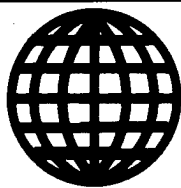


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GENERAL

International Competition Over High-Tech in 1990's

90CM0289A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 10, 16 May 90 pp 2-3

[Article by Feng Zhaokui (7458 2507 1145): "High-Tech Competition in the 1990's—As the Core of Comprehensive National Strength and Due to the Closing Gap Between the Strength of All Sides and the Increase of Input, High-Tech Competition Intensifies"]

[Text] The rapid development of high technology and its growing influence in economic, political, military, and diplomatic areas have caused high technology to go increasingly beyond the scope of "pure science and technology" and become closely connected to the state's development and security strategies. We may predict that in the 1990's, the high-tech competition of Western countries will develop further and become more intense. It will be entangled with the sweeping changes in the international situation and take on a more complex nature.

Further Intensified

Paul Kennedy, author of the U.S. best seller *Rise and Fall of the Great Powers*, after reviewing historical experiences, held that a major cause for the fall of a great power is the loss of balance between economic and military strength with too much weight on the latter. Taizo Yakushiji [5522 1597 1408 3141 5661], Japanese scholar, also pointed out in the book *Technological Hegemony* that factors determining today's international relations must include technology in addition to economic and military powers. He especially emphasized the importance of technological power in establishing hegemony in history.

The three powers—military, economic, and technological—have always had profound interrelations and interactions. Especially today, when the new technological revolution is being carried out, technology is functioning not only as a relatively independent power but more as a backup force behind the development of military and economic power. We may say that technology is the core of the comprehensive national strength based on economic, military, and technological power. Because the focus of the competition of great powers is switching increasingly from the arms race to comprehensive national strength, we can predict that in the 1990's high-tech competition will become further intensified.

Another important cause for increasingly intense high-tech competition is the closing gap between the technological strengths of technologically developed countries. Like a ball game, when the strengths of the two sides are close, the competition will be intense and the game will be more interesting. Since the beginning of the 1980's, technological competition and friction between the United States and Japan have developed as each day goes by. An important cause for this is that Japan's technological level is rising rapidly, continuing to reduce the distance between

Japan and the United States. According to my estimate, the gap between the technological levels of the United States and Japan will become even smaller in the 1990's. Japan's "scientific and technological index" (assuming that the U.S. index is 100) will rise from 52.7 percent in 1985 to 66.2 percent in 2000. As for Europe, considering that the unified European market will be formed in 1992, Germany will be unified, and other major changes have taken place in Europe, it is possible that the technological level of West Europe will rise rapidly and that the gap between West Europe and the United States and Japan will be narrowed.

The technological levels of the United States and Japan are well-matched in some important high-tech areas such as electronics, superconductors, new materials, biology, and their branches. They each have their own advantages, so the competition in these areas is even more complex. In July 1987, the United States held a "conference on the commercialization of superconductors." At the conference, President Reagan personally proposed a "plan on accelerating the development of superconductors" (it is very unusual in the United States for presidents to reveal scientific and technological plans). Foreigners were not allowed to attend this conference. This incident typically demonstrated that the competition in some major high-tech areas has developed to the white-hot degree.

Another cause for intensifying high-tech competition in the 1990's is that, along with the development of U.S.-Soviet detente and arms reduction, the two superpowers may take part of the manpower and material and financial resources that have been used for years on military technology research and weapon development and transfer them to "popular" high-tech areas which have the most potential and prospects for economic value and industrial use, thus further intensifying the competition in these major high-tech areas. In June 1987, the U.S. Department of Commerce published a report titled *The Current Situation of Growing Technology—Economic and Technological Appraisal Till 2000*. This report calculated the contribution of every high-tech area in terms of gross national product (GNP) and used it as a basis to list high technologies in the order of their importance. They are the synthetic materials of the new materials technology group, the genetic factor rearrangement of the bio-technology group, the photoelectron and high-density microelectronics (integrated circuit) of the electronic technology group, the computer equipment of the computer technology group, and the automatic manufacturing technology of the automatic technology group. We may say that high-tech is the "commanding point" of international struggle in the 1990's. To seize this "commanding point," all countries will inevitably enter into an unprecedentedly intense competition.

Further Complicated

Because the application and industrialization of high-tech research and development results have been accelerated day by day, the competition of high-tech research and development often quickly turns into the trade

friction of high-tech industries, causing technological competition to be entangled with trade friction.

Before the 1980's, the United States had great advantages over Japan in such high-tech areas as electronics and communications. Until 1980, the United States still managed to be in the black in the trade of high-tech industries. However, after entering the 1980's, the United States gradually lost its edge in the competition of some high-tech industries. In 1986, the United States suffered deficits for the first time in the trade of high-tech industries, including \$18.7 billion of trade deficits in communications equipment and electronic components, nearly \$800 million in motors and spare parts, and \$2.9 billion in scientific calculating and measuring equipment. It is not hard to tell from the above figures that the highest high-tech trade deficit of the United States happens to be in communications and electronic components whose market is expanding rapidly. This means that U.S. high-tech trade deficits may be enlarged further. Today the United States maintains a certain advantage only in the areas of airplane manufacture, missiles, and space equipment. Even this advantage is being weakened continuously.

Most high technology has a dual-purpose nature—military and civilian. Because of this, as U.S. high-tech trade deficits grow, the high-tech products of Japan and other countries have entered not only the U.S. market of civilian consumer goods but also the U.S. market of military supplies. Statistics show that almost 80 percent of the U.S. military semiconductor equipment is manufactured in Asia and most is imported from Japan. Components from Japan have been installed and assembled in the crucial parts of such weapons as missiles and fighter planes. This has caused two concerns in the United States. One is the fear that the occupation of the U.S. military supplies market by Japanese high-tech products may affect the sound development of the U.S. military supplies industry, thus undermining the security of the United States. The other is the fear that the increasing dependence of U.S. weapon systems on Japanese high-tech products may cause the U.S. military to be controlled by Japan. The U.S. Defense Department pointed out in February 1987 in a report titled *The Issue of Dependence on Semiconductors for Defense Use* that, of the air-to-air representative missiles produced by the U.S., "16 components are dependent on foreign countries. If foreign countries stop the supply, the United States will have to stop producing such missiles within a period of 18 months." To reduce dependence on foreign military high-tech products, the United States stipulated in legal forms in 1987 and 1988 that the United States should substantially enlarge the scope of "products that must be produced domestically." For instance, it demanded that the ratio of the domestic production of carbon fiber materials be raised to 50 percent in 1992. This shows that as the dual purpose of military and civilian use of high-tech products becomes increasingly prominent, the entanglement of high-tech competition and the security issue will become more and more complicated.

Today more and more great powers consider national high-tech strength and level as an important sign of national prestige. Recently, the United States even resorted to political pressures in its friction with Japan in regard to supercomputer technology and trade. An important reason is that Japan challenged the United States even in the field of supercomputers, which was a U.S. monopoly for a long time, causing the United States to feel that it is losing its prominence. It is predicted that, in the future, high-tech competition will get deeper entangled with political issues.

In the era of information, high-tech products as cultural carriers and communications media have flourished, creating a link between high-tech competition and cultural frictions. Currently, Japan, the United States, and West Europe are quarreling over the issue of the system of high-resolution televisions. This is de facto a prelude to a cross-century, great high-tech economic war. Japanese electronics research organs predict that international market demand for high-resolution televisions will exceed \$200 billion in the year 2000. The U.S. electronics sector, however, estimates that the market demand may reach \$500 billion in the year 2010. West Europe vigorously opposes Japan's proposal on a unified system because it is afraid that Japanese high-resolution televisions, which have already entered the practical phase, will flood the European market. On the other hand, it is also afraid that the United States will export its high-resolution television software to Europe. West Europe insists on an independent system precisely because it wants to avoid economic and cultural crises that might be caused by the occupation of West Europe by Japanese and U.S. high-resolution televisions.

Links to Changes in U.S.-Soviet Relations

Finally, we should mention that the high-tech competition of the West is linked in a complicated way to changes in U.S.-Soviet relations. In the U.S.-Soviet high-tech confrontation which is a component part of U.S.-Soviet confrontation, the Soviet Union has almost no alliance whose technological level is equivalent to its own, while the United States can carry out various forms of high-tech cooperation with Western alliances on the one hand and prevent them from exporting to the Soviet Union high technologies which have high military values on the other hand. However, as U.S.-Soviet relations become relaxed, the united front of Western countries formed on the basis of "the security protection of the West" to carry out technological blockade against the Soviet Union may gradually fall apart. Under the condition where the internal economic frictions of Western countries become increasingly acute, some Western countries may put more emphasis on the possible benefits of economic relations with the Soviet Union, inevitably including the development of high-tech trade with the Soviet Union. Of course, as long as the basic pattern of U.S.-Soviet confrontation remains basically the same, the issue of technological "leaks" to the Soviet Union will continue to be the most complicated and sensitive

issue that links the high-tech competition of the West to political, "security protection," and diplomatic issues.

NORTHEAST ASIA

Japan's Nakayama Completes Middle East Tour

'Big' Power Motivation Seen

HK0509055590 Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 36, 3 Sep 90 p 27

[Article by Jiang Yuzhe (5592 6276 3181): "Japanese Foreign Minister's Visit to the Middle East Draws People's Attention"]

[Text] Japanese Foreign Minister Taro Nakayama left Tokyo on 17 August for formal visits to Saudi Arabia, Oman, Jordan, Egypt, and Turkey. The purpose of Foreign Minister Nakayama's Middle East visit amid the tense situation in this region has drawn people's attention.

The Gulf and the rest of the Middle East are of vital importance to Japan in terms of the economy and politics. Ninety-nine percent of its oil comes from foreign countries, 70 percent from the Middle East. Due to complicated relations between different Middle East nations and because of geological reasons, exchanges between Japan and these nations have been rare. An important reason why the Kaifu cabinet has gained increasing domestic support is Kaifu's diplomatic achievements. Therefore, Kaifu hoped to strengthen Japan's relations with Middle East countries and expand its diplomatic field by visiting these countries, with the aim of playing a greater role in international affairs and improving his position in the Liberal Democratic Party [LDP]. After Iraq's invasion of Kuwait and the outbreak of the Gulf crisis, Kaifu did not immediately give up his plan to visit the Middle East; the more dangerous the situation is, the "greater Japan's political role" will be. On the other hand, the United States also hoped that Kaifu would start his Middle East tour as scheduled, to persuade the relevant countries through his influence, and to show support for U.S. sanctions against Iraq. But Japan could not decide upon a "detailed policy" or an "appropriate measure" to ease the crisis, therefore, a strong call arose within the LDP and the government, saying that it was unwise for Kaifu to visit the Middle East at a time like this. Eventually Kaifu had no alternative but to postpone his Middle East tour and to let the foreign minister go first.

During his visits, Foreign Minister Taro Nakayama explained to the five Middle East countries why Kaifu postponed his Middle East tour. No Japanese prime minister has visited the Middle East in the last 10 years, so Japan was worried that Kaifu's postponement might cause a misunderstanding in the relevant countries. Nakayama also carried a letter from Kaifu to heads of state of these Middle East countries explaining the reasons and asking understanding. Another purpose of Nakayama's Middle East visit was to ascertain the actual situation and obtain

"firsthand information" on the specific requirements of these five Middle East countries, so as to work out a program for economic and technological assistance, and to make preparations for Kaifu's Middle East tour in October. Apart from this, through Nakayama's visits to the five countries, Japan wished to explain its stand on Iraq's invasion of Kuwait and to express its willingness to provide funds for countries suffering economic losses as a result of sanctions against Iraq, particularly for Turkey, Jordan, and Egypt.

As a matter of fact, the Japanese Government's feelings are complicated with regard to the current Middle East crisis resulting from Iraq's invasion of Kuwait. On the one hand, Japan is following the United States in supporting the UN resolution on carrying out economic sanctions against Iraq and Kuwait [as published], apart from having feelings of embarrassment that are hard to mention. On the third day after Iraq's invasion of Kuwait, Japan announced a four-point measure for economic sanctions: It forbids oil imports from Iraq and Kuwait; it forbids exports to Iraq and Kuwait; it has stopped its investments in, loans for, and other fund exchanges with Iraq and Kuwait; and it has frozen its economic cooperation with Iraq. Prime Minister Kaifu has on many occasions directly telephoned U.S. President Bush expressing his support for the stationing of U.S. troops in Saudi Arabia and U.S. economic sanctions against Iraq. Japan has made it clear that it will provide funds for the relevant countries, including the United States. Due to restrictions of its Constitution, Japan cannot dispatch military personnel to foreign countries. The Japanese Government is now busy formulating detailed measures for economic aid. Japan is doing this speedily, out of consideration for its own interests. If Japan had not taken a positive attitude after the outbreak of the Middle East crisis, it would unquestionably have been condemned by other countries. Japan was worried that this would result in a chain reaction and aggravate its economic friction with the United States and other countries, thus leading it into a predicament.

On the other hand, for a big oil importing country like Japan, forbidding oil imports from Iraq and Kuwait could be as bad as strangling itself. Japan's oil imports from Iraq and Kuwait account for 12 percent of its total oil imports, and its oil imports from Iraq, Kuwait, and neutral regions between Saudi Arabia and Iraq account for 16 percent of its total. Therefore, the Japanese Ministry of International Trade and Industry raised different opinions on the prohibition of these oil imports. People in economic circles "reluctantly" expressed their agreement with the government decision on imposing economic sanctions. According to statistics compiled by Japanese banks, Japan's wholesale price index rose by 0.2 percent in early August due to an increase in oil prices. According to an estimate made by the Japanese Daiwa Comprehensive Research Institute, the profit rates of various trades in Japan this year will be lower than last year's average as a result of oil price increases.

Foreign Minister Nakayama's visits to the five Middle East countries give expression to Japan's wish to display its role as a "big political country" in international affairs. But there is a need to wait and see whether his tour will coordinate Japan's relations with these countries on the question of imposing sanctions against Iraq, whether it will help strengthen its political ties with these countries, and whether it will enable Japan to increase its oil imports from other countries in the Middle East so as to cope with the crisis.

Cooperation Policy Discussed

HK1209155790 Beijing ZHONGGUO QINGNIAN BAO in Chinese 29 Aug 90 p 2

[Article by Tokyo-based staff reporter Ai Zhi (5337 2535): "Japanese Minister of Foreign Affairs Visits the Middle East To Size Up the Situation"]

[Text] Japanese Prime Minister Kaifu, who had originally planned to visit five Middle East countries, including Turkey, Saudi Arabia, Oman, Jordan, and Egypt between 15 and 27 August, altered his plan by sending Taro Nakayama, the Japanese minister of foreign affairs, to visit the aforesaid five countries because of the sudden change in the Middle East situation. The press here pointed out that Nakayama's recent trip aimed to sound out the attitudes of those countries toward the Iraq-Kuwait war and their requirements from Japan, in order to better formulate Japan's policy.

Scrutinize the Cards in the Others' Hands; Visit To Discuss Guidelines

To Japan, the Middle East is a vitally important oil supply base, with 70 percent of the oil it needs derived from that region. For many years, Japan has paid rather great attention to its diplomatic and economic relations with the Middle East to guarantee a stable oil supply, whereas various Middle East countries have attached great importance to Japan's advanced technological equipment, great financial strength, and outstanding operation and management. Public opinion here stressed that Foreign Minister Nakayama's visit to the five Middle East countries served as "a sounding tool in diplomacy" in the situation in which the United Nations has decided to exercise economic sanctions against Iraq, and the United States and other countries have dispatched their armed forces to the Gulf.

Upon his arrival in each of the five countries, the Japanese Foreign Minister Nakayama first presented a handwritten letter from Prime Minister Kaifu to explain the postponement of his visit, and the prime minister stressed that Japan would observe the UN resolution on exercising economic sanctions against Iraq and stated "Japan will make the greatest possible contributions" and would provide economic aid on an appropriate scale to various countries concerned.

Despite marked differences regarding the settlement of the Middle East dispute, the five aforesaid countries

share the view of welcoming Japan's contribution to peace in the Middle East. Therefore, the five countries made arrangements for rather long meetings between Nakayama and their heads of state, who explained the condition of each country in earnest and expressed the hope that Japan could compensate for their losses resulting from the Gulf dispute. Egyptian President Mubarak explicitly proposed that Japan provide Egypt with \$2 billion in economic aid; Jordan and Turkey also proposed that Japan provide them with voluminous economic aid. As an oil-producing country that is financially very wealthy, Saudi Arabia wanted Japan to give it support in communications and transportation, while Oman wanted Japan to provide it with long- and medium-term cooperation in industrialization and basic agricultural equipment. The Japanese press stressed that Japan also learned that the five countries expressed their understanding of Japan's basic position that no Japanese armed forces could be dispatched under the restrictions of the existing Constitution.

Report the Situation; Formulate Relevant Policy

Foreign Minister Nakayama was immediately summoned to the prime minister's office upon his return on 25 August to present the formulation and basic content of the "policy of making contributions to the Middle East" to Prime Minister Kaifu, Minister of Finance Ryutaro Hashimoto, and Kabun Muto, Minister of International Trade and Industry. It was reported that opinions of relevant ministries and agencies would be solicited on the government's draft, and it would be adopted at a cabinet meeting before its official publication. According to press reports here, the Japanese Government's draft "policy of making contributions to the Middle East" consists of three parts, namely, "cooperation with the multinational troops," "cooperation with neighboring countries in the dispute," and "increasing Japan's share of the expenditure for the U.S. Armed Forces stationed in Japan"; the Japanese press summed up the above as support in "human, financial, and material resources."

The main elements of cooperation with the multinational troops are a medical corps of 100 men, consisting of staff members of hospitals attached to national universities and national hospitals, the corps to be dispatched at any time at the request of various Middle East countries; funds, materials, and equipment, including transportation machinery, will be provided for the multinational troops, with the United States as the main body and the Arab joint forces, including Egypt; a new law will be studied in order to officially send men to the multinational troops and to participate in the United Nations peacekeeping activities.

Heated Debate Over Dispatching Troops

Presently, heated debate is under way in Japan, centering on the issue of revising the law on dispatching aid corps in case of international emergency. According to existing

law, international emergency aid corps, including medical corps, can be dispatched only when major disasters take place overseas, and dispatching self-defense troops will violate Japan's Constitution of peace. With regard to the issue of dispatching Self-Defense troops, recently the Japanese LDP, congressmen related to defense, and responsible persons of the Democratic Socialist Party have explicitly proposed "to dispatch aid corps, including Self-Defense troops," as Japanese press reports disclosed. The view of the minister of foreign affairs is that the law on dispatching international emergency aid corps should be revised before dispatching aid corps to the scene of conflict. Japan's Defense Agency has made the proposal for its participation in the international emergency aid corps to be dispatched.

In addition, on the issue of dispatching minesweepers of the Japanese Maritime Self-Defense Force, some people are openly all for it, on the grounds that, early in the Iraq-Iran War, then Prime Minister Yasuhiro Nakasone stated that, legally, minesweepers could be dispatched to clear mines on the high seas of the Persian Gulf.

News media here pointed out that the recent surfacing of the issue of Japan dispatching its armed forces overseas has roused the concern of many Asian countries. These countries that had painful experiences pay great attention to military movements of Japan, an aggressor in World War II, and an economic power today. Peace does not come easily, which should be prized all the more by everyone.

SOUTHEAST ASIA/PACIFIC

Australians Protest Military Involvement in Gulf

OW0109181890 Beijing XINHUA in English 1357 GMT
1 Sep 90

[Text] Canberra, September 1 (XINHUA)—There have been widespread protests in Australia today against the nations's military involvement in the Gulf.

Thousands of people in Sydney, Melbourne and other cities took to the streets calling for Australian war ships to be sent home, according to the Special Broadcasting Services tonight.

Australia dispatched two guided missile frigates "Darwin" and "Adelaide" with 400 men on board to join the multi-national force in the Gulf on August 13.

Wet weather in Sydney did not stop more than one thousand people from taking part in today's protesting march. Students, families and members of Arabia community along with many other protesters came together with the aim of getting Australia out of the Gulf.

They gathered outside the United States Consulate to hear speakers condemn Australia's decision to join the United States military build-up.

One of the speakers said "we have no right or reason to be in the Gulf. It is not our business. Australians should not be there."

Another speaker asked "it was on whose behalf that our government solicited a military involvement in the Gulf."

Zhu Rongji's Political Future Analyzed

90CM0384A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 221, 1 Aug 90 pp 34-35

[Article by Ho Pin (0149 7340): "Will Zhu Rongji Become China's Gorbachev?"]

[Text] Shanghai Mayor Zhu Rongji's visits to Hong Kong and the United States in June and early July 1990 touched off a whirlwind of media attention. This not only was the first visit to these places by a senior CPC official since "4 June 1989," but it also had quite an impact on Zhu Rongji's image both at home and abroad. His many meetings with senior Hong Kong and U.S. officials and businessmen, and their close coverage by the media, naturally contributed somewhat to mending the CPC's image. However, although the success of Zhu Rongji's visits abroad also furthered his political career, it seems to be too soon to predict that he will become China's "Gorbachev." In light of the unfathomable changes in the CPC's power struggle, it is still hard to predict whether he will be able to survive the attacks by its conservative faction, even though he may truly be the one on whom everyone is placing their hopes. In any event, Mr. Zhu is undoubtedly going to play a major role in the CPC's power struggle at the highest level.

The Contrast Between the "Coldness Toward the PRC" and the "Warm Reception Given to Zhu Rongji"

Although the current situation on Mainland China is subject to many latent variables, the reformers certainly do not have the upper hand, as is being rumored abroad. Having survived the critical anniversary of "4 June" with no visible harm, people like Jiang Zemin, who were appointed by "His Majesty" Deng Xiaoping as the "third-generation of CPC leaders," have awakened to the fact that the overseas democracy movement has become irrelevant on Mainland China, and have come to realize that "stability" has been won on Mainland China only through the naked power of the gun, and are naturally anxious to mend their images. Thus, Li Ruihuan has been chosen to "soothe the people's feelings" in the PRC, while Zhu Rongji is perceived as the best choice to mend the CPC's image overseas.

Although Hong Kong people are terrified at the approach of transition to CPC rule in 1997, and realized that Zhu Rongji's visit would not save them from their desperate situation, I feel that it should be noted that most of them feel no particular ill will toward him (This is related to the rumor that Zhu might be sent to Beijing to take over the State Council). Mr. Zhu publicly expressed his admiration for Hong Kong's development and his hope that it would become an example for Shanghai. He said that, "As many Shanghaians went to Hong Kong in 1949 to help Hong Kong develop its economy, I hope that some Hong Kong people will return to Shanghai in 1990 to help in the development of Shanghai." At a breakfast at the Foreign Journalists' Club on his last day in Hong Kong, he urged reporters to write somewhat more critical articles about Shanghai.

He said, "As media criticism is very important, I have had certain articles from Hong Kong reprinted in Shanghai newspapers." He also said that "I am willing to come to Hong Kong no matter what kind of a base it is." These statements made a very good impression on Hong Kong residents. Moreover, since the "Pudong Development Zone" was being promoted very successfully, he indicated that the Shanghai government would be able to fulfill its basic investment task in the next two-three years, and that the development of Pudong would be able to attract foreign investment, and hoped that it would be able to begin to use foreign investment within five years. Zhu Rongji's visit to Hong Kong increased the importance of U.S. restrictions, by showing that Hong Kong stood with the CPC on the issue of whether the United States should rescind its policy of most-favored-nation treatment for the CPC and, just as the United States could not ignore its own interests in Hong Kong, by making Americans more aware of how closely related and mutually dependent Mainland China and Hong Kong actually are.

A "delegation of mayors from Chinese cities" led by Zhu Rongji visited the United States in early July 1990. Even though these visiting mayors were only "local officials," they certainly did not tour various major U.S. cities to make contacts with municipal governments, but rather to "publicize" the new CPC leadership, solicit investment, "promote bilateral understanding," "dispel misunderstandings," and improve bilateral relations. Zhu Rongji said that the delegation of Chinese mayors carried the hopes of the Chinese people, and felt that this trip to the United States was certainly not an easy job. When he heard talk of the current trend in the United States of "warmth toward the Soviet Union," "warmth toward Eastern Europe," but "coldness toward the PRC," he felt that this did not reduce the importance of U.S.-PRC relations in international strategy, and that improving relations between the United States and the PRC would certainly contribute to world peace and international cooperation.

Although it may be said that the above sentiments expressed by Mr. Zhu certainly contained nothing new, it must be admitted that his invitation to U.S. Congressmen to visit Shanghai for "three full days of all-out talks on the human rights issue" was "extremely bold," since human rights has always been an issue on which discussion was forbidden in the PRC. Zhu Rongji also explained the particulars of Shanghai's political "status quo" as follows: Although over 1,000 people, including senior cadres who were top-level bureau chiefs, have been arrested in Shanghai since 1989 for corruption and bribery, we have detained and questioned only some dozens of academic and student leaders and organizers since "4 June," almost all of whom were exempted from prosecution and released after their cases were clarified. Fewer than 10 students are still in custody.

Zhu Rongji's refusal to discuss the workers, residents, and unemployed people who were arrested for taking part in the democracy movement, while telling only the

numbers of scholars and students who were detained, was undoubtedly a coverup. (Although he had said in Hong Kong that he hoped Wang Ruowang [3769 5387 2598] would be freed soon, this was not within his jurisdiction.) Moreover, his public invitation to U.S. Congressmen to visit Shanghai for "talks on the human rights issue," further diverted U.S. attention from the human rights issue in the PRC, and even made some people feel that "CPC officials had begun to attach importance to human rights."

Regardless of whether Zhu Rongji was sincerely avoiding embarrassing issues or just trying to shirk his responsibility, the consequent "warm reception" he was given on his trip to the United States left him with the unexpected feeling that "he had originally been more nervous about the trip than was necessary." As he thought that the "warm reception given to him" would naturally help to thaw U.S.-PRC relations, he also thought that once Americans, who were so taken with illusions and so impulsive, had relaxed their vigilance about the human rights issue in the PRC, the other Western countries would compete with each other to be the first to return to Mainland China, the biggest market in the world.

Zhu Rongji Achieved Outstanding Results in Running Shanghai

In April 1988, Zhu Rongji replaced Jiang Zemin, who was relieved as mayor and became full-time secretary of the Shanghai Municipal CPC Committee, to become the seventh mayor of Shanghai since the CPC came to power. Before this, he was a deputy secretary of the Shanghai Municipal CPC Committee for fewer than six months, and lacked local administrative work experience.

As the chief executive of a city of over 12 million people who was faced with a multitude of duties to perform, Zhu Rongji decided to make stability and public cohesiveness his first objectives in governing and developing Shanghai. He said that, since food is most important to people, securing their "food baskets" will stabilize public sentiment, after which all other work can be carried out more easily. He took a series of bold, resolute, and "careful actions" such as renovating public communications facilities, bringing order to crowded streets, reorganizing local industry, controlling water pollution in the upper reaches of the Huangpu Jiang, and improving housing, all of which were praised by residents.

Shanghai, which was once known as "the greatest city in the Orient," had not made much progress since it had fallen under the control of the CPC. Even though it had relied on obsolete equipment since the 1930's and 1940's and paid a large percentage of Mainland China's expenditures for decades, Shanghai still produced light industrial goods which were "in great demand" on markets throughout the PRC. Although a sharp change occurred in this situation after the Cultural Revolution, when SEZ's [special economic zones] were set up in Guangdong, Fujian, and Hainan, and electronics goods from

Western countries, Japan in particular, made Shanghai's goods less competitive on Mainland China's markets, Shanghai's heavy tax burden certainly did not lighten, and it continued to pay more than 12 billion yuan a year to central finance, or almost one-fourth of that paid by all provinces and municipalities throughout the PRC. Only after fulfilling this "duty" to national finance, was Shanghai able to obtain the necessary funds for its various construction projects. Zhu Rongji thought that Shanghai should be able to regain its greatness by relying on its good historical industrial structure and rich technical forces, and could make a breakthrough by setting up the Pudong EDZ [Economic Development Zone].

Zhu Rongji first went to Pudong to look into the problems involved in building the port, power plants, and other infrastructures, in addition to the big bridges. All of the first-stage preparatory work for the Pudong EDZ is now firmly under way. For instance, the two sections of the big Nanpu Bridge over the Huangpu Jiang are expected to be joined together in 1990, and first-stage feasibility studies are now underway for a fourth span across this river. The Pudong EDZ plan has won top-level support. Deng Xiaoping sent his daughter Deng Nan [6772 2809] to Shanghai in early June with a letter of invitation to Bao Yutang [0545 3768 0474] to visit Beijing. When Bao went to Beijing on 10 June, Deng indicated his hope that Bao would be able to help in the development of Pudong. Jiang Zemin's purpose in meeting with business tycoons, such as Li Jiacheng [2621 0857 6134], on a subsequent visit to Shenzhen, was also Pudong. Zhu Rongji also achieved good results in promoting his "Pudong EDZ" on his visits to places such as Hong Kong, Singapore, and the United States. In fact, the Pudong EDZ sums up Shanghai's coastal economic development strategy, and Shanghai residents are placing their hopes on this "inland SEZ." If it is developed successfully, it will become a major "official career achievement" for Zhu Rongji.

The way Zhu Rongji handled the student movement on "4 June" 1989 was convincing to senior local provincial and municipal CPC cadres. When the news of the "4 June" massacre reached Shanghai, all Shanghai residents were filled with grief and indignation, which led to the subsequent incidents of a train being burned at the railway junction with Guangxin Road and traffic being blocked throughout Shanghai. It is understood that, when the butchers of Beijing ordered Zhu Rongji to put Shanghai under martial law also in order to deal with the loss of control, he refused and said "I have my own way of handling the situation." He spoke to the whole city on television on the evening of 8 June, announcing that Shanghai would not be put under military control, and saying that "the true history of this matter will eventually become clear to all," which won him the "understanding" of Shanghai residents. Even though he said the next day that "the true history of this matter is already clear to all," Shanghai residents still thought that he was "with them" and "forced to say this against his will."

Zhu Rongji's Political "Foundation" Is Too Shallow

Zhu Rongji was born in 1928 at Changsha, Hunan, the site of the early "revolutionary" activities of Mao Zedong, He Shuheng [0149 0647 5899], and Cai Hesen [5591 0735 2773]. His parents' early death gave him an independent and progressive disposition. He loved to read ardently and very widely, passed the entrance exam to Qinghua University in 1947, where he became chairman of the student council, and joined the CPC in October 1949. After graduating in 1951, he did industrial and economic work for the Ministry of Industry in northeast China for a long time.

Even though Zhu Rongji was expelled from the party in 1957 for verbal crimes, stigmatized as a "rightist," and sent down to the countryside for five years of labor, from which he still suffers psoriatic strain, this still left him with a genuine understanding of Mainland China's poor. He was recognized by economist Ma Hong [7456 3163] and became director of the Research Office of the Industrial and Economic Research Institute of the Chinese Academy of Social Sciences in 1978, later served as minister in charge, vice minister, and deputy secretary of the leading party group of the State Economic Commission, and was transferred to Shanghai in early 1988. Zhu Rongji's political "foundation" is undoubtedly too "shallow" in the following ways: 1) Although he worked for a long time in the central government's economic sector, he is still an irrelevant figure among the "flock of Beijing officials," and does not seem to have had much opportunity to build up a power base. 2) He is neither a revolutionary martyr, an orphan, nor a member of a high official's family, has no relatives among the top-level leadership, and lacks a "backstage boss." 3) He has held local power for a very short period of time, has past work experience only in a functional sector of the central government, and has a yet uncertain capacity to deal with complicated situations over the long term.

Zhu Rongji is also an impulsive fellow, who publicly rebuked and put on the spot quite a few well-known and well-placed bureau-level cadres, whom no one had previously dared to offend, within only a month or two after coming to Shanghai. This was the reason why some people spread the rumor that "bureau-level cadres were facing a major changing of the guard" in Shanghai Municipality, in an attempt to join forces and "drive out Zhu Rongji." This forced him to put his original plan to dismiss certain bureau-level cadres on hold and to give the following explanation: "It seems that I have not handled certain matters well, and people are complaining about my too-impulsive temperament! Will everyone please excuse me for my impulsive disposition, which has possibly offended certain comrades." In addition, his penchant for quoting the classics to the effect that "people respect honesty, not might, and honesty is might," his unrelenting emphasis on "honest government," and his public call for everyone to keep a watch on the 506 bureau-level cadres in Shanghai made "corrupt officials" very nervous and ready to criticize both in speech and in writing his every mistake.

Shanghai is a place that produces VIP's, with two of the six current CPC Politburo Standing Committee members, Jiang Zemin and Qiao Shi, coming from there. Shanghai produced Chen Yi in the 1950's, and sent forth Wang Hongwen [3769 3163 2429], Zhang Chunqiao [1728 2504 2890], and Yao Wenyuan [1202 2429 0337], three of the armchair commanders of the gang of four in the 1960's. Will Zhu Rongji be able to rise as a political force from Shanghai? Although he now enjoys political favor, is the only local official among provincial and municipal cadres throughout the PRC who is both a party committee secretary and a chief executive, and is one of a handful of Communists who stand out among CPC officials both at home and abroad, these are precisely the factors that have him on the brink of a personnel vortex, and explain why his official career prospects are so bleak and certainly not deliberately exaggerated. If Zhu Rongji is truly the one for whom everyone has been waiting (waiting for a "Gorbachev" to appear in the PRC should not be criticized merely as a cynical idea, because Gorbachev-style peaceful evolution is, after all, a way to reduce the people's suffering), then I would like to call out a warning to him here and now to "Be very careful!"

Political Aftermath of Tiananmen

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[Article by Li I (2621 1837): "Conversation Between Su Xiaokang and Weng Songran—Democracy in Mainland China; Why Is the Road Becoming Narrower and Narrower?"]

[Text] Deng Xiaoping was attacked from two sides. After he suppressed the democratic movement, he disrupted the progress of the reform which had been very hopeful. The Communist Party faced a crisis in its rule.

The key in the future lies in whether or not Jiang Zemin is able to take over and reorganize Zhao Ziyang's former subordinates. Only when the old people pass from the scene, local forces rise, and moderate and rational elements inside the party emerge and gain ground can reform reassert itself.

Li I: At the moment Mainland China seems to be extremely undemocratic. But through what stages will China have to pass to emerge from the present state to reach the stage of real democracy? What strength will it have to rely on? From the recent understanding of the circumstances of Xu Jiatun's [6079 1367 1470] leaving the country we seem to have become aware that in the past we have all along overlooked the healthy strength inside the Chinese Communist Party. On the one hand, any one who is in power, regardless of whether he is progressive or conservative, has the responsibility to maintain social order, and from what we have seen on the side of the maintenance of the original structure, at least on the surface those in power are all alike. On the other hand, since the Chinese Communist Party has

grasped in its hands all the resources, if an intellectual wishes to display his role it seems inevitable that he must go into the structure, as the example of Chen Yizi mentioned by Su Xiaokang. Chen was sent down to the rural area for a period of 20 years. He personally experienced the bitter conditions of the Chinese peasant masses and he realized that the most effective way of changing the predicament of the Chinese peasants was to go into and join the structure to influence the policy-making level to change rural policy. He has done this. Xu Jiatur's leaving has made us think that inside the Chinese Communist system is not like a smooth steel plate, but that, aside from Xu Jiatur, there are still many Chinese Communist progressive elements who are unable to accept the facts of the suppression by brutal military force of "4 June." Among them, some have already gone abroad but have kept a low profile to wait for the opportunity to return to the Chinese Communist system. For example, take the case of Zhao Fusan [6392 1788 0005], vice chairman of the Academy of Social Sciences, recently expelled by the Shanghai's People's Congress. He was openly removed from his post by the Chinese Communists, but so far I have not seen that he had made any critical statement of the Chinese Communist regime when he was abroad.

Why Was Zhao Fusan Dismissed?

Su Xiaokang: His situation was like this: He led a delegation to Geneva to attend a meeting of UNESCO. He then fled. At that time, he said only a word expressing his extreme regret about the incident that had happened in Beijing. After that he never spoke again.

Weng Songran [5040 2646 3595]: I feel that just because of this single word, the Chinese Communists caused the Shanghai People's Congress to make a decision accusing Zhao Fusan of having attacked the Chinese Communists when he was abroad. This really lacked reason. Why did the Chinese Communists act so clumsily?

Su: After Zhao spoke out, he felt that he could not return. In the capacity that he occupied he would certainly be censured on return. More important, his words had greatly influenced members of the whole delegation, many of whom uttered even more violent words and would not return. Zhao Fushan was not only the leader of the delegation but also vice chairman of the Academy of Social Sciences. He decided to stay on and refused to return. He did not seek political asylum, but the Chinese Communist authorities felt that such an important personage should not be allowed to remain abroad and resorted to various channels to persuade him to return. He refused. The more he was asked to return, the firmer was his determination to remain abroad. He knew the Chinese Communists too well. But if he would not return, how would the problem of his status be solved? In the end he could only seek political asylum. Naturally, his seeking of political asylum was not made known publicly but it was easy for the Chinese Communists to find out. This was the fundamental reason for his dismissal and expulsion.

Weng: People like Xu Jiatur and Zhao Fushan know the internal conditions of the Chinese Communist regime too much and too well. Once the Chinese Communists made a clear line of demarcation between them, and since they would not return would it be possible some day for them to expose all they know?

Su: Not possible, unless their lives were threatened.

Li: Basically, they are people faithful to their original belief and to the Communist ideology. They felt they could not stay in the mainland only because they felt that the "4 June" affair violated their beliefs and also violated the morals and ideology of the Communist Party.

Su: The likes of their kind of people are more or less similar to myself, and all of us have supported the reform. The essence of the "4 June" affair was that the reform clique was censured. Chen Yizi has all along stressed this point.

Jiang Zemin Wishes To Take Over and Reorganize Zhao Ziyang's Former Subordinates

Weng: According to today's papers, Deng Xiaoping wishes the Politburo to speed up the settlement of Zhao Ziyang's case. How do you look at it?

Su: I believe that this is Deng Xiaoping's important step to solve this sore spot of the "4 June" affair. Solution of this problem is related to the general situation of domestic power. This is because the key problem in the power structure is that Jiang Zemin must take over and reorganize Zhao Ziyang's former subordinates, otherwise he will have no power at all in the party and in the State Council. And liberating Zhao Ziyang is an important step for Jiang Zemin to take over and reorganize Zhao's former associates. By so doing, Li Peng will strenuously object. Nevertheless, in the main all depends on Deng Xiaoping. As we see it now, Deng Xiaoping is probably determined to do so.

Weng: Is Yang Shangkun really ill or is he suffering only from political sickness?

Su: This I do not know. However, over the past 10 years Deng Xiaoping has been the originator of the CPC's reform. The new structure of the reform manipulated by Deng Xiaoping and the original and old structure of the CPC are in conflict with each other. Deng Xiaoping must strive for the forces inside the party to support his reform and Yang Shangkun is an extremely important person he relies upon. Yang Shangkun himself has no power in military circles. Historically he has served only as the general secretary of Central Military Commission of the Seventh NPC [National People's Congress], and earlier he served as the political commissar of the 3d Route Army under Peng Dehuai. Outside of this, he had no other experience. Deng Xiaoping sought him out to become the secretary general of the Military Commission, followed up with making him the vice chairman of the Standing Committee of the Military Commission, letting him build up his influence in military circles and

in reality making use of him to make the armed forces become a pillar of support for Deng Xiaoping. This is extremely important. Yang Shangkun supports Deng Xiaoping with his full force. Hence, in the demarcation inside the Chinese Communist Party between the forces of reform and of the conservatives, Yang belongs to the side of reform. The reform group was the victim of attack from two sides. The conservatives blamed the reform for steering the general situation to the worse side, while the populace was dissatisfied because of corruption among the officials and currency inflation. Under such conditions, democratization in the mainland grew rapidly and the Communist Party was urged to push political reform. All this was unavoidable. On the economic side, because of impediments caused by the conservatives, Deng Xiaoping's reform could not make any headway. Specifically, if a further step in economic reform is to be made then the public ownership system must be changed. But, in the opinion of the conservatives, to do so would in reality be turning to capitalism. As a matter of fact, Deng Xiaoping's reform is undertaking capitalism under the "four cardinal principles." The force of pressure brought to bear on the reform clique by the democratic clique was to carry out reform of the political structure and in reality was the demand of abolishing the "four cardinal principles" and purely and simply resorting to capitalism. In Deng Xiaoping's opinion, doing away with the four principles would cause a split within the party, and is thus absolutely out of the question. The "4 June" suppression was in reality the work of the reform clique and was Deng Xiaoping's work. Chen Yun and his group saw this point clearly and their own hands had no stain of blood since the conservatives had no part in the suppression. For this reason, Chen Yun demanded an early concluding statement on the "4 June" affair, "lest after our death the whole blame would be put on us." The result is that at present the situation has turned like this: The conservative clique utilized the reform clique to suppress the democratic movement and, following up, they are hoping to make use of the grumbling sentiments of the populace to remove the reform group.

Deng Xiaoping Currently Attempting To Dissolve the People's Grumbling Sentiments About the "4 June" Affair

Weng: This time Deng Xiaoping has no more cards to play. In the Wei Jinsheng affair in 1979 he made use of the democratic forces to remove the opposition clique and turned back to suppress the democratic forces. This time, after suppressing the democratic movement, he has no more cards to play.

Li: The 1988 price reform played a key role. Its failure was a great setback to him. Well now, on the optimistic side what will be the development from now on?

Su: In my opinion, if Deng Xiaoping still lives on, then for his own sake, he should continue to push reform. But now, due to the "4 June" affair, it has led to the Communist Party losing its legitimate character. At

present, the question is not whether there is reform, but is whether the Communist Party can continue to exist and legitimately rule the land. If he continues to suppress the air of dissent and antagonism caused by the "4 June" affair, then after his death the country will collapse. Now all he can do is to yield slowly, but this will bring a return to the original problem and that is continuance of the struggle with the conservatives. If Deng Xiaoping can in his lifetime pave well the road back to the situation before the "4 June" affair and make the necessary preparations, including both personnel and theoretical matters, then he can still obtain a positive historical assessment.

Li: How to turn around? It was his own doing.

Su: He himself will not wholly turn it around, because in the last analysis "4 June" is a burden for him to bear and he was the chief culprit. He himself would not announce the reversal of the verdict on Tiananmen Square. But now in reality he is doing the preparatory work for reversal of the verdict on this affair and he may be knowingly or unknowingly doing so.

Weng: According to this analysis of yours, how do you look at the future of people of the democratic movement who are now abroad? Is the chance large or small of their playing a new and sizable role?

Su: Although I am a director of the democratic front, yet of the whole democratic movement abroad there is only this branch of the democratic front. Speaking of the entire democratic movement abroad, it has become very radical in character due to the "4 June" affair. There is talk of the use of brutal force, attacking the Communist Party, and so forth. Conditions of this kind have rendered people like us who are more cool-headed speechless and there is no way to argue with them. I have already met with many such uncomfortable occasions and we have been harshly criticized and cursed by them. We could do nothing. I am more concerned about the situation in the mainland. The mainland still continues under the cruel yoke of suppression; you can imagine the anger and hate of the people. The radical situation there is worse than that abroad. If such sentiments continue to be suppressed and crushed for long, rationality will become weaker and weaker and people who hold moderate views will have increasingly less support from the populace and reform by moderate means will all the more lack motive power and resources. This is what I feel most pessimistic about.

Li: Yet, did not you say just now that presently Deng Xiaoping is knowingly or unknowingly doing his bit to solve the hate and resentment caused by the "4 June" affair?

The Dispute About Who Ordered "Open Fire" Will Cause a Great Collapse

Su: Now we can see what the Chinese Communists have done. First, of the people of the democratic movement they had seized, if they belonged only to the category of

students and intellectuals, they did not dare to pass any sentence. Without being sentenced, those people would be a burden on the regime and with the outside making much about it, the regime had to release the captives one after another. This was a great failure by the regime. Second, they have begun to quarrel over the question of whether the order to open fire to kill should have been made. In the past, how was it possible to go into this problem? And once it were talked about there would be a great collapse and it would have caused a great disturbance and discomfort to the PLA [People's Liberation Army]. Moreover, the rise of such a dispute would be equivalent to negating the need to open fire. And who would say that opening fire was right and proper? By so doing, the responsibility for ordering the open fire would be investigated and who, after all, had issued the order to open fire? In this connection, I think they could find a way out and this would be to find a scapegoat to take over the responsibility and thus let Deng Xiaoping be exonerated. As a matter of fact, Deng Xiaoping had a place of retreat since there was no definite proof that he had issued such an order. By so doing the possibility is that Yang Shangkun would be the scapegoat and be sacrificed, because in the end he gave the order.

Weng: As a matter of fact, is it at all clear who definitely gave the order to open fire?

Li: What I heard was that, at the time, the directive of the Military Commission was "Enter the square within the time limit and complete the mopping up work, regardless of the cost." The last phrase was interpreted to have the meaning of an order to open fire.

Su: Traditionally, the Communist Party made two-way preparations. One was to talk and the other was to fight. In the beginning they did make an effort to talk and to negotiate. Yuan Fu [5913 2606], Li Tieying, and Yen Mingfu [78051 2494 1788] all had a talk with the students while finally Li Shuhuan [2621 3843 3883] also had a talk with Wuer Kaixi. On 16 May, when Zhao Ziyang met with Gorbachev, he revealed Deng Xiaoping's real status in the party. On the 17th, Deng Xiaoping called a meeting of the old personages. His first words were "Is there a retreat for us?" His idea was to secure the support of the conservatives to do the suppressing. He felt that "Zhao Ziyang had already gone too far. If I should retreat further then the whole situation would crumble." Once he dispelled the idea of further talking and decided to use force then it embodied the idea to kill. In the talk on 25 April he said that he was not afraid of "the shedding or flowing of some blood." This embodied opening fire. Hence, here may be found the responsibility to stop talking and the decision to use brutal force and open fire. Therefore, although today Deng Xiaoping is willing to resolve this affair and to find a scapegoat, in the end he must still bear the whole responsibility.

A Minor Detail About the Order To Open Fire

Li: Aside from the words said on 25 April to the effect that he was not afraid of the "shedding of blood," on 9

June after the affair Deng appeared before the units responsible for execution of the curfew and this was an indication of his idea to take responsibility for the event.

Su: In the midst of the events there was a minor detail. It was that only later were cartridges and actual ammunition issued to the armed forces; this had not been done previously. The idea of not issuing any bullets and cartridges was that the armed forces were ordered to use brute force, but not of the kind to kill. But, since the Communist Party did not have the ability to suppress peacefully, this objective was not achieved. In the past, they had not thought of such a need and this time they were taught a lesson. Upon deciding to use force, they found that they lacked the tactics of peaceful suppression; in the beginning, a small force was sent in without bullets in their weapons, but this small force was beaten back by the populace and suffered many casualties.

Besides, a large army, 300,000 strong, was more or less blocked on the city outskirts. That could easily give rise to problems and the higher-level officers and generals of the forces were greatly perturbed since at such a crucial moment poor handling might topple the entire communist regime. So far as Yang Shangkun was concerned, this was a huge responsibility. He must as soon as possible take over and occupy Tiananmen Square. At the time, those on the front line of command were Yang Shangkun, Qiao Shi, and Li Peng. The forces on the front were waiting for their orders. On the evening of 3 June, after the first batch of forces had been beaten back, the several people on the front line of command did not speak, but Yang Shangkun spoke out: "It seems that I shall be the person condemned by history." Forthwith bullets and cartridges were issued to the forces and an order was issued to the frontline forces: "Open fire toward the sky, disperse and drive out the masses." While the order was so worded, in reality there was no method to keep control and in the end the gunfire was directed at the masses. However, Yang Shangkun still kept some ground for relief. In the future, if ever he has to appear in court to face the charges he could offer the excuse that his order was to open fire toward the sky.

All along I have been thinking of explaining a problem. It is that, in the training of the armed forces, field armies are given no ability to quell riots. If they are assigned to put down a riot, it is tantamount to asking them to go to war. Moreover, these forces consisted mostly of new soldiers who had never been engaged in actual warfare. They themselves were afraid to a certain extent and would shoot at people aimlessly.

Weng: The whole error may be traced to the fact that from the beginning there had been no consideration at all of the possibility of really conducting talks.

Deng Could Press One of Two Switches: "To Talk" or "To Kill"

Su: I feel that we cannot put it this way. In the beginning Deng Xiaoping still thought of the problem of conducting talks. On 29 April he called together several

members of the Standing Committee of the Politburo and said that they could not give way or retreat. He mentioned the workers' union of Poland, that they still had an army of three million, that they should not be afraid of sheding some blood, and so on. Finally, however, he said that the concrete problem should still be handled by the Politburo and by the members of its Standing Committee.

After the appearance of the editorial on 26 April, a big parade was conducted on the 27th. The students carried the banners of "supporting the four cardinal principles," and "supporting the Chinese Communist Party." This scared Deng Xiaoping and his colleagues. Deng Xiaoping left Beijing and made two-way preparations. At the time Zhao Ziyang was in North Korea. Did he not affix his signature on the editorial of the 26th condemning the student movement as being riotous in character? Yet why did he indicate his opposition on his return? This was all Deng Xiaoping's idea. He allowed Zhao Ziyang to use peaceful means to effect a settlement and solution, but he himself made arrangements to dispatch armed forces. Thus Deng Xiaoping had two switches for him to tap: one was for "talks" and the other was "to kill." The problem was that development of the situation would determine which one of the switches he would tap. Subsequently, the students went on a hunger strike and also occupied the square, both of which caused him to lose much luster, so to speak. And the final determining cause was that Zhao Ziyang literally gave him away. As a result, he decided that there would be no more talk and he tapped the switch to kill.

Weng: About this explanation of yours, I am still a little doubtful. If on the 25th it was said that there could be no more retreat nor any more concession, what would be there to talk about?

Su: This was what he said; he was giving a deadline. At the same time, there could be different ways "to talk." In talking, it could be categorically acknowledging this to be a patriotic democratic movement and it also could have the aim of using talks to find a solution or dissolution, that is, dissolving the movement. His deadline or bottom line was not to recognize this as a patriotic democratic movement. But his error was that he had too early branded this as a riotous movement. Subsequently the students also saw clearly and demanded the authorities to renounce the editorial of 26 April. However, Deng Xiaoping's bottom line was that he could not acknowledge this to be a patriotic democratic movement. This made it very difficult for Zhao Ziyang, because he could not obtain coordination from the students.

Weng: Here there are also many knotty points. For example, Yuan Mu talked several times and each time the talk was of a flaming character.

Su: This was where the conservatives did the inciting work. In the beginning it was Li Ximing and Chen Xitong who made a report to Deng Xiaoping which made the latter believe that the students were rioting.

When in the parade on 27 April the students displayed the banner of "supporting the Communist Party," Deng repented for a moment but, being a believer basically in despotism, he could not negate himself and thus damage his own prestige. Nevertheless, he did allow Zhao Ziyang to try the method of peaceful settlement. Unfortunately, among the students there were no leaders who could influence the student crowd in Tiananmen Square to leave or to stay and who could talk with the authorities and reach an agreement. If Zhao Ziyang had managed to effect settlement by peaceful means, Deng Xiaoping would not have to tap the switch to go on with the brutal suppression.

"4 June" Disrupted the Progress of the Reform

Li: This suppressive measure could very well suppress the reform movement in Mainland China.

Su: "4 June" made people regret that it had disrupted the progress of a most hopeful reform in Mainland China.

Weng: This was because Deng Xiaoping thought himself to be a reformer and his own feeling was that he should not have been the object of attack in the student movement. Since the arrow of the attack was pointed at him, he naturally thought it to be a rebellion.

Su: He was attacked on two sides, from the conservatives and the democrats.

Weng: From ancient times up to now and both inside the country and abroad all reformers have been attacked from two sides—attack from the conservative forces and attack from the progressive group. If you are a reformer, you should have this understanding and this preparation.

Su: I think he has such an understanding, but he also has a last defense line and this is that the reform should not bring about the downfall of the Communist Party. He precisely has such sentiments of fear. Because of this I have likened him to be like the empress dowager of the former Manchu dynasty. The empress dowager of the Manchu regime feared that the reform movement of 1898 aimed at the downfall of the Manchu dynasty. This was an entirely wrong conception of the 1898 reform movement.

Li: As you see it, what will follow is that a large number of cadres who had followed Zhao Ziyang in the reform will be taken over and regrouped by Jiang Zemin?

Su: Definitely, this is the case but even though Jiang Zemin has taken over and regrouped the cadres, he will still have difficulties because they do not have the Army's support. Yang Shangkun is in a great dilemma. He has become increasingly aware of his having to bear the historical burden. Through 10 years of operations in the reform, the Army is basically held in his hand. The Yang family, for the preservation and protection of family interests, have firmly resisted the efforts to reverse the verdict of the "4 June" affair while they themselves originally supported the reform.

Weng: Was the Army originally in support or in opposition to the reform?

Su: Basically opposed to. In the mainland, the Army is the most conservative. In the armed forces, with the exception of the young officers, it is very difficult to find anyone who is a reformer. In the economic reform, the armed forces can fully cooperate with Taiwan merchants and Taiwan capital, do business with them, and set up enterprises with them, and can talk in terminology of economic reform. However, so far as the political attitude is concerned, the armed forces are conservative. For example, they are entirely unaccepting of such talks as nationalization of the armed forces and the increased dwindling of the status and role of the armed forces in society as a whole.

Chinese Communists Are Anxious To Solve the Crisis of Their Ruling Power

Li: What will be the process of the future democratization and modernization?

Su: In my opinion, for the time being we can hardly talk about these problems. In the future, what the Chinese Communists are anxious to solve is the crisis facing their domination and rule. At the moment the Communist Party is no longer greatly able to legitimately govern, or are more or less like the KMT. The Communist Party is no longer able to principally guide an important trend of development and merge other political forces to carry out the reform.

Weng: Not possibly so; the whole party need not fall down; a scapegoat can be found. Is this not so?

Su: This will depend on how Deng Xiaoping handles the issue. The party must carry responsibility for this affair. If Deng Xiaoping had not directly dipped his hand in the matter, it would be easy to find a way out for him and for the Communist Party such as finding a scapegoat. But Deng Xiaoping was the final person to take up the responsibility and hoping that he would pave the way to solution of this affair is comparatively difficult. In giving a little now, he was principally forced by the pressure of international society. As a whole, the Chinese Communists have not changed their attitude toward the "4 June" affair; nor have they continued the reform. With Zhao Ziyang's staff and cadres having been removed from office, the economic reform work has been in no one's hands. For a time, Li Peng thought of using planned economy to save the situation, but the result was that the situation worsened. More recently, according to a report by the CIA of the United States, Mainland China's economy is on the verge of collapse. Deng Xiaoping's wishes regarding the economic sector are to obtain certain foreign capital or investment so as to effect a blood transfusion to the structure and keep it alive. If he should wish to undertake economic reform anew, then this would be related to the problem of Zhao Ziyang. He cannot negate Zhao Ziyang altogether. What he hopes in solving Zhao's problem is that Jiang Zemin

may make use again of Zhao's subordinates in the reform and thus continue the reform.

Widening of the Field of Activities for the Localities

Weng: As for the words spoken by Zhu Rongji in Hong Kong, how should they be interpreted?

Su: There is another side to this. At a time when the central government appears helpless before the entire economic situation, the field is widened for activities of the localities. Guangdong, in particular, wishes to maintain its present status. As for Shanghai, because of Jiang Zemin's relations with the central government, it has suddenly obtained the power of autonomy which had been denied to it before. Shanghai now wants to negotiate directly with the outside. Hence, the rising influence of the localities is one way to solve the despotism of the Chinese Communists. Mere dependence on civilian strength is not workable, because a citizens' society has not been formed and democratization has no resources.

Weng: From beginning to end I am of the opinion that, when you talk about the strength of the localities, you must at the same time consider the armed forces.

Su: Originally, the situation in the 10 years' reform was like this: The armed forces in Guangdong basically were integrated with the local government of Guangdong. Because of economic interests and the disbandment of soldiers they could not be separated from the local government. The central authorities did not give much money to the armed forces and the latter literally did not have enough for their expenditures. As a result the armed forces in the localities were in collusion with the local government. This could be said to have been a good development. But a large crisis confronted the armed forces after the "4 June" incident. Deng Xiaoping reshuffled the heads of the various armed forces and military power was again retracted to the central government. As a result, this caused a disruption in the process of localization of the armed forces in the 10 years' reform. Naturally, the lower levels of the armed forces could not be deeply affected. Still, a change in the commander and the political commissar could very well slow down the localization process.

Weng: With the military power being withdrawn by the central authorities, if only Deng Xiaoping could command as usual then there would be no problem, but if Deng Xiaoping should die or become unable to take command, then could the armed forces be returned to the fold of the central government? If not, then there would be again collusion between the armed forces and the local authorities and this would be particularly so in the coastal provinces.

Su: Naturally this is a problem. However, Yang Shangkun has done one important thing. Recently he promoted a large number of generals and Army leaders of high rank who had taken part in the "4 June" suppression. The political life of these people is now hinged on the "4 June" affair. If there is ever a reversal

of verdict concerning the "4 June" affair, then they will lose their jobs. For example, the personnel in the Guangzhou Military Region had no hand in the "4 June" affair. Now personages related to Yang have been transferred into the region. This will make it rather difficult for them to collude with the local authorities. Or, on certain cases of substance, they may go into collusion, but once it comes to a political problem this will not do, unless he [Yang?] has been removed. This problem is an extremely complicated one. As Deng Xiaoping sees it now, the only strength for the maintenance of the current regime comes from the Army. Nothing else is available. There is no more attractive power; ideology is lacking and the populace has lost its heart in the regime. All depends on the armed forces and Yang Shangkun must be allowed to take charge of them. At the same time, both Deng and Yang must be held responsible for the "4 June" affair. How would you handle the situation? Thus, the strength of the conservatives cannot be underestimated.

Two Variables in Getting Off the Narrow Road

Weng: Let us return to the topic of economics. Although the CIA's report described China's economy as being on the verge of collapse, yet another way of describing the situation is available: Currency inflation in the country has been kept to below five percent; commodities in inventories can still maintain supply for a period of time. The Chinese Communists have in their hand the resource of buying time. The people's standard of living may fall slightly, but is after all stabilized. The rank-and-file populace will not talk with you about politics. There does not exist any force challenging this political power and for this reason the regime should be able to survive.

Su: Such an economic situation may perhaps be maintained if there is no political crisis. The problem is the air is full of political crisis. The ugly part is that not only the democratic clique is offering a serious challenge (although temporarily it has gone abroad) but the conservatives have also seriously challenged the regime.

Weng: Leaving the conservatives and the oldsters behind the scene aside, who are now doing the hard fighting work?

Su: Yao Yilin and Li Peng. Both are strongly entrenched in the State Council and have grasped everything in their hands. Jiang Zemin could not dip his hand in. As for the party, Jiang is gradually taking control. Li Shuhuan is in a dilemma. He is opposed to Li Peng's ideology and at the same time is now the object of attack by the oldsters. Under such circumstances, two things may happen. One regards the life expectancy of the oldsters; if only one of them should die, then the whole situation could be affected. The other possibility is the rise in the power of localities.

Weng: When the oldsters of the conservative clique forced Deng Xiaoping to make a conclusion of the "4 June" affair, did they have in mind making Deng solve the case of Zhao Ziyang?

Su: As for the case of Zhao Ziyang, it seems that the Chinese Communists wish to separate Zhao Ziyang from the "4

June" affair. They can well say that Zhao did not take any part in the rioting and by so doing solve Zhao's problem, and at the same time avoid making a conclusion for the "4 June" affair. Thus, they can well put the responsibility for creating the rioting and disturbance squarely on the shoulders of those of us who have fled abroad.

Li: Will there be any more chance for the reform?

Su: Only when the rational and moderate elements inside the party once more appear on the scene can reform make a start again. Only when there is such a start can there be an opportune moment to push society along.

Weng: In taking over and regrouping Zhao Ziyang's men, Jiang Zemin was in coordination with his words about reform and opening to the outside world. After Zhao Ziyang's associates have been repositioned, cooperation is possible from those on the democratic front abroad who originally surfaced in the front. Verbally, the conservatives have not voiced any opposition to the reform and opening to the outside. This may change the situation a bit and enable the reform to go on with the show.

Su: The show will have to be a well-performed one. As we see it now, Chen Yun has played his hand well. People say that he will soon become a master artist in the game. On the surface, he has shown no opposition to the reform, but he caused impediments almost at every turn, including the placing of personnel. This caused Deng Xiaoping to find it difficult to proceed smoothly with the reform. This is because for a long time egalitarianism has reigned supreme in the mainland and if you add the breakdown of the system of public ownership, the risks involved can well be imagined.

Waiting for Emergence of the Forces of Reason and Moderation

Weng: About one of the variables mentioned just now, the effects will be tremendous whichever of the oldsters should die first. When deliberating on our problem, we should consider that anything may happen tomorrow and on that basis estimate what will happen next.

Su: I think the conservatives are now stepping up their power of control. For example, now they want to hold tight to Li Peng while Deng Xiaoping wishes to have Li Peng climb down. For example, he made such moves as promoting Zhou Jiahua and having Zhu Rongji transferred to Beijing, and so on. But he was thwarted on each attempt, on account of opposition by the conservatives. The method now is through solving the Zhao problem, to allow Jiang Zemin to take over and reorganize Zhao's former associates and thereby shake Li Peng's control over the State Council.

Weng: Will Jiang Zemin succeed in taking over the reorganizing Zhao's former aides? If he succeeds, then there will be increasing conflicts between Jiang Zemin and Li Peng, and what move will the armed forces make?

Su: Is it not true that in the armed forces they are chanting everyday about unity being strength. This indicates that in reality in the armed forces constant conflicts have been going on. Those who have quarrelled most are officers of the regimental rank, since they are mostly young officers and their way of looking at the "4 June" affair is greatly influenced by the general public.

Li: Let us sum up now. According to what Su Xiaokang said, since "4 June," inside and outside the country the attitude toward the Chinese Communist regime has changed to be violently against it. Thus, to change this regime, a revolution is needed. However, first, we cannot find any existing conditions for a revolution, and, second, we are not in favor of the brutal facts of revolution, since this may mean the exchange of one brutal regime for another. This being the case, if China mainland must adopt moderate and rational methods in the advancement to modernization, what difficult knots are there to untie?

Su: In my opinion, we must have the emergence of the moderate and rational elements of the Chinese Communist regime. And to have such elements make their appearance it is necessary that those in power now feel that there is a way to retreat on the "4 June" problem. For example, if the Chinese Communists can effect a just and fair settlement of the "4 June" problem, will the democratic elements inside and outside the country allow them to reform or will they insist that the regime must go and end its rule? If those in power in the Chinese Communist regime feel that there is no retreat, then there seems to be no opportunity at all for the moderate and rational elements to emerge.

Bourgeois Liberalization Seen Opposed to Socialism

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[Article by Wu Fangzheng (0702 2455 2973) and Yang Zhongwen (3568 1813 2429): "Metaphysics and Bourgeois Liberalization"]

[Text] Opposition to bourgeois liberalization is a serious and enduring class struggle in the ideological and political field. The bourgeois liberalization trend of thought is irretrievably linked to metaphysics in its methodology. Analysis of the relationship between the bourgeois liberalization trend of thought and metaphysics is not without benefit in conducting struggle against bourgeois liberalization. This article assays the inevitability and the manifestations of the link between the bourgeois liberalization trend of thought and metaphysics, as well as explores how to eliminate the metaphysical influence of the bourgeois liberalization trend of thought.

I

Bourgeois liberalization is a strict political concept. It is a political trend of thought that stands in opposition to adherence to the four principles, that is, it opposes the political trends of thought of adherence to the socialist

road, adherence to the people's democratic dictatorship, adherence to the leadership of the party, and adherence to Marxist-Leninism-Mao Zedong Thought. Following the smashing of the gang of four, it appeared in China as an accompaniment to the breaking of the fetters of the "leftist" trend of thought and the institution of reform and opening to the outside world after entering the new era of socialist modernization. Its precise meaning should include three levels, as follows:

First, bourgeois liberalization is directed against the four basic principles. Bourgeois liberalization may be defined in terms of whether or not it opposes the four basic principles. If it does not, it is not bourgeois liberalization.

Second, the bourgeois liberalization issue is one that is political in character. China is founded on the four basic principles. The country's socialist character is completely set from its socioeconomic foundation to its superstructure. Adherence to the four basic principles has been the basic support that has enabled China to follow the socialist road for realization of the magnificent goals of the four modernizations. The danger from bourgeois liberalization lies in its opposition to the four basic principles. This is not only its ultimate goal, but its fundamental substance. In the final analysis, it seeks a complete rejection of the socialist system, replacing it with a capitalist system, thereby reducing our country to the status of a vassal to Western capitalism. Therefore, the bourgeois liberalization issue is no commonplace issue of ideological perception, nor is it an ordinary bourgeois academic point of view issue, but rather it is an issue of reactionary political character.

Third, bourgeois liberalization is a trend of thought that is often expressed in a definite theoretical form and frequently appears in the guise of anti-"leftism" and talk about reform and opening to the outside world. However, its theories contain no new ideas; they mostly follow and espouse some ready-made theoretical concepts of the Western bourgeoisie. Since the bourgeois liberalization trend of thought is expressed in certain theoretical terms and is a theoretical concept rather than just disparate erroneous opinions, and although those who practice bourgeois liberalization are extremely few in number, their influence is rather wide. Because the bourgeois liberalization trend of thought mostly follows and espouses some ready-made theoretical concepts of the Western bourgeoisie and appears in the guise of talk about reform and opening to the outside world, it is easy to confuse it with research that borrows from Western bourgeois theories and with theoretical discussions about reform and opening to the outside world. It is necessary to distinguish accurately the character of the two.

Marxism-Leninism-Mao Zedong Thought are rigorous scientific systems; they are the unity of a world view and methodology. Therefore, the bourgeois liberalization trend of thought is bound to oppose dialectical materialism. Dialectical materialism is a science about integration and development. It is a scientific method that is diametrically opposed to the metaphysical methods of

looking at issues in isolation, statically, and one-sidedly. Consequently, it has become a basic method we use to analyze problems. Those who espouse bourgeois liberalization oppose the forms of expression and the methods of dialectical materialism. Even though different in this way or that, the metaphysics that proceeds from this is an inevitable and a common logical end result.

II

The metaphysical way in which the bourgeois liberalization trend of thought expresses opposition to the four basic principles is varied. In a nutshell, it expresses opposition in 10 different ways as follows: First is the use of metaphysical development concepts to negate adherence to Marxism-Leninism-Mao Zedong Thought. A dialectic negation is a sublation that is basically characterized by the unity of its development links and its integration links. Affirmation entails negation, and negation entails affirmation. Use of dialectic negation concepts to analyze Marxism-Leninism-Mao Zedong Thought should be regarded in the same way as an analysis of anything. The unity of affirmation and negation is included in both, and in both there is a need to persist and to develop. Persistence is a prerequisite and a foundation for development, and development is a process and a result of persistence. When the dialectical correlation between persistence and development is severed, metaphysics is the inevitable result. To talk about persistence separate from development, like regarding Marxism-Leninism-Mao Zedong Thought statically, is to make a dogma of Marxism-Leninism-Mao Zedong Thought. To talk about development in isolation from persistence is to use isolation concepts to understand Marxism-Leninism-Mao Zedong Thought, and is bound to result in a rejection of Marxism-Leninism-Mao Zedong Thought. Exponents of bourgeois liberalization say that "Marxism needs development," but at the same time they also say that Marxism-Leninism and Mao Zedong Thought are "out of date" and "wrong,"¹ which is to say that it must be worked on and persevered in. Some people go so far as to slander perseverance in Marxism-Leninism and Mao Zedong Thought as a continuation of the Han Wudi's [emperor from 140-86 BC] tradition of "rejecting the hundred schools, honoring only the Confucian way." One important method that exponents of bourgeois liberalization use to negate Marxism-Leninism-Mao Zedong Thought is to use the metaphysical development concept that talks about development in isolation from persistence to oppose adherence to Marxism-Leninism-Mao Zedong Thought.

Second, bourgeois liberalization uses relative truth theory to distort Marxism-Leninism and Mao Zedong Thought, and to negate Marxism-Leninism-Mao Zedong Thought as our guide for advance. Dialectic materialist truth concepts maintain that truth is objectively and subjectively unified, and relatively and absolutely unified. The main reason truth is called truth and has value is that its content is in keeping with the laws of development; it possesses both objectiveness and absoluteness. However, there is also a subjective side to truth, and

people understand that truth is relative. We say that Marxism-Leninism-Mao Zedong Thought is truth, and we are confident that Marxism-Leninism-Mao Zedong Thought has value as a guide for progress for the reason that it is founded on dialectical materialism's concepts of truth. If we look only at the objectivity and absoluteness of Marxism-Leninism-Mao Zedong Thought, going so far as to regard each and every view of Marxist-Leninist-Mao Zedong Thought writers as being objective and absolute truth, and treating it as a miraculously efficacious panacea and immutable dogma, that is obviously to be metaphysical. However, to attribute Marxism-Leninism-Mao Zedong Thought solely to subjective, relative truth, and to deny that the basic concepts and the basic methods of Marxism-Leninism and Mao Zedong Thought can serve as a guide for our progress is also metaphysical. Pragmatic philosophy is just such a classic metaphysical example that denies the objectiveness of truth, and maintains that "what is useful is truth." This makes truth into purely "man-made" subjective truth, and it also denies the absoluteness of truth. It regards truth as being only relative truth that is situational. When exponents of bourgeois liberalism espouse plural truth as an outgrowth of pragmatism, making Marxism "one of numerous schools of thought," terming it "classic," and a political theory applicable only to the 19th century, they are actually regarding it as subjective relativistic truth. It is on this basis that they say that, after the October Revolution, the "Chinese people should not have selected Marxism-Leninism." They oppose the so-called "Chinese-style ideological model of upholding Marxism alone," and they deny the "guiding position" of Marxism-Leninism-Mao Zedong Thought.

Third, bourgeois liberalization uses a metaphysical extremist attitude, completely repudiating the use of Marxist class and class struggle concepts in analyzing problems. Class and the class struggle concept are basic Marxist concepts, and perseverance in the use of class and the class struggle concept to analyze problems is a basic Marxist method. After China's socialist transformation was substantially completed and the large-scale violent storm period of class struggle was over, there is no use denying that, in the realm of adherence to class and class struggle concepts, we placed undue emphasis on the metaphysics of "taking class struggle as the key link." After the exponents of bourgeois liberalism corrected this "leftist" metaphysics of ours, they took an extreme rightwing metaphysical view, completely denying the use of Marxist class and class struggle concepts in analyzing problems. They even espoused theoretical concepts having human nature and selfishness as their core, such as a classless "nation of all the people," a supraclass democracy that embodies "universal human nature" and a non-"class dictatorship," and laws that are "only of a social nature and not of a class nature." They repudiated philosophical party spirit, maintaining that the people's spirit was higher than party spirit in the newspaper realm, and so forth.

Fourth, bourgeois liberalization uses absolute democracy to oppose people's democratic dictatorship. The people's democratic dictatorship founded in China following victory in the new democracy revolution was actually, in terms of its character, a proletarian regime under leadership of the Communist Party. It was a form of dictatorship of the proletariat. It included democracy for the broad masses of the people, and dictatorship for a minority of hostile elements and elements opposed to socialism. It was a dialectic unity of democracy and dictatorship. Exponents of bourgeois liberalization espoused supraclass democracy in which there was "no distinction between East and West in democracy," and that was totally committed to bourgeois extreme democratization, using absolute democracy to negate the dictatorship of the proletariat. Some contrasted party leadership with democracy, slandered the party leadership as being "feudal rule," and not compatible with democratic "trends." Consequently, they wanted to "change the party's color"² and to suppress the party's leadership, changing the multiparty system of cooperation under leadership of the Communist Party into a "multiparty government."³ Some broke away from the dictatorship of the proletariat, advocated democracy in isolation, and espoused the practice of so-called "socialist democracy" that "is not the dictatorship of the proletariat."⁴ Some propagandized the elitist democracy that is in vogue in the west, advocating establishment of a minority dictatorship "elitist" government, or outright imitation of a bourgeois democracy "rebuilt republic."⁵

Fifth, bourgeois liberalization uses the democratic individualism concept to oppose democratic centralism. Organizationally, China's people's democratic dictatorship government practices the people's congress system in which discussions and actions are made to conform to each other through democratic centralism in a dialectic unity of democracy and centralization. Exponents of bourgeois liberalization regard Western bourgeois human rights concepts as the key to understanding democracy. They declare that "democracy begins with the individual," and "self is primary."⁶ Using this individualistic democracy as their starting point, they denigrate the majority principle of democratic centralism as "primitive ideas of democracy," and "group democracy concepts" that should be eradicated. At the same time, they place undue emphasis on the minority principle as being "a brand-new democratic concept," and a "principle imbued with revolutionary character." They go on to advocate a parliamentary system with a separation of legislative, executive, and judicial powers to take the place of the people's congress system in which discussions and actions are made to conform to each other, or they term centralism autocratic and dictatorial "one-way rule." They advocate practice of a plural form of rule of an absolute separation of powers divorced from centralism, such as schools being "completely independent of government."⁷

Sixth, bourgeois liberalization derives the capitalist road "complete openness" thesis from a formalistic comparison of the strengths and weaknesses of Eastern and

Western civilization. The dialectic negation concept holds that the affirmation and negation elements contained in things are the unity of opposites. In opposition to this, the negation concept in metaphysics holds that affirmation and negation are absolutely antagonistic. Either everything is affirmed, or everything is negated. The "Chinese civilization" thesis versus the "complete Westernization" thesis in the struggle between Eastern and Western civilization following the "May 4th Movement" in China was a typical metaphysical example of the formalistic analysis of Eastern and Western civilization. This analysis treated criticism in isolation from continuity, and failed to differentiate between the essence and the dregs. The "Chinese civilization" thesis uncritically praised traditional Chinese feudal civilization, and completely rejected Western capitalist civilization, with the result that a back-to-the-ancients road of cultural development that blindly opposed everything foreign was chosen. The "complete Westernization" thesis proceeded from a nihilism that rejected everything indigenous Chinese, asserting that in Chinese traditional culture "man was superior to everything." It also blindly worshiped Western capitalist civilization, and esteemed Western capitalist civilization as an "idealistic civilization." The "complete Westernization" thesis was an outgrowth of this. The "complete openness" thesis of Fang Lizhi, an exponent of bourgeois liberalization, is nothing more than a reiteration of the old "complete Westernization" refrain. He believes that "everything is backward in China's economy, politics, ethics, science, and education." Nothing can compare with Western capitalism, and everything in China is "totally" and "completely" inferior to Western capitalism. It is on the basis of such an extreme formalistic assessment that he believes that the choice of a road for China's modernization can only be "complete openness"; there is no other way. This "so-called "complete openness," and "complete Westernization" means non-interference with capitalism's "total onslaught" and "spread,"⁸ making China capitalist, and bringing China into the Western capitalist system.

Seventh, bourgeois liberalization unduly exaggerates the "convergence theory" of the identity of socialism and capitalism, and denies the inevitability of socialism replacing capitalism. Dialectical materialism maintains that the identical character and conflicting character of contradictions are antithetical and interrelated. The similarities are similarities in the midst of opposition, and the opposites are opposites in the midst of similarity. Denial of the opposite and undue exaggeration of the similarity, or denial of the similarity and undue exaggeration of the opposite are two different ways in which modern Western bourgeois philosophers distort the dialectical materialist method. Both are really metaphysical. The philosophy of struggle that the "gang of four" preached in China maintained that socialism and capitalism are not identical in any way whatsoever. By so doing, they absolutized the opposition of contradictions and denied the metaphysical expression of identicalness. The socialism and capitalism "convergence theory" that

exponents of bourgeois liberalization espouse is to make the identicalness of contradictions absolute and to deny the metaphysical express of opposites. The so-called "convergence theory" is a technical determinism popular in the West. It holds that capitalism and socialism can coexist and develop in parallel, and there is no ultimate imperative to go through a socialist revolution, but that communism can be entered through the technical revolution road. In order to prove that the two antithetical societies of socialism and capitalism can be blended, some exponents of bourgeois liberalization use a simple analogy of events to equate the socialist planned economy with the capitalist national intervention mechanism. They place on a par socialist individually owned enterprises and the capitalist private ownership system in an effort to show that socialism is tending toward "decentralization" and that capitalism is tending toward centralization, the two societies "converging." Some deny the fundamental antagonism between socialism and capitalism, unduly exaggerating the sameness of the two societies, and even going so far as to say that it is the "commonality" between socialism and capitalism that "is most important."⁹

Eighth, the mechanism of social development leads to a theory of refresher capitalism. Historical materialism maintains that the process of formation and development of human society was, in an overall sense, a dialectical unity of the universal and the distinctive. Human society developed by following universal laws, going from a low level to a high level. The classic example is that the way led from primitive society to slave society, feudal society, and capitalist society, and on to socialist and communist society. Affirmation of the universality of human social development and the typicalness of social forms does not preclude distinctiveness in the process of development of the form of society. For example, China's society did not go through classic capitalism to enter socialism. Rather, it is founded on the distinctive social forms of semicolonialism and semifeudalism, and it traveled the road of the new democracy revolution to make the transition to socialism. If universality in the process of development of social forms is regarded as a fixed model, and distinctiveness in the form of a society's development is denied, that is metaphysical mechanism. Wang Ruowang denies the socialist character of China's society and advocates a makeup lesson in capitalism, the theory for which is based on metaphysical mechanism. He said, "according to Marxist analysis of the stages of development of society, the development of all societies went from slave society to feudal society to capitalist society to socialist society. That China skipped the capitalist stage and jumped into socialism is an out-and-out subjective illusion." He maintains that the outcome of this "subjective illusion" that China took a "short cut" is nothing less than "a superficial painting the country with socialist colors," when it is "actually feudal and semifeudal." Therefore, the conclusion he reaches is that China should go back and take a makeup course in capitalism. Not only should the science and technology of Western capitalism be

imported as "hardware," but the thinking, theory, and ideology of Western capitalism should also be imported as "software."¹⁰ This thesis and so-called "complete openness" are variations on the same theme.

Ninth, bourgeois liberalization places undue emphasis on the antagonism between a commodity economy and a planned economy based on public ownership, negating the socialist economy. Replacement of a natural economy with a commodity economy is an inevitable event in the process of human socioeconomic development. However, since a commodity economy first stems from a private ownership system and rises as an accompaniment to capitalism, understanding of this inevitable event has given rise to mistaken conceptions. It is as though a commodity economy is only an economic form exclusive to capitalist private ownership and has no relationship to a planned economy based on socialist public ownership. Thus, understanding becomes mired in metaphysics, a planned economy based on public ownership is completely pitted against a commodity economy, with the socialist economy being emphasized and the commodity economy being denied. When we free ourselves from metaphysics, adhere primarily to public ownership, and develop a combination of diverse economic components, and when we adhere to a combination of a planned economy and market regulation to practice a planned commodity economy based on public ownership, the exponents of bourgeois liberalization go to another extreme in metaphysically pitting against each other the commodity economy and the planned economy based on public ownership, placing undue emphasis on the commodity economy while negating the socialist economy. Some of them propose changing the leading position of public ownership by privatizing public property. Some believe that public ownership "has outpaced the laws of historical development," so they propagandize private ownership. Some suggest abolition of plan regulation, substituting a "completely free" market economy. In short, they seek to guide China to the path of a capitalist market economy based on private ownership that is basically spontaneously market-regulated and eliminating the socialist economy.

Tenth, bourgeois liberalization uses detours in the course of social progress to deny progress in socialist development. The wavelike way in which things develop include the unity of the opposites of progress and detours. In the course of its development, socialism likewise shows a unity of opposites of progress and detours, demonstrating wavelike advance. To break the unity of progress and detours in the socialist development process, pitting progress and detours completely against each other, acknowledging only progress while denying detours, or unduly exaggerating detours while denying progress is to be metaphysical. The collapse-of-socialism thesis that exponents of bourgeois liberalization such as Fang Lizhi spread maintains that "the things we have done during these 30 years have been, I feel, a failure, in terms of the socialist system." Orthodox socialism, from Marx and Lenin to Stalin and Mao Zedong, has resulted in failure

right up to the present time. "This socialist-failure thesis attributes all the ebbs, mistakes, and deviations in socialism's development and advance to the failure of socialism."¹¹ From a theoretical standpoint, this is making use of detours along the road of socialist development to deny progress in the total direction of socialist development. Metaphysics is the result.

III

Opposition to bourgeois liberalization is not primarily a problem in the nature of methodology, but rather class struggle in the ideological and political field. However, bourgeois liberalization's opposition to the methods of dialectical materialism inevitably leads to metaphysics, and its negation of the four basic principles methodology is also metaphysical. Therefore, in opposing bourgeois liberalization, one positively cannot eliminate or omit discussion of the issue of metaphysical methods. Dissection of the methodology of bourgeois liberalization in terms of methodology to eradicate the influence of metaphysics has a direct bearing on the thoroughness of opposition to the class struggle against bourgeois liberalization and on the importance of adherence to materialist dialectics.

Can the influence of bourgeois liberalization metaphysics be eliminated? Everyone is aware that metaphysics is characterized by looking at issues in isolation and statically. It is both superficial and extreme. In getting rid of the influence of bourgeois liberalization metaphysics, one positively cannot pay bourgeois liberalization back with its own coin, using metaphysics to oppose metaphysics if one is to avoid correcting one one-sidedness only to tilt toward a different one-sidedness, going from one extreme to the other. Material dialectics are a scientific methodology that is in unison with the Marxist world outlook. It is our basic method for analyzing problems, and it is also the most powerful weapon for eliminating the influence of bourgeois liberalization.

Exponents of bourgeois liberalization on the extreme right use relative multiple truth theory to distort Marxism and Mao Zedong Thought, and to deny that Marxism and Mao Zedong Thought possesses objective absolute truth. Thus, they also deny that Marxism-Leninism-Mao Zedong Thought is our guide for progress. We must oppose this. However, Marxism-Leninism-Mao Zedong Thought is the unity of the subjective and the objective, and the unity of the relative and the absolute. We uphold Marxism-Leninism-Mao Zedong Thought, and we uphold its standpoint, outlook, and methods. At the same time, however, we cannot make it absolute, nor can we regard every sentence or every conclusion in the works of Marx, Lenin, and Mao Zedong as objective absolute truth and go to a "leftist" extreme. Marxism-Leninism and Mao Zedong Thought are constantly developing in practice; however, this positively is not the metaphysical development about which exponents of bourgeois liberalization talk. They unduly emphasize development and oppose adherence

to Marxism-Leninism-Mao Zedong Thought, and, naturally, genuine development of Marxism-Leninism-Mao Zedong Thought is out of the question for them. Looked at in terms of the materialist dialectics development view, it is possible to develop Marxism-Leninism-Mao Zedong Thought only through upholding it. It is necessary to oppose the use of metaphysical one-sidedness that is concerned only with development but that negates adherence, thereby negating Marxism-Leninism-Mao Zedong Thought. It is likewise necessary to guard against the metaphysical one-sidedness that cares only for adherence and does not concern itself with development, thereby turning Marxism-Leninism-Mao Zedong Thought into dogma.

Exponents of bourgeois liberalization use an extreme metaphysical attitude in dealing with the Marxist point of view on class and class struggle. They deny the methods of class analysis. If we use metaphysics to correct this metaphysics, that will lead us into yet another metaphysical extreme of "taking class struggle as the key link." We already have learned a profound historical lesson about this. Therefore, we must avoid metaphysics and we must remember the historical lessons of "taking class struggle as the key link." At the same time, we have to adhere to Marxist concepts of class and class struggle on matters concerning class and class struggle, adhering to the class analysis method.

The number-one hot topic of the exponents of bourgeois liberalization is the democracy issue. The supraclass democracy and individualistic democracy that they preach is nothing more than the metaphysics of bourgeois democracy concepts. They use absolute democracy to negate the leadership of the party and the people's democratic dictatorship, and they use individualistic democracy to negate democratic centralism. This is contrary to the Marxist concept of democracy. We oppose bourgeois democracy, but that does not mean that we have eliminated and weakened democracy. We advocate strengthening of the party's leadership, and at the same time we want to improve the party's leadership, instituting a system of multiparty cooperation under leadership of the Communist Party. We advocate strengthening the dictatorship of the proletariat, but use of the dictatorship function must be limited to areas in which class struggle exists. We advocate strengthening of the people's congress system, as well as the CPPCC system in accordance with the principle of democratic centralism. All of these things that we advocate embody the spirit of the dialectical unity of democracy and dictatorship, and of democracy and centralism, and they all connote true, widespread people's democracy, which is to say socialist democracy.

The "complete openness" thesis, the socialism and capitalism "convergence theory," the capitalism "makeup course theory," the capitalist commodity economy theory, and the theory of the failure of socialism that exponents of bourgeois liberalization spread are all, in the final analysis and from a methodological viewpoint, the use of metaphysics to deny that China's socialism

arises out of conformity with laws, and that it is a dialectical development process of steady self-improvement and tortuous advance. Following China's victory in the new democratic revolution, China transformed into socialism in conformity with laws, and a socialist system that is basically antithetical to capitalism began to be built. There is no need to return to take a makeup lesson in capitalism. However, Chinese socialism has its own distinctiveness, and socialism is in its preliminary stage in China. We must adhere primarily to public ownership while simultaneously developing diverse economic components such as the individual economy and the privately owned economy, as well as Sino-foreign joint ventures, cooperative enterprises, and foreign-funded enterprises. These can serve the interests of the socialist economy, and provide a needed supplement to it. Overall, we must adhere to the planned proportional development of the national economy, while simultaneously making the most of the positive role of market regulation. In short, our socialist economy is a planned commodity economy founded on public ownership. It differs in nature from capitalist commodity economies founded on private ownership, and it is also not the same as the overly centralized, overly controlled plan system that we formerly had. Development of diverse economic components and paying attention to the regulatory role of markets under a planned commodity economy system founded on public ownership does not mean that socialism and capitalism are "converging," nor does it eliminate one whit the fundamental antithesis of socialism and capitalism. Naturally, the fundamental antithesis between socialism and capitalism does not mean complete antithesis. There are identical aspects between the two. It is because socialism and capitalism are the unity of opposites that we have to take the road of enriching the country through reform and opening to the outside world so long as we adhere to the four principles on which the country is founded. Thus, there is no slide toward the greater capitalism that the "complete openness" thesis desires, and socialism can be steadily self-improved through reform and

opening to the outside world. In the development process of self-improving China's socialism, one should not imagine that there will be no detours; however, no matter the detours, the overall trend in the advance of socialism cannot be changed. Victory is inevitable.

Footnotes

1. Fang Lizhi [2455 0536 0037]: August 1985 speech at Zhejiang University.
2. Fang Lizhi: 16 November 1986 speech at East China Academy of Chemical Engineering.
3. Wan Ruowang [3769 5387 2598]: Statements made at a Shanghai seminar on "Social Problems During Reform."
4. See 1989 RENMIN RIBAO article commemorating the 70th anniversary of the "May 4th Movement."
5. Yan Jiaqi [0917 1367 0366]: Article published in Hong Kong MING PAO 23 July-19 August 1989.
6. Fang Lizhi: 18 November 1986 speech at Tongji University.
7. Fang Lizhi: 15 November 1986 speech at Shanghai Jiaotong University.
8. Fang Lizhi: 18 November 1986 speech at Tongji University.
9. Liu Binyan [0491 6333 7159]: 12 September 1986 speech at a seminar of SHENZHEN QINGNIAN BAO [SHENZHEN YOUTH NEWS] editors.
10. Wang Ruowang: Statement at the second forum on "The New Technological Revolution and System Reform" held at Hangzhou.
11. Fang Lizhi: 18 November speech at Tongji University, and 19 November 1986 speech at Ningbo University.

NATIONAL AFFAIRS, POLICY

New Emphasis Foreseen on Prices, Fiscal Order
90CE0470A Chongqing GAIGE [REFORM] in Chinese
No 4, 20 Jul 90 pp 4-7

[Article by Xue Muqiao (5641 2550 2890): "New Stage in Improving the Economic Environment and Restructuring the Economic Order, and in the Deepening of Reform"]

[Text] China's national economy has made giant strides during the past 10 years as a result of reform and opening to the outside world. In terms of improvement in the people's standard of living, the past 10 years have exceeded the previous 30 years. For an overwhelming majority of the people throughout the country, the problem of sufficient food and clothing has been solved, and some areas have already attained a comparatively well-off status. In a country in which the population is greater than 1.1 billion, such an achievement does not occur without great effort.

During the first five of the past 10 years, readjustment and reform went hand in hand, readjustment paving the way for reform and opening to the outside world. By 1983, the task of readjustment was substantially complete, setting the stage for launching all-out economic system reform. In 1984, the Third Plenary Session of the 13th party Central Committee passed the decisions on economic system reform, which set forth a new plan for combining the plan economy with market regulation. This was entirely correct, and the achievements made as a result of it were outstanding. However, since we lacked experience in establishing plan control on a foundation of a socialist commodity economy, and also because we were overly anxious to succeed with smooth economic development, simultaneous with the adoption of flexible macroeconomic measures in late 1984, we also loosened macroeconomic control. For several years running, total social demand increasingly exceeded total social supply; there was currency inflation; and prices rose, culminating in the bank run and panic buying spree of August 1988. In order to reverse this chaotic situation, the Third Plenary Session of the 13th party Central Committee proposed a policy of improving the economic environment, restructuring the economic order, and complete deepening of reform. This was another readjustment in the wake of a new proportional imbalance. Strict methods were employed to control total social demand in order to bring total demand back into line with total supply, and guaranteeing sustained, steady, and coordinated development of the national economy.

Fairly marked results have been attained from improving the economic environment and restructuring the economic order during the past year or more. This has been manifested largely in bringing under control the currency inflation that damages stable economic development. The conflict between a total social demand that is greater than total supply has eased; the rise in prices

has slowed; shortages in market supply have improved markedly; and the chaotic situation in the commodity circulation field has been brought under preliminary control. After nearly 5 years of continuous ultra-high speed growth of industrial production, the speed of increase in industrial production declined to 8.3 percent in 1989, resuming its normal level. Worrisomely, the speed of industrial production during the fourth quarter of 1989 and the first quarter of 1990 fell to near zero (an upturn occurring in April in a 2 percent increase over the same period in 1989); sales of a relatively large number of commodities are lagging; numerous people are alarmed at the market slump; and numerous factories have been forced to curtail or halt production. As a result, whether continuation of the policy of government financial and credit tightening is necessary has become a controversial topic.

It should be noted that the current market slump is only partial. Some products (energy and some raw and processed materials) remain in short supply. Premium name brand products still sell readily despite the slump, most of the slow selling products being ordinary consumer goods of low quality. This results from a serious imbalance in the industrial structure and the product mix in the course of ultra-high speed development. During the period of improvement of the economic environment and restructuring of the economic order, support in the form of loans will have to be given to underdeveloped industries seriously in need of money. Most of the large state-owned industrial plants in this category require sufficient funds for use in replacing equipment and for renovation or expansion in order to reduce the forced curtailment or halt in production of machinery manufacturing industries, which have insufficient production work to do because of the reduced scale of capital construction. Therefore, a clear tilt policy will have to be adopted in providing credit, those industries requiring funds being assured that they will be supplied. Industries that produce consumer goods will have to be handled on a case-by-case basis. Loans should be granted to commercial units to expand purchases of premium products that can be readily sold in markets. Slow selling products that do not meet market requirements may not be saved through the issuance of loans. Instead, readjustments should be made at once to make the industry structure and the product mix become increasingly rational. This is an important goal of improving the economic environment and restructuring the economic order, and the market slump should be employed to attain this goal. This is the road that must be taken to increase economic returns and to insure stable production and coordinated development.

The irrational industrial structure and product mix are the result of many years of economic overheating and macroeconomic imbalance. What brought about this situation was that following the expansion of local and enterprise decision-making authority, no attendant rational industrial policies were formulated, and economic levers such as government finance and credit were

used to insure execution of these strategic development plans. The government level-by-level financial contracting system abetted raw materials producing areas in the headlong development of technologically backward processing industries that used premium raw materials to produce poor quality products. As a result, large technologically advanced factories had to reduce production for lack of raw materials, or else use low quality raw materials for a consequent decline in the quality of their products that hurt exports. The textile industry was a prime example. It should be further explained here that the unreasonable prices of raw materials and processed products was an important reason. During the early 1980's, overly high bonuses (50 percent) for excess cotton production caused new cotton producing areas such as northwestern Shandong Province to ill-advisedly expand cotton production too rapidly. They took over grain fields for the growing of cotton, and cotton supply became greater than demand. After reducing the bonuses, since prices of manufactures were generally high but the price of cotton was overly low, cotton growing areas hurried to operate their own textile mills. This caused the present irrational situation. A similar situation occurred in the woolen textile industry. Obviously, unless prices are rationally readjusted, a readjustment of the industrial structure and the product mix will be difficult to achieve.

The current proportional imbalance in the national economy differs from the situation in the 1970's. At that time it was priority development of heavy industry at the expense of agriculture and light industry that led to the development of production without major improvement in the people's livelihood for 20 years. For the past 10 years, both agriculture and light industry have developed very rapidly, and the people's standard of living has markedly improved. It is energy, transportation, and certain raw and processed materials that are in short supply. Since most of the goods that cannot be sold and are accumulating in inventory are consumer goods, some comrades suppose that consumption demand should be expanded. Actually, the speed of increase in consumption funds is still very slow relatively speaking. As a result of the slowing in price rises and the large amount of personal savings, bank savings accounts have soared. This is a "rebound" from the run on banks and the panic buying of more than a year ago. At the present time, wages of workers in government organs and schools tend to be low, and although they were recently generally raised one grade, this is still not enough to offset the increase in prices over the past 2 years. As a result of the market slump, some factories have been forced to reduce production, are unable to issue bonuses, and have even cut wages. They are temporarily facing hard times. Today the gap in residents' income is too great and very irrational. Prudent and planned readjustments should be made. Bank savings accounts represent latent purchasing power, a portion of which may be converted into actual purchasing power at any time. If there is further inflation, very possibly slack sales will turn into panic buying.

Some time ago, many economists acknowledged that a socialist economy is inevitably an "economy of shortage"; therefore, there can be only plan (limited) supply no matter whether of the means of production or consumer goods. Market regulation cannot be instituted. This was the situation in China from the late 1950's until the 1970's. We firmly believe that the shortages were the result of impatience to succeed in production and construction. Only by estimating our own ability and acting accordingly can we avoid shortages. The market slump for some products, which occurred with the adoption of the double cutback policy (in 1983, there was also a buyers' market in some products), shows that a socialist country can exercise macroeconomic regulation and control through state plan, gain balance between total demand and total supply, and thereby be able to gradually change from plan supply to market regulation. This is the road that must be taken in the deepening of reform. The market slump not only sets the stage for a readjustment of the industrial structure, but also sets the stage for straightening out prices. Because of the buyers' market that existed around 1983, we gradually loosened price controls, permitting a substantial number of the means of production to be bought and sold at negotiated prices. Except for the portion of non-staple foods purchased on contract (contract grain purchases amounting to only 20 percent), price restrictions were loosened on all other grain, cotton, meat, poultry, eggs, and vegetables, and market regulation instituted. This made prices more rational. The 3d Plenary Session of the 13th Party Central Committee decisions on economic system reform noted that "straightening out the irrational price system is the key to success or failure of the entire economic system reform." This statement is very correct.

Regrettably, following the 3d Plenary Session of the 13th Party Central Committee, we did not strengthen macroeconomic regulation and control at the same time that we loosened macroeconomic restrictions. Impatience to succeed, from the Central Committee to the local level, caused currency inflation and proportional imbalance, which became more than the people could bear. The state had no choice but to increase administrative control over prices gradually. As a result, new distortions became increasingly apparent in the price system that was rapidly becoming straightened out. This seriously upset market order. This is extremely helpful to our deepening of reform. The call of the 3d Plenary Session of the 13th Party Central Committee for "improvement of the economic environment and restructuring of the economic order" was actually another readjustment made in the wake of the proportional imbalance that paved the way for future deepening of reform. After more than a year's effort, results have begun to show, but they are not yet very solid. Readjustment of the economic structure has just begun and is far from complete. Prices are not rising as rapidly as formerly, but they have yet to be stabilized. Under these circumstances, we cannot completely free prices; all we can do is gradually readjust prices in a planned way. Thus, our deepening of

reform must also slow down. Nevertheless, the crisis that originated in 1988 has begun to turn around, and matters are developing in the right direction. We have already reached a new stage in improvement of the economic environment and rectification of the economic order, and in the deepening of reform. We should continue to consolidate the initial achievements made in improving the economic environment and restructuring the economic order, and strive for the further steady political, economic, and social development of the country. This year marks a new stage in improving the economic environment and restructuring the economic order, and in the deepening of reform. We should continue to consolidate the results gained in improving the economic environment and restructuring the economic order and explore the road ahead for the deepening of reform. Reform steps and measures must proceed from the need for economic development and serve economic development. The goal of reform is to advance the steady, coordinated development of the national economy. There can be no reform for reform's sake; we cannot swerve from this point of departure. Near-term reform has to take into consideration needs in improving the economic environment and restructuring the economic order, readjustment of the industrial structure, and the rallying of the economy. Here, I would like to state some views on several issues:

First, as prices stabilize (and this is contingent on resolutely halting currency inflation), we should gradually readjust, and finally straighten out prices. From this foundation, we should reform the market order. The serious chaos in markets during the past several years has been the evil consequence of a too rapid rise in prices. With the advent, in 1990, of a market slump for some consumer goods, profiteering and speculation has declined greatly. The combination of the plan economy and market regulation must create a flat commodity market, and this market must be founded on a rational price system. Currently, our price policy is a combination of "control, regulation, and loosening." During 1990, we will have to use mostly control while continuing to guard against inflation. It is hoped that during 1991, we will be able to change to mostly regulation, and then, after another year, to achieve mostly loosening, reviving and surpassing the situation attained from 1983 until the first half of 1985. Naturally, loosening does not mean not controlling. Market regulation must increase market control in order to avoid chaos. Only by straightening out prices will it be possible to deepen reform. This point positively cannot be ignored.

Second is exploration of government financial system reform, reviving and strengthening its macroeconomic regulation and control function. During the period of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, all taxes will be collected by local governments, the taxpayers being the tax recipients, tax receipts completely losing their macroeconomic regulation function, or even becoming counter-regulatory. The levying of heavy taxes (product taxes)

was for the purpose of limiting production of certain goods, but because of the increase in local government tax receipts, they turned into an encouragement to production. The 1983 institution of "substitution of taxes for the payment of profits" revived the regulatory function of taxes. This was later changed to government level-by-level financial contracting, and the regulatory function of taxes was once again partially lost. (Some taxes are now directly collected by the central government.) In the future, there should be a gradual transition from after-tax contracting to a tax-sharing system for the building of a regular government financial expenditures and receipts system, strengthening its macroeconomic regulation function.

Third, after expanding local government and enterprise decision-making authority, bank loans became a macroeconomic regulation and control tool of greater importance than government tax collections. The central bank should be responsible for controlling the amount of currency issued and for strictly guarding against inflation. In order to readjust the industrial structure, specialized banks should be instructed to institute tilt policies on loans to insure proportional harmony among all industries. Market regulation requires not only sound commodity markets, but sound financial markets as well. Inflation, as well as the shortage of circulating capital, in recent years; the market slump this year; and the large amount of "triangular debt" are all reasons for the failure of financial markets to develop. Banking personnel must be adept at using the abundant experience of western countries in controlling financial markets to hasten the turnover of funds in order to help solve difficulties resulting from the shortage of working capital.

Fourth, during the market slump, some enterprises are still not actively cutting prices to spur the sale of products accumulating in warehouses. They fear that to do so will cause losses on the books that make it impossible for them to fulfill their financial quotas. In a commodity economy, when enterprises inventory commodities on hand at the end of the year, they must discount them 10, 20, or 30 percent, and figure the enterprises' profits on the basis of these calculations. Thus, when they cut prices the following year, they will not show a loss. However, many large and medium size state-owned enterprises in China practice a complete inventory system in which sales at reduced prices require the approval of higher authority. Only in this way can losses incurred be acknowledged by higher authority. This means a lot of merchandise accumulates in inventory, yet profits continue to be calculated and bonuses continue to be issued as usual. Collective enterprises responsible for their own profits and losses are more flexible in this regard. They can readily reduce prices and sell merchandise that sells slowly, turning over their funds rapidly. State-owned enterprises can learn from collective enterprises in this regard.

Fifth, during the market slump, numerous enterprises have cut production or gone bankrupt. Unavoidably,

people are waiting for jobs or are unemployed. Many capitalist countries have social insurance funds under the centralized control of governments at various levels that may be used to relieve unemployment and maintain social order. In China, support funds are all separately handled by enterprises (a small number of cities are trying out overall planning of funds and the establishment of social support funds). If an enterprise goes bankrupt, no one is responsible for unemployment relief or even for the pensions of retired staff members and workers; hence, the bankruptcy law was passed so there is no way to go bankrupt. It will be necessary in the future to establish a social support system to surmount this difficulty. Many enterprises cannot retrench because they have surplus staff members and workers. During 1989, enterprise subsidies increased from 40 billion to 60 billion yuan. If just half this sum could be used for a social support fund that would enable enterprises to retrench their surplus staff members and workers and permit defunct enterprises to go bankrupt, this would greatly improve economic returns, thereby permitting a reduction of loss subsidies. The state should make some long-term calculations about this.

The year 1990 is another turning point for the national economy. Where the country and enterprises are going and where they are coming from should be looked at with an eye to the long-term and some macroeconomic choices made in order to insure future sustained, steady, and coordinated development of the national economy.

Importance of Targeted Price Control Stressed

HK3108114090 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, Jun 90 pp 28-31

[Article by Zhu Yaoping (2612 1031 1627): "On Targeted Price Control"]

[Text] Since 1985 when price reform, which mainly concerned the price of live pigs and other non-staple food, was first introduced, the state has been practicing the planned and targeted management of retail price indexes (more commonly referred to as "targeted control"). Over the years, this practice has won itself some favorable comments as well as censure. In addition to epistemological reasons, this also has something to do with problems in actual practice. It is thus necessary to study this and do some exploring on the basis of the combination of theory and practice.

I. The Necessity of Carrying Out Targeted Price Control

Without a given target, management, whatever its form, is as meaningless and dangerous as steering a ship while being blindfolded. Price control, in particular, must have a predetermined target. Otherwise control will lack direction, and it will not be possible to effectively control the general price level. Targeted price control has important significance in the development of the economy, the reform of the economic system, as well as social stability.

First, in order to achieve the sustained and steady development of the national economy, we must carry out targeted price control.

Substantial fluctuations in prices are bound to have an adverse effect on the steady development of the economy. The argument that inflation and price increases will boost economic growth has been proven untenable by the historical facts of economic development in China and abroad. From an analysis of historical data, we can see that inflation and price increases on the one hand and increases in national income on the other have been moving in opposite directions in most years since Liberation. During the 37 years from 1949 to 1985, there were 25 years, or 68 percent of the time, when the two moved in opposite directions. This shows that an excessive rise in the general price level and inflation is unfavorable to economic development. As some comrades analyzed: To the economy of a country, inflation is like a dose of opium. It makes you feel good, even exhilarated at first, but in the course of time, it will do serious harm to the economic organism of the country.

That price increases and economic growth are seen to be in a negative relationship is due to the following reasons: First, excessive price increases are bound to slow down economic growth and result in poor macroeconomic performance. Massive price increases, particular increases in the price of capital goods, will increase the burden of enterprises. When producers cannot swallow the increased cost, they will find themselves in a tight spot or sustain losses. Some will even be forced to go into liquidation and workers will lose their jobs. The state has to subsidize the masses for price increases and offer tax refunds or reductions to those enterprises that have run into difficulties. With increased expenditure and reduced revenue, the state will find its financial burdens growing ever heavier until it can bear them no longer. Second, excessive price increases are bound to affect the rational allocation of resources and offset the balance of the industrial structure and product mix. Enterprises will invariably invest in areas that are advantageous to them. Distorted market price signals will cause enterprises to invest blindly, thereby further aggravating the already strained allocation of resources and making the industrial structure and product mix all the more irrational. Third, excessive price increases are bound to touch off the swelling of funds for consumption and aggravate the contradictions between market supply and demand. The situation in China in recent years shows that the issuance of subsidies to offset price increases is likely to give enterprises and organs an excuse to indiscriminately issue bonuses in kind and in cash. The rapid growth of effective market demand will widen the gap between demand and actual commodity availability, which, in turn, will further push prices up. This will make the contradictions between supply and demand more acute and set the malignant cycle going. Fourth, excessive price increases are bound to lower the propensity of consumers to save and will even encourage them to draw large sums from the banks and spend them on purchases.

This will definitely affect economic development as it will be very difficult for the banks to pool the idle funds in society for purposes of economic construction. It is thus evident that in order to ensure the sustained and steady development of the economy, we must strive to control the extent of price increases.

Second, in order to push forward the steady progress of reform, we must carry out targeted price control.

The reform of the economic system will ultimately touch on the question of price. When the question of price has been tackled, reform will continue its advance; otherwise, reform will come to a standstill or go backwards. The reforms now underway in China, as projects of systems engineering, are the only way to develop productive forces and must be pushed forward positively and steadily. To fulfill this task, we must carry out effective targeted price control.

In recent years, the substantial increase in prices for years on end has directly affected the pace of our reforms. Reform needs to work in a fairly easy economic environment, and price increases leave very little room for reform to maneuver. On the one hand, price increases adversely affected the people's livelihood and brought pressure to bear on the production activities of enterprises and on public finance. Given the actual endurance of the three parties, price reform was deferred time and again. The reform of the taxation and financial systems, the establishment of the market system and other reforms also could not be launched on a full scale. On the other hand, price increases gave enterprises an inducement to go after "price increase benefits" and tempted people to engage in speculation, thinking that "prices will snowball as goods pass from hand to hand." This resulted in chaos in pricing, the market, and the sphere of circulation. Under the circumstances, it was naturally very difficult for enterprises to carry out reform. Furthermore, substantial price increases hide the danger that the anticipated objectives of reform cannot be achieved and the possibility that the positive effects of reform will be weakened or offset by its negative effects. This will arouse misunderstanding, and will cause people to lose their enthusiasm in and support for reform. It can thus be seen that the practice of targeted price control to limit the extent of price increases has a vital bearing on the deepening and advance of our reform.

Third, in order to stabilize and balance the thinking of the masses, we must practice targeted price control.

Without effective targeted control, prices will get out of control. When prices get out of control, consumer mentality will be thrown off balance. Substantial price increases will give rise to problems in the following three areas: (1) A decline in the standard of living. Due to the fact that the growth of their income cannot catch up with the extent of price increases, some urban households will experience a decline in their real standard of living to varying degrees. This has been the case in recent years and little or no remedial measures have been taken. This has

given rise to general discontent among the public. (2) Panic buying. As prices go up substantially, people will rush to make purchases as a safeguard against devaluation of their savings. (3) The worsening of the pattern of income distribution. Substantial price increases themselves have a propensity to widen the income differential. It has been proven by numerous facts that the more quickly prices go up, the more unfair income distribution will become, and the greater will people's discontent be.

In short, the mental endurance of consumers for price increases is limited. When that limit is passed, an "overload" to their mental endurance will occur, and discontent will grow into grievance, which will then develop into disturbance. The consequences are unthinkable.

II. The Scientific Nature of the Improvement of Targeted Price Control

The scientific nature of targeted price control is chiefly reflected in the determination, implementation, and assessment of the targets. Only when these three aspects have been grasped well can targeted control be effectively carried out.

A. The determination of the target must reflect different stages of development and feasibility.

In exercising price control, we must first determine the maximum endurance of the state, the enterprises, and the consumers for price rise and work out control targets for the long term and the near term. At the same time, we must, on the basis of various economic parameters and using the method of scientific prediction, strive to increase the feasibility of the targeted general price level so that price increases will always be kept below the critical point. Judging by the actual situation in China, the best general price level indicator to target has been the subject of endless disputes. Some comrades believe that the annual rate of price rise should be kept within 6 percent, maintaining that the attainment of this target means that prices are basically stable. Some comrades argue that only when the annual rate of increase is kept to within 2-3 percent can we claim that prices are basically stable, and that there is mild inflation when it exceeds 2-3 percent. This author is inclined to the latter view and believes that it is more appropriate, in the long run, to fix the annual rate of price rise at 2-3 percent. Within this range, price rise will be less noticeable, which is more conducive to steady social and economic development. However, this cannot be done all at once. We must first ensure that the rate of price increases be brought down from double digit to below 10 percent. Then efforts should be made to further bring it down to below 5 percent. In this way, we will be able to resolve the price problems which have been built up over the years and overcome the phenomenon of distorted prices. This will be of help to our efforts to gradually keep price

rise within a range that can be endured by the state, the enterprises, and the consumers and reduce the impact of the disturbance.

B. The implementation of the target must reflect the concepts of the whole and the part.

In order to implement targeted price control, we must first fully understand the retail price index for the whole country as well as its composition, grasp the law governing the movement of prices and the methods of price control on the macroeconomic level, and ensure that the part holds itself responsible to the whole and that the whole country works steadfastly with one heart and one mind to achieve the overall target. In the meantime, the general retail price index must be broken down and assigned to the lower levels so that every local government and department will have a clear idea of its responsibility. Through effective organizational measures, the functions of various parts should be fully brought into play in fulfilling the assigned targets. This will ensure the realization of the price target for the whole country.

In this connection, the problems which cropped up several years ago were very noteworthy. Although price control targets were fixed each year, we exceeded these targets during many years. This is due to several reasons. First, the public was not helped to understand the overall target for the whole country and cultivate the concept of the whole. Second, the target was not handed down level by level. In most cases, only the provincial governments were informed of the control index and no demands were made on the prefectural and city governments, particularly the county governments. Also, the retail price index has not been broken down and assigned to individual government departments. Third, because the actions of various parts were not properly coordinated and local protectionism was prevalent, departmentalism characterized by "higher prices for outsiders" and "transfer of cost" occurred. We must bear this lesson in mind, make an earnest effort to rectify past mistakes, uphold the principles of modern management, and effectively implement targeted price control. This is the key to ensuring the scientific nature of targeted price control.

C. The assessment of targets must reflect accuracy and comparability.

The assessment of targets is the testing of the fruits of targeted price control. In order to carry out assessment in a scientific manner, we must first see whether or not the general price index compiled and reported is accurate. The general price index in China is a comprehensive, chain index of prices. It is the contrast of the aggregate volumes of goods purchased (sold) obtained by multiplying the price level of various representative standard products during the report and base periods by the weight function of the purchase (sales) volume during the base period, and is the dynamic relative number that reflects the trend and degree of the movement of the general purchase (selling) price level for all commodities.

Hence, the selection of the representative standard products and the determination of the weight function in the calculation of the general price index each year have a vital bearing on whether or not the general price index is accurate that year. Judging from the situation these last couple of years, some places were seen to be juggling things in these two areas in order to show that they had not exceeded the control target assigned by the higher levels. The general price index thus worked out cannot truthfully reflect their local general price level. In future assessments, whether they be of the whole country or of a particular region, we must find out whether the readjusted representative standard products can reflect the actual movement of the general purchase (selling) price level for all commodities, and whether the readjusted weight function is reasonable. Only when we have a clear understanding of these questions can we judge the accuracy of the general price index compiled and whether it can truthfully reflect the general price level for a particular year.

Second, we must see whether the predetermined control targets have been exceeded. If the answer is no, what are the good methods and measures taken? If the answer is yes, what are the reasons? Are there objective factors? Have subjective efforts been made? These must be clarified one by one in the course of assessment. Only in this way can we assess the effectiveness of targeted price control by governments at various levels and by various departments.

III. Conditions for the Realization of Targeted Price Control

The realization of targeted price control means what sort of policy measures and what means and methods of management we adopt to control the general price level. In order to meet the control targets for each year, we should adhere to the general and specific policies of pricing that suit the actual conditions in China and select and make good use of appropriate means and methods of management. Specifically speaking, we should mainly strive to accomplish the following five tasks:

First, uphold the policy of keeping prices basically stable. The policy of keeping prices stable is the basis and reliable guarantee for the realization of targeted price control. In recent years, prices have been going up and the extent of the price rise has been great. Some comrades advocated abandoning this policy. This author considers this view to be incorrect. While price increases are a natural phenomenon in the development of the commodity economy, we are not entirely powerless before this law. Practice has proven that it is entirely possible to keep the extent of price increases under appropriate control. Moreover, we do not have fixed and constant prices in mind when we talk about stable prices. We are saying that prices should be kept basically stable with appropriate upward and downward adjustments. Furthermore, as things now stand, the fact that the endurance of all quarters concerned is so small means that keeping prices stable is our only alternative. If we do

not uphold this policy, we will not be able to effectively check the soaring of the general price level and meet the predetermined control targets. The consequences will be unthinkable.

Second, implement the principle of comprehensive improvement. Prices are the overall reflection of the economy. There are many factors for price increase. Among these factors, the gap between the total demand for and the total supply of social commodities, the speed of economic growth, the amount of currency issued, and the growth of consumption funds are decisive factors. Thus, in order to realize the annual control targets, it is essential that we carry out comprehensive improvement and pay particular attention to the following aspects: (1) Control the ratio between the demand for and the supply of social commodities. The fundamental reason for price increases lies in the fact that total demand exceeds total supply. Analysis shows that the effect of the commodity supply-demand ratio on the general retail price index is about 0.3. In other words, for every percentage point increase in the supply-demand ratio, the general retail price index will go up by 0.3 percentage point. The wider the gap between total demand and total supply, the bigger the price increase; the smaller the gap, the smaller the price increase. We can control the extent of price increases by controlling the supply-demand ratio and narrowing the gap between the two through increasing the supply of essential products or curbing excessive demand. (2) Control the growth rate of the national economy. The blind pursuit of high speed growth will invariably lead to over-investment, inflation, economic imbalance, and excessive price increases. A moderate rate of economic growth is necessary for the realization of price control targets. As things now stand, the 5-6 percent growth rate determined by the Fifth Plenary Session of the 13th CPC Central Committee is both appropriate and feasible. Judging by this standard, the speed of economic growth has been too fast and should be slowed down through retrenchment in order to keep prices basically stable. (3) Control currency issuance and money supply. The direct cause of price increases is inflation and, in order to control inflation, it is necessary to keep currency issuance and money supply under appropriate control. The current money supply formula in China is: Rate of increase in money supply = economic growth rate + rate of price increase. This formula has overlooked the velocity of the circulation of money, which is an important factor affecting money supply. It also anticipates price increases, and the results of economic operations are always such that price increases always exceed what is anticipated. Hence, in order to effectively keep the general price level under control, we should make a serious effort to study this question and find out whether or not money supply should be determined chiefly on the basis of economic growth rate. (4) Control the consumption fund. The swelling of the consumption fund is bound to boost demand and push prices up. Unhealthy phenomena like the endless lists of things done "at state expense," the consumption of huge

amounts of food at innumerable meetings, the indiscriminate issuance of bonuses, and the unrestricted increase of institutional purchasing power, which emerged in recent years, cannot be tolerated any longer. This is not only necessary for ensuring that the extent of price increases targeted for the current year will not be exceeded, but is also needed to preserve the fine tradition and work style of being honest and hard working.

Third, develop a healthy and perfect market system. The Chinese market is still underdeveloped and is far from perfect. At the same time, the market structure is abnormal and things are in a state of chaos. This will seriously affect the formation of a reasonable pricing structure and the normal functioning of the role of prices. We must strive to develop a state-regulated, open, and perfect market system and gradually bring about the maturity of the market, seeing to it that the following six changes are made: (1) Market management is to be regulated. The current double-track price system must be gradually replaced by the single-track price system; differences in operational costs due to differences in the capacity of the main body of the market should be gradually resolved through efforts to straighten out the pricing of capital goods; and cheating and other frauds in the market should be corrected through the adoption of effective means. (2) The circulation network is to be properly organized. There should be large numbers of operational enterprises, each engaged in its own line of business. There should not be any superfluous establishments or "empty spots." We should see to it that the circulation system has many channels and as few intermediate links as possible. The channels should be smooth and barred from "official profiteers." (3) The market structure is to be rationalized. When individual commodity producers cannot control prices on the commodity market, there will be a rational structure of market supply with "a moderate degree of competition"; and when consumers cannot monopolize the purchase or engage in irrational purchases, there will be a rational structure of market demand. When the economic structure and industrial structure are rationalized, the product mix on the market will also be rationalized. (4) Transactions of buying and selling are to take place in the open. Underground transactions or grey transactions will cease to exist. When all buying and selling activities are carried out in broad daylight and bargaining is a common occurrence, "personal-favor prices" and "special prices" will naturally disappear. (5) Exchange at equal value is to become the common practice. Exchange at equal value will become the common law of market transactions, and there will not be any unfair buying and selling. (6) The mechanism of competition is to operate normally. Factors that reject competition should be eliminated, the function of the mechanism of competition in maintaining balance should be brought into play and the operational efficiency of the whole market should be maintained so that competition can play its due role in stabilizing prices.

Fourth, create a new mechanism of macroeconomic regulation and control. To meet the requirements of

targeted price control, our price regulation and control mechanism should be changed along with changes in the price formation mechanism. The practice of highly centralized control should be replaced by unified leadership and management at different levels. The practice of controlling prices on the merit of each case should be replaced by the practice of concentrating on the improvement of the pricing structure. The practice of direct government intervention in pricing should be replaced by indirect regulation and control. The practice of simply relying on administrative means to control prices should be replaced by the comprehensive use of economic, administrative, disciplinary, and legal means in addition to ideological education. At the same time, price regulation and control centers should be set up at every level to operate the price regulation and control mechanism and ensure that this mechanism can play its unique role in targeted price control.

Fifth, establish a system of responsibility with special responsibilities assigned to each level. Governments at various levels should include the targeted extent of price rises into their list of planned economic targets and strive to keep it within limits as though it is a task of industrial and agricultural production. A system of director and departmental responsibility for targeted price control should be established, and methods of rewards and punishments should be worked out.

Investment, Industrial Readjustment Linked

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[Article by Huang Zhengyun (7806 2398 0061), edited by Tong Zetian (0157 3419 3944): "Ideas on Using the Readjustment of the Investment Structure To Promote the Readjustment of the Industrial Structure"]

[Text] The readjustment of the industrial structure is already a major question in the current socioeconomic life of our country which pressingly requires research. As various comrades have pointed out, the question of the industrial structure is essentially a question of the orientation of fund flow and, more specifically, it is a question of the orientation of investment. If we are to correct the orientation of the flow of investment, we need to start with the existing investment structure and use the reorganization of the investment structure to spur on the readjustment of the industrial structure. This article is intended to put forward a few ideas on using the readjustment of the investment structure to promote the readjustment of the industrial structure.

I. Implementing Tilted Investment To Impact Upon the Industrial Structure

Our country's existing industrial structure was gradually formed over several decades of product economy conditions, and it can be said to be deep-rooted. Meanwhile, the current investment structure basically opens and closes around the existing industrial structure, and the investment structure acts as the thermometer for the

industrial structure. Under conditions where the processing industries have high prices and large profits, and funds are recovered quickly, quite an amount of investment swiftly flows into these industries. All of the investment "jargon" such as "a small boat can change direction quickly," "blow away the chaff and see the rice," and "killing two birds with one stone" describe situations which, through making the industrial more light-scale and more dispersed, has had distorting effects on the investment structure.

At present, the key to remolding the industrial structure is to have investment follow the tilted state industrial policy recently promulgated by the state, and to use the power of tilted investment to impact upon the irrational industrial structure. In brief, investment departments, including financial and banking departments, need to establish the ideology of tilted investment. In accordance with the sequential needs of industrial development, they should formulate an order of investment priority for key industry investment, so that overall growth in investment is always distributed in a sequential way in accordance with industrial policies. The tilting of investment includes the following several targets:

A. As to the orientation of the tilting, it should be directed towards agriculture, energy, raw materials, communications, and other basic industries. In 1989, of the investment in whole-people ownership capital construction, that in raw materials industries, transport, and posts and telecommunications saw a decline compared with the previous year; while the proportion of investment in agriculture and in cultural, educational, and public health undertakings also declined. Although investment in the energy industry rose 1.5 percentage points, as compared to the skyrocketing investment in the processing industries, the proportion was very small. Thus, it is urgent that we take basic industries the major targets of investment, so as to change the situation where "the financial departments alone invest in basic industries, while thousands of entities invest in processing industries." In respect of planning, we need to strengthen the mandatory planning aspect of whole-people investment and improve guidance over collective investment, so as to change the present concentration of investment and switch it towards basic industries. In respect to investment channels, financial departments' investment in processing industries must be firmly cut back. Bank credit investment should be centralized in investing in "bottleneck" industries and we should also make this "positive investment." Financial departments and banks should not be the helmsmen of the "small boats which can change direction quickly," but rather should be the backup force for basic industries.

B. As to the tactics for tilting, we should take the improvement of the stock as the main aspect. Using the opportunity provided by economic improvement and rectification, we should fully consider the effects which the cutting back has on the industrial structure, so as to avoid the incremental readjustment mode whereby efforts are made to readjust the industrial structure

through putting in more resources. Rather, we should base ourselves on limited increments to improve the stock and achieve increases through stock accumulation, so that the readjustment of the industrial structure and the readjustment of the investment structure proceed harmoniously in tandem, the use-efficiency of funds is raised, and we can avoid inducing any new structural contradictions.

C. As to the structure of tilting, we should take the improvement of regional distribution and improvement of industries which produce export products as the main aspects. The tilting of investment not only must run through industrial policies, but must also fully consider regional superiorities, for example those of coastal, riverine, and mining areas. Industrial policies allow regional superiorities to be brought into play and, in such cases, the degree of tilting of investment should be increased so that overall industrial deployment and the bringing into play of regional superiorities can be coordinated. Foreign exchange-earning enterprises which produce products with high added value and which have good economic results should be given quite good treatment in terms of investment.

D. As to the impact of the tilting, the impact should be aimed at getting enterprises to merge. Already throughout the country 1,500 enterprises have engaged in mergers. This has spurred on the shifting of production elements from industries which limit the focal points to industries which support the focal points, and from inferior enterprises to superior enterprises. In addition, and more importantly, it has directly shaken the closed, solidified, and low-efficiency base of the industrial structure and provided an avenue for setting down a rational, macroeconomic base for the industrial structure. Thus, a portion of investment could be used to support superior enterprises and the merging of inferior enterprises. This can thus act as a property rights purchasing avenue and an exchange medium in the enterprise market, thereby weakening the present situation of industrial rigidity and promoting industrial reorganization.

E. As to how the tilting is to be stipulated, we should set down clear investment policies which coincide with industrial policies. The adversaries of tilted investment are the chronic maladies of industry which have been formed over several decades. The optimal reorganization of the industrial structure will face the obstructions of many factors including selfish departmentalism, subjectivism, short-term activities, the will of senior officials, and so on. Thus, the readjustment of the investment structure will need to rely on policy support. We must establish laws and regulations aimed at invigorating various key industries, establish a system of project investment licenses, and set up investment project production technology standards and economic scale standards. Any investment proposals which do not measure up to these standards should not be allowed to proceed. At the same time, we must strengthen examination and supervision of projects which are under

construction, so as to curb any actions which violate industrial policies, including unplanned projects, projects which exceed their approved scale, switching of investment, blind deployment, and blind imports. When the circumstances are serious, responsibility should be investigated and affixed to the relevant decisionmakers.

Clearly, cutting off the flow of funds to the chronic maladies of industry through the tilting of investment and the gradual establishment of a new investment flow which accords with the needs of the commodity economy is the key to guaranteeing the success of the readjustment of the industrial structure.

II. Mobilizing the "Two Parts" So as To Maintain a Balance During Readjustment

When the topic of readjusting the investment structure is raised, people often naturally equate this with readjustment of the fixed assets investment structure. The several major investment structure readjustments since liberation were indeed carried out in this way. Thus, in the current economic improvement and rectification and the industrial structural readjustment, we hear calls for a blanket cutting back of the scale of investment in fixed assets. However, there is very little discussion of whether or not there is a need to readjust the structure of circulating assets and, if there is a need, how such readjustment should be carried out. In fact, the assets of any industry include the two parts of fixed assets and circulating assets, and these two parts concurrently support the industrial operations and optimization. In the process of structural readjustment, if we just control one part, the readjustment will only have a weak promotional effect on the readjustment of the industrial structure. Also, it will be difficult to avoid having circulating assets investment secretly used to supplement fixed assets investment, resulting in irrational industrial factors being able to avoid readjustment and thus remaining hidden in the industrial structure.

I believe that in the readjustment of the industrial structure, we must implement an overall promotional strategy, implement controls over the two parts and readjust the two parts so as to avoid imbalance.

A. The synchronized planning of fixed assets investment and circulating assets investment.

At present, state investment plans, both those within the budget and those outside the budget, generally refer only to fixed assets investment. The circulating assets investment aspect is basically included in the credit planning of banks and is regulated up or down depending on the market situation. Thus, the current investment plans are very imperfect in their effect on the industrial structure. Investment, as a specific form of value movement, refers to the sum of expenditure needed to carry out expanded reproduction of fixed assets and to form the lowest amount of necessary circulating funds, which cannot be further cut back. As investment includes the two value forms of fixed assets investment and circulating assets investment, when formulating investment plans related

to readjustment of the industrial structure, of course it is necessary to consider overall planning. If fixed assets investment is determined by the planning departments, and circulating assets investment is determined by the banks, the linkage between the two will be subject to the restrictions of the nature of their work. This will have an effect on the industrial structural readjustment and a situation of contradictory actions might occur. One of the ways to prevent this problem is to implement total quantitative controls. That is, the planning, financial, and banking departments, in accordance with industrial policies, will jointly plan the two parts of investment instead of handling just one. As soon as this is approved by the government, the figure will serve as a legally-binding investment standard and investment beyond the limit stipulated will not be allowed. This will manifest direct control by the government. The second method is to implement separate quantitative controls. That is to say, the investment decisionmaking departments will set down investment proportions for the various industries and will then divide the investment into annual figures, so that the figures for the two parts of investment for each year will be fixed. After they are fixed, it will not be permissible to arbitrarily take away or transfer investment. This will manifest indirect control by the government. The third method is to implement control by specifying the projects. This involves state industrial policies clearly specifying the projects to be supported (mainly basic industry and medium-size or large backbone enterprises). On the one hand, their capital construction or renewal and transformation funds are guaranteed and, on the other hand, their circulating funds for production purposes are guaranteed. This year, the head office of the People's Bank of China, together with the head offices of relevant specialized banks, implemented, in respect to medium-size and large backbone enterprises, the method of providing fixed orientation, fixed use, fixed amount, and fixed repayment period loans for specified projects. On this first occasion, 3 billion yuan was issued in loans. This promoted the readjustment of the industrial structure and good investment results were achieved. Control by specifying projects may well be an effective method of controlling the two parts of investment with one lever.

B. The synchronized implementation of fixed assets investment and circulating assets investment.

In the past, the financial administration was responsible for fixed assets investment and the banks were responsible for circulating assets investment. Or else one bank was responsible for fixed assets investment while another bank was responsible for circulating assets investment. It is difficult for such a crisscross investment system to guarantee that, during industrial readjustment, the two parts of investment form the optimal union. Thus, for the question of coordinating bank and financial department investment, the key lies in strengthening the enforcement of state investment planning and improving the rationality of division of work in the investment area. I propose that in the future, when a

particular bank is responsible for the fixed asset investment in a particular project, it should also be responsible for the circulating assets investment in that project. Because of the current serious distortion of prices, the weak restraining mechanisms on the assets of state-owned enterprises, the weakness of accumulation actions, and the slow speed at which basic industries start to produce profits, investment arrangement relationships must not be changed midway through on the basis of the level of profits being generated by the industry. Otherwise, during the fixed asset investment period, the bank will use the differential between deposits and credit and then if, after going into production, the enterprise suffers poor results, the bank will take back the circulating funds investment. This will cause some basic industries to run into dead ends. On the question of banks and bank investment coordination, I propose that if a bank provides fixed assets investment for a project, then after the project is completed, the circulating assets investment should be handled by the same bank. That is, we should implement the method whereby the one who builds the projects should be the one who receives the money. The advantages of this method of division are twofold. On the one hand, it will eliminate investment chaos and on the other hand it will be possible to change the situation of credit shortage resulting from an imbalance in the assets liability structure (usually a large volume of short-term deposits and a small volume of long-term deposits) giving rise to an imbalance in the investment structure. Once this is changed, fixed assets can be used to foster circulating assets and vice versa, and a fine cycle will be produced. At present, banks refer to fixed assets investment as "feeding the chickens" and to circulating assets investment as "collecting the eggs." The unity of feeding the chickens and collecting the eggs is a harmonious unity between the seeking of profits in banking operations and the making of profits through the flow of funds. In this way, it will be possible to avoid the many senseless disputes between banks and it will be of benefit to the swift development of basic industries.

C. The synchronized incremental readjustment of fixed assets investment and circulating assets readjustment.

The incremental readjustment of fixed assets investment must have a different base to the investment guidance and restraining mechanisms of the past. It must take budgeted investment as its guide and spur on diverse investment through many channels. Investment outside the budget below the provincial level must not be guided by the market. There is a need to adopt legislative and administrative measures to push investment towards "bottleneck" industries, reserve industries, and essential industries which have insufficient investment, so as to remove some investment from competitive, profit-making industries. Correspondingly, in the incremental readjustment of circulating assets investment, the situation where only the banks do the work to obtain benefits should be changed into one where both the banks and the enterprises do work to obtain benefits. The banks must

expand deposits, strengthen their funds sources, support the superior and limit the inferior, and accord different treatment to enterprises as appropriate. The enterprises must, in further improving the contract system, include enterprises' funds accumulation rates, funds turnover rates, and funds profit rates in the contracts. A certain proportion of funds should be taken from the enterprises' retained profits to supplement the circulating funds, while after-tax retained profits should be directly used to supplement circulating funds. It should be stipulated that for expansion projects, enterprises must raise at least 30 percent of the total necessary circulating funds themselves. Further, the increased value of an enterprise's stored goods and materials resulting from price increases should all be transferred to circulating funds.

III. Using Bank Levers To Promote Track-Changing by Enterprises

In the readjustment of the investment structure, it is necessary to shift the enterprises' investment impulse inertia from the microeconomic track to the macroeconomic track, so that the interest orientation of the investment readjustment entities, which are made up of enterprises, do not drift too far from industrial policies. To this end, on the one hand, investment activity targets must have the enterprises' agreement. On the other hand, centered on the investment activity targets, we should adopt coercive economic measures to contain or switch the investment impulses of enterprises which are not in accord with industrial policies. As far as the funds relationship between enterprises and banks and the function and role of banks themselves are concerned, the economic measures which must be adopted primarily involve the use of bank levers.

The first measure: In accordance with the precedence of industries and the operational benefits of enterprises, and in the light of the enterprise credit system, enterprises should be divided into five types. The first type of enterprise should have the two basic characteristics of being in the forefront of industrial precedence and being a key state, provincial, or municipal project. The second type of enterprise must be a project which industrial policies set down as one which must be given support, it must have reasonable good production efficiency and its creditworthiness must be quite high. The third type of enterprise, although being a project allowed by the industrial policies, will have low profit rate on funds, poor accumulation capacity, poor market responsiveness, and average creditworthiness. The fourth type of enterprise will generally be a processing industry and may have high or low creditworthiness. The fifth type of enterprise will be those not included in industrial policies and, further, have poor operations, with its income not meeting its expenditures and its funds not covering liabilities. The aim of this classification is to tightly combine the industrial listing with investment appraisal and to link up the demand for funds by enterprises which the industrial listing notes should see priority development with the investment which can be supplied, so that

investment can be distributed scientifically and rationally. In principle, the first type of enterprise should receive priority support, the second type of enterprise should receive active support, the third type of enterprise should receive support if deemed fitting, the fourth type of enterprise should be strictly limited, while no credit should be extended to the fifth type of enterprise. Their should be both "cutting back and protection." "First there should be cutting back and after that readjustment should be carried out." The credit provided to the fourth and fifth types of enterprise should be recovered and then investment coordination should be implemented. In the quantitative assessment and qualitative stipulation of the enterprise types, the banks should coordinate with the planning and financial departments as well as with the enterprises' managing departments, so as to appropriately handle the relationship between industrial policies and investment policies.

The second measure: Readjusting the irrational interest rate structure. At the same time as increasing the differentials between interest rates, a system whereby bank interest rates are compensated should be established. This will motivate banks' enthusiasm to extend credit to basic industries and correct the investment hunger suffered by non-basic industries. At present, investment in basic industries is utilized for a long time and pays very little interest. This is a manifestation of the state's privileged treatment of basic industries. However, it should also be recognized that following the rise of non-bank financial organs and the buffeting caused by inflation, the situation of inverting bank deposit and bank credit interest rates and the shrinking interest differentials between different industries is becoming increasingly serious. Thus, current bank interest rates are under 20 percent, less than those for the energy industry and the raw materials industry, and much less than the rates for light industry. At the same time that banks have to tighten their belts to make ends meet, they are being required to provide funds to support basic industries. If things continue like this, the banks will inevitably lose any enthusiasm they have for investing in basic industries. Thus, for investment in basic industries, a rational interest rate standard should be set in accordance with the bank's liability structure. The basic principles for this should be that the weighted average of short-term deposits and long-term deposits should be at least five percentage points lower than the interest rate charged for investment funds. At the same time, the banks should be allowed to follow the market and charge high interest rates when they have to pay high interest rates and be allowed to appropriately raise the interest rate on funds to make up for the shortfall resultant from investment in budgeted projects. Also, by increasing the interest differentials for different industries, the banks will be able to use the interest from the the processing industries to subsidize the funds given to the basic industries and have profit-making industries subsidize policy-oriented, loss-incurring industries. It is worth pointing out that the differential interest rates must really be different and not just differ symbolically. In particular, investments in

which deposit and credit rates are clearly inverted, including investment in infrastructure, basic industries, newly-emerging industries, and major social undertakings. The financial departments and central bank should establish an appropriate credit discounting fund and institute subsidies. If the bank interest rates structure is not put in order, there will be no way to basically cure the problem of investment hunger in non-basic industries. If the interest rate burden for basic industries is too light, it can easily give rise to wasted investment.

The third measure: Extending the range of banks so that they can strongly draw in funds and limiting the collecting of funds by enterprises. At present, some people say that there are too many bank deposit network branches and advocate using administrative measures to restrict their numbers. Actually this is not necessary. As the development of the commodity economy requires adherence to the law of value, competition for deposits is an objective necessity. This competition is not only competition between banks, but also competition between banks and enterprises. Some enterprises, through issuing shares, bonds, funding certificates, and lottery tickets and establishing various types of "mini-treasuries," appropriate, in a very ineffective way, a large volume of idle social funds. This contradiction whereby social funds flow off in all directions, while the banks have insufficient funds to support key projects will, I am afraid, not be solved unless banks can extend the breadth and depth of their deposit services. The wise solution is, using state-stipulated interest rates as the criterion, to allow banks to widely draw in deposits through appropriate measures and, at the same time, strictly limit the various forms of fund-raising activities by enterprise and institutional units. Also, key state project construction bonds and financial bonds should be issued. This will reduce the avenues by which funds flow to enterprises and centralize the flow of funds. This will satisfy the investment needs of basic industries and guarantee the smooth readjustment of the industrial structure.

Economist Advocates Northwest Development

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[Article by Fei Xiaotong (6316 1321 6639): "Develop the Great Northwest, Usher in the 21st Century"]

[Text] I am so glad I have this opportunity to attend the first coordination meeting of the multi-nationality economic development zone on the upper reaches of the Huang He. I have been looking forward to this for a long time. Last year, the central committee of the China Democratic League also sent comrades to contribute to the preparatory work for this meeting. I received the invitation to this meeting when I was in Nantong, Jiangsu, last week. Far away as it is, I have managed to be here on time.

Today, I would like to focus on why it is necessary to establish this multi-nationality economic development

zone on the upper reaches of Huang He and how I developed this idea. After I resumed work in the early 1980's, I conducted some investigations first in my hometown in southern Jiangsu Province. The ambition I had at that time was to "make people rich," that is, to help the common people in China become rich as quickly as possible. In the first four years of the 1980's, I stayed in Jiangsu most of the time, investigating the rural area and small towns and constantly offering my opinions. These opinions, as proved by facts, have been beneficial to the peasants in Jiangsu and across the country. This makes me happy.

I was in Zhangjiagang, Jiangsu just last week and I saw the best houses the Chinese peasants have: two- or three-story, villa-style houses. They show a living standard that bears comparison with that in rural Japan today. This change, however, did not take very long, only 10 years! The per-capita income has risen from slightly over 100 yuan in the early 1980's to more than 1,000 yuan today. The main reason is the surplus rural labor has all been put to use in rural industries, export of products, and foreign-exchange earning undertakings, so all labor has been converted to wealth.

But a problem arose here. In the early 1980's, the peasants who had truly managed to free themselves from poverty all across the country were found only in a handful of coastal areas, for example, the Chang Jiang Delta, Wenzhou of Zhejiang, hometowns of overseas Chinese in Fujian, and the Zhu Jiang Delta. Why couldn't the rest manage a rapid development? What is the reason? Thereupon, I switched the object of my study from the coast to border areas, to the most indigent places, in an attempt to find out how they could be developed. I went to Inner Mongolia, from Xinganling to Baotou and then to Alxa. Afterward, I learned that the poorest place was in Dingxi, Gansu. My initial purpose and motive for coming to Gansu was to see how poor it was and how to make it rich. Starting from 1984, I have been visiting Gansu once a year. This is my sixth time here.

I have traveled a lot in rural China and found the poverty in Dingxi very typical. The main problem is drought, shortage of water. Water is very precious. Man depends on nature for water, and so do crops. It is impossible to get rich without water. Through this, I recognized the truly needy place in rural China is the northwest. But it should not be so poor. Why? Because historically the northwest did not use to be a poor place. If there had been no northwest, there would have been no Chinese civilization today. The great northwest was the cradle of the Chinese civilization. But later, the ecology was damaged and, gradually, yellow earth became the only view that met the eye on every side. And poverty stemmed from here. Therefore, I can say that poverty has brought me to the northwest.

How to put an end to such poverty, then? When I first came to Gansu, I was considering copying Jiangsu's experience of developing township and town enterprises.

Then I recognized it was not all that easy and the major problem was a lack of an adequate foundation and conditions. However, I also found that developing a diversified economy was a good idea. When I was doing investigations in Dingxi, I met a family in the countryside. They grew grain and raised pigs, sheep, and rabbits. They were quite successful. Obviously, the principle of making full use of labor with households as basis and turning labor into wealth in various ways is viable here, too. This economic formula is now termed by some a "courtyard economy."

To develop township and town enterprises, some foundation and conditions are necessary. Industrial technology does not come from nowhere. The reason southern Jiangsu could develop township and town enterprises well is that they can rely on large and medium-sized cities and benefit from their old tradition of the handicraft industry. It is relatively more difficult to develop township and town enterprises without such a foundation. But peasants are very enthusiastic about various sideline engagements based on households. Taking as foundation the peasants' tradition of managing their households industriously and thriftily and bringing the initiative of every individual into play are a practical and realistic ways to make the people rich. When various households in various places assist in all kinds of proper sideline production, they will become rich. Gradually developing collective township and town enterprises on the basis of solid agricultural sideline production is a logical path for rural economic development.

Although the township and town enterprises now in existence face many difficulties, such as those resulting from tight money and poor environment, no major disturbances have occurred. This makes me feel that these enterprises, which I called "grassroots industry," do have strong vitality. When I was inspecting Jiangsu last month, I found that about 1/10 of such enterprises had suspended production, closed down, merged with others, or changed their line of production, as a result of serious tight money, but this blow did not cause panic in the rural area. Why? These people who are industrially and agriculturally ambidextrous may go back home to pick up their agricultural and sideline interests after their factories have closed down or stopped production and come out again to work in factories when things are better. Thus, they enjoy some flexibility and elasticity. A rural household, as an economic unit, is a strong regulatory organization. Such elasticity is absent in modernized cities, and therefore they are unable to withstand the abovementioned adversities.

It seems that the basis for economic development at the present initial stage of socialism must include households as a basis. Theoretically speaking, we can manage without this basis, but in practice, it does not work. When industrial development has just made its first step, there must be a transition from poverty to affluence in the economy. In this period, the basis of households merits full attention. In economically backward rural

areas, "courtyard economy" should be practiced, with households as basic units. They may do whatever they are capable of doing, in farming, afforestation, animal husbandry, sideline production, or fishery, on a small scale, and household by household.

We might as well regard the "courtyard economy" as a transitional form of economy. It is, after all, a small-scale peasant economy with all the weaknesses that characterize it, and with this economy, it is hard to change the small-farmer mentality. Therefore, in order to evolve toward socialism, it is necessary to have collective service organizations functioning on top of household operations. It is not hard to set up such organizations, because when the products are in surplus and the peasants cannot consume them, they will have to seek ways to market these products and turn them into commodities. But it is difficult for individual households to do a good job in this respect. Running processing industries on the basis of agricultural products requires rural households to unite with each other, so it is easy for them to accept collective services. We may start our effort with mobile and processing services and gradually develop services that can be offered before, after, and during production. When this moves on along a natural course, the masses will find it easy to accept, and collectivism will rise from here with socialism to follow. This is what we call the two-tier structure in rural restructuring. This structure uses individual economy as a starting point, which brings the peasants' initiative into play and leads them toward collectivism, reducing the weight of the individual economy while gradually expanding that of collectives. This is an approach that should be fully exploited. The above is what I have been thinking about in the past few years on how to help the common people in economically backward regions get rich soon.

When I was in Gansu for the second time, I went past Linxia and Gannan, which are both minority nationality areas. I pondered over many questions when I was there. In China today, the genuinely poor people are the minority nationalities, and this is also the root of nationality problems. In the old days, the root of nationality problems was nationality oppression. Now the nationality oppression has been uprooted, but poverty still exists. The difference between the poor and the rich is very significant, and even serious.

Generally speaking, our country is faced with three differences: its difference compared with developed countries; the difference between the southeastern coastal region and the west; and the difference between Han nationality and minority nationalities. This is my starting point in studying social problems. Why do we have to carry out the four modernizations? The very reason is to narrow the first difference, which is obvious. But, by and large, people are inadequately aware of the severity of east-west difference and that between nationalities. In my opinion, the regional difference that emerged in the course of economic development in China and the contradictions that this difference has brought about are one of the fundamental problems

facing our country at present. We must pay attention to this problem and try to solve it as early as possible.

The minority nationality regions in the western part of China cover a vast area and their major economic feature is animal husbandry. Without seeking various ways to develop the animal husbandry on this grassland, it will be very hard for the minority nationality economy to make headway. This is a fundamental question in the economic development of minority nationalities. Furthermore, historically agriculture and animal husbandry have never been separated. There has always been a twilight zone between the western highlands and the central plains, bridging agriculture and animal husbandry. Linxia of Gansu is situated in this very zone where a group of people skilled in goods circulation live. Many of them are Hui people who have a good business tradition. The Han people are not good at business because of their traditional ideology. This is why I suggest giving play to the unique traits of the Hui nationality and assisting them in promoting circulation on the Qinghai-Tibetan Plateau so as to help commercialize the animal husbandry of the Tibetan nationality. Since I treated this topic last time here, I am not going to talk about it any more. Last time when I was in Gansu, I also put forward the proposal of "promoting animal husbandry in two Nan's." I hope you will continue to study this proposal.

So far, I have been talking about how to help free people from poverty as a starting point and gradually pay attention to the development of minority nationalities. I hope there will be another opportunity for me in future to talk about how to develop the minority nationality economy in particular.

When I came here this time, I brought some new ideas. The 21st century is only 10 years away, so we must be soberly aware that the 1980's is history and we are now in the 1990's. We should start considering questions of the 21st century from now on. Therefore, we have to look ahead at the possible structure of the world in the 21st century. Last year's changes marked the beginning of the change to the world's fundamental structure. This change, to put it simply, is seen as "decline of two countries, rise of two powers, and four divided into six." The decline of the two countries refers to the fact that the world structure dominated by the United States and the Soviet Union began to shake last year and the strength of the two countries has declined, turning them from creditor nations into debtor nations. This decline will continue. One of the two rising powers is Japan in the East, already an economically strong nation. The other is the EC in the West. Therefore, one may say that there are now four powers in the world. East Germany has thrown in its lot with the other side and Germany is on the eve of reunification. The post-reunification Germany will have great strength and the EC will probably break up into two parts. Whether our country will rise in the East to become "Number 6" among the world powers depends on what we can do in the coming 10 years. That is why the future we are facing is "four divided into six" and we may say it is also for what we are striving.

An analysis of the international situation will rule out the possibility of a world war in 5-10 years. Can we rise in the East and bear comparison with Japan within 10 years? If we cannot accumulate enough strength and become powerful during this period, our status in the 21st century will be a real problem. The coming 10 years is a trial for our generation. If we can vitalize our industry, strengthen our agriculture, and bring population growth under control, it will be possible to build a strong China. But there are some conditions for making the country prosperous and powerful. The first is the stability of the overall situation; the second is the redoubling of the national economy by the year 2000, which is possible; the third is the recovery of sovereignty over Hong Kong. I hope there will not be much trouble with that. We will have a "gangway" of a dual system within one country, which makes export and foreign exchange earning more convenient. But I think we should still have a dragon, an economically strong one, running from east to west. Now the backbone of this dragon is ready, which is the east-west arterial railway. On one end of this dragon is Shanghai. It will become the mainland's equivalent of Hong Kong. We need to have a foreign trade, shipping, financial, information, and science and technology center of our own, to serve industry and agriculture all over the country. This is the window of the socialist economy.

The development of Pudong is now under way in Shanghai. When it is finished, it will benefit all parties. Shanghai has been our country's economic center in the past. Hong Kong used to be a rather backward port, way behind Shanghai, dependent on the water and coal supplied by ships. Shanghai has always been our country's eastern gate. Later, the capitalist countries imposed a blockade on our country and we also closed our doors. Hong Kong alone was the gangway for export. One may say the prosperity and development of Hong Kong are a result of its role as China's back door of export. Why can't we build several Hong Kongs of our own in some other places? We are now learning from Hong Kong and Shenzhen experiences for developing Pudong and revitalizing Shanghai. Shanghai is endowed with better conditions than Hong Kong, with large numbers of talented, supplemented people and greater technical strength and scientific and technological strength. Hong Kong, without even an inch of arable land, has no agriculture. The Pudong development zone is in no sense established for Shanghai alone, but also for the takeoff of the east-west dragon that runs across China. Shanghai will be the head of this dragon and provide services for its hinterland.

In view of this situation, the central committee of the China Democratic League suggested establishing a Chang Jiang Delta Economic Cooperation Zone, embracing one municipality and two provinces. The current problem is the convergence among the industrial enterprises and industrial structures in Jiangsu, Zhejiang, and Shanghai. An overall plan is lacking, as is an organization that caters to the interests of various quarters and provides services for the industry and business in localities. This inhibits the display of the advantages of the Chang Jiang Delta and its

related hinterland. Naturally, to establish such a center, we will have to face many difficulties and shortages of funds. But it is very necessary to set up such a mainland equivalent of Hong Kong.

The other end of this dragon is the upper reaches of Huang He, the pool of raw materials and the base for the development of processing industries. This region has great prospects. On top of the big third-line enterprises that are already there, a large number of medium-sized and small enterprises at the grassroots level run by local people have been developed recently. If the Chang Jiang Delta and the upper reaches of Huang He are well integrated into a dragon and all parties concerned work toward one goal and take into consideration the entire foreseeable situation in the 21st century, our economic strength will be greatly enhanced and this dragon will take off and fly. If we fail to do it this way, the situation we will face is clear to all. We must accumulate strength for our next generation, lay a good foundation, and create favorable conditions. The major task is to link up the two ends, the Chang Jiang Delta and the upper reaches of the Huang He. To do a truly good job here, we have to further our painstaking efforts in research and exploration so as to reach a common understanding and a correct decision. And, on the basis of this common understanding, we may work out a joint plan and implement it individually.

This meeting is of great importance. The upper reaches of Huang He are a resource-rich, yet ecologically unbalanced region. We have now found a practicable direction of development, that is, developing energy and raw material industries which provide for their own medium-sized and small enterprises as well as the rest of the country. The development of small districts, which is moving on at a fast pace, has also found its own way out: urban-rural integration and dual system within one factory. I believe, as long as the correct path is followed, the results will show in 4 years' time. At this meeting I hope you will have better vision, be more far-sighted, look ahead into the 21st century, look at China as a whole, look at both the advantages and possibilities, enhance your enthusiasm, boost your confidence, and follow the four-prong principle—joint planning, individual implementation, mutual benefits, and common prosperity. We should recover the original face of the upper reaches of the Huang He, this treasure land and cradle of the Chinese culture and combine this effort with the development of the Chang Jiang Delta and turn them into a giant dragon of China. Only by so doing can we have a clear conscience toward coming generations and step into the 21st century with minds at ease.

Qingdao Surveys Causes of Enterprise Losses

90P30089A Beijing JINGJI RIBAO in Chinese 15 Aug p 1

[Summary] Losses incurred by industrial enterprises this year have greatly affected China's economic results. A mid-year survey of 267 enterprises in Qingdao revealed the following.:

1. Due to the slumping market, factories have been forced to limit production and operate below capacity.

The resulting increase in unit production cost is a major cause of enterprise losses, primarily in enterprises producing bicycles, tractors, cameras, sewing machines, and air conditioners. Approximately 68.8 million yuan, or 39 percent of total losses, falls under this category.

2. The rising cost of raw materials, various fees, and other non-operational expenditures accounted for approximately 71.3 million yuan, or 40 percent of total losses.

3. Price reductions necessitated by competition contributed to a loss of 15.7 million yuan, or 9 percent.

4. Mismanagement accounted for approximately 19.1 million yuan of losses, 10.9 percent of the total.

Sudden and huge swings in industrial production also impacted greatly on enterprises. When capital construction projects and fixed asset investments—major indicators of economic development—are being cut back because of reduced production, continuing maintenance expenses inevitably raise the unit production cost. Furthermore, enterprises are ill-equipped to adjust promptly to complicated market changes. To rectify this situation we must improve product quality, raise economic benefits, adjust product mix, and speed up circulation.

A considerable portion of enterprise losses is attributable to state policies and thus can be called "policy losses." Formulating economic policies that reflect objective economic principles and adjusting unsuitable policies under the guidance of combining economic planning and market regulation are crucial to resolving the serious problem of enterprise losses.

FINANCE, BANKING

Effects of Interest Rates, Savings Deposits Appraised

90CE0431A Beijing JINRONG SHIBAO in Chinese
24 Jul 90 p 3

[Article by Li Jiansheng (2621 0256 3932) of the Jingmen, Hubei, Branch of the People's Bank: "A Reappraisal of the Effect Interest Rate Adjustments Have on Savings Deposits"]

[Text] (Capsule summary: Looking at the power of savings deposit income as a source of motivation for deposits, and comparing it to other motivators, we see that as a source of motivation, savings deposit income is insignificant. Under normal conditions, savings deposit interest rates have only a slight regulating influence on the total amount of deposits that are made. However, savings deposit interest rates will exert a strong regulating influence in determining the structure of savings deposits. On the other hand, under abnormal conditions, namely when inflation is running high, high savings deposit interest rates have a regulating effect on both the total amount and structures of savings deposits that are made because of all of the other motivating reasons.)

I. Interest Rates Have a Regulating Influence on People's Savings Deposits that Are Motivated by a Desire for Income

People make savings deposits for a wide variety of reasons. One of these reasons is the desire for income in the form of interest earned on the savings deposit. The following may be said about the regulating effect interest rates have on these types of deposits:

A. Interest rates have a regulating effect on the total amount of deposits. The total amount of savings deposits will rise or fall depending on whether the interest rates go up or down. If the interest rates are raised, it is more costly to hang on to one's cash, and hence, people will cut back on the amount of cash they hold. The opposite is true as well.

B. Interest rates have a regulating effect on the structure of savings deposits. That is, when the structure of interest rates is adjusted, the structure of the people's savings deposits will see a corresponding adjustment. The adjustment of interest rate structures primarily plays out in the following two ways: first, when the banks adjust the interest rate structures for savings deposits, then the people will alter their selections from among the various kinds of savings deposits available. Second, when the relative interest rates between savings deposits and indirect financial capital change, then also, the people will select options different from those originally chosen.

C. During different stages of the economic cycle, interest rates have different regulating effects on savings deposits. When the economy is tight or in a depressed state, interest rates, due to the effects of various forces, have a reduced regulating influence. First, the regulating effect of interest rates on the total amount of savings deposits is weakened because when the economy is tight the contradictions between supply and demand are lessened; hence, more people are apt to hang onto their cash and defer purchases. When there are such conditions, it matters not how much interest rates change, the people are always going to choose to increase their savings deposits. Second, the regulating effect of interest rates on the structure of savings deposits is weakened because under tight conditions in the economy investment risk goes up and the people look at the risk and prefer depositing their money in the bank rather than buying stocks or bonds. When the economy recovers and is healthy, the regulating effect of interest rates on savings deposits increases. This is because, when the economy is healthy, the people's savings deposits increase or decrease depending on the extent to which the economic environment is weak, and the interest rates will determine whether the people choose savings deposits or enterprise stocks and bonds.

D. Interest rates have different regulating effects depending on the income of the family making the deposit. Higher interest rates will have a fairly strong substitution effect on families with low incomes. That is, these people will tend to substitute savings deposits for consumption so that they may increase their savings

even faster. The reason is that although the interest income on savings deposits for a low-income family is tiny compared to their total income during a given period, higher interest rates will increase the amount of anticipated interest income and, desirous of realizing this amount, people will increase their savings deposits as interest rates rise. As for high income families, high interest rates will give them quite a bit more income and in turn, this can cause them to spend money represented by increased future income. This is the effect interest rates have on income. But, whether the savings deposits of middle-income families rise when interest rates increase depends on the relative power of the substitution and income effects on particular families.

II. Interest Rates Have No Regulating Effect on the Total Amount of Savings Deposits Made Based on Motivations Other Than Income, But They Do Have a Regulating Effect on the Structure of Such Savings Deposits

First we will analyze the absence of regulating effect interest rates have on the total amount of savings deposits made based on several different motivating factors aside from income.

A. Savings deposits motivated by precautionary intent, namely, for the purpose of individual development or marriage.

In China, these motivations for making savings deposits are strong and they are not influenced by interest rates. People in China do not save much money, and so, when it comes time for personal development or marriage expenses, funds must be gathered, and this is not something that can be done quickly. The savings of the whole family for several years will be consumed, and some will even have to shoulder heavy debt. Because of this, people in China have to scrimp and save for a long time and watch their budgets closely. Savings deposits increase for these purposes, and adjustments in interest rates will not cause this to fluctuate.

B. Savings deposits motivated by a desire to be ostentatious. This desire manifests primarily in two ways in the behavior of depositors. (1) When those who want to buy high-grade consumer goods or build a house find that their savings are insufficient for these purposes, they will do their best to cut back on their daily consumption expenditures and will increase their savings deposits. Interest rate adjustments have no influence on persons motivated by these desires. (2) When people have saved enough for the particular item of consumption they had in mind, they will withdraw their savings deposits and complete their purchases, despite the fact that interest rates may have risen.

C. Savings deposits made purely out of a desire to be frugal are not influenced by adjustments in interest rates. Savings deposits made by those with an opportunistic bent who place their intermittent cash in the bank until the day comes to make a killing in the market are

similarly uninfluenced. In the first instance, those motivated by a desire to be frugal see their thriftiness as a standard by which to live their lives. These people will not decrease their savings deposits merely because interest rates have been adjusted downward. As for the profiteers, they are concerned with making huge profits by capitalizing on changes in the various commodity markets, and they are not going to make a fuss one way or the other about getting more or less interest income as interest rates are changed.

D. Savings deposits motivated by a desire to be prepared for the costs of birth, old age, illness, and death. Everyone who is able to take care of daily necessities will put away savings deposits to guard against the unexpected events of the future. These left-over funds will not be effected by adjustments in interest rates.

III. When Inflation Is High, High Interest Rates Have a Regulating Effect on the Total Amount and Structure of Savings Deposits Made Based on All the Different Motivating Factors

A. When the inflation rate is high, all of the different motivations for making savings deposits give way to the desire to protect the value of one's money. As a result, savings deposits decline. For example, in 1988 the inflation rate was running at 18.5 percent. Thus, the 380.1 billion yuan in people's savings deposits not only could not earn any interest income, but in fact depreciated in value by 70.3 billion yuan during the period. In times like this not only will people not increase their savings deposits but instead will line up to withdraw their money.

B. Value-protecting savings deposit interest rates can also take the single motivation of protecting the value of one's money and color all of the other motivations behind savings deposits with it so that the goal of increased savings deposits is realized. In the above section we saw that people make savings deposits motivated by specific objectives that have nothing to do with making a profit on the accrued interest. Thus, when the inflation rate is high, we need only keep the interest rates close to the commodity price rises and implement a value-protecting interest rate so that the people will be less apprehensive of inflation and will have their motivation for all kinds of savings restored; in this way we can stabilize and increase a portion of the savings deposits.

IV. Conclusion

Having performed the analysis above, we can now arrive at some fundamental conclusions concerning the regulating effect of interest rates on savings deposits.

A. The regulating effect of interest rates on savings deposits is determined mainly by the comparative powers of the income motivation in making savings deposits and the various other kinds of motivations. If, during a given period of time, people are motivated more by getting income and are less concerned with the

other motivations, then interest rates will have a strong regulating effect on the total amount and the structure of savings deposits. Because the other motivating factors currently are quite strong in China, their influence on savings deposits have overshadowed the influence of the income motivation. Thus, interest rates have only a negligible regulating effect on savings deposits at the current time. Their primary effect is on the structure of savings deposits. Regulation of the total amount of savings deposits must be achieved mainly by relying on other means.

B. We should actively use interest rates to prioritize financial capital structures. Because interest rates have a regulating effect on the structure of all savings deposits regardless of the motivation behind the deposits, it is fully within our ability to use interest rates to prioritize the financial capital structures. At the present time the two following options are available to us: first, pay little or no interest on demand deposits, and at the same time, raise the interest rates on time deposits to the appropriate levels so as to increase the proportion of total savings deposits accounted for by time deposits. Second, selectively allow enterprises to issue stocks and bonds that pay an appropriate rate of interest somewhat higher than that offered by bank deposits, and thereby effect transformations in some enterprises.

C. Make effective use of interest rates to withstand inflation. During times of inflation, higher interest rates preserve the value of savings deposits, and they can also effectively offset the influence of inflation on savings deposits and lighten the pressure on the market, thereby bringing commodity prices back down.

Banking Expert Discusses Risks of Delinquent Debts

90CE0434A Beijing ZHONGGUO TONGJI XINXI
BAO [CHINESE STATISTICAL INFORMATION]
in Chinese 30 Jul 90 p 2

[Article by reporters Chen Bing (7115 0393) and Li Jianlin (2621 1696 2651) in "Hundred Schools of Economics" column: "Delinquent Debts Are a Menace and Must Be Thoroughly Weeded Out—An Interview With Zhao Haikuan, President of People's Bank of China's Banking Research Institute"]

[Text] The "triangle of debts" has become one of the major problems plaguing China's economic development. At the inaugural of this "Hundred Schools of Economics" column, we want to invite a banking specialist to discuss this problem from the banking and credit perspectives, and Zhao Haikuan [6392 3189 1401] immediately comes to mind.

When we entered Zhao's office, he was sitting at his desk busy with a pile of books and newspapers. When we explained the purpose of our visit, he paused for a while and then flipped open a file to show us some data and said,

"Today, 90 percent of the enterprises in this country have been dragged into a chain of delinquent debts. More than 100 billion yuan in debts are in default."

"It seems this chain of debts is both heavy and long. What specific danger can it pose in terms of the functioning of the economy?"

Zhao Haikuan paused and pondered for a moment and said, "Let us look at its impact in the following four areas:

"First, the accumulation of large sums of delinquent debts undermines the development of normal production. As we all know, timely product sales and retrieval of payment for goods are the preconditions to expanded reproduction or even to sustaining simple reproduction. If payment for goods is in arrears, there will be no money to restock raw materials, and normal production cannot proceed. Meanwhile, this will have an even greater impact on the order of commodity exchange, and the chaotic exchange order in turn will also affect production. Delinquent payments for goods that are unreasonable will lead to reckless redistribution of society's funds and will cut off the possession of funds from the demand of funds. In other words, there will be idled funds on the one hand and a shortage of funds on the other hand. Idled funds lead to waste, and fund shortage is an obstacle. Funds are the economy's lifeblood—if the blood vessels are clogged, circulation and production will be obstructed.

Two, an accumulation of large sums of delinquent payment for goods prevents the readjustment of the economic structure. Effective readjustment of the industrial structure, especially the product-mix, to promote gradual structural improvement is one of China's main economic goals. Banks should comply with the state's industrial policy and meet the needs of the readjustment of the product-mix when granting loans and play an active part in facilitating the realization of this goal. But an abnormal number of payments in arrears will offset the banks' effort in this respect. Stemming from the needs of the industrial policy and the structural readjustments, banks should actively support those trades and industries which are vital to the national economic development and enterprises which produce hot-selling products and which are well-managed. They should make sure that these industries and enterprises get the loans they need in order to increase production. At the same time, they should cut back on loans or stop lending money to enterprises that produce goods which are not selling or poor-quality and expensive goods, so as to encourage these enterprises to improve their product quality or switch to other products. But so long as enterprises can default on payment at will, the latter can take over the former's funds simply by defaulting. As a result, the former group which should expand are prevented from expanding while the latter group which should contract is not shrinking, and so neither the industrial structure nor the product-mix can be readjusted.

Three, the accumulation of large sums of delinquent payment for goods obstructs efforts to control the scope of fixed asset investment. Today, the capital construction units or enterprises which put the goods and materials they purchased into capital constructions are responsible for much of the delinquent payments. As a result, for the country as a whole, the actual expenditure on fixed asset investment exceeds by far the amount stipulated in the state plans.

Four, the accumulation of large sums of delinquent payment hampers the proper use of funds. At present, we do not have a system of imposing penalty interest on delinquent payments. There is no cost in defaulting. The use of funds generated by defaulting on payment for goods does not encourage enterprises to speed up the circulation of funds or economize on fund-use. In addition, irresponsible default on payment for goods is aimless, and the funds so obtained cannot possibly coincide with actual needs.

We asked, "The amount of delinquent payment for goods is not only substantial but new debts are piling up as soon as old debts are paid off. Why?" Zhao Haikuan put it simply, "The reasons are complicated, but mainly it is because enterprises in general are short of funds, the market is in a slump, and understanding of the concept of credit is inadequate.

How do we smash this heavy chain of debts?

Zhao Haikuan said with confidence, "At present we must still rely on administrative measures. Perhaps the State Council can determine that from a certain day, default on payment for goods will be illegal and violators will be prosecuted. This will be a crucial link in eliminating delinquent debts.

"At the same time, the legal system must play a bigger role. On the one hand, the state should set up a system which explicitly imposes a fine if payment for goods is delinquent. On the other hand, the courts that handle economic matters should settle disputes over delinquent payments.

"Furthermore, the banks should consider extending 'special loans for discharging debts.' All units defaulting on payments should open a 'special debt-discharge account.' The loan funds will be transferred to the special account and will be used only to clear payments in arrear and cannot be used on purchasing goods. After they set up the 'special debt-discharge accounts' and separate the special loans for discharging debts from ordinary loans, the banks must supervise the accounts closely to prevent misappropriation."

At this point, Zhao Haikuan took out another file and smiled as he said, "The localities have come up with many different ways to sort out the delinquent payments. For example, 'putting domestic debts before foreign debts,' 'offsetting,' 'sequential debt discharging' and other methods can be used in conjunction with the 'special debt-discharge accounts.'"

Finally, we came to the issue of tighter control over bank settlement. Zhao Haikuan said that the banks should continue to play a major role in settling the accounts in the buying and selling of commodities. They should take the initiative to fine the defaulting units or withhold money from them. Settlement via bank with purchaser's acceptance is a complicated process which entails a lot of extra work and should be simplified. However, in view of the fact that this settlement method exerts tighter control over both the buyers and sellers and is widely accepted by enterprises, it should be preserved for now.

When the interview was about to come to a close, Zhao Haikuan said that basically the serious default problem is due to the poor economic environment and chaotic economic order. Thus, a stricter system should be set up by rectifying banking order and strengthening fund management.

INDUSTRY

Argument Advanced for Internally Oriented Industry
90CE0381A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 90 pp 43-49

[Article by Jiang Xiaojuan (3068 1420 1227), Industrial Economics Institute, Chinese Academy of Social Sciences: "Analysis of Major Factors Affecting Chinese Industry's Choice of a Foreign Economic and Trade Strategy"]

[Text] I. The Effect of China's National Circumstances: Necessity for Industry To Lean Toward an Internally Oriented Development

Various features of the country's national circumstances require that industry adopt an internally oriented form of economic development no matter what development strategy we might wish it to adopt. There are various concrete reasons for this, as follows:

A. The levels of China's industrial production technology and production efficiency are relatively low, requiring industry to develop under state protection.

The protection of newly established industry is one of the earliest and most powerful grounds for protectionism. This concept holds that domestic industry can become established and develop only when a national government protects it when it is in a markedly more backward stage than that of advanced countries so that it is not destroyed by powerful competitors already in possession of large-scale, low-cost production methods. From an overall standpoint, a substantial gap exists between the level of China's industrial production technology and production efficiency and that of advanced countries of the world today. Even though labor-intensive industries are best able to give expression to the comparative advantage that China enjoys, namely

the advantage of a low-cost work force, they are frequently unable to stand up to the advantages that industries of the same kind possess in developed countries in the form of advanced technological equipment and high labor productivity rates. Thus, such industries not only require government subsidies in order to be able to compete on price in international markets, but even in domestic markets, they require government protection in order to withstand the powerful competition of foreign products of the same kinds. For example, the textile industry is a traditional labor-intensive industry in China, yet when import controls were relaxed during the early 1980's, even though there was an oversupply of chemical fiber textiles in China, the volume of imported chemical textile sales rose sharply. As a result, domestic oversupply became worse and worse, forcing many enterprises to limit output. The gap between products produced domestically by fairly high production technology and foreign products of the same type was more apparent. For domestic industry to develop, tariff protection and even strict quota controls were indispensable.

B. China has more labor resources than it can use, so employment has to be maintained by protecting domestic industries.

Optimized allocation of resources is a relative concept. Strictly speaking, it requires a presumption of full employment at the outset. At such time, if reallocation causes the work force to transfer from occupations in which efficiency is fairly low to occupations in which efficiency is fairly high, or if a rearrangement of the proportions of key elements increases overall efficiency of key elements, optimized allocation of resources is achieved. In theoretical terms, the reason an externally oriented development strategy enables most optimum allocation of resources internationally is that it abolishes all protection of industries. Consequently, market signals guide resources into the most competitive industries. China's labor resources are extremely plentiful, and there is a serious shortage of employment for them. A large part of the work force is unemployed or semi-unemployed. Under these circumstances, were there to be a large-scale expansion of labor-intensive industries or other industries in which China possesses a relative advantage, this idle labor force would be completely soaked up without the need to withdraw work forces for reassignment from other industries. Thus, there is no need to use optimized allocation of resources as a reason for abolishing protection of internal industries. In order to protect employment, even developed capitalist countries always increase trade protectionism during an economic slump. Even now, these developed countries still employ both tariff and nontariff barriers to protect industries that are not competitive and that are threatened by other countries' imports so as to maintain the domestic employment level. Therefore, the actual trade policies that numerous developed countries adopt are not to protect products that are competitive, but to

protect industries that are not competitive. The relatively low level of overall protection of developed countries results from their having a substantial number of products that are competitive. For China, most of whose products are as yet unable to compete with the products of developed countries, protectionism for these industries may not be regarded as an unwise or irrational trade policy in terms of the need to safeguard employment.

C. Large country advantages make possible an internally cycling kind of industrial development.

The history of industrialization in the countries of the world shows that the effect of a country's land area and the size of its population on the size of its foreign trade will be more marked than the level of its economic development. No matter whether its economic level is high or low, the economy of a large country is usually very strongly internally oriented, exports as a percentage of gross national product, that is, its dependence on exports, being relatively low.

In countries, developed and developing alike, having populations of more than 100 million, exports as a percentage of gross national product are relatively low. The only exception is Indonesia. The key to industrial development of developing countries lies not in changing their internally oriented form of economic development, but in increasing their internal production capacity and improving the level of their production technology. China has a huge domestic market and relatively ample natural resources such as other developing countries cannot match. Given these favorable conditions, no industrial sector's development is impeded by inability to attain an economic size. It is entirely possible, given China's domestic economic development conditions, for an industry to shape an industrial production system that is largely internally cycling. This is one of China's greatest advantages.

D. Demand for quality consumer goods rose rapidly; there is an intense domestic market demand for imported commodities and advanced domestic technology.

As a result of the dual effect of a rise in domestic income and the demonstration effect of international consumer goods, demand for quality consumer goods rose very rapidly in China's domestic markets. The demand-pull of this speed of change had a marked effect on the makeup of the country's imports of industrial goods: 1) intense demand for imported consumer goods; 2) very strong favoritism on the part of the country's consumers for commodities produced through the use of foreign production techniques and the use of imported raw and processed materials, and spare parts. Domestic production techniques and production capacity was unable to satisfy the rapidly inflating new consumption demand. Large quantities had to be imported in bulk, and production equipment or production lines had to be brought in. Room for import substitution was very great. These

factors exerted a very powerful pull toward foreign economic relations and trade on industries having an internal economic bent.

II. Effect of the Industrial System: Distortion of the Effect of Policy Measures

Results from industry's implementation of a foreign economic and trade strategy are affected not only by China's circumstances, but also by the industrial system. Some of the problems in the building of internal industrial production that are attributable to the system likewise exist in industry's foreign trade. Consequently, results obtained from the implementation of an externally oriented economic development strategy by China's industry differ markedly from results obtained in the market economies of other developing countries. The effect of the form of China's industrial system on industry's foreign trade is generally manifested in the following several regards:

A. Shortages in the traditional economic system lead to "import starvation" on the one hand, and limit export strength on the other.

According to deficit economics, investment demand in a socialist economy is virtually insatiable. In industrial foreign trade, this investment impact translates into an impact from imports. When it becomes difficult to obtain domestic capital, in particular, and when the external economic and trade system is also relatively flexible at the same time, foreign capital is substituted, and the tendency to go in for projects that use foreign capital is extremely intense. Now let us list the main reasons affecting the intensity of impact from imports as follows: 1) The speed of industrial development and its proportional relationship to other sectors. During high-speed industrial development, demand for various inputs is large and domestic shortages are made up from imports and the use of foreign capital. If the coordinated development of industry and other sectors is required, there is little leeway for the curtailment of demand from other sectors to support the development of industry. The means of production that must be imported and the amount of foreign capital that must be used is substantial. If industry is the main emphasis and funds and materials are taken from other sectors, pressure on imports will be relatively light. 2) The size of returns from investment on local jurisdictions and enterprises. When the central government's centralization of power is relatively tight and the returns to local jurisdictions and enterprises from investment are relatively small, the impact of local jurisdiction and enterprises' imports is relatively light. Conversely, when central government centralized authority is loose, particularly following the institution of government financial contracting and the foreign exchange earnings retention system, the impact of imports is markedly stronger. 3) Size of import-related effects. Import-related effects means the indirect effects that imports or the introduction of foreign capital bring to enterprises and local jurisdictions. For example, if foreign capital is used in conjunction with domestic

loans, and preferential treatment is given in the distribution of raw and processed materials, the provision of foreign exchange, and import permits, the impact of local jurisdiction and enterprise competition for foreign capital will be fairly intense. 4) Strength of restraint on import impact. An impact from imports has always existed in China; however, under the old system, the central government paid the foreign exchange used for imports and was responsible for debt repayment. Consequently, maintenance of the balance between imports and exports exercised a very strong restraint on the central government. Following reform of the foreign economic relations and trade system, imports, borrowing and exports, and debt repayments were largely separated, so the restraint of foreign exchange receipts and payments, and of debt repayment capabilities on the impact of imports lessened. Analysis of these factors shows that the direction of reform of China's industrial system has led to a stronger investment impact for a weakening of restraints on investment impact. Thus, sometimes the scale of imports is in danger of getting out of control. Such a situation increases frictions and difficulties in the process of shifting the path of the country's externally oriented industrial development strategy.

Investment impact causes burgeoning demand for industrial product means of production in local markets and leads to a tightening of resources for export. In addition, the nature of the country's industrialization process is also a major reason limiting export capabilities. During the early period of industrialization, China relied on the state's powers of coercion to develop heavy industry with a relative high organic composition. It did this on a foundation of the existence of a large hidden unemployed population in the country's far-flung rural villages. When these coercive restrictions were taken off all of a sudden, large numbers of the rural labor force began to enter the industrial realm. Even though rural industry exhibited classic labor-intensive features, its size was such as to increase markedly the demand for the industrial means of production. Investment impact under the traditional system and the new investment process under the new system provided a domestic market for industrial wares of tremendous capacity, and that steadily expanded. Consequently, pressures were lacking for the industrial sector to develop into the international market.

B. The tendency in the economic system to ignore economic returns is manifested in industry particularly clearly with regard to foreign trade.

Since the 1980's, as the scale of the country's imports and exports sharply increased, the lack of concern for economic returns from foreign trade became an ever-increasing burden for government finance and an impediment to further expansion of foreign trade. In order to increase economic returns from foreign trade, China's foreign trade system instituted reforms centering on the delegation of authority and the making of concessions. However, even though reform showed striking results in increasing the interest of foreign trade enterprises and

expanding the scale of foreign trade, results in the form of an improvement of economic returns from foreign trade were not so marked. Very many reasons account for the effect on economic returns from China's import and export trade, such as the production costs and added foreign trade costs of export commodities, taxes on exports, differential domestic and foreign prices of imported commodities, import duties, and foreign exchange rate changes, as well as import and export enterprises still coming under state plan control and being only semi-independent in making decisions, and so forth. Most of these reasons cannot be controlled through the efforts of foreign trade business units themselves; thus, foreign trade business units have sufficient reason not to take responsibility for the decline in economic returns. Therefore, following foreign trade system reform, in assigning responsibilities, rights and benefits to the central government, local governments, and enterprises, local jurisdictions and foreign trade enterprises carried responsibility for foreign exchange earning exports and received a portion of foreign exchange on the basis of the amount they earned. Clearly, such a relationship contains no mechanism to encourage concern for economic returns.

The tendency to ignore returns from foreign trade also shows up in the use of foreign capital. So long as they are able to operate Sino-foreign joint enterprises, Chinese investors receive numerous immediate benefits. Examples include approval for projects, discussions with foreign principals, survey trips abroad, requests for domestic credit, importation of capital and goods, and so on. As for the costs involved in using foreign capital, project returns, and repayment of loans or investment by foreign traders, usually no conscientious thought or calculations about them are made. In order to attract foreign traders to make a cooperative investment, some Chinese investors yield more than they should and give too much preferential treatment to foreign traders and are overly anxious for success. They frequently do not fully consider the obligations, responsibilities, and penalties for violation of agreements prescribed for foreign traders in contract agreements.

C. Under China's prevailing economic system, the extent to which foreign trade activity reacts to economic regulation methods is limited.

During the 1980's, China conducted a foreign trade system reform in which the core ingredients were increased delegation of authority, the making of concessions, and an enlivening of the microeconomy. At the same time, it used more economic methods to effect macroeconomic regulation and control. However, for the following reasons the reaction of enterprises to economic regulation methods is limited. First, the elasticity coefficient of the country's imports and exports is relatively small. Because of domestic and foreign market price changes, increases and decreases in total volume and the extent of structural readjustments are limited. For example, elasticity is very slight for the curtailment of imports of industrial raw and processed materials, and

the total amount of foreign exchange earnings from the export of industrial wares cannot be allowed to decrease greatly. Petroleum and coal account for a fairly high percentage of China's exports. In order to maintain required foreign exchange earnings when international market prices decline, not only can there be no decrease in amounts exported, but there must be an increase. This results in a marked decline in economic returns. The degree to which the quantity of the country's imports and exports of industrial products can respond to changing customs duties and exchange rates is also very limited. Second, following system reform, the tendency of enterprises to behave in a short-term fashion provided them with a fairly large selection of economic forms of regulation. Reaction was immediately intense to policies that brought short-term gains for enterprises and for staff members and workers, even to the point where they did not mind sacrificing overall and long-term interests. Examples were the reaction to the foreign exchange retention system and the export bonus system. Reaction was slow and very weak to measures affecting entrepreneurial units' long-term competitiveness and the long-range foreign trade patterns that were not also closely linked to enterprises' short-term interests. For example, since the 1980's, international commercial bank loan interest rates, payment periods, and conditions have changed in a disadvantageous direction. Privately owned enterprises in some other developing countries took remedial action by curtailing their loans, but Chinese enterprises' demand for credit and direct foreign trader investment remained vigorous.

D. Under the prevailing system, a large amount of administrative interference and "concession seeking" exist in the foreign trade business.

Development theory holds that an externally oriented economic development strategy can decrease or even eliminate the administrative interference and "concession seeking" of an internally oriented economic strategy. However, the experiences of other developing countries shows that the only things changed are the principals and the targets of this behavior, not the behavior itself. In China's traditional system, government administrative control was the main way in which operation of the foreign trade process was maintained. There was very much room for "concession seeking." However, since there was little relationship between an enterprises' returns and how well it was operated, there was little motivation for "concession seeking." With reform of the foreign trade system, enterprises' returns became linked to how well they were operated, so enterprises' interest in "concession seeking" declined markedly. If enterprises are able to get foreign exchange and import permits and imported equipment or foreign capital, or if they are able to get a larger share of state distributions and get preferential treatment for domestic loans, for the distribution of raw and processed materials at official prices, and tax subsidies, they are then able to increase the level of their production technology and the quality of their products with no effort on their part and

without taking any risks, while lowering production costs and increasing market competitiveness. In recent years, "concession seeking" has been visible everywhere in the foreign trade business. Talks are held regularly, haggling is conducted, and lobbying is done between production enterprises and foreign trade businesses, between them and the government, and between the central government and local governments about contract base figures, bonus methods, foreign exchange distributions, and the extent of preferential treatment.

This shows clearly that the nature of China's economic system may mean that political measures to promote the development of an externally oriented economy that are used in other developing countries are not remarkably effective when applied to China or their effect is distorted. These features of the system have to be fully considered when designing a foreign trade strategy for industry in China.

III. Effects of the International Economic Situation: Deterioration of the External Environment in Developing Countries for a Weakening of Relative Strengths

For any country instituting an externally oriented economic development strategy, the economic environment must be considered an important factor. China is the world's largest country in terms of population. It stands in the front ranks of the world in output of many products. Not only is its foreign trade restricted by the international environment, but should there be a huge increase in the scale of foreign economic activity and trade, it would have a marked effect on the international trade pattern, on international market prices, and the circulation of international capital. This section will analyze the several factors in the international environment that have the most marked effect on China.

A. Greater trade protectionism on the part of industrialized countries, sharp competition among developing countries, and "equal trade" regulations have limited China's efforts to encourage exports.

Following the petroleum crisis of the 1970's, international trade in the world economy concluded its postwar high-speed growth period and entered a long low-speed growth stage. It was affected by the international environment. During the nearly 30 years from the end of World War II until 1974, the trend toward freer international trade began to reverse. Using various pretexts such as maintenance of employment, protection of agriculture, protection of key industries, the fostering of new leading-edge, high-technology industries, and resistance to unfair trade practices, developed countries further strengthened their trade protection policies. Generally speaking, the strongest protection measures were mostly against exports coming from developing countries for the formation of a new trade protectionism consisting primarily of nontariff barriers augmented by tariff barriers. This included a series of government-issued policies and laws, including import quotas or an import

permit system, stronger antidumping laws, strict technical and sanitation standards, the setting of import prices, increased export subsidies, and increased government procurement with the goal of limiting imports and encouraging exports. Developed countries' trade protectionism had a serious effect on an increase in China's exports. Take the United States, for example. It has not yet given China unconditional most-favored-nation treatment. It has consistently excluded China from among the developing countries receiving benefits from the generalized system of preferences. It has taken action to force China to limit the quantities of certain products exported to the United States. It has adopted discriminatory price standards in the strengthening of antidumping measures against China. Trade protectionism from the European Common Market and Japan is on the increase. Competition among developing countries in international markets is also becoming increasingly intense. They are scrambling to take action to promote exports, and exports are concentrated among a small number of products, such as textiles, clothing, shoes, and headgear. In order to increase the competitiveness of their country's products, developing countries resort increasingly to export subsidies, currency devaluation, and such policies. Once such policies become common practice, they cancel each other out. Such methods of "begging one's neighbors" place developing countries in a disadvantageous position in international trade as a whole. In many developing countries, it also gives rise to imported inflation that causes a sharp decline in real exchange rates, making the position of exporting industries even more disadvantaged, and forcing the beginning of another round of devaluation in a kind of vicious cycle.

Against this international backdrop, the actions that China has been able to take to encourage exports have been very limited. Even some of the policies that have now been adopted have been criticized by some industrial countries. For example, industrialized Western countries feel that China's foreign exchange control system is actually a form of nontariff barrier. Refusal to issue foreign exchange to enterprises that want to import is viewed as being tantamount to placing limits on the quantity of exports. In addition, China's subsidization of exports or its foreign trade procurement prices are frequently regarded as dumping. Consequently, China's hopes for shaping a trade policy able to limit imports and encourage exports will not be accepted by other countries that are likewise striving to increase exports. Powerful protectionist measures and excessively preferential measures for encouraging exports may evoke corresponding retaliation from other countries.

B. The dominance of labor-intensive products from developing countries is gradually weakening and disappearing.

One important basis for China's pursuit of externally oriented economic development is its belief that China's labor-intensive products are competitive in international markets, sufficiently so to ensure that its export volume

reaches the scale needed to sustain this strategy. However, looked at in terms of the international trade pattern and technical progress in industrial production, these ideas need to be reconsidered.

1. The capacity of the international market for labor-intensive products is limited. During the period 1970 through 1984, exports of labor-intensive products averaged 31.6 percent of total world exports, textiles and clothing accounting for 8.8 and 9.7 percent, respectively. Were the foregoing percentages to be maintained unchanged for the following 10 years, it is estimated that by the year 2000 the export of labor-intensive products throughout the world would reach approximately \$583 billion, textiles and clothing accounting for \$179 billion in an annual increase of \$14.5 billion and \$4.2 billion, respectively.¹ To reach the amount of exports needed for China to implement an externally oriented economic strategy, it has been estimated that China's exports of labor-intensive products should total \$150 billion by the end of the century.² With textiles and clothing each accounting for approximately one-half of their 80 percent of labor-intensive products, China's exports of these two categories of products would reach \$120 billion and \$60 billion, or 21 and 35 percent respectively, of the world's total exports of products of the same kinds. This would require annual increases of \$8.6 and \$4.3 billion, or approximately 50 and 100 percent of the world's annual increase in exports of these two kinds of products. Obviously, this would be very difficult to realize.

2. Advances in production technology cancel out the advantages of labor-intensive products. Science and technology have advanced very rapidly in industrialized countries since the 1960's, leading to the invention and application of a series of labor-saving production techniques. The labor intensity of traditional labor-intensive industries has correspondingly weakened, while the intensity of capital and technology has increased. As a result, the relative advantages that developing countries enjoy in these industries is gradually disappearing. Take the textile industry as an example. The invention and application of numerous highly automated new techniques during the past 20 years has greatly decreased the number of textile workers. The competitiveness of the textile industry in developed countries is reviving and developing. Not only in the textile industry, but in all manufacturing industries, wages as a percentage of total costs are steadily declining. In the United States, this percentage fell from 23 percent several years ago to 18 percent today. In some large enterprises, it has fallen to between 10 and 12 percent. Labor costs as a percentage of total costs in the Nissan Company and the Toyota Company in Japan stand at 7 and 6 percent, respectively. In the electronics industry, labor costs account for only 5 percent of total costs. Consequently, advantages from low wages are no longer apparent.³ Technical transformation and scientific research to revive the competitiveness of traditional industries in developed countries will increase over the

next several years. Over the long run, developing countries should not rely on advantages from low labor costs to get ahead.

C. There have been disadvantageous changes in the amount, makeup, and credit conditions of international loan funds.

From the end of World War II until the early 1980's, the amount, makeup, and conditions for international loan funds rather favored developing countries' implementation of an external development strategy for exports. Since the 1980's, the international economic climate has changed very greatly. 1) Industrialized nations have shifted in the direction of anti-inflationary macroeconomic government financial policies, and nominal interest rates on loans have risen sharply. 2) Petroleum prices have plummeted, and national income from petroleum exports has sharply declined. 3) The debt crisis in some developing countries of Latin America and Africa has damaged the reputation of developing countries in international financial markets. 4) Changes in the foreign assistance plans of industrialized countries have brought about a decline in the volume of concessional loans that these countries and international financial organizations provide. 5) The development of science and technology has brought about a revival of some traditional industries in developed countries, weakening the trend whereby production was shifted toward developing countries. These changes have resulted in a marked decrease in the amount of international capital that developing countries obtain. Simultaneous with the decline in the amount of finance capital, both finance capital conditions and the makeup of loans have deteriorated markedly. Loans on concessional terms as a percentage of total loans have declined, while commercial bank loans at relatively harsh terms have risen as a percentage of the total. As a result of the proportional changes in loans of various kinds, developing countries' burdens in the use of foreign capital have increased. In 1984, interest payments accounted for more than half the total amount of capital plus interest that developing countries repaid, while it accounted for only one-third in 1970, demonstrating a rise in interest rates. The average debt repayment period for public debt has shortened from 20.4 years in 1970 to 14.2 years.

D. There is a clash between foreign traders' goals in investing in China and China's goals in using foreign capital.

China feels that the use of foreign capital to operate enterprises in which foreign traders have invested holds numerous advantages in comparison with foreign borrowing, as follows: 1) The sales channels of foreign traders may be used to increase exports. 2) Since returns to foreign investors depend on how well the enterprise is run, advanced production technology and administrative methods are brought into China. 3) Foreign traders' recovery of investment depends on the enterprise making profits and foreign exchange. There is no increase in China's debt burden. These are China's goals

in taking in direct investment from foreign traders. But foreign investors also have their own goals. Generally speaking, in order to get a greater return on investment than they could obtain in their own country, including a direct profit return and some long-term strategic returns, they have the following several goals:

1. Interest in the China market. China's vast domestic market holds tremendous attraction for foreign investors. Protectionism is rampant in international trade. In particular, when nontrade barriers become a serious impediment to international commodity flow the use of direct investment to enter the China market, whose potential is extremely promising from a strategic standpoint, is the principal motivation of Western transnational companies in investing directly in China. This kind of interest in the market, particularly investment in the strategic market aims mostly at long-term strategic returns. Short-term returns are not the main goal. Foreign investors may even be willing to take losses and make sacrifices on some technology as a price to be paid in order to ensure their long-term strategic goal of occupying the market.

2. Interest in China's resources. China has large quantities of as yet undeveloped natural resources, particularly mineral resources such as petroleum and coal that can be used for fuel. China's present financial and technical capabilities are limited; consequently, China desires to take in direct foreign investment for cooperative development of these resources in exchange for the export of some products to repay loans. For Japan, which is relatively so close to China and which lacks domestic resources, resource-directed investment is one of its main goals in investing in China.

3. Interest in China's cheap labor. Such investment is concentrated largely in southeastern coastal regions, mostly in small labor-intensive enterprises that require little investment to show quick results. In addition to focusing on the advantages of the country's cheap labor, most of these enterprises, compensatory trade enterprises excepted, are strongly interested in selling their products inside China.

Because of the vast differences and even the mutual clashes between the goal of foreign investors and China's goal in accepting direct investment from foreign traders, China frequently finds it difficult to realize ideal goals from investment by foreign traders. Conflicts are particularly prominent over the market orientation question. Numerous enterprises in which foreign businessmen have invested, promising a high percentage of foreign product sales, frequently fail to live up to their foreign sales agreement, their products being sold largely inside China. Of more than 5,000 three kinds of partially or wholly foreign-owned enterprises that went into production or were partly invested in as of the end of 1987, only 605, or fewer than 12 percent, were acknowledged by the state to be export enterprises. Since the foreign sales record of the three kinds of partially or wholly foreign-owned enterprises was far from ideal, they were unable

to balance their own foreign exchange needs. Not only were they unable to earn foreign exchange for China, but China had to draw on its own spot exchange or foreign exchange credit. Although foreign traders' direct investment was theoretically not supposed to increase the size of China's foreign debt, actually most projects were Bank of China-secured. They increase foreign exchange payments, weakening China's repayment capabilities. The conflicts that such different market orientations engender will endure for a long time.

The situation regarding the importation of advanced production technology by the three kinds of partially or wholly foreign-owned enterprises is also not ideal. Generally speaking, foreign traders do not want to provide the most advanced technology to help their own competitors. The contracts of some of the three kinds of partially or wholly foreign-owned enterprises who were providing fairly advanced technology explicitly provide that the Chinese party to the joint venture is not to turn over or disperse technology on its own account. Foreign traders also frequently keep secret key techniques, technology, and product formulas, so that techniques involved in the production of their products cannot be dispersed.

The foregoing analysis makes clear that the nature of China's national circumstances and its stage of development provide fairly strong impetus for an internally oriented development of industry. Under the prevailing system, returns from the encouragement of exports are frequently limited or even generate a distorted effect. Changes in the goal environment markedly increase difficulties in carrying out an externally oriented development strategy. This analysis provides us the following several thought points: 1) The advantages that a large country provides enables China's industry to have fairly strong development capabilities that revolve internally for the most part; thus, relatively small countries have more choices in form of development. In terms of material investment and product markets, it is possible to select a development strategy that is primarily internally based. 2) Since foreign economic activity and trade hold important functions for which there is no substitute domestically in the importation of advanced technical equipment and in providing a competitive international market environment and frame of reference, its positive role will have to be continued in the future. However, China's degree of dependence on exports and its debt repayment rate have reached a fairly high level in recent years; future emphasis should be shifted from increasing the scale of exports to improving returns from them. 3) Given today's microeconomic foundation and market environment, the transmission of the shortcomings of the internal system to the foreign trade area is extremely apparent; therefore, whether foreign trade will be able to perform more important functions depends on the depth of system reform. 4) Under the present system, when adopting various economic regulation and control methods in designing a market economy, consideration should be given to whether they might arouse negative

effects, to weighing the gains and losses, and to choosing judiciously. In addition, it is necessary to design policies and measures appropriate to China's national circumstances so that its industrial foundation will be good, so that it will be organizationally strong, and so that the government will possess fairly strong administrative regulation and control function advantages that can be used to the full in foreign trade.

Footnotes

1. For estimate data, please see Teng Wencao [3326 2429 5679]: "The International Environment and Its Effect on China's Foreign Trade Policies," SHIJIE JINGJI [WORLD ECONOMY], 1988, Issue 12.
2. Wang Jian [3769 1696]: "Selecting a Correct Long-Range Development Strategy," JINGJI RIBAO, 5 January 1988.
3. "Low Wages No Longer Advantageous," ASIAN WALL STREET JOURNAL, 15 March 1988.

Limits on New Cotton Projects in 8th 5-Year Plan 90P30082A Beijing JINGJI CANKAO in Chinese 12 Aug 90 p 4

[Summary] To move beyond economic retrenchment and to counteract raw material shortages, declining product quality, and reduced economic efficiency, the Ministry of Textile Industry has decided that it will strictly control the industry's capacity by prohibiting "in principle" the construction of new cotton mills during the Eighth Five-Year Plan period. Instead, it will concentrate on technological advancement and transformation of existing enterprises, adjusting product mix, raising product quality, increasing added value, and earning more foreign exchange to ensure steady improvements in economic efficiency.

The Ministry outlined the following measures to be implemented in the Eighth Five-Year Plan period:

1. Regardless of ownership form and bureaucratic relationship, the responsible textile industry departments in the provinces, municipalities, and autonomous regions must first review all new projects before reporting to the Ministry of Textile Industry for approval.
2. Old textile bases in large and medium coastal cities are not allowed to increase capacity for preliminary processing. Existing enterprises must be upgraded by becoming technology-intensive in order to process supplied materials and become import-export oriented.
3. Existing cotton enterprises will undergo rectification. All enterprises with antiquated equipment must immediately stop production and document this before reporting to the Ministry. Those enterprises that have suffered losses as the result of using more than 1,080 kg of cotton to produce one ton of yarn, utilizing equipment below 90 percent of normal operating condition, and maintaining a grade-one product ratio below 93 percent

must be rectified within six months. If they do not meet the standards after six months, they must close, suspend operations, merge, or switch to manufacture of other products.

4. To raise product quality so as to become competitive in international markets and earn more foreign exchange, cotton enterprises will receive priority in technological transformation.

5. To give full play to its overall strengths, the textile industry will rely on key cities, focus on quality products and famous brands, and form enterprise groups and coordinated bodies at different levels

6. Central and large-scale gauze markets and, by long-term contracting, cotton exchange markets in cotton producing areas will be established.

FOREIGN TRADE, INVESTMENT

Foreign Trade Trends, Strategies for 1990's

90CE0444A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 6, 15 Jun 90 pp 22-25

[Article by Li Li (2621 0500) of the International Trade Research Institute at Shanghai's Fudan University: "International Market Patterns and PRC Export Trade in the 1990s"]

[Excerpt] [passage omitted] III. The Basic Trends of PRC Export Trade for the 1990's

PRC export trade maintained a basically stable growth momentum and assumed a state of linear growth throughout the 1980's. As to the PRC export commodity mix, our proportion of manufactured goods increased from 46.6 percent in 1980 to 64.4 percent by 1988, while our proportion of primary products decreased from 53.4 percent in 1980 to 35.6 percent by 1988. PRC export commodity markets were mostly in developed countries (approximately 40 percent), with the Hong Kong-Macao region being second (approximately 32.5 percent), developing countries accounting for approximately 15.6 percent, and the Soviet Union and Eastern European countries accounting for the smallest proportion (approximately 8.8 percent). Our staple export commodities were mostly crude oil, clothing, and cotton, accounting for roughly 19 percent of our exports, which shows that they were still generally primary products from labor-intensive industries.

The proportion of world exports accounted for by PRC exports, increased from 0.92 percent in 1980 to 1.43 percent by 1988, or only a 0.5-percent increase in almost a decade, which shows that our share of world exports was very small.

From an overall perspective, the basic trend of the PRC's future export trade is going to be expansion, which will be an inevitable demand on our economic growth. Although our export trade is going to steadily expand

along with the constant deepening of our reform and opening up to the outside world, the expansion will occur not as a wave of ups and downs, but rather as a ladder of steady advances. A three-pronged expansion trend of "eastern advance, northern expansion, and western shift" will emerge in our export markets. First, as U.S. and Japanese markets have a huge capacity and can be said to be enormous pools of attraction in the international market, our export markets will continue their eastern advance by opening up Southeast Asian markets and sending expeditions to U.S. markets. Second, as our trade with the Soviet Union and Eastern European countries is springing up vigorously, we are going to lose no time in our northern expansion. Finally, as the EC is going to form into a single large market in 1992, we will seize the moment to gain a foothold there, in preparation for a massive shift into the larger EC market of the future.

Strategies Which the PRC Should Adopt for the 1990's

1. Faced with the inducement to catch up of the establishment of a single large EC market in 1992, should the PRC rouse itself to catch up, look on with cool detachment, or consider positive strategies and come up with reliable ways to take part in the process of regional grouping? These are choices that the PRC must make to confront current general international economic trends. We think that the PRC can neither follow blindly by echoing the views of others, nor stay aloof by turning a blind eye, but must play an active and safe role in the large international family, based on our national conditions and the world economic situation. First, we could gradually establish regional economic organizations in Northeast, East, and Southeast Asia that are similar in nature to free market alliances or tariff unions, in which tariffs among member states would be abolished and common tariffs would be kept for non-member states, after which key production factors, such as capital and labor, could move freely among member states. According to this plan, we could establish a Northeast Asian Tariff Union, composed of the PRC (mainly our three northeastern provinces of Liaoning, Jilin, and Heilongjiang as well as Xinjiang and Inner Mongolia), the Soviet Union, Mongolia, and North Korea, an East Asian Economic Cooperation Organization, composed of the PRC (mainly the east China economic zone), Japan, the province of Taiwan, Singapore, Hong Kong, and South Korea, and a Southeast Asian Economic Cooperation and Development Organization, composed of the PRC (mainly the Zhu Jiang Delta) and the five ASEAN nations. We could also establish a West Asian Economic Alliance, composed of China's western provinces and various West Asian countries. In this way, the PRC could evolve a three-pronged expansion trend toward the North, East, and West, which would bring our foreign trade expansion forces into full play.

As to the formation of a single large EC market in 1992, the PRC could adopt a strategy of "they defend while we attack" and use a "connection by marriage" method to break in, in order to profit from the single large market

and break through its large ring of protection. We could begin by setting up joint ventures in certain EC countries, establishing bridgeheads, attempting to hold our ground, and expanding step by step. Thus, large domestic enterprise groups should now be vigorously urged to advance toward Western Europe, so that PRC transnational corporations can gain a foothold in the EC.

2. Faced with world trade growing faster than the world economy, the increasing proportion of industrial goods and the decreasing proportion of primary products in world trade, and the expansion trend of PRC foreign trade, we must continue to steadily expand our foreign trade in the 1990's. It is extremely out of line that our export trade accounts for only 1.43 percent of world exports even though we are such a large country. Our foreign trade is not expanding too much, but rather far too little. From the perspective of the history of world economic development, industrially developed Western countries, as well as rising industrialized Asian countries, all motivated their overall economies to take off with exports. Foreign trade is a motivation or inducement for the whole national economy.

PRC export commodity markets are distributed roughly as follows in the 1980's: 64 percent in Asia, 19.8 percent in Europe (including 9.5 percent in the EC), 8.8 percent in North America, 2 percent in Africa, 0.98 percent in Latin America, and 0.98 percent in Oceania, which shows that our export trade has not yet broken free from its pattern of mostly offshore operations. In the 1990's, we must vigorously expand our overseas trade, aiming it at the U.S.-Canadian free trade zone and the large EC market in particular.

The way for us to expand our foreign trade is to increase our electronics exports. In world markets, there is a spectacular rising trend in electronics trade, but a falling trend in primary products trade. Thus, developing our electronics trade in line with the principle of the contrast in profits, is the only way that we can expand our foreign trade. The basic trend of PRC exports throughout the 1980's was clearly that encouraging achievements were made in our electronics exports. In our future expansion of electronics exports, we must change from regional to industrial favoritism, and put into effect different preferential policies in various industries based on export efficiency, in order to promote a rational expansion of our electronics industry.

3. Faced with the sharper competition and increased options of international capital circulation in the 1990's, the PRC should make great efforts to enhance its investment climate, by working to improve both its hard and soft climates. In the current world economic arena, "trade and investment" are two "sharp weapons" which we must learn how to use well. As to investment, we must both "invite it in" by importing foreign capital, and also "send it out" by investing abroad, so as to speed up our economic development through two-way fund circulation.

Shanghai should be able to develop its investment potential to the full in the 1990's. The State Council has approved Shanghai's development of the new Pudong Zone, which has far more development value than Hainan Island and is a geomantic paradise. As long as a good investment climate is formed in Pudong, it will be able to attract tens of thousands of merchants, entrepreneurs, and bankers to invest in its development, and will certainly add luster to this pearl of the Orient, Shanghai. Shanghai is a multifunctional city for opening up to the outside world and has established a good image throughout the world. Along with the development of the new Pudong Zone, and as an economic center with strong capabilities for domestic and foreign expansion, Shanghai can motivate an economic takeoff for all of Shanghai as well as for the whole PRC.

We must persist in acting according to international practice when using investments. The more we persist in acting according to international practice, the better our investment climate will become. We must develop long-range strategic foresight in this area. As Shanghai is opening up not only to Asia, but also to the whole world, it will undoubtedly become one of the world's ideal investment sites.

Guangzhou Targets Problems of Foreign Investors
90CE0433B Guangzhou GUANGZHOU RIBAO
in Chinese 26 Jul 90 p 1

[Article by Li Chaoji (2621 6389 1015) and Chen Ruchun (7115 1172 2504): "Work Together To Run Foreign Business Enterprises Better, Solve Real Problems, and Improve Work Efficiency"]

[Text] "In the 1990's, Guangzhou will take new steps in reform and opening up. In order to achieve a common goal, administrative bodies of the municipal government will handle foreign business enterprises better," said Li Zilui [7812 1311 3177], acting mayor of Guangzhou. Yesterday he spoke to over 400 representatives from the "three kinds of partially or wholly foreign-owned enterprises" [hereafter referred to as FIE's, or foreign-invested enterprises] who attended the Seventh Dialogue Conference sponsored by the Guangzhou Foreign Business Enterprise Association.

Li Zilui remarked, "We will improve the investment climate further and raise work efficiency. We are in the process of taking measures to gradually solve problems such as telecommunications and power supplies. We are also in the midst of rectifying the problem of unreasonable charges imposed on FIE's. The General Administration of Customs will soon issue new regulations which will make things more convenient for foreign business investors. We hope that foreign businesses will cooperate in the 10 key construction projects, 600 other projects open to foreign businesses, and projects transforming some old enterprises which Guangzhou has announced."

Also present at the conference yesterday were vice mayor Lei Yu [7191 1342], people from Guangzhou's Foreign Economic and Trade Commission and Foreign Investment

Enterprise Association, and other responsible persons from concerned departments such as customs, finance, taxation, power supply, and foreign-exchange management.

Lei Yu also said, "The municipal government is willing to help foreign businesses solve the problems they encounter when setting up their enterprises. There are many communication channels between the municipal government and foreign businesses. We hope that all investors who come to Guangzhou can set up business smoothly."

Wu Binghui [0702 4426 6540], director of the municipality's Foreign Economic and Trade Commission, reported on the development of foreign trade and foreign economic cooperation in Guangzhou during the first half of this year. With regard to foreign trade, from January to June of this year Guangzhou exported local goods valued at \$637 million; this was an increase of 49.73 percent over the same period last year. Exports from FIE's accounted for \$135 million worth of local exports, more than double the figure of the same period last year. This momentum is still developing. Wu Binghui said that foreign business investments have shown two characteristics during the first half of this year. The first characteristic is that investment has centered on Guangzhou's economic construction, and the number of key projects has increased. The second characteristic is that the number of Taiwanese compatriots investing in Guangzhou has increased, and some Hong Kong tycoons have also started paying more attention to development projects in Guangzhou.

During the conference, which ran for more than two hours, foreign businessmen took the floor and asked all sorts of questions. Some asked that a computer network service be set up, and some brought up the question of hiring technical professionals; some asked whether profits from FIE's could be used to set up new enterprises; others raised questions about power supplies and other issues. All of these questions were answered individually by concerned departments.

Foreign businesses concentrated mainly on the problem of unreasonable charges. Responsible persons at Guangdong's Price Management Bureau put forward measures addressed particularly at rectifying the 22 unreasonable charges which most concern foreigners. All illegal and irrational charges must be resolutely abolished. All charge standards which are too high must be lowered. Concerned departments must put forward their suggestions for dealing with charges which are reasonable but which have no legal base. The suggestions may only be carried out after the Price Management Bureau has ratified them.

Shanghai Foreign-Invested Enterprises Maturing

90CE0433C Shanghai WEN HUI BAO in Chinese
26 Jul 90 pp 1, 2

[Article by Chen Wei (7115 1919): "Shanghai's 'Three Kinds of Partially or Wholly Foreign-owned Enterprises' Enter a Mature Phase of Development"]

[Text] Because Shanghai has created an excellent production and management environment for foreign-invested

enterprises, most of its 370 "three kinds of partially or wholly foreign-owned enterprises" [hereafter referred to as FIE's, or foreign-invested enterprises] enjoy good business. According to statistics, in the first half of this year the value of industrial output of these enterprises reached 12.326 billion yuan, their business income was 11.08 billion yuan, and their exports earned \$340 million in foreign exchange. All of these represent extensive increases compared with the same period last year. This shows that most of Shanghai's FIE's have entered a mature phase of development.

Many FIE's in Shanghai take advantage of the convenient conditions of the city's original industrial base and international port. During the preliminary phase of their founding, enterprises targeting the international market adopted advanced international standards as their own production standards, and took the path of an export-oriented economy. The Shanghai Yaohua Pilkington Glass Co., the largest Sino-foreign joint-venture in the new Pudong district, has made every effort to expand into new international markets since it began operations two years ago. Its opal glass, mirror glass, and LVC [expansion unknown] glass products have been sold in more than 20 countries and areas. In the first half of this year, the volume of the company's glass exports accounted for more than 50 percent of its total volume of sales and shipments, and earned \$16.49 million in foreign exchange. The Shanghai Mitsubishi Elevator Co., the largest Sino-Japanese joint-venture in Shanghai, grew out of an old military goods manufacturing enterprise. After becoming a joint-venture, it imported advanced technologies and management methods from abroad which have made the old enterprise shine with youthful vigour. This company introduced and manufactured the computerized, variable voltage, variable frequency, adjustable speed elevator (VVVF), a modern, internationally advanced product which has enabled China's elevator manufacturing industry to rank among the world's most advanced. This type of elevator has already been used in some domestic luxury hotels and acts as an import substitute. At the same time, after absorbing advanced technologies, this company also manufactured the popular ACVV [expansion unknown] model elevator, which not only sells very well domestically, but also has many orders from abroad. The Shanghai Mitsubishi Elevator Co. has already established sales offices in Singapore and Thailand and is relatively influential in Southeast Asia. In the first half of this year, the company earned \$4.02 million from exports. Nine joint-ventures which are operating in Shanghai's light industry sector earned \$8.8 million from exports in the first half of this year, a 1.8-fold increase over the same period last year. Among these joint-ventures is the Shanghai Zhuangchen Co, whose export earnings during the period were five times more than in the same period last year.

Since last year, many domestic enterprises have suffered because of the weak market. However, because their products are of reliable quality and are marketable, Shanghai's FIE's seldom have overstocked products. In

recent years, many Chinese enterprises rushed headlong into mass production of pantyhose; some factories produced very low quality products and competed by lowering prices. The Shanghai Huagao Knitting Co. in the Minhang development district is quite different from others: its products are good quality, fashionable, and come in many varieties, and they sell both domestically and abroad. In 1988, both sides of the Sino-foreign joint-venture increased their investment and added 60 fully automatic hosiery knitting machines to the assembly line, which originally had 155 hosiery machines. Still, product supply cannot meet demand. Sales from January to June this year increased by 75 percent over sales in the same period last year; foreign exchange earnings on these sales increased by 77 percent compared with earnings from the same period last year. The company's products have been sold in markets in Europe, Southeast Asia, South America and Southwest Africa. By utilizing advanced technologies and management methods from the world-famous Coca Cola Corporation, the Shanghai Shenmei Beverage and Food Co., a Sino-U.S. joint-venture, has produced international quality beverages which have already been used in large, local hotels and which substitute for imported beverages. With their novel tastes and packaging, the company's Sprite and Fanta products have swept across the domestic market and are warmly welcomed by customers. Sales in the first half of this year amounted to 56 million yuan, an increase of 25 percent over the same period last year. "Wolf" brand sneakers manufactured by the Shanghai Xingzhong Shoe Co. and "Warrior" brand soap produced by the Shanghai Lihua Soap Manufacturing Co. sell very well in the market. The economic results for these two joint-ventures have been very remarkable.

Abundant technological resources are one of the "magic weapons" behind the success of Shanghai FIE's. Over the past few years, Shanghai has set up a great many technology-intensive joint-ventures. These enterprises already had a high technological starting point, and they not only imported advanced "hardware" from abroad, but also gained formulas, patents, and the technological know-how for quite a few advanced foreign "software" technologies. All of these enable joint-ventures to have high technology products and relatively strong competitiveness. The "Santana" automobile is manufactured by the Shanghai Volkswagen Automobile Co. This car is technologically advanced, enjoys the championship position in the domestic market, and is considered the "number one seeded" substitute for imported cars. As of 15 July, 9,500 Santana cars had been produced this year, an increase of 22 percent over the same period last year. The Shile Shenbei 1027 duplicating machine introduced and manufactured by the Shanghai Shile Duplicating Machine Co. is a new, product which uses international high technology from the late 1980's and which has very good performance. This company has made high quality the life of its products. Over 10,000 duplicating machines have been produced since production began, and the rate of packaged machines which are up to standard quality has reached 100 percent. Sales in the

first six months of this year increased by 52 percent over the same period last year, and the company occupies one-third of the domestic duplicating machine market. The Shanghai Nisaila Sensor Co. is a mature, high-technology Chinese joint-venture. The volume of its exports of infrared sensors is the highest in the world. This year they have manufactured more than 10 new products, such as supersonic sensors, and their export earnings increased 30 percent over the same period last year.

Complete after-sales service is a strong competitive tool for expanding business for Shanghai FIE's. The Shanghai Yikang Chemical Industry Co. is a Sino-U.S. joint-venture with 40 employees. They adopted the latest U.S. technology and achieved high efficiency with very good economic results. Foreign exchange earnings average \$50,000 for each person in the enterprise. Since the enterprise started operating two years ago, their detergents for dining halls, guest rooms, and laundries have been used in most domestic tourist hotels and have squeezed imported detergents out of the domestic market. The secret of their success is that they provide complete and all-around service, from how to use their products to training of equipment operators, anytime or anywhere. At present, a great number of FIE's in Shanghai have established their own sales and service networks, integrating production, sales, and service into one system. Their "feelers" have spread to many cities and provinces throughout the country. They are expanding their markets by using various measures to extend overseas and by relying on their comprehensive superiority.

AGRICULTURE

Agricultural Product Cost Surveys Explained

90CE0387A Beijing NONGCUN CAIWU KUAIJI
[RURAL FINANCIAL ACCOUNTING] in Chinese
No 7, 6 Jul 90 pp 57-59

[Article by Long Ben (7893 1149): "Questions and Answers About Agricultural Cost Survey Information"]

[Text] [Question] *I heard that the Department of Agriculture recently approved and forwarded an "Agricultural Products Cost Survey Plan (Trial)." May I ask, what is the difference between doing an agricultural products cost survey, and doing an agricultural products cost accounting?*

[Answer] An agricultural products cost survey is an extension of agricultural products cost accounting work. Since 1979, the Ministry of Agriculture Main Administration and Control Station has summarized a whole body of agricultural product cost calculation methods from farming to the aquatic products breeding industry. These data were taken from trial cost accountings for agricultural products done in rural villages nationwide. They also trained a large number of technical cadres specializing in agricultural products cost accounting for

all jurisdictions. Today, there are more than 1,500 counties nationwide doing agricultural products cost accounting. At the test sites, the Ministry of Agriculture Main Administration and Control Station also performed a statistical collation of accounting data from all jurisdictions to produce data reflecting agricultural inputs and outputs. Because of the increase in rural commodity production, these data are given increasingly serious national attention, showing that the state wants to provide scientific macroeconomic direction to agriculture. A grasp of agricultural input and output data is extremely important for this purpose. Macroeconomic control requires representative data. Previously collated agricultural products cost accounting data came from pilot project county data, and even though each province took into consideration various matters in selecting pilot project counties, a look at the results of development show cost accounting pilot project provinces are extremely unbalanced in terms of numbers and distribution. Weighting of data is impossible in the collation of the statistics, and this seriously damages their representativeness for agricultural product costs nationwide. Therefore, agricultural product cost surveys are to be conducted nationwide beginning in 1990. Agricultural product cost surveys are to be done in accordance with random sampling principles. Readjustments are to be made in the existing agricultural products cost accounting pilot project sites, the number of counties that are regionally representative being appropriately increased, and the number of duplicatory and not regionally representative counties being reduced in the formation of a nationwide agricultural products cost survey network. Agricultural products cost accounting is the foundation for agricultural products cost surveys. Only when agricultural product cost accounting is accurate can the basic data for agricultural product cost surveys be genuine. Agricultural product cost surveys differ from agricultural product cost accounting in that survey units have strict requirements. They have to insure that the collated data is representative of the production situation nationwide. This is to say that data is not collated on all the counties for which accountings are rendered, but that representative counties have to be selected for surveys, and only data from representative counties is collated.

[Question] *Why do agricultural product cost surveys select counties to be surveyed by agricultural zones?*

[Answer] This depends on the purpose of the agricultural products cost survey. An important purpose of agricultural product costs surveys is to help government departments do a better job of macromanaging agriculture. In a macro sense, agricultural production is markedly regional. The differences in comparative returns from farm crops in different areas accurately reflect the changes in natural areas. By guiding the development of agriculture on the basis of these tendencies, the rational use of agricultural resources can be promoted to obtain ideal economic returns. For agricultural product cost surveys to reflect this feature of agricultural production,

it is necessary to make sure that there are separate agriculture product cost survey counties from each agricultural region. Furthermore, each major agricultural area is further divided into different sub-areas. To reflect the agricultural production situation in the sub-areas, each sub-area has to have attendant survey counties. Therefore, agricultural product cost survey counties laid out by agricultural zone can reflect the regional nature of agricultural production, insuring the representativeness of agricultural product cost data. Laying out sites by agricultural zone to distinguish them from other survey characteristics helps in the collation and analysis of agricultural product cost data by agricultural sub-zone group. These data may be used directly to formulate agricultural policies and draw up zoning for agricultural departments, to spur the promotion of techniques applicable to specific places, and to serve in the macrocontrol of agriculture. Although the present agricultural products cost survey plan provides for establishment of survey counties by agricultural zone, 300 agricultural product cost survey counties were selected from 31 sub-zones of 10 major agricultural regions. However, once the survey counties were decided upon, organization and control of the agricultural product cost surveys was under the leadership of provinces and counties. This helped bring into play the role of administrative leadership, which helped provinces, autonomous regions, and municipalities under direct central government jurisdiction keep close tabs on the use of agricultural product cost data, serving local agricultural departments in directing agricultural production.

[Question] *What does equidistant sampling mean? How are equidistant sampling methods used in the selection of agricultural product cost survey counties?*

[Answer] Equidistant sampling is a sampling method. Since the purpose of sampling is to use a sample to represent the whole, the sample must be representative of the whole. Equidistant sampling means first arranging in a column all the individual units in the whole, and then selecting one unit at each alternate equivalent distance. The group of units thus selected are a sampling of the whole. Use of the equidistant sampling method to select agricultural product cost survey counties may be conducted in the following steps:

The first step is to collect data. In accordance with the "Agricultural Product Cost Survey Plan (Trial)," which the Ministry of Agriculture approved and forwarded, provinces select survey counties from among agricultural sub-zones using the equidistant sampling method. Therefore, it is necessary to collect agricultural zoning data first. These data have already been mailed by the Ministry of Agriculture Main Administration and Control Station to each province (or autonomous region and central government directly administered municipality). Next, the agricultural output value of each mu of cultivated land in each county in the sub-zone has to be ranked in accordance with "Plan" requirements. Therefore, 1989 agricultural gross output value, and year-end cultivated land area data for each county has to be

obtained from the Statistical Bureau. After these data are received, the agricultural output value per unit of cultivated land in each province is then calculated. Third, 1989 gross output of grain for each county has to be gathered for use in dividing up distances. Suppose we have obtained the following data from a certain sub-zone in a certain province:

County	Agricultural Output Value Per Mu of Cultivated Land	Gross Grain Output
A	649.09 yuan/mu of cultivated land	40,980 tons
B	429.67 yuan/mu of cultivated land	140,655 tons
C	878.06 yuan/mu of cultivated land	408,414 tons
D	387.44 yuan/mu of cultivated land	230,815 tons
E	387.57 yuan/mu of cultivated land	281,380 tons
F	431.22 yuan/mu of cultivated land	110,980 tons
G	501.80 yuan/mu of cultivated land	35,120 tons
H	1,001.70 yuan/mu of cultivated land	91,910 tons
I	1,094.40 yuan/mu of cultivated land	322,453 tons

The second step is to rank agricultural output value per mu from high to low, gross grain output being arranged county by county in increasing order.

County	Agricultural Output Value Per Mu of Cultivated Land	Aggregate Grain Output
I	1,094.40 yuan/mu of cultivated land	322,453 tons
[H]	1,001.71 yuan/mu of cultivated land	414,363 tons
		(554,235)
C	878.06 yuan/mu of cultivated land	822,777 tons
A	649.09 yuan/mu of cultivated land	863,757 tons
G	501.80 yuan/mu of cultivated land	898,877 tons
		(1,108,470)
[F]	431.22 yuan/mu of cultivated land	1,009,857 tons
B	429.67 yuan/mu of cultivated land	1,150,512 tons
[E]	387.57 yuan/mu of cultivated land	1,431,892 tons
		(1,662,705)
D	387.44 yuan/mu of cultivated land	1,662,707 tons

The third step is to determine the interval between groups, dividing into groups the counties that have been ranked. Three counties are to be selected from this sub-zone, which means all counties have to be divided into three groups. Before grouping, it is necessary to calculate the group interval. The accumulated gross output of each county is divided by three to get the group interval. In this data, the group interval is 554,235. The group interval in the aggregate grain output column is used for the continuous division into groups, the nine counties being divided into three groups.

The fourth step is selection of the survey counties. First the median value of each group has to be calculated for the three groups already derived. The median value of the first group is 411,388.5; the median value of the

second group is 986,644.5; and the median value of the third group is 1,406,609.5. The three counties, H, F, and E in which these figures fall are the agricultural product survey counties for the sampling.

The fifth step is to conduct a representative examination of the agricultural product cost survey counties selected. The examination has two parts. The first is an examination of the types of agricultural products, comparing the main agricultural crop types in the sub-zone and the actual agricultural product types produced in the survey county. If the main agricultural product types are the same, it may be concluded that the agricultural product types are representative. The second is examination of the level of production, comparing agricultural output value per mu of cultivated land in each county of the sub-zone with the output value per mu of cultivated land in the sample counties. In the above listing, the weighted average figure for the agricultural output value per mu in each county of the sub-zone is 645.81 yuan. The average weighted figure for agricultural output value per mu in the three survey counties selected is 649.80 yuan. The average figure for the survey counties is 0.6 percent higher than the average figure for each of the counties in the sub-zone. The difference between the two is 3.99 yuan. If figured by the weighted average method for which the permitted representative error is plus or minus 15.70 yuan, the actual error is 5.61 yuan, which is far smaller than the permitted error. Therefore, the three counties selected, H, F, and E, are representative of this sub-zone and may be designated survey counties. If the actual error is larger than the permitted sampling error, other samples must be re-selected. When other samples are selected, it is not necessary to select counties by group median value. Other values may be used, but the principle of equidistant sampling must be followed.

Major Reform To Save Grassland Resources

HK1209025090 Beijing CHINA DAILY in English
12 Sep 90 p 1

[By staff reporter Wang Dongtai]

[Text] The Government has decided to lease millions of hectares of pastureland to herdsmen under long-term contracts in a major reform of the decades-old rural land policy.

The reform—to be introduced nationally from now—is designed to “save China’s vast grassland resources from rapid deterioration caused by overgrazing and neglect,” CHINA DAILY was told by Li Shoude, deputy chief of the Grassland Division under the Ministry of Agriculture.

Under the new policy, herdsmen will take over tracts of pastureland, under 10 or 15-year contracts with the government. The herdsmen will be responsible for the use and management of the land and will pay an annual rental ranging from 3 yuan to 15 yuan per hectare.

The herdsmen will have the option of renewing the lease and continuing to raise livestock on the land for as long as they desire.

However, the reform will be introduced gradually, area by area, and "probably will take more than 10 years to be implemented nationwide," Li said.

The gradual approach is necessary, because most herdsmen live a nomadic life and have been used to grazing their livestock anywhere on the grasslands "which belonged to nobody," Li explained. "So it will take time for them to accept the new policy."

Moreover, local cadres may also find it difficult to break the nomadic tradition of herdsmen in their areas, Li added.

But, said Li, the reform is essential to preserve the grasslands which are being increasingly over-exploited resulting in a rapid decline in quality, Li said.

China has been losing about 660,000 hectares of grassland annually in recent years because of desertification and over-grazing.

Herdsmen used the grassland to raise animals but paid no attention to the problems.

Under the new system, local governments will charge the herdsmen rent according to the grade of the leased pastures.

For natural pastures, the annual rental is to be from 3 yuan to 4.5 yuan (60 to 95 cents) per hectare. For cultivated pastures, the annual rental will be from 7.5 yuan to 15 yuan (\$1.6 to \$3.2) per hectare.

The government hopes the change will spur the herdsmen to pay more attention to preserving the pasture under their management, and raise no more animals than their land can support.

Such a system was first experimented in the Inner Mongolia Autonomous Region in 1985. Since then 53 million hectares of Inner Mongolian pasture have been contracted to local herdsmen, accounting for 84.9 per cent of the usable grassland there.

Survey of Rural Households, Land Issues in Anhui

90CE0306A Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY]
in Chinese No 6, 23 Jun 90 pp 41-44

[Article by Gu Yuan (6253 3293) and Li Jiayi (2521 1367 0308): "Manage Land Relations at the Appropriate Juncture and Promote Stable Agricultural Growth"]

[Text] The limitations inherent in the small-plot farming pattern produced by China's output-related system of contracted household responsibility have begun to exhaust the impetus that was evident after the first stage of restructuring in land relationships was undertaken.

Given that we do not affect the stability of the land policy, one of the major issues we must solve as we draft current rural policies is how to achieve a more effective disposition of land resources. Based on data from the Anhui Rural Household Survey, and on responses to a survey of land issues conducted among 500 peasant households and 126 administrative village cadres in 10 sample counties across Anhui, this article attempts to give a preliminary description and analysis of the basic condition of rural land relationships in Anhui and the policy system we should adopt.

I. The Basic Condition of Rural Land Relationships

A. Emergence of Equalitarian Small-Plot Farming Pattern

Anhui has been the staging platform for nationwide rural reform. Quite early on we initiated a provincewide output-related system of contracted household responsibility focused on large-scale projects. This program was essentially in place in the villages sampled by the end of 1981. Contracting to complete large-scale projects is one of the purest forms of output-related household contracting and signifies that a new form of land relationship has been established. Given the limited, undiversified means of rural livelihood available and the need to satisfy peasants' most basic living requirements at that time, the survey shows that 90 percent of the sample villages had divided the land evenly according to population figures, including adults and children alike. The remaining 10 percent had divided the land evenly after considering population and labor factors. As for methods of land grouping, 84.1 percent of the villages sampled divided the land in even proportions of fertile land, fair land, and poor land. Consequently, the pattern of land management that came into being was one of small, evenly distributed plots, on which the household was the responsible unit, and everyone had a similar quantity and quality of contracted land. In 1984 central government Circular No. 1 established regulations governing land contracts longer than 15 years and confirmed the validity of the land management pattern already in place. To date, the rural land management pattern still has not changed significantly. According to a 1988 survey of 3,100 peasant households in 31 counties provincewide, households with the highest percentage of labor power available contracted only 0.1 mu more land per capita than the province average. Similarly, households with the lowest percentage of labor power available contracted only 0.1 mu less land per capita than the province average. As we can see, the land/population ratio is essentially identical for all peasant households. The basic situation is as follows: Households average 5.2 people, of which 3.36 people work full or part time and farm 8.31 mu of arable land. As for fixed assets per 100 households, in the transport category there are six small or hand-operated tractors, 45 rubber-tired handcarts, one rubber-tired cart, and two motorboats; in the irrigation category there are three water pumps and one complete irrigation and drainage pump; and in the threshing category there are two threshers. A low level of

mechanization is still quite characteristic of agricultural production. However, there are noticeable differences between peasant households in terms of production capabilities. In 1988 households earning per capita net incomes over 1,000 yuan accounted for two percent of all households, and in these households the per capita start-up value of fixed assets used in production was twice that of households having a net per capita income of less than 200 yuan per year.

II. Mechanisms for Preserving Equalitarian Small-Plot Farming Pattern

This strict correspondence between population and land area in land management is preserved by eliminating the effects of various changing factors. The changing factors are primarily the natural increase and decrease in population, population migration, and the commandeering of land originally under contract. The preservation mechanism is manifested in two ways: First, the collective economic organizations in the project area uphold the principle of equal sharing; second, the contracting households tenaciously defend their land-use rights.

That the collective economic organizations in the project area uphold the principle of equal sharing is demonstrated in their exercise of land regulation rights. According to the survey of 126 villages in 10 Anhui counties, 77 percent of the villages have readjusted land distribution since unit contracting to complete large-scale projects was put into effect, and the average village has done so 3.5 times. The survey included the following major points: 1) A survey of population changes, including additions to contract land due to population growth following births to newlyweds in conformance with family planning quotas; increases in contract land due to the arrival of new daughters-in-law; and the subtraction of contract land due to deaths, daughters leaving home, children leaving for college, and household occupational shifts to nonagricultural pursuits. These actions correct variously caused departures from the principle of equal land distribution. 2) Amalgamation of land parcels to resolve the problem of scattered land holdings. Obviously, the collective economic organizations rely on strong administrative measures to effectively preserve the essential stability of land relationships.

That contracting households tenaciously defend their land-use rights is demonstrated in the fact that, in practice, land contract transfers and subleasing have been a very limited. In the survey of 500 peasant households, nearly 50 percent of the sample households no longer looked upon farming as the primary source of family income, but regarded it as a basic security to provide for their well-being or to fall back upon if the need arises. The preeminent status of land in peasant production and business is eroding. Nevertheless, peasants are willing to do extensive cultivation on their land, but they are not willing to lose it. Nearly 70 percent of the peasants surveyed indicated that, even though most of their income already comes from nonagricultural

industry, they are not willing to give up their land in any fashion. Sixteen percent of those surveyed said they were indifferent to the question, and only 15 percent indicated that they were willing to give up their land. The primary reasons that peasants are unwilling to abandon their land are as follows: 1) Development in nonagricultural industry is unstable and land is the most basic security or recourse for peasant livelihood. 2) They are afraid policies may change suddenly and they may not be able to recover transferred land. 3) If prices of agricultural goods skyrocket, they are prepared to renew their efforts at farming. 4) Urban and rural lifestyles are separate, and there is no effective security for peasants who go into the cities to pursue their livelihoods. Consequently, readjusting the rural industrial mix cannot bring with it a suitable degree of land concentration.

Although an extremely limited amount of land has been transferred, such transfers have indeed happened all over the country, and they have occurred in many forms. From a typical survey of Fuyang Prefecture we can see that land transfers can be divided essentially into two categories: The first occurs when a household divides but the land is not divided between them, so that a single large family amalgamates its land holdings in a suitable fashion. The second occurs when possession is transferred between peasant households in return for compensation. But, no matter which form is followed, preservation of the original contracting household's land use rights is a precondition.

III. The Limitations and External Contributing Factors Affecting This Equalitarian Small-Plot Farming Pattern

If we say that when we began contracting to complete large-scale projects the positive response of the peasantry to acquiring land-use rights further concealed the limitations inherent in farming small, evenly distributed plots of land, we must also say that these limitations have grown more and more obvious as rural economic development has intensified. First and foremost, there is the low efficiency of natural resource disposition. The principle of equalitarian distribution ignores the objective existence of disparities between peasant households in labor power, funding, technology, and farming ability, destroying the optimum combination of production factors. An analysis of a 1988 residence survey reveals that as many as 57.7 percent of current peasant households in Anhui have no capacity for extended reproduction. Distributing these peasant households' land resources is a low-efficiency process. Second, the prospect of farming small plots of land does not attract households to long-term investment, nor does it benefit capital construction on farmland or help to improve the agricultural production environment. Rather, it leads quite easily to a degeneration of farming functions. The survey of 500 peasant households revealed that 60 percent indicated an unwillingness to invest much in the land because land holdings were too small and dispersed. Since 1985 purchases of production-related fixed assets by peasant

households in Anhui has declined steadily as a proportion of production investment, dropping from 13.5 percent in 1985 to 8.6 percent in 1988. In 1989 we have even seen a decline in the absolute volume of expenditures. Finally, as households split up, there has been a tendency to divide land even further into tiny bits and pieces. This detracts from suitable aggregation of the land and leads peasants to revert to small-scale, self-sufficient commodity production. In 1988 the grain commodity ratio was 35.4 percent—only three percentage points higher than it was in 1985.

The collective economic organizations' dual abandonment of land management and service functions is the chief external factor that has placed limitations on this pattern of equalitarian, small-plot farming. During the early stages of rural reform, when we were seeking to keep what was useful and abandon what was not in the old collective economic pattern of large-scale projects with a high degree of public ownership, not only were collective economic organizations unable to transform and retrench in a timely fashion, but also the various means of production previously owned collectively were converted to money and distributed among the peasants. The collective economic organizations were then unable to take responsibility for social service functions, and various conflicts that individual families and households had no means of resolving grew worse and worse. At the same time, the collective economic organizations essentially abandoned their indispensable land management functions.

The deteriorating environment for agricultural industry and the renewed widening in the price scissors between industrial and agricultural goods has exacerbated the contradictions inherent in the equalitarian small-plot farming pattern and made them more apparent.

IV. A Basic Assessment of Existing Land Relationships

In general, existing land relationships still conform to the current state of rural productivity and the current level of peasant ideology. This can be demonstrated from the following facts: Agricultural production is still the primary source of peasant income. In 1988 gross income from agriculture still constituted as much as 85.1 percent of all income from household-run operations, and 63 percent of this was produced by cultivation. Although there had been some growth in secondary and tertiary industries, their share of gross income was both small and extremely unstable, and their capacity to accommodate labor power was very limited. The organic component of agricultural production in most peasant households declined and they were unable to handle the requirements of large-scale production. The option of relying on township and town collective economic organizations to handle the large volume of social services also no longer existed. Moreover, the vast majority of peasants and village cadres unanimously demanded a stable land contracting policy and opposed major adjustments. Consequently, the task that lies before us is to

ascertain how, based on stable existing land relationships, to make the best use of the regulatory functions of policy levers to promote development that capitalizes on the advantages of the system and keeps its disadvantages under control; promotes more efficient distribution of land resources; helps us to achieve agricultural modernization; and allows us to realize our goals of reordering land relationships and promoting sustained, stable growth in agricultural production.

V. The Principles, Means, and Contents of Policy Adjustment

Presently, theoreticians are proposing many policies and making many suggestions on how to overcome the limitations inherent in the equalitarian, small-plot farming pattern and improve land productivity. For example, they have proposed a perpetual tenancy system, a system of singular inheritance, a two-field system, and a system of concentrating land in the hands of farming experts. This survey solicited the views of rural cadres and peasants in 10 counties on these issues, but met with widespread opposition.

1. The Principle Behind Upholding Our Land Policies

Current rural land policies must adroitly handle the relationship between stability and change. First of all they must acknowledge the pattern of interests served by existing land relationships, and, by granting peasants stable policy expectations, satisfy their desire for stable land contracting policies. Second, land policy regulation must revolve around improving land productivity. The pattern of interests served by existing land relationships, as well as other external limiting factors, restrict increases in land productivity so that we can only attain it to a limited degree. Our present land policy must seek the optimum practical point to drive a wedge between these two factors.

2. Selecting the Means of Land Policy Regulation

The means of regulation we envisage can be described as follows: Village-level collective economic organizations should institute direct administrative regulation that conforms to legal standards of land management and land use and adheres to the principle of economic guidance. The reasoning behind is as follows:

First, it is clearly stipulated in China's "Land Management Law" that "According to law, collectively owned land belongs to rural village collectives and is farmed and managed by village agricultural production cooperatives and other agricultural collective economic organizations and village citizens' committees." Generally speaking, there are rather close family and geographic relationships within a village, and more often than not there are common interests that form a basis for cooperation and facilitate management. At the same time, village organizations are the most basic political units in China, and they have accumulated organizational leadership capabilities over a long period of time.

Second, the conditions for instituting far-reaching economic regulation do not exist in the current rural land situation, so the capacity for economic regulation is quite limited. However, we must acknowledge the pre-existing pattern of interests that hinge upon current land relationships and require land regulation to follow the principle of economic guidance.

Third, it is naturally characteristic of the small-scale rural economy, as a community of small-scale commodity producers, that it "precludes accumulation of the means of production, as well as coordinated joint efforts, division of labor within the same production process, social control and domination over the forces of nature, and growth in social productivity."¹ Thus it requires active intervention in the form of direct administrative methods. Another reason for direct administrative intervention is that China's "Land Management Law" clearly stipulates that "a collective or individual contracting to farm land has a duty to safeguard and make prudent use of the land in conformity with contract regulations." This provides a legal standard for utilizing administrative measures to institute direct management.

3. Land Policy Regulation Must Be Based on Clarification of Land Relationships, Enhancement in the Management Functions of Village-Level Organizations, and the Establishment of a System of Social Services To Support Farming

Because of haste in the early stages of reform, inadequate preparations were made and the process of advancing household land contracting became in reality a process of policy promotion. The issue of concluding contracts was shunted to one side and the two contracting parties' understandings of their respective rights and responsibilities became established based on the policy intentions current at that time. This led to a situation in which the preexisting land relationships remained unclear and nonintegrated. Prerequisite and crucial to driving an effective wedge of policy regulation is that we must alter this situation, use contract methods to clarify the respective rights and duties of project initiators and contractors toward the land, and obtain their legal approval of these respective rights and duties and the way they are exercised. But to ensure that land relationships develop in a way that contributes to improving land productivity and agricultural modernization, we must rework contract standards and terms on land quantity, quality, and per-mu yields to facilitate better management by village-level economic organizations.

Right now, because land relationships are murky, land use and management are in a state of chaos. In our survey 75.4 percent of the peasant households believed that actual land ownership rights revert to the state, or to the township or village collective. Thus, they were unwilling to make long-term investments in the land. This makes destructive farming and imprudent land use virtually unavoidable. Among the 500 peasant households surveyed, 286 now farm less land than they did when the contract period began. The two chief reasons,

in order, are family division and home building on the land. Collective economic organizations have essentially adopted a laissez-faire attitude about this. Out of the 126 villages surveyed, 52.4 percent had no regulations whatsoever prohibiting entire families from abandoning cultivation and relocating to small cities and towns; 35.5 percent said that so long as the land was not allowed to go uncultivated, it was not necessary for village to take back the land; and only 8.9 percent indicated that in such cases the village must recover all the land. As for the issue of automatic contract extensions on contract land, 42 percent of these villages indicated that they are allowed, 21.8 percent had no regulations governing this point, and 36.3 percent indicated that automatic extensions are not allowed. Thus, the sources of deterioration and chaos in land management are obvious. After we further clarify land relations, we must first establish a uniform, relatively detailed land management policy based thereon, and enhance the management functions of village-level collective economic organizations. Right now rural collective economic organizations are incorporated into administrative organs. Their central task is to fulfill assigned grain procurement quotas and family planning goals and to collect collective withholdings. Therefore, we should break up and rebuild these collective economic organizations. After so doing, their main function should be land management and they should strive to develop the collective economy and establish a social service system for rural production and farming.

4. How To Raise Land Productivity Under the Existing Pattern of Land Relationships

First, we must devote our efforts to establishing an effective land compensation mechanism. In accordance with the specific circumstances that pertain, each locale should at the earliest possible time launch a land assessment and grading project and establish a land archive based on the village unit. This archive should set up an account for each household, conduct a comprehensive survey of land quality at regular intervals, and, in conformity with contract provisions, increase rewards and decrease penalties to encourage the peasantry to invest in land. Simultaneously, investing in environmental improvements in the land may inspire peasants to increase their own inputs in land. The survey of 500 peasant households revealed that right now peasants are interested in purchasing improved varieties of crops and enhancing agricultural technology; using more organic fertilizers and safeguarding land fertility; and investing in field water conservancy systems and augmenting drainage and irrigation capacity. The latter two categories constitute compensation behavior. Consequently, in the future the various levels of government must continue to offer peasants land compensation to create a good external environment. Second, our land policy should work to facilitate land transference and appropriate economies of scale in farming. Through land transference we can achieve a more reasonable alignment of the key factors in land productivity. We feel that the land transference pattern includes not only contract

transfers and possession transfers, but also close coordination between peasant households, a centralized supply of social services, and the merger of dispersed properties. We cannot rely entirely upon peasants to spontaneously establish a land transference mechanism. Experience proves that this process will be extremely slow. Active intervention in land policy must play the following roles: First, it must support and promote land transference between peasant households; second, it must adjust land parcels and resolve the problem of dispersed land holdings; third, it must provide social services at the village level for households that are unable to farm and for those engaged in household-based cultivation of non-cash crops; and fourth, village-level collective economic organizations may compel peasant families who do not desire to pursue long-term farming or who have no time to farm to return all or part of their land to the village, which will then re-contract it. Only in this way can land policy effectively safeguard the actions of the land transference mechanism.

Although the appropriate economy of scale in farming requires a strict set of preconditions, provinces like Anhui still have little prospect of popularizing it on a broad scale, but it is not entirely out of the picture. Over half of the peasants in sampled households were willing to accept two ways of developing economies of scale in farming: "Connecting tracts of arable land and centralizing cultivation, irrigation, harvesting, fertilizer supply, and disease and pest prevention"; and "Aiding mid-level peasants and encouraging land concentration through preferential policies such as the provision of chemical fertilizers at par." In addition, we envisage that by implementing suitable economies of scale in farming, we can open up new paths, so that, in addition to the existing pattern of farming, we can take the lead farming public reserve lands, developmental plots, distant tracts of land that peasants are loathe to farm, and previously contracted fields that villages have reclaimed, and thus play a role in setting an example and accumulating experience.

1. See *The Complete Works of Marx and Engels*, vol. 23, p. 803.

Gansu Levies Taxes on Stock Raising

HK1309072790 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 11 Sep 90

[Excerpts] The provincial government has promulgated some provisional regulations for the levying of taxes on stock raising.

According to the regulations, units and individuals engaged in the raising of the five kinds of livestock—cattle, horse, camel, sheep, and goat—as sideline production in pastoral areas, farming areas, and semipastoral and semifarming areas of our province should pay taxes on profits from their stock raising. [passage omitted] A 1.5 to 2.5 yuan tax is assessed to each head of draught animal such as cattle, horse, and camel; and 0.5 to 1 yuan to each head of sheep and goat. [passage omitted] Tax reductions or tax exemptions can be granted, in the light

of actual conditions, to tax payers in case they suffer livestock losses due to natural disasters. Tax payers who cannot maintain basic living standards may apply for reduction or exemption from taxes on their livestock from the departments concerned at the county and township levels. A charge of an additional 0.5 percent of tax payment is made to tax payers who fail to pay their taxes on time. A fine of less than 500 percent of tax payment is imposed on all tax dodgers.

Guangdong Produces More Sugar

OW1209043790 Beijing XINHUA in English 0150 GMT 12 Sep 90

[Text] Guangzhou, September 12 (XINHUA)—Guangdong Province in south China turned out 1.655 million tons of cane sugar in the 1989-90 pressing season, accounting for more than 30 percent of the country's total.

An official of the provincial bureau of light industry attributed the good result to the adoption of advanced technology and equipment over the past decade.

According to the official, Guangdong has 114 sugar refineries with a daily output of 156,400 tons of sugar in different varieties and its annual sugar output ranks first in the country.

Chen Huiguang Speaks at Guangxi Meeting on Droughts

HK1109144190 Nanning Guangxi Regional Service in Mandarin 1030 GMT 10 Sep 90

[Excerpts] The regional party committee and government this afternoon held a meeting on the work of fighting droughts and listened to a briefing given by Wang Rongzhen, vice chairman of the regional people's government, on the work of combating drought across the region.

Regional party committee Secretary Chen Huiguang and regional people's government Chairman Cheng Kejie addressed the meeting.

Vice Chairman Wang Rongzhen pointed out in her briefing: Since August, the temperature has remained high and it has been very dry in our region. As a result, the drought has become increasingly serious. So far, 19,794 ponds and rivers have dried up, streams of water in 4,890 rivers have broken, 16.9179 [as received] mu of farmland have been hit by the drought, accounting for 56.29 percent of the total sown area in the second half of the year, and 1.4 million people and more than 600,000 heads of draught animals are short of water. In the face of such a situation, leaders and cadres at different levels of the region have been to the forefront of combating drought, organizing the masses to combat drought to keep a full stand of seedlings. At present the region throws in 7.23 million cadres and the masses a day for fighting drought, with a total of 83,600 sets of pumps and 4.43 million tools. The amount of money for combating drought allotted by departments concerned at different levels has reached 30.65 million yuan, including 7 million

yuan from the regional treasury. Meanwhile, the region has allocated 19,000 tonnes of diesel and given priority to the use of electricity for combating drought in rural areas. After a month of fighting, the region has successfully kept a full stand of seedlings in 4.2 million mu of farmland. Vice Chairman Wang Rongzhen also pointed out that the drought situation across the region is still worsening, but we should strengthen our confidence in striving for harvests by combating drought. [passage omitted]

Regional party committee Secretary Chen Huiguang and Chairman Cheng Kejie stressed in their speeches: It is necessary to increase confidence in combating drought, be full of vigor, cherish the idea of waging protracted struggle against disasters for harvests, and carry the combat against drought through to the end. Leadership organizations at different levels should strengthen leadership over the fight against drought and concentrate manpower, materials, and financial resources on the fight. All trades and professions should carry out their work around the task of combating drought and give their vigorous support to the task of combating drought in rural areas. [passage omitted]

Hebei Purchases High Volume of Summer Grain

SK1209101990 Shijiazhuang HEBEI RIBAO in Chinese
11 Aug 90 p 1

[Summary] Hebei Province has purchased more summer grain this year. By 30 July, the province put 1.31 billion kg of wheat into storage, which was bought by honoring the fixed-quota purchase contracts signed with peasants. The wheat accounted for 100.8 percent in the total volume of fixed-quota purchase contracts. The province's 14 prefectures and cities which have signed the fixed-quota sale contracts with the state have fulfilled or overfulfilled their task in this regard. Of the stored wheat, that purchased at a fixed price instead of at a negotiated price has reached 255 million kg, which accounts for 101.9 percent in the purchase plan in this regard. There are 38 households across the province, each of which has sold more than 10,000 jin of grain to the state, and whose total volume of grain handed over to the state has reached 505,000 kg.

Qinghai Works To Improve Animal Husbandry

OW1609192590 Beijing XINHUA in English 1855 GMT
16 Sep 90

[Text] Xining, September 16 (XINHUA)—Total head of livestock of northwest China's Qinghai Province

increased by 1.54 million in the first eight months this year over the same period of last year.

About 5.5 million head of young animals survived in the first eight months, an increase of 12.38 percent from a year earlier.

Qinghai is one of the main pastoral areas of China. More than 11.4 million head of livestock died of the frequent snow storms since 1979. Deterioration of pasture land and poor management of the grassland also hindered further development of animal husbandry.

To change this situation, Qinghai provincial government has implemented the contract responsibility system in 1984, which has greatly spurred herdsmen's enthusiasm in protection and the construction of pasture land.

This year, the provincial government allotted 20 million yuan (about 4 million U.S. dollars) in grassland construction, nearly three times more than the figure for 1985.

Herdsmen's investment also amounted to 40 million yuan (about 8 million U.S. dollars) from the 3.6 million yuan in 1985.

These efforts have brought great changes in the productive conditions of the animal husbandry in Qinghai Province.

Wang Enke, director of the provincial animal husbandry bureau, said that so far about 333,000 hectares natural grassland have been fenced up, and about 180,000 hectares deteriorated grassland were improved. In addition, man-planted and aurally-planted pasture land reached 133,000 hectares and 20,000 hectares respectively.

Areas haunted by mice and various pests have been reduced to the current 3.81 million hectares and 200,000 hectares from the original 5.4 million hectares and one million hectares in the 1960s, according to the director.

Meanwhile, 15 prefectures and counties have set up fodder centers which can store 250 million kilograms of hay annually to tide over natural disasters.

In addition to the above changes, 17 animal husbandry associations have also been set up since last February. These associations are mainly inviting skilled technicians who will offer various services for herdsmen in their productive activities.

National Defense Education Viewed as Strategic Task
90CM0319A Chengdu SICHUAN RIBAO in Chinese
 8 Jul 90 p 2

[Article by Yang Rudai (2799 3067 1486), secretary, Sichuan Provincial CPC Committee: "Ruling Party Must Make National Defense Education an Important Strategic Task"]

[Text] Ever since the 13th Party Central Committee issued a call to the whole party and all the people throughout the country to "intensify national defense education to improve the people's concept of national defense," and particularly since Comrade Jiang Zemin reiterated in a "speech commemorating the 40th anniversary of the founding of the People's Republic of China" "serious attention to and intensification of national defense education to improve all citizens' national defense awareness," thanks to the common efforts of people of all nationalities throughout the country, national defense education, that important integral part of all citizens' ideological and political education, has begun to flourish on the good earth of the republic, and the outlook is encouraging. Our country is currently facing an intricate and complex international and domestic situation, and is confronting serious challenges. What new contributions can be made that are able to meet the needs of the changed circumstances to lay a good ideological foundation for protecting the motherland and consolidating national defense, for invigorating national spirit, and for strengthening national cohesiveness? I believe one important thing is that the ruling party must increase understanding of national defense education, consciously making national defense education an important strategic task that is constantly and untiringly given attention.

The Ruling Party Must Make National Defense Education an Important Strategic Task

The Communist Party of China is the vanguard of the proletariat, and it is a true representative of the interests of Chinese people of all nationalities. The party, which became the ruling party after leading the people of the whole country in seizing power, should make national defense education an important strategic task. Basically, the party's proletarian nature and the historical mission it carries require this.

1. Intensification of National Defense Education Is a Basic Requirement for the Ruling Party's Consolidation of Power

Marxist theory of the state maintains that the fundamental issue in revolution is political power. Our party led the people in a nearly 30-year-long bloody struggle to establish a people's democratic regime under leadership of the working class and founded on the alliance of the workers and peasants. This regime is both the lifeblood of national independence and initiative, the prosperity of the nation and the well-being of the people, and it is

also the fundamental guarantee for the country's socialist modernization and its transition to communism. Consolidation of power cannot be accomplished without the broad masses of the people acting as a backup force and without the full confidence and resolute support of the mass of people. The masses are the source of strength for our party and regime. Strengthening of national defense education is an important way to mobilize the broad masses of people to act with one heart and one mind to protect the state power of the people's democratic dictatorship, to support national defense, and to safeguard the nation. This is the way to increase national defense awareness and heighten the people's political consciousness about protecting the socialist republic and protecting the people's political power for the shaping of a centripetal force, a cohesiveness, and a combat capability for consolidation of the people's political power. During the historical stage of socialism, in particular, the infiltration of international anticommunist and antisocialist forces, subversion and even armed aggression, and the resistance of domestic antagonistic forces are the main factors that always threaten the people's political power. If problems in these two regards are not solved well, there is no use talking about the survival and development of the country and the race. Vigorous strengthening of all the people's national defense education can make the citizens fully realize that, without a people's army, the people have nothing, thereby establishing a powerful awareness about being concerned for national defense, support for national defense, and the building of national defense. This can ensure peacetime national readiness of large and superior reserve forces for the formation of a deterrent force. Should war break out, it would be possible to mobilize sufficient troops swiftly to go to the front lines to ensure victory in war. It would cause the people to maintain a high degree of vigilance and increase zeal for defending national sovereignty, territorial integrity, and defense against foreign aggression and subversion, for prompt identification and foiling of the infiltration of domestic and foreign protagonists, and subversion plots. It would enable the state to rely on powerful national defense to strengthen state public security and People's Armed Police machinery, to attack all criminal elements and hostile forces seeking to overthrow the people's democratic regime, and to safeguard the normal order and tranquillity of society. Several thousand years of class struggle show that if a country's citizens lack a strong national defense concept, and if national defense strength is seen to be weak, this will lead to bullying, humiliation, and aggression by foreign enemies. One important reason that China suffered the aggression of foreign enemies many times following the Opium War was the decline of its national strength, the citizens' hazy national defense awareness, weak national defense capabilities, and little deterrent strength. Following the birth of New China, even though internal antagonists sought to cause trouble using every means possible, and external antagonists glared at China like tigers eyeing their prey, not one of them was able to shake the people's political power. This was because not

only was China far stronger than it had been, but extremely important reasons were the increased national defense consciousness of all the people, stronger national defense capabilities, and increased deterrent strength. We must bear this principle firmly in mind.

2. Intensification of National Defense Education Is a Necessary Requirement for the Ruling Party's Development of Social Productivity

In order to solidify national defense, protect socialist modernization and the people's peaceful livelihood, the country usually uses its most advanced productivity for the building of national defense, concentrates a large amount of outstanding talent in national defense undertakings, and applies results obtained from the most sophisticated science and technology to national defense first. This places the building of national defense on the leading edge of advanced productivity. In addition, national defense knowledge is a body of substantive information that covers all fields of learning, that solidifies the newest achievements in modern science and technology, and that foretells or represents the outlook for or direction of the development of productivity. Study, mastery, and application of national defense knowledge and national defense science and technology can both widen the knowledge of the citizenry and develop information resources, and it can also improve the working, management, and administrative skills of workers. Thus, it can rapidly propel the transfer of advanced productivity in the building of national defense into other economic sectors, thereby raising the scientific level of the entire nation and people. In addition, workers are the most active and most vigorous factor in productivity, and the only one that possesses a dynamic role. National defense education employs Marxist national defense concepts as its guide to teach the citizens to understand the external and internal factors closely related to the security of the country, to see clearly the relationship between individual interests and the national interest, to understand their own responsibility and obligations for the country's security, and to increase willingness to participate in building the country and in protecting the country's security interests. This enables laborers to stand at the heights of the country's survival or demise, and the nation's rise or decline, to understand the necessity for national construction, and to make the most of enthusiasm for labor, thereby promoting a steady rise in the labor productivity rate and giving powerful impetus to the development of productivity. In places such as the Liangshan-Yi Autonomous Prefecture in Sichuan Province, for example, while the broad ranks of militia conducted "use of labor to support the military," and did a good job of military training and performing military duties in the course of national defense education, they also actively launched a campaign to help the needy become prosperous, drew up plans, spread science and technology, trained talented people, and provided multiple services, thereby helping change the prefecture's production and economic situation to promote the development of rural productivity.

3. Intensification of National Defense Education Is an Important Way for the Ruling Party To Build Socialist Spiritual Civilization

The fundamental task in the building of socialist spiritual civilization is to train up new "four haves" personnel to improve the ideological and ethical quality and the scientific and cultural quality of the whole nation. Realization of this fundamental task requires thorough and painstaking ideological and political work, and conducting all kinds of educational and beneficial campaigns. Moreover, the special substance and function of national defense education in the building of socialist spiritual civilization is that no other education can substitute for its role. In a scientifically complete sense, national defense education is a process that employs certain concepts of warfare, concepts of national security, and national defense knowledge as primary ingredients, and that uses patriotism as its nucleus to produce an ideological effect on the entire citizenry. Applied to China, this means that the patriotic spirit and the national cohesiveness shaped through protection of the country by the broad masses of the citizens, the concept of sharing weal and woe in which suffering is honorable that was shaped in battles to oppose foreign enemy aggression, the do-or-die concepts of arduous struggle, advancing wave upon wave, and not fearing sacrifice, and the love and hate concepts of fervent love for the motherland, fervent love for the people, and loathing of cowardice, capitulation, and betrayal of the country are spiritual forces that have always encouraged the citizenry to exert themselves to forge ahead. In particular, the Long March spirit, the Yanan spirit, and the Lei Feng spirit, shaped in the process of the Communist Party of China leading the Chinese people in carrying out revolution and construction, are an even greater precious spiritual wealth of the Chinese people. Use of this rich substance to educate the people not only holds fresh historical continuity, imagery, vividness, typicalness, profundity, and mass character, but it can also generate a powerful attractiveness and infectiousness, becoming transformed into a powerful spiritual force. Thus, it can stir people's sense of national self-esteem, sense of honor, and sense of pride, and can foster a fine social atmosphere and national morality of respect for discipline and obedience to the law, mutual cooperation, and exertion to move ahead, and it can mobilize and unite people of all nationalities throughout the country to struggle in common for the cause of socialist modernization. Therefore, we must make national defense education an important way in which to propagate the revolutionary tradition and patriotism, to criticize racial nihilism and national nihilism, and to carry out the building of socialist spiritual civilization.

National Defense Education in the New Age Must Embody the Characteristics of the Era

The dominant theme of the modern world is peace and development. The overall trend in the current international situation is from tension to relaxation, and from opposition to dialogue. But the world is not peaceful.

The people of all nationalities in China won a great historical victory in the soul-stirring political struggle and grim test of 1989; marked achievements have been made in improving the economic environment and restructuring the economic order and in the deepening of reform; a new upturn has occurred on the ideological and political front; and the overall situation is stable. Nevertheless, elements of instability continue to exist, so maintenance of stability remains a prime task today. Therefore, when we conduct national defense education, it must embody the features of the times, and the new substance of changes in the situation. It must reflect our party's thinking and position on these important problems, a high degree of political and ideological unity with the party being maintained.

1. National Defense Education Should Fully Embody Our Party's Strategic Thinking About Opposition to the "Peaceful Evolution" of Western Opposition Forces

International anticommunist forces have always made the subversion of socialist countries their own basic strategy. They alternately employ armed intervention and "peaceful evolution." Since 1989, because of the onslaught of "peaceful evolution," social upheaval and a deterioration of political power have occurred in some socialist countries. Today, international reactionary forces regard China as the main target of "peaceful evolution" in exerting pressure against it. One of the main tactics that Western antagonistic forces employ in "peaceful evolution" is the infiltration of bourgeois ideology, setting the propaganda machine in motion, disseminating bourgeois political and economic forms and value concepts, as well as decadent ways of life. They spread a doctrine of socialist crisis and defeat, and they incite dissatisfaction and feelings of antipathy against socialism and communism. The essence of this technique is to wage psychological warfare in an effort to sap morale, win over people, and foster bourgeois successors for the ultimate subversion of the leaders of the Communist Party and change of the socialist system. The "peaceful evolution" strategy of Western antagonistic forces has already succeeded in some socialist countries, thus showing the real danger and seriousness of this strategy. Thus, in the course of national defense education, we must thoroughly indoctrinate against "peaceful education," so that, while strengthening their national defense concepts, all of the people will profoundly understand the long-term nature, the complexity, and the arduousness of "peaceful evolution," will maintain a high degree of vigilance, and will remain firm in their socialist convictions. This is the way to shape a "spiritual national defense" of opposition to "peaceful evolution," resistance to the infiltration of bourgeois ideology, indomitable fighting will, dedication heart and soul to the cause, and fighting to build the "four modernizations."

2. National Defense Education Should Fully Embody Our Party's Policy Regarding Maintenance of National Political, Economic, and Social Stability

National political, economic, and social stability are prerequisites for progress in all of the country's undertakings.

Without stability, nothing will succeed. As Comrade Deng Xiaoping said, "Of all China's problems, the one that takes precedence over all others is stability. Without a stable environment, everything will fail, and the gains already won will be lost." Furthermore, we must realize that, because class struggle exists within certain limits, this struggle is manifested in a concentrated way in the opposition and struggle between bourgeois liberalization and the four basic principles. An extremely small number of people who stubbornly persist in bourgeois liberalization are biding their time, hoping to use certain bureaucratic and corrupt situations existing between the party and state workers, mistakes in work performance, and difficulties in the building of socialism and reform to incite trouble and create disorder in an attempt to seize power during the tumult. Since the occurrence of some new contradictions has been unavoidable in the process of solving some old contradictions through improvement of the economic environment and rectification of the economic order, and since there are certain things in the social order and the social atmosphere that are not entirely to people's liking, the task of maintaining the country's political, economic, and social stability is an extremely daunting one. National defense education is an important aspect of the party's ideological and political work and, in the final analysis, it is also an important task that should be shouldered unflinchingly by those who perform ideological work to safeguard social stability. Consequently, we must make full use of the function of national defense education so that people form an unswerving socialist standpoint, conviction, and feeling to increase their immunity so that they will consciously oppose the influence of bourgeois liberalization and maintain the country's political stability. We must enable the broad masses of staff members and workers to consider issues from the heights of the national interest and the interest of the people, share the cares and burdens of the nation, correctly handle the gap existing in the distribution of benefits and successes and failure in the readjustment of benefits, and correctly handle interest relationships among the state, collectives, and individuals. We must enable them to be of one heart and one mind, take the overall situation into account, struggle arduously, and go through trials together to advance the stable development of the country's economy. We must imbue people with greater consciousness, observance of discipline and respect for the law, willingness to struggle against wrong tendencies and the bad deeds of bad people, so that they not only possess strong convictions about maintenance of national unity, the unity of all nationalities, and the preservation of social stability in the realm of social stability and the development of endeavors, but also so they triumph over difficulties, unflinchingly safeguard social stability, and have a firm conviction about pursuing development through stability during temporary hardships in national development.

3. National Defense Education Should Fully Embody the Requirement for Bolstering Overall National Strength So That the People Establish a Modern National Defense Awareness

Overall national strength is an overall indicator of a country's overall power and its position in the world.

Driven by the overall national strength contest between one country and another following World War II, the world changed from a bipolar to a multipolar political and economic pattern. With a relative decline in the power of the United States and the USSR, the power positions of West Germany and Japan increased tremendously. As a result of 40 years of the building of socialism, China's overall national power has gone from weakness to strength, attracting the attention of the world. Even though very many factors figure in a country's overall national strength, the most important ones are economic strength and scientific and technical strength, including military strength, and the national defense awareness of all the citizenry. How well socialist China fares in the overall national power contest has a direct bearing on how well the superiority of socialism is displayed, and on the country's international image, reputation, and attraction. If we are to rid ourselves of backwardness so we are not looked down upon and bullied, we must increase our overall national strength with all possible speed. Specifically, this means adherence to the party's basic line, using the building of the economy as the central point in efforts to modernize industry, agriculture, science and technology, and national defense. In our relations with foreign countries, we should pursue a policy of the five principles of peaceful coexistence, oppose the military competition between the two superpowers, and stand for peace. This will require our use of national defense education so that all citizens will establish a universal awareness of safeguarding the national interest and of increasing overall national strength, and will understand that in today's world in which all countries of the world emphasize economic development, the strengthening of national defense is done not only with the needs of the present generation in mind, but also with the security and development needs of posterity in mind. Therefore, we must also establish an attendant modern national defense consciousness, and we clearly must do a good job of building national defense. Sole reliance on the efforts of the armed forces is far from enough. All fields and all trades and industries must work as one and struggle in common, relating their personal endeavors with national security and the flourishing of China, be concerned about national defense, build national defense, and protect national defense. For every citizen, this means establishing an awareness that every person has a share of responsibility for the fate of his or her country, steadily heightening one's own sense of responsibility and sense of duty, and using one's own words and actions in the resolute execution of one's own national defense authority and duties.

Need for Solid Measures To Intensify National Defense Education

1. The Party Should Place National Defense Education in the Position It Deserves

By the party placing national defense education in the position it deserves is meant that CPC Committees at all

levels should regularly and unceasingly study party Central Committee policies and the guiding spirit of policies pertaining to national defense and military matters so that they know what's what and correctly understand the orientation, plans, and principles underlying national defense education. They should consider national defense education to be a regular and ongoing basic effort, placing it on their daily agendas, establishing clear-cut responsibilities and divisions of labor, making it a part of management-by-objective responsibility systems, and establishing attendant evaluation systems. Principal leaders must personally take part and take the lead in studying and solving important problems in national defense education. They must proceed from reality, diligently analyze regularly or periodically the situation and characteristics of national defense education in their own areas, study the trend of development and new problems in this work, summarize experiences, and draw up measures for improving and intensifying this kind of education.

It should be noted that CPC Committees must both place national defense education in an important position, and also not try to do everything. On the one hand, they must coordinate relations among party, political, and military leaders at all levels, and work together with worker, youth, and women's organization under unified leadership of the CPC Committee, each displaying its individual strengths to render a cooperative and joint performance. On the other hand, they must devote special attention to bringing into play the role of military units at all levels. Provincial military regions, military subregions, and the People's Armed Police are military units under CPC Committees at all levels. CPC Committee leadership of national defense education should be exercised mainly through them. The people whom these units indoctrinate and the work environment are the joint concern of the armed forces and the local government who play a role as bridges and as bonds that link the party, the government, the armed forces, and the people. They occupy a special position in national defense education for all the people. Practice has shown that military units at all levels in the party have accumulated rich experiences through long ideological and political work, particularly in conducting national defense education centering on patriotism. They can actively provide local CPC Committees with suggestions and ideas, playing a very good staff officer and assistant role. All that is necessary is to arouse their enthusiasm to the full to make the most of their strengths, and they will certainly do a good job of national defense education.

2. Midlevel and High-Level Party Cadres Are To Take the Lead in Study So That They Become Experts in Leading National Defense Education

Midlevel and high-ranking cadres occupy important leadership positions in socialist industry, agriculture, science and technology, and national defense modernization. They are organizers and decisionmakers in the building of the economy. No matter whether planning the

building of the urban and rural economy, or in considering the completion of railroad, highway, civil aviation, or posts and telecommunications systems, it is necessary both to understand economic work and to have a definite national defense concept and military information. In striving for economic returns and social benefits, it is necessary to link consideration of economic returns to future combat needs. At the same time, midlevel and high-ranking cadres are also organizers and decision-makers about national defense, who personally possess a clearheaded understanding of the importance of building national defense, and have strong national defense concepts that enable them to take charge of organizational leadership in the building of national defense. As regards the makeup of the midlevel and high-ranking cadre corps, in recent years our party has intensified the "four modernizations" of the cadre corps in order to hasten the four modernizations. Large numbers have "crossed the rivers, and shouldered rifles." The gradual departure from leadership positions of comrades who took part in the revolutionary war and the party's underground work has opened the way for a number of young cadres to take up the burden of modernization. This shows that the country is thriving and developing, and that there are successors able to carry on. However, most of them lack experience in the building of national defense. Thus, they must have their knowledge enriched in this regard through national defense education. A look at the fields of knowledge of the midlevel and high-ranking cadre corps shows that most are versed in economics and management, that many have studied technology or economics, but only a relatively small number have knowledge of national defense. Although many comrades have gone through party schools or have taken advanced courses at institutions of higher education, few institutions of higher education have had courses in the building of national defense, so they have a slight knowledge of the policies and information needed for national defense. The lack of a strong awareness about national defense and the lack of specific information about national defense is a "congenital inadequacy" of some of our leading cadres. Intensification of national defense training can remedy this inadequacy. Thus, midlevel and high-ranking cadres must first become the ones to be educated in national defense education in order to become organizers and expeditors in charge of national defense education.

Naturally, the national defense education of midlevel and high-ranking cadres has to be in keeping with their special needs. Medium and high ranking cadres should set high goals for themselves in terms of the positions they occupy, their roles, and the responsibilities they bear. They should not just attain the standards of the general public. Midlevel and high-ranking cadres' mastery of the substance and depth of national defense knowledge should differ from that of the general public. They should study theories more deeply and understand information more fully. Generally speaking, medium- and high-ranking cadres should study the general theories of national defense education as a basis for studying

and digging into national defense strategy, national defense theory, national defense history, national defense laws, national defense economics, and national defense mobilization so that they possess a complete knowledge of national defense and a solid national defense concept and theoretical foundation. They should also apply these theories in practice to direct work for the general strengthening of social national defense functions.

A look at experiences everywhere in Sichuan Province during recent years shows the following methods as workable for the national defense education of midlevel and high-ranking cadres: First is the establishment in party schools of national defense education courses for planned, systematic training. Second is the holding of national defense education seminars, regularly or periodically inviting leading cadres from military units and experts to provide situation reports, and to attend national defense education classes. This will enable midlevel and high-ranking cadres to maintain clear thinking and a correct understanding at all times about the formation and evolution of world strategic patterns, and about the development of national defense activities in the major countries of the world, as well as about China's own defense policies. Third is the use of academic research meetings to enrich the knowledge of midlevel and high-ranking cadres about national defense theories, raising their understanding of ideological theories and policies, fostering awareness of modern national defense, and awareness of independent thinking and daring to innovate, and deepening understanding of CPC Central Committee and Central Military Commission strategic decisions. Fourth is the use of practical work such as examining militia training, and training militia and the public in classes to improve their perceptual knowledge about the building of national defense. Fifth is the use of national defense education to spur achievements in economic work, ideological and political work, and other kinds of work, and to arouse the serious attention of leaders of all trades and industries to national defense education.

3. The Party Should Use National Laws, Local Laws, or Other Relevant Systems To Define Successful Experiences of Universal Significance in National Defense Education

One important reason for the dilution of national defense concepts in China since the founding of the country has been the failure to link the successful experiences of party leaders in armed struggle to practice in the new era, promptly making them a part of laws and regulations through legislation and the framing of rules. For a period of time, this created an erratic situation in which there were either no laws on which national defense education could rely, or existing laws were not relied on. As a result, it made no difference whether one discharged his national defense obligations or not, and a strange situation even occurred in which people who discharged national defense obligations were ridiculed,

mocked, and looked down upon. The key to the deepening and regularization of national defense today lies in legislation. Laws, rules, and regulations are standard, authoritative, and stable. If national defense education relies only on the interest of leaders and permanent cadres, and there is none of the necessary support from rules and regulations, it will be difficult to sustain over time, it will be difficult to unify content, it will be difficult to reach the intended recipients, and it will be easy to "lack content" and turn in a perfunctory performance.

The CPC Central Committee has constantly emphasized that, in all aspects of the country's political life, economic life, and social life, and in all links of democracy and dictatorship, there must be laws to rely on, that laws must be rigorously enforced, and that violators of the law must be held to account. This requirement likewise applies to national defense education. Proceeding from the need to build national defense and the present state of the country's national defense, using a distinctively Chinese socialism as a guide in building, and building and perfecting a national defense education system that is distinctively Chinese is the guiding thought that national defense education should follow and have as its ultimate goal. In recent years, many places have urgently called for systematic theoretical guidance and unified regulations. However, nationwide national defense education legislation must go through a period of accumulating experiences, public opinion formation, and theoretical preparation. It is very difficult to shape nationwide national defense education laws and regulations within a short period of time. In view of this reality, a realistic and feasible method may be to have each province, each city, or each autonomous region first draw up local laws and regulations to give impetus to the deepening of national defense education. It was on the basis of this thought that two years ago the Sichuan Provincial CPC Committee Propaganda Department, provincial Education Committee, and provincial military region Political Department promulgated the "National Defense Education Program," after which each city, prefecture, autonomous prefecture, and county in the province established a military affairs committee meeting system, departments concerned established a system for contacts and discussions, and some places even drew up local laws and regulations such as "Temporary Regulations on National Defense Education." As a result, national defense education gradually came to have laws on which it could rely and precedents it could follow. Naturally, a certain amount of expediency, incompleteness, and vagueness was unavoidable in each jurisdiction's formulation of national defense education and other national defense laws, regulations, and measures. However, all laws and regulations, including national defense education laws and regulations derive from social need and application. They have to go through a development process that goes from diffuseness to systematizing, and from a low level to a high level. Today, legislation has strengthened national defense education and improved the building of national

defense, and it has shaped a unanimous understanding over a fairly wide range, notably at the leadership level. We believe that perfection and amplification of national defense education legislation at a higher level will have to be done gradually. National defense education of all the people from a foundation of laws and regulations is tied to following a socialist course and to continuing to advance solidly and in depth.

Law Passed on Protection of Military Installations

Security Stressed in Nanjing MR

90CM0329A Fuzhou FUJIAN RIBAO in Chinese
15 Jul 90 p 1

[Article by Zhang Junxiong (1728 6511 7160) and Huang Zhuqing (7806 2612 3237): "Military Sites Must Be Managed in a Coordinated Manner; Military Installations Must Be Protected"]

[Text] The Nanjing Military Region's [MR] conference on implementing the Law on the Protection of Military Installations came to a close on 12 July in Nanjing. During the conference it was stated that the protection of military installations involves the participation of the Army and local governments in every aspect. Both parties must work together in a coordinated manner to protect military installations in accordance with the law and defend the state's security interests.

The "Law on the Protection of Military Installations," which was passed during the 12th Standing Committee Meeting of the 7th National People's Congress, will take effect this year on 1 August. This three-day conference was guided by important instructions from the Central Committee, the State Council, and the Central Military Commission regarding the protection of military installations. The conference took as its point of departure the need to defend the state's security interests, and it closely concentrated on the practical aspects of actual work by the military region involving protection of military installations to formulate concrete measures for implementing the "Law on the Protection of Military Installations," thereby enabling the protection of military installations in the east China region to gain a footing within the legal system.

The Nanjing Military Region is located along the southeastern coast. This region has a high concentration of military installations, its commodity economy is well developed, and it is a key area of opening up to the outside world, so the protection of military installations has special significance. The Army and local governments at every level have done much work, and military installations in the east China region have benefited significantly. However, a long period of peace and a weak concept of national defense on the part of some people have meant that military installations have kept getting damaged, and theft and vandalism at these installations have occurred from time to time. It was felt at the conference that under the new conditions in China we must do a good job of protecting military installations.

We must strengthen the people's concept of national defense and bolster awareness of crisis. We must rely closely on local governments and on the people, and the Army and people must work together in a coordinated manner. We must regulate affairs in accordance with the law and achieve a situation in which the law is obeyed and strictly enforced. When the law is broken, the violator must be punished.

The conference decided to quickly promulgate the "Law on the Protection of Military Installations" throughout the region in order to create a strongly positive atmosphere for the study, propagation, and execution of the plan to protect military installations. All prefectural-level municipalities (administrative offices) in the five provinces and one municipality in the east China region as well as all counties and county-level municipalities (districts) within the administrative region will restore and establish military installation protection committees composed of military and local leaders by the end of August. Local governments must formulate detailed regulations regarding the protection of military installations in accordance with local conditions. At the same time, they must guide and urge units in charge of important military installations and people's governments in areas where a military installation is located to formulate measures for running and protecting these installations.

The following comrades spoke at the conference: Xu Huizi [1776 1920 3320], deputy chief of General Staff of the People's Liberation Army; Gu Hui [0942 6540], commander of the Nanjing Military Region; Shi Yuxiao [0670 3768 1321], political commissar of the Nanjing Military Region; Guo Tao [6753 3447], deputy commander of the Nanjing Military Region; Yang Jingyu [2799 2529 1342], deputy director of the Legal Work Committee of the National People's Congress; Sun Wanzhong [1327 3834 6988], director of the Legal System Bureau of the State Council; and Tu Men [0956 7024], director of the Legal System Bureau of the Central Military Commission.

The following people attended the conference: leaders at the level of group army or higher from the east China region's Army, Navy, and Air Force; and responsible cadres from provincial-level departments as well as public security, security, justice, construction planning, foreign affairs, and tourism organs from Shanghai and the five provinces of Jiangsu, Zhejiang, Anhui, Fujian, and Jiangxi.

Military Installation Protection Law

90CM0329B Guangzhou NANFANG RIBAO in Chinese
30 Jul 90 p 2

["Law Announced by 12th Standing Committee Session of Seventh National People's Congress"]

[Text] The Law on the Protection of Military Installations in the People's Republic of China was passed in the 12th Standing Committee Session of the Seventh National People's Congress of the People's Republic of

China on 23 February 1990. It is hereby announced that it will take effect on 1 August 1990.

Yang Shangkun President, People's Republic of China

23 February 1990

Article I. General Conditions

Section 1. In order to preserve the security of military installations, ensure effective utilization of military installations and normal execution of military activities, strengthen the modernization of national defense, consolidate national defense, and resist invasion, the present law has been formulated in accordance with the Constitution.

Section 2. The term military installations is used in this law to refer to the following buildings, sites, and equipment used directly by the state for military purposes:

1. Command organs, fortified command centers either above or below ground, and fortified operational facilities.
2. Military airfields, ports, and docks.
3. Camps, training grounds, and testing grounds.
4. Warehouses and underground storage facilities used by the military.
5. Military communications, surveillance, navigation, and observation facilities, as well as survey and navigation markers.
6. Military highways and rail lines, military communications and power distribution networks, and military oil and water pipelines.
7. Other military installations designated by the State Council or the Central Military Commission.

Section 3. Every level of the people's government and of military organs should take the state's security interests as the main goal as they work together to protect military installations and preserve the interests of national defense.

Under the leadership of the State Council and the Central Military Commission, the General Staff Department of the People's Liberation Army is in charge of the task of protecting the nation's military installations. Leadership organs in each military region are responsible for the protection of military installations in their respective jurisdictions belonging to the Army, Navy, and Air Force.

In localities where there are no military installations, relevant military organs and organs of the people's government at the level of county or higher should work together to coordinate and oversee work to protect military installations.

Section 4. All organizations and citizens of the People's Republic of China have a duty to protect military installations.

All organizations and individuals are prohibited from vandalizing or damaging military installations.

All organizations and individuals have the right to report instances in which military installations have been vandalized or damaged, and to bring accusation against anyone they know to be guilty of such acts.

Section 5. The state shall implement a program in which military installations are provided different levels of protection according to category, and it shall give top priority to protecting key installations.

Section 6. The State Council and the Central Military Commission must grant their approval before military installations can be converted to civilian use, or before military airfields, ports, or docks can be converted to joint use by the military and civilians.

Article II. Setting Boundaries for Restricted Military Zones and Zones Under Military Management

Section 7. The state shall set the boundaries of restricted military zones and zones under military management on the basis of the nature, use, and security requirements of each military installation. Protection measures must also be adopted for military installations which are not inside any restricted military zone or zone under military management.

Section 8. Restricted military zones and zones under military management shall be designated by the State Council and the Central Military Commission, or by the military regions, on the basis of regulations formulated by the State Council and the Central Military Commission.

Section 9. The boundaries of restricted military zones and zones under military management either on land or in water shall be jointly designated by the military regions and the people's governments of the various provinces, autonomous regions, or municipalities under the direct jurisdiction of the central government. These boundaries can also be drawn jointly by the organs listed above, along with the various ministries under the State Council. The boundaries of restricted aerial military zones and especially important restricted military zones on land or in the water shall be drawn by the State Council and the Central Military Commission.

No changes will be made to boundaries of restricted military zones or zones under military management which were drawn before this law takes effect by the military and local governments as long as these boundaries are compatible with regulations handed down by the State Council and the Central Military Commission.

Section 10. When a restricted military zone or zone under military management is to be closed down or

changed, it must be done in accordance with procedures set forth in Section 8 of this law.

When the boundaries of a restricted military zone or zone under military management are to be adjusted, it must be done in accordance with procedures set forth in Section 9, Paragraph 1, of this law.

Section 11. When the boundaries of a restricted military zone or a zone under military management are being drawn or adjusted, the security, secrecy, and effective utilization of military installations should be ensured, and economic development, environmental protection, and the production and daily lives of the local populace should be taken into account.

Section 12. When plans to draw or expand the boundaries of a restricted military zone or a zone under military management require the appropriation of land, forests, grasslands, aquatic territory, or beach, it must be carried out in accordance with relevant laws and regulations.

Section 13. When the people's government at the county level or above formulates a plan for economic and social development, the plan should take into account the need to protect military installations, and the views of relevant military organs should be solicited. When construction projects are launched or tourist spots are developed, military installations should be avoided. When it is impossible to avoid carrying out such projects in the proximity of a military installation, and the latter must be torn down or converted to civilian use, the matter should be discussed with the people's government of the province, autonomous region, or centrally administered municipality, and the matter must be reported to the State Council and the Central Military Commission for approval.

Article III. Protection of Restricted Military Zones

Section 14. Units in charge of restricted military zones on land should build walls, barbed wire fences, and other barriers along installation perimeters. For restricted military zones based on water, barriers or boundary markers should be erected.

Section 15. All persons, vehicles, and boats not belonging to the unit in charge of any land- or water-based restricted military zone are prohibited from illegally taking photographs, taking videotape films, making sound recordings, engaging in reconnaissance, surveying the topography, drawing sketches, or writing descriptions of the zone. This prohibition may be waived for military organs at the military region level or above which have received permission.

All aircraft are prohibited from entering a restricted aerial military zone. This prohibition may be waived for those which have obtained a permit in accordance with the relevant state laws.

Anyone who intends to use photographs, film, tapes, reconnaissance observations, survey measurements, sketches, and descriptions obtained at a restricted military zone should obtain the approval of a military organ at the level of military region or higher.

Section 16. At the same time that the military region and the people's government of the province, autonomous region, or centrally administered municipality (or all of the above organs along with the State Council and its relevant ministries) jointly draw the boundaries for land-based restricted military zones, they may act upon the necessity of protecting military installations in restricted military zones by drawing (when necessary) a security-control perimeter outside the restricted military zones. They may also set up security warning signs along the outside of the perimeter. The position of the security warning signs should be chosen by the unit in charge of the restricted military zone in conjunction with the local people's government at the county level or higher.

Section 17. Within the security-control perimeter outside a restricted military zone, local residents can continue to carry out normal production and daily activities, but they must not set off explosives, discharge firearms, or engage in any other activity which will impair the security or effective utilization of the military installation.

Article IV. Protection of Zones Under Military Management

Section 18. The unit in charge of a zone under military management should build a wall or barbed wire fence, or erect boundary markers around the zone under its control along the boundaries which have been set.

Section 19. All persons, vehicles, or boats not belonging to the zone under military management must obtain a permit from the unit in charge of the zone before entering the zone.

Section 20. The method of managing all airfields, ports, and docks which have been designated for joint military and civilian use shall be set forth by the State Council and the Central Military Commission.

Article V. Protection of Military Installations Not Designated as a Restricted Military Zone or a Zone Under Military Management

Section 21. Units in charge of military installations which have not been designated as a restricted military zone or a zone under military management should adopt measures to protect these installations. Military units at the level of regiment or above can delegate the task of protection to the local people's government.

Section 22. When quarrying stone or earth or setting off explosives within a certain distance of a military installation that has not been designated as a restricted military zone or a zone under military management, these activities cannot impair the security or effective utilization of these military installations.

Article VI. Management Duties

Section 23. Units in charge of military installations and organs of the people's government at the county level or higher should formulate concrete measures for protecting restricted military zones, zones under military management, and military installations which have not been designated as either of the above. These measures can be announced and implemented.

Section 24. Military organs at every level should rigorously carry out their duty to protect military installations, protect secrets about military installations, set up sound regulations and systems for protecting military installations, and oversee, investigate, and resolve problems related to the task of protecting military installations.

Section 25. Organs in charge of military installations should earnestly carry out regulations and systems related to the protection of military installations, establish files on their military installations, and carry out investigative and maintenance work at their military installations.

Section 26. Units in charge of restricted military zones and zones under military management should take into account the need to protect natural resources and cultural relics located in restricted military zones and zones under military management as required by relevant laws and regulations.

Section 27. When necessary, units in charge of military installations should provide information regarding the position of underground and underwater military cables and to organs of the people's government at the county level or higher. When local governments carry out construction projects, they should protect underground and underwater cables and pipelines belonging to the military.

Section 28. Every level of the people's government should strengthen national defense education for the people and strengthen their concept of national defense. They should protect military installations, protect secrets about military installations, and prevent activities aimed at vandalizing or damaging military installations.

Section 29. Restricted military zones and zones under military management that need assistance from public security organs in order to maintain security and orderly management can establish public security organs if the State Council and the Central Military Commission grant approval, or if the relevant military organs request approval from the public security organ within the government of the province, autonomous region, or municipality under the direct jurisdiction of the central government.

Section 30. On-duty personnel at the unit in charge of a military installation should stop anyone who:

1. Enters the restricted military zone illegally.

2. Illegally takes photographs, takes videotape films, makes sound recordings, engages in reconnaissance, surveys the topography, draws sketches, or writes descriptions within a restricted military zone or its security control perimeter.

3. Vandalizes or damages military installations.

When anyone commits any one of the violations listed above and refuses to cease such activity upon request, on-duty personnel in the unit in charge of the military installation may act in accordance with the state's relevant regulations to take necessary action to force the violator to cease his or her illegal activity. When the security of the military installation or the lives of personnel are in danger, weapons may be used.

Article VII. Legal Responsibility

Section 31. Criminal prosecution shall be brought against anyone who:

1. Vandalizes military installations.

2. Burglarizes, steals, or robs equipment, materials, or machinery from a military installation.

3. Reveals secrets about a military installation, or acts on behalf of government agency or organization outside the territory under the control of the People's Republic of China to steal, uncover, or buy secrets about a military installation.

Section 32. Punishment shall be dispensed in accordance with Section 19 of the Public Security Administration Punishment Regulations to anyone who:

1. Illegally enters a restricted military zone and ignores an order to stop.

2. Engages in activity which impairs the security or effective utilization of a military installation while within the security control perimeter of a restricted military zone, or while within a certain distance of a military installation which has not been designated as a restricted military zone or a zone under military management.

3. Vandalizes the wall, barbed wire, or boundary marker of a restricted military zone or zone under military management.

Section 33. In accordance with Section 158 of the Criminal Code, criminal charges shall be brought against the principal offenders and those directly responsible for serious incidents in which order within a restricted military zone or zone under military management has been disrupted. In less serious incidents that do not require criminal prosecution, punishment shall be dispensed in accordance with Section 19 of the Public Security Administration Punishment Regulations.

Section 34. Punishment shall be dispensed in accordance with Section 19 of the Public Security Administration Punishment Regulations to anyone who illegally takes

photographs, takes videotape films, makes sound recordings, engages in reconnaissance, surveys the topography, draws sketches, or writes descriptions in a restricted military zone and ignores an order to stop. If the punishment called for in Section 19 of the Public Security Administration Punishment Regulations is not dispensed, then that person's equipment shall be confiscated. In serious cases, criminal charges shall be brought against the violator in accordance with Section 158 of the Criminal Code.

Section 35. Criminal charges shall be brought against active duty military personnel and workers and staff employed by the military in accordance with the Temporary Provisions for Punishing Military Personnel in Dereliction of Duty when they:

1. Vandalize military facilities.

2. Rob or steal machinery, materials, or equipment from a military installation.

3. Reveal secrets about a military installation.

4. Abandon their post without leave or perform their duties negligently, causing a military installation to be damaged or leading to some other consequence.

In less serious incidents that do not require criminal prosecution, the violators shall be subject to normal military discipline.

Article VIII. Additional Regulations

Section 36. The State Council and the Central Military Commission shall formulate methods of protecting military installations in accordance with the regulations contained in this law.

Section 37. This law shall take effect on 1 August 1990.

Appendices: Documents Relevant to This Law

Relevant Section of the Criminal Code

Section 158. All persons are prohibited from using any method to disrupt social order. In serious cases which make it impossible to proceed with work, production, commerce, education, or scientific research, or the state and society suffer serious losses, the principal violators shall either be sentenced to not more than five years of prison, labor, or surveillance, or their political rights shall be forfeited for five years.

(Other sections of the Criminal Code have been omitted.)

Relevant Section of the Temporary Provisions for Punishment of Military Personnel in Dereliction of Duty

Section 4. In serious cases, those who violate regulations regarding the protection of state military by leaking or allowing the leak of important state military secrets shall be sentenced to not more than seven years of either prison or labor.

Section 5. Commanders or other personnel who cause serious harm by abandoning their posts without leave or through negligent performance of their duties shall be sentenced to not more than seven years of either prison or labor.

Those who commit the violations listed above in this section during wartime shall be sentenced to not less than five years in prison.

Section 11. Those who rob or steal arms or materials shall be sentenced to not more than five years of either prison or labor. In serious cases, they shall be sentenced to not less than five and not more than 15 years in prison. In especially serious cases, the violator shall be sentenced either to not less than ten years in prison or to life in prison.

During wartime, punishments shall be severe, and in especially serious cases the violator can be sentenced to death.

Section 12. Those who vandalize arms or military facilities shall be sentenced to not more than three years of prison or labor. Those who vandalize important arms or military facilities shall be sentenced to not less than three years and not more than 10 years in prison. In especially serious cases, the violator shall be sentenced to either not less than 10 years in prison, or to life in prison. Punishment during wartime shall be severe.

Relevant Section of the Public Security Administration Punishment Regulations

Section 19. In cases not serious enough for criminal prosecution, a person shall be sentenced to not more than 15 days in detention, a fine of 200 yuan, or a warning when he or she disrupts public order by:

1. Disrupting order in a government organ, an association, an enterprise, or a public institution, thereby making it impossible to carry out normal work, production, commerce, medical treatment, or scientific research (while not causing major harm).
2. Disrupting order in bus stations, docks, civilian airports, markets, parks, movie theaters, amusement parks, sports facilities, exhibition halls, or other public gathering places.
3. Disrupting order in busses, trolleys, trains, ships, or other instruments of public transportation.
4. Engaging in gang fights, causing trouble, dishonoring women, or engaging in other types of thuggery.
5. Spreading rumors, confusing the masses, or inciting violence.
6. Making false reports of dangerous situations and creating chaos.
7. Preventing or impeding (without using violence or threats) state workers from carrying out their legally prescribed duties.

EAST REGION

Jiangxi Curbs Bureaucratic Red Tape

90CM0389A Beijing GUANGMING RIBAO in Chinese
26 Aug 90 p 2

[By reporter Wang Shaoxiong (3769 4801 7160): "Substantial Improvement in Work Style of Leadership Organs—Jiangxi Province Cuts Number of Meetings and Amount of Paperwork"]

[Text] The Jiangxi Provincial CPC Committee and the Jiangxi People's Government recently implemented certain provisions to cut the number of meetings and the amount of paperwork and to improve work style in leadership organs, which would allow leading cadres at all levels to concentrate more of their time and energy on involving themselves with affairs at the grassroots, on investigations and research, and on sound, down-to-earth work:

Major efforts to reduce various meetings and substantially improve work style of meetings. If a problem can be resolved by letter, newspaper notice, or multiple-party telephone meeting, there is no need to call in comrades of subordinate organs to come in for meetings in person. Whenever commendations for meritorious service are to be issued, it may be done by sending a certificate and publishing a circular notice, by publicizing the fact in an internal publication or at a work meeting, and there would in general be no need for a special commendation or achievement celebration meeting.

Meetings that do not require the personal presence of leading cadres, as in functional departments, are to fully exercise their functions. Leading cadres of the provincial party committee or provincial government shall in general not attend specialized meetings and work meetings held by the various provincial departments. Excepting particularly important meetings, such as the provincial party congresses and people's congresses, there is no need to provide a rostrum with a number of seats; apart from the person presiding at the meeting or the speaker, other leading cadres shall not be seated at a rostrum. Leading cadres of the provincial party committee or the provincial government shall in general not attend activities that are purely of the nature of observing formal etiquette, such as meeting with visiting guests, with persons on sightseeing tours, opening or ribbon-cutting ceremonies, project inaugurations, and so forth.

Improving reports given at meetings and reports on work performance at meetings attended by leading cadres. Reports at meetings and activities by departments that are attended by leading cadres of the provincial party committee or the provincial government must not in general be reports on general news events. They must publicize the creative work of workers, peasants, intellectuals, and officers and men of the People's Liberation Army, as well as manifest advanced ideology and the performance of exemplary deeds. Whenever leading cadres of the province speak at any party or government

activity they must not preface their speech with "directive," "important speech," or similar terms.

Substantial reduction of paperwork, strict control of the printing of internal publications. Speeches and reports by leading cadres of the provincial party committee and the provincial government at various meetings shall in general not be printed and distributed as official documents of the provincial party committee or provincial government. Each department of the provincial government shall be allowed only one kind of brief work report; sections and offices under provincial departments and secondary units without the right of direct outside communication are not allowed to prepare brief work reports. Units that have also been issuing brief reports without having been authorized to do so must be ordered to cease further publication of such by the general business office of either the provincial party committee or the provincial government. Furthermore, the provincial finance department shall be notified that for each additionally published brief report, a sum of 1,000 to 2,000 yuan shall be deducted from the administrative expenses of the unit in question, a matter that shall be subject to the supervision of the audit department.

Jiangxi Graduates Assigned To Support Grassroots

90CM0370A Beijing GUANGMING RIBAO in Chinese
27 Jul 90 p 1

[Article by correspondents Lei Liangjun (7191 5328 6874) and Zhang Zhiqiang (1728 1807 1730): "Most New Jiangxi Graduates Go to Grassroots to Work—Establish an Ideology of Arduous Pioneering; Subordinate Selves to Needs in Building the Country"]

[Text] Though reluctant to say good-bye to their schoolmates, they sincerely desire to dedicate themselves to the service of the motherland. Even while still enjoying themselves on summer vacation, the graduates of Jiangxi colleges and technical schools have been slated for future assignments. Beginning in early July, group after group bade farewell to their alma mater and their teachers to embark on a new life's journey. Zhang Jianhua [4545 1696 5478], the officer in charge of the office for the assignment of college graduates in Jiangsu Province, told the correspondent that the job of assigning more than 30,000 graduates of colleges and secondary technical schools (including graduate students) throughout the province has gone smoothly this year, more than 80 percent of them having already subordinated themselves to the needs of the country to go to grassroots units below the city level and to the front lines of production.

This heartening situation is the result of thorough and painstaking ideological education in Jiangxi Province. Thanks to various forms of ideological education for all schools, the widespread propagandizing by people in all walks of life and public opinion, as well as coordinated support from the far-flung heads of households, the broad masses of graduates have firmed up their socialist

convictions, established an ideology of arduous pioneering and subordination of self to the interests of the country, and have repeatedly expressed their desire to go to the places in the motherland where they are needed most and where life is most arduous. Thus, they are taking the road of integrating with reality and linking up with the workers and peasants to contribute their own strength to the cause of building socialism. A May 1990 survey of a group of students graduating from Jiangxi colleges showed that 72 percent of the graduating students felt that, in view of the current state of the country and the province and to need to improve the economic environment and restructure the economic order, it is imperative and an unshirkable duty for college graduates to go to grassroots units below the city level, and to the front line in all trades. This is not only a necessity for the building of the country, but is also a necessity for self-maturation. Only by going to the grassroots level is it possible to link one's own area of specialization to production realities in order to produce beneficial results, gain tempering, and become mature.

In order to be able to move smoothly and effectively the more than 80 percent of the new graduates of colleges and technical secondary schools to the grassroots level, the Jiangxi provincial office for the assignment of college graduates organized forces in accordance with central and provincial government assignment policies and plans to conduct investigation and surveys aimed at the formulation of a series of new regulations and associated measures as follows:

In order to ensure that old revolutionary areas and needy border regions receive urgently needed talent, graduate students trained for designated duties and for mandated duties are to be assigned back to their designated areas and to the units that mandated their training, with no changes in their assignments to be made lightly.

Quotas are to be set and expenses provided for graduates in scientific fields such as farming, forestry, and aquatic products to be sent to farming, forestry, and aquatic products units at the grassroots level. If units in this category are already overstaffed, the staffing should be increased.

All medical graduates from counties (or districts) in the province where schistosomiasis exists are to be returned, without exception, to the place from which they came to enhance schistosomiasis prevention and treatment forces there.

Teaching college graduates must work on the education front, and a one-time direct dispatch method is to be used in assigning them to units where they are needed in order to forestall their being "retained" or "changing profession." Graduates of other than teaching colleges should be encouraged to teach in secondary schools or vocational and technical schools, and be given appropriate bonuses.

In the case of those graduates in fields in which an oversupply already exists, "industries contracting special

fields of study, and areas contracting sources of new blood" should be instituted. Units placing people should be actively mobilized to take a broad and long-term view, willingly keeping talent in reserve. Beginning in 1990, authorized entrepreneurial units in Jiangxi Province are to arrange to place graduates in up to two percent of their total complement. Over the years, the Jiangxi Province Department of Machinery has actively accepted college students and assembled talented people for enterprises in the machinery system. In 1990, this department reported a need for 336 graduates, but actually accepted 425, placing an additional 25 percent. This department feels that human talent also must be nurtured and that nurturing human talent is like maintaining soldiers. A suitable reserve of talent is beneficial for the development of enterprises, and for educational endeavors. Thus, this department received praise and commendation from the national Ministry of Machine Building and Electronics for placement of graduates.

Active guidance and encouragement is given to students to go to units under collective ownership and to township and town enterprises where there is an urgent need for educated people to contribute talent. For such graduates, Jiangxi Province will maintain without change their pay and benefits as state cadres, their household registrations will remain in a city, matters pertaining to their personnel staffing will be under control of personnel departments above the county level, their probation periods will be canceled, and their wages will be increased by one grade.

Graduate students should be given priority, without regard for staffing limitations, in assignment to units in need of people having their skills.

Democratic Parties Join Shanghai Policy Meeting

*90CM0389B Shanghai JIEFANG RIBAO in Chinese
11 Aug 90 p 1*

[Unattributed article: "Shanghai's Municipal CPC Committee Invites Leaders of Democratic Parties, of the Federation of Industry and Commerce, and Others to a Symposium Which Effects Participation by Democratic Parties in Government"]

[Text] Yesterday morning, the Shanghai Municipal CPC Committee invited prominent leaders of the democratic parties, of the Federation of Industry and Commerce, and other prominent personalities without party affiliations to a symposium at the small auditorium of the party committee.

Wu Bangguo [0702 6721 0948], deputy secretary of the Shanghai Municipal CPC Committee, presided at the meeting and reported to the comrades attending the meeting on the present political and economic situation of Shanghai and on major work in progress. Mao Jingquan [3029 4842 2938], member of the Standing Committee of the Municipal CPC Committee and director of the United Front Work Department, presented a report on the way in which the spirit of the All-China United

Front Work Conference was put into effect during a first phase of this work and on the intended work to be done during the next phase.

Among the speakers at the symposium were: Chen Mingshan [7115 6900 3790], chairman of the Shanghai branch of the China Democratic National Construction Association; Xu Yifang [1776 0110 2658], chairman of the Shanghai branch of the Revolutionary Committee of the Kuomintang; Yang Biao, chairman of the Shanghai branch of the Jiu San [September Third] Society; Chen Haozhu [7115 3493 3796], chairman of the Shanghai branch of the Chinese Peasants and Workers' Party; Weng Shuguan [5040 2562 0385], vice chairman of the Standing Committee of the Democratic League, Shanghai branch; and Liu Hengchuan [0491 1854 2796], chairman of the Shanghai branch of the Chinese Association for Promoting Democracy. They expressed the opinion that the political and economic situation in Shanghai has presently, under leadership of the municipal party committee and the municipal people's government, become stabilized, and that the further consolidation and development of stability and unity in the political situation, deepening the reform, and improving the economic work performed by Shanghai is to be the heavy responsibility resting on the shoulders of the democratic parties which participate in government. In their speeches they all expressed opinions and made positive suggestions concerning such questions as strengthening the system of multiparty cooperation and political consultation led by the CPC, enhancing the buildup of democracy and of the legal system, strengthening the buildup of the democratic parties themselves, deepening reform, and opening up to the outside world, as well as concerning improvement of the economic environment and rectification of the economic order.

Wu Bangguo emphasized in his speech the need for a continued implementation of the spirit of the All-China United Front Work Conference, in integration with the realities of the actual situation in Shanghai, the need to uphold and perfect the system of multiparty cooperation and political consultation led by the CPC, and the need to develop socialist democracy and to enhance mutual supervision. We must continue to pursue the policy of "long-term coexistence, mutual supervision, utmost mutual solicitude, and equal sharing of glory and disgrace," while we must implement further measures for the participation of democratic parties in government. He expressed the hope that personalities from among the democratic parties and personalities without party affiliation will actively recommend well-qualified persons to be selected for leading positions in government and in relevant departments.

Invited to the symposium and attending it were also: Wu Zhaoguang [0702 5128 0342], chairman of the Shanghai branch of the China Zhigong [Achieve Justice] Party; Zheng Lizhi [6774 0536 1807], chairman of the Shanghai branch of the Taiwan Democratic Self-Government League; Liu Jingji [0491 7231 1015],

chairman of the Shanghai branch of the All-China Federation of Industry and Commerce; and Ye Shuhua [5509 0647 5478], a well-known personality without party affiliation.

Shanghai Mayor Stresses Work on Ideology, Culture
90CM0389C Shanghai JIEFANG RIBAO in Chinese
12 Aug 90 p 1

[Article by reporter Wu Zhilin (0702 5347 7792) and correspondent Wang Heting (3769 4421 1656): "At the Bimonthly Symposium of Theorists, Zhu Rongji Emphasized That, at the Same Time as Economic Construction Is Effectively Pursued in Shanghai, Emphasis Must Be Given to Ideological Construction and Cultural Construction"]

[Text] At yesterday's 13th bimonthly symposium of theorists, Zhu Rongji, secretary of the Shanghai Municipal CPC Committee and mayor of Shanghai, pointed out with great emphasis, "The political and economic situation of Shanghai has presently become stabilized, and all of Shanghai's population is now engaged in the landmark endeavor of opening up and developing Pudong and of a vigorous development of Shanghai as a whole. However, while we exert ourselves in economic construction, it is most necessary for us to also attach importance to ideological and cultural construction. Only by unifying thinking throughout the entire population of the city and by uplifting them spiritually will we be able to accomplish the great undertakings of developing Pudong and of the vigorous development of Shanghai as a whole."

The Propaganda Department of the municipal party committee convened yesterday's symposium. Chen Zhili, deputy secretary of the municipal party committee and director of the Propaganda Department, presided at the said symposium.

Yesterday's symposium had been preceded by careful preparations in several preparatory meetings with quite a few theorists. This was one reason for the very enthusiastic and lively way that opinions were expressed from the very start of the meeting. The following of Shanghai's theorists and personalities from among its literature and art circles fully expressed their understanding when speaking on the question of "the relationship between economic development and cultural construction": Gu Xiaoming [7357 2556 7686], Su Yong [5685 0516], Chen Bohai [7115 0130 3189], Chen Xiejun [7115 3610 0689], Li Huaxing [2621 5478 5281], Xie Xialing [6200 6667 7881], Xie Jin [6200 2516], Wang Yuanhua [3769 0337 0553], Zhang Ruifang [1728 3843 5364]. Some comrades analyzed the cultural environment as to how it promotes and restricts economic development from the angle of its theoretical, historical, and realistic aspects. It was their opinion that at this time, when the inherent link between the two orbits of the economic and the cultural tends to become closer almost day by day in our

contemporary society, neglect of the cultural construction would be shortsighted, as it would not only unfavorably affect economic development but would also be detrimental for any long-term governance and security. Some comrades, starting out from the angle of how to coordinate Shanghai's economic construction with its cultural construction during the 1990's, pointed out that, in the vigorous development of Shanghai as a whole, it is necessary to consider the vigorous development of its culture, in particular its educational development, a very important factor. Cultural construction also manifests itself on the spiritual level, which means that we must emphasize improving the quality of man. "It takes 10 years for a tree to grow, it takes a hundred years to nurture a generation of good men." The latter part of this phrase deserves our deep thought. We must, and can, bring into full play the superiority of socialism and bring about a mutually compatible and well-coordinated development of Shanghai's economic construction and its cultural construction. With regard to problems existing in Shanghai's present cultural construction, quite a few comrades, furthermore, called for intensified attention to these problems and proposed measures to resolve these problems. Some were of the opinion that Shanghai should utilize the cultural superiority that has emerged in Shanghai in the course of its history—comprising cultural achievements in the field of science and technology and in various fields of learning—and should have this circumstance actively lead to economic action serving the development of Pudong and the vigorous development of Shanghai as a whole. Some have suggested holding a Shanghai film festival and similar events as suitable coordinates to Shanghai's opening up to the outside world. Some have strongly emphasized the need to review experiences already accumulated at Shanghai in cultural development throughout its society and in the buildup of cultured households, and also to take effective action on the artistic and cultural front by attending to such matters as movies and theaters, libraries, museums, and similar institutions, in an integration of hardware and software. All participants at the symposium spoke out freely and contributed to each other's ideas in an extremely active and lively atmosphere.

Zhu Rongji listened attentively to the speeches of the specialists and scholars and frequently interposed his own remarks, thus leading to a general discussion. Just before conclusion of the meeting, he made an important speech in which he said, "This problem of 'the relationship between economic development and cultural construction' is an extremely important matter and indeed requires a very thorough discussion and study. At present, Shanghai's cultural construction is still insufficient to meet the needs of economic development. Leadership at all levels must be sufficiently aware of this problem and must strengthen their guidance in ideological and cultural work, and must also attach importance to ideological construction and cultural construction work. At present we must on the one hand take up in real earnest the improvement of party work style and thereby promote honest and clean government, and we must on the other hand, by every possible means, achieve success

in production and in the development of Pudong. However, if we want to truly accomplish 'first, stability and, second, stimulation,' we must exert ourselves further in intensified ideological construction and cultural construction, must effectively take in hand the construction of our spiritual civilization as the only way to achieve cohesion in the mentality of all people, to accomplish mobilization of the enthusiasm of the masses, and to have them dedicate themselves with one heart and one soul to the vigorous development of Shanghai."

Zhu Rongji also emphasized that Shanghai's opening up to the outside world makes it essential to have an excellent cultural environment. It is necessary at present to expend great effort on improving environmental sanitation, to effectively improve the service attitude, to effectively execute cultural construction, to raise the general quality of the population, and to create an enlightened and healthy social environment.

Finally, Zhu Rongji expressed the hope that those engaged in artistic and cultural pursuits will immerse themselves deeply in the realities of life, go deep into the midst of the common people, and will then produce works of literature and art that will represent the spirit of our age, that will possess the power of affecting popular sentiment by showing features characteristic of Shanghai, and that will be loved and enjoyed by the masses. By means of works of literature and art, by their strong power to affect popular sentiment and by their educational effect, we must induce the people of Shanghai to give full play to their excellent traditions, strengthen their confidence in the ability to overcome difficulties, spur on the "love China, love Shanghai" fervor of the people of Shanghai, and buoy up the spirit of all of Shanghai's citizens.

Zhu Rongji also demanded of the newspapers of Shanghai that they increasingly report on advanced events, exemplary personalities, and at the same time vigorously reveal and help to subdue all unhealthy social phenomena, thus promoting a turn for the better in our social atmosphere.

The following were also among the theorists and literature and art personalities at yesterday's symposium: Meng Bo [1322 3134], Luo Luo [5012 3157], Zhu Jianer [2612 6432 5101], Hu Yanzhao [5170 1693 3564]. Also participating in the symposium were vice mayor Liu Zhenyuan [0491 2182 0337] and leading cadres of the Propaganda Department of the municipal CPC Committee, of the Pudong Development Office, and of the municipal planning department.

NORTHEAST

Heilongjiang Forum on Correcting Unhealthy Trends
SK1509230390 Harbin Heilongjiang Provincial Service
in Mandarin 0900 GMT 13 Sep 90

[Text] The provincial forum on correcting unhealthy trends in various trades and professions, which ended on

13 September, called on various localities to focus their work on correcting the unhealthy trend of abusing one's power to extort money and create obstructions, which is widespread in their own localities, departments, and trades, which produces a very bad impression on the people, which causes grave harm, and which the masses strongly complained about.

The provincial forum on correcting unhealthy trends in various trades and professions, held by the provincial party committee and the provincial government, studied the speech made by Comrade Li Peng at the State Council's telephone conference on strengthening the building of administrative honesty and correcting unhealthy trends in various trades and professions; relayed the guidelines of the north China, northeast China, and east China forums on discipline inspection work; exchanged work situations and experience in correcting unhealthy trends in various trades and professions; and discussed and studied the work in the next stage.

The session, which was held on the afternoon of 13 September, was presided over by Dai Moan, vice governor of the province. Wang Zhao, Wang Luming, Zhou Wenhua, Ma Guoliang, He Shoulun, and Jin Xiaozhen attended the session. Also attending were leaders in charge of various prefectures and cities, secretaries of Discipline Inspection Committees of various prefectures and cities, and responsible comrades of various departments and bureaus directly under the provincial authorities, more than 400 persons in all.

Wang Haiyan, Standing Committee member of the provincial party committee and secretary of the provincial discipline inspection commission, made a speech on behalf of the provincial party committee. He said that, in correcting unhealthy trends in various trades and professions, we should give prominence to key points and concentrate our efforts on ferreting out and correcting these trends. Unhealthy trends in various trades and professions are a widespread, and the situation of these trends is relatively complicated. Only when we firmly grasp the key trades and professions, problems, and persons, and concentrate our time and efforts on ferreting out and correcting unhealthy trends will it be possible for us to yield results in a short period of time. After this forum, various units should find the major problems in their own units and clarify why these problems emerge. Various units should also define their key points in correcting unhealthy trends and accurately select where they should make a breakthrough for successfully correcting them. As demanded by the provincial party committee, the correction of unhealthy trends in various trades and professions should focus on the problem of abusing one's power to extort money and create obstructions, which is widespread at various localities, departments, and trades and professions, which produces a very bad impression on the people, which brings about grave harm, and which the masses strongly complained about. Meanwhile, there should not be too many key points in correcting unhealthy trends. We

should select two or three key problems that will probably be solved in a short period of time and then concentrate our efforts on correcting them.

On how to correct unhealthy trends in various trades and professions, Wang Haiyan pointed out that achieving results in correcting unhealthy trends in various trades and professions depends primarily on whether we can impose due punishment on such undisciplined and unlawful cases as abusing one's power to seek personal gain, extorting money, creating obstructions, and taking bribes, which the masses strongly complain about. All localities and units must exert great efforts in conscientiously ferreting out and dealing with undisciplined and unlawful cases specific to certain trades and professions. If possible, various localities may openly deal with typical cases of unhealthy trends in various trades and professions, and use these cases to scare off unhealthy trends and open up a new situation in correcting them.

Wang Haiyan emphasized that, in ferreting out and correcting unhealthy trends, we must begin with leading organs and leading cadres and move from higher levels to lower levels. Whoever uses unhealthy practices should assume responsibility for correcting it. The provincial party committee, the provincial Advisory Commission, the provincial People's Congress Standing Committee, the provincial government, the provincial committee of the Chinese People's Political Consultative Conference, and the provincial Discipline Inspection Commission, as well as various departments, commissions, offices, general offices, and bureaus should all take a good lead and play an exemplary role in this work. The law execution departments, administrative departments, and public utilities units at the grassroots level should be regarded as the key points for correcting unhealthy trends.

Wang Haiyan said in conclusion, "In correcting unhealthy trends in various trades and professions, we should persist in getting at the root of problems, strengthen ideological education, and strengthen the building of systems. In the course of strengthening education on vocational morality and vocational discipline, we should continue to carry out the system of making working procedures and work results visible to the public and subjecting them to the supervision of the masses, and establish an internal restriction mechanism. All localities and departments should conduct inspection on the implementation of the system of making working procedures and work results visible to the public and subjecting them to the supervision of the masses in the course of correcting unhealthy trends in various trades and professions, should find loopholes and weak links in the implementation of this system, and should formulate measures, on the basis of these loopholes and weak links, to improve the economic environment and rectify the economic order. We should strengthen the internal restriction mechanism by dividing up powers, doing management work in turns, and taking turns on posts so as to prevent the emergence of the problems of abusing power to seek personal gain, extorting money, creating obstructions, and taking bribes.

NORTHWEST REGION

Song Hanliang Presents Xinjiang Work Report

90CM0379B Urumqi XINJIANG RIBAO in Chinese
17 Jul 90 pp 1, 3

[Article by reporter He Ruilan (0149 3843 5695): "The Third Xinjiang Autonomous Regional Party Committee Holds 15th Enlarged Full Session—Tomur Dawamat Presides and Song Hanliang Presents Work Report on Behalf of the Autonomous Regional Party Committee"]

[Text] XINJIANG RIBAO Urumqi News—The 15th full session (enlarged) of the third autonomous regional party committee was convened in Urumqi on the morning of 16 July.

The main task of this meeting is to continue to act in the spirit of the Sixth Plenary Session of the 13th party Central Committee and review the work accomplished in the first six months of this year and to plan the tasks of the next 6 months. The emphasis is on examining and deliberating the autonomous regional party committee's implementation of the "CPC Central Committee's Decision on Strengthening the Ties Between the Party and the Masses" to reinforce party construction and forge closer flesh-and-blood ties to the masses. It will also focus on reviewing the experience and lesson of the Baren Village armed counterrevolutionary rebellion and the efforts to ensure continued stability. The session will also deal with the continued rectification and improvement process, the general policy of thorough reform, and efforts to accomplish this year's economic tasks.

Tomur Dawamat, deputy secretary of the Xinjiang autonomous regional party committee, presided over yesterday's meeting.

Wang Enmao, vice chairman of the CPPCC [Chinese People's Political Consultative Conference] Nationalities Committee and chairman of Xinjiang's Advisory Committee, Janabil, Li Shoushan [2698 1108 1472], Amudun Niyaz, Zhang Sixue [1728 1835 1331] and other Xinjiang party and government leading comrades also attended yesterday's meeting.

Song Hanliang, secretary of the Xinjiang Autonomous Regional CPC Committee, delivered the work report entitled, "Continue To Act in the the Spirit of the Sixth Plenary Session, Further Ensure Stability, and Strive To Fulfill This Year's Tasks." The "Report" is divided into four parts: 1) On the achievements of the first six months; 2) on the thorough implementation of the Sixth Party Central Committee's "Decision" and forging even closer ties to the masses; 3) on drawing a lesson of blood and fire from the Baren Village rebellion and on the determined effort to ensure Xinjiang's stability; 4) on furthering the rectification and improvement process, implementing the general policy of thorough reform, and fulfilling the economic tasks of the next six months by every possible means.

In his report, Song Hanliang pointed out that, in the first six months of this year, the autonomous regional party committee heeded the demands of the party Central Committee regarding party work in 1990 and focused on three areas: To convey and implement diligently the gist of the Sixth Plenary Session and further strengthen party construction and forge closer flesh-and-blood ties to the people; to implement with enthusiasm the general policy of putting stability above all else and concentrate resources on ensuring stability, striving to maintain the autonomous region's political and social stability; to continue to pursue rectification and improvement, implement the general policy of thorough reform, and strive to accomplish the economic tasks. After six months' hard work, much has been accomplished in these three areas, and efforts in relating projects have also produced results. The autonomous region's overall political and economic situations are promising.

Song Hanliang pointed out in his report that the "CPC Central Committee's Decision on Strengthening the Ties Between the Party and the Masses" is an important piece of Marxist document. It is rich in content and clear-cut in specifying the duties and measures. During the implementation process, the important points should be emphasized and carried out diligently. In the next six months, emphasis should be put on studying the gist of the Sixth Plenary Session of the 13th party Central Committee, on understanding even better the need to strengthen party construction and forge closer ties to the masses, and on building an honest government and fighting corruption. He urged sending cadres deep into the grassroots level to mingle with the people and to go all-out to work for the people. Starting with the leading organs and leading cadres, every organ and every cadre should learn from Comrade Jiao Yulu [3542 5940 4389] and set an example every day and everywhere and be the role model in strengthening the ties between the party and the masses.

Song Hanliang pointed out in his report that although the Baren Village armed counterrevolutionary rebellion has been put down, the incident is still a profound lesson and a vivid lesson on class struggle which lets us see even more clearly what the greatest threat to Xinjiang's stability really is and makes it unequivocal that stability is our primary goal. He urged us to review carefully the experience and lesson of the Baren Village incident and to work diligently on the following five areas in the next six months and well into the future to further stabilize Xinjiang: Firmly establish the guiding ideology that nationality splittism is Xinjiang's greatest danger, make a clear-cut stand in struggling against foreign and domestic nationality splittism, and implement the party's policy toward religion and crack down on illegal religious activities; strengthen national unity and protect the country's integrity; strengthen party organization at the grassroots level and the performance of the basic tasks; in order to ensure stability, the cadres must play a key role, and in preserving the nation's integrity and strengthening national unity, cadres of all nationalities,

especially leading cadres, must take a firm, clear-cut stand at the forefront of the struggle against nationality splittism.

In his report, Song Hanliang pointed out that the economic tasks during the next six months will be formidable and that we must further implement the general policy of rectification and improvement and thorough reform, make the utmost effort to grasp the crucial measures, strive for the 13th straight year of bumper harvests in agriculture and livestock-raising, guarantee a reasonable rate of industrial growth and increase in fiscal income, and strive to fulfill this year's national economic plan. He said that improving agricultural and livestock production and striving for the 13th straight year of bumper harvests are the major economic tasks in the next six months. He urged that all localities and departments be resolute in fighting natural disasters and be prepared to fight drought and prevent floods, frost, pests, and natural disasters and to be fully prepared for the unexpected. He said that the difficulty of the economic tasks in the next six months lies mainly in industrial production and that the localities and departments must implement diligently the relevant documents handed down by the autonomous regional party committee and put every measure into practice. He urged party committees and governments at all levels to focus on the financial tasks and asked the financial departments to help enterprises strengthen their internal management and adjust the product mix in an effort to reduce loss and increase profit, sort out all payments due the government, and strengthen tax collection and management.

More than 800 people, including autonomous regional party committee members and alternate members, members of the regional Advisory Committee, party Discipline Inspection Committee, the Standing Committee of the regional People's Congress, and the regional people's government, leading CPPCC members, leading party members, cadres in charge, and veteran comrades of the prefectures, autonomous prefectures, cities, counties, departments, committees, offices, bureaus, colleges and universities, and mass organizations, and leading comrades of the Production and Construction Corps at above corps-level, attended the meeting.

Xinjiang CPC Committee Discusses Work Report

90CM0379A Urumqi XINJIANG RIBAO in Chinese
19 Jul 90 pp 1, 3

[Article by reporter He Ruilan (0149 3843 5695): "The Full Enlarged Session of the Regional Party Committee Holds Group Discussion of Song Hanliang's Work Report"]

[Text] XINJIANG RIBAO Urumqi News—On the afternoon of the 17th [of July], delegates of all nationalities attending the 15th full (enlarged) session of the third autonomous regional party committee began an intensive group discussion of Comrade Song Hanliang's work

report submitted on behalf of the regional party committee and tried to relate the report to their own localities and departments.

The delegates spoke up enthusiastically and expressed their opinions without reservation. They agreed that the "Report" integrates theory and practice in summing up the way the regional party committee acted in the spirit of the Sixth Plenary Session of the party Central Committee during the first six months of this year, reviews the experience gathered in the effort to stabilize Xinjiang's situation, and specifies the tasks for the next six months as guided by the spirit of the Sixth Plenary Session. They agreed that the measures proposed in the report on maintaining political and social stability, improving party organization, and ensuring economy development are both realistic and effective and that the report will have significant impact on guiding the region's work in different areas.

The delegates approved of the autonomous region's performance in the first six months of this year and gave it high marks and were of the opinion that the autonomous region party committee was in compliance with the party Central Committee's instructions with regard to this year's party work and started out with Xinjiang's conditions in giving priority to conveying and acting in the spirit of the Sixth Plenary Session of the party Central Committee. They felt that the autonomous region party committee implemented with enthusiasm the general policy of putting stability above all else and stressed work that ensured stability, especially in its quick and decisive action to put down the Baren Village armed counterrevolutionary rebellion. They agreed that the region followed through with the three tasks of rectification and improvement, deepening the reform process, and performing its economic tasks diligently with a clear and unadulterated guiding ideology and that the region focused on the important and produced outstanding results. The delegates also agreed that today the autonomous region's society is stable, the people are united, the economy is growing, and the outlook is good. They lauded party and government leaders of the autonomous region who spearheaded visits to the grassroots level to make careful studies and set a good example in improving party and government work style. Everybody was confident that the next six months would be a success too.

During the group discussions, the delegates carried on heated discussions about drawing lessons from the Baren Village incident and working relentlessly to stabilize Xinjiang. Everybody agreed that although Baren Village's armed counterrevolutionary rebellion has been quelled, the incident is a profound lesson and a vivid lesson on class struggle which lets us see clearly what the real threat to Xinjiang's stability was and makes it unequivocal that stability must be our goal. Baren Village's struggle has proved beyond doubt that the conclusion that "nationality splittism is Xinjiang's greatest threat" is correct. The delegates agreed that from now

on, Xinjiang must firmly establish the idea that nationality splittism is its greatest threat and take a clear-cut stand in its resolute struggle against foreign and domestic nationality splittism and that to fail to see this point in a clear-headed manner will be a big mistake. Everybody agreed that the splittist elements, in order to achieve their goal of dividing the fatherland, have always hidden behind their national and religious garbs while hoisting their "Eastern Turkistan" and "Revive Islam" banners; they are extremely provocative and deceptive. The delegates suggested that the struggle against nationality splittism must begin with widespread and in-depth countersplittism education of the cadres and people of all nationalities in the towns and villages to expose completely the reactionary nature of the nationality splittist elements. Special attention must be paid to the struggle against nationality splittism in the ideological realm to strengthen our defense against infiltration and subversion.

In their speeches, the delegates pointed out that Xinjiang is a multinationality and a multireligion region. There are serious problems in Xinjiang's religious domain today which must not be overlooked. For example, there is growing zealotry in religion in the villages, which is fettering the masses' thinkings and behavior and corrupting the party organizations and the contingent of cadres. Religion is snatching the younger generation away from us and is a growing problem. Religion's long-abolished special feudal privileges and system of oppression and exploitation have to different degrees been restored in many areas. There is recurring religious interference in state administrations, judicature, culture, education, marriage, and family planning. Party committees at all levels must make every effort to provide stronger leadership on religious matters; they must respect and protect with conviction the masses' right of religious freedom and participation in normal religious activities at all times, but they must also respect and protect with conviction the masses' freedom not to have religious beliefs nor to take part in any religious activity.

The delegates expressed that, in grasping the essence of the "Report," there is also a need to take into consideration local conditions, to do a better job of forging national unity, to strengthen the grassroots party organizations and primary level political power structure, to strengthen their position on the rural ideological and cultural fronts, to make every effort to accomplish the next six months' economic tasks as well as this year's missions, and to make a significant contribution toward stabilizing the autonomous region's overall situation.

PLA Nurtures Relationship With Kazakhs in Xinjiang

90CM0404A Urumqi XINJIANG RIBAO in Chinese
31 Jul 90 p 3

[Article by correspondents Yuan Diyi (5913 2769 0001), Zhu Xinlian (2612 2450 5571), and Zhu Biyi (2612 1801 5030): "Harmony"]

[Text] This was an affair that will hardly be forgotten.

On that certain day, some Kazakh herdsmen from near Xinyuan Farm in the Xinjiang Military District rode in to buy things at the military post exchange, but it happened that a quarrel arose with one of the sales clerks about a box of shoe polish. A soldier took up the quarrel and blackened the eye a herdsmen named Shadati. The other Kazakh herdsmen, seeing that one of their comrades had come to grief, immediately left the post exchange and with much shouting jumped on their steeds; they had witnessed a brawl about which they could do nothing anymore.

Just at this juncture, a cadre from the farm rushed to the scene. Without further words, he took the soldier who had struck the Kazakh to his office and also asked the herdsmen to come to his office. He had the doctor of the health station bind up Shadati's wound, and severely criticized the soldier who had struck the Kazakh, ordering the soldier to immediately apologize to Shadati. After the soldier had, right then and there, apologized to Shadati and Shadati's wound had been carefully bandaged, the leading cadre of the farm still did not consider the case closed. On the contrary, he gave orders for an emergency meeting of all farm personnel and had the event at the post exchange reported to all present. All soldiers and officers were admonished to always bear in mind the PLA's [People's Liberation Army] three main rules of discipline [obey orders, don't take things from the masses, turn in anything confiscated or captured] and eight points for attention [speak politely, pay for what you buy, return what you borrow, pay for damages, don't hit or insult people, don't damage crops, don't take liberties with women, don't ill-treat captives], to always remember that the Army and the people are as inseparable as fish and water, and to always remember the unity of all ethnic groups throughout the country. The speech by Xinyuan Farm's leading cadre, given on the drill ground in front of all soldiers and officers, was also witnessed by Shadati and his companions, which helped to gradually dispel their hard feelings. On hearing of the event, the village cadre also hurried to the scene to be of help to the herdsmen; in the end the affair was most peacefully resolved.

Xinyuan Farm lies on the Gongnaisi River, and around it are Musi village in Nileke County, Hujiertai village, the Aketasi stock farm, and the farm of the 72d Regiment. Whether the farm and the nearby villages and farms can maintain good relations is, strictly speaking, the important precondition that determines whether the farm can indeed stand its ground. After 1983, a solution had been found to the quarrel about the land of this farm and the land belonging to the peasants and herdsmen in its neighborhood. The leadership of the farm drew a lesson from its bitter experience and became aware that, in the relations between the military and the masses of ethnic groups inhabiting the land, it is not only a matter of merely being nice on New Year's Day and other festivals and giving them some presents; things like that can only gain some superficial "solidarity" in exchange. Relations of this kind cannot last and would be unable to

stand a test. Truly enduring relations must be built on a foundation of sincerity. Only by regarding the masses of ethnic groups that inhabit the land as if they were members of one's own family, and by adhering to this attitude year after year to the end, will it be possible to gain their trust, to earn acceptance by the masses in all sincerity, and will the military become in all reality "the people's own army."

For several years, Xinyuan Farm has acted along these lines. When the masses of the local herdsmen had difficulties with drinking water supplies, whole companies of soldiers went into action, built water reservoirs, laid water pipes, and conducted water from the mountains right down to the doorsteps of the herdsmen. When the herdsmen moved on to other areas and found themselves short of manpower in some places, the soldiers helped them out with trucks to move men and materials. In winter, when some herdsmen and their cattle were trapped in the mountains by heavy snow, soldiers of the military contingent braced wind and snow to send them foodstuffs and hay. During the planting season in spring, the military would supply the sedentary herdsmen with improved varieties of seed, chemical fertilizer, and would allow them the use of farm machinery. In early summer, when floodwater overflowed the main canals in some places, the military stopped work on their own land to help mend breaches. When the wall of the animal husbandry school collapsed, bricklayers from the Army arrived and carried out repairs even before the villagers had time to start on repairs. When herdsmen fell sick, they would at any time call on the services of the military medical station, and regardless of storm or snow, in daytime or at night, doctors would respond to their call. In cases of serious sickness, the military doctors and nurses would stay with the patient and care for him until he was out of danger. If the military contingents, the cadres, and the soldiers are to be truly blameless in their conduct toward the masses inhabiting a given area, the troops must maintain iron discipline. Although Xinyuan Farm is a production unit, it is second to none compared with other military units in strict military discipline. The actual land of the farm is only one kilometer from scenic Gongnaisi River, and every year in spring nearby local schools arrange excursions to the river bank, which allows Xinyuan Farm to respond in the following manner: All springtime excursionists are treated with warm friendship, and all necessary facilities are extended to them. The farm's own cadres and soldiers are strictly forbidden to use the river bank as playground; any offender against this prohibition will be incarcerated for eight days. The strictness of this military order is a matter of awed surprise to the people, and a matter equally admired by the people is the excellent public order and security maintained in the area of the farm. It is said that in all the years that the farm existed not even one chicken was ever lost, and there was of course also not one instance of molestation of the local population by cadres or soldiers.

The Kazakh people, who are the main ethnic group living around Xinyuan Farm, are truly friendly and

trusting. All men of the PLA regard the masses as if they were members of their own family, and would there be parents, brothers, and sisters that would not love their own blood relations? The main road to Xinyuan Farm had originally been a dirt road, impossible to use in rain or snow. Motorcars would sink in and could be extracted only by the efforts of "six oxen and two tigers." The farm then decided to build a new road with an asphalt top, but the new road would have to take up land belonging to Musi village. Musi village is newly established and is comparatively poor. For years, they had petitioned right up to the Central Committee for this land to be retained by them, how would they now lightly yield the land? The farm leadership, although intent on building the road, found it difficult to reopen the subject. When the Musi village cadre and people heard of this matter, they, unexpectedly, promptly decided that whatever land would be necessary for the road construction by the military could be had for that purpose, and that Musi village would not charge a penny for the land!

The land of the farm is right next to the local stock farms, and when cattle come down from their summer pastures, it easily happens that they stray into farmland and damage crops. When this happens, the instructions to the soldiers guarding the crops are: You may only drive the cattle away, but must never beat the animals. When it is really impossible to get some of the animals out, the soldiers are to bring the cattle back to the farm, where they should be fed, while ways should be found to notify the owners to come and take their cattle away. The military have observed this procedure for all these years, and have never allowed any untoward incident to become a cause of discontent for cadres in the neighboring villages and farms. Where else can other people's cattle chew on one's crops and still be fed, rather than be treated otherwise? They would in the end be fined. If the local cattle chew on the crops of the military farm, the military would not fine anybody, the local authorities would themselves impose fines.

The more instances of courteous behavior there are, the deeper the friendly feelings among those concerned. Whenever weddings or circumcisions are celebrated in the herdsman families of the ethnic groups near Xinyuan Farm, PLA soldiers are invited as most honored guests. Furthermore, when there is a sports event in a village or at a farm, it is worrisome that peddlers from all over the place congregate and may sell hard liquor at the sports grounds, which may lead to disturbances when people get drunk. It is therefore forbidden, under pain of severe fines, for sales carts to enter the areas of the tournaments. However, an exception is made for the sales carts of Xinyuan Farm because the masses have trust in the military.

As the years have gone by, there has been a fundamental change in the relation between the military and the civilian population and in the unity between different ethnic groups. Last year, Xinyuan Farm made a profit of 540,000 yuan, this year the plan provides for a profit of 1 million yuan. The sentiment that is uppermost in the

hearts of the farm leadership is: If we did not have the support of the local masses, what profits could we possibly make?

Wang Enmao Supports Work on Xinjiang CPC History
90CM0405A Urumqi XINJIANG RIBAO in Chinese
3 Aug 90 pp 1, 3

[Report: "Speech Given by Wang Enmao (3769 1869 5399) on 1 August 1990 at the Uygur Autonomous Region Party Historiography Work Conference"]

[Text] Comrades: First of all, my greetings and respects to all present who are engaged in compiling party history and in compiling the party history of the entire Xinjiang region! The present Autonomous Region Party Historiography Work Conference projects the spirit of the All-China Symposium of Leading Cadres in Departments Engaged in the Compilation of Party History. The present conference has reviewed past compilations of party history in the autonomous region, has exchanged experiences, and has discussed future work and made arrangements for such work of future party historiography in the autonomous region. We have just listened to the significant speech by Comrade Song Hanliang, an excellent speech indeed. A few days ago, Comrade Janabil also gave a very important speech, which was also excellent. Comrade Fu Wen [1381 2429] reviewed all historiographic work on the party done since the last party historiography work conference of the autonomous region, and discussed ideas concerning future work in party historiography of the autonomous region. All these speeches were excellent, and I agree with all of them.

With the keen interest shown by the CPC Central Committee and being guided by the party historiography departments of the central authorities, also working under the leadership of the party committee of the Xinjiang Autonomous Region and of the party committees at all other levels in the autonomous region, having enjoyed the solicitude and support from many senior party members, and due to the assiduous efforts of those actually compiling the party history in the autonomous region, party historiography in the autonomous region has accomplished great achievements. The work of collecting and collating material on party history, particularly for Xinjiang's democratic revolutionary period, has been basically completed. The organizational history of the party in the autonomous region has been written; a book of 170,000 characters has been set in type and submitted to higher authority for inspection; compilations in their own name comprise almost 1 million characters. A *List of Important Events Concerning the Xinjiang Communist Party During the Socialist Era* has been compiled, and the first section, from 1949 to 1966, of this list of important events has already been finished in manuscript form by the party school of the autonomous region. Material for the period from the Cultural Revolution to 1985 has also basically all been collected

and is now in the process of being written up. Compilation of the important events of party history in the prefectures, zhou administrative districts, municipalities, and counties during the socialist era is all ready in initial manuscript form, and parts of it have already been officially published. As to the collection of documentary materials, what has been collected so far are documents of the central authorities relating to the Xinjiang question; collection of all documents of the Northwestern Bureau concerning the Xinjiang question and collecting and collating documents of the Xinjiang Subbureau of the CPC Central Committee and of the Xinjiang CPC Committee for the period from 1949 to 1965 have been completed. Collection of some specialized material relating to the history of the Xinjiang party during the socialist era has initially been completed, as have collation and compilation of this material. Over 10 types of collectans of party history have been consecutively published, as have 37 issues of XINJIANG DANGSHI GONGZUO TONGXUN [XINJIANG PARTY HISTORIOGRAPHY NEWS]. Material entitled *Struggle Against Ethnic Divisiveness in Xinjiang History* was also compiled for internal circulation, clarifying certain left-over problems in Xinjiang history. In addition, TV films on party history were prepared, entitled *The CPC's Struggle in Xinjiang During the Period of the New Democratic Revolution*, and *Peaceful Liberation of Xinjiang*, cadres were induced to write their memoirs and reminiscences, and various commemorative meetings and academic discussion meetings have been held. All these activities had a positive effect by propagating and extolling the glorious tradition of the party. Gradually, a working organization in three levels was set up and perfected for party historiography, for which work a well-qualified contingent of party historiographers was provided and built up to work out and accumulate certain experiences in party historiography. Thus, an excellent foundation was laid for future continued autonomous region party historiography. All these must be counted as positive achievements. Of course, we have also to recognize that the work of party historiography for Xinjiang has by far not yet been completed; the task is heavy, and a large amount of work has to be done. The total contingent working on party historiography is still insufficient in strength and cannot adequately meet the needs of party historiography that still has to be accomplished. There are also some party committee secretaries at various levels who do not attach due importance to party historiography. All these problems must be properly resolved.

It is now already 69 years since the CPC was born on 1 July 1921, and it will be exactly 70 years on 1 July next year. The CPC is a great, glorious, and well-founded party; it enjoys high prestige and has a wide and powerful influence at home and abroad, but so far no well-written party history has ever been compiled. This is now the great undertaking that all members of the party are concerned about and are urgently looking forward to, an undertaking that simply has to be accomplished.

The leader of the CPC, Comrade Mao Zedong, had always attached importance to the compilation of a party history and has frequently expressed the intention of having a good party history compiled. He had actually set up a party historiography commission and appointed Comrade Dong Biwu [5516 1801 2876] as chairman of the compilation commission. Unfortunately, the party's leader, Comrade Mao Zedong, and his close comrades-in-arms, the older generation of proletarian revolutionaries such as Zhou Enlai, Liu Shaoqi, Zhu De, Dong Biwu, and other comrades, have all passed away, and the writing of a good party history has never been carried out. At present, as long as some of Comrade Mao Zedong's close comrades-in-arms and members of the old generation of proletarian revolutionaries, such as Deng Xiaoping, Chen Yun, Li Xiannian, Peng Zhen, and other comrades, are still alive and in good health, we should seize the opportunity to compile a good party history. It is an extremely urgent, extremely important, extremely pressing matter that brooks no further delay and must not be put off.

The CPC is a proletarian political party armed with Marxism-Leninism and Mao Zedong Thought. In the early years of party building, the party consisted of communist cells of only somewhat over 10 persons or a few scores of people each. Now, it has become the world's largest political party with a membership of 4.9 million, and it leads a large country of 1.1 billion people. It is a party that has undergone tempering, as steel is tempered, in a series of revolutionary struggles: in the first revolutionary civil war, the second revolutionary civil war, the War of Resistance Against Japan, and in the war of liberation. It is a party that has abundant experience in leadership and in conducting revolutionary war. The party has been successful in the greatest and most sweeping revolution in the history of China, the new democratic revolution. Later, the CPC engaged in the great socialist revolution, in socialist construction, and in reform and opening up to the outside world, thereby accomplishing unparalleled achievements. The party has consistently upheld Marxism-Leninism and Mao Zedong Thought, and has excelled in integrating the universal truth of Marxism with the specific realities of the Chinese revolution. With its correct program, correct orientation, principles, and policies of Marxism, the party has directed revolution and construction, all leading toward victory. The CPC has as its purpose wholehearted service to the people of all ethnic origins, and precisely because this is so, the CPC is very closely linked to the masses of all the various ethnic groups, and also enjoys the protection and support of the peoples of all the various ethnic groups. This is the source from which the CPC draws its strength to gain victory in revolution and in construction. The CPC has committed historical errors in revolution and in construction and has gone tortuous ways, but the CPC is armed with the weapons of criticism and self-criticism, has the spirit of criticism and self-criticism—particular that of self-criticism—which is a unique phenomenon among political parties, and which is also the reason why the party

can rectify its mistakes, correct its orientation, and advance toward victory. The CPC was utterly fearless, unafraid of imperialism, unafraid of the formidable strength of Chiang Kai-shek's reactionary KMT [Kuomintang] forces, and is unafraid of all enemies at home and abroad. No enemy can subjugate us, but would only be subjugated by us. The CPC dares to struggle and dares to win. The CPC has the most indomitable proletarian revolutionary spirit; it is not the least afraid of difficulties and hardships, and excels in enduring arduous struggle and in overcoming difficulties. There is no difficulty that can crush us, they will rather be crushed by us. In arduous struggle and by overcoming all difficulties, the CPC will advance toward victory. During the new democratic revolution and during the socialist revolution and socialist construction, the CPC has accumulated abundant experiences, and there is no political party in the world that has as abundant a measure of experiences. Compiling a good history of the CPC and summing up the historical experiences of the CPC is not only of the utmost significance for guiding China's socialism toward victory, but also of the greatest significance for guiding socialism throughout the world toward victory. As of today, when imperialism and Western reactionary forces preach that communism will not work and socialism will not work, the CPC firmly upholds socialism, has firm confidence in the victory of socialism, and is firmly advancing along the socialist road toward victory.

This firm confidence in the victory of socialism and the CPC's steadfast advance along the road of socialism has an immeasurably strong political impact on all the peoples of the world. If the CPC, with its membership of 4.9 million leading a population of 1.1 billion, firmly adheres to socialism in carrying out socialist construction, there is not only great hope for China's socialist victory, but also great hope for socialist victory throughout the world. When the CPC led armed struggle and established a revolutionary base at Jinggangshan, it raised the red flag at Jinggangshan, and as long as that red flag was not hauled down at Jinggangshan, there was great hope for victory in the Chinese revolution. In the same way, China is now not hauling down the socialist banner, and that signifies great hope for victory in the world's socialist undertaking.

The Xinjiang party organization is part of the party organization of the whole country. A good writeup of the entire country's party history must include a good history of the Xinjiang party, as this would be an absolutely essential component of any good party history of the entire country. A badly written history of the Xinjiang party would spoil the quality of the history for the entire party. A history of the entire country's party cannot leave out the history of the party in Xinjiang. Without the history of the Xinjiang party, the party history for the entire country would be incomplete. It is therefore a task that we must not shun to write a good history of the party in Xinjiang; we simply have to write it well.

Conditions in Xinjiang are unique, as the region is inhabited by different ethnic groups. In its work in Xinjiang, a region inhabited by different ethnic groups, the CPC has gained experiences in working in suitably adapted special ways. Taking Xinjiang's actual conditions into account, implementing the party's political line, principles, and policies, and implementing the party's policies regarding ethnic minorities, doing a good job of working with the ethnic minorities and of solving their problems, is of greatest significance not only for a resolution of problems with ethnic minorities throughout China, but also of a certain importance and significance for all countries of the world in their efforts to properly resolve their problems with ethnic minorities. A good compilation of the history of the Xinjiang party is therefore very important.

During the new democratic revolution, the party carried out revolutionary activities in Xinjiang, but did not, from top to bottom, set up a party organization. It was when decisive victories were won throughout the country and in the liberation of the people of the Northwest, and only after the CPC Central Committee and chairman Mao ordered the 2d and 6th Corps of the 1st Field Army, led by Comrade Wang Zhen, to enter Xinjiang and liberate Xinjiang, that a party organization was set up in Xinjiang from top to bottom. Comrades who under Comrade Wang Zhen entered Xinjiang and who entered Xinjiang in the early period of Xinjiang's liberation had been in leadership positions in the Xinjiang party and participants and witnesses to party building and party work. The fact that they are still around presents a good opportunity for writing a good Xinjiang party history. However, these comrades are now old, and as time goes by there will be fewer and fewer of them. We must take the task of compiling the Xinjiang party history firmly in hand at this time when they are still around and must under no circumstances allow the opportunity to pass unused. The Xinjiang party history must be compiled by this generation; it must not be handed to the next generation, as it is a mission that history has entrusted to us. If our generation were not be able to accomplish this mission, and were to hand it to the next generation to accomplish, it would be a betrayal by our generation of the historical mission that was placed on our shoulders.

During the period from 1982 to today, China's party historiography has accomplished great achievements. On the basis of these achievements, we must now continue to exert ourselves and successfully accomplish the task of compiling the history of the Xinjiang party. We must first complete the history of the Xinjiang party during the period of the new democratic revolution, and then complete the history of the Xinjiang party during the period from 1949 to 1990. As there is a continuous development of the party history, we shall continue to carry on and continue compilation of party history. There is the theory of continuity of history and also the theory of developmental stages, and we must first of all complete the Xinjiang party history for this stage. The organizational history of the party has now already been

written, but we must continue to solicit opinions, to get the manuscript into final form. The list of important events during the socialist period from 1949 to 1965 has already been written, so that a list of important events for the period from the Cultural Revolution to 1990 must now also be compiled. Completion is still required wherever specialized material on party history for the socialist period has not yet been completely collected, collated, edited, and published. It is also still necessary to assemble, carefully select, edit, and publish the party's documentary materials. It is on the basis of compiling these four sections of Xinjiang party historical material that we will complete compilation and publication of the Xinjiang party history.

In compiling the history of the Xinjiang party we must uphold the principle of Marxist historical materialism and have Marxist historical materialism guide the work of compiling the party history. First, we must realistically reflect all aspects of party history. Realistically reflecting all aspects of party history requires the comprehensive collection of all material on party history. Without comprehensive material on party history, it would be very difficult to realistically and accurately reflect all aspects of party history. Memoirs can, of course, realistically reflect aspects of history, but some memoirs are not necessarily complete, accurate, and reliable. We must guard against distorting and misrepresenting history. Second, assessing historical questions. We must certainly assess according to the historical conditions of those days and must not impose today's conditions on yesterday's historical situations in our assessment. Doing so would create an irreconcilable incongruity. Third, we must uphold the principle that practice is the only criterion for testing truth. What measure are we to apply in testing the correctness or erroneousness of practice? As means of judgment, we must still use Marxism-Leninism-Mao Zedong Thought, and use the party's political line, principles, and policies as well to judge whether it is in line with the interests of the people of all ethnic origins, and to judge whether it leads to success or failure in revolutionary and constructive undertakings, to judge whether it will mean social progress or social retrogression, and to judge whether it will mean development or retrogression in productive forces.

Success in party historiography hinges on the guidance provided by party committees at all levels. Party committees at all levels must enhance their guidance of party historiography and must place party historiography on the agenda of party committees, allotting a certain time to the discussion of party historiography. Cadres in major leadership positions must emphatically pursue the task of party historiography. We must strengthen the organization for party historiography. Should this organization be called the Party Historiography Commission or any other name? In the autonomous region it is presently called the Party Historiography Commission. I agree that all of Xinjiang should be combined together, and in the prefectures, zhou administrative districts,

municipalities, and counties the name should be Party Historiography Commission. As to its offices, the question whether to call them party historiography offices or offices of historical records, should be decided according to the particular circumstances. It is also possible to have separate party historiography offices and offices for the compilation of local annals, or they may be combined, or it is also possible to have two separate signs hung up in one and the same organization. Strengthening the organization requires strengthening the cadre contingent. Party committees at all levels shall delegate for work on party historiography only comrades that are well qualified for this work. If it is impossible to authorize a larger establishment for the party historiography contingent, it might be possible to mobilize and organize old comrades for the work as volunteer workers in party historiography, and to grant them appropriate relief should they have some difficulties in contributing their services. For effective party historiographic work there are also some

material and technical preconditions: Sufficient operating expenses must be allocated for this work, and it must be provided with the necessary office space, office equipment, and so on.

Work on the party historiography of the Xinjiang Uygur Autonomous Region has already accomplished great achievements. If the party committees at all levels would only, on the foundation of these achievements, enhance their guidance of party historiography, strengthen the party historiography organization, strengthen the party historiography work contingent, resolve the difficulties that party historiography work is still encountering, and mobilize and organize old comrades for participation in this work, I am confident that the party historiography work in the autonomous region will accomplish even greater achievements and will certainly successfully accomplish the task passed on to us by the CPC Central Committee of compiling the party history of the region.

LIAOWANG Analyzes Taiwan Investment Pattern in PRC*90CE0290A Hong Kong LIAOWANG (OUTLOOK)
OVERSEAS EDITION in Chinese No 23, 4 Jun 90 p 21*

[Article by Li Fei (2621 7236)]

[Text] The pace of large numbers of Taiwan businesses investing in the People's Republic of China (PRC) has obviously quickened in recent months.

Generally, this investment pattern shows three marked characteristics:

The first is its regional concentration. Distribution of Taiwan investments is concentrated mostly in opened-up special zones along the seacoast. From 1981, when the first Taiwan investment was made, to the end of 1989, the PRC has attracted Taiwan investments in more than 1,006 items valued at more than \$1 billion. Take the focal areas of their investments, for example. The chief concentration of investments was found in Xiamen (about 40 percent of total investment); next, in Shenzhen (10 percent) and Guangzhou (10 percent); and taking up the rest, other opened-up cities and special zones such as Zhuhai, Quanzhou, Zhangzhou, Fuzhou, Shantou, Haikou, Ningbo, Nanjing, Dalian, and Qingdao. Ranked by size of the areas attracting investments from Taiwan, Fujian Province, which received about 60 percent of the investment capital, was the largest, followed by Guangdong Province with about 30 percent. The remaining 10 percent was dispersed among cities and provinces such as Hainan, Zhejiang, Jiangsu provinces, Shanghai, and Shandong and Liaoning provinces, all located along the seacoast. Enterprises backed by Taiwan investments were also found further inland, in provinces such as Anhui, Jiangxi, Sichuan, Hubei and Hunan, though in proportionately much smaller numbers. The pattern of future Taiwan investment in the PRC will see capital going from an increasing number of distribution locations toward increasingly larger areas, though this too is expected in opened-up special zones along the seacoast, and investments further inland will be in inverse proportion to increasing transportation costs. Conversely, the closer those areas are to Taiwan, the greater the investment, because of favorable geographic and policy factors.

Second is the appropriate scope of its enterprises. The average amount or capital investment by Taiwan businesses in a single project is about \$1 million, and more than 90 percent of investments are in medium-sized and small enterprises started with less than \$1 million. However, there are also a small number of large enterprises with investments over \$10 million. Enterprises in Xiamen, Guangzhou, Shanghai, and Beijing are usually operations on a larger scale, with an average capitalization amounting to about \$2 million per enterprise. The scope of investments in other regions is more modest, about \$500,000. With the trade relationship between Taiwan and the PRC becoming closer, investment by

Taiwan businesses through introduction of large-scale enterprises will continue to broaden.

Third is this pattern's variety. Enterprises supported by Taiwan capital are seen in many forms—single ventures, joint ventures, cooperative ventures, and “three-to-one” operations. Single ventures are found chiefly in Xiamen and Shenzhen, comprising about 70 percent of total Taiwan investments. Joint or cooperative ventures are seen mostly in the rest of the locations. In the Zhujiang Delta and the southern Fujian triangle are many enterprises that take advantage of the readily available mainland labor to engage in finishing and processing imported materials, as well as assembling imported parts on products for shipment and marketing abroad. At the present time, besides their input of capital, skills, and equipment, these Taiwan entrepreneurs are also responsible for managing these enterprises, importing the raw materials needed, and marketing the finished products. Contributions from the PRC side are chiefly the labor, available land, and plant and shop facilities. The set-up cycle for most enterprises is generally short, requiring only a few months, short ones being as short as a month, and long ones as long as a year. Most Taiwan businessmen are quite efficient, working fast to get contracts signed, and equally fast about going into production. The time limit for enterprise operation is mostly over 10 years, generally from 20 to 30 years, with the longest running up to 70 years.

Investment usually falls into four categories. The first is the labor-intensive model, where the investment item utilizes the relatively cheap labor available in the invested area. Investments by Taiwan businesses in countries such as Thailand, Malaysia etc., are mostly in this category. Second is the land and environmental utilization model, where the purpose of investment is utilization of the relatively cheap land, plant facilities, and favorable environment available in the invested area. Taiwan investments in countries such as the Philippines are mostly in this category. Third is the market invasion model where the purpose of investment frequently is to break down various trade barriers to directly enter the market in the invested area. Taiwan investments in North America and Latin America are mostly in this category. Fourth is the natural resource model where the investment object is chiefly exploration or preliminary processing of natural resources found in the invested area to satisfy various investor needs. Taiwan investments in Indonesia, the Middle East, and so on, are mostly in this category.

Taiwan investments in the PRC at present are mostly in form of the first model—that is, the labor intensive model, in light textile and processing industries that make garments, luggage, toys, shoes, etc. Initiated early on, this type of investment has now progressed from the trial to the maturity stage. This type of investment can also be referred to as a trade investment model where the know-how, equipment, and raw materials are mostly imported from the capital source or some other place, and the finished products are usually exported and sold

in places where labor costs are high, e.g., European and American markets. As the result, the investors overlook the comparative proportion of sales inside the market and certain most-favored policies, and emphasize labor costs instead. The Chinese mainland has an abundant labor resource, which is one of the most favorable features that has attracted Taiwan capital in a relatively short time. The premise for continued introduction and expansion of this type of investment is a relative increase in productivity and suitable control of wages.

Investments by Taiwan businesses that fall into the second category, that is, the land and environmental utilization model, are also quite numerous. At present, they have entered the stage of stable expansion. This type of investment consists chiefly of three kinds. The first is utilization of the cheap land and physical plant facilities available in the PRC. Some Taiwan investment projects that require considerable space can only seek development abroad in face of rising land prices on Taiwan and the high cost of capital investment. As the result, those that have been transferred to the China mainland include some large industrial enterprises such as real estate development, golf course construction, and so on. The second is utilization of the uncontaminated environment available in the PRC. Some enterprises that have more strict environmental quality requirements which cannot exist in the increasingly contaminated environment on Taiwan are forced to transfer out. Some aquatic product development enterprises engaged in the culture of shrimp, oysters, etc., have been partially transferred to the Chinese mainland. Third, taking advantage of the mainland's comparatively liberal environmental standards. The Chinese mainland is yet to experience the preliminary stages of economic development, so its requirements for environmental protection are not too strict. Some enterprises on Taiwan that are heavily contaminating cannot but move out in face of heightened environmental consciousness on the island. Enterprises such as those involving petrochemicals have made known their intentions to move over to the mainland. The three kinds of investments mentioned above frequently coincide with the labor intensive model, and it is expected that this situation will be expanded some more. To maintain the PRC's superiority with respect to land availability and the environment, one condition in attracting Taiwan investment should be appropriate control of land costs to reflect overall market values. The second condition is to implement a small regional plan for industrial land use and investment, allowing the investment object to be logically placed and orderly situated. The third condition is drafting and adopting a series of environmental protection measures to prevent excessive contamination of the land, water sources, and the air.

The third category of investment by Taiwan businesses, that is the market invasion model, is not numerous, and is still in the beginning stage. One of the reasons for this is that the consumption level in the PRC is still quite low, and the purchasing power of the people is not great.

Another reason is that the style of commodities trading in the PRC is different from that prevailing on the international market, and it is not easy for Taiwan businesses, used to production and operation based on order fulfillment, to adopt and use. The third reason is inadequate understanding of the China mainland market, which at present is still in the exploration and familiarization stage. However, Taiwan businesses have already set their sights on the PRC market, and this type of investment is expected to increase further in the future. The capacity of this mainland market is large, and its potential is even greater, for a gigantic market serving a population of 1.1 billion is not seen in any other country or region of the world. This is another factor underscoring the dominant position favoring the mainland in the future. To preserve and to take advantage of this dominant position to reap even greater efficiency and benefits all around, the PRC authorities should take overall control and place an overall limit on various goods permitted to enter the open market, and give some definite priority to hinterland enterprise development as the first requirement. On the other hand, as a second requirement, they should implement a policy of selective market opening based on the state's needs, the state of the technology and the extent of its transfer, and comparative benefits, to determine the proportion of inside marketing to be encouraged. The third requirement calls for promoting competition between enterprises and raising their technical levels, which leads them to adapt gradually to the market competition environment and eventually gain the ability to compete with Taiwan.

The fourth category of investment by Taiwan businesses in the PRC, that is the natural resources model, is quite limited, and it is only in the exploratory stage right now. While the PRC has the advantage of certain natural resources, this is quite limited. In the first place, the per capita average for these resources is very limited, even though the resource deposits are large. The per capita average for many important resources is lower than the international average. Second, geographic distribution of these natural resources is very uneven, abundant in the interior but comparatively scarce in the coastal regions. This is an unfavorable factor for exploratory investment and transportation. Third, the resource development cycle is long, capital investment is great, and difficulties are comparatively numerous. Fourth, overheating of the mainland economy in recent years has created a critical shortage in energy sources and raw materials, causing a relative drop in the advantage held by natural resources. Following an increasingly close cooperation in trade on both sides of the straits, future enterprises supported by Taiwan investments in developing natural resources in the PRC will increase and expand, gradually making the transition from their present status of depending on raw materials from Taiwan and other sources abroad, to one of utilizing raw materials from the mainland itself. While this is beneficial for enterprises supported by Taiwan investments in terms of reduced production costs and increased productivity, it can also increase self-sufficiency in the supply of raw materials within the PRC.

Prospects for Forming Social Democratic Party*90CM0356A Hong Kong MING PAO in Chinese
12 Jul 90 p 27*

[Article by Lu Fanchi (7627 0416 0037): "Does Hong Kong Have the Ability To Develop a Social Democratic Party?"]

[Excerpts] In today's Hong Kong, where "partial party politics" is currently emerging, forces on all sides are using various forms to build and organize parties. This is already common knowledge. At this time, I am interested especially in discussing the feasibility of Hong Kong developing a social democratic-type political party, and have some suggestions for the figures and organizations concerned. [passage omitted]

Of course Hong Kong's situation is very different from that of Western Europe, Northern Europe, Japan, Australia, or New Zealand. Yet the experiences of their social democratic, socialist, or labor parties, the patterns of their development, and their problem-solving methods are of value for research and reference. Their problem-solving methods include such things as handling relations with communist parties, labor unions, pressure groups, and other social organizations; relations with capitalist and financial groups from industrial and commercial circles and their political parties; relations with the electorate; relations with their own party members and between democrats and factions within their parties; relations with legislative elections at all levels; relations with the government; and their relationship to promoting trends of thought within the society, ideological attitudes, and a "new culture." Any political group seeking to become the foundation for a social democratic party in Hong Kong must draw on the valuable experience and theories of socialist, social democratic, and labor parties from around the world. Even more important, they must comprehend and study the special nature of Hong Kong society as well as the special nature of China's national conditions. (Hong Kong's local political parties must also thoroughly understand the questions related to China's overall national conditions and the special problems which are directly related to the development of Hong Kong.)

In today's Hong Kong, the Hong Kong Association to Promote Democracy and People's Livelihoods (Min Hsieh) is the political organization which, objectively speaking, possesses the foundation and the greatest potential and, subjectively speaking, is most inclined to become a social democratic-type political party. However, this organization does not have sufficient strength on its own, but must cooperate with similar organizations (like the Meeting Point and others) in order to move towards establishing a local, social democratic-type political party. It must progressively systematize, organize, and develop a theory for its own path of development.

The highly "modernized" development pattern, the obvious inherent structural defects, and the highly

unbalanced contradictions of Hong Kong capitalism are the objective base upon which a social democratic party will be able to develop, and social democracy in Hong Kong will have to work hard in the present stage of integration. It should take Hong Kong's "middle stage of capitalism" as the development pattern and adopt peaceful, gradual measures, such as structural reform and government by legislation. It should also progressively promote greater humanity, reason, equality, and democracy, the smooth and steady development of prosperity, an even higher level of development, and a better economic and cultural life; it should integrate this with the development pattern of guaranteeing social welfare which is associated with "the later stage of capitalism." This does not contradict the basic standard of "maintaining capitalism unchanged for fifty years" after Hong Kong is returned to China. Hong Kong's "new middle class" continues to gain ground as Hong Kong's "modernization continues to develop," although the traditional working class and petty bourgeoisie classes will still constitute the major part of Hong Kong society for a relatively long time. These vast middle and lower strata, which account for the overwhelming majority of Hong Kong's population, are in fact the class base upon which a Hong Kong social democratic party will seek to develop. Such a party must clearly adopt a class orientation which entails "speaking on behalf of the middle and lower strata," and renounce the "straddling social strata" illusion of a single party which "combines the upper, middle, and lower classes."

Regardless of whether one views Hong Kong from the perspective that capitalism should be maintained in the long run or from the perspective that a "small-scale open economy" cannot endure too large or too many conflicts and upheavals, it is essential to place more emphasis on class, social, and political harmony. It is a necessary condition for a stable and prosperous Hong Kong. However, "class harmony" involves the coordination of interests at the social, legislative, and political policy-making and implementation levels after different classes and social strata have each formed different political parties and interest groups. It is not a situation where classes and social strata harmonize interests within the same political party or organization; this is not only impossible, but also, more often than not, it results in the interests of the middle and lower strata being sacrificed. "Class harmony" involves struggling and existing with contradictions contained in different class interests. In fact, seeking a rational harmony between the middle and lower strata (primarily an alliance between the working class and the lower levels of the "new middle class") is one of the basic positions of social democracy. [passage omitted]

Of course, in Hong Kong there is still one very important and special question concerning "political harmony." That is the question of handling relations with China's central authorities and the Communist Party. Clearly, any political party that wants to attain a fairly protracted development cannot adopt tactics towards China's central authorities which are wholly confrontational or too

locally-oriented. Nor can it adopt the completely or extremely confrontational tactic of "promoting democracy, resisting communism" against the communist party currently ruling China (unless the Communist Party falls from power or suffers a protracted and serious loss of control over China, although this is not currently part of the political reality of China). Any group wanting to develop a social democratic party in Hong Kong clearly cannot make any exceptions in this area.

I have some suggestions for members of the "Hong Kong Association to Promote Democracy and People's Livelihoods," if it is to develop as a political party and become the foundation for a social democratic party: besides the need to extend unity, seek an even larger base of support, and continue advocating democracy and freedom, there is also a need to make a clear distinction between it and political parties of the "radical democratic faction" and the "Hong Kong United Democratic Alliance." This is because their past histories are similar, and presently their memberships overlap quite a bit. It is necessary to clearly distinguish the differences between these groups. The key points of these differences are as follows:

- 1) Discard the vague and ambiguous illusion of "straddling social strata," and clearly adopt a basic position and outlook which supports the class interests of the middle and lower strata of society.
- 2) Take a stand in fighting for the interests of the middle and lower strata, and be their voice. Support the premises of democracy and freedom, and, in terms of the interests of Hong Kong society as a whole, clearly seek the moderate base and line of class, social, and political harmony.
- 3) Besides stressing both struggle and harmony within Hong Kong society, it is also necessary to stress moderate basic tactics with regard to the relationship between Hong Kong's local authorities and China's central authorities and Communist Party, which is the main force currently governing China. Completely or excessively confrontational tactics, such as the so-called "support democracy, resist communism" tactic, must be abandoned here. In addition, it is necessary to oppose the introduction of foreign forces that would interfere politically in Hong Kong's internal development.
- 4) Besides focusing on practical questions associated with developing actual organizations, participating in elections at various levels, and establishing extensive relations with the middle and lower strata (including labor unions, grass-roots organizations, pressure groups, etc.), it is also necessary to pay attention to building a social democratic party spirit; progressively popularizing the basic values, thinking, theory, international exchanges, and policy measures of social democracy (starting first among its own members); establishing related study institutes (relations between Britain's Labor Party and the "Fabian Society" could be considered); and carrying out related theoretical research and dissemination within Hong Kong society.

Editorial Denounces British Nationality Scheme

90CM0356B Hong Kong TA KUNG PAO in Chinese
30 Jul 90 p 2

[Editorial: "New British Nationality Law Will Hinder 'Hong Kong People Ruling Hong Kong'"]

[Text] Early last week, the British Parliament passed the "1990 British Nationality (Hong Kong) Law," and two days ago the spokesman for China's Ministry of Foreign Affairs stated cautiously that, "in accordance with this legislation, the British side has given a portion of Hong Kong's Chinese citizens the status of 'British citizens,' which cannot be recognized by the Chinese side. The Chinese government retains the right to adopt in due course further measures relating to the mistaken actions of the British side."

The position and attitude of the Chinese government has been consistent with regard to the nationality status of Hong Kong residents, and for this reason, the response of the foreign ministry spokesman last week was to be expected even before he had said anything. The Chinese government views Hong Kong compatriots as members of the great family of the Chinese nation. When they were negotiating the future of Hong Kong, the Chinese and British sides reached a common understanding early on concerning the nationality of Hong Kong residents, and on this basis exchanged memoranda. These explained that the nationality of Hong Kong's Chinese residents did not change simply because they held "British local citizen passports," and that the passports would no longer be used come 1997; holders of such passports could change to another type of travel document signed and issued by the British government, but this "would not bestow the right of residence in the United Kingdom," and also "would not give an individual consular protection in the Hong Kong Special Administrative Region [SAR] or other areas of China." The British government originally passed legislation upholding the above promise, but after June of last year, it put forward a "right of abode" plan and wanted to revise the "British nationality (Hong Kong) law," publicly violating the British side's own solemn promise, and violating the spirit and essence of the Sino-British Joint Declaration. In December of last year, the Chinese foreign ministry spokesman issued a statement which appealed to the British to change this mistaken action. In April of this year, the foreign ministry spokesman again pointed out that the British government had seriously violated the Sino-British agreement and disregarded the just demands of the Chinese side. This was something which, of course, the Chinese government could not ignore. Therefore, after the British Parliament passed the so-called right of abode law bill last week, people could anticipate that the Chinese government would have no choice but to reiterate their serious opposition.

In accordance with the principles of international law, the nationality of a country's citizens is stipulated by the laws of that country. Nationality is normally based on

one's extraction or birthplace, and Hong Kong has historically been a territory of China. Hong Kong compatriots are of Chinese extraction, hence the nationality of Hong Kong citizens can only be determined on the basis of Chinese nationality laws, and thus is a matter that falls within the scope of Chinese sovereignty. The British government wants to unilaterally change one group of Chinese citizens living in Hong Kong into "British citizens," which infringes on Chinese sovereignty and is something that naturally cannot be recognized by the Chinese side.

The Chinese government guarantees that residents of Hong Kong will continue to enjoy the freedom to come and go as they please, and the Sino-British Joint Declaration and the Basic Law of the Hong Kong SAR both clearly state that "those holding valid travel papers can freely leave the Hong Kong SAR, unless legally prevented, and do not need to obtain special approval." The practice is the same as elsewhere in the world: in order for Hong Kong SAR residents to be free to come and go, they must first present valid travel documents, and then the British side, in accordance with the "1990 British Nationality (Hong Kong) Law," will issue "British citizen passports," which the Chinese side cannot recognize. Of course, Chinese citizens cannot use this type of document to enter and leave the Hong Kong SAR and other areas of China, and will not enjoy British consular protection in Hong Kong or in the country proper because of this document.

The British authorities advertise that the "right of abode" bill will be able to stop the drain of skilled people from Hong Kong, but in recent days Hong Kong government officials have publicly stated that they believe that the law cannot have this effect. On the other hand, some people view the "right of abode" as a general plan to actually stir up emigration sentiments and accelerate the outflow of skilled people from Hong Kong, which will in fact only "undermine the foundation" and not calm the minds of Hong Kong citizens. Quite a few people who want to remain in Hong Kong and build it up have pointed out that, if it is only a painstaking effort to complicate people's attitudes and not to foster an attitude of being their own masters, then the problem of

confidence will remain unsolved for a long period. The British side's use of secret methods to select a group to become "British citizens" is bound to lead to divisions within Hong Kong society. For example, some of those public servants who have obtained the "right of abode" could at the same time leave their posts, thus creating an administrative "gap." Public servants who are qualified to apply for right of abode but did not apply also worry that the British will view this as a significant loyalty problem and that this will affect their promotions. For those who were not qualified to apply for the "right of abode" or whose applications failed, there could be a drop in morale, and it would be even harder to avoid contradictions arising among them.

In April of this year the National People's Congress adopted the Hong Kong SAR Basic Law, which stipulated that major positions in Hong Kong's administrative, legislative, and judicial organs will be filled by Chinese citizens who are long-time Hong Kong residents and who have no right of abode in a foreign country. The British side, however, insists on seeking out "favored persons" who occupy crucial positions in Hong Kong for "right of abode," thereby erecting obstacles to realizing "Hong Kong people governing Hong Kong" in the future. In order to carry out the provisions of the Sino-British Joint Declaration and implement the Basic Law, it is necessary to progressively adopt relevant measures for eliminating these obstacles in coming days.

When the Chinese foreign ministry spokesman commented on the "British nationality (Hong Kong) law," he reiterated that the Chinese side will carry out the provisions of the Sino-British Joint Declaration and the principles of "one country, two systems" to the letter, and that it is willing to continue cooperating with the British side on questions related to Hong Kong. Last week, Francis Maude made an unofficial visit to China, further improving Sino-British relations. Now the hope is that both the Chinese and British sides will continue to work hard to restore and develop the favorable cooperative relations of the past, making it possible to solve the problems related to the "right of abode." This will be of benefit to the stable prosperity of Hong Kong and to a stable and smooth transition.

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