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# ***JPRS Report***

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# **China**

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# China

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## CONTENTS

21 December 1990

### INTERNATIONAL

#### GENERAL

North-South Economic Gap Seen Widening [GUOJI WENTI YANJIU No 4] .....	1
Summary of Conference on Non-Proliferation Treaty [LIAOWANG No 40] .....	3
U.S. Asks NATO for Further Gulf Support [XINHUA] .....	5
Kaifu Wants Soviet Concessions on Territory Issue [XINHUA] .....	5
No Tae-u Leaves for Moscow Visit [XINHUA] .....	5

#### SOVIET UNION

Shevardnadze Denies Plans for Involvement in Gulf Conflict [XINHUA] .....	5
---	---

### POLITICAL

Rise of Jiang Zemin Outlined [Hong Kong CHIUSHIH NIENTAI Nos 249, 250] .....	7
--	---

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Reform Urged in Fixed-Asset Depreciation System [JINGJI GUANLI No 10] .....	14
New Round of Enterprise Contracting Discussed [TIGAI XINXI No 16] .....	19
Localities Work on Reforms for Eighth 5-Year Plan [TIGAI XINXI No 16] .....	22
Issues in Implementing Industrial Policy [JINGJI GUANLI No 10] .....	23
Success Reported in Production, Commodity Reform [XINHUA] .....	30

#### PROVINCIAL

Shandong Completes Boshan Water Diversion Project [Jinan Radio] .....	31
---	----

#### FINANCE, BANKING

Monetary Policies Play Regulatory Role in Economy [JINRONG SHIBAO 23 Oct] .....	31
Financial Operation Problems, Countermeasures [ZHONGGUO TONGJI XINXI BAO 22 Oct] ....	33
Article Views Debt Chains, Solutions [JINGJI RIBAO 27 Oct] .....	35
Investing State Technological Transformation Funds [JINGJI RIBAO 13 Nov] .....	37
Local Enterprise Bonds Play Role in Fund-Raising [JINGJI RIBAO 13 Nov] .....	37
Guangdong Official Promotes Shareholding System [NANFANG RIBAO 4 Nov] .....	38
Shanghai Stock Exchange Center Established [XINHUA] .....	38

#### MINERAL RESOURCES

Joint Ventures Sought for Nonmetallic Mineral Mining [CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) 3 Dec] .....	39
Heilongjiang Gold Production Up 15 Percent [XINHUA] .....	39

#### INDUSTRY

Developing Products With High Added Value [JINGJI GUANLI No 8] .....	39
Fulfillment of State Contracts for Steel, Lumber [JINGJI RIBAO 26 Oct] .....	44
Industrial Output Value Reported for 13 Cities [CEI Database] .....	45
Qinghai Basic Industries Show Steady Growth [Xining Radio] .....	45

Shanghai Industrial Production Up in November [XINHUA] .....	46
Shantou Increases Gross Industrial Output Value [XINHUA] .....	46
Yantai City S&T Complex Advances [DAZHONG RIBAO 22 Oct] .....	46

#### SMALL-SCALE ENTERPRISES

Status of Township Enterprises After Readjustment [ZHONGGUO XIANGZHEN QIYE BAO 19 Oct] .....	46
Liaoning Township Enterprises Note Stable Progress [ZHONGGUO XIANGZHEN QIYE BAO 17 Oct] .....	48
Report Presented on Liaoning Township Enterprises [LIAONING RIBAO 26 Sep] .....	49
Anhui's Rural Enterprises Surpass 5-Year Goal [Hefei Radio] .....	51

#### CONSTRUCTION

Housing Reform Aims for Reduced State Subsidies [TIGAI XINXI No 16] .....	51
Shanghai Housing Situation 'Very Acute' [WEN HUI BAO 19 Nov] .....	54
Shanghai Promulgates Housing Reform Plan [Shanghai Radio] .....	54

#### FOREIGN TRADE, INVESTMENT

New Opportunities in Sino-Soviet Trade [Hong Kong CHING CHI TAO PAO No 42] .....	54
Beijing Increases Use of Foreign Capital [BEIJING RIBAO 22 Oct] .....	55
Air-Freighted Exports Increase 20 Percent Annually [XINHUA] .....	56
Sichuan Improves Environment for Foreign Investment [XINHUA] .....	56
Revisions Planned in Trade Contracts With Japan [GUOJI SHANGBAO 17 Nov] .....	56

#### ECONOMIC ZONES

Ways To Accelerate Development of Pudong [SHEHUI KEXUE No 9] .....	57
Goals Suggested for Pudong Infrastructure, Industry [JIEFANG RIBAO 21 Oct] .....	61
Jilin Calls Meeting on Economic Development Zones [Changchun Radio] .....	63
Ningbo Economic Zone Attracts Foreign Investors [XINHUA] .....	63
Shanghai's Minhang, Hongqiao Zones Mark Anniversary [JIEFANG RIBAO 17 Oct] .....	64
Minhang, Hongqiao Success Laid to Bank Support [JIEFANG RIBAO 18 Oct] .....	65
Mid-October Figures on Shenzhen Stock Market [Hong Kong WEN WEI PO 23 Oct] .....	65
Foreign Funds To Boost Zhuhai Economic Zone [CHINA DAILY 3 Dec] .....	66

#### LABOR

Economists Discuss Inequitable Social Distribution [JINGJI RIBAO 2 Oct] .....	66
---	----

#### POPULATION

Effect of Pension Plan on Family Planning Studied [XINHUA] .....	69
Census Shows Population Shift to Beijing Outskirts [CHINA DAILY 19 Dec] .....	69
Rural Family Planning in Heilongjiang [HEILONGJIANG RIBAO 14 Oct] .....	70
Sichuan Claims Progress in Population Control [XINHUA] .....	72

#### TRANSPORTATION

Shipbuilding Gears Up To Meet Rising Demand [CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) 3 Dec] .....	72
---	----

#### AGRICULTURE

Benefits Follow Rapeseed Price Reforms [NONGMIN RIBAO 24 Oct] .....	73
Central, South Regionalism Hampers Grain Sales [JINGJI CANKAO 7 Oct] .....	74
Water Conservancy Investment Expected To Double [XINHUA] .....	75
Northeast Provinces Report Record Grain Harvest [XINHUA] .....	75
Agriculture Bank Notes Higher Rural Savings Deposits [XINHUA] .....	75

Vegetable Exports Increase; Target Overfulfilled [CHINA DAILY 10 Dec] .....	76
Tobacco Exports Set Record [XINHUA] .....	76
New Grain Storage Facilities Planned [CEI Database] .....	76
Germ Plasm Bank of 'Precious' Trees Established [XINHUA] .....	76
Anhui Peasants Living Standard Up Since 1985 [Hefei Radio] .....	77
Anhui Oil Crop Area [ANHUI RIBAO 22 Nov] .....	77
Guangxi Peasants Living Standard Improves 1985-90 [Nanning Radio] .....	77
Hainan To Establish Agriculture Development Zone [XINHUA] .....	77
Heilongjiang Grain Output Reported [Harbin Radio] .....	78
Henan Rice Area, Output [HENAN RIBAO 22 Nov] .....	78
Grain Payment Problems in Hubei Aired [JINGJI XINXIBAO 25 Oct] .....	78
Hunan Grain, Cotton Procurement [HUNAN RIBAO 17 Nov] .....	79
Hunan Pork Exports [HUNAN RIBAO 18 Nov] .....	79
Jiangxi Opens Provincial Grain Wholesale Market [XINHUA] .....	79
Jilin Forestry Departments Fulfill Plans [Changchun Radio] .....	79
S&T Helps Jilin Increase Grain Output [XINHUA] .....	80
Jilin Beet Purchase Results Reported [Changchun Radio] .....	81
Jilin Sunflower Seed Procurement Reported [Changchun Radio] .....	81
Shandong Rural Output Value [Jinan Radio] .....	81
Sino-German Afforestation Project in Sichuan [XINHUA] .....	81
Sichuan Autumn Grain Area [SICHUAN RIBAO 20 Nov] .....	81
Japanese Joint Venture Grows Hops in Xinjiang [XINHUA] .....	82

## SOCIAL

Assessment of New Administrative Law of Procedure [Hong Kong LIAOWANG OVERSEAS EDITION No 44] .....	83
Education Reform Results in New National Textbooks [XINHUA] .....	86

## MILITARY, PUBLIC SECURITY

Nuclear Test Site Unit Works in Gobi Desert [XINJIANG RIBAO 13 Oct] .....	87
Jiangsu Pursues Excellence in Military Service [XINHUA RIBAO 29 Oct] .....	87
Content of Campaign Explained .....	87
Importance Cited .....	88
Role of Military Industries in Yunnan Economy [YUNNAN RIBAO 2 Nov] .....	89
Returned Students 'Major Force' at Defense University [HUNAN RIBAO 19 Oct] .....	90
Beijing Formalizes Military Installation Protection [JINGJI RIBAO 17 Oct] .....	91
Guangdong Sets Standards for Winter Conscription [NANFANG RIBAO 12 Oct] .....	91
Hebei Military Commander Discusses 1990 Conscription [HEBEI RIBAO 2 Nov] .....	92
Hubei Begins Winter Military Conscription [HUBEI RIBAO 13 Oct] .....	93

## REGIONAL

### EAST REGION

Shanghai Center Assists Residents Traveling Abroad [XINHUA] .....	94
---	----

### CENTRAL-SOUTH REGION

Governor Says 5-Year Plan Conference Helps Guangdong [Hong Kong TA KUNG PAO 12 Dec] ..	94
--	----

### SOUTHWEST REGION

Minority Cadres Occupy Important Roles in Tibet [XINHUA] .....	94
Tibetan Cultural Encyclopedia Published [XINHUA] .....	95
Tibet Continues Support for Handicapped [XINHUA] .....	95

### NORTHEAST REGION

Liaoning Stresses Education on Party Discipline [Shenyang Radio] .....	96
--	----

**NORTHWEST REGION**

Personnel Reduction Urged in Shaanxi Government [JINGJI CANKAO 7 Nov] .....	96
Kashgar Fights Splittism, Religious Infiltration [XINJIANG RIBAO 20 Oct] .....	98

**TAIWAN**

Taipei Rejects Beijing Appeal for Party Talks [Hong Kong SOUTH CHINA MORNING POST 14 Dec] .....	100
Taiwan Work Meeting Emphasizes Reunification [Hong Kong SOUTH CHINA MORNING POST 13 Dec] .....	100
Vice Minister Heads Goodwill Mission to Panama [CNA] .....	101
Premier Hau Compared to Chiang Ching-kuo [HSIN HSIN WEN No 182] .....	101
Eavesdropping Activities of National Security Bureau [HSIN HSIN WEN No 188] .....	105

## GENERAL

### North-South Economic Gap Seen Widening

91CM0065A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese No 4,  
13 Oct 90 pp 19-26

[Article by Zhan Bingxi (3914 3521 4406): "North-South Economic Gap Still Expanding"]

[Excerpts] *During the 1980's, the national economies of most developing countries came to a standstill or regressed in a further widening of the North-South economic gap. This was primarily the result of developed Western countries' use of the irrational old international order to shift economic difficulties to developing countries. The international economic environment that developing countries will face during the 1990's remains extremely grim. Only by improving the international environment for the economic development of developing countries and building a new international economic order will it be possible to bring about a fundamental narrowing of the North-South economic gap. [passage omitted]*

### III

The current situation shows that the international economic environment will continue very grim for the development of developing countries during the 1990's.

**1. The scientific breakthroughs and applications of developed Western countries will continue to widen the North-South economic and technological gap.** In the modern world, economic development depends increasingly on advances in science and technology. Since the 1970's, a new technological revolution has blossomed in the principal industrially developed countries. In the 1990's, particularly during the last half of the 1990's, varying degrees of breakthrough advances may occur in six different technological fields, including information technology, and the level of industrialization and utilization may gradually rise. The United States, Japan, and Europe have already made science and technology the center of their national development strategies in the overall national power contest. They vie with each other to increase funds for scientific research, and they take vigorous actions in an effort to achieve dominance, leaving everyone else behind. Although most developing countries are trying to raise the economic and scientific and technological level of their own country, they mostly lack the conditions and the methods for developing science and technology. Both their scientific and technical level and their cultural and educational level are relatively low, and their funds are limited. As a result, the scientific and technical gap between them and developed countries continues to widen. The new technological revolution will enable developed countries to monopolize high-technology industries, which will further weaken the advantages that developing countries enjoy in primary products and labor-intensive industries. In addition, readjustment of the structure of industry in developed countries is no longer done

through complete abandonment of old technologies as in the past, but rather through the use of new technologies to accelerate the transformation of traditional industries. This will also adversely affect the competitiveness of the labor-intensive products of developing countries.

**2. Protectionism will continue to grow in developed countries.** Forecasts call for continued slow economic growth in the Western world during the 1990's, and a slowing in the growth of world trade as well. Thus, competition for markets among the developed countries of the world will intensify. A narrowing of the economic and trade imbalance between the United States and Japan will be difficult, and trade frictions between them will continue undiminished. The scale of trade protectionism will expand. It will not be limited only to traditional manufactures and agricultural products, but will expand to high-technology products and to the fields of labor and intellectual property rights. The impact will be severe on developing countries who lack the ability to resist. The intensified protectionism will be particularly bad for the readjustment of the industrial structure, as well as for developing countries that are expanding their exports of manufactures.

**3. Not much likelihood of a rise in international market prices of most raw materials and primary products.** The World Bank Agricultural and Minerals Department forecasts that, by the end of the present century, prices of primary products (figured in constant United States dollars) will be slightly higher than during the lowest point in 1986, but far lower than the level from 1979 through 1981, and during the 1970's.<sup>18</sup> Such an estimate makes sense. First, world economic growth will continue to slow, so increased demand for raw materials and primary products will be limited. Second, the output value of developed countries is no longer produced mostly by agriculture and manufacturing industries, but by service industries. Today, the output value of service industries in these countries has risen to 65 percent of GNP versus 55 percent in 1965, and estimates call for it to reach more than 70 percent by the end of the present century. Since service industries need much less raw material than do industry and agriculture, this change in the output value structure will bring about a decline in world demand for raw materials. Third, scientific and technological progress, particularly the application of new materials technology will lead to decreased use of traditional raw materials and will generate more substitute energy and processed materials. As a result, there will be a greater surplus of primary-level products, causing a softening of prices.

**4. The foreign debt burden will remain very serious.** As was said above, during the 1990's prices of primary products will soften, protectionism will increase, and prospects for developing a country's foreign exchange-earning exports are by no means optimistic. The various factors giving rise to an international debt crisis have not disappeared by any means. Furthermore, during the 1990's the United States and other principal developed

countries will continue to make the prevention of inflation the main goal of their monetary policies. The United States also has to take in foreign capital to make up for its twin deficit. Consequently, high interest rates will remain for a fairly long period of time in the West. High interest rates are bound to increase the debt repayment burdens of developing countries. Although Western creditor nations have begun to take various actions to partially reduce the amount of debt to be repaid and to lengthen debt repayment periods, there has been relatively little debt reduction, and most deferral periods require repayment of principle during the last half of the 1990's. In addition, the kinds of funds flowing into developing countries will continue to be limited; consequently, it will be difficult to reverse the backward flow of developing countries' funds. In its "1989-1990 World Debt Table," the World Bank predicts that developing countries will repay \$117 billion annually in principal and interest from 1990 through 1998, an amount higher than the annual debt repayment during the 1980's (\$108 billion). Such a heavy debt is difficult for developing countries to bear, and it will continue to hamper their economic development.

In addition, some new factors have appeared in the world economic environment that will generate new effects on the economies of developing countries that cannot be easily overlooked. The trend toward formation of regional economic blocs that appeared during the late 1980's will further intensify during the 1990's. This formation of blocs will have an important effect on the world economy, but there will be a certain exclusiveness. In the process of formation of the large European market and the U.S.-Canada free trade zone in particular, the blocs will intensify protectionism. This will have a bad effect on developing countries that are not yet members of regional economic blocs. As East-West relations and the European situation have changed in recent years, developed Western countries have begun to increase economic and technical assistance, and direct investment in East Europe and the USSR, and East-West trade has increased tremendously. Some developing countries fear that this may add further to their capital, technology, and market difficulties.

In short, for most developing countries, the international economic environment of the 1990's will continue extremely grim. Under these circumstances, developing countries will find it difficult to achieve a higher economic growth rate. The World Bank estimates that the annual growth rate for developing countries during the 1990's will be 5.1 percent. Although higher than in the 1980's (4.3 percent), it falls short of the rate for the 1970's (5.6 percent). Because the rate of population increase in developing countries is fairly high, their per capita GNP growth rate during the 1990's will be lower than for developed countries; thus, the North-South economic gap will continue to widen. The divergence and contradictions existing between North and South will continue to develop and intensify. Improvement of the international economic environment and the

building of a new international economic order to narrow the North-South gap is an extremely urgent task for the 1990's.

Thanks to the unity of developing countries in maintaining struggle and the support of progressive forces in the world during the 1970's, the fight to build a new international order scored definite advances. In 1973 success was won in the petroleum struggle, and in 1976 the sixth special meeting of the UN General Assembly was convened and passed a declaration on the building of a new international economic order and an action program. Since the advent of the 1980's, however, the economic situation in developing countries has worsened, difficulties have multiplied, and changes have taken place in petroleum supply and demand, thus weakening the power of petroleum as a battle weapon. Developing countries' dependence on developing countries has correspondingly weakened, while developing countries have turned more to developed countries for capital, technology, and markets. At the same time, various developing countries face real difficulties of various kinds, internal contradictions have increased, and cohesiveness has weakened. In addition, conservative forces in developed countries are in the ascendant, and they have adopted an unyielding attitude toward the reasonable demands of developing countries. Under these circumstances, the battle to establish a new international economic order has also reached an impasse. Although developed countries began to make some concessions on some specific problems during the last half of the 1980's, this did not mean any fundamental change in the stand of developed countries on North-South relations, and the role of their concessions was extremely limited. For example, Western creditor nations proposed quite a few plans for solving the debt problem, the most prominent of which were the "Baker Plan" and the "Brady Plan," neither of which had much effect. They did not truly lighten the heavy debt burdens of developing countries. The "Brady Plan" called for banks to abrogate some of their debt, and asked that international multilateral agencies provide financial assistance to reduce the debt. However, the banks were unwilling to abrogate a large amount of debt, and the financial resources of the International Monetary Fund are limited. Consequently, with the exception of a few debtor countries such as Mexico, most heavily indebted developing countries gained no benefit from the "Brady Plan" proposed debt reduction. Furthermore, these plans emphasized "piecemeal solutions" and did not solve the debt problem in a comprehensive way. They insisted that countries requesting debt reduction institute Western creditor-imposed "readjustment plans." These were hard for developing countries to accept, and were bad for their economic development.

So long as the old international economic order continues to exist, the struggle of developing countries seeking to improve their own unequal position in the world economy will not stop. While strengthening South-South economic cooperation, developing countries

urgently demand that international society pay full attention to development problems. They call on developed countries to shoulder the responsibilities they should bear, adopting effective measures to improve the international economic climate in order to help developing countries revive economic growth and development.

In late April 1990, the UN General Assembly convened its 18th special session. This was a meeting on international economic cooperation that also focused on discussion of the economic growth and development problems of developing countries. At the meeting some developing countries strongly emphasized that the stagnation and slowing of economic growth in developing countries, and the widening of the North-South economic gap during the 1980's stemmed largely from the unfairness and unreasonableness of the existing international economic order. Once again, they called for the establishment of a new international economic order. They unanimously demanded improvement in the international economic climate for their economic development, and put forward a series of proposals for solving problems currently in urgent need of solution:

- Creditor and debtor nations should cooperate to solve the debt problem, with solution to the debt problem predicated on the revival of economic growth and development in debtor countries.
- Developed countries should halt trade protectionism, improve conditions for trade with developing countries, and expand imports from developing countries.
- Developing countries should increase the quantity and quality of assistance and honor their promises. They should use 0.7 percent of their GNP as official development assistance, and use 0.15 percent to help the least developed countries.
- Developed countries should increase the supply of capital for developing countries to reverse the backward flow of capital. They should actively turn over technology to developing countries, and they should make the elimination of poverty in developing countries a priority area for international cooperation.

These requests and suggestions from developing countries are reasonable, and most of them were accepted by this special session of the UN General Assembly. The Assembly finally passed the "Resolution on International Economic Cooperation, Particularly the Revival of Developing Countries' Economic Growth and Development," which called upon international society to create a favorable international economic environment, and to persevere in supporting developing countries in an effort to solve serious economic and social problems. This special session of the UN General Assembly was the first major high-level international meeting for the discussion of North-South issues in the 1990's. It is hoped that all countries attending the meeting, particularly the developed countries, will translate the "Resolution" into actions and policies, and that this will be a fine beginning

for greater North-South dialogue and cooperation during the 1990's to advance the economic and social development of developing countries.

In summary, the continued widening of the North-South economic gap is a serious global problem. During the 1990's, when world economic interdependence is increasing, only by maintaining balanced development North and South can the world's economy operate healthily. Developed countries can fundamentally solve the problems of markets for their commodities, outlets for capital, and the supply of raw materials only through dependence on developing countries. If developing countries become poorer and poorer and more backward, developing countries will be unable to sustain their own economic growth and stability for long. The polarization between North and South poses a potential threat to the stability of the world political environment. Therefore, both North and South should cooperate on the principle of equality and mutual benefit for gradual solution to relevant problems. In particular, developed Western nations should shoulder greater responsibility for improving the international economic environment, and they should consider accepting developing nations' real proposals on the building of a new international economic order. Only by improving North-South dialogue and cooperation, improving the old international economic order, and creating fine international economic conditions will it be possible to find a fundamental solution to the development problems of developing countries and to narrow the economic gap between developed countries and undeveloped countries.

#### Footnotes

[passage omitted]

18. United States ECONOMIC INFLUENCES, No. 3, 1988, p. 25.

#### Summary of Conference on Non-Proliferation Treaty

91CM0036A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 40, 1 Oct 90 p 41

[Article by Shi Guangyao (2457 0342 5069): "No Results After Deliberations on the Nuclear Non-Proliferation Treaty"]

[Text] *Dispatch from Geneva* The four-week Fourth Review Conference on the Non-Proliferation Treaty ended in the early morning hours of 15 September without the passage of even a final document or statement due to serious disagreements regarding how to stop the nuclear arms race.

The intent of the Nuclear Non-Proliferation Treaty is to prevent nuclear proliferation, give added impetus to nuclear disarmament, and promote international cooperation in the peaceful use of nuclear energy. It is a universally accepted document of international law in the sphere of arms control and disarmament. This treaty

was signed in 1968 and went into effect in 1970. The treaty shall remain in effect for 25 years, during which time a review conference must be held every five years. The recently concluded conference was the last one before a decision is to be made in 1995 about whether the treaty is to be extended, thus it has been a matter of concern to nations everywhere, and public opinion has paid unusually close scrutiny to the issue.

Specialists and representatives from the 141 signatory nations attended the opening meeting on 20 August. The foreign ministers of West Germany, Norway, and Australia stated the principles and positions of their countries regarding nuclear nonproliferation, and they evaluated the treaty's enforcement. France and China are not signatories to the treaty, but they sent observers to the conference for the first time.

The delegates to the conference unanimously affirmed the usefulness and significance of the treaty, and they stated the belief that in its 20 years of existence the treaty has played a positive role in preventing the proliferation of nuclear weapons and preserving world peace and security. In a letter to the conference, UN Secretary General Javier Perez de Cuellar expressed pleasure at "the effective role the treaty has played in preventing (nonnuclear nations) from obtaining nuclear weapons."

The conference achieved positive results in some areas, including proposals that the International Atomic Energy Agency formulate stricter nuclear safety standards and that imports and exports of nuclear raw materials and technology be subjected to oversight. In addition, the five nuclear nations of the United States, the Soviet Union, Britain, France, and China agreed in principle during the conference not to carry out a first nuclear strike.

In evaluating enforcement of the treaty, there were disagreements within the group of signatory nations between developing and developed nations regarding international cooperation in the peaceful use of nuclear energy, nuclear disarmament, and nuclear test bans. In particular, some nonaligned nations have sharp disagreements with the United States regarding the effort to stop the nuclear arms race. The nonaligned nations are "dismayed" that the United States, the Soviet Union, and other signatory nations that already have nuclear weapons "are not making sufficient strides" toward disarmament.

Delegates from Mexico, Sweden, Korea, and Nigeria noted that, although there has been some improvement in the stalled disarmament situation that had existed during recent years, and that the Soviet Union and the United States have reached disarmament agreements on short- and medium-range missiles and strategic weapons, there is nevertheless a long road ahead if we are to achieve the goal, contained in Article 6, of "reducing and eventually destroying all nuclear arsenals." They stated that the task of disarmament is still very difficult. The United States and the Soviet Union now possess

greater quantities of nuclear weapons—more than 90 percent of the world's total stockpile—than they did when the Nuclear Non-Proliferation Treaty was signed, and they are capable of destroying the human race many times over. Furthermore, the nature of the nuclear arms race between the United States and the Soviet Union has shifted from concern about quantity to an emphasis on quality. A new generation of nuclear weapons with more accuracy, greater penetration, and better mobility is presently entering the huge U.S. and Soviet nuclear arsenals.

