of traditional culture—the anemia of the natural sciences. Highest in the hierarchy of traditional culture is Confucian morality, then the Taoist concept of inaction, or letting things take their course and the Buddhist idea of detachment and transmiration. Most deficient is natural science. The national consciousness is weak concerning the last and strong on the first three, which makes it rather easy for the weak to be captured and swallowed up by the strong. This is the root of assimilating natural science into absurdity.

The anemia of natural sciences in traditional culture is directly related to the long-term reign of Confucian thought. The Confucians govern with the Six Arts, read the Four Books and the Five Classics, all with the single-minded purpose of passing the imperial civil service examination and getting an official rank. Except for fragments in the *Book of Changes* on meteorological records of the ancients, none of the other Confucian classics contain any knowledge in the natural sciences, only pages and pages of all the ingenious methods for ruling the masses. To read the classics successfully meant lifelong tenure in government employment and the accompanying prestige and wealth. So there was extreme contempt for natural science and production techniques. Nor would one dig into the natural sciences and production techniques. Lie Zi [0441 1311] and Zhuang Zi [8369 1311] of the earlier Qin dynasty often made a display of Confucius' and his disciples' lack of knowledge in the natural sciences and production know-how. The historical feudal rulers of China were guided largely by Confucian thought knowing that the most effort-saving political systems were founded upon ethics and morality. The Confucian school of social administration was basically one of "good citizen administration." If the populace were trained to be law-abiding, then everything would muddle along okay. Based on this, of the feudal royal rulers' central agencies such as the "Three Provinces," and "Six Ministries," the "Ministry of Works" had no status and no renown. Among the collections of histories, classics, and philosophy passed on through history, the most voluminous are the collections of literary anthologies. They are numerous but mostly of prose and poetry. Not much is seen of the Public Works Board's works in natural science. There is an *Anthology of the Works of Du*, but it is mostly the collected poems of the great poet, Du Fu. Through the patronage of Yen Wu [0917 2976] Du obtained a brevet appointment as deputy to the Ministry with no pay and no control and the palace did not allow him to study natural sciences and production techniques. As with the Confucians, so with the Taoists, and Buddhists in their detachment from the secular. Neither the Taoist idea of immortality nor the Buddhist notion of the next world were conducive to the study of science and technology. The volume

of works on science in traditional Chinese culture could not measure up to that in religion, history and literature, nor could it occupy a spot in the ruler's principles of moral government. It is then not the least bit surprising that Chinese traditional culture is rich in moral consciousness mingled with the consciousness of inaction and detachment and deficient in the sciences.

Ethical and moral consciousness in feudalism, or feudal consciousness, is the core of Chinese traditional culture and is the most basic source of the capacity of the Chinese people for cultural assimilation. It takes effect in all interpersonal relations, it's just the form that is different. The Chinese are deeply immersed in feudal consciousness and feudal ethical and moral consciousness, making it possible to revise all external cultural influences. That it has revised Marxism as a matter of course cannot be denied. Limited space constrains comments in turn. We shall simply talk about some interesting phenomena of cultural assimilation, such as "disco." During the early part of the 1980's, the majority of middle-aged and elderly people disliked and negatively reacted against it. If one's own children danced it, chances are they would have been severely castigated, perhaps grounded to be "rehabilitated under supervision." But at the end of the 1980's, somehow the parents began trying to figure it out, so they changed it and called it the "elderly disco." They even came up with a few rationales, such as it being good for "curing high blood pressure, coronary disease, neurasthenia, or reducing fat," or perhaps for cosmetic purposes. So, on balconies, by roadsides, in parks, senior citizen centers, dance halls or television stations, "elderly disco" is picked up in earnest. The young who had been taken to task can only chortle at such antics, which resembled no dance they were familiar with but was a "revision" of something. The author is neither against the elderly dancing the "elderly disco," nor pondering the merits of it, but merely probing such cultural assimilation phenomena and its origins. The process of the middle-aged and the elderly first opposing, then revising; first presenting a solid wall, then cracking up clearly expresses the effects of ethical and moral consciousness.

"Elderly disco" is one of the typical cultural assimilation phenomena of the 1980's. But it is different from the "modern funeral arrangement," "using tape recorders during Buddhist rites" and "using computers to tell fortunes" described previously. It does not belong in either the Taoist or the Buddhist category, but is purely Confucianist. But an elderly monk dancing the "elderly disco" is not strange either. In traditional Chinese culture, these elements sometimes come together and sometimes separate, often partaking or borrowing from each other. The problem is not in the result, but in the cause. Real traditional culture is passed on in the innermost genes of members of society; it is a living traditions and culture which is moral consciousness, going with nature, detachment. This almost invisible consciousness are a thousand times bigger and more deeply ingrained than the Great Wall, the Huang He, countless dynasties!

### Outside Services Support Military Research Work

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[Article by Huang Chengyu (7806 3397 1342) Li Youzhuang (2621 2589 8369) and Xi Fengming (6007 7685 7686), General Staff Engineering Troops Scientific Research Institute No 1: "Adhere To Reform; Build a 'Three-In-One' Benign Cycle Mechanism"]

[Text] In response to a strategic change in the guiding thought for building China's armed forces since reform and opening to the outside world, we have reformed scientific research work, and explored avenues for a "three-in-one" development of scientific research in the preliminary shaping of a benign cycle mechanism. This has imbued with vigor and vitality our various activities centering on scientific research.

#### 1. Correct Handling of the Relationship Among the "Three-in-One" Components To Ensure Coordinated Development

By the so-called "three-in-one" is meant dividing up the scientific research duties of our institute as follows; orientation toward the future in the building of a foundation and raising standards, researching and developing superior-quality engineering equipment and materials; orientation toward limited warfare and sudden disturbances, researching and developing engineering equipment and materials urgently needed at the front; and orientation toward building the national economy, providing technical services outside the institute. The "three-in-one" forms an organic whole that is mutually permeating, mutually advancing, and interchangeable for coordinated development and the shaping of a benign cycle. "Laying a foundation and raising standards, researching and developing superior-quality engineering equipment and materials" is a long-range strategic task. Unless it is given attention, scientific research work may lose direction, lose sight of goals, and have no reserve strength. It will be unable to meet the needs of a future war. Our institution may also lose the position it serves in technological competition. "Research and development of engineering equipment and materials urgently needed at the front" is both a near-term and a short-term task of our institute. Failure to give it attention is bound to adversely affect improvement of the combat capabilities of hot-spot area military units. Of course, there is no hard and fast line between these two components of the "three-in-one." They are both in the nature of command-style national defense scientific research tasks. They are a main component of the whole institute's scientific research mission, and they also form the foundation for the existence of national defense scientific research units. Good performance on the first of the three will not only result in the development of superior-quality equipment, but will also lay a solid foundation, create conditions, and provide advanced techniques and plentiful experience for the

second of the three. In the process of completing the second one, not only will the skills and experiences accumulated through research and development of equipment and testing in practice help complete work on the first one, but success with some research problems may possibly escalate into the development of excellent equipment. "Vigorous development of technical services outside the institute" is a new task handed to armed forces scientific research units under the new circumstances. It is not an extracurricular duty, much less an elective task, but rather an area that gives vitality to the development of scientific research units. It is extremely closely related to the first two of the three-in-one components. It takes the first two as its basis, relies on development of the first two for its own development, and also provides additional sources of money, accumulates skills, and widens the experiences of researchers for completion of scientific research on the first two. It also creates more advantageous conditions for the development of national defense scientific research. Unless close attention is paid to this task, the scientific research institute may return to its old insular ways and lose vitality.

In awareness of the foregoing, we have made constant readjustments for the coordinated development of the "three-in-one" components. First, we assigned some key technical cadres and concentrated our energies on research work that laid a foundation and raised standards. Success has been achieved in some research projects; some have entered the stage of research and development of specific models; and progress has been made on the development of some new models of excellent equipment to meet future combat needs. Second, all possible is being done to fulfill command-style tasks, particularly on key projects for the General Staff and the Ministry of National Defense. Since 1985, 60 projects have had their final design approved and authenticated; 22 projects have received national scientific and technical progress awards; one has received a national invention award, fourth class; 88 have received armed forces scientific and technical achievement awards and scientific and technical progress awards; and 41 have received national patents. Third, the rational organization of forces to make the most of the potential that equipment and technology provide for vigorous development of technical services outside the institute. During the past several years, technical service has been provided on 3,120 matters to local governments to support the building of the national economy locally. In addition, numerous products of a fairly high technical level have entered the international market.

#### 2. Advancing a Benign Cycle in the Development of Technology Through External Technical Services

**First is the transfer to civilian use of military technology achievements to increase the value of military technical achievements.** In a period of 30 years, our institute has been responsible for researching and developing 291 projects, 187 of which had their designs finalized and authenticated, and 124 of which were produced to arm

military units, for a 66-percent equipment-production rate. The future equipment-production rate will not be this high, however. Unless military technology achievements are transferred for civilian use, a large quantity of scientific and technical achievements can only go into a technology reserve locked away in files. In recent years, our institute has blazed a trail in the transfer of military technology for civilian use, transferring directly or transferring after modification nearly 100 pieces of military technology for civilian use.

**Second is the establishment of new technological dominance in the development of civilian goods to advance development of military technological research.** In the field of building bridges to span rivers, the strategic orientation has been on the development of external technical services in the three sectors of petroleum, hydropower, and transportation, and on increasing structural durability, extending the life of materials, increasing pontoon bridge bearing capacity, lowering construction costs, and developing new forms of power for use on water as the focus of technology for civilian use. Forces have been organized to tackle key problems for the step-by-step building of new technological dominance. In the demolitions field, controlled blasting technology was applied to the quarrying of marble and granite, the "85.5" blasting method was created and applied in some quarrying areas. In the field of engineering machinery, complete road maintenance vehicles, road clearing vehicles, small excavating machines, and multipurpose welding trucks were researched and developed. As a result, we gained new knowledge and skill in the structural, technology, and materials fields, and we achieved new technical dominance in the roads, environmental protection, and special engineering machinery fields. In recent years, five patents were received for the development of products for civilian use. This new technological dominance has propelled development of specialized military technology research.

**Third is the application of dominance in experimental equipment and testing techniques to serve industrial plants and enterprises, and to improve and develop our own capabilities.** Our institute's externally provided technological services began with the provision of experimental equipment and testing services. During the past several years, we have opened for outside use our structural testing laboratory, hydraulic testing laboratory, machine testing laboratory, electronic computer room, high and low temperature room, and field-testing station to help factories and enterprises conduct hundreds of experiments and tests. Since we have a good attitude toward service, do high-quality work, and produce reliable data, we won the confidence of local government, factories, and enterprises. Following approval by the provincial machinery bureau and bureau of standards, we built a quality control testing station for construction machinery products for the provincial bureau of standards, and were responsible for the supervision and testing of this category of products. After it was built, this station performed quality testing on 22 kinds of

machinery for the province, and on 10 kinds of machinery for Tianjin City. It performed complete testing of 60 kinds of machines, did commissioned testing on 96 kinds of machinery, and performed spot checks on 14 kinds of machinery for the province. It performed quality testing that set the stage and provided the data needed by industrial plants and factories in order to receive name-brand and product-quality certifications for their products. The performance of services for local equipment not only enabled full application of our institute's superior test equipment and testing techniques, training and tempering of the testing corps, and improvement of testing quality, but it further perfected testing techniques and improved testing capabilities.

### *3. Use of the Vast World That Society Provides for the Training and Tempering of Skilled Personnel*

The first method we employed in the training and tempering of skilled personnel in society was to institute dynamic matrix control and full work-load performance in order to fully tap our personnel's potential. We set up specialized groups or specialized study groups in research laboratories that crossed project group or research laboratory lines for widespread cooperation among fields of specialization. Research cadres could simultaneously be responsible for several command-style jobs and external technical service jobs using the specialties of different people. All specialization and project groups themselves regulated schedules on the basis of their work loads, organizing forces to take on external technical service projects for development, technical planning, and technical consultation on civilian products. Statistics showed that most research cadres were able to take on three or four research jobs per person per year, and a small number of comrades were able to take on five or six research jobs. Most project teams simultaneously had responsibility for research on both military and civilian products in a change from the former situation of "concentrating on one thing only." This better evened out the busy and slack periods, and began to tap the potential of skilled personnel. Second was a going to society and a going to industrial plants and mining enterprises. In recent years, nearly 100 research cadres took part in providing external technical services. They firmly believed that research on military products was highly technical and highly difficult, and that research on civilian products was likewise highly technical and highly difficult, but that that the technology used in producing civilian products had a far wider application than that of military products, and that competition was more intense. In providing external technical services, they thought up new designs, enlarged the amount of information, and learned quite a few advanced techniques and advanced technologies for a general improvement of their professional skills. Third, income received from outside technical services was used to set up a young people's science and technology fund to encourage young scientific research cadres to do independent research. In addition, in order to provide

young scientific research cadres with greater opportunities to improve themselves through practice, they were organized to carry out some external technical service projects. This hastened the maturation of the young cadres. Fourth, in connection with the institute's export of equipment that it had developed, and to help local jurisdiction discussions on the import and export of technology, the institute sent 16 research cadres abroad for study and observation during the past two years. This expanded their horizons and increased their knowledge. In short, by comparison with the past, our institute's research personnel have been used more flexibly, have matured more rapidly, and their potential has been employed rather well.

#### *4. Increase in Income From Outside Plan and Improvement of Developmental Capabilities*

In recent years, rightful income received from our outside technical services has amounted to several million yuan, laying a material foundation for the institute's self-development and self-strengthening. We used this money to set up an institute and laboratory development fund, a collective welfare fund, and a bonus fund, and we put it to use in the following 10 ways: To augment the shortage of normal operating funds, capital construction, expansion of reproduction, building of collective welfare facilities, improvement of laboratory structures and office automation, establishment of a young people's research fund, an institute and laboratory leaders bonus fund, national treasury bond subscriptions, payments to the Ministry of National Defense, and issuance of monetary rewards to all institute personnel. Since 1984, the institute has used disbursements from general headquarters and income from outside plan for the building of a research building and some laboratories; increased field research station facilities; and built, renovated, and purchased housing for cadres, staff members, and workers. We also purchased some office automation equipment, installed closed-circuit television, improved cultural and physical education facilities, assisted in the construction of a cadre retirement center, and increased welfare for old cadres.

#### *5. Equitable Distribution of Monetary Rewards To Stir the Enthusiasm of All Concerned*

The distribution of monetary rewards from outside technical services has very strong policy overtones. It must be done both in accordance with pertinent regulations from above, and also serve to stir the enthusiasm of all concerned. The general principle we set in making these distributions was as follows: correct handling of the benefit relationships among the state, collectives, and individuals; attention to instituting different levels for the distribution of monetary rewards, neither practicing egalitarianism nor making the gaps between one level and another too large; both encouraging the enthusiasm of cadres engaging in outside technical services, and protecting the enthusiasm of comrades who perform preliminary research work and command-style work. In carrying out this principle, we set percentages to be

retained for distribution by the institute and laboratories based on net income, distributions to be made to each unit at a percentage of the unit's net income. The grade separation for distribution of monetary rewards to individuals in each unit is to be based on the size of individual contribution and attendance rates for the project work completed. Stress is placed on institute leaders and organizations concentrating their energies to ensure that services are performed properly, and that no unit attempts to benefit from favorable circumstances to make money. Should they make money, it is to be turned over to the institute. Moreover, a withdrawal from the collective welfare fund is to be made at 90 percent of the per capita amount of monetary reward in each specialized office, and then a distribution coefficient is set for each person on the basis of the responsibility he or she carried, and his or her work qualifications. All units that practice contracting are to make distributions according to contract provisions, ensuring the honoring of contracts. Ill, separated, and retired comrades who made no inputs are to be given a living subsidy from the monetary reward. The total amount of monetary reward distributed over a period of several years has been held at approximately 15 percent of net income.

#### **Highways Seen as Integral Part of Border Defense**

*OW2708211890 Beijing XINHUA Domestic Service in Chinese 0621 GMT 27 Aug 90*

[By reporter Wang Liren (3769 7787 0086)]

[Text] Hohhot, 27 Aug (XINHUA)—The Ministry of Communications and the General Logistics Department of the People's Liberation Army [PLA] recently held a joint conference on maintaining and managing China's inland border defense highways. The conference, held in the Inner Mongolia Autonomous Region, discussed ways to strengthen the maintenance and management of highways along China's inland borders. This will contribute more to national defense and to the economic development of the border regions.

China currently has 73,200 kilometers of border defense highways. These highways, with provincial and county roads constituting trunk lines, and township and military roads constituting branch lines, form a network of highways for national defense along the borders. More than 20,000 kilometers of these highways are class four or higher. The state built or renovated 14,000 kilometers of border defense roads with a total investment of more than 1.4 billion yuan over the past year. More than 11,000 maintenance workers are working day and night to maintain roads along China's borders. They have made great contributions to strengthening China's national defense, ensuring the opening of the lifeline for troop movement, and promoting the development of the local economy in the border regions.

The conference pointed out, in terms of the needs for national defense, the mileage of our border defense highways is still inadequate. The network itself, with many substandard and low-quality highway lines, is

imperfect. In addition, the highways are not evenly distributed and their ability to resist national disasters needs to be further improved. There are also problems in road maintenance, including inadequate manpower and backward maintenance equipment. The road maintenance workers cannot quite concentrate on their jobs because of the difficult working and living conditions and the monotonous cultural life.

The conference urged responsible departments of the state, local governments at different levels, and the relevant military departments to fully recognize the fact that maintaining and managing border defense highways is an indispensable means of solidifying the border and strengthening national defense. The conference pointed out that we must undertake road maintenance and management with the goal of strengthening national defense. We must establish and improve the mechanism for road maintenance and management and train a contingent of high-standard and skillful road maintenance workers. We must promote cooperation between the military and the civilian and between the military

and the locality in road maintenance. We must promote the development of the local economy while building national defense highways.

Wang Zhanyi, vice minister of communications, attended the conference and delivered a speech. On the question of building a contingent of maintenance workers for border defense highways, he said, "We ask highway transportation departments at all levels to give priority to the work of promoting the standards of the workers and bringing up all kinds of qualified personnel for road maintenance. Management through rotational and in-service training and skill contests must also receive priority. We must selectively improve the vocational standards of personnel operating and maintaining different types of machinery and equipment and make full use of road maintenance machinery and equipment. We call on transportation departments at all levels to pay attention to the welfare of road maintenance workers and the development of the road maintenance bases. We ask these departments to take concrete steps to solve the problems encountered by the workers. Concrete steps must be taken to improve their welfare to ensure the successful development of a contingent of border defense highway maintenance workers."

## NORTH REGION

### Tangshan City Officials Indulge in Corruption

90CM0335A Hong Kong CHAO LIU [TIDE]  
in Chinese No 41, 15 Jul 90 pp 47-49

[Article by Tong Huai (4547 2037) and Li Wenhsiang (2621 2429 4382), reprinted from Beijing GUANGMING RIBAO: "A Legendary Figure in the Transformation of Power Into Money—Wu Zhenhua's Rise From Reform-Through-Labor Criminal to Big Shot in the Bureaucratic Establishment"]

[Text] Hanging over the doorway of several inconspicuous buildings across from the railway station in Tangshan City, Hebei Province, was a sign that said "Tangshan Jingzhao Industrial Corporation." Wu Zhenhua [0702 2182 5478] had suddenly changed his identity from a released reform-through-labor criminal and was no longer an invincible "independent knight," but had made a breakthrough and established himself as general manager of the "Jingzhao" Corporation.

### A Former Vice Mayor of Tangshan Was a Business Consultant of the Jingzhao Corporation

Although the Jingzhao Corporation did not appear to be very large and had a very small front, it certainly had powerful backing, with three former Tangshan City cadres—a former vice mayor in charge of day-to-day business, a former vice chairman of the Tangshan People's Political Consultative Conference, and a former president of the Tangshan Intermediate People's Court—engaged as its consultants.

We may be able to discern more or less the capability of the certainly not very large in appearance Jingzhao Corporation from the following two figures:

In the two short years from the time the Jingzhao Corporation was established until it was closed down, Wu Zhenhua was able to use various ways and means to illegally buy and resell at a profit more than 6,500 tons of rolled steel, which was not even within the business jurisdiction of his corporation, to achieve a business turnover of more than 10 million yuan, and to reap staggering profits of almost 1 million yuan.

Wu Zhenhua bought 8,000 refrigerator housings and compressors from three areas that did not conform to the housing model. He overstepped his business authority by assembling these sets of components in four nonspecialized factories into refrigerators with inspection certificates that were not registered with the producing area and had no factory name, forging two foreign trademarks, and selling 7,200 of them for more than 15 million yuan to over 300 stores in more than 10 provinces and cities.

The history of Wu Zhenhua's rise to riches and fame was closely linked to cadres in certain judicial and procuratorial organs and banking and materials departments who often joined him in various practices of bribery.

Wu Zhenhua's single principle was that "the all-embracing factor is the struggle between power and profit." He was very good at using the lure and tactics of money to gain the support of those in power. He described his strategy in his prison diary as follows: "Blackmail is okay but must not be overdone. Bribery is okay but must not be conspicuous. Cheating is okay but should be limited. Roping people in is okay but mercy must be shown." Except for having possibly overstepped the "proper limits" for cheating, Wu Zhenhua's other strategies can be said to have proved highly proficient and effective!

Just take a look at the fact that 14 of the 21 materials supply contracts that Wu Zhenhua signed in the course of using fraudulent agreements to cheat people were legally notarized by notarization organs!

It may be possible to realize what happened through exploring the mystery behind this.

*Preliminary statistics show that most of the 13 cadres from the six Tangshan judicial organs, such as the Notarization Office, the Legal Affairs Institute, the Lubei District Judicial Bureau, the Lubei District Notarization Office, the Lunan District Procuratorate, and the Lunan District Court, who "bought" 17 refrigerators and color TV's from the Jingzhao Corporation, either did not pay for them or underpaid. By the time the work group took over Jingzhao Corporation, almost 19,000 yuan had not been accounted for and nearly 5,000 yuan in underpayments was still outstanding.*

The Lubei District Judicial Bureau's car was bought by Wu Zhenhua for over 30,000 yuan and carried his personal license plate.

Although the Lubei District Judicial Bureau's motorcycle was said to have been borrowed, Wu Zhenhua had long before written off its cost in other ways.

*Looking further into the matter, a former vice president of the Lubei District Court served as a permanent legal consultant to the Jingzhao Corporation after leaving the judicial system. As a veteran judge, he should have at least understood the relevant legal provisions. This former court vice president participated many times in the negotiations of Wu Zhenhua's fraudulent contracts for polyethylene and polypropylene. Although fully aware that they were fraudulent contracts, not only did he not put a stop to them, he even made them more fraudulent.*

What is more, several days after the Tangshan Public Security Bureau had decided to bring in Wu Zhenhua and others for interrogation, and had sent officers to arrest Wu Zhenhua, who was "laying low" elsewhere, Wu Zhenhua made a long-distance phone call from another part of the country to a deputy director of the Tangshan Public Security Bureau. Furthermore, even though this deputy director of the Tangshan Public Security Bureau, who was also a dignified member of the Tangshan CPC Committee, was well aware that the person calling him was a wanted criminal, he neither

took any steps to pursue and capture him, nor reported the call to the concerned personnel. It was only after Wu Zhenhua let this information slip out inadvertently during his arrest, that this official confessed to vaguely remembering having received the call!

What a coincidence! This deputy director of the Tangshan Public Security Bureau had been on the office staff of the very jail in which Wu Zhenhua had been imprisoned. After Wu Zhenhua got out of jail and became rich and famous, this deputy director of the Tangshan Public Security Bureau became the "honored guest" of his former "prisoner." This deputy director received expensive consumer goods that were in short supply and great demand, for which it is still unclear whether he paid, from Wu Zhenhua.

It seems that these kinds of cases of officials becoming "honored guests" of former "prisoners" and "building a new Great Wall" around Wu Zhenhua to protect him were not confined to only one person.

*A case in point is the former president of the Tangshan Intermediate People's Court, who became an honored consultant to the Jingzhao Corporation. Not only did this former court president, for the price of 300 yuan a month, objectively play the role of helping a villain do evil in Wu Zhenhua's violation of law and discipline, but, for a price of 150 yuan a month, even his wife, who had been ill for a long time, served as a "consultant" who was never consulted to a subordinate company of the Jingzhao Corporation.*

A former Tangshan vice mayor in charge of day-to-day business and a former vice chairman of the Tangshan People's Political Consultative Conference were also roped in at similar prices by Wu Zhenhua. The former vice mayor in charge of day-to-day business, who had also been the director of the Tangshan Iron and Steel Company, not only served as a "consultant" to the Jingzhao Corporation, but also took personal charge in his "double-headed Buddha's capacity" as a former vice mayor and director of the Tangshan Iron and Steel Company to act as a go-between in getting the Tangshan Iron and Steel Company to illegally sell rolled steel to Wu Zhenhua.

Wu Zhenhua recorded his experiences in the following sentence in a letter: "Only a spring planting will yield an autumn harvest."

#### **An 8,000-Yuan Bribe Was the Insurance for a 10 Million Yuan Loan**

Let us now turn to another fulcrum of Wu Zhenhua's rise to riches and fame. Having said that one of Wu Zhenhua's eyes was fixed on the power of judicial organs that provided an umbrella for his illegal activities, his other eye was directed at banking and materials departments, which supplied the money and materials for his illegal business.

Just look at how certain cadres from the two financial institutions—the Kaiping District Urban Credit Agency and the Kaiping District Shareholding Corporation, Limited—who were in charge of the people's property, allowed an adventurer to misappropriate and squander state property that was earned with the people's blood and sweat, in order to satisfy their selfish desires.

*Within eight short months, these two district financial institutions, that were certainly not rich in funds, provided the Jingzhao Corporation with 10.7 million yuan in loans, most of which was used by Wu Zhenhua to buy goods and materials such as rolled steel, lumber, refrigerator compressors, and color TV's for resale at a profit.*

*Key leading cadres and relevant personnel from these two financial institutions that provided this huge sum of the people's money bought eight color TV's, 11 refrigerators, and 14 bicycles from the Jingzhao Corporation, underpaying over 8,000 yuan.*

It should be pointed out that, although these two financial institutions were cautious, insistent on normal regulations, and careful to investigate the use of this loan when Wu Zhenhua first applied for it, as soon as he told them to "please just say the word if you want underpriced refrigerators and color TV's," they were won over. When the director and others from the credit agency said that they wanted to buy color TV's, Wu Zhenhua immediately sent them by car to their doors without further ado, bearing the message to "take delivery first and pay later." When the director of the shareholding corporation said that he wanted to buy a color TV, Wu Zhenhua personally authorized the sale at 1,000 yuan under price.

Whereupon the more that selfish desires increased, the more the people's interests were ignored. The two financial institutions repeatedly provided huge new loans even before the last ones had been paid off, and the Jingzhao Corporation now owes them 4 million yuan.

For instance, the shareholding corporation loaned the Jingzhao Corporation 2 million yuan, of which only 1 million yuan had been repaid when the loan was due. Although it should never have been granted as long as another was outstanding, another million yuan loan was credited to the Jingzhao Corporation while the last one was still being repaid. It was perhaps considered additional interest that the company's directors were able to buy "super-low-priced" household electrical appliances that were in short supply and great demand from Wu Zhenhua.

Furthermore, the relevant laws and regulations stipulated that the use of loans must be investigated. Even though the Jingzhao Corporation used its loans mostly to buy rolled steel, which was beyond its jurisdiction and totally illegal, favoritism held greater charm than national law, and the people's interests were quite unable to overcome individual selfish desires.

Taking another example, the Kaiping District Urban Credit Agency once loaned the Jingzhao Corporation 2.7

million yuan, the guarantor being only a so-called "technical consulting and service company" under the Commercial Inspection Bureau. This company operated out of the Jingzhao Corporation, with only one person, one desk, one telephone, and no capacity, let alone any qualifications as a guarantor. Although even a little investigation could have discovered this problem, the cadres in charge of this credit agency, who were well aware of the situation and either did not or did not want to investigate it, acted indifferently, deafly, and dumbly to "help it out generously with money," not only agreeing to the loan, but even reducing the interest rate from 1.5 percent to 1.35 percent!

Traces of a deal between money and power stretched behind this to the other end of its line of favoritism. Both lines converged here to reach a point of balance between the power entrusted by the state and the confidence of the people, which pales the business conducted here of 10.7 million yuan in public funds for 8,000 yuan in private profit into insignificance. What a marvelous balance!

## NORTHEAST REGION

### Heilongjiang Reports on Legal Infrastructure

90CM0180A Harbin FENDOU [STRUGGLE]  
in Chinese No 4, 1 Apr 90 pp 29-30

[Article by Hu Chengquan (7579 2052 0356): "Give Full Play to the Important Role of Law in the Process of Carrying Out Improvement, Rectification, and Reform"]

[Text] At the Fifth Plenary Session of the 13th CPC Central Committee it was resolved to basically complete the mission of improvement and rectification in three years or a little longer. Completion of the mission will require that we give full play to the function of the judicial organs, that we strengthen construction of the socialist legal system, that we provide effective legal service and powerful legal guarantees to help in the mission of improving, rectifying, and intensifying reforms, and that we realize the spirit of the Fifth Plenary Session in a fuller fashion.

Heightening the legal awareness of society as a whole and teaching party and government organs, people's groups, enterprise and business units, and the citizenry as a whole to become aware of and cultivate the habit of studying the laws, abiding by the law, and doing things in accordance with the law is an extremely important infrastructural item in construction of the socialist legal system as a whole and it possesses extremely important significance in the process of improving, rectifying, and intensifying reform. My province of Heilongjiang has now worked four years spreading awareness of the law so as to implement the resolution of the party Central Committee to take five years to effect a basic dissemination of legal awareness among the broad masses. Already 97.2 percent of our targets for dissemination of

the law have undertaken law studies, and 95.8 percent have already completed their courses. The studies have constitutional law as their core, and include primarily such "10 law and one regulation" subjects as criminal law, criminal procedure, civil law, civil procedure, military law, marriage law, regional national autonomy law, economic contract law, and punishment regulations for public security administration, as well as agrarian law, forestry law, and other such specialized areas of law. After the Fifth Plenary Session of the 13th CPC Central Committee set forth the mission of improving, rectifying, and intensifying reforms, numerous units, including party and government cadres at the county level and above and enterprises operating under the ownership of the whole people system in Heilongjiang embarked upon study of 16 areas of law and regulation such as ownership of the whole people industry and enterprise law, tax law, and commodity price law. The propagation and teaching of these laws and regulations have strengthened the legal concepts in the minds of the broad mass of cadres and the citizens as a whole, and more and more the people have come to consciously apply the law in standardizing their thought and their behavior; in protecting the legal rights and interests of the nation, the collective, and the citizen; in defending the socialist system of the democratic people's dictatorship; and in protecting the stability of governmental and economic order in society as a whole. This has provided an ample legal basis for the political behavior and the economic and social activities of Heilongjiang's party and government organs, enterprise and business units, and all of the various organizations during the mission of improving, rectifying, and intensifying reform. Throughout the province marked results were achieved in 1989 in such areas as cutbacks in the scale of basic construction, adjustments in the product mix, clearing up and rectifying the market flow channels and the various companies, and particularly in achieving commodity price controls in the "383 projects" as party and government organs, people's groups, enterprise and business units, and the broad mass of citizens consciously abided by the laws, conducted their affairs in accordance with the laws, and gave full play to the roles of the law to standardize, guide, adjust, and control social and economic life. Also, social life has gradually become more ordered by law. January of this year was "legal system propagation month" throughout Heilongjiang, and we conducted in-depth propagation and teaching about constitutional law, demonstration law, the administrative regulations governing registration of social groups, and the punishment regulations of the public security administration. This created even better social and legal conditions whereby the overall public security deployments of the provincial government could be made successfully throughout the province, and the mission of improving, rectifying, and intensifying reforms could be sharpened. What needs to be particularly emphasized is that with the gradual intensification of the work to disseminate the law and teach about the legal system, study, enforcement, and application of the law is becoming standard behavior at all levels in party committees, governmental

organs, groups, schools, in the street, and in enterprises and businesses, and there is a growing trend to run the government, enterprises, and schools according to the law, and for every item of business to be carried out in accordance with the law. In 1989 the three cities of Harbin, Daqing, and Mudanjiang launched test projects for running their cities in accordance with the law, and remarkable results were achieved. And, even more regions and units are starting from the foundation of intensified propagation and teaching about the legal system and are moving toward a transition of making improvements in accordance with the law. The citizens as a whole are going to be studying and applying the law in a greater, more vigorous way. All in all, the societal infrastructure for construction of the legal system is now becoming established. Not only does this have the important effect of standardizing thought and behavior so that improvement, rectification, and intensified reform can be smoothly carried out throughout Heilongjiang, but also, for years to come, as we propagate and teach about the legal system, it will most certainly leave the mark of the socialist legal system deeper and deeper in the governmental, economic, cultural, and spiritual lives of the citizens of our province, and the concepts of founding and ruling the state, developing the province, and enriching the people, all in accordance with the law, will become firmly established.

Fully applying the law, providing timely, effective legal service in the mission to improve, rectify, and intensify reforms, bringing macroeconomic governmental decisionmaking and the various economic activities in society and the enterprises within the ambit of the legal system, and ensuring the normal order of the socialist economy are all important areas in construction of the socialist legal system, and are important missions of the judicial organs as they work to fully implement the various plans and policies that have been set forth since the Third Plenary Session of the 11th CPC Central Committee. We must earnestly work to foster and educate the people in legal awareness, and overcome the tendency to give more weight to stop-gap measures at the expense of permanent cures. We must persist in conducting affairs in accordance with the law and in overcoming the idea that rule by man is better than rule by law. We must steadfastly execute the laws in an impartial way, we must remember that all men are equal before the law, and we must overcome the trend of thought that emphasizes economic results at the expense of societal results. There is no place for putting selfish concerns ahead of the public interest, nor for letting emotional considerations come before the law. In Heilongjiang we have actually done quite a bit of work in this area with concrete results. Already 797 city, county, region, and town governments and/or heads of administration have invited lawyers and legal service organizations to assume posts as permanent legal advisers, and over 13,000 enterprise and business units, individual industrial and commercial households, contract management households, and economic combinations have sought legal advice. Most of the legal advisers have given important

advice and assistance so that governments can govern in accordance with the law and enterprises can conduct their business in a legal way. Increasingly, the advisers are winning the esteem and confidence of government leaders and entrepreneurs. Legal aid organizations throughout the province, including lawyers, notary departments, and township legal service posts handled 130,000 economic and civil suits and performed 210,000 notarizations in 1989. They gave sterling displays of their skills in providing legal services in daily matters throughout the province and in "the six major markets" of production materials, funds, real estate, labor, information, and technology, and they played a positive role in providing legal services to help out in agricultural village reforms, reforms in ownership-by-the-whole-people enterprises, and the contracting and leasing work of medium-sized and small enterprises. As we work to further improve, rectify, and intensify reform, judicial departments must continue to expand the orbit of legal services and to raise the quality of legal service. Our legal servants must give even better advice and assistance as they work to aid government at all levels and departments concerned in reducing overall societal demand, adjusting the product mix, rectifying the economic order, and in launching the various projects involved in double increases and cutbacks. From a legal standpoint they must actively provide proposals and opinions, formulate and perfect various laws and regulations, make sure that the overall decision-making of governments can hold up under legal scrutiny, and work to become more scientific, legal, and operational. Legal service work must extend to all levels of "three capital enterprises," as well as foreign trade and trading activities on the Soviet border, and, from a legal standpoint, every sort of economic activity must be provided with consultative services and proof checks. Also, our legal services must further the work of improving, rectifying, and intensifying reforms, they must ensure normal order in the planned socialist commodity economy, they must bring about positive cycles in economic activities, and they must ensure that Heilongjiang's economy develops in a continuous, steady, and concerted way under the control and guidance of the law and that the goal of "province-wide prosperity through science and technology" is realized.

Widespread completion of the mission to improve, rectify, and intensify reform will require that we maintain societal stability. Looking at the international and domestic environments leads us to conclude that stability has top priority. Under the new conditions facing us, the role and function of the judicial organs in preserving public security and in seeing that the overall administration of public security is carried out is an extremely important one. The overall security situation in Heilongjiang since the Third Plenary Session of the 11th CPC Central Committee has been one of stability. In particular, the cities and regions of Daqing, Jixi, and Songhua Jiang have done good jobs at keeping their

"units, societies, and homes under control." The recidivist rate for criminals released after serving their sentences has fallen somewhat, and many of them have become good citizens, giving a good account of themselves in production and in labor. Pulling together throughout the province to fight roving criminals and to implement the proclamation of the Higher People's Court and the Higher People's Procuratorate that says "Criminals Who Are Engaged in Graft, Bribery, or Profiteering Must Come Forward and Confess Their Crimes Within the Applicable Period," judicial administrative organs, labor reformers, and labor education units have worked together with public security bureaus, the procuratorates, and the courts in getting a lot done with encouraging results. The province-wide political offensive has led to criminals and persons in labor camps coming clean or making accusations about 1,367 other crimes, with over 100 of these being major cases. And throughout the province, lawyer and notary organs have played an important role in exposing crime, preventing crime, and in assisting public security bureaus, procuratorates, courts, and other related departments in upholding the law. In 1989 the notary organs alone took such legal steps as investigating materials and examining economic contracts and their efforts exposed or prevented at least 249 incidents of illegal behavior. We should particularly cite the efforts of the province-wide people's mediation organizations who are the "first line of defense" in public security. In 1989 they mediated a total of 219,008 disputes of various kinds and had a success rate of 95 percent. Their efforts prevented the occurrence of abnormal deaths and crimes that may arise when disputes get out of hand. It is work such as this that has advanced the overall administration of public security in Heilongjiang, to a great extent kept our society stable, and provided powerful legal guarantees as Heilongjiang has carried out the mission of improving, rectifying, and intensifying reforms. In 1990, judicial administrative organs, labor reformers, labor educators, notaries, lawyers, people's mediators, township legal service posts, and other such departments, units, and organizations will continue, under the guiding spirit of the Fifth Plenary Session of the 13th CPC Central Committee and the fourth session of the sixth provincial party congress, to grasp and carry out their work and actively interface with and assist departments concerned in keeping public security under control. In particular, they must resolutely strike down enemies, foreign and domestic, who would attempt in vain to subvert our socialist system, they must crush conspirators who purport to stand for "peaceful evolution," they must act within legal bounds to quickly and resolutely stop criminal behavior that tries to subvert public security, create chaos, instigate trouble, or destroy reforms or economic order, and moreover, they must actively work to resolve contradictions in and among the people or society so as to create beneficial societal and legal conditions for the mission of improving, rectifying, and intensifying reforms. And, they must make new contributions to the stabilization of economic and political situations in

Heilongjiang so that improvement, rectification, and reform liberalization will be guaranteed even greater victories.

## NORTHWEST REGION

**CPPCC's Ismail Amat Inspects Southern Xinjiang**  
*OW3107233490 Urumqi XINJIANG RIBAO in Chinese*  
10 Jun 90 p 1

[By reporters Shi Jian (4258 1017), Lu Weiqiang (7120 0251 1730), and Ren Cheng (0117 3397)]

[Text] Cadres and people of all nationalities should unite, work hand in hand, hold high the great banner of preserving the motherland's unification and nationality unity, decisively oppose splittism and turmoil, do everything they can to maintain and improve stability and development in southern Xinjiang, and make an all-out effort to push forward socialist construction in Xinjiang Uygur Autonomous Region. These points were repeatedly stressed by Ismail Amat, vice chairman of the National Committee of the Chinese People's Political Consultative Conference [CPPCC], and minister in charge of the State Nationalities Affairs Commission, during his recent investigation-and-study tour of southern Xinjiang.

From 27 May to 8 June, Ismail Amat conducted in-depth investigations and studies in Hotan Prefecture, Kizilsu Kirgiz Autonomous Prefecture, and Kashi Prefecture. He went deep into villages, farms, peasant households, factories, schools, and military camps to extensively learn the situation and seek people's opinions. He fully affirmed the efforts of the vast numbers of cadres and the broad masses of the three prefectures in maintaining stability and promoting development, and the achievements they had made. He made an important speech on southern Xinjiang's stability and economic work. Accompanying him during his tour were Zhao Yannian, vice minister in charge of the State Nationalities Affairs Commission; and Amudun Niyaz, deputy secretary of the Xinjiang Autonomous Regional CPC Committee.

Wherever he went, Ismail Amat briefed local cadres and people on the unity and stability situation in all minority nationalities regions across the country, and gave in-depth analyses on why these regions had been able to maintain stability, as well as on the destabilizing factors in these regions. He said that stability in frontier regions of minority nationalities is closely related to stability in inner provinces and of the whole country. Stability is a common need and wish of the people of all nationalities. It is an overriding task, especially in frontier regions of minority nationalities. Only in the big family of the motherland can the people of all nationalities progress, hold their status, and enjoy others' respect among the

many nationalities of the world. Therefore, preserving the motherland's unification and national unity is an unshirkable duty of all people who love their motherland and their own nationality. It is also a legal obligation of every citizen. We should love our motherland as we love our mother, and we should preserve the unity of all nationalities just as we take care of our own eyes.

Ismail Amat pointed out that, to maintain stability in frontier regions of minority nationalities, we must determinedly oppose splittism and turmoil. He strongly condemned a very small number of ethnic, splittist elements for provoking armed counterrevolutionary riots in Baren Township. He said, "We should resolutely struggle against, and decisively crack down on, reactionary forces trying to split the motherland and stir up turmoil. We shall never show mercy to them. We shall thoroughly smash reactionary designs of any kind. Cadres and people of all nationalities are the principal force of socialist revolution and construction, and a totally reliable force we have to depend on in fighting splittism and turmoil. In fighting splittism, we should adhere to the correct policies and strategies, and draw a clear dividing line between the two different types of contradictions. Socialist China has been standing up in the world for 40 years. As long as we rely on the people, implement correct policies, and ensure that all measures we take are effective, it is totally possible for us to remain invincible. Unification, unity, and development are an irresistible historical trend. All nationalities in China will march toward a great rejuvenation in this historical trend."

During the tour, Ismail Amat pointed out that the party has cultivated a large number of cadres of minority nationalities over the years. They are the party's valuable asset. We must have full confidence in them and rely totally on them, and enable them to fully display their talents. Cadres of all nationalities should have a good understanding of their tasks, and work hard and boldly. They have great responsibility in promoting national unity and development, and in maintaining stability in frontier regions of minority nationalities. On matters of clear right and wrong concerning the motherland's unification and national unity, they must adopt a clear-cut attitude, firmly hold their stand, and not be ambiguous. The key to whether we can hold the initiative in fighting splittism and infiltration, and maintain overall stability is the quality and fighting force of cadres. Those who engage in splitting the motherland are scum of the motherland and the nation. We must unhesitatingly expose them and resolutely crack down. We must not assume an ambiguous attitude toward them, appease them, or tolerate their mistakes. Otherwise, it would be a serious dereliction of duty. Cadres of all nationalities should respect, support, and learn from each other, and work in unison.

Ismail Amat said facts have convincingly proved that, to preserve stability in frontier regions of minority nationalities, we must consolidate grassroots political power and make every factory, neighborhood, school, village, and military company a fortress for fighting splittism and turmoil and a base for promoting nationality unity and development. Therefore, we should strengthen grassroots political power politically, ideologically, and organizationally.

Ismail Amat said economic stability and development are the material foundation of nationality equality and unity and of social stability. Therefore, we must work hard to promote economic and cultural development. Reform and opening to the outside world are a path to making our people affluent and our country strong, and also a path to achieving common prosperity among the people of all nationalities. All prefectures in southern Xinjiang should make use of their assets and further carry out the policy of reform and opening to the outside world in order to speed up economic development and bring about national rejuvenation. The minority nationalities people and regions should carry forward the spirit of self-reliance and hard work, and work hard for the development of their respective region. Of course, the state should continue to provide assistance and aid to these regions, and adopt preferential policies in certain areas toward these regions in order to accelerate development and enable the economy of all localities of the country to develop in a coordinated way. The Han and minority nationalities, and regions with rapid and slow development should help each other in order to achieve common prosperity. This should be an indication of the superiority of the socialist system. It provides an impetus to develop the economy and is conducive to developing socialist nationality relations. We must be determined and make all-out efforts to solve food and clothing problems of the people of minority nationalities, in order to enable them to fulfill their generation-long wish to live a better life. State-run enterprises in minority nationalities regions should look after the interests of local people of minority nationalities, and serve as a locomotive in developing the local economy. They should take special measures in earmarking products for local use, in withholding part of their earnings and taxes, in deciding supplementary projects to be built, and in recruiting workers of minority nationalities. On the other hand, people of all nationalities should actively support the state in tapping local resources and help it to manage enterprises well.

Ismail Amat held that correctly perceiving and implementing the established religion policies and tightening control over religions are important factors in maintaining stability. He said freedom in religious belief is protected by law in China. However, religious activities must be subject to restrictions of the law, must be conducted within the bounds of the law, must not

interfere in the state's administrative affairs, and must not obstruct judicial and educational activities. Restoring, openly or under disguise, religious privileges which were scrapped long ago must not be permitted. Ismail Amat hoped that religious leaders and believers would be real patriots, and that the religious circle would always hold high the banner of patriotism. He said we should decisively stop anyone from using religion to oppose the Communist Party and socialism.

### **Military Influence in Media, Education Widespread**

90CM0292A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 167, 27 May 90 pp 31-33

[Article by Liao Fu-shun (1675 4395 7311): "They Are Hiding in Everybody's Head: The Military Sphere of Influence in Academic and Cultural Circles"]

[Text] In one of the texts on "citizens and ethics" approved by the Political Warfare Department for use in the preparatory classes of the armed forces' academies, it is written, "It is the duty of a soldier to defend his country and protect the people. Naturally, the military has the ability to influence society."

### **Long Arms That Reach Into the Education System**

The military also believes in its four big contributions to social progress, that is, to maintain public safety, eradicate bandits and spies, exemplify social ethics and righteousness, and serve society. Soldiers in Taiwan are in a class by themselves, full of self-confidence and a sense of mission. At least they are taught to act this way.

The so-called "four big contributions" are, in fact, their "four main objectives." To achieve the four main objectives, the military has gradually left behind the fence that society put up around it and has built a comprehensive education and training system on the outside. If we liken the military to a person, then the education system of the three branches of the armed forces and the eight military academies are his organs; the political education of the Political Warfare Academy is his head; the professional colleges, including the Chungcheng Institute of Technology, the National Defense Management School, and the National Defense Medical College, are the arms that make him all-powerful. In addition, the Army, Navy, and Air Force Academies train his strong and healthy body and teach him the techniques of war and turn him into their special asset. This huge, almost-omnipotent organization often makes social stability its responsibility, and therefore it can be regarded as Taiwan's "shadow cabinet." At any time, it has a better chance and is more capable of taking over the regime and even controlling the whole Taiwanese society than any opposition party.

Besides having its own complete education system, the military also has long arms that reach into the civilian education system. Its objective is to control society effectively. The "military training system" in all schools above the senior high school level is a good example. In addition, in the area of theory and research, the military has also set up several specialized research institutions:

**Chengchih University's International Relations Research Center:** This center has always been funded by the Ministry of Defense's Military Intelligence Bureau. It currently employs a hundred or so researchers. The center has long engaged in the study of communist intelligence and provides the military with anticommunist theories. Since Li Teng-hui took office, he has relied heavily on the center when formulating his mainland policy.

**The Asia and World Society:** This is a civilian academic organization started by Hang Li-wu [2635 4539 2976] in 1980. It is also an important military research institute, with the Fourth Department of the National Security Council acting as liaison. The 15 advisory committee members are: Kuan Chung [2070 0022], Wang Chi-wu [3769 4764 0063], Du Heng-chi [2629 5683 0037], Sung Chu-yu [1345 2806 3342], Shao Yu-ming [6730 3768 6900], Chen Ming [7115 2494], Chen Chi-lu [7115 1142 4389], Chen Lu-an [7115 1462 1344], Lien Chan [6647 2069], Chang Ching-yu [1728 0076 5148], Chang Hsiao-tzu [4545 1321 1964], Sun Chen [1327 7201], Hsiu Tzu-cheng [0208 1311 2973], Wei O [7614 5501], and Wei Yung [7614 6978].

### **The Authority on Cultural Ideology**

**Chungshan University's Chungshan Academic Research Center:** This research center is funded by the Ministry of Defense. In 1986, the Ministry of Defense's Office of the Deputy Chief of Staff of Second Logistics Department funded a so-called "Hsukuang Project." The project was headed by U.S.-educated scholar Yang Jih-hsu [2499 2480 2485]. It consisted of six separate projects. The emphasis was on analyzing a Taiwan Strait strategy and the CPC's military strength, producing works such as *A Psychological Analysis of the Commanding Officers of the Nanjing Military Zone*. Twenty or so scholars, including Yang Jih-hsu, Hu Chih-chiang [5170 1807 1730], and Yu Chien-hung [0205 0494 7703], took part in the project. The Ministry of Defense spent around NT\$20 million [New Taiwan dollars] a year funding the project.

In addition, in 1988, the Central Committee of the KMT [Kuomintang] had plans to join the military in setting up a military strategy research panel. The panel was to be headed by Ko Tun-hua [5514 2415 5478] and Wu Chun-tsai [0702 0193 2088] to recruit some midlevel cadres of the Garrison Headquarters as trainees to work on a national security plan.

**Academic Research Institutions Directly Administered by the Military, Receiving Military Funding, or Regularly Working for the Military**

Institution	Remark
Military Science and Technology	
The Chungshan Scientific Research Institute	Due to Chiang Ching-kuo's (then minister of defense) insistence, the preparatory office for the Chungshan Scientific Research Institute was set up in 1965. More than 70 people from 7 groups, including the Army, Navy, Air Force, and Logistics, were involved. In July 1969, the institute was formally opened. Yen Chen-hsing [7051 2182 5281], (president of Qinghua University) was named president. The institute is made up of four separate research institutes—aeronautics, rocketry and missile, electronics, and chemistry. In November 1982, President Tang Chun-po [0781 0689 6896] was appointed national policy adviser, and Hau Pei-tsun [6787 2672 2625], chief of the general staff, took over as president. Hau also hired U.S.-educated rocketry expert Wang Xiao-tsung [3769 1321 1350], as acting president, and, to date, he is still in charge of the institute's day-to-day business. Since Hau took over, the institute has been directly administered by the Office of the Chief of Staff. It employs close to 20,000 workers and is Taiwan's largest scientific research institute. Its 1991 budget is NT\$16 billion.
The Chariot Development Center	Located in Nantou's Chichi. Formerly administered by the Army, but later merged with the Chungshan Institute to become a research, development, and production unit. It employs more than 1,000 workers.
The Aeronautical Industry Research Center	It has merged with the Chungshan Scientific Research Institute's Aeronautical Research Institute.
Naval Development Center	Located in Kaohsiung's Tsoying.
Defense-related Research Units of the Logistics Command	Most munitions factories of the Logistics Command have their own research units. These are secondary, low-level research units.
Chengkung University's Aeronautics and Astronautics Research Institute	Cooperates closely with the Chungshan Institute and the Aeronautical Industry Research Center.
Taiwan University's Applied Mechanics Research Institute	Engaged in sonar research on behalf of the Chungshan Institute.
Jiaotong University's Material Science Research Center	Because Jiaotong University is at the communications hub, it cooperates closely with Chungshan Institute in research and facilities.
Jiaotong University's Electronics Research Center	(The above three universities and four institutes were set up in 1984 mainly to train scientific and technical personnel for the military.)
Social Sciences	
Chungshan University's Chungshan Academic Research Center	It is a major institution where the military can delegate its social science research projects to civilian scholars. For example, the "Hsukuang Project" headed by Yang Jih-hsu has received a NT\$40 million grant from the Ministry of Defense's "Combined Services" to engage in analysis and research on the Taiwan Strait strategy.
Chengchi University's International Relations Research Center	It engages in the study of communist activities for the Ministry of Defense.
The Asia and World Society	Funded by the National Security Council's No. 4 Bureau

Note: Most natural science research institutes at the universities perform military science and technology research. The work may be funded by the "Defense-Industry Cooperation Development Fund" (with an annual budget of NT\$150 million).

As for ideological education, there are the Editorial Group for Political Indoctrination Day Teaching Materials and the Forum for Television Education for Political Indoctrination Day, both sponsored by the Political Warfare Department. Promilitary, civilian scholars are regularly invited to participate. These scholars generally fall into one of two categories: One group consists of "scholars" who believe in the so-called constitutional government and who are graduates of the Political Warfare Academy; the other consists of civilian scholars who identify with the military's ideologies. The former's participation in the military's political education is a matter of course, and those in the latter group are often recruited and bought up by the military. The military's effort to befriend intellectuals has a long history. In the 1930's and 1940's, the intellectuals were very much anti-Chiang, which made Chiang Kai-shek very uncomfortable. But Wang Yun-wu [3769 7189 0063] said to him, "If they are going to make trouble out there, why

not invite them in for a chat?" Chiang Kai-shek immediately saw the light. From then on, he befriended the intellectuals and tried everything to win them over, and eventually he turned the force of resistance into a motivating force.

When Wang Sheng [3769 0581] was chairman of the Political Warfare Department, he had in mind a personal military ideology and theory group. He set up the "Psychological Warfare Research Group," also known as "Xinlu." It was run by Tsao Min [2580 2404]. The group trained midlevel officers of the Political Warfare Department, and, after a two-year course, the officers were sent to all levels of the party and government, including nonmilitary departments, to establish that school of thought as the cultural and ideological authority. When Wang Sheng stepped down, "Xinlu" was disbanded and merged with the Political Warfare Academy Strategy Research Institute's Mainland Group.

The military has always had a firm hold on the cultural circles as a propaganda tool. One can almost draw a chart showing the ties between the military and Taiwan's cultural circles. Writers such as Szuma Chung-yuan [0674 7456 0022 0626], Chu Hsi-ning [4281 6007 1380], and Yin Hsueh-man [1438 7185 2581]; poets such as Ni Lo [1441 3157], Lo Fu [3157 1133], and Ya Hsien [4042

1720]; reporters such as Li Chi-kung [2621 4949 1313], Hu Hsueh-chu [5170 7185 3796], Chao Yu-ming [6392 3768 2494], Huang Pei-lung [7806 0554 2597], and Yao Cho-chi [1202 3820 1142] are well-known members of the inner circle. "Military literature" also plays an important part in Taiwan's history of literary development.

#### Current Military Publications

Name	Jurisdiction	Publication	Nature	Target	Remark
KUOYUN [NATIONAL SPIRIT]	Political Warfare Department	Monthly	Political issues	National	Approved by the Government Information Office
SHENGLI CHIHKUANG [THE LIGHT OF VICTORY]	Political Warfare Department	Monthly	Political issues	National	Same as above
CHINGCHI TONGHSUN [CHINGCHI CORRESPONDENCE]	Garrison Headquarters	Weekly	Political issues	Military reserve	Same as above
WUAI WUJIA [MY LOVE, MY HOME]	Garrison Headquarters	Monthly	multipurpose	Military family	Same as above
TACHUNG CHOUKAN [GENERAL PUBLIC]	TAIWAN RIBAO	Weekly	Political issues	National	Same as above
CHINGNIEN CHOUKAN [YOUTH]	CHINGNIEN YIHPAO	Weekly	Political issues	National	Same as above
KOMINGCHUN [REVOLUTIONARY ARMY]	Political Warfare Department	Weekly	Political issues	Military	Approved by the Political Warfare Department
FENTOU [STRUGGLE]	Political Warfare Department	Weekly	Political issues	Military	Same as above
KOMING WENI [REVOLUTIONARY LITERATURE]	Political Warfare Department	Monthly	Literary	Military	Same as above
KUOCHUN HUAPAO [CHINA MILITARY PICTORIAL]	Political Warfare Department	Irregular	Propaganda	Military	Same as above
KUOFANG CHICHIH [DEFENSE MAGAZINE]	Defense University	Monthly	Military oriented	Military	Same as above
GUOFANG ITSUI [DEFENSE TRANSLATIONS AND ABSTRACT]	Ministry of Defense's History and Policy Bureau	Monthly	Translations	National	Same as above
HUANGPU YUEKAN [HUANGPU MONTHLY]	Army Officer's Academy	Monthly	Multipurpose	Military	Same as above
CHINMEN HUAPAO [CHINMEN PICTORIAL]	Jinmen Defense Department	Irregular	Multipurpose	Local	Same as above
MATSU HUAPAO [MATSU PICTORIAL]	Matsu Defense Department	Irregular	Multipurpose	Local	Same as above
SANCHUN LIENHE YUEKAN [ARMED SERVICES MONTHLY]	Defense University	Monthly	Military and political issues	Military	Same as above
SANCHUN HSUEHSHU YUEKAN [ARMED-SERVICES ACADEMIC MONTHLY]	Defense University	Monthly	Military and political issues	Military	Same as above
CHUNGKUO LUCHUN [CHINESE ARMY]	Army Headquarters	Monthly	Military and political issues	Military	Same as above
LUCHUN HSUEHSHU YUEKAN [ARMY ACADEMIC MONTHLY]	Army Headquarters	Monthly	Military issues	Military	Same as above
HAICHUN YUEKAN [NAVY MONTHLY]	Navy Headquarters	Monthly	Military and political issues	Military	Same as above

**Current Military Publications (Continued)**

Name	Jurisdiction	Publication	Nature	Target	Remark
HAIJUN HSUEHSHU YUEKAN [NAVY ACADEMIC MONTHLY]	Navy Headquarters	Monthly	Military issues	Military	Same as above
CHUNGKUOTI KUNGCHUN [CHINA'S AIR FORCE]	Air Force Headquarters	Monthly	Military and political issues	National	Same as above
KUNGCHUN XUESHU YUEKAN [AIR FORCE ACADEMIC MONTHLY]	Air Force Headquarters	Monthly	Military issues	Military	Same as above
CHUNGGUO HSIENPING [CHINESE MILITARY POLICE]	Military Police Command	Monthly	Military and political issues	Military	Same as above
HSIENKUANG YUEKAN [HSIENKUANG MONTHLY]	Military Police Command	Monthly	Military and political issues	Military	Same as above
CHIENHSING YUEKAN [CHIENHSING MONTHLY]	Military Intelligence Bureau	Monthly	Military and political issues	Internal circulation	Same as above
LUCHANTUI YUEKAN [MARINE CORPS MONTHLY]	Marine Corps Headquarters	Monthly	Military and political issues	Military	Same as above
KUOFANG NIANCHIEN [DEFENSE YEARBOOK]	Ministry of Defense's History and Policy Bureau	Yearly	Military issues	Military	Same as above

Source: Ministry of Defense's Political Warfare Department statistics (reprinted in HSINWENHUA YUEKAN [NEW CULTURE MONTHLY])

Notes: 1. There are as many as 72 different military publications. Some, such as PUHSIAO HSUEHSHU YUEKAN [INFANTRY ACADEMY MONTHLY] and CHUNGKUOTI CHUANGCHIAPING [CHINA'S TANK CORPS], are limited in coverage as well as circulation and have been deliberately omitted.

2. There are also scores of publications which are funded by the Ministry of Defense and circulated by civilian organizations. These publications are registered with the Government Information Bureau for foreign circulation. They are also excluded here.

3. The so-called KUOCHUN HUAPAO refers to unscheduled publications about the relationship between important military and political figures and the military, including such books as *Chiang Kai-shek yu Kuochun*, *Chiang Ching-Kuo yu Kuochun*, and *Linghsiu Aiszu Lu [In Sad Memory of a Leader]*. They are political propaganda in nature.

**Publishers Under Jurisdiction of the Military**

Name	Jurisdiction	Address	Remark
New China Publishing House	Policy and Strategy Command	Taipei	Edits and prints periodicals
Liming Cultural Undertakings Company	Policy and Strategy Command	Taipei	Publishes books
Chunghua Chupanshe	Chunghua Television	Taipei	Publishes books
Altay Chupanshe	Political Warfare Department	Taipei	publishes foreign books and periodicals
Haichun Chupanshe	Navy Headquarters	Taipei, Kaohsiung	Occasionally publishes some books
Huangpu Chupanshe	Army Officers Academy	Kaohsiung	Occasionally publishes some books
Shihcheng Pienikuang	Office of the Chief of Staff	Taipei	Limited to military circulation
Shihchien Hsuehhsiao	Office of the Chief of Staff	Taipei	Closed

Source: Political Warfare Department statistics (reprinted in HSINWENHUA YUEKAN)

Notes: 1. Military units, such as the Navy and Air Force Headquarters, the Operations Office, the Intelligence Office, and the Military Intelligence Bureau also publish books, but circulation is very limited and therefore they have been omitted here.

2. All military units publish books, but circulation is limited to the military and printing size is limited, therefore they have been omitted here.

As for performance art, "Kuo-chu" [national opera] is monopolized by the military. Today, each of the three branches of the armed forces has its own troupe—the Lu Kuang, Hai Kuang, and Da Peng—and the Marines have their "Yuchu" [Henan Opera] Troupe. In addition, the

Fuhsing Opera School is the training ground for the actors in the national opera. In the past, national opera was an important part of the entertainment when the troupes visited Army units. Today, the grassroots units no longer enjoy it. Except for the annual competition,

the opera is performed only to celebrate some old soldier's birthday. It is nevertheless the quintessence of

Chinese culture, worth preserving. But to leave this responsibility to the military is quite unimaginable.

#### Current Military-Owned Newspapers and News Agencies

Name	Jurisdiction	Publication	Location	Circulation	Remark
CHUNWENSHE [MILITARY NEWS AGENCY]	Ministry of Defense	Daily	Taipei County	National	Supervised by the Political Warfare Department
CHUNWENSHE, Bureau No. 1	Ministry of Defense	Daily	Taipei City	National	Same as above
CHUNWENSHE, Taichung Bureau	Ministry of Defense	Daily	Taichung City	National	Same as above
CHINGNIAN JIHPAO	Ministry of Defense	Daily	Taipei City	National	Same as above
TAIWAN YIHPAO	Ministry of Defense	Daily	Taichung City	National	Same as above
TAIWAN WANPAO	Ministry of Defense	Daily	Taichung City	National	Closed
JIANKUO JIHPAO	Penghu Defense Department	Daily	Penghu County	Local military and civilian	Chairman of the Political Warfare Department also serves as publisher
CHENGCHI CHUNGHUA PAO	Chinmen Defense Department	Daily	Chinmen County	Local	Same as above
MATSU YIHPAO	Matsu Defense Department	Daily	Lienchiang County	Local	Same as above
TUNGYUNG JIHPAO	Tungyung Defense Department	Daily	Tungyin Island	Local	Same as above
CHUNGCHENG PAO	Army Headquarters	Daily	Taipei County	Circulation limited to officers and sol- diers	Supervised by the the Armed Forces Headquarters and each unit's policy and strategy chairmen
CHUNGI PAO	Navy Headquarters	Daily	Kaohsiung City	Same as above	Same as above
CHUNGYUNG PAO	Air Force Headquar- ters	Weekly	Taipei City	Same as above	Same as above
CHUNGAI PAO	Garrison Headquar- ters	Weekly	Taipei County	Same as above	Same as above
CHUNGCHIN PAO	Logistics Headquar- ters	Weekly	Taipei City	Same as above	Same as above
CHUNGCHEN PAO	Military Police Headquarters	Weekly	Taipei City	Same as above	Same as above
HSIENFENG PAO	Marine Corps Head- quarters	Weekly	Kaohsiung City	Same as above	Same as above
CHUNGCHENG BAO (North)	6th Regiment	Weekly	Taoyuan County	Same as above	Same as above
CHUNGCHENG PAO (Central)	10th Regiment	Weekly	Taichung County	Same as above	Same as above
CHUNGCHENG PAO (South)	8th Regiment	Weekly	Kaohsiung County	Same as above	Same as above
FUHUA PAO	Ministry of Defense	Weekly	Taipei City	Same as above	Same as above
FUHSINGKANG BAO	Policy and Strategy School	Weekly	Taipei City	Same as above	Same as above
HUANGPU PAO	Army Officer Academy	Weekly	Kaohsiung City	Same as above	Same as above
Total	23 units				
Assets	NT\$14 billion				

Source: Political Warfare Department (reprinted in HSIENWENHUA ZHOUKAN)

**Significant Influence in Cultural Circles**

As for the movies, to date, the military owns the Hanwei Film Company (formerly the China Film Production Company.) It is administered by the Political Warfare Department. In addition, Chen Sheng-fu [7115 0524 4395], fourth son of the owner of "Minghua Yuan," is a good friend of Sung Chang-chih [1345 7022 1807], and as a result, Min-

ghua Yuan also has close ties to the military. Chen Sheng-fu made several military training movies for the military.

The military's influence among actors seems limitless. No actor will say no to the military, because the managers of the three TV stations—Taiwan TV's general manager, Wang Chia-hua [3769 1367 5478]; TV Chung's general manager, Chung Hu-ping [6988 3275 3453]; and TV Hua's general manager, Wu Shih-sung [2976 1102 1529]—are of military background.

**Broadcast Stations Owned by the Military**

Station	Substations	Location	Military Affiliation
Central Broadcast Station	Tanshui, Kuangyin, Hukou, Luchiang, Huwei, Minhsung, Pingtung	Taipei, Taoyuan, Hsinchu, Changhua, Yunlin, Chiayi, Pingtung	Political Warfare Department Psychological Warfare Bureau
Air Force Broadcast Station	Taichung, Chingshui, Hsinfeng	Taichung City, Taichung, Hsinchu	Air Force Headquarters
Fuhsing Kang Broadcast Station		Taipei's Peitou	Practical training for the Political Warfare Academy's journalism course.
Hansheng Broadcast Station (formerly the Chunchung Broadcast Station)	Kuokuang, Songshan, Lungkang, Sani, Taichung, Touli, Paihe, Yungkuang, Tsoying, Fengshan, Chishan, Ilan, Hualien, Yuli, Taitung, Chukuang	Taipei City, Yangmingshan, Taoyuan, Miaoli, Taichung City, Yunlin, Tainan, Kaohsiung, Ilan, Hualien, Taitung, Penghu	Political Warfare Department
Chengsheng Broadcast Station	Taichung, Huwei, Jiai, Kaohsiung, Taitung, Ilan	Taichung City, Yunlin, Jiai, Chengchinghu, Taitung, Ilan City	The Ministry of Defense's Military Intelligence Bureau controls more than 50 percent of the stock. Taitung Company and several other civilian-run companies also own shares.
Fuhsing Broadcast Station	Taipei headquarters, Taichung, Kaohsiung, Taitung, Ilan, Hualien, Chilung, Chungli, Hsinchu, Miaoli, Jiai, Hsinhua, Pingtung, Hsilo, Matou, Hsingpai, Haituan, Jenai, Liukuei, Wufeng, Santi, Checheng, Choulin, Guanfu, Sanyi, Yuli, Tainhsiang	Taipei City, Taichung City, Kaohsiung, Ilan City, Jilung, Chungli, Hsinchu, Miaoli, Jiai, Tainan, Pingtung, Yunlin, Taitung, Nantou, Hualien	Ministry of Defense's Military Intelligence Bureau

Note: There are a total of six broadcast stations and 59 substations. The military used "cracking down on the wave of bandits" as an excuse to seize control of about four-fifths of the country's broadcast stations.

Politically, the military is like a super shadow cabinet. In academic, cultural, and art circles, the military has its haunting presence everywhere. Amid this situation, its kingpin, Hau Pei-tsun is also considering forming his own cabinet. One cannot help but worry!

**Senior Assemblymen Oppose Parliamentary Reform**

90CM0305A Taipei TZULI WANPAO in Chinese  
30 Jun 90 p 5

[Article by Wang Ying-ming (3769 5391 6900): "Senior Assemblymen Angrily Announce That They Still Have the Power To Remove the President From Office; They Are Dissatisfied with the National Affairs Conference's Advocacy of 'Direct Presidential Elections' and 'Elimination of the National Assembly'"]

[Text] Some of the senior national assemblymen lashed out again today; they fired off a verbal barrage at the National Affairs Conference, saying, "What are they doing?" They can only "bring false charges against the national assemblymen" and "call people names in public." Furthermore, a few angry assemblymen demanded that National Assembly Secretary-General Ho Yi-wu [0149 1355 2976] ask President Lee Teng-hui [2621 4098 6540] to publicly explain to the National Affairs Conference "what power has been stolen" and "what profit has been taken" by senior national assemblymen. Otherwise, they said, "the power to remove the president from office is still in the hands of us older assemblymen!"

The National Assembly held a meeting of the Executive Committee today. In the past two days at the National Affairs Conference there were repeated calls for direct presidential elections and the elimination of the

National Assembly, which drew angry reactions from some older national assemblymen and stirred public sentiment.

Senior National Assemblyman Wang Yu-sheng [3769 7183 3932] first stated that the National Affairs Conference and the press had accused them of attempting to usurp power at the Eighth Party Congress. He demanded that the National Assembly write a formal letter to the National Affairs Conference and ask them to explain whether or not the national assemblymen were usurping power.

Some assemblymen grew agitated after this proposal was made. Chang Kuo-hsing [1728 0948 5281] declared loudly and angrily that this was a time of "life or death for the National Assembly," and that the National Affairs Conference proposals for direct presidential elections and the elimination of the National Assembly were "a big mess." He said, "Although you may shoot us, we will still uphold the constitution."

Senior Assemblyman Yang Shu-t'ang [2799 2885 2768] became so agitated that his face turned red. Referring to the National Affairs Conference delegates, he angrily said, "The people from that place, what are they doing?"

They only know how to "call the National Assembly names in public" and "bring false charges against us." He asked, "What power have we usurped? What profits have we taken? Tell Ho Yi-wu to get Lee Teng-hui to explain this in public." Otherwise "we still have the power to remove the president from office. We can elect and we can also dismiss."

P'eng Ch'ing-hsiu [1756 1987 0208], senior assemblyman of the China Democratic Socialist Party, said that Article 261 passed by the Grand Judges Council was "unconstitutional and illegal; they absolutely did not want to hold an extraordinary meeting for us." In a warmer tone, Li Erh-hang [2621 3643 5300] said that this is a time when events are more powerful than people. The National Affairs Conference has come up with many new ideas, and senior assemblymen should listen and not get agitated. The extraordinary meeting of the National Affairs Conference will be one of the concluding meetings of the Eighth National Assembly. He suggested they establish some special committees to investigate a way to deal with the situation.

Because the assemblymen were all saying different things, it was decided to pass their remarks on to the head of the Executive Committee for dispensation.