The nonaligned nations called strongly upon the signatories with nuclear weapons to further disarm and to stop the arms race in order to ensure effective enforcement of the treaty and to preserve world peace and security. The most urgently needed and indispensable measure is a total ban on nuclear testing. The delegate from Mexico introduced a proposal on this issue that had two main points: 1) The delegate proposed that the 40-nation Conference on Disarmament assign its Nuclear Test Ban Committee the task, beginning next year, of negotiating a total nuclear test ban. 2) The delegate called for a meeting next spring in New York to amend the 1963 Nuclear Test Ban Treaty. The treaty, which bans only atmospheric, outer space, and undersea nuclear tests, would be amended to ban all nuclear testing.

Since the limited Nuclear Test Ban Treaty was signed in 1963, nuclear tests throughout the world have not decreased in either number or strength. Since 1985, 1741 nuclear tests have been carried out. Mexico, the sponsor of the Nuclear Test Ban Treaty, stated that the question of whether a comprehensive nuclear test ban treaty can be agreed upon will affect whether the Nuclear Non-Proliferation Treaty will be extended five years from now, and he asked to have this point included in the appendix to the Final Document for this conference.

Mexico's proposal reflected the concern and anxiety of nonaligned countries and nonnuclear signatories about the escalation of the nuclear arms race between the United States and the Soviet Union, and it represented the just demands of these countries, for which reasons it met with broad support from them. However, the United States opposed it, refusing to link the signing of a comprehensive nuclear test ban treaty to the Nuclear Non-Proliferation Treaty, claiming that a total ban on nuclear tests could only be a long-range goal. This threw the Review Conference into a deadlock.

The executive chairman from Peru, de Rivero, worked right up through the final hour to bring about an agreement and enable the signing of the Final Document. By 1200, the Review Conference's closing ceremonies, which had originally been scheduled for 14 September, had not yet begun. After a big effort to get it under way, the United States and Mexico continued to hold to their positions, neither willing to yield. The draft of the final document was shelved and the Review Conference concluded without any result.

Observers here believe that, although none of the 141 signatory nations, whether nuclear or nonnuclear, has yet stated any intention of withdrawing from the treaty, if the United States and the Soviet Union do not make greater strides in nuclear disarmament and do not make further promises regarding the nuclear test ban issue, it is sure to add greatly to the difficulty of extending the Nuclear Non-Proliferation Treaty in 1995.

### **U.S. Asks NATO for Further Gulf Support**

*OW0712023790 Beijing XINHUA in English  
0040 GMT 7 Dec 90*

[Text] Brussels, December 6 (XINHUA)—The United States today asked again NATO allies to give more support for the U.S. military building-up in the Gulf in preparation for a possible war with Iraq.

At a two-day NATO defence ministers' meeting, which began here today at NATO headquarters, U.S. Defence Secretary Dick Cheney had pressed its NATO allies to send more forces, arms and supplies to the Gulf, said NATO sources.

The sources said that Cheney had asked for air defence and artillery units, medical supplies, ammunition and transport to ship massive U.S. reinforcements to the region.

According to the sources, the United States also stressed that more help was needed from its allies for the massive military undertaking in the Gulf.

### **Kaifu Wants Soviet Concessions on Territory Issue**

*OW1212183890 Beijing XINHUA in English  
1610 GMT 12 Dec 90*

[Text] Tokyo, December 12 (XINHUA)—Japanese Prime Minister Toshiki Kaifu today reaffirmed Japan's policy of linking economic aid to the Soviet Union with progress on the northern territorial dispute and called on the Kremlin to make concessions.

"Japan cannot set aside the territorial dispute when considering giving financial support to the Soviet Union", KYODO NEWS SERVICE quoted Kaifu as saying.

The prime minister, however, showed a positive attitude toward providing emergency food aid and medical supplies to the Soviet Union to help the country overcome food shortage over winter.

Meanwhile, Japanese Foreign Minister Taro Nakayama also said the government will deal positively with humanitarian aid to the Soviet Union, KYODO said.

Kaifu and Nakayama made the remarks while responding to questions from members of the ruling and opposition parties at a session of the Budget Committee of the House of Representatives.

The Budget Committee was discussing a 2.28 trillion yen supplementary budget for fiscal 1990 including Japan's emergency medical aid to the Soviet Union.

Kaifu said he hoped the Soviet Government would think of both the territorial issue and Japanese economic assistance in the process of expanding balanced relations between the two countries.

The territorial dispute over four small islands east of Hokkaido, which were held by the Soviet Union since the closing days of World War II, has been a major obstacle for the two countries to develop full-fledged bilateral relations.

### **No Tae-u Leaves for Moscow Visit**

*OW1312120190 Beijing XINHUA in English  
1049 GMT 13 Dec 90*

[Text] Pyongyang, December 13 (XINHUA)—South Korean President No Tae-u left for Moscow today for a four-day visit, according to a report from Seoul.

Among those in his entourage were Foreign Minister Choe Ho-chung, Trade and Industry Minister Pak Pil-su, Science and Technology Minister Kim Chin-hyon and other prominent political and industrial figures.

It was reported that No is expected to have two rounds of talks with Soviet President Mikhail Gorbachev to discuss bilateral relations in the political, economic and other fields and developments in the Korean Peninsula.

Before his departure from Seoul, No told reporters that his trip would profit peace in the Korean Peninsula, North Asia, and Asia as a whole.

## **SOVIET UNION**

### **Shevardnadze Denies Plans for Involvement in Gulf Conflict**

*OW1212133390 Beijing XINHUA in English  
1242 GMT 12 Dec 90*

[Text] Moscow, December 12 (XINHUA)—Soviet Foreign Minister Eduard Shevardnadze said today in a written speech to the Soviet parliament that "the Soviet Union has, as in the past, no plan to be involved in any possible military conflict in the Gulf in any form."

Shevardnadze said this in response to the request of the "Union" parliamentary group on December 3 to give explanations on the remarks he recently made about the possible use of Soviet military force in the Gulf crisis.

As the Soviet foreign minister is on a visit to the United States, his explanations were made in written form and distributed to the deputies at today's session of the Supreme Soviet of the Soviet Union.

Shevardnadze stressed that any action or diplomatic activities taken by the Soviet Union in the international

arena "do not indicate any possible involvement in any combat operation in the Gulf by Soviet combat troops, supporting forces or any other troops."

It would go nowhere for anyone to engage in speculation in this regard, he added.

The Soviet stand toward Iraq in the Gulf crisis "is nothing abnormal," he said.

The Soviet Union, as a friend of Iraq, had explicitly told the Iraqi leadership that they must leave Kuwait, restore Kuwait's sovereignty and independence, and reinstate

its legitimate government, Shevardnadze stressed, adding that any other plan (for a settlement of the crisis) is out of the question.

The Soviet foreign minister pointed out that efforts should be made to make the whole of Mideast follow a path of good-neighborliness and cooperation.

For this to happen Shevardnaze added, "the Arab-Israeli conflict must ultimately be resolved, and also the Palestinian issue and the Lebanon crisis, so that the military and political situation in the region will move toward stabilization."

### Rise of Jiang Zemin Outlined

91CM0064A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese Nos 249, 250, 1990

[Article by Liu Chin (0491 6855): "Jiang Zemin's Road to High Officialdom: Connection With Chen Pixian"]

[No 249, 1 Oct 90 pp 53-55]

[Text] **Editor's note:** This article was written by Jiang Zhifeng [3068 0037 2800], author of the book *The Zhongnanhai Bridge Bureau That Played All the Trump Cards*. It contains data about Chinese Communist high-level operations and personages. [end editor's note]

Foreign observers of the Chinese mainland have written quite a few articles about Jiang Zemin, but the writer feels that many of them are filled with secondhand reports and hearsay, which are prone to error. In order to provide the public an accurate account on which to make a judgment, only the biographical data on Jiang Zemin about which the writer is certain are provided here to the public.

### Shanghai's Zhongnanhai

I recall meeting a renowned American correspondent last year, a self-styled expert on Jiang Zemin who rambled on and on about Jiang, who had just become the general secretary. However, most of his information was not accurate. At the time, the writer asked this correspondent only two questions: 1) "What are the names of Jiang Zemin's two children?" and 2) "Where does Jiang Zemin live in Shanghai?" Tongue-tied, I simply stared at him.

Actually, if one really knows Jiang Zemin, these two questions are not difficult to answer. One of Jiang's two children is named Jiang Jinkang [3068 6930 1660], and the other is named Jiang Jinheng [3068 6930 1854]. When Jiang became the mayor of Shanghai in 1985, he lived in the Shanghai Donghu Guesthouse. A year later he moved into building number 46 in the "Kangban."

Even a person from Shanghai does not necessarily know the inside information about the "Kangban." "Kangban" is short for the Kangping Road Office. This office is definitely not a street office under the district government that one finds in Mainland China, but rather an acronym for the location of the former Chinese Communist East China Bureau and the Chinese Communist Shanghai Municipal CPC Committee. (The Shanghai Municipal CPC Committee building located on Huashan Road is just for show). The "Kangban" is located along Kangping Road in a high-class residential area in the former French concession of Shanghai near Huaihai Road West. Shanghai people privately refer to it as "Shanghai's Zhongnanhai."

After becoming a member of the Politburo and concurrently secretary of the Shanghai Municipal CPC Committee, for a time Jiang Zemin planned on changing the

outmoded conventions and bad habits of the "Shanghai's Zhongnanhai." He summoned the person in charge of the Shanghai Municipal CPC Committee Organizational Affairs Control Bureau to discuss this matter, and he made a first draft of some new articles. But he ran into fierce opposition. The opposition was too great. Jiang became angry about this matter and said, "All this talk about security. U.S. satellites have photographed this place over and over. What are you afraid of?"

Jiang might get mad, and he might want to change the mysteriousness of the place, but for ordinary people "Shanghai's Zhongnanhai" remained a "forbidden palace as impenetrable as the sea." This residential area, jointly protected by the PLA [People's Liberation Army], the People's Armed Police, and the Ministry of State Security, is barred to entry by the common people. I recall that it was before the wall that surrounds the Kangban that the historical "Kangping Road Incident," took place during the Great Cultural Revolution in Shanghai in December 1966. At that time, Wang Hongwen [3769 3163 2429] was still the "labor commander," the rebel commander in chief of the (Shanghai Workers' Rebellion General Headquarters). Wang Hongwen's comrade-in-arms in rebellion, Geng Jinzhong [5105 6855 4545], was a pugnacious person. The two of them intended to break into "Shanghai's Zhongnanhai" to seize the big "capitalist roaders" from the Chinese Communist East China Bureau and the Shanghai Municipal CPC Committee. However, the cadre-influenced "old conservatives," a mass organization known as the "Shanghai Red Guards" pitted several tens of thousands of people and several hundred vehicles against the rebel faction to protect this prohibited area, and a big battle ensued.

### Happens Upon the "Kangping Road Incident"

In the winter of 1966, when the "Kangping Road Incident" erupted in front of "Shanghai's Zhongnanhai," numerous people from Shanghai surged in to see the excitement. One of them was a midlevel cadre who had just come from Beijing to Shanghai to visit his relatives, the director of the foreign affairs bureau of the First Ministry of Machine Building, Jiang Zemin. But it was not to see a battle that Jiang came here. He had come to a place nearby to look for an old comrade-in-arms with whom he had done clandestine work before liberation. He just happened upon this spectacle.

While Jiang was working in the First Ministry of Machine Building in Beijing at that time, his wife and children were living on the left bank of Suzhou Creek in Shanghai's northern suburbs, specifically, northeast of the East China Teachers College campus near Jinsha Jiang Road in Caoyang New Village. (Caoyang New Village was a new residential village specially built for workers and cadres in 1957, which contained villages No. 1 through No. 7. Jiang's family still continues to live here). To get from his home to Kangban, Jiang Zemin took the No. 67 bus to Zhongshan Park where he transferred to the No. 26 trackless trolley to go to

Sikawei where he transferred again, this time to the No. 20 trackless trolley. When changing from one to another, Jiang Zemin's leather jacket was stolen.

By rights, Wang Hongwen and Gong Jinzhang should have been victorious in the "Kangping Road Incident" of 1966. Wang and Geng had won the cooperation of the rebel "Shanghai Red Guard Army" made up of demobilized and retired military personnel. This unit dared to smash and to beat. Once the "Red Guard Army" appeared, all the "old conservatives" became terror-stricken. When the "Red Guard Army's" vehicle unit entered the combat zone, the "Red Guards" were utterly routed. But the rebel faction's allied army did not break into "Shanghai's Zhongnanhai." It did not bring into play the spirit of completely crushing a defeated enemy that Mao Zedong instructed with the sentence, "One should use one's remaining courage to hunt down the enemy." Nor did it charge into the Communist Party forbidden zone in Shanghai to beat, smash, and loot the way the peasants did during the Hunan peasant movement of the 1920's when they charged into landlord homes on a rampage. Just why it did not, even the eyewitness observer Jiang did not know. Reportedly, Zhang Chunqiao [1728 2504 2890] and Yao Wenyuan [1202 2429 0337] had sent a secretary with instructions: "Exercise restraint; protect the party's secrets." This prevented the Shanghai rebel faction from acting really recklessly, both "smashing the East China Bureau and the Shanghai Municipal CPC Committee (which was a rebel slogan at the time that was posted on the streets and alleys of Shanghai).

At the time, Jiang never thought that 10 years hence he would be in command in "Shanghai's Zhongnanhai," much less did he think that he would be in command at Zhongnanhai in Beijing.

#### White and Expert Cadre

While the fires of the Great Cultural Revolution burned brightly, Jiang's days in the First Ministry of Machine Building were very difficult. Although big-character posters were not everywhere in the Foreign Affairs Bureau of the First Ministry of Machine Building in which he worked, there was still a flood of them there. Fortunately, Premier Zhou Enlai repeatedly "kept the lid on things." He personally appeared to talk to high- and low-ranking cadres in the State Council, asking everyone to keep the State Council steady. He said, "The State Council must not be in turmoil. Once it is in turmoil, daily life and production throughout the country cannot go on. Then what?!" Zhou Enlai's prestige in the State Council was at its zenith; thus, even though all of Beijing was turning heaven and earth upside down, the ministries and commissions of the State Council were relatively stable and able to operate normally. However, since Jiang Zemin met many foreign guests in his position in the foreign affairs unit, he could hardly avoid expression of the Liu and Deng line of "three reconciliations and one reduction." (Prior to the Great Cultural

Revolution, Liu Shaoqi advocated the struggle to liquidation in China's relations with imperialism, the reactionaries, and modern revisionism, and reduction of assistance and support to the revolutionary struggle of other peoples.) Consequently, Jiang's subordinates put up many big-character posters accusing him of "practicing a black and crude revisionist foreign affairs line."

In 1966, Jiang was 40 years old. It was in this year that he became bureau director after many difficulties. Before this, he endured seven years as a cadre at the section level, and 10 years as a cadre at the department level. Everyone knows that once one vaults to the bureau level, particularly to the full bureau level, and if one is young as well, there is no limit to one's official career within the Communist Party. Just when he was beaming with happiness, Jiang fell afoul of the Great Cultural Revolution catastrophe. Jiang had few enemies, but, inevitably, when one has a successful career, he cannot avoid arousing envy and evoking enmity or offending some colleagues. Subsequently, he told his children: "The stuff written on the big-character posters could cause a person's death. It was really lucky that I got through it!"

Jiang could not forget the big-character posters that saddened him so much. He was a person who was greatly concerned with personal bearing, a trait that had to do with his student life in Shanghai, his travel to the USSR, and his duties as a foreign affairs official. He always carried a comb and a small bottle of hair oil in his pocket. The thing about him that attracted most attention was that he also carried a small mirror such as women carry, which he would take out from time to time to look at himself, and smooth his hair. His good friends often laughed at him saying, "a little comb and a big head," or a small mirror and a big head." He did not become angry but said with self-assurance, "It is natural for people to love beauty!" But the big-character posters of the Great Cultural Revolution humiliated people. Jiang was accused of leading a "capitalist way of life," and cursed as the "son of a capitalist." Furthermore, Jiang liked technical cadres, and he himself greatly emphasized "if you work in a trade, be an expert in that trade." He also worked especially hard on the foreign languages he knew, often personally translating documents. And, whenever he had the opportunity, he would practice spoken dialogue in a foreign language with his colleagues and subordinates. He openly quoted foreign minister Marshal Chen Yi's phrase, "To be expert is to be Red; unless one is expert, there is no use talking about being Red." He opposed "only being Red without being expert." All these things were an offense during the Great Cultural Revolution, and big-character posters labeled him a "white and expert cadre."

During the Great Cultural Revolution, any cadre despised as being "white and expert" lived an extremely miserable life. Since the crime of being "white and expert" was so great and so serious, it was regarded as reactionary behavior that stubbornly rejected Mao Zedong Thought, which was simply vile and unpardonable.

### Escapes Campaign on Pretext of Taking Sick Leave

The attacks against Jiang were by no means light, but neither were they heavy. His departure from office was fairly peaceful. Just in time, he asked for sick leave to return to Shanghai. Taking this opportunity to gain its own ends, the ministry found someone else to take his place. Some people say that Jiang's sick leave certificate smacked of feigned illness. The doctor who signed the certificate was a friend of Jiang's who released Jiang, allowing him to return to Shanghai to visit his relatives and avoid the storm. When Jiang left Beijing, the headline on the big-character poster put up to see him off was: "Jiang Zemin deserves to die 10,000 deaths for escaping the campaign!"

Actually, Jiang truly feared being hauled back to Beijing for criticism and struggle. The news relayed from Beijing was extremely frightening. Numerous cadres had been done to death in the course of criticism and struggle, had their legs broken, or were maimed. Before he left Beijing, Jiang witnessed the "Red Guards' red terror" in late August 1966. Young militants among the Red Guards used leather belts and clubs to beat teachers at every turn, calling the pitiful people they killed "freaks and monsters." Were a "capitalist roader" like Jiang to stay in Beijing, he would also be a target for harassment by the Red Guards. According to subsequent statistics from the First Ministry of Machine Building, in August 1966, 78 percent of cadres at the department level or above were killed, injured, or left with illnesses. That Jiang was able to hide out in Shanghai for a time, remain in good health and not be maimed may be called great good fortune.

Jiang's son applied for admission to a middle school that was attached to the East China Teachers College. Pan Weiming [3382 4850 2494], who applied to enter the same middle school at that time and who later became director of the Shanghai Municipal CPC Committee Propaganda Department, gained Jiang's appreciation, but the two did not know each other then, even though they had met during the Great Cultural Revolution.

During the "Kangping Road Incident" of the winter of 1966, Jiang went to the site. Not only did an old comrade-in-arms of Jiang speak about this incident, but a schoolmate of Jiang's son also happened to see it. When Jiang became the mayor of Shanghai, Jiang's son's schoolmate was now 35 or 36 years old, but when he began to talk about it, it was with great delight. He said, "At that time Mayor Jiang looked pathetic!"

Jiang did not take part in armed struggle during the "Kangping Road Incident," nor did he side with either party. Actually, in his heart he detested the rebel faction. He was a bystander wearing a tattered cotton army overcoat, and an old and shabby cotton army hat, on which the ear flaps were down. He was a very tall man who attracted attention, but his face was expressionless,

and his eyes stared blankly. Even he did not think that this day would be rather important for his later development.

### Strikes Up a Friendship With Chen Pixian

Whenever he met with an old comrade-in-arms, he had to do just as all the power holders who had not straightened out their thinking did, and that was extol the great leader Chairman Mao on the one hand, while complaining deeply about the chaos throughout the country and the abnormal situation of cadres at all levels stepping down from their positions on the other. This old comrade-in-arms worked in the Shanghai CPC Committee. He was in charge of an office in the Huashan Road Shanghai Municipal CPC Committee building. After the Beijing Red Guards, the Shanghai Red Guards, and the rebel faction began continuous attacks, beatings, and smashings, it was impossible to do any work in the Huashan Road Shanghai Municipal CPC Committee building. It became a war trophy that had fallen into the hands of the rebels. Anyone could go in and roam around, taking anything they pleased. So Jiang's old comrade-in-arms was forced to move to another office. He was, in fact, living like a guerrilla: here today and there tomorrow. During several days of work at the "Kangban," he met Chen Pixian [7115 0012 7359], first secretary of the municipal CPC Committee.

At that time Chen Pixian had no idea what would happen from one day to another, and he scarcely had any opportunity to meet with people from lower levels. However, Jiang's old comrade-in-arms not only struck up a friendship with Chen Pixian in just a few meetings, he also introduced Jiang Zemin to Chen Pixian. One very important reason he did so was because Chen Pixian had no sources of information at that time, and he very much wanted to know what was going on in Beijing. He could hardly wait to have a talk with Jiang. Once they talked, he had an extremely good impression of Jiang.

After the Great Cultural Revolution, Chen Pixian became the secretary of the Central Committee Secretariat in 1985. In this position, he frequently performed duties and handled CPC Central Committee day-to-day business at Zhongnanhai. In this job, he had authority to make on-the-spot decisions about routine matters. Matters concerning Shanghai and East China, in particular, fell mostly to him. Major decisions from above were also often transmitted orally by him. Jiang certainly never imagined any benefit from this, specifically that Chen would heap praise on Jiang when Deng Xiaoping had Chen Pixian go to Shanghai to seek opinions firsthand.

[No 250, 1 Nov 90 pp 58-60]

[Text] Jiang Zemin is still indebted to Chen Pixian for his protection and guidance. During the New Year in 1990, when Chen Pixian was urging along the "unyielding" Peng Zhen, he said, "Back in 1966 I felt that young Jiang had talent and was steady. I liked him and

respected him very much at that time. Peng Zhen had to smile, not daring not to give face to Chen Pixian.

On hearing this, a senior statesman present joked, "A Pi. You're always talking about young Jiang this and young Jiang that. Everyone else calls you A Pi for Chen Pixian; why don't you call Jiang Zemin A Ze?"

"A Ze" sounds close to "A Zei" [a word for robber], so naturally that could not be used. However, Chen Pixian began to call Jiang Zemin "young Jiang" in the winter of 1966. The significance of the two meeting was very great.

#### **A Pi: "King of Shanghai"**

Of course, Jiang Zemin knew Chen Pixian's position in the party. In 1966, Chen was number one in Shanghai: First secretary in the Shanghai CPC Committee and concurrently a secretary in the East China Bureau secretariat. At that time, Jiang Qing referred to him maliciously as the "king of Shanghai." At the beginning of the Great Cultural Revolution, Mao Zedong wanted to get Chen to oppose Liu Shaoqi, but Chen would have none of that. At Mao Zedong's urging, Jiang Qing kept pestering Chen Pixian, coupling threats with promises, and blandishments with enticements. To use Jiang Qing's words, "I want to pull this person over to Mao Zedong's proletarian revolutionary line." The funny thing was that Chen Pixian was not having any of that; he would rather suffer than go against Liu Shaoqi. Jiang Qing was so angry that she grumbled, "This Chen Pixian just can't be moved."

Chen Pixian had his peculiarities. This man from western Fujian Province who joined the Communist Youth League at the age of 12 should have been a dyed-in-the-wool "little Red devil," but he was a "little black devil." A part of his background that came out during the Great Cultural Revolution was that after Chen became a little Red devil, he was taken prisoner by the Nationalist army. Because he was clever and lovable, a "reactionary military officer" brought him up. During the frenzy of arrests of traitors, Chen came close to being branded a traitor. When Chen Yi and Tan Zhenlin in Beijing heard that the rebel faction and the Red Guards wanted to brand Chen Pixian a traitor, they went all-out to complain and call for redress for A Pi. In early 1967, Chen Yi made a big fuss about this at Zhongnanhai, shouting out: "I'm opposed! They have the effrontery to say that A Pi is a traitor, and they want to bring him down. I'll use my own skull as security for him!" Tan Zhenlin muttered: "Calling A Pi a 'three anti' element" [anti-party, anti-socialism, and anti-Mao Zedong Thought]. I won't believe it even if you kill me!"

Exactly. Except for a short period when Chen Pixian was the adopted son of a Nationalist army officer through no fault of his own, he had been steadfastly loyal to the Communist Party. At age 15, Chen was already the "secretary of the Shaogong County CPC Committee," and when he was just a little older, he became "secretary of the provincial CPC Committee." At the time of the Red Army's Long March, there was not a person in the

Ruijin Red Zone who did not know of the "tireless" A Pi. When Chen Yi was fighting guerrilla warfare, A Pi was a trusted follower and supporter. During the War of Resistance Against Japan, when Chen Yi was commander of the New 4th Army and Liu Shaoqi was political commissar in the New 4th Army, both men increased their confidence in A Pi. After the war, A Pi became secretary of the Chinese Communist Central China Work Committee, which is to say that party authority in central China was in the hands of the less-than-30-year-old A Pi. By the 1950's, A Pi had become Liu Shaoqi's lieutenant in Shanghai. When Mao Zedong personally arranged for Ke Qingshi [2688 1987 2457] to become a member of the Politburo and deputy premier of the State Council, A Pi, who was mayor of Shanghai and concurrently both first secretary of the Shanghai Municipal CPC Committee and first secretary of the East China Bureau, relied on old senior officials like Liu Shaoqi, Deng Xiaoping, and Chen Yi to become second secretary in the Shanghai Municipal CPC Committee and secretary of the East China Bureau.

Deng Xiaoping became well acquainted with A Pi during the Huaihai Campaign. Deng's evaluation of him was: "A capable and experienced talent who is astute and forceful." Thereafter, Deng Xiaoping greatly respected Chen Pixian's views, particularly on work in Shanghai and east China. Chen Pixian weathered the political storms, emerging as a person fit to be an official and able to get the support of Deng Xiaoping to become the party's general secretary.

#### **Chen Owes Mao a "Debt of Gratitude for Saving His Life"**

In Shanghai, A Pi's old protagonist was Ke Qingshi, who was nicknamed "Big Nose Ke." When Shanghai people referred to Big Nose Ke, all of them snorted with loathing. Ke Qingshi had the ear of the son of heaven. Using his reputation for being a good student of Chairman Mao, he rode roughshod in Shanghai, waging large-scale class struggle. The freedom of the people of Shanghai to dance the friendship dance was taken away by a notice from him. Big Nose Ke fought with party cadres at the drop of a hat, forged ahead with the party program and line, insulted them to their faces, and did them in behind their backs. From top to bottom, there was not one who did not detest him. although they called him Old Ke, they all wished he would die an early death. When Ke Qingshi did die in 1965, a jingle that made the rounds of cadres at the grassroots level in Shanghai went as follows: "Old Ke, Old Ke. Claps in jail; causes dread. Old Ke, Old Ke. Is better dead; is better dead." But Chen Pixian's power was greater than Ke Qingshi's. Chen refused to show deference to Ke right there under his very nose in Shanghai, and there was nothing that Ke could do about it. One person joked that "Big Nose Ke can't down Little Body A Pi." Deng Xiaoping also said, "That A Pi is really formidable. He has gotten the better of Big Nose Ke in Shanghai." Ke Qingshi asked Mao Zedong directly to get rid of Chen Pixian somehow.

Mao, however, said firmly, "Ke Qingshi, you are an important minister of the son of heaven; Chen Pixian is a prince."

Chen Pixian's power must be termed fearsome. Back in 1953, he unexpectedly joined with quite a few old cadres in urging Mao Zedong to retire from public life. They wanted Mao to step down and make way for others on his 60th birthday. This incident constituted Chen Pixian's first sin against Mao. However, when Chen Pixian solemnly urged Mao to retire from public life, old Mao could only sneer, "All of you suppose that Mao Zedong cannot take Taiwan, is that it?"

Once Mao Zedong said the following to a colleague of Chen Pixian, Shanghai mayor Cao Diqu [2580 5441 4428]: "Shanghai has been turned over to the two of you. You are mayor because you handle matters honestly, and he is secretary because he has hidden sources of power."

Mao Zedong also showed a sense of pity toward Chen Pixian. When Ke Qingshi died, Chen Pixian was also suffering from cancer. He had nose and throat cancer, which meant that, given medical treatment conditions in China at that time, he could only die. It happened that Chen Pixian was also in trouble politically. Mao and Kang Sheng were studying how to topple him politically. They had reportedly drawn up a plan like the one used that same year to get rid of Pan Hannian [3382 3352 1628]. However, after being informed that Chen Pixian was suffering from a terminal ailment, Mao suddenly changed his mind and issued an order for a special department to import at once some advanced equipment for treating cancer. This equipment was installed in East China Hospital in Shanghai, which treated only high-ranking cadres. Those who benefited from it delight in talking about it to this day. Not only did it save Chen Pixian's life, but it saved the lives of numerous other high-ranking Chinese Communist cadres as well. On this account, Chen Pixian was indebted to Mao for saving his life. Mao also felt that his bestowal of favor would mean that this "prince" with hidden sources of power would henceforth be unlikely to assail his own power or rub him the wrong way. Oddly, Chen Pixian's contraction of cancer preserved his position as "king of Shanghai."

When Jiang Zemin saw Chen Pixian in the winter of 1966, he told him. "You would never know you are suffering from cancer. You can't tell at all." At that time, Chen had sparkling eyes and quite a firm handshake. Chen said somewhat ingenuously, "The Red guards and the rebel faction intended to criticize me, so I pretended to be ill." Jiang then said, "No matter how you pretend, it's always magnificent."

#### **Deng Xiaoping Chooses a Crown Prince; Chen Pixian Puts in a Word**

This hidden power of Chen Pixian made senior Chinese Communists have an unexplained reverence for him. Whenever a showdown was in prospect, they always backed off somewhat. In deciding on Jiang Zemin to

become mayor of Shanghai and a member of the Politburo, Bo Yibo and others were opposed. When the Central Committee personnel team held a meeting, Chen Yun, Deng Xiaoping, and other super-heavyweight senior cadres attended the meeting, but they were a little diffident about supporting Jiang openly. Chen Pixian came forward, however, and cleared away the obstacles for Jiang, refuting the opposing views. When speaking out, Chen Pixian neither hurried nor delayed, but spoke in an orderly and rational way; nevertheless, he made an assertive presentation, and he did not fear faulting his colleagues. As a result, the opponents did not dare go against Chen's point of view.

Deng Xiaoping enlisted Chen Pixian's power by asking him to become secretary of the Central Committee Political and Legal Committee for several years. Even though the job of secretary of the Central Committee Political and Legal Committee was not considered important, he was in a key position that held life and death authority within the party. It was the turf that Deng Xiaoping had used to put down scoundrels who could not have been put down without power. After 1985, Chen Pixian relinquished the position of secretary of the Political and Legal Committee to Qiao Shi [0829 4258] when he was transferred to the Advisory Committee Standing Committee. On the Central Committee Advisory Committee, he stood fourth after Chen Yun, Bo Yibo, and Song Renqiong. Giving vigorous support to Jiang's rise were Chen Yun and Li Xiannian of the older generation, and Chen Pixian also provided valuable support to the rise of his new star, Jiang Zemin.

In January 1989, Deng Xiaoping took his own team to Shanghai for the lunar New Year where he took the opportunity to have a benign tumor on his prostate gland treated. Jiang Zemin's wholehearted ministrations greatly pleased Deng, who was extremely satisfied. Happily, both Chen Pixian and Li Xiannian were in Shanghai, and they praised Jiang to Deng. These words of praise were very timely and very important at this time, because Deng was considering a very important matter: the designation of a crown prince, meaning the choice of a successor, that is, choosing a party chief to replace Zhao Ziyang. From 1988 onward, if Zhao Ziyang's removal from office was not a foregone conclusion, it was a likelihood. At the very least, should Zhao Ziyang not work out, someone would be needed to replace him. Chen Pixian and Li Xiannian recommended Jiang Zemin and urged Deng to decide on Jiang as the heir.

At this time, Chen Pixian informed Deng Xiaoping of the many advantages and strengths that Jiang possessed. One point among them was that Jiang Zemin "valued friendship." Chen told something that Jiang had done. In June 1976 following the fall of the gang of four, a work team specially dispatched by the Central Committee, consisting of Su Zhenhua [5685 2182 5478], Ni Zhifu [0242 1807 4395], and Peng Chong [1756 0394], entered the "Kangban" in Shanghai to take over party and government authority in Shanghai from the former gang of four henchmen Xu Jingxian [1776 2529 6343], Ma

Tianshui [7456 1331 3055], and Wang Xiuzhen [3769 4423 3791]. In early 1976, Jiang returned to Beijing to become head of the Foreign Affairs Bureau of the First Ministry of Machine Building, and in October of that same year, Qi Pengfei nominated him for urgent transfer to the Central Committee work team. He was to fly to Shanghai and occupy building No. 13 in the Kangban. He was to be responsible for scientific and technical and foreign affairs work in Shanghai. One the day following his arrival in Shanghai, Jiang personally went to 117 Wukang Road to pay his respects to Chen Pixian and to ask the member of the older generation for guidance. Every bit of advice that Chen gave him, he noted carefully in a notebook. What particularly moved Chen was that Jiang Zemin returned to Beijing, where he immediately told Li Xiannian and others about some important work that Chen had not yet worked out entirely. He also went with Li Xiannian's secretary to talk to Hua Guofeng and Ye Jianying to make a plea on behalf of Chen Pixian. Chen's old comrades-in-arms lent their joint assistance, and Chen became a ranking official in Yunnan and Hubei Provinces. In 1980, he went to Beijing to serve as secretary in the Chinese Communist Party Central Committee Secretariat. Chen well remembered Jiang's kindness and said that Jiang was a person who valued friendships.

#### A Fine Rat-Catching Cat

After listening to Chen Pixian, although he said nothing definite, Deng Xiaoping knew he had a prospect. One clear evidence of this was that in February 1989 Jiang began to discuss and make decisions with Deng about important party matters. The Fourth Plenary Session of the 13th CPC Central Committee, originally scheduled for March 1989, was delayed as a result of discussions between Deng and Jiang in Shanghai. At that time, the Minister of Metallurgy, Qi Yuanjing [2058 0337 7231], needed to see Deng Xiaoping on important business, but Deng did not want to meet with him, so he directed Qi to talk to Jiang Zemin, saying "it can be handled as Comrade Jiang Zemin sees fit." Qi was astounded. It was quite a while before he realized the inner workings of the Central Committee, and he said something close to the mark: "Old classmate. (Jiang had studied in the USSR for a year and Qi Yuanjing had been a student in the USSR, hence the term old classmate). Congratulations to you for being on your way to becoming deputy premier!" In Qi Yuanjing's view, acceding to the deputy premiership was as high as Jiang would go. Little did he realize that he would go farther.

When the subject of Chen Pixian helping Jiang Zemin comes up, insiders will say that, actually, Jiang Zemin did Chen Pixian a favor. After he met Chen in 1966, Jiang had a very good impression of Chen. Even though Chen Pixian was confined during the Great Cultural Revolution, he had numerous comrades-in-arms, one of whom was a close friend of former Minister of Foreign Affairs Qi Pengfei, who also had a lot of influence with Qiao Guanhua, who was in charge of diplomatic affairs for a time. In 1970 Zhou Enlai personally signed a

directive transferring Jiang back to Beijing from the 7 May Cadre School to become director of the group of experts receiving Romanian aid. In this position, he bore responsibility for traveling abroad, getting away from the China mainland, which was undergoing widespread turmoil during the Great Cultural Revolution. Before departing, Zhou Enlai arranged for a meeting with him, which was to last for 10 minutes but went on for more than an hour. Without doubt, Zhou greatly appreciated Jiang, and after talking, he expressed regret at not having met Jiang earlier. Zhou said to an old subordinate, Tong Xiaopeng [4547 1420 7720], "This is minister material."

In 1973, following his return from Romania, Jiang Zemin resumed his position in charge of the Bureau of Foreign Affairs in the First Ministry of Machine Building. He knew that he would succeed to a position as a minister. After his rehabilitation, Deng Xiaoping had a long talk with this future minister. At that time Deng told his secretary, "You may turn the First Ministry of Machine Building over to him. He's a fine man. Too bad he's a little worldly wise and slick." Deng regarded Jiang as a fine cat able to catch rats.

One difficulty was that, during the final stages of the Great Cultural Revolution, a report circulated against Jiang said that Zhang Chunqiao greatly appreciated him. This should not have been considered important. After all, Zhang Chunqiao was deputy premier at that time, and he also hailed from Shanghai, so naturally he noticed Jiang Zemin, who showed a strong Shanghai coloration. As for hearsay about Zhang Chunqiao having long talks with Jiang Zemin, reports that Jiang Qing had done some fortune-telling on Jiang Zemin had not been verified. (During the latter part of the Great Cultural Revolution, "fortune-telling" was jargon that the gang of four used to mean a personal examination of a candidate for promotion). Nevertheless, such reports reached Zhou Enlai and Deng Xiaoping. Fortunately, Jiang had his relationship with Chen Pixian, and old cadres all knew that Chen Pixian was a mortal adversary of Zhang Chunqiao. As a result, most people did not believe that Jiang had thrown in his lot with Zhang Chunqiao.

#### Report for Past Criticism of Deng

Nevertheless, following the "April 5th Incident" in 1976, during the nationwide mania to "counterattack the right-deviation wind to reverse verdicts," Jiang had indeed expressed opposition to Deng in a ministerial meeting, using rather sharp language. At that time, the gang of four was riding high and had issued an order that party, government, and military organs throughout the country must declare, level by level and person by person, where they stood. There were to be no attempts to get by under false pretenses. Under this pressure, the intensity of criticism of Deng rose in a straight line. Jiang Zemin's official position at that time was neither high nor low, so the rather vehement tone of his criticism of Deng at the meeting followed, at least superficially, the gang of four CPC Central Committee instruction.

Jiang Zemin probably did not expect that Deng Xiaoping could be rehabilitated a third time, nor did he expect that someone might give Deng a report of his criticism of Deng in 1976. In the Chinese Communist official arena, there is no lack of apple polishers and no lack of people who have hidden motives for tale bearing. Jiang's stock was continuing to rise, and his competitors in officialdom showed no reluctance to blight his career as early as possible. During the early 1980's, numerous cadres high and low who had criticized Deng trembled with fright fearing that Deng might turn on them and take revenge. For a time during this period, Jiang Zemin was in an extremely bad emotional state and had made preparations to change his occupation to college professor.

Deng is by no means free of vindictiveness and willing to forgive those who have stepped on him. In 1980, when Hu Yaobang and others proposed Jiang's elevation to minister, Deng delayed, saying, "Wait a while." People

able to read Deng's intentions said that Deng remembered Jiang's criticism of him. Another "oracle" who liked Jiang Zemin, Wang Daohan [3076 6670 3211], took a different view of this matter. Wang, who was extremely close to Chen Yun, said to Chen, "So what if Jiang Zemin said a few words of criticism of Deng that went too far? When Deng Liqun criticized Deng, he shot his mouth off in a torrent of abuse, even pouring out obscenities." Chen Yun urged Deng Xiaoping to show tolerance, and he brought up the stories of Napoleon's and Cao Cao's burning of subordinate's mea culpas in forgiveness of disloyalty. He asked Deng not to cause confusion and not to create enemies within the party. Chen Yun's advice to Deng was not solely for the sake of Jiang Zemin, but truly from fear that Deng might damage the larger issue of "internal party unity." Deng accepted the advice and changed. He was able to put aside past faults and tolerate colleagues and subordinates who damned him in the past. Even Deng Liqun, who had fiercely condemned Deng received new assignments. Jiang Zemin was also a recipient of this good fortune.

## NATIONAL AFFAIRS, POLICY

### Reform Urged in Fixed-Asset Depreciation System

*HK2611142190 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 10, 5 Oct 90 pp 17-21, 30*

[Article by Yang Dexiang (2799 1795 0686); edited by responsible editor Liu Qichang (0491 0366 2490): "The Existing System of Depreciation on Fixed Assets Must Be Reformed"]

[Text] Whether or not the withdrawal and use of a fixed assets depreciation fund by industrial enterprises owned by the whole people are rational determines not only the reserve strength of such enterprises, but also the preserved value and appreciation of state-owned assets. In the early 1980's, in order to raise the basic rate of depreciation on fixed assets (hereinafter referred to as the rate of depreciation), and to quicken the pace of upgrading equipment, specialists and scholars of China's economics theoretical circle published articles, prepared reports, or campaigned for their cause. Eventually, they drew the attention of relevant departments of the State Council. Beginning in 1981, the rate of depreciation of China's industrial enterprises owned by the whole people was gradually raised from 4.1 to 4.2 percent in the late 1970's to more than five percent. The rate was five percent in 1981, and 5.4 percent in 1988, thus showing an increase of 30 percent in the depreciation rate. Outwardly, it seemed that such a level might meet the needs for upgrading equipment. In fact, under the circumstances in which the fiscal status was tightened in 1988 and 1989, it was decided to impose levies on the basic depreciation fund (hereinafter referred to as depreciation fund) retained by enterprises as construction funds for key energy resources, transportation projects, and budgetary readjustment. Together with inflation during the Seventh Five-Year Plan, there developed the tendency that the difference between the "real rate of depreciation"<sup>1</sup> and the "statutory rate of fixed assets depreciation"<sup>2</sup> were widening; and this has already posed a serious threat to simple reproduction by enterprises. If we allow things to develop in their course, there are risks that the scale of production and construction of China's enterprises owned by the whole people will shrink. In view of this, I deeply feel it is necessary for us to summarize our past experience and correctly understand and tackle this issue.

#### Review and Draw Lesson From Past Experience

Both technology and equipment of China's existing enterprises are rather backward, and enterprises generally lack vitality. Evidence of this over the past two years increased more than any time before. Why was it that products of many of our industrial enterprises were unmarketable? Outwardly, this was because China's market was sluggish, so it was difficult to find sellers. In

fact, the key rested with enterprises, which lacked adaptability. In the contemporary world, an enterprise needs not only to occupy its domestic market, but also to enter the international market, in order to survive the keen competition. Though China's foreign trade saw a rapid development in recent years, such development did not suit China's vast territory and its 1.1 billion population, as its export volume only accounted for one percent of the world's total import/export trade volume. Moreover, more than 30 percent of its export goods were primary ones, and only six percent were machinery and electrical goods. A reason for this was that the standards of our technology and equipment were too low, and our management was backward, so we could intensify the processing of finished industrial goods but could not produce varied types of goods. Most our products were of poor quality and low class; and only few were of high quality and high class. Thus, it was difficult for them to adapt themselves to the domestic or overseas market, particularly, to the ever-changing international market. Of course, there are many reasons for this situation. Nevertheless, we should acknowledge that we failed to attach great importance to technological advancement among the existing enterprises; and that we preferred extension rather than substance, and preferred capital construction rather than technological transformation. In the guiding ideology for economic construction the crux of the issue is that goods made by such enterprises were not popular on either the domestic or overseas markets, so the goods were unmarketable. One can clearly understand this by reviewing China's persistent practice of squeezing money out of the fixed assets depreciation fund over the past 37 years.

For a period of 14 years between 1953 and 1966, in order to safeguard the necessary funds for key construction projects, the central financial authorities centralized all depreciation funds of enterprises, amounting to 35,500 million yuan; and allocated through special funds only 10,500 million yuan, or 29.6 percent, to enterprises for "technology, innovation, labor, and miscellaneous" expenses. The remainder, that is 25,000 million yuan or 70.4 percent, was consumed by capital construction. Of course, during the First Five-Year Plan, it was necessary to utilize the depreciation fund in order to lay an industrialized foundation for China. But the point is that during the period from 1958 to 1966, all depreciation fund of enterprises were still centralized. Obviously, this was not an appropriate approach. According to the regulations of the state, the rate of depreciation on fixed assets of China's industrial enterprises, that is, the "statutory rate of depreciation" during this period should be 3.6 to 3.8 percent, whereas the "real rate of depreciation" should be just around 1.1 percent. The term of depreciation on fixed assets lasted as long as 90 years.

About 10 out of 11 years between 1967 and 1977 were the Cultural Revolution. After the Cultural Revolution began, many enterprises requested a decentralization of ownership, and the right to use the depreciation fund. At that time, it was hastily decided without preparation that

beginning in 1967, all of the depreciation fund was to be retained by enterprises and their competent departments. Consequently, a large portion of the depreciation fund was used as self-raised funds for capital construction purposes, and its proper role was not given full play because our attitude, which favored extension rather than substance, remained unchanged.

For a period of six years from 1976 to 1984, a sharing ratio of 30:20:50 was adopted, and part of the right to use the depreciation fund was centralized in order to do a better job in managing and using fixed assets depreciation fund and to compensate for the shortage in investment funds for capital construction projects to "tap potential, reform, and carry out transformation." Thirty percent of the fund was centralized by financial authorities at the central level, 20 percent went to the provincial financial authorities, and 50 percent was retained by enterprises for disposal. The "statutory rate of depreciation" of fixed assets during this period was 4.1 to 4.6 percent. The amount of the depreciation fund available to enterprises, competent departments, and various economic committees was only 3.74 to 4.3 percent of the original value of fixed assets (hereinafter referred to as the "nominal rate of depreciation"). To enterprises, the effective rate, that is the "real rate of depreciation" was only two percent or just a little more. As the state began imposing levies in 1983 as construction funds for key energy resources and transportation projects, the "real rate of depreciation" was just around 1.9 percent before accounting for factors such as inflation and appreciated replacement value of fixed assets.

In 1985, with the approval of the former State Economic Commission, it was decided to return to enterprises 30 percent of the depreciation fund previously centralized from among them by the state. Later, some provinces, autonomous regions, and municipalities directly under the central government followed suit, and returned to enterprises 20 percent of the depreciation fund previously held by them. According to figures reflecting the situation in the following four years announced by the State Statistics Bureau, the then statutory rate of depreciation on fixed assets should have been over five percent. In other words, the term of depreciation was reduced to less than 20 years. However, since the problem of preferring capital construction rather than technological transformation in production and construction remained unsettled, the state later imposed again levies at 15 percent of the depreciation fund as construction funds for key energy resources and transportation projects, and 10 percent of the fund as the budgetary readjustment fund. In 1989, the "nominal rate of depreciation" after the levy of the aforesaid funds was only 4.05 percent. After making readjustments for inflation, the "real rate of depreciation" was around 2.7 percent. Thus, the term of depreciation on fixed assets was lengthened again up to 37 years, and we were back to the old practice.

Upon reviewing China's experience in managing and using funds over the past 37 years, one will quickly see

that the amount of the depreciation fund available to China's industrial enterprises was very small. After taking into account all of the depreciation fund consumed by those economic committees and competent departments (excluding those levies for the two funds imposed by state finance), the converted "nominal rate of depreciation" (before factors which led to inflation) was no higher than 4.59 percent at its peak level; and was only 3.6 percent at its bottom level. Upon conversion into the "real rate of depreciation," the amount of the depreciation fund available to enterprises often fluctuated within the range of 1.1 to 2.7 percent. Only in three years (1985 to 1987) did the amount exceed the three percent mark, just at 3.4 percent at its peak level. Consequently, old enterprises were plagued by outdated equipment and lack of competitiveness and flexibility.

#### **Irrationality of Existing Depreciation Policies Yields Negative Effects**

Irrationality of the existing policies toward depreciation of fixed assets is mainly shown in the following points:

First, the rate of depreciation on fixed assets is excessively low. In many industrially developed countries, the rate of depreciation on technology and equipment owned by industrial enterprises is, in most cases, around eight to 12 percent, or even more. In China, however, the statutory rate of depreciation on technology and equipment owned by industrial enterprises is the same as the past, between three and four percent. Although it has recently been raised to five percent, it is only a nominal rate. It is understood that Japan has, in order to encourage enterprises to upgrade their equipment, repeatedly adopted since 1961 the approach of cutting short the term of depreciation to gradually reduce the statutory term of depreciation to seven to 14 years. Compared to China's Depreciation Category for Fixed Assets of State Enterprises promulgated in 1985, the difference in the term of depreciation on equipment is, in most cases, four to nine years. This includes metal processing machinery, in which the difference of the depreciation term is eight years. It is inevitable that the level of technology and equipment owned by various departments of China's national economy will be adversely affected.

Second, abuse of the fixed assets depreciation fund is very serious. To the central government and governments at various levels, the protracted approach of directly and indirectly using the fixed assets depreciation fund of enterprises, and to use compensation funds of enterprises as funds for capital construction, are essentially a way to "balance" the shift of enterprises' capital. Likewise, many enterprises also use their remaining depreciation fund to undertake "intensive and extensive" expanded reproduction, and to build quarters for workers, or to undertake other nonproductive construction. In recent years, in implementing the contract responsibility system, which took delivery of profits as the index of assessment, some enterprises cared only about the immediate interests, and cut down the rate of

depreciation to allocate fewer depreciation funds, or substituted their profit delivery with payment of their depreciation fund. Beginning last year, under the circumstances in which the supply of working capital was tight, some enterprises were forced to use their depreciation fund as their working capital in order to maintain their current production. All such approaches have further delayed their replacement, as well as transformation of technology and equipment.

Third, there are serious shortcomings in the linear depreciation method. The shortcomings are:

1. Old enterprises that ought to be transformed first can retain only a small amount of the depreciation fund. Generally speaking, given a particular scale of operation, it costs an old enterprise only a small sum of investment so its original value of fixed assets is lower; whereas it costs a new enterprise more in investment so its original value of fixed assets is higher. Therefore, the older an enterprise is, the smaller the amount of depreciation fund it can retain. For example, the original value of fixed assets of a full-scale textile mill with a output capacity of 5,000 spindles was 36 million yuan in the mid-1970's and was increased to 60 million yuan in the mid-1980's. Assuming the consolidated depreciation rate is five percent (which is retained on the basis that the production is fully-loaded), the former may annually retain 1.8 million yuan for transformation, while the latter may retain 3 million yuan because the equipment of the latter was put into use at a later date.

2. The keener the competition, the more difficult it will be for the depreciation fund to reflect the intangible losses concerning technology and equipment. Compared to the method of rapid depreciation, enterprises will not gain any taxation benefit from the government's preferential policies if they practice the linear depreciation method. Under the circumstances that the state is opening up to the outside world, and that enterprises have become relatively independent commodity producers, if we continue to stick to such a practice, it will be very difficult for our enterprises to contend in a highly competitive market with their counterparts in the capitalist countries.

In addition, the price of production means has increased, and the depreciation fund has been devalued as a result of inflation. This thus develops a serious shortage in the compensation money of state-owned assets. Under these circumstances, an inevitable result of sticking to the old depreciation practice for fixed assets will be: Enterprises' efforts to make profits will end in failure—the state finance, as well as workers, will receive more—the reserve strength of enterprises will be weakened.

The economic results of China's industrial enterprises are poor. Compared to the international advanced level, it is worse, whether in terms of output yielded by industrial fixed assets or in terms of foreign exchange yielded by input materials. For example, each yuan of fixed assets in developed countries may yield industrial

output value worth three to five yuan. In China, such figure was 1.2 yuan (in 1988), or only 24 to 40 percent of such developed countries. In another example, each ton of fabric textiles exported by the developed countries generates around US\$10,000. In China, the figure was US\$4,750 (in 1988), or only 47 percent of the developed countries. Why was it that there was such a situation? Outwardly, it was because China's level of intensive processing of goods was low, the class of its goods was low, and the amount of added-value was small. Essentially, however, it was because the quality of China's industrial enterprises was poor, and their technology and equipment were very backward, which were the significant factors adversely affecting the types, class, and quality of goods. In the final analysis, it is obvious that an essential reason for developing such a backward situation is that we have been repeatedly "exploiting" the compensation funds of old enterprises over the past 40 years with our policies toward fixed assets.

### **Unswervingly Reform the Existing System of Depreciation on Fixed Assets**

#### **I. To Correctly Understand the Nature and Property of Depreciation Funds**

The nature and property of the fixed assets depreciation fund are a form of compensation fund necessary for enterprises to maintain simple reproduction. However, its nature of compensation is marked by special characteristics. That is, compensation made in an actual form of fixed assets is made asynchronous with that made in the form of value—compensation made in the actual form of fixed assets occurs only when such assets totally depreciate; whereas compensation in the form of value is done incrementally and in a gradually manner corresponding to the sales of goods. The result is "monetary precipitation"—depreciation fund. Under the socialist conditions of public ownership, it is a long-standing and controversial issue whether such a fund should be used (or should be first used) to replace fixed assets, should be used for accumulation (or should be first used for extensive expanded reproduction), should be retained by enterprises for their disposal, or should be centralized by the state for utilization purposes. Since this issue is yet to be completely resolved, it still affects the process of existing enterprises in replacement, and transformation.

Marx said: "The depreciation fund, that is, the fund to compensate for wear and tear of fixed capital, is also an accumulative fund." Marx's original meaning was to illustrate that the nature and property of depreciation fund were a form of compensation fund having the functions of an accumulative fund. Some comrades often cite their quotations in this respect, and put excessive stress on the phrase that it "is also an accumulative fund." The most convincing information cited by these comrades are:

1. Between 1950 and 1972, the manufacturing industry of the United States allocated 45.6 percent of its depreciation fund to its investment in fixed capital for

expanded reproduction. Throughout the 1970's, the percentage was raised to 63.35.

2. During the 1970's, in Japan, Britain, France, and the FRG, the proportion of depreciation fund on fixed assets to investment in fixed assets was respectively 40.31, 53.92, 46.51, and 47.7 percent.

Undoubtedly, these are facts. Nevertheless, these facts can only indicate that in Western industrially developed countries, a large portion of investment in fixed assets comes from depreciation fund. They cannot negate the nature or property of depreciation fund that it is a compensation fund.

We should recognize that since the Western industrially developed countries adopt the system of quick depreciation, so that enterprises' amount of "monetary precipitation"—depreciation fund—is on the rise. Under these circumstances, it is natural that capitalists make use of the depreciation fund to expand their reproduction in order to strengthen the competitiveness of enterprises. Under China's conditions that its industrial enterprises practice the linear depreciation method, and that the rate of depreciation is very low, however, the amount of depreciation fund retained by enterprises is very limited, and is subject to annual depreciation as a result of inflation, as well as price rise of the production means. Our most urgent task now is to grasp firmly the nature and property of depreciation fund, and to apply it first to internal expanded reproduction; that is, to upgrade equipment, and undertake technological transformation, rather than "balancing" funds, allocating the fund for other purposes, and using the fund for extensive expanded reproduction for undertaking capital construction.

## **II. To Fully Consider the Intangible Losses Caused by Progress Made in Contemporary Science and Technology**

We must thoroughly understand the current situation of the international market that China's enterprises are facing: All countries over the world, be they industrially developed or newly industrialized, are wasting no time striving for progress in science and technology, to shift their production and operation objectives from their domestic markets to the competitive international market. Facing such a development, our only response is to catch up with them and to devote major efforts to developing new products and materials and to enthusiastically encourage the existing enterprises to make technological advances. Otherwise, there is no way out.

Concerning the present situation of China's industrial enterprises, when formulating policies concerning depreciation on fixed assets, we must fully consider that intangible losses of fixed assets caused by progress made in science and technology have been quickened, and it has posed a great threat to the production and operation of the existing enterprises. When studying reforms of the existing system of depreciation on fixed assets, we must

not only consider China's level of productivity development and the supply capacity of financial and materials. We must also consider progress made by the international community in science and technology, and try all means to quicken the pace of technological transformation of enterprises. In particular, we must quicken the pace of technological transformation for large- and medium-sized core enterprises to constantly improve their adaptability and the competitiveness of our goods on the international market.

One may say China had long been in a closed-door, or semi-closed-door state in those days before the 1970's, and thus it is comprehensible that intangible losses of fixed assets caused by progress made by the international community in technology was neglected in the course of formulating depreciation policies toward industrial fixed assets. Hence, it would be unforgivable if we still adhered to the old practice, and still ignored the intangible losses, which objectively exist, in these days when we have been carrying out reforms and opening up for a decade, and after we have thoroughly understood that development and progress in contemporary science and technology are rapid, that the life cycle of products in the international community is getting shorter, and that market competition has become more intense!

## **III. To Unswervingly Reform the Existing System of Depreciation on Fixed Assets**

It is just as the aforesaid situation. The existing system of depreciation on fixed assets has become an obstacle of China's industrial enterprises in terms of technological advancement. Therefore, enterprises find it difficult to adapt themselves to the keen competition in both the domestic and overseas market. We must carry out reforms in this respect. To cope with the major issues, to combine the state's financial strength and its capacity in materials supplies, and in view of enterprises' current situation about production and operations, I put forward the following suggestions:

A. We should promptly abolish the practice that both the state finance and competent departments impose levies on, and "balance" the depreciation fund of enterprises; and they should return rights to the enterprises. That the state finance centralizes 25 percent of the depreciation fund of enterprises in the form of taxation is a kind of makeshift solution. Since it has more disadvantages than advantages, we should promptly put an end to it. At first glance, it seems the fiscal revenue will be reduced by around 10 billion yuan or more if we return the money to enterprises. However, such money will be used to replace and transform the technology and equipment of the existing enterprises. This will effectively promote their production development, which will in return deliver more taxes to the state finances.

At present, some competent departments still centralize money from the depreciation funds of enterprises under the pretext that "what is taken from enterprises is used in the interests of enterprises." In fact, quite a considerable

part of the money is often squeezed out and allocated for other purposes. For instance, according to a survey conducted by relevant units on 15 enterprises, in 1988, the total amount of depreciation fund delivered to the competent departments was 500 million yuan. But the amount of returned funds for the same year was only 7.72 million yuan. It is thus suggested that rules and regulations should be worked out to provide that competent departments at all levels shall have no right to squeeze money out of an enterprise's depreciation fund, and to provide that anyone who squeezes money out of such fund shall be subject to administrative disciplinary measures and statutory punishment.

B. We should give express orders stipulating that enterprises must retain and use depreciation fund according to the stipulated rate, in order to maintain integrity of the state-owned assets. Under the contracted responsibility system, which takes delivery of profits and taxes as a significant index of assessment, some enterprises, in order to guarantee the payment of taxes to the state and bonuses to workers, have reduced without authorization their rate of depreciation on fixed assets as a result of sluggish market, poor operations, and shortage of funds. Some of them reduced the "statutory rate of depreciation" from five percent to four percent. It was even reduced to 2.4 percent in some cases. It is suggested that the parties concerned should promptly work out corresponding laws and regulations to earnestly check such act, which is indirectly to the detriment of the state-owned assets.

C. We should uphold the practice of using a special fund for designated purposes, and use the limited depreciation fund to replace and transform the existing technology and equipment. It is suggested that departments in charge of state-owned assets, the Ministry of Finance, and Ministry of Auditing should organize their manpower to conduct sample surveys on, as well as draw lesson from, the experiences of some key enterprises, as well as their competent departments, in certain trades and regions in respect to their acts of retaining and using capital. In the meantime, in view of the fact that some enterprises use their depreciation fund to subscribe bonds, pay apportioned charges, and pay other expenses, it is suggested that we should strengthen the work of auditing in respect of the use of depreciation fund by enterprises, and should punish by law anyone who violates the law. In particular, we should seriously punish those who apportion charges.

D. We should concentrate the efforts to investigate, and access the state-owned fixed assets, and should retain the depreciation fund step by step according to the replacement value. The State Council has issued the "Circular on Strengthening the Work of Managing the State-owned Assets". It urges us to carry out step by step a nationwide investigation of assets; to confirm the state's capital, take stock of the state-owned resources; and to resolutely guard against, and rectify, acts that are to the detriment of the rights of state-owned assets. Because of inflation, as well as continuous price rises in the production

means, it is very difficult for us to safeguard the preservation and appreciation of state-owned assets, if we stick to the practice of retaining the depreciation fund according to the present value of fixed assets, which no longer represents their original value. It is suggested that relevant departments of the State Council should promptly make their planning. Subject to the capability of the state finance, and strength of enterprises, it would be better for them to gradually retain depreciation fund according to the replacement value of fixed assets after their investigation, and assessment of the state-owned assets.

E. We should be determined to take effective measures. In the later stage of the Eighth Five-Year Plan, we should gradually adopt the system of quick depreciation. Since such system will inevitably reduce the amount of profits realized by enterprises, and will thus adversely affect the fiscal revenue of the state, as well as bonus income of workers, it is suggested:

1. We should select some enterprises which heavy intangible losses, or whose economic results are better, as the experimental units for implementing the system first.

2. After gaining experience in these enterprises, we should implement the system on a trial basis among export-oriented enterprises whose economic results are better, and which engage in the production of high-technology, precision, and sophisticated products.

3. Whenever the state's financial strength and enterprises' strength permit, we may first implement the system in electronics industry, petrochemical industry, and certain machine-building trades (such as instruments and meters, machine-tool, and electric works); and if conditions permit, we may even enlarge the scope of implementation.

#### **IV. We Should Insist on Strengthening the Vitality of Enterprises by Giving Them More Funds Before Receiving More**

In order to make the country wealthy and powerful, and to rapidly develop the national economy, we must invigorate enterprises. The most basic requirements are to boost the capability of enterprises in making money and to improve their adaptability. In order to invigorate enterprises, we must uphold the principle of giving them more funds before receiving more, so that enterprises will be endowed with better capability to raise funds for production development, improving the economic results, and increasing the fiscal revenue. It is undeniable that to stop imposing the two "levies" on the depreciation fund of enterprises will reduce the amount of fiscal revenue of the state, and will affect the budget balance of the state. Nevertheless, to maintain a balance in the fiscal budget by squeezing money out of the depreciation fund is an act of "eating next year's food," and is only a stop-gap measure. The proper way to solve this should be acts to broaden the sources of income under the conditions of spending major efforts to cutting the expenses. Only when more money is available to enterprises, and

when enterprises are invigorated, can these enterprises be capable to undertake technological transformation, and to improve their competitiveness. This is the basic way out for us to develop financial sources, and settle financial difficulties.

Finally, it is necessary to point out that it is certain that the implementation of the aforesaid approach will push up the cost of enterprises, and will cut down their financial income. However, we should recognize that in recent years, a considerable portion of our fiscal income was money mandatorily squeezed out from enterprises. "Outstanding bills must be settled." Otherwise, there will be calamities. Judging from our experience in international contacts, it is inevitable that acts to increase the rate of depreciation on fixed assets, and to implement the system of quick depreciation will temporarily reduce the tax payment of enterprises, and affect the fiscal revenue of the state. However, an inevitable outcome is that such acts will sharply quicken the pace of progress of enterprises in technology, improve the competitiveness of enterprises in both the domestic and overseas markets, and develop sources of revenue in a better way, thereby increasing the fiscal revenue of the state, and generating more foreign exchange for the state. During those three years of restoration shortly after liberation, those three years of rectification in the 1960's, and those three years of readjustment in the 1980's were periods in which we, under the circumstances that the financial strength of the state was tense, suppressed investment in capital construction; and encouraged the existing enterprises to change their form of investment (in particular, we increased the rate of depreciation to 20 percent in the late 1970's and early 1980's), so that enterprises had more vitality, and had their revenue increased. We should be determined to make achievements, as well as progress, in the work of reforming the existing system of depreciation.

#### Footnotes

1. This is calculated on the basis of the fixed assets depreciation fund, which enterprises are entitled to use.
2. This refers to the rate of depreciation on fixed assets stipulated by the state.

#### New Round of Enterprise Contracting Discussed

91CE0121A Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 16, 20 Aug 90 pp 10-12

[Article edited by Mo Rong (5459 5554): "Do a Good Job Linking the Two Contract Terms—The State Council's Enterprises Guidance Committee Holds a Conference on the Two Rounds of Contracting"]

[Text] Currently, economic management departments at all levels and most enterprises are most concerned about doing a good job with the second round of industrial enterprise contracts and about linking the two contract terms properly. Recently, the Enterprises Guidance

Committee of the State Council convened a nationwide conference on the two rounds of management contracting, with 39 provinces and municipalities attending. Two separate sessions, north and south, were held to study and explore the issue. The following is a synopsis of the discussions.

#### I. Linking the Two Contracts Terms

After the National Work Conference on Restructuring the Economic System, held early this year, the localities began to make preparations to link the two contract terms. They take this task as a very important task, crucial to the stability of enterprises, the economy, and society. But compared to the first round of contracting, the second round is much more difficult. First, the macroclimate has changed. Enterprises' external environment has become very harsh compared to the first round. Second, some policies have changed. Power which had been handed down to enterprises have in some cases been retrieved by the pertinent departments. Third, enterprise managers have become less enthusiastic; many are taking a wait-and-see attitude.

Statistics gathered in 28 provinces and municipalities nationwide show that enterprises whose contracts expired in 1989 have generally taken the following approaches:

1. Some have let the contracts roll over and renew automatically: 42 percent of the enterprise have signed one- to two-year term contracts. Two-thirds of them have automatically renewed their contracts for a one-year term, and one-third have renewed their contracts for a two-year term.
2. Some have signed new contracts: 32.8 percent of the enterprises have signed three-year contracts, and 2.2 percent have signed four- to five-year contracts.
3. Enterprises that are experimenting with the system of "separation of tax from profit" total 4.5 percent.
4. A total of 6.1 percent are experimenting with other methods.

And 12.4 percent of the enterprises have done nothing yet.

The above figures show that 77 percent of the enterprises whose first round contracts had expired have entered a new round, and more than half of them have contracted for another one to two years. A survey of the priority projects showed that factory directors who in the past were reluctant to enter into contracts are now afraid to or cannot sign up. A majority of them are waiting, watching, and cannot make up their minds. This reflects that enterprises have little confidence that the economic environment will improve or that the policies will remain stable.

To make the second round of contracting successful, the localities have reiterated that despite the grave responsibilities, high standards, numerous problems, and great

difficulties, they will comply with the "Regulations on Contracting" and uphold the principle that promises to "stabilize the policies, promote what is beneficial and abolish what is harmful, provide specific guidance, and contribute more." Their main approaches are:

1. The localities are not rushing headlong into mass action. They have stipulated that enterprises rolling over their contracts must meet certain conditions and follow certain procedure and method.
2. The interests of the state, enterprises, and individuals are given equal consideration. The contract base is determined base on the principle that "stability comes first; adjustments are secondary." No matter which method is used to determine the contract base, the situation of individual plants should be considered, and the localities will not apply the same rule to everybody.
3. The localities have perfected the assessment norms. The assessment norms for the second round of management contracts will include a profit norm which focuses on generating profit tax, profit tax delivery to the higher authorities, and reduction in enterprise losses. They will also include an enterprise staying power norm which targets technological transformation or appreciation of production-oriented fixed assets, and they will also include an enterprise management norm which emphasizes quality, cost, consumption, and safety.
4. The second round management contracts are to include the rights and obligations of both parties to the contract. The contracts should be a "bilateral guarantee" to make them standard and legal.
5. Emphasis is put on the managers' ideological work. Unless there is a serious problem, few changes will be made, so as to maintain continuity.
6. All pertinent departments are mobilized to work together on the second phase contracts. Some localities have even brought this task under the government's objective-oriented responsibility system.

In short, the localities are treating the task of linking the two terms of the management contracts as the focal point of their current economic tasks and as an important measure vital to economic stability. The leadership and the rank and file have reached a consensus. Some localities have designated April and May as the "Golden Season" for renewing the management contracts and have been working on this task diligently.

### The Existing Problems

Besides the fact that there has been no improvement in the fund, raw materials, and market situations, enterprises are also facing the following serious problems:

1. Enterprises are incurring heavy losses. Statistics gathered by the economic management departments in 28 provinces and municipalities (autonomous region) and eight cities with province-level economic decision-making authority indicate that except in Ningxia where

the figure shows no significant change from last year, the number of money-losing enterprises in all other provinces and municipalities has increased significantly: in 17 provinces and municipalities the number of money-losing enterprises has increased more than 40 percent, and in 10 provinces it has increased more than 100 percent.

2. The number of enterprises that have halted or semi-halted production has increased. Preliminary figures gathered in 28 provinces and municipalities show that 16.3 percent of the budgeted industrial enterprises, accounting for 18.1 percent of the contract management enterprises, have halted or semi-halted production in the first quarter of this year. This has affected many workers' livelihood.

3. Enterprise profit has plummeted. A survey of 28 provinces and municipalities showed that although contracting has played an important role in guaranteeing the increase in the state's revenues, enterprise profit has plummeted. Out of the 28 provinces and municipalities, realized profit tax is lower in 12, or 42.8 percent; profit quota is lower in 21, or 75 percent. Although 23 provinces and cities are delivering more profit tax revenue to the higher authorities, 19 are delivering less.

4. Enterprises are losing momentum. Incomplete data collected in 28 provinces and municipalities show that enterprise retained profit has increased in only nine and has decreased in 19. Guangdong Province has shown the greatest decrease. Enterprise net retained profit has increased in only five provinces and municipality and has decreased in the remaining 23. The magnitude of decrease is largest in Henan, Liaoning, Shanghai, Zhejiang, and Guangdong. Enterprise ability to repay debts has also diminished. Of the 28 provinces and municipalities, 18 have shown diminished debt-paying ability.

The above situations indicate that enterprises are losing the self-development capability which they have attained through contracting in recent years. Some benefits they once enjoyed are "eroded" by the many newly introduced taxes, fees, and interests. This has seriously dampened enterprises' enthusiasm and will also have an adverse effect on economic development during the Eighth Five-Year Plan period.

In view of the grim situation enterprises are facing, the State Council's Enterprise Management Committee has suggested the following:

1. We must look carefully into the new problems which have emerged during the two rounds of contracting, enforce the relevant policies, stabilize enterprise external environment, and provide the best conditions for enterprises with contracts expiring in 1990 to renew their contracts.
2. In accordance with the current economic situation, we should renew ahead of time the contracts of some enterprise contracts which will expire at the end of the year: enterprises which have completed their previous

contracts successfully can sign new contracts ahead of time to link up with the Eighth Five-Year Plan.

3. We should take advantage of the current readjustments to work on enterprise basic management and include the management and logistics norms in the management contract assessment norms. Delegates from provinces and municipalities participating in the northern session of the conference on linking the two contract terms have made the following concrete suggestions:

*One, we must be more aware, have confidence, and seize the opportune time to link the two contract terms together.* Delegates attending the conference generally reflect that today's environment is harsh and most enterprise factory directors (managers) are unwilling, reluctant, or afraid to enter into contract. We are facing a fairly formidable task. Thus, on the matter of contract management there must be unity in thinking: "One, uphold; two, perfect; three, develop." *Two, we must strengthen leadership in linking the two contract terms.* The provincial, municipal, and autonomous regional governments must put enterprises' second round contracting on their agenda. Economic commissions (economic planning commissions) at all levels must treat this as one of their own important tasks and do a good job with organization and coordination. *Three, we must be fully prepared for the next round of contracting.* (a) The results of the soon-to-expire contracts must be verified. (b) The previous contracts must be audited. (c) Upon reviewing the experiences, we must make better estimates of the bottomline and draw up a program for the next round of contracting. (d) Do a good job with the pilot projects and let the successful experiments bring along others and invigorate the whole country. *Four, we must lay down the main principles of the next round of contracts.* (a) The first principle is to "make the contract base stick, guarantee profit delivery, and allow enterprises that make more to retain more profit and make up the difference if their profit falls short." (b) In determining the contract base, we must uphold the principle of being scientific and practical. We must contribute more to the state, pay attention to the momentum of enterprise development, and also take into consideration enterprises' ability to repay debts. (c) With respect to the system of norms, we must attach equal importance to the three major norms of profit, development, and management. (d) With respect to format, we must uphold the principle of suiting measures to individual plants and local conditions and consider the realities enterprises face and "make plant by plant estimates, let enterprises choose their own format, integrate what has been proven correct, and let the government make the final decision." (e) With respect to the duration of the contract, so far as those enterprises which comply with the state's industrial policy and which are in a fairly stable production situation are concerned, the principle is longer contracts are better than shorter contracts. Wherever a longer term contract is preferable, a long-term contract should be signed and vice versa. We must not apply the same rule

to everybody. (f) With respect to the terms of the contract, we must follow the "Regulations on Contracting" to give them legal effect. (g) With respect to assessment, we must uphold the principle of audit first and then make good on the contracts. (h) We must insist on integrating contracting and management and not substitute contracting for management. *Five, we should proceed with the next round of contracting in a planned and systematic way.* We should enter into one contract at a time, tackle the easy ones first and then the difficult cases, and deal with the key projects first and then the ordinary projects. Overall, we want to complete the process by the third quarter and wrap things up no later than by the end of this year. *Six, we need to strengthen the "two mechanism."* First, we should set up a contract regulation mechanism with "a fixed contract base but a flexible market" in mind. Second, we should strengthen the enterprise constraining mechanism and supervise closely the way enterprises use their retained profits, perfect the method of linking wages to result, tighten control over the managers' income, promote the system of separate accounting of enterprise funds step by step, strengthen the democratic supervision of the staff and workers, and if all the workers accept the system voluntarily, we should implement the risk contracting by the whole staff system. *Seven, we must conduct thorough and meticulous ideological and political work.* Under the present grim production situation, the educators must face up to the problems, but they must also realize that they are not insurmountable problems. On the one hand, the factory directors must consciously rely on the party committee's leadership and accept the workers' democratic supervision. On the other hand, the enterprise party committees must support and understand the factory directors and mobilize the workers' union to support the factory directors. With regard to the masses of managers, the important thing is to put stability first; adjustments are secondary. *Eight, the functional government departments must go deep into the realities of life, investigate and study, and solve problems and mediate disputes for enterprises.* (a) We must make enlivening enterprises the central link, and the functional government departments at all levels must cooperate wholeheartedly and work in concert to help enterprises solve their practical problems. (b) We must sort out and rectify the "three disorders," lighten enterprises' burdens, and protect their legal rights and privileges. (c) With respect to planned loans earmarked for capital construction and technological transformation, we should continue to require that enterprises pay taxes before they repay debts, and repay debts from the "two funds" [workers' welfare and rewards funds]. (d) We must enforce the state's industrial policy. We must extend "double guarantees" to key enterprises and implement a biased policy, but we must also take care of the regular enterprises.

At the southern session of the conference on linking the two contract terms, delegates from 16 provinces and municipalities brought with them various methods the localities had been looking into. They have reached a

consensus on how to link the two rounds of contracts together: One, they urged greater awareness and confidence and pointed out the need to rectify and overcome the wait-and-see attitude, the doubtful and suspicious minds, and the fear to tackle difficult problems. They urged that the reform be upheld with boldness and assurance. Two, they urged stronger leadership and meticulous organization. Three, they advised enthusiasm and stability and orderly procession to guarantee quality and quantity. Four, they suggested perfecting the system of norms and strengthen the constraining mechanisms. Five, they advised conducting painstaking ideological and political work. Six, they urged all departments to work together to help enterprises solve problems.

The positive results obtained at the northern and southern sessions of this conference will play an effect role in linking the two contract terms.

#### **Localities Work on Reforms for Eighth 5-Year Plan**

*91CE0120A Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 16, 20 Aug 90 pp 6-7*

[Unattributed article: "Localities Begin To Draw Up Their Own Reform Programs Under the Eighth Five-Year Plan"]

[Text] In order to coordinate actively with the state's Eighth Five-Year Plan, the localities have currently begun to draw up their own Eighth Five-Year Plan reform programs that meet the needs and capture the spirit of the state's overall program. We will look at a few of these reform programs here.

The thrust of **Shanghai Municipality's** reform program during the Eighth Five-Year Plan period is as follows:

A couple of years ago, the emphasis was on rectification and improvement and on amplifying and perfecting the reform measures already introduced and explore new reform measures at the same time. Specifically, we have 1) perfected and developed the enterprise contract system; 2) continued to implement the district and county financial contract system; 3) continued to implement the local-central government fixed-quota financial contract system; 4) perfected the dual-track industrial and commercial contracts and expanded the export agent system; 5) readjusted the enterprise organizational structure and formed enterprise groups; 6) continued to rectify circulation order and deepened the reform of the circulation system; 7) opened up to the outside even more and participated in international competition; and 8) strengthened macroeconomic management and increased macroeconomic regulation and control capabilities. Meanwhile, we have installed the shareholding system and separated taxes and profit as pilot projects.

After three years of rectification and improvement, it is hopeful that the economic environment will have improved enough to make it possible to deepen the

reform. More drastic reform measures will be taken in the last three years of the Eighth Five-Year Plan. In accordance with the principle of integrating the planned economy and market regulation and mainly by means of accelerating the development of the externally oriented economy, Shanghai aims to deepen the reform with respect to enterprise organization, market organization, and socioeconomic management organization. Enterprise reform will focus on enlivening enterprises category by category. Different management mechanisms will be adopted depending on the method and the extent of integration of economic planning and market regulation. The market organization and market order should give play to the market mechanisms under the state's macroeconomic control, regulation, and planned management. With respect to economic management, instead of the kind of departmentalized management that focuses only on the subordinate enterprises, management will be industry-based and will be responsible to society as a whole. Comprehensive economic management organs will be strengthened and augmented, and macroeconomic decisionmaking and management capabilities will be enhanced. Meanwhile, Shanghai aims to accelerate basic reforms, including reform of real estate and state-owned asset management and the social security system. The possibility of gradually establishing an economic operating mechanism which is compatible with the planned economic system and which meets the needs of active participation in international division of labor and competition in Shanghai will be explored to make the circulation organizations, the producers, the financial institutions, the administration and management systems, the competitive order, and the economic rules and regulations meet the needs of an externally oriented economy which "puts both ends abroad."

The gist of **Nanning City's** Eighth Five-Year Plan is as follows: During the first two years, the focus will be on rectification and improvement. Primarily, it will stabilize, augment, readjust, and improve the reform measures already implemented and will watch for the right opportunity to launch other essential and practical measures to facilitate the realization of the rectification and improvement goals. At the same time, efforts will be spent on various reform experiments, such as the separation of tax from profit, after-tax debt payment, and after-tax contracting. In the last three years, on the premises that the main goals of rectification and improvement have been achieved and the economic environment has clearly improved, it will systematically widen the scope of those experiments, speed up the transformation of the economic mechanisms, and utilize laws, rules and regulations to make permanent all the proven reform measures so as to reinforce and further develop the results of rectification and improvement, and it will rely on the system to guarantee that the GNP will double again by the end of the century and realize the strategic goal of making every family comfortable.

The specific measures:

1. The city has begun to study and come up with specific ways to approach the integration of the planned economy and market regulation to make the reform goals and direction even more clear.

2. With respect to deepening the reform of the economic system: One, it will enforce the "Enterprise Law" steadfastly and further improve the plant supervisor (manager) responsibility system. It will focus on the important points when addressing the issue of enterprises' lawful operation, rectify enterprises' socialist direction, and recognize all of enterprises' rights and obligations. Two, it will stabilize, perfect, and develop the contracted management responsibility system. The system of risk contracting by the entire staff will be promoted gradually, and superior enterprises will be encouraged to enter into contract with, lease, or merge with the inferior ones. Three, it will continue to deepen enterprise internal reform that complements the other reform efforts, further improve the system of "linking wages to result," and build a management responsibility mechanism which unites responsibilities, rights, and privileges and which links the workers' income to their labor contribution. Four, it will strengthen enterprise internal management, raise the management standards, and gradually perfect the fixed-quota management, cost control, quality control, and other management systems. It will promote the system of separate accounting of funds to distinguish state funds from enterprise funds and manage both stringently. Five, it wants to promote lateral economic integration and mergers and develop enterprise groups. Six, it will test new reform experiments in steady steps, establish and strengthen the association and exchange among enterprises within the same region and in the same line of business, and develop the idea of enterprises helping themselves and industry-based management to promote production development. Seven, it will continue to restructure the financial system. Banks should "control the total money supply, readjust their structure, guarantee the financial needs of key projects, and reduce spending on everything else." They should lend out their money and utilize their funds wisely. Eight, it will continue to deepen rural reform. Upon stabilizing the rural economic policies, it will continue to perfect the output-related system of family contracted management responsibility, strive to perfect the voluntary double-deck management system, and develop professional cooperation-type economic organizations and regional cooperation organizations.

3. With respect to the macroeconomic regulation and control system, it aims to have a tentative system that ensures reasonable division of labor, coordinates planning, finance, and banking closely, and supervises and counterbalances, a system that guarantees centralization where necessary but also mobilizes everybody's enthusiasm, and maintains overall balance while optimizing the structure.

4. With respect to the restructuring of the pricing and circulation systems, by implementing reform that "integrates decontrol and regulation and maintains control

amid the decentralization," it wants to gradually narrow the scope of the dual-track system, promote the construction and development of the market, strengthen the market regulation, control, and supervision systems, and establish a basically normal market order.

5. With respect to the reform of the labor and distribution systems, it aims to have a tentative distribution system which not only gives expression to the principle of distribution according to work, but also limits the increase in consumption funds, and it will broaden the employment channels and strengthen the employment system which gives both the units and the workers the freedom to choose their workers and work. It hopes to gradually set up a social security system.

6. With respect to the reform pertaining to China's opening to the outside world, by perfecting the general policy of "letting enterprises take responsibility for their profits and losses, decontrolling management, integrating industry and commerce, and promoting the agency system," it hopes to turn the foreign trade contract system into a rational, normal operating and regulatory mechanism.

Since May, the **Ningxia Autonomous Region** has begun formulating its own Eighth Five-Year Plan. It has drafted the main points of the economic reform program and, in accordance with the division of labor among different businesses, it has divided its program into six parts and assigned the tasks to various departments and units. The topics deal with macroeconomic control and regulation, enterprise reform, price and circulation systems, labor and distribution, foreign trade system, and rural reform. Today, the region is making an all-out effort to formulate its Eighth Five-Year Plan reform program. Other provinces and municipalities across the country are also busy working on their own Eighth Five-Year Plan programs.

#### Issues in Implementing Industrial Policy

HK2711094090 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 10, 5 Oct 90 pp 4-9, 43

[Article by Zhou Shulian (6719 0647 5571) and Qiao Renyu (0829 0088 5030), edited by Liu Jichang (0491 0366 2490): "Several Questions on the Implementation of Industrial Policies"]

[Text] An industrial policy generally includes content of two kinds. One is the policy target, which is a set of development targets determined by the policymaker based on the demands and trends of actual economic development and certain special purposes of the government. The other consists of policy measures, which are the various measures adopted to realize the policy target in light of the actual environment. Obviously, for an industrial policy to be a success it must have a correct target and effective measures, neither one of which can be lacking. An irrational and unscientific target may lead to policy errors and put the economic development on

the wrong track, but if there is only a correct target and the effective measures are lacking, then the target cannot be realized.

The importance of policy measures has been proved by China's experience in economic development over the past 10 years. For example, in the early 1980's, we already advocated changing the strategic target in economic development from being crude and loose to being intensive, but so far this change has not yet been realized and the phenomenon of crude and loose development still exists. Early in the documentation of the "Sixth Five-Year Plan," it was also advocated to strengthen such basic industries and sectors as communications, transport, energy, and raw materials. It was demanded that they be made major industries and be given priority development. Unfortunately, in recent years these sectors have not been developed with priority and their situation of scarcity and tightness has not been eased but aggravated. There are, of course, objective reasons for the inability to realize the above-mentioned policy targets, but the lack of a set of effective policy measures is obviously one of the important reasons.

It should be pointed out that, in selecting policy measures, we should give full consideration to the actual environment of economic operations. Broadly speaking, the actual environment of economic operations is the sum total of the various relations in a country's economic movements, including many factors such as structural conditions, development level, condition of resources, cultural background, and so forth, all of which can control and restrict the selection of policy measures (as well as their coordination). Particularly under the conditions of different structures, the same kind of measures may produce different effects. The effective measures adopted by Western countries under market economy conditions may not necessarily be effective in China's current structure. Hence, during the rather prolonged period of the coexistence of the two structures in China, organizing and implementing industrial policy will face two important tasks. One is how to plan policy measures according to the condition of structures that are different from both the traditional structure and from the structure of the planned commodity economy and how to coordinate the different policy measures. The other is, based on the demands of industrial development, to seek the utmost reduction in the conflict between the two structures, continuously improve the existing structure, and lead reform onto a deeper path. This is a problem awaiting solution in the current improvement and rectification and is also a problem needing solution in planning the industrial policies for the 1990's.

In recent years, our economic and theoretical circles have developed an exhaustive study of industrial policy and, in particular, have achieved relatively unanimous views on many of the phases of the selection of targets for industrial policy. Many comrades believe: 1) Regarding the sector structures in industrial development, priority should be given to the development of

basic industries and sectors of communications and transport, energy and raw materials. The growth rate of the processing industry should be controlled and the lag in the development of basic industries should be rectified. 2) We should categorically push technological progress, make the amelioration and upgrading of the technical structure lead to the upgrading of the industrial structure, and fulfill the strategic mission of converting the crude and loose development to an intensive development pattern. 3) It is necessary to ameliorate the industrial organizational structure, rectify the trend of disintegrating industrial structures and the creation of investment units that are too small in investment scale, reorganize the existing industries according to the principle of specialized division of work, promote production centralization, and realize the benefits of dimensional economy. In our opinion, these policy targets are correct ones.

Implementation of the above-mentioned targets is related to the problems of a series of policy measures. Below we shall offer our views on the four problems of raising and distributing funds, the state's macroeconomic adjustment and control over technological progress, rationalizing the industrial structure, and deepening reform of the economic structure. Your views are earnestly solicited.

### **I. Ensuring the Necessary Funds for the Priority Development of Basic Industries and Sectors**

At present, people are generally aware of the necessity for the priority development of basic industries and sectors. How then can we ensure their priority development? A key problem is that we must definitely ensure necessary investment in these sectors. In recent years, the ratio of the central government's gross volume of investment in society's gross volume of investment has fallen steadily despite the fact that government has increased the ratio of investment in basic industries out of the central government's investments. However, because local governments invest principally in the processing industry, which charges high prices and reaps large profits, investments in basic industrial sectors are still sadly insufficient. This is one of the fundamental reasons that the basic industries are increasingly unsuited to the development needs of the national economy.

In order to ensure the availability of funds necessary for the priority development of the basic industrial sectors, we must adopt at least the following measures:

First, we must systematically push price reform and raise the prices and fees for the products or services of such sectors as energy, raw materials, and communications and transport. This will generate positive influences in many areas: 1) Encourage the local governments to invest in the basic industries. 2) Possibly restrain irrational demand generated by low prices and fees and raise the efficiency rate of energy and raw materials use. 3) Possibly reduce financial subsidies and be beneficial to balancing financial receipts and expenditures. In recent

years, there has been a hesitancy in readjusting the prices of products and services of the basic industries, one of the reasons being that this might cause currency inflation. In fact, the rise in prices in the past several years was due principally to the over-issuance of banknotes and the too-brisk social gross demand. If only we can strictly control the issuance of banknotes and social gross demand, the rise in prices caused by readjustment of the prices of energy and raw materials will be very much limited. The problem still lies in that even though price reform may definitely lead to an increase in commodity prices, when we take into consideration the various passive effects of the current price distortions such as the improper direction of investments, low efficiency in resource utilization, and the daily increasing burden of financial subsidies, in the not distant future there will still be the need to find a suitable opportunity for readjusting the prices in the basic industrial sectors. Otherwise, the priority development of the basic industries can never be accomplished, rationalizing the industrial structure will still be difficult, and many other problems can hardly be solved. After over a year of improvement and rectification, at present, planned prices and market prices are gradually nearing each other. We can indeed consider now the appropriate readjustment of the prices of a portion of the products. To minimize the risks, we may adopt the method of proceeding gradually, taking small steps in readjustment each time.

Second, solving the problem of transregional investments among different provinces and regions. At present, the provinces and cities in the eastern part of the country have a rather strong capability in making investments, but investment by these provinces and cities in basic industries is restricted by their limitations in natural resources. The central and western regions have relatively plentiful natural resources for development of basic industries, but they lack necessary capital funds. Hence, with regional administration restricting the movement of essential factors of production among the regions, the mere implementation of price reform still cannot solve the problem of investing in the basic industries. In order really to attract social capital funds to the basic industrial sectors, it is still necessary to solve the problem of transregional investment among the provinces and regions. In our opinion, we may raise capital funds by means of the stock and share system and make it an effective way to absorb local funds to develop basic industries. In recent years, transregional investments already attained initial development, but the scale is still rather small. We should further investigate the ways and means to develop transregional investment and promote rapid development of transregional investments from various areas such as distribution of products, jointly sharing profits and taxes, controlling rights and privileges, and protecting ownership rights.

Third, appropriately raising the central government's investment capacity. Theoretically, with relative prices becoming rational and with the gradual removal of

administrative impediments to transregional investments, changes may be expected in the tendency toward a rather low ratio of investments in the industrial sector. However, in the foreseeable future the problem still cannot be completely solved because price reform cannot be successfully completed in a short time, while the flow of essential elements of production among the regions is still subject to many complex problems. Therefore, it is absolutely necessary to increase the central government's investment capacity. This will demand, on the one hand, enlarging the ratio of the central government's financial receipts in the entire financial income and, on the other hand, appropriately centralizing the use of the credit and loan funds. As for how to raise the proportion of the central government's financial receipts, there are now two viewpoints: One view advocates implementation of the tax division system, and the other holds that the base figure and ratio of the localities' financial contracting should be readjusted. In our opinion, the tax division system is the direction of the financial structure reform. But, because it is related not only to the distribution relations in receipts between the central and the local governments but also touches on the pattern of distribution of the interests between the state and the enterprises, for the near future its smooth implementation will be difficult. What can be implemented in the near future is the readjustment of the base figure and ratio of local financial contracting, so as to make the central government's investment ability correspond to the investment tasks it currently bears. At present, in fixed asset investments, the proportion of credit and loan funds is fairly high, but because of layer-by-layer, piecemeal contracting, use of the funds has been extremely dispersed. In order to ensure investment in the basic industries, it is necessary that the power to distribute credit and loan funds be more centralized.

Fourth, carrying out the rational division of work between the central and local governments. Seen from the demand of reform of the economic structure, it absolutely is not the proper direction for investments in big and important projects of basic industries to depend solely on the central government. Seen from the near future, there are also great difficulties in demanding a large-scale increase in the proportion of the central government's financial receipts and thereby correspondingly reducing the share of the local governments. Hence, in the investments in basic industries, the central and local governments should closely cooperate with each other and carry out a rational division of work, thus ensuring the availability of the needed funds for the priority development of the basic industries. The central government's investments should be concentrated mainly on the large and extra projects that can produce rather high dimensional effects but that are beyond the capacity of local governments, such as transregional railways, highway trunk lines, important ports and harbors, and postal and telecommunication facilities, as well as big production bases for energy and raw materials. There should not be too many investment projects

to be borne wholly by the central government, and the number must be suited to the central government's investment ability. In fact, certain projects may be jointly invested in by the central and local governments or jointly run with the local governments. For example, in energy development in western China, the central government's investments should be concentrated on creating conditions for communications and transport facilities, while on the energy construction side the provinces may jointly raise the investment funds and certain projects may even be undertaken solely by the localities. At the same time, importance should be attached to absorbing investments from the enterprises so as to display the enterprises' role in the construction and development of basic industries.

## II. Strengthening the State's Macroeconomic Control and Adjustment of Technological Progress

When studying the present conditions and problems of China's industrial structure, people have paid more attention to disparities in the quantitative ratios among the sectors and have frequently paid insufficient attention to the conditions of technical backwardness and imbalance in the technological structure. In fact, in the development of the various industries in China, the problem of proportionate imbalance in the technical structure and among the sectors is an extremely serious one. China's basic industries are relatively "shot and lacking." Seen on the surface, supplies from these industries are insufficient; but, compared with the industrially developed countries, the gross volume of our country's energy and raw materials production is not at all small. It is only that the utilization rate is rather low. The gross value of national production created by China's energy and steel material units is not only much lower than the developed countries, but also greatly below that of India, which is more or less similar to the degree of our development. It may be said that the imbalance among the sectors in reality is the external manifestation of the backwardness in the technological level and structure. It should also be seen that in the past several decades, although proportionate imbalance has appeared many times among the industrial sectors in China, such imbalance has been continuously rectified. However, the expansion of the industries' low level in technology has continued all along and up to now a method of basic solution has not been discovered. After liberation, the low-level expansion under the crude and loose development pattern of the first 30 years has been well known by all. In the last 10 years, due to the too-rapid development of the town and township enterprises and other causes, the phenomenon of low-level expansion has been serious. How eliminate the cycle of low-level development in technology is a problem that must be solved for realization of China's modernization and a healthy development of the industries.

To overcome China's longstanding low-level cycle in the technological development of the industries, efforts should be made from two sides: 1) Through reform of the economic structure, increase the enterprise's motive

power to seek technological progress and, from the economic operational mechanism, solve the problem of the environment of the enterprise's development. At the moment this consists of deepening enterprise reform and improving the market mechanism. 2) By means of the state's effective intervention on the macroeconomic level, make up for the insufficiency in structure and form a policy environment beneficial to technological development. Under China's current conditions, the selection of correct policy measures is especially important for technological progress.

China's tasks in the technical transformation of the enterprises are extremely urgent, but, due to factors relating to structure and policy, whether viewed from the factor of funds or from that of technical power, the technological transformation of enterprises faces serious difficulties and requires the state's powerful support. But at present, the environment of the structure and the policy direction are still inclined to encourage crude and loose operations, as they are extremely disadvantageous to technical progress. This urgently demonstrates the further clear understanding of the importance of speeding up technological progress and, through implementation of a correct policy, making up for the defects of the current structure and promoting technical progress.

Regarding technical progress, the state must formulate a correct policy of intervention. Its principal contents should be:

First, in the order of priority of the technical development of different industries and trades, it is necessary to clarify and have a clear understanding of the principle of the priority development of the equipment industry's technology. At the same time, we must selectively develop high-tech industries. In the past 10 years, an obvious error in our technology policy was lag in the development of the equipment industry, which has affected the upgrading of our entire industrial technology. We must speedily change the current situation of over-reliance on imported equipment and of imported equipment thrashing and damaging the domestic equipment industry. Let the priority development of the technology of the electrical machinery industry lead the upgrading of the entire industrial technology structure. The newly rising high-tech industries are generating revolutionary influences on the whole world's industrial and technological development. China should exert effort based on the state of its national strength and within its capacity and actively engage in their development. We should fully utilize China's current foundation and strong points in science, technology, and personnel to develop first those high-tech industries with a relatively good foundation and which can produce relatively high effects. As for those high-tech industries for which we still do not fully possess the necessary development-conditions, we should still put in the necessary strength and pay attention to strengthening the basic studies thereon so as to create conditions for further development.

Second, strengthening the macroeconomic administration of the introduction of technology and its absorption and digestion. Because China is a developing country, the active introduction of technology is the necessary road to catching up with and surpassing the world's advanced level. For a considerably prolonged period from now on, the introduction of technology will be the important way to seek technical progress. Hence, it is necessary to perform well the following work: 1) Formulating a medium- and long-term plan for the introduction of technology and coordinating introduction of technology with the strategy of the state's technological development. 2) Changing the state of affairs of being concerned only about introducing technology but neglecting digesting and absorbing it and integrating the tackling of technological problems at various levels. 3) Regarding important and big equipment and technologies, the scientific, technological, and production units concerned should jointly participate in the introduction, making sure of the availability of funds for their digestion and absorption and having the state's relevant departments bear responsibility. 4) Restricting redundant introduction and low-level introduction.

Third, the state should undertake cracking difficult problems in technology which the individual unit is unable to handle but which have an important bearing on economic development. Relevant departments should organize well the cracking and solving of technological problems that cross regions, industries and trades, and enterprises.

Fourth, the enterprise's selection of technology should also be subject to state intervention. It is necessary to take due consideration of the conditions of different industries and trades and accordingly sum up the demand and restrictions on the selection of technology and equipment. It is also necessary to promptly announce a list of equipment that should be eliminated because of high energy consumption, high materials consumption, outdated technique, or that produce serious environmental pollution. Furthermore, we should clearly specify that enterprises not up to a stated standard should not be allowed to operate and that such enterprises that have already begun operation should achieve the standard within a time limit. Failing this, they should be suspended, merged, or converted to other pursuits. The situation where many enterprises turn out too many kinds of products but only a small quantity of each should be changed so as to promote the development of specialization and division of work.

In order to push technological progress, it is still necessary, through the necessary policy measures, to improve and perfect the mechanism of survival of the fittest in industrial technological development. The development of modern industrial technology is not only manifested in changing microeconomic production processes, renovation in crafts, and renovation of equipment, but also

shown on the macroeconomic level in periodic undulations in economic development. The periodic readjustments in economic development often structure amelioration and development processes in the industrial technological structure. In Western countries with market economies, a number of low-quality enterprises inevitably close their doors or are amalgamated on the arrival of economic depression or economic crisis. This represented the natural weeding out of low-level technology through the bitter process of competition. Concurrently, accompanying the transfer and centralization of capital funds in enterprises of a relatively higher technological level, conditions were created for the strong enterprises to enlarge their scale and adopt more advanced technology, thereby causing the whole industrial technology to be thoroughly remolded. As a matter of fact, under the conditions of a market economy, because of the role of competition, technological progress and amelioration of the technological structure associated with it have a regular nature, except that this is more obvious at times of depression and crisis.

In China, since the reform of the economic structure and following formation and development of the market, the role of the market mechanisms of competition and others has been daily strengthened. But seen as a whole, competition has suffered greatly from the restriction of the current structure. This is the basic cause of the slow progress in the development of China's industrial technology. Because the mechanism of natural selection and sifting in economic and technological development is lacking, a large amount of backward technology has been able to continue to exist for a rather prolonged period. Moreover, the continuous input of capital funds by these technologically backward enterprises has made the distribution of social resources disadvantageous to the enterprises of a higher technological level and impeded the upgrading of enterprise technology, thus causing society's industrial technology to lag behind for a long time. Therefore, we should utilize the opportunity offered by the current improvement and rectification and be determined to eliminate a number of backward enterprises and technologies to realize benign industrial development on the basis of upgrading the technological structure.

How is it possible to improve the mechanism of survival of the fittest in industrial technological development? Obviously for the present, conditions do not exist for the full utilization of the market mechanism to realize sifting and selecting in technology. Hence, besides creating the conditions and better displaying the role of the market mechanism, it is still necessary, by means of various policy measures, to simulate the role of market mechanism and to facilitate technological progress. By so doing, it will not be possible to obtain the complete effects resulting from a fully displayed market mechanism, yet, if the proper policy is chosen, adoption of the next best program permitted by current conditions may still make it possible to push the speedy progress of technology.

Hence, we should adopt certain measures, as follows: 1) Seek help from administrative measures to close, suspend, amalgamate, and shift to other pursuits a number of backward enterprises. This is administrative elimination simulating market elimination. The readjustment that took place in the early 1960's achieved great success. One reason was that at that time the closing, suspending, amalgamating, and shifting to other pursuits were relatively thoroughgoing. At present, for the sake of maintaining the stable social situation, elimination of the enterprises should not be overdone, although it would still be better to determinedly eliminate those backward enterprises that must be eliminated. 2) As for regressive enterprises that already stopped production or almost stopped production during the course of the improvement and rectification, we should stop their "rebirth" at the originally low level. The way to handle this is to allow some enterprises with relatively good conditions to resume production, on the basis of their renovating equipment and changing their products according to the changing times; but the enterprises with relatively poor conditions must be closed. Only by so doing can we avoid the subsequent return to the base of regressive technology and fall again into the trap of a low-level cycle in technological development after improvement and rectification. 3) Promoting the transfer of advanced technology in the course of merging and amalgamating enterprises. The technological level of many of China's industrial enterprises is far below not only the international advanced level but also the domestic advanced level. Certain mature advanced technology within the country has still not been universally adopted. Therefore, in the course of improvement and rectification, we should, through combining, merging, and other avenues, step up the promotion, expansion, and dispersal of advanced technologies, so there is a universal application inside the country of the already matured advanced technologies and the whole technological level of China's industries can mount a new platform. 4) Adoption of measures to expedite the renovation of industrial technological equipment. The large quantity of technical equipment in China sorely needs renovation, but many enterprises are unable to renovate their equipment. The state should adopt measures (including necessary administrative measures) to help the enterprises to renovate their regressive equipment to an advanced technological status. This can also bring about more sales in the market of products of the machine-building industry and at the same time can remove the specter of backward equipment and technology.

### III. Promoting the Rationalization of the Industrial Organizational Structure

At present, a number of problems exist in our industrial structure, such as too many small-scale enterprises, too many and redundant construction projects, and low-level specialization. The essence is that in many industries and trades the degree of centralization in production is too low. For many reasons, in recent years in many of the industries and trades, production has not

progressed in the direction of centralization but toward decentralization. Rationalizing the industrial organizational structure calls principally for the effective realization of centralization in production.

Production centralization can be achieved through two avenues: 1) By readjusting the existing volume of assets from decentralization to centralization. This is what people usually call merging or amalgamation of enterprises. Merging and amalgamating enterprises constitutes the basic way to ameliorate the industrial structure in modern economy. In the process of economic development, there are duplicate and even redundant investment projects and, frequently, the beginning scale of an enterprise being relatively low or small cannot be avoided. The key lies in whether there is a sort of mechanism that can effectively bring about the continuous amelioration of the structure of the existing volume of assets so that the irrational structure in resource allocation can continually become rational. 2) Making allocation and distribution of the increased volume of assets suited to appropriate centralization. This then requires the implementation of a correct distribution policy and investment policy and the handling well of the relations among large, medium-sized, and small enterprises and projects. In our opinion, in the 1990's, taking the two above-mentioned roads to bring about the rationalization of China's industrial organizational structure is a basic task for realizing intensive development of the economy.

Readjustment of the volume has two basic forms: implementation of merging and amalgamation through market competition, and implementation of enterprise reorganization (including merging and amalgamation) through administrative measures. Implementation of enterprise merging and amalgamation through market competition must possess the following conditions: 1) The enterprises are not under administrative protection and there exists the socioeconomic environment of the survival of the fittest. 2) The enterprises are under strict financial restrictions, and the enterprise bankruptcy system is in force, so enterprises whose scale of operation is too small and who have low effects will become bankrupt in the course of competition. 3) The enterprises that operate on a large scale and produce high effects possess the right and power to amalgamate other enterprises. Formation of such conditions requires the deepening of the reform. It appears that, even in the "Eighth Five-Year Plan" period, these conditions still cannot be completely realized. However, this does not imply that, for the present, we are entirely powerless to readjust the existing volume of assets. In our opinion, under the conditions of the existing structure, if only the effective policy measures are adopted, merging and amalgamating of enterprises can still be done in the middle and near-term periods; the measures that may be adopted are: actively creating conditions for implementing the "bankruptcy law" already adopted by the NPC [National People's Congress] and now in force, based on society's ability to bear; selectively making certain backward

enterprises become bankrupt; and pushing the amalgamation and merging of enterprises through the correct integration of economic and administrative measures. Doing so is a good policy that benefits the improvement of the industrial organizational structure and helps us to escape the dilemma and seek development in amelioration.

Furthermore, it is also necessary to adopt strong administrative measures to force the compulsory merging and amalgamation of those industries and trades that produce high effects in dimensional economy but are seriously decentralized in production, thus forming a centralized production system and developing specialized production. One example is the motor vehicle-manufacturing industry: Certain motor vehicle-producing large countries usually have three or four large enterprises annually producing several million motor vehicles each and have a high degree of centralization in production, whereas in China at present more than 100 enterprises manufacture motor vehicles and each enterprise averages an annual production of only several thousand motor vehicles. If this phenomenon is maintained, China's motor vehicle industry will never develop smoothly. At present, the large-scale development of the motor vehicle industry is still at the starting stage. If we are determined to change the situation, retain several enterprises to take up the production of the whole vehicle and other enterprises to attend to the production of the separate and spare parts, then time is still available. In the 1970's, South Korea made a compulsory reorganization of its motor vehicle industry and achieved great success. Because China is a socialist country, it stands to reason that we can do even better. In other industrial developments these similar problems exist.

The distribution of the newly implemented essential factors of production must also be readjusted to suit the demands of production centralization. The present distribution pattern of capital funds in China is highly disadvantageous to centralization. Financial contracting and credit and loan contracting have cut capital funds into small pieces to become the possession of administrative departments at various levels. This, plus the impediments to the flow of funds which are frequently sedimented in the various large and small administrative regions and organs, naturally causes the decentralized use of funds. In order to remove this state of affairs, in the middle-term and near-term periods the following measures should be adopted: 1) Raise the profit-retention level of large and medium-sized backbone enterprises and strengthen their investment power. Bearing in mind the ability of central finance, we may correspondingly reduce the government's investments while later enforcing the separate flow of profits and taxes, the posttax profits should be entirely subject to the enterprises' disposal and use. 2) Raise the ratio of loans distributed to large backbone enterprises, give the large enterprises priority in credits and loans and correspondingly reduce the credit and loan targets of midsized and

small enterprises. We may also consider granting certain backbone enterprises of important industries and trades the right of running banks by themselves which enjoy the rights and treatment of first-grade banks in provinces and cities and may absorb deposits from society and provide financial services to the enterprises and their industries or trades for their development. 3) For a certain period from now on, the processing industry should no longer set up more network points while expanded reproduction should be confined principally to the existing backbone enterprises' conversion, expansion, construction, and technical transformation.

In the long run, the solution of the problem of the centralization of funds demands the implementation of the shareholding system. Large enterprises should utilize their operational strong points and employ the shareholding form to absorb social funds. This method, when compared with the dependence on administrative relations for the distribution of funds, is of a more economic and flexible nature. In addition, banks and other financial organs should possess a relatively independent nature. Bank credits and loans should no longer suffer from the influence of governments at various levels. Rather, the financial organs should decide on them in accordance with the economic rational nature and profit-making nature of the projects concerned. Structuring the system on these various sides should proceed in coordination with the reform of the entire economic structure.

#### IV. Pushing Economic Reform Forward Steadily

Over the past 10 years, China's reform of the economic structure has achieved enormous successes. However, at present it is facing many complex and difficult problems and currently it is necessary to earnestly summarize the experiences and lessons, keep the good points and remove the bad points, and continue to push the deepening of reform in a planned and systematic manner to ultimately form the system of a planned commodity economy. In reality, people do not have a unanimous understanding of the many problems; views are different concerning the following: How to evaluate the theory and actual results of past reform, in what stage the current reform is located in the entire process of the economic reform, how to determine the targets for future reform, how to select the direction and steps of reform, and so on. With the view of steadily pushing forward economic reform, we believe it is necessary to clearly understand the following points:

First, only through deepening reform of the economic structure can China's economy be made to go the road of benign development. In our opinion, seen from the angle of realizing the target of industrial development, the role of policy measures is extremely important but is not all-powerful. If an effectively operating economic structure is lacking, attempting to use a policy to solve all problems is futile. Under the conditions of a commodity economy, we can consciously utilize certain roles of the market mechanism by means of an industrial policy and

at the same time can make up for certain insufficiency in the market mechanism. However, to realize the rational allocation of resources, in many respects it is still necessary to rely on the establishment of a rational economic structure. If the role of the policy is estimated too high, the tasks borne by the government will be too many and too heavy, then a situation difficult to handle will develop and the anticipated target cannot be achieved. Speaking in this context, the effective implementation of an industrial policy will still have to depend on deepening the reform.

At present, some comrades have ascribed the causes of the difficulties in economic development to the role of the market factors appearing in the reform. This is not appropriate. Naturally, because reform measures are not coordinated, macroeconomic control has not followed up well and it is unavoidable that the market has brought along certain passive phenomena in the course of reform. However, the positive role of the market mechanism must be affirmed, and this positive role is of major importance. Generally speaking, at present, the market factors have not increased but have decreased, and the problems they carry can be solved by strengthening and improving control. The fundamental problem in China's economic development is the low efficiency rate of resource utilization. This is manifested on the microeconomic side principally in the enterprises' slow technological progress, low management level, and poor economic effects; and, on the macroeconomic side, in the irrational industrial structure, frequent imbalances in the national economy, and poor correlation between production and consumption. Actual practice has shown that there is no way to basically solve these problems under the old structure, and many problems have still not been really solved since the reform. Hence, in the long run, deepening the economic reform is the basic road to making China's economy flourish.

We must greatly treasure the successes achieved in the 10 years of reform, including successes attained in theoretical research. The Third Plenary Session of the 12th CPC Central Committee pointed out: The socialist economy is built on the planned commodity economy on the basis of the public ownership system. It is difficult to arrive at this conclusion. On the basis of a general summation of experiences and lessons, we must further clarify that the reform target is built on the structure of the planned commodity economy, and that reform has accumulated rich experiences. These are the advantageous conditions for continuing the reform from now on. At present, we must be based on the objective laws and actual conditions of the reform, scientifically formulate the targets and strategies for different stages of the reform and push forward the reform in a planned and systematic manner.

Second, we must attach important to consolidating the fruits of the reform and handling well the relations between reform and development. Economic reform is a long-term task, and inevitably it must be separated into different stages. Following deepening of reform, each and every stage forms certain new economic relations,

and it is necessary to promptly consolidate these new economic relations. According to China's current conditions, in the near future there cannot be any big movements in the economic reform but this does not imply that nothing can be done. We must devote efforts to filling in and improving the reform measures already put on the stage and proven to have been effective. We must make the various reform measures become coordinated, attempt to reduce the various kinds of friction caused by the coexistence of the old and new structures, and enhance the efficiency rate of the operations of the current structure. Reform and development must be coordinated with and promote each other. At the moment, in particular, we must pay attention to making the economic reform beneficial to readjusting the industrial structure and elevating the economic benefits and should select those stages which have a small degree of difficulty, effect easy operations and embody important significance in readjusting the structure and enhancing the benefits to continue with the reform. For example, we may grasp the opportunity of social gross supply and demand nearing equilibrium to proceed with the necessary price reform, particularly reform of the products of the basic industries. For another example, we must actively pursue reform of the social security system. For the sake of deepening enterprise reform and promoting creation of conditions for market competition, if the conditions are available, the planning is precise and the measures are adequate, these reforms can be effective.

Third, it is necessary to become suited to the state of the coexistence of the two systems and to strengthen and improve macroeconomic administration. Since transition from the old structure to the new structure is a long-term historical procedure, the new and old structures will coexist for a prolonged period and macroeconomic administration must thus be suited to such a condition. This will require the proper handling of the relations between administrative measures and economic measures. At present, if we fully restore the traditional administrative measures, then inevitably it will lead to the restoration of the old structure. On the other hand, if the traditional administrative measures are wholly abandoned then it will be difficult to effect the healthy development of the national economy, may lead to a loss of economic control and further worsen the allocation of resources. The correct selection is: to earnestly study the operational mechanism of the dual structure; grasp its governing law; establish a macroeconomic administrative system which can effectively coordinate the economic relations, legal relations, administrative measures, and ideological work; promote the healthy development of the economy; and realize the fixed target of readjusting the industrial structure and enhancing the economic effects.

#### **Success Reported in Production, Commodity Reform**

*OW0512090990 Beijing XINHUA in English  
0753 GMT 5 Dec 90*

[Text] Beijing, December 5 (XINHUA)—China has achieved notable success during the past five years in reforming its system of handling production materials and commodities.

An official from the State Commission for Restructuring the Economy says that this has helped improve the marketing system and has allowed markets to thrive.

The official said that even though state-owned enterprises are the dominant factor in production material supply and marketing, many collectively-owned and private enterprises have also been involved in the business.

Statistics show that by the end of 1989 the percentage of social commodity retail sales volume of the three types of enterprises involved in commodity marketing were as follows: Retail sales of the state-owned enterprises accounted for 39 percent of the total; collectively-owned enterprises for 33 percent; and the private sector for 28 percent. The total social commodity retail sales volume has increased at annual rate of 14 percent during the past five years.

A moderately developed marketing network has taken shape during the past five years. The number of shops and commercial centers has increased from 7.78 million in 1985 to the current 11 million, while at the same time the number of private shops has increased from 6.18 million to 9.1 million.

The country have also established 3,000 wholesale markets for daily use industrial products, 1,300 wholesale markets for farming and sideline products, and 70,000 urban and rural free markets.

Markets for production materials have also recorded a rapid growth rate with the establishment of over 400 materials trading centers above the city level, and over 200 rolled steel markets in 151 large and medium-size cities.

At the same time, the types and amounts of production materials and commodities which are allocated under the state plan have been progressively reduced, and the role of market regulation has been expanded. In fact, this year only 12 types of consumer goods and 72 types of production materials were allocated under mandatory state plan.

State-owned shops have witnessed notable achievements in updating their management mechanism, and over 93 percent of the large and medium-size shops have adopted various contract management responsibility systems, and overwhelming majority have introduced contract and lease management.

In addition, 90 percent of the production material related to enterprises has provided by means of the contract management responsibility systems.

## PROVINCIAL

### Shandong Completes Boshan Water Diversion Project

*SK0312052090 Jinan Shandong Provincial Service in Mandarin 2300 GMT 2 Dec 90*

[Text] The water diversion project in Zibo City's Boshan District was completed and made available to users on 2 December. Provincial Governor Zhao Zhihao attended the victory meeting to extend his congratulations.

Sustained droughts have made the groundwater level of Boshan District drop by 139.24 meters during the past 15 years, and thus made the district suffer from a serious shortage of water for residents' daily use and for industrial use. Last year, 42 enterprises were forced to reduce or halt altogether their operations.

With a total investment of 36 million yuan, this water diversion project is 22.7 km long and cuts through six towns and townships in mountain areas. Since 1989, when 11 wells were sunk at the water-head, and since the comprehensive beginning of this project this March, construction has garnered the support of all circles in society and of the People's Liberation Army stationed in Boshan District. Because of fund shortages, 230,000 persons have enthusiastically contributed money, and 235 units have participated in voluntary labor, with total workdays amounting to 1.2 million. Through eight months' arduous struggle, workers have dug and filled 1 million cubic meters of earth and stone, laid 22.7 km of concrete and steel pipes, installed 220 sets of water and power equipment, and finally diverted water from the (Zihe) water-head to Boshan District, with the daily water supply capacity reaching 30,000 cubic meters.

In his speech made at the victory meeting celebrating the completion of Boshan District water diversion project, Governor Zhao Zhihao said: The completion of this project is a major happy event that is of great significance to the livelihood of the 230,000 residents in Boshan District and to industrial and agricultural production in the district.

Also attending the meeting were leading Comrades Wang Chengwang, Wang Shufang, and Zhang Jingtao.

## FINANCE, BANKING

### Monetary Policies Play Regulatory Role in Economy

*91CE0117C Beijing JINRONG SHIBAO in Chinese 23 Oct 90 p 3*

[Article by Nan Tongsheng (0589 6639 3932): "Thoughts on Overcoming Economic Difficulties—The Regulatory Role of Monetary Policies in the Current Economy"]

[Text]

## I

There have been many problems in China's economic life in the last two years: There were runs on banks following the wave of panic buying that began in June 1988; there has been "external circulation" of funds since money was tightened; starting in early 1989, there have been defaults on debts between enterprises, and drops in enterprise efficiency; and the soft market has continued without much improvement. What do these phenomena illustrate? How are they tied to the success or failure of our banking operations?

As far as the phenomena of runs on banks and panic buying are concerned, the wave of panic buying speeded up price increases, which reinforced the mentality of buying goods to protect currency value. Although this seems to be a case of one's money losing value when stored as savings or maintaining value when stored as purchases, it is actually the result of the rapid increase in demand and excess currency in circulation in previous years. This has created excess purchasing power and shortages of goods and materials.

As for the "external circulation of funds" caused by tightening money, in order to curb inflation in the third quarter of 1988, the state adopted a policy of guaranteeing deposits to stabilize bank savings, while also tightening money, reducing loans, and forcing funds out of enterprises. This, combined with a policy of high interest rates, resulted in a policy of high interest that many enterprises were powerless to produce. Moreover, enterprises that were more efficient usually were affected more. Cash transactions, or "external circulation of funds," emerged in response to these conditions.

Although it goes without saying that enterprises' normal management practice of owing and being owed is a regular part of economic operations, "triangular debt" between enterprises has become a glaring problem in our economic life in the last two years. On the one hand, money was so tight that it could not circulate, while on the other hand new fund inputs were needed for production and circulation of goods. This created a situation in which more inputs were needed; money became increasingly tight; loans for production enterprises could not be reduced, and no one dared reduce them for commercial enterprises; demand rose steadily; finance costs constantly increased; enterprise burdens became increasingly heavy; and economic efficiency clearly dropped. This severely affected enterprise production and efficiency, and worsened defaults on loans between enterprises.

In order to cope with the run on bank savings, panic buying, and the banking emergency that occurred after the wave of panic buying in 1988, the state took three major steps to stabilize savings, reduce the amount of currency in circulation, and shrink or slow the increase in purchasing power, thus attempting to stabilize prices and the market. However, the market still weakened, production dropped, and inventories still grew. Since 1989, savings deposits have continued to increase at a particularly high rate, increasing from a level of over 300

billion yuan up to over 500 billion yuan. In the first three months of 1990 there was a net increase of over 60 billion yuan. The situation is completely different from that of 1988, when there were runs on banks and panic buying. Things have reached the point where some people sigh that "nothing should be bought," and the soft market has become a hot topic of conversation.

## II

We can conclude from these economic phenomena that monetary policies are a powerful means of regulating economic growth. Solutions to all of the problems that have arisen in our economic life in the last two years can be found in the success or failure of our monetary policies. I believe the main problems have been the following:

1. Monetary policy: First, we have no clear banking laws and regulations. Second, the reality in China is that the banking profession absolutely lacks independence, and administrative interference in banking is very easy. This has made it hard to draw up monetary policies that are based on objective need and suited to stable economic growth, or to revise them appropriately.
2. The degree of regulation: Looking at the economic phenomena of recent years, although our overall regulation, this regulation has tended to "change things too drastically." Although it has achieved the goal of stabilizing the market, it has not been totally suited to our overall economic development.
3. The central bank's mission to regulate, control, supervise, and manage is divorced from the measures that it takes to achieve these things. Although the central bank is entrusted with macroeconomic regulation and control of overall economic development, as well as with leading, supervising, and controlling special banks, its past performance in these areas has not been very good. It has been too passive in areas such as controlling interest rates, issuing currency, setting up special bank organizations, being professionally competitive, and controlling account settlements. The People's Bank of China [PBOC] has not taken forceful steps to control these phenomena either.
4. China's backwardness in researching banking reform theories has left us with inherent reform deficiencies and inadequate estimates of possible future problems. After problems occur, we take temporary, hasty measures, attending to one thing while losing sight of others.
5. The unregulated establishment of financial institutions and inappropriate competitive slogans have created many obstacles to stable economic development. "External circulation of funds" and defaults on debts between enterprises are caused to a great extent by obstacles and constraints between banks, including the central bank.

### III

Based on an analysis of these phenomena and their causes, I think that our banking operations should be improved and upgraded in the following areas:

1. The pace of banking legislation should be increased in order to establish the central bank's legal status for formulating monetary policy and controlling financial institutions and money markets. The central bank must be given a considerable degree of independence so that it can maintain its authority. Its jurisdiction should be formally delimited by national legislation.

2. Banking regulation and control measures must be strengthened. Once the central bank's legal status is established, we should begin setting up a complete system of banking regulation and control. This should be done primarily in the following way:

A. The relationship between banking and public finance should be rationalized. I think banking should not be subordinate to public finance in China. Except for paying taxes and fixed percentages of profits to public finance as approved and ratified by the national legislature, banks should be freed from commitments to public finance, in order to ensure their independence and authority.

B. A complete regulation and control mechanism should be established and perfected. In order to standardize banking regulation and control procedures, the central bank should draw up a complete set of feasible banking regulation and control measures in areas such as funds, account settlement, interest rates, and currency circulation. These measures should be based on banking laws and regulations. We should thoroughly eliminate passive regulation and control measures, such as increasing the amount of currency in circulation beyond plans to achieve a credit balance.

C. Sanctions should be strengthened. In order to rationalize the relationship between the central bank and special banks, special bank operations must be subject to central bank supervision and control. The central bank must exercise this supervision and control over special banks according to the law, and should be given powerful means for placing sanctions on those who violate banking laws and regulations. Only in this way can banking regulation and control be ensured.

D. The central bank should be detached from routine matters. Because it is the banks' bank and a key department handling economic regulation and control, the central bank's major tasks are to regulate, control, and manage. However, it absolutely should not get involved in other routine matters. Things such as the current direct granting of loans to enterprises by the PBOC must be firmly stopped. Only in this way can we ensure that the central bank can exercise its functions.

E. A system of joint settlement of accounts should be set up which focuses on the central bank, in order to guard against loopholes in accounts settlement funds.

3. Research of banking theory should be enhanced. All changes must have theoretical precedents, because it is very hard to achieve success without correct theoretical guidance. Banking must adapt to the needs of economic development and constantly change along with economic reforms. We must place greater emphasis on theoretical studies, in order to make reform more successful and eliminate the method of taking small steps towards reform and then appraising them, advancing and then retreating, and blindly implementing reform measures.

#### Financial Operation Problems, Countermeasures

91CE0117B Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 22 Oct 90 p 2

[Article by Tong Yan (4547 3601): "Problems With Current Financial Operations, and Suggested Countermeasures"]

[Text] Even though China's national economy has pulled through its most difficult period, it still contains deep conflicts that have accumulated over many years. At the same time, new problems and conflicts that arose during the improvement and rectification of old problems have increased the current financial regulation and control difficulties. The economic and financial situation linked to the latent financial operation crisis in the first half of 1990 is very disquieting. Chinese financial operations now face the following glaring problems:

1. Fund shortages in four areas: for supporting the pace of industrial production; guaranteeing autumn crop payments; supporting adjustments to the economic structure; and for maintaining the existence of all types of enterprises. Funds are needed for production, development, rectification, and reform. Because a large amount of credit entered circulation ahead of time in the first half of 1990, the overall amount of loans available now is limited. With the approach of the peak loan period in the last half of 1990, there is great pressure to achieve an annual state credit balance. As long as the tight finance and banking policy is unchanged, there will be a sharp conflict between tight money and fund shortages, and monetary policy will be caught in a dilemma.

2. Poor efficiency: Although the large influx of funds sustained a slow recovery of the industrial production rate, the soft market created problems with final sales, and economic efficiency throughout China is in a sorry state. Statistics on 40,000 industrial enterprises show that as much as 67.6 percent of their new and increased loans were tied up in finished product funds in the first half of 1990. The decline in enterprise production and the drop in efficiency caused a financial "deficit" of 1.098 billion yuan in the first half of the year. Such a situation had not been seen for many years. The frequent lowering of interest rates; granting of policy-required

loans; shrinking of the difference between interest rates on savings deposits and loans, to the point that there is a negative interest rate differential; and the increase in overdue and idle loans have all caused a large decrease in credit funds, slower fund turnover, and heavier operating burdens for the banking profession.

3. Weak operations: Objectively, the drop in economic efficiency throughout society and the poor state of public finances have caused banks to focus even more strictly on public finance in order to alleviate temporary difficulties encountered during improvement and rectification. This was reflected by banks borrowing from public finance or attracting funds to make up deficits. Banks were forced to buy national treasury bonds, and enterprises had to use bank loans to make up the public finance allocations and taxes and profits they owed or to pay wages. Thus large amounts of credit funds were turned into public finance and consumer funds. Subjectively, financial regulation and control has hardly lived up to expectations. During the early stages of improvement and rectification, policies placed undue emphasis on effective supply; in later stages, policies led to a temporary overemphasis on stimulating circulation. In addition, the scope of credit and credit funds were often managed separately, but used together, which often created a discrepancy between the two. Banks did not function independently and their operations were not too ideal. This made it impossible for them to fully utilize monetary policy as a means of macroeconomic regulation and control of the national economy.

4. Credit chaos: Because we are operating within an irrational national economic structure, tight money has caused fund shortages throughout society, and the expansion of economic power to lower administrative levels and profit concessions has led to regional protectionism and departmental selfishness. All of this, along with our imperfect economic legal system and weak limitations on commercial credit, has created a cycle of "triangular debt" and chaotic economic operations. In this time of tight finances, it is still very hard to truly smooth out the relationship between financial claims and debts, or to standardize socio-economic activities.

The current economic situation shows that, even though our national economy continues to develop in a good direction, it is not yet truly on the right track of a good overall cycle, and still faces many problems. In order to consolidate and develop our successes with improvement and rectification, current financial operations should focus on stimulating sales markets, adjusting the industrial structure, and improving economic efficiency, and efforts should be made to appropriately speed up the pace of national economic growth.

1. Insist on overall quantitative control, while making timely adjustments to the degree of control. One of the key issues in macroeconomic decisionmaking is whether to tighten money to pull through difficulties, or to loosen credit to stimulate production. This year, more bank loans have been granted than ever before, yet, contrary

to our expectations, money remains tight throughout society, economic efficiency has dropped, and structural imbalances have worsened. This fully exposes the deep conflicts in our economic life. Trying to resolve current economic problems by relying solely on stimulating credit is already beyond our powers. The focus of macroeconomic regulation and control should shift to rationalizing economic relations, optimizing the industrial structure, and readjusting economic operations. The central bank should continue maintaining its tight monetary policy and use it to eliminate the hidden dangers in impulsive economic expansion, and to manage fund operation better, coordinate the relationship between managing the scope and use of funds, monitor statistics better, enhance quantitative analysis, control the degree of retrenchment, and prevent economic "stagnation."

2. Actively clear out circulation channels and fully invigorate the market. The market is the bridge connecting production and consumption, and is a key link in social reproduction. A glaring problem in current economic operations is that it is hard to realize final sales, and thus enterprise inventories become overstocked, production is obstructed, and operations become stagnant. Because it will be difficult to adjust the industrial structure in the immediate future, the banking industry has the following real options for achieving final sales and eliminating production barriers: A. Based on strictly controlling the scope of credit, we should appropriately increase capital construction projects in production and wind up project investments, in order to stimulate development by inter-related industries. B. Improve internal productivity by investing more in technological upgrading, enhancing enterprises' capabilities to meet emergencies, and speeding up new product development and quality improvement, in order to increase the output of those goods in short supply as quickly as possible. C. Guarantee funds for procuring agricultural sideline products, and increase peasants' immediate purchasing power, in order to create the conditions for developing the rural market. D. Experiment with granting loans for housing deposits and expensive durable goods, in order to increase the immediate scope of consumption. E. While strictly controlling rises in the price index, adopt a suitable deregulation policy for some commodities by allowing higher sales prices for those that are in short supply and great demand, and lower sales prices for slow-selling ones, in order to appropriately stimulate consumption.

3. Optimize disposal of funds, and adjust the economic structure. Banks should use funds to guarantee a step-by-step implementation of national industrial policy, based on the national industrial development policy of optimizing fund disposition and on incrementally slanting funds in order to apply a fund circulation principle of "helping the best to succeed and eliminating the worst."

4. Maintain an appropriate rate of economic growth, and firmly emphasize the efficient use of funds. In order to extricate itself from its economic predicament as quickly

as possible, society should emphasize improving economic efficiency. Banks should emphasize the clearing and appraisal of credit assets, supervise and urge enterprises and concerned departments to tighten up and recoup overdue loans, speed up turnover of funds, and improve the efficiency of fund use.

### Article Views Debt Chains, Solutions

91CE0117A Beijing JINGJI RIBAO in Chinese  
27 Oct 90 p 1

[Article by Guo Maosheng (6753 5399 3932): "Will We Never Get Free From These Endless Chains of Debt?"]

[Text] This autumn, factory directors and managers are certainly not as happy about the slight recovery in industrial output values as peasants are about the bumper harvest. On the contrary, many factories are again trapped in a new cycle of "chains of debt." Although the Tianjin Flying Pigeon Bicycle Co. has achieved many successes by adjusting its product mix and reorganizing its sales network, its inability to recoup 200 million yuan in goods and payments has left its highly ambitious general manager in a predicament over how to move forward.

He said, "While clearing debts may be well and good, we cannot stand these endless chains of debt!"

I interviewed some of Tianjin's financial experts about the difficulties factory directors and managers are facing there.

#### I

Although debt clearing has produced results and played a key role in some areas, such as stimulating financing, supporting production, and speeding up circulation, the financial prospects are not promising, and new chains of debt are still spreading.

The experts told us that banks have put up 10 billion yuan in start-up funds and, through hard work at all levels and areas, have cleared up 78 billion of the 120 billion yuan worth of "triangular debts" that existed in China at the beginning of 1990, leaving 42 billion yuan outstanding. However, they said, China actually still has "triangular debts" worth 100 billion yuan.

Tianjin has both local and external "triangular debts." By the end of March 1990, Tianjin had external "triangular debts" worth 5.69 billion yuan, including accounts receivable worth 3.46 billion yuan and accounts payable worth 2.23 billion yuan. In April 1990, Tianjin was commissioned by the State Council to take the lead in organizing a joint clean up of "triangular debts" with eight areas: Beijing, Hebei, Shanxi, Inner Mongolia, Henan, Qinghai, and Xinjiang. They achieved fairly good results. Tianjin has cleared up 3.78 billion yuan worth of external "triangular debts" in recent months, including 1.76 billion yuan worth of accounts receivable and 2.02 billion yuan worth of accounts payable.

Although this left only 1.91 billion yuan worth of debts outstanding, new debts were incurred while people racked their brains to clear up the old ones. By the end of August 1990, Tianjin still had 4.96 billion yuan worth of external "triangular debts," including 2.84 billion yuan worth of accounts receivable and 2.12 billion yuan worth of accounts payable.

Tianjin's local "triangular debts" are in about the same situation as its external ones. By the end of March 1990, Tianjin had 4.73 billion yuan worth of local debt defaults. Through personal organization and coordination by municipal leaders and all-out efforts by banks and enterprises, Tianjin cleared up debts worth 4.67 billion yuan, leaving only 60 million yuan outstanding; victory was in sight. Who would have thought that 4 billion yuan worth of new debts would be incurred in these few months, still leaving Tianjin with 4.15 billion yuan worth of debts by the end of August 1990?

These endless chains of debt have become a new problem which concerns our overall economic situation.

#### II

What causes these chains of debt? The issue is complex, and opinions vary, however experts provide the following factors as food for thought:

A direct and primary cause of these chains of debt is the production and overstock of some commodities. Statistics gathered from 40,000 state-owned industrial enterprises by the Industrial and Commercial Bank of China [ICBOC] show that, while loans for circulating funds increased by 24.2 billion yuan in the first five months of 1990, the value of the inventory of manufactured goods also increased by 17 billion yuan, which tied up 70 percent of the new loans. Tianjin is experiencing the same situation. Although Tianjin loaned an additional 725 million yuan to industrial enterprises in the first half of 1990, the value of industrial enterprises' inventories of manufactured goods increased from 2.4 billion yuan at the beginning of 1990 to 3 billion yuan by the end of August, tying up most of the new loans.

Experts say that certain rigid gaps in funding are a key cause of payments defaults. Discontinued or inadequate funding of capital goods investment projects has created long and stubborn chains of debt, in which construction companies owe building contractors, building contractors owe raw materials and equipment dealers, dealers owe producers, and producers owe raw materials suppliers. The rigid gap in funds for disposing of the additional financial losses of grain and foreign trade businesses can also be readily seen. Since 1988, Tianjin alone has incurred over 700 million yuan worth of grain losses that should have been settled; they were not, and this has caused grain loan defaults in all areas. Tianjin's foreign trade sector incurred excessive debts worth 500 million yuan in 1989, and made up the losses by basically using up its targeted funds for 1990 in the first half of the year. Thus it will incur more excessive debts worth hundreds of millions of yuan in the last half of 1990. As

the central government has not yet made up for these debts, and as local governments are unable to make them up, they must be made up through increased exports. Lowering costs again temporarily will not work, and thus the foreign trade sector has been forced to rob Peter to pay Paul, which is another cause of the endless "chains of debt."

As production is linked with wholesale and retail marketing, the spread of commissioned, combined, and consigned sales practices is forcing increasing numbers of retail businesses to use ever larger amounts of "borrowed capital" to do business. This has led to retail units being regularly in arrears to wholesale businesses. Statistics show that, in the first half of 1990, the value of goods shipped and of accounts receivable for Tianjin's industrial enterprises increased by 1.17 billion yuan, an increase of 41 percent over the value at the start of the year. The amount of wholesale businesses' settlement funds that are tied up increased by 690 million yuan, or 80 percent. This created another chain of debt, in which retailers owed wholesalers, wholesalers owed industries, and industries owed raw materials suppliers.

Some experts feel that the subjective causes of these chains of debt warrant particular attention. Lax discipline in settling accounts, a poor concept of credit, and a lack of repayment consciousness, in addition to our imperfect debt clearing methods and unsuitable system of settling accounts, have created a harmful trend, in which being in arrears has become reasonable and profitable: You owe me six, and I owe him half a dozen.

### III

How can we break free from these chains of debt? The experts have offered many suggestions for consideration:

Adjust the structure and stimulate the market. Although it is necessary to suitably increase investment in production and consumer marketing in order to stimulate the market, we must do this according to our capabilities, or face the possibility of causing new inflation, which is very likely to occur when the market is soft. The basic ways to stimulate the market are to adjust the product mix and industrial structure, appropriately revise distribution policies, and attract consumer funds to production and construction through means other than tightening credit.

Make strict distinctions between public finance and credit funds. Feng Shupe [7458 2885 1014], president of the Tianjin branch of the ICBOC, noted that the need to strictly differentiate between these two major funds is a key lesson which China has learned through decades of experience in running the economy. Mixing the two is not only a key cause of the chains of debt, but also a key factor causing inflation. We should make up our minds to conscientiously clear up debts, return fraudulently collected revenues, settle accounts which should have been settled but were not, and collect all taxes and profits which are owed. Based on this, we could inject a specific amount of funds from debt sources into the system in

order to free ourselves from our "chains of debt." The existence of as much as 100 billion yuan worth of debt defaults makes economic development difficult. It can be cleared up by transferring accounts; as long as this is done correctly, it will not turn into purchasing power, which would shock the market. Because much more money has been drained from enterprises each year through various means, such as raising prices, increasing loans, and raising interest rates, than has been invested into them, in a certain sense this injection of funds could be considered repayment without much risk.

Rules must be drawn up to prevent new defaults. Premier Li Peng recently remarked that we must not permit the creation of such a harmful economic order, in which being in arrears becomes reasonable and profitable. Along with clearing up accounts, we must draw up rules to prevent new defaults. Enterprises which deliberately default must be penalized through economic means, so that they cannot profit from such actions.

What rules should be drawn up? Wang Juqing [3769 1446 1987], chief economist at the Tianjin branch of the People's Bank of China, commented that, because our endless chains of debt are an overall reflection of deep economic problems, a policy of overall control must be adopted to resolve them. First, we must establish a system of account settlement which is suited to the current stage of our planned commodity economy, and ensure that the reform of our account settlement system neither gets ahead of nor lags behind this stage. Based on various conditions, we must take active steps to restore a method of account settlement in which debts are paid, while popularizing commercial drafts and vigorously developing cashing and discounting businesses. Clearing up the chains of debt must also be closely coordinated with the implementation of national credit policies, and differential interest rates based on national industrial policies must be used as much as possible to create more relaxed conditions for enterprises.

Moreover, we must settle accounts strictly. On the one hand, many large and medium-size key enterprises now find it difficult to stay in business because of defaults on their accounts receivable. On the other hand, some private enterprises, joint ventures, collectives, and even state-owned enterprises expand unchecked through the "external circulation" of funds (i.e., commodity circulation largely using cash transactions) and "external circulation" of credit (i.e., raising funds and borrowing or lending money from institutions other than banks). This not only intensifies the tight money situation and hinders the rational adjustment of the product mix, it also restricts the coordinated development of the national economy.

Thus, experts suggest we pay close attention to drawing up a "Banking Law," an "Account Settlement Law," and a "Negotiable Instruments Law," or management regulations, in order to blend temporary solutions into permanent cures. Along with improvements in our legal

system and the arrival of "free circulation of commodities," people certainly will welcome a springtime of "free circulation of currencies."

### **Investing State Technological Transformation Funds**

*91CE0142B Beijing JINGJI RIBAO in Chinese  
13 Nov 90 p 1*

[Article by Liu Guozhong (0491 0948 0022) of the Heilongjiang Provincial Production Management Bureau: "Where Shall 5 Billion Yuan Be Invested?"]

[Text] In order to fuel the market, the state recently decided to increase technological transformation loans by 5 billion yuan. This money is supposed to be used on technological transformation projects which can help save energy and raw materials, develop new products, and increase exports and foreign exchange earnings, and which require little investment and yield quick results. However, in reality, the current market slump has spread to almost all products. We cannot but worry about the possibility that these technological transformation projects, after being completed, will turn out products that are still on the sluggish list. If this really happens, the function of the 5 billion yuan increase in technological transformation funds will be no different from an increase of 5 billion yuan in fixed-asset investment. Its effect is very questionable.

How can we use this 5 billion yuan of technological transformation funds effectively and flexibly to really achieve the purpose of starting up the market? The key to solving this problem is to integrate the use of this money with the mobilization of local and enterprise enthusiasm. This money should be used on those areas which have vigorously organized economic work and achieved fairly good economic results and on those enterprises which dare to take the challenge of the market and can find their own way to make a profit in the sluggish environment.

While the state has already made regulations concerning how to use the 5 billion yuan of technological transformation funds, we should give full consideration to the concrete conditions of the current stage and use it on areas and enterprises which can overcome the present slump, and which have some fund-raising capability as well as a strong awareness of development to encourage them to march forward and make progress. If we invest the money rigidly according to the original technological transformation plan or distribute it equally among different areas, we are bound to weaken the intended function of the 5 billion yuan.

### **Local Enterprise Bonds Play Role in Fund-Raising**

*91CE0142A Beijing JINGJI RIBAO in Chinese  
13 Nov 90 p 1*

[Article by Wang Shilin (3769 0013 2651), Financial and Monetary Department, State Planning Commission: "Develop the Fund-Raising Role of Bonds"]

[Text] Fund shortages have always been a major problem that prevents China's enterprises from carrying out technological transformation. Along with the continuous development of a security market in China, local enterprise bonds have been taken seriously and accepted by more and more enterprises as an important way to raise funds. Bond capital has become a part of technological transformation fund and played an important role in the technological transformation of enterprises.

As of the end of 1989, China issued a total of over 20 billion yuan in local enterprise bonds. Through the issue of bonds, local enterprises borrow money directly from society. This practice has played a definite, positive role in effectively utilizing idle funds, reducing banks' credit pressure, and accelerating socialist economic construction. To give better play to the role of enterprise bonds in technological transformation, we should concentrate on doing a good job in the following few areas in the future:

First, we should strengthen the planned management of enterprise bonds. We should fix a rational scale for the issue of enterprise bonds and ensure that issuance, utilization and management are planned to prevent the confusion caused by aimless fund raising and scrambling to get social funds. At the same time we should do a good job in the capital and interest payment of enterprise bonds to protect and improve the reputation of bonds.

Second, we should pay attention to and study ways to include local enterprise bonds in the channels of source of capital for technological transformation. On the one hand, enterprises face the difficulty of serious fund shortage; on the other hand, idle social funds are increasing every year. For survival and development, enterprises must open up avenues to look for funds. From now on we should gradually include local enterprise bonds in the channels of source of capital for technological transformation and facilitate the smooth progress of technological transformation work.

Third, we should pay attention to developing the role of banks' short-term loans as the main channel. Enterprise bonds should be considered as a supplementary channel of fund raising. Because of this, we should properly develop enterprise bonds under the prerequisite of not withdrawing too much bank deposits and not affecting the credit balance of state banks.

Fourth, we should increase the economic returns of enterprises and reduce the cost of bond capital. As a means of direct short-term loans, the current cost of enterprise bond capital is fairly high as compared to that of the credit funds of banks. Because of this, we should use bond capital effectively, optimize investment direction, ensure that projects financed with bonds are completed and put into operation on or before schedule so as to reduce the cost of bond capital and burdens on enterprises.

### Guangdong Official Promotes Shareholding System

91P30047A

[Editorial Report] The 4 November issue of the Guangzhou-based Chinese language daily NANFANG RIBAO gave front-page coverage to reporter Zhang Ruxi's interview with Yi Zhenqiu (2496 2182 3808), director of Guangdong's Office of Structural Economic Reform, on Guangdong's stock market.

Yi stated that "stock markets are an important element of socialist market systems" and that "their growth is a necessary part of a planned commodity economy's development." According to Yi, stock market development has become an integral part of Guangdong's financial reform. Several local governments and major enterprises have issued construction bonds and short-term bonds, and in Shenzhen and Guangzhou, shares have been issued both internally and to the public. Incomplete statistics show that to date Guangdong has issued state bonds worth a total of 7.2 billion yuan, bank-issued bonds and transferable CD's worth 9.9 billion yuan, and local government and enterprise bonds and short-term bonds worth 5.5 billion yuan. Shenzhen already has more than 80 enterprises engaged in the shareholding experiment with combined share offerings of 128 million yuan. Furthermore, said Yi, Guangdong has been developing treasury bond transfers and a secondary market since 1989. The province has also been developing stock trading services in Shenzhen.

When asked about the advantages of developing a stock market, Yi listed the following three benefits of stocks and bonds: First, they provide an efficient mechanism for enabling funds to flow directly from society at large to those departments and enterprises urgently in need of capital. Second, creation of a secondary market accelerates capital circulation and thus promotes asset circulation and upgrading. Third, they reduce the number of banks about investment diversification, help separate the functions of government and enterprise, make enterprises genuinely responsible for their profits and losses, and promote the development of enterprise conglomerates.

When asked why the shareholding experiment has taken so long to get underway, Yi replied that the delay "can largely be attributed to the failure, at the start of the experiment to establish methods and administrative regulations." He described the setting up of such an experiment as "a complex process requiring thorough appraisals of enterprises' assets, full knowledge of legal guidelines, and managerial familiarity with operational procedures."

Finally, when asked to confirm a recent news report that the State Council had forbidden state-run enterprises to issue shares to the public, Yi indicated that his office had received no word to this effect. He acknowledged that earlier in the year, the State Council had approved the

State Commission for Restructuring the Economy's recommendation that the right to sell shares publicly be restricted, at present, to the small number of enterprises authorized to engage in the shareholding experiment. He added, however, that Guangdong is the "comprehensive experimental zone" for China's reform and opening up and that one of the State Council's 10 reform measures explicitly endorses Guangdong's permission to try out the shareholding system. He then pointed out that although Guangdong would be fulfilling its obligation if it restricted its shareholding experiment to the small number of authorized enterprises, Shenzhen's experience has shown that limiting the experiment in this way causes a shortage of shares which artificially inflates share prices, destabilizes the stock market, and damages investors' interests. He thus deemed it "imperative" that Guangdong take advantage of the public's increasing financial sophistication and the present abundance of floating capital by further expanding the shareholding system.

### Shanghai Stock Exchange Center Established

OW2611164890 Beijing XINHUA in English  
1538 GMT 26 Nov 90

[Text] Shanghai, November 26 (XINHUA)—The Shanghai Stock Exchange Center, the largest of its kind in China, was established here today.

Wei Wenyuan, general manager of the center, said it was jointly established by 22 securities exchanges from Zhejiang, Shandong, Hainan, Anhui and Jiangxi Provinces, and Shanghai and Shenyang cities.

It is expected to start business December 19, according to Wei.

A governing board and a board of auditors were elected at the center's first meeting, attended by all members this morning.

At the meeting, Li Xiangrui, chairman of the Shanghai-based Bank of Communications, was elected director of the governing board, Zhou Zhishi, vice-president of the Shanghai Branch of the People's Bank of China, was elected chairman of the board of auditors and Wei Wenyuan was elected general manager of the center.

Three regulations concerning management of bonds in Shanghai were passed at the meeting.

According to the regulations, deals in bonds over 2,000 yuan (about 400 U.S. dollars) must be handled by the center after it opens for business. The center will absorb bond management organizations in Shanghai and some other east China coastal cities, and will be expanded from time to time in conformity with the state bond market.

Wei said the center will handle nearly 30 varieties of bonds and will mainly manage bond exchange deals in its initial stage, with some stock handling. But it will not

have individual members. It will handle both bonds and exchanges after a certain period of time.

He said four kinds of bonds will be handled by the center. They include all kinds of bonds issued by the state, construction bonds issued by governments at or over the provincial level, bonds issued by Chinese financial organizations, bonds issued by enterprises and securities and stock issued publicly in China.

Wei said the center will improve Shanghai's investment environment as well as its market system. In particular, to speed up the development of the new Pudong area, Shanghai will mainly collect funds by issuing stocks and bonds.

Shanghai was a financial and economic center of the Far East in the 1930s and 1940s. But after liberation in 1949 the bond market shrank until 1984. Now, 2,700 enterprises have issued more than five billion yuan (about 1.1 billion U.S. dollars)-worth of stocks and bonds. There are more than 30 varieties of bonds which can circulate and be transferred on the market in Shanghai.

Since 1988 the volume of business in bonds in Shanghai has been more than half that of the total volume for the whole country each year.

Statistics show that during the first nine months of this year the volume of business in bonds reached 1.8 billion yuan, compared to 800 million yuan last year.

## MINERAL RESOURCES

### Joint Ventures Sought for Nonmetallic Mineral Mining

HK0312032290 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 3 Dec 90 p 2

[By staff reporter Ren Kan]

[Text] China, with rich deposits of 102 of the 190 known "non-metallic" minerals, is seeking more cooperation with foreign countries in a bid to develop these resources.

China's deposits of graphite, gypsum, talcum, bentonite, asbestos, fluorite and barite are among the largest in the world. They are used in the manufacture of many high-tech, high level and high quality products including ceramics and plastics.

But of the 80 such minerals with proven deposits, only 20 are being produced in any quantity, and most of the products are of low quality.

Li Baoyin, president of the China Non-Metallic Mineral Industry Corporation, which is in charge of the country's production of non-mineral metals, is negotiating with a U.S. company to set up a joint venture to produce super-fine talcum, for which the country is still relying on imports.

If things go smoothly, he said, contracts for a \$20 million invested project are expected to be signed at the end of this year.

After the first-phase construction, which is expected to be finished in 1993, the joint venture will produce 50,000 tons of talcum annually.

The annual output of the joint venture will hit 100,000 tons when the second-phase construction is finished.

The products of the joint venture will be used in plastics, ceramics, and medical industries, he said.

Meanwhile, Li said, a company from Britain will come to China to negotiate setting up a joint venture to produce kaolin for use in high-grade ceramics.

Li said the country is considering importing technology to spur development of other non-metallic mineral products.

He said some bone coal products producers are negotiating with companies from Germany and Britain about buying their technology and equipment for producing friction material.

### Heilongjiang Gold Production Up 15 Percent

OW0612085790 Beijing XINHUA in English  
0838 GMT 6 Dec 90

[Text] Harbin, December 5 (XINHUA)—The gold output of Heilongjiang Province, China's the third largest gold producer, increased 15 percent over last year.

Gold resources in the province, which is located in the northeastern corner of China, are found in the alluvial permafrost. In recent years, the province has upgraded technology and gold mining equipment in an effort to tap the gold deposits found under the frozen soil.

The province is also scheduled to introduce advanced gold mining technology and equipment from the Soviet Union and Finland.

Heilongjiang's gold output accounts for one-tenth of the country's total.

The gold extracted from province's alluvial gold deposits accounts for 50 percent of the country's total.

## INDUSTRY

### Developing Products With High Added Value

90CE0509A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, Aug 90 pp 14-18

[Article by Xia Zhi (1115 5267) and Wu Jinfu (0702 6930 1381): "Thoughts on Developing Products With High Added Value"]

[Text] The term "high value-added product" generally refers to high quality, new, cutting edge, and precision-made products whose manufacture requires the use of high technology, new technology, new manufacturing processes or new materials, and which are appropriate for economic and consumer demand both at home and abroad. At the same time, the term also refers to low-value products and labor-intensive products which have been improved and turned into high value-added products through the use of advanced technology and special manufacturing methods.

High value-added products are currently a focus of international economic competition. According to the analyses of economists, this competition could cause the international market to be carved up into separate spheres, which would change the world economic and trading situation. For China, developing high value-added products is a very important aspect of the effort to readjust industrial and product structure and to increase effective supply. It is also a strategic choice made in order to develop the outwardly oriented economy and improve foreign exchange earnings from exports.

#### **I. The significance of developing high value-added products.**

1. By developing high value-added products we can improve our international competitiveness.

Competition in the international market is now very intense. The original highly developed, industrialized countries have clear advantages, and newly industrialized countries have caught up with them. Nationalism and protectionism have arisen in many countries and territories. Trade barriers are growing more impenetrable every day, and anti-dumping measures are continually being introduced. For a country like China, which has only been pursuing a program of reform and opening up for ten years, and has been developing an outwardly oriented economy for only two or three years, participating in foreign trade is becoming more and more difficult. At the same time, as China reforms and opens up, and as its commodity economy develops, it will gradually lose such advantages as low-cost labor and resources, and its labor-intensive products, which serve as a vehicle for exports of labor and resources, will lose their attractiveness and competitiveness.

In contrast, as economic levels rise and consumers demand higher quality, export markets for high value-added products whose manufacture requires new technologies and materials are growing bigger and bigger. Production for electric shavers produced by the Shanghai electronics system using new technology are only a fraction of production costs associated with washing machines, yet their export price is two or three times higher, and supply cannot meet demand. Guangzhou's Huanan Radio and Television Enterprises, Ltd. uses new technology, materials and manufacturing processes to produce the Ou Lin Ai Yi [2962 2651 1947 0122] computer-controlled electromagnetic ranges. The

costs are low, the value is high, and they are exported to markets in Europe and America. Not only have these ovens stolen the market from the products of other countries in the same category; furthermore, each one sells for \$800. Electric toothbrushes produced by the Yingkou Toothbrush Factory are easy to use and have been extremely well received in the United States and Canada. They sell for \$59. This shows that high value-added products can break the monopoly over markets exercised by economically developed countries. Furthermore, with these products you can spend a little and make big profits, and earn more foreign exchange through exports.

2. By developing high value-added products we can raise the level of domestic consumption.

China's implementation of the policies of reform and opening up has enabled society to develop vigorously. People's lifestyles have undergone deep changes, and consumption levels have risen significantly. The trend in consumption is to demand newer and higher quality goods. Many traditional products (including some well known products) are facing a market crisis because they are not well made and their performance is only average. At the same time, some newly invented products with multiple functions sell well even if their prices are a bit higher. For example, although quartz watches are more expensive than the average mechanical watch, they are more attractive, have more functions, do not need to be wound, and keep accurate time. They are selling like hotcakes. At the same time that unsold inventories of mechanical watches have been piling up, demand for quartz watches has outstripped supply. High value-added products first became popular in Shanghai, the lower Yangtze Valley, and the open cities of Guangdong province. Now it has spread all across the coastal region and is gradually radiating into the interior provinces. From this it is apparent that the market within China for high value-added products is also very large.

3. By developing high value-added products, we can use material more efficiently.

Because high value-added products use high technology, new technology, new materials, new manufacturing techniques, and new methods of processing, fewer raw and semi-finished materials are consumed, the rate of utilization is high, and operations are intensive. The development of microelectronics is the best example. As computers progressed from semiconductors to vacuum tubes and then to integrated circuits, they went from the size of a house down to the size of a 14-inch television set, and even to the size of a match box. They only require one ten-millionth the amount of materials now as they used to.

The development of high value-added products has increased the possibility of substituting for some raw and semi-finished materials, thereby easing strained supplies. For example, the ratio in China of plastic use to that of aluminum and steel is 1:40 and 1:95 respectively,

while these same ratios in the United States are 1:9 and 1:17. If we vigorously developed technology for engineering plastics and structural ceramics, we could greatly reduce demand for steel and aluminum, thereby alleviating the strain on metal supplies. For this reason, since supplies of rare materials and precious resources are insufficient in China, attaching importance to the development of some high value-added products is one important way to use materials more efficiently, search for substitute materials, and blaze a trail for long-term industrial development.

4. By developing high value-added products, we can raise the level of our high technology.

The progress of enterprises and the upgrading of products are closely linked to technological factors. In general, in order to develop high value-added products it is prerequisite that a country have a certain amount of high technology, new technology, and new manufacturing techniques at its disposal. In a sense, high value-added products are the crystallization of technological progress and development, and they are instruments which in turn have an impact upon this same progress and development. Thus, developing high value-added products can enable us to utilize potential productive capacity to the greatest possible extent, enabling some enterprises with a certain amount of material and technological strength to perform well. At the same time, developing high value-added products can spur enterprises to upgrade and develop technology, thereby leading to the improvement and replacement of some old equipment, outdated technology, and traditional products.

## II. The possibility of developing high value-added products.

In the 40 years since Liberation, and particularly in the ten years of reform and opening up, China has laid a relatively good economic and technological foundation. Production technology has noticeably improved, and we have accumulated some successful experience. We are completely capable of developing high value-added products or developing high value-added products in a large number of enterprises.

1. Relative technological superiority provides a pre-existing foundation for the development of high value-added products.

In comparison with the United States, Japan, and Europe, China's industrial technology is outdated, but in comparison with most economically underdeveloped countries, China enjoys relative economic and technological superiority. Furthermore, in some technological aspects, including some industrial technologies, China is more advanced than the developed countries. In some cases China even enjoys a huge advantage over the rest of the world. China has paid special attention to reforming the system of scientific research and combining basic and applied research. Ability to invent and create have been strengthened. Some high quality, cutting-edge applied technologies and their products have

demonstrated excellent potential for development, and technological potential is presently being developed. High-tech industrial parks which have been established in Beijing, Tianjin, Shanghai, Nanjing, Wuhan, Guangzhou, and Shenzhen (and others yet to be established in other cities) have not only provided favorable conditions for scientific research agencies as well as science and technology itself to progress from their current narrow alley to a land of broad vistas; furthermore, they will also provide the technology necessary to enable these areas to develop technology-intensive high value-added industries and products.

2. Large- and medium-sized key enterprises are the primary force for developing high value-added products.

China currently has over 8000 large- and medium-sized enterprises and several hundred powerful military industrial enterprises involved in dozens of categories and several hundred lines of products including steel, construction materials, machinery, electronics light industry, chemicals, and textiles. After several decades of upgrading, and especially the last ten years of imports and improvements, the equipment of large- and medium-sized key enterprises has improved noticeably. They have strengthened their capacity for technological development, and they have the ability to produce high value-added products.

China earns a lot of foreign exchange from exports of ground satellite reception systems, optic communications systems, precision machinery, microelectronic products, new materials, and some space flight products, almost all of which are produced by large- and medium-sized enterprises under public ownership and key military industrial enterprises. This shows that China's large- and medium-sized enterprises and its key military industrial enterprises have the ability to perform excellently in developing high value-added products. As the reforms are deepened, their strength will be further freed up, their potential will be further realized, and conditions for developing high value-added products will grow more favorable.

3. Foreign-invested enterprises (FIE's) serve to demonstrate how to go about developing high value-added products.

Experience in Guangdong has shown that many of the enterprises which have been relatively successful in exporting high value-added products are FIE's or enterprises which have cooperative links with FIE's. Thus, currently existing FIE's as well as those yet to appear have made and will continue to make contributions to our effort to absorb foreign capital and advanced technology. Furthermore, they will demonstrate how to develop high value-added products and how to compete in international markets.

At the same time, China's continually deepening economic reforms have continually injected vitality into the effort to develop high value-added products. During the course of reform and opening up people have travelled

abroad to gain knowledge, and others have been invited to China to provide guidance. As a result, people's sense of crisis and competition has been strengthened. Two years ago, some comrades believed that we could rely on our advantage of cheap labor and the export of labor-intensive products to develop the outwardly oriented economy. They now believe, however, that in terms of our long-range goals it is not enough to develop only labor-intensive products. They believe we must change our operational strategy. At the same time that we develop labor-intensive products, we must also develop high value-added products. This shift in understanding is the ideological basis for the development of high value-added products.

Reform and opening up have brought in another type of vitality. The gradual establishment of information systems and the opening of communications channels have shortened the distance between China's enterprises and international markets. People are continually improving their understanding of markets, so they can readjust operational foci and competitive tactics in response to changes in international markets. In addition, reforms have transferred more operational autonomy to enterprises. In particular, many enterprises have authority to import and export directly. Efficiency has risen significantly and their ability to adapt to changes has been greatly strengthened. This facilitates the import of technology and projects, and it helps efforts to develop high value-added products.

### III. Bottlenecks impeding development of high value-added products and countermeasures.

At present there are still some pronounced problems involved with China's effort to develop high value-added products. 1) Industrial structure is not rational enough, the traditional regulation system still has an impact, different agencies are isolated along functional and geographical lines, industries are controlled, and enterprises are subordinate to one government organ or another. This has led to a chaotic situation in industry. Localities, industries, and enterprises all seek only their own best interests, which means that what should really receive top priority is submerged and focus is blurred. At the same time, non-key industries and enterprises enjoy key advantages, so they use up too many funds, materials, and energy resources, and they affect the production and operations of true key industries and enterprises. They even affect markets for high value-added products. 2) Scientific research is divorced from production. For one thing, although we are capable of converting a considerable percentage of our technology and inventions into high value-added products, they cannot be turned quickly into productive forces because scientific research is divorced from production. For another thing, enterprises lack strength in scientific research. The fact that they lack sufficient ability to upgrade technology on their own affects the development of high value-added products. The percentage is even lower for enterprises that belong to the Ministry of Light Industry—only one percent. 3) Policies inhibit the development of high

value-added products. The most notable problem is the fact that foreign exchange retention ratios are not rational enough. The state and local governments retain too great a percentage, and enterprises are left with very little. There is an inverse proportion between foreign exchange earnings and the amount of profits retained. As high value-added products are produced in greater quantities, exports and foreign exchange earnings rise but enterprises retain less and less foreign exchange, which severely affects their enthusiasm.

In view of experience abroad and in China, these writers feel that in order to develop high value-added products we must concentrate on resolving the following problems:

1. From an ideological standpoint, we must earnestly formulate medium-and long-range development programs.

First, we must view high value-added products in a strategic light and set forth a guiding philosophy which takes high value-added products as the main goal of development. The most important things right now are to: educate and guide enterprise policy makers to overcome their short-term outlook and behavior; inculcate a strategic thinking whereby enterprises seek survival and development through technological progress and the development of new products; plant our feet in the present while reaching for distant goals; and think of the distant and lofty while getting real work done. This is an important ideological foundation upon which we must build in order to develop high value-added products.

Second, we must have a scientific program. Developing high value-added products has an impact upon the distant future as well as the present, upon the macroeconomic picture as well as the microeconomic picture, and upon the industrial sector as well as organs of scientific research. It is a comprehensive, systemic economic project. Short-term, medium-term, and long-term projects are needed in order to regulate relationships between all parties and implement scientific concepts, combinations, and operations. The central and local governments must formulate macroeconomic and "mesoeconomic" plans and guarantee measures. Industries and enterprises must also formulate their own plans with an eye toward concrete conditions. After a program has been formulated we must organize and implement it meticulously, and earnestly learn a lesson from the past (when we spent more time talking about certain tasks than doing them, thus squandering many golden opportunities).

2. We must promote technological advancement and combine scientific research and production into a single entity.

Technology is an indispensable link in the functioning of the economy. Transplanting superior technology into modern enterprises and combining the technology with production to become an actual productive force is the

key to China's effort to develop high value-added products. To achieve this conversion, there are several things we must do:

1) Specialized scientific research organs must enter into the economy and become involved with large- and medium-sized publicly owned enterprises. This involvement must take place where the factory and the research institute both have a need for it. They must enter into the relationship willingly, and the relationship must be to each other's mutual benefit. These relationships should concentrate on long-term goals and shun short-term ones, and they should constitute scientific combinations of two parties which interact with each other. Taking some specialized scientific research organs and sending them down or transferring them to carry out their activities in key enterprises would help to bolster the scientific and technological expertise of key enterprises, and it would enable specialized scientific research organs to focus upon key industries as they work to overcome difficult problems.

2) We must link technology transfer to economic returns. This would be an effective way to arouse the enthusiasm of scientific research organs and enterprises. For one thing, it would change the way scientific research organizations used to operate. Before, they would transfer technology all at once without worrying about how well the technology was applied to production. Changing this situation would help to raise the commercial value of technology, and it would raise people's sense of responsibility for the technology that they have transferred. For another thing, linking technology transfers to economic returns would prevent enterprises from making so many mistakes in applying technology, and they would be more sure of success.

3) Enterprises must carry out scientific research. This is an important element in technological progress abroad. China's large- and medium-sized enterprises should adopt this method as they develop high value-added products. Large- and medium-sized enterprises are not only commodity producers; they should also be the originators of technology. In terms of personnel, large- and medium-sized enterprises have a large pool of outstanding talent and a great store of specialized knowledge, so they are capable of setting up their own scientific research organizations. In terms of production, not only do large- and medium-sized enterprises use many different types of technology, but the technology is highly specialized. If they carried out scientific research on their own it would help them to raise the efficiency of their products, and it would be applicable to their production processes.

4) We must strengthen technological research that will benefit the greatest possible number of enterprises. This would help small- and medium-sized enterprises, and it would be an important measure in the effort to promote the development of high value-added products throughout an industry. At present, a high proportion of the small- and medium-sized enterprises in China which

are capable of developing high value-added products lack technological strength and are incapable of forming a scientific research system. This requires that scientific research organizations give them technological assistance to enable them to develop high value-added products. Thus, scientific research organizations which do research on widely applicable technologies as well as manufacturing processes should begin at the most basic level. They should attach importance to improving products, and they should gradually develop research institutes (academies) that are industrial, professional, and comprehensive in nature. These scientific research organizations should provide better service to industry and enterprises.

5) We must accelerate technological upgrading. Many of China's large- and medium-sized enterprises were built in the fifties and sixties. Their machinery and equipment have aged and declined in performance and would not be appropriate for developing high value-added products. Technological upgrading is urgently needed. The central and local governments should act upon the need to develop high value-added products by arranging priority access to funds, raw materials, etc. for key enterprises. They should help to import some badly needed advanced equipment. At the same time, enterprises must make a great effort to increase exports and foreign exchange earnings, import equipment, and strengthen themselves.

3. We must carry out a structural readjustment and provide different kinds of guidance at different levels.

Developing high value-added products is in reality a matter of using a new strategic posture to face the challenge of a new technological revolution. In a sense, it is a negation and an upgrading of the traditional outdated technology and economy. For this reason, there is an indisputable need to reorganize the old industrial order, and to build up new advantages. This is in accordance with the current program of improvement and rectification, but there are also ways in which such a course of action would differ from the program. It is in accordance with the program in the sense that developing high value-added products is precisely the key area targeted for support in the program of improvement and rectification. It differs from the program in the sense that developing high value-added products is not a regular readjustment of which economic sectors are to be target for support or retrenchment; rather, it involves important strategic issues related to the industrial revolution. Developing from the traditional labor-intensive products toward high value-added products manufactured primarily with high technology and new technologies is more than just a shift in operational strategy; it is a fundamental, qualitative change based upon a step upward along the technological ladder. This would signify that the level of our nation's industrial technology has taken a major step forward. For this reason, from the central government down to the local level, we will have to carry out a rigorous selection process for large- and medium- size enterprises and pick out key enterprises that are capable of producing high value-added products.

We must cultivate a "national corps" of enterprises that achieve a high technological level. After doing this, we should take large- and medium-sized enterprises as the key element as we organize enterprise groups and regard those which produce high value-added products as the primary members. These enterprise groups would include some urban and rural enterprises, and they would implement specialized production and standardized operations.

4. We must formulate policies that will support the development of new products.

Bringing the enthusiasm of enterprises for production into play is the fundamental issue in the effort to develop high value-added products. Although we are now carrying out a planned commodity economy, if policies are irrational it will affect the enthusiasm of enterprises for developing high value-added products. For this reason, in the future we should make necessary readjustments and perfections of relevant policies in such a way as to encourage and support enterprise efforts to develop high value-added products.

1) We must resolve foreign exchange problems. For enterprises whose activities revolve primarily around exports and foreign exchange earnings, we must readjust foreign exchange retention ratios to an appropriate degree. At the same time, we must resolve problems involving foreign exchange conversions in order to facilitate enterprise efforts to import technology, equipment, and necessary raw and semi-finished materials. We must resolve concrete problems connected with the process of production.

2) We should target certain types of enterprises for top priority in the allocation of production factors. Those which develop high value-added products should be targeted for special support in terms of funds, energy resources, and materials. In the case of key enterprise groups which develop high value-added products, we should go outside the state plan to provide them with top priority access to production factors in order to assure the continuity and stability of their production and operations.

3) We must use methods which double the exemptions from profit taxes in order to encourage and support enterprises and enterprise groups which have only recently joined the effort to develop high value-added products so that they will have more financial strength for the task at hand. At the same time, we should impose heavy profit taxes in order to penalize enterprises which engage in short-term operations or which have the capability (yet refuse) to develop high value-added products. We should use administrative and economic means to carry out scientific guidance and promote the development of high value-added products.

### Fulfillment of State Contracts for Steel, Lumber

91CE0111B Beijing JINGJI RIBAO in Chinese  
26 Oct 90 p 1

[Article by Gong Jiao (7895 8032): "Five Sectors Report on Completion of Contracts for Unified Distribution of State-Supplied Materials"]

[Text] The Ministry of Materials and Equipment, the State Planning Commission, and the State Statistical Bureau, together with the Ministry of Metallurgical Industry and the Ministry of Forestry, have recently released a report on the fulfillment of state contracts for the supply of steel and lumber in the first half of 1990. The report indicated a fulfillment rate of 81.1 percent for state-allocated steel (0.5 percent lower than the same period last year) and a fulfillment rate of 78.9 percent for state-allocated lumber (16.8 percent higher than the same period last year).

In the first half of this year, enterprises subject to unified allocation produced 24.52 million tons of steel. State contracts included orders for 8.751 million tons, with 7.1 million tons actually delivered, for a deficit of 1.651 million tons and a contract fulfillment rate of 81.1 percent. Further breaking down these figures, the contract fulfillment rate was 83.6 percent (down 2.2 percent) among key steel enterprises, and 66.3 percent (up 4.6 percent) among local steel enterprises. Only three steel factories—Fushun, Changcheng, and Xining—fulfilled 100 percent of their contracts.

The report analyzed the reason why fulfillment rates for state contracts fell compared to the same period last year (when production was in a slump) in spite of the fact that steel production has been fairly good this year, and pointed out five factors: 1) The problem of overdue debts for goods already delivered is very serious, making it difficult for enterprises to purchase raw and semi-finished materials. This factor alone prevented the delivery of 725,000 tons of steel, which accounted for 43.9 percent of their undelivered goods. 2) A total of 3.5 percent of all undelivered goods were not delivered because supplies of coal and electricity were insufficient. 3) Transportation difficulties prevented delivery of 289,000 tons, or 17.5 percent of all undelivered steel. 4) Equipment repairs, product quality, and underproduction prevented delivery of 315,000 tons, or 19.1 percent of all undelivered steel. 5) Rising costs and falling economic benefits caused by rising prices for raw materials, fuels, power, and transportation have affected contract fulfillment rates. In addition, with the existence of a multiple price mechanism, plus the fact that economic benefits for enterprises have been falling, a minority of enterprises felt that it was a great loss to deliver goods to the state and that the losses could not easily be recouped. This has also caused contract fulfillment rates to fall.

After analyzing these objective factors, the report pointed out that the increase in the amount of steel sold directly by enterprises in the first half of the year affected

the fulfillment of state contracts. For example, Shoudu Iron and Steel Works' total profits reached 1.071 billion yuan in the first half of this year, an increase of 22.65 percent over the same period last year, yet the contract fulfillment rate was only 60.6 percent, 28.2 percent below the same period last year. Panzhihua Steel's contract fulfillment rate was only 73.6 percent, 4.5 percent below the same period last year. To deal with this problem, the report called on responsible departments at every level to strengthen management and asked enterprises to take the interests of the whole into account, overcome difficulties, aggressively fulfill state contract quotas, and make up previous shortfalls.

In the first half of this year, state contracts for lumber in the forestry districts in the northeast, Inner Mongolia, Sichuan, and Yunnan called for the delivery of 8.85 million cubic meters of lumber under the system of unified allocation, of which 6.986 million cubic meters was actually delivered, leaving a deficit of 1.864 million cubic feet. The contract fulfillment rate of 78.9 percent was 16.8 percent higher than the same period last year. More than 20 forestry bureaus and mills, including the multi-purpose mills in Hongxing, Wuying, Shangganling, Shanhetun, and Xiangfang, fulfilled 100 percent of their contracts. The fulfillment rate for state contracts rose appreciably compared to the same period last year. In a subjective sense, this can be attributed to the fact that enterprises have worked hard to cultivate a reputation of honoring contracts, and they have taken the compulsory plan very seriously. In an objective sense, this can be attributed to the fact that rail transport has been easy to arrange, purchases outside the state plan have dropped off, the supply of goods within the state plan has correspondingly improved, and banks have resumed the method of postponing collections from enterprises and making payments on their behalf.

#### Industrial Output Value Reported for 13 Cities

HK1311092790 Beijing CEI Database in English  
13 Nov 90

[Text] Beijing (CEI)—Following is a list of industrial output value in 13 Chinese cities under central planning between January and October 1990, released by the China State Statistical Bureau:

	(in 100 million yuan)		
	Total	over 1-10/89	percent light ind.
Shenyang	171.79	0.0	58.99
Dalian	136.31	3.6	50.97
Changchun	80.37	-4.9	30.25
Harbin	103.77	-3.2	48.49
Nanjing	162.92	7.4	49.42
Ningbo	139.31	3.4	83.06
Xiamen	50.52	15.1	36.72
Qingdao	153.67	5.7	95.61

Wuhan	159.43	-3.6	68.41
Guangzhou	226.20	3.8	155.26
Chongqing	153.38	0.5	63.60
Chengdu	116.36	-0.7	47.63
Xian	93.19	1.3	39.57

(Industrial output value is measured in 1980's constant price)

#### Qinghai Basic Industries Show Steady Growth

HK0412093090 Xining Qinghai Provincial Service  
in Mandarin 2300 GMT 1 Dec 90

[Text] This province's basic industry, including the energy and raw and semifinished materials industries, has grown steadily this year.

It is known that the output of over 75 percent of the 16 products of energy and raw and semifinished materials, which are to be assessed as planned by the provincial department concerned, have increased in varying degrees, making contributions to the overall development of the province's industry.

Energy and raw and semifinished materials industries are this province's key industries, serving as a mainstay of the economy. They account for the larger proportion of the province's industry. When industrial production was once in a depressed state this year, enterprises engaged in the production of energy and raw and semifinished materials developed their production at full steam, pressing forward in the face of difficulties and playing a vanguard role. The difficulty facing the electricity industry this year was mainly the contradiction between generated energy and upkeep of equipment. To keep electricity output unchanged and equipment in good shape simultaneously, the enterprises had to make greater efforts than usual. They improved production management and rush-repaired equipment even during holidays so that they could carry on both production and repairs without neglecting either. After the (Longyanguxia) Hydropower Station fulfilled its production quota for 1990, 105 days ahead of schedule, power stations across the province had generated 6 billion kilowatt-hours by late October, surpassing the 1990 production target by 3.5 percent and increasing production by 24.8 percent over the same period last year. The coal industry kept tabs on two things this year: Reducing losses and increasing production. Despite increased prices and expenditure and a shortage of circulating capital, they tapped their production potential and cut expenses. By late October, they had produced 2.4 million tons of raw coal, an increase of 8.7 percent over the same period last year. The 1990 production quotas for steel products and crude oil were almost fulfilled in October, registering a noticeable increase compared with the same period last year.

The expansion of the energy and raw and semifinished materials industries gave a certain impetus to industry as a whole. The statistics show that by last October this province's industrial sales had totaled 1.74 billion yuan,

keeping level with the same period last year. The problem of decreased income which had existed for a time was solved to a certain degree.

### Shanghai Industrial Production Up in November

OW0412110490 Beijing XINHUA in English  
1051 GMT 4 Dec 90

[Text] Shanghai, December 4 (XINHUA)—Shanghai generated an industrial output value of over 10.33 billion yuan in November, up 2.7 percent over the previous month and 14.6 percent over the same period of last year, according to today's announcement by the municipal statistical bureau.

Economists say that this indicates Shanghai's industrial production is normal.

Shanghai's industrial production, which was affected by a sluggish market and a shortage of funds and raw materials, had dropped since the fourth quarter of last year.

The city's monthly industrial output value in the first two months of this year was less than eight billion yuan per month, but it has risen since March and reached the record last month.

The output value of light industry increased by 12.1 percent over the same period last year, while heavy industry was up 17.7 percent. Among different sectors, state enterprises were up 7.2 percent and collective-run industries up 14.1 percent.

Shanghai has made steady progress in adjusting industrial structure, and the product mix, in particular, and the export-oriented economy has increased steadily.

Statistics reveal that foreign-funded enterprises generated output value of 676 million yuan last month, double the figure for the same period of last year.

At present, Shanghai's industrial enterprises are continuously adjusting structure, developing new varieties of products and improving economic efficiency.

### Shantou Increases Gross Industrial Output Value

OW0612091390 Beijing XINHUA in English  
0904 GMT 6 Dec 90

[Text] Beijing, December 6 (XINHUA)—The gross industrial output value of the Shantou Special Economic Zone (SEZ) reached over 1.42 billion yuan in the first ten months of this year—a 55.6 percent increase over last year's same period.

PEOPLE'S DAILY reported today that the zone, which is located in south China's Guangdong Province, earned 300 million U.S. dollars from exports and its revenue increased 40 percent over last year's corresponding period to 100 million yuan.

The paper reports that the zone's gross industrial output value has amounted to two billion yuan since it was founded in 1981, and that the zone has registered an average annual increase rate of 112.9 percent.

The zone's export volume had reached 910 million U.S. dollars by the end of last year, while the city's revenue amounted to 530 million yuan.

Statistics show that the zone had invested a total of over 1.96 billion yuan in capital construction by October of this year, and that 70 percent of the funds had been provided both local and overseas sources.

The city also invested 60 percent of its funds in infrastructure projects, including telephone systems, transportation, water and electrical supply.

To date, the zone has approved 1,048 projects, including 390 foreign-funded enterprises, which involve an investment of 517 million yuan—400 million yuan of which came from foreign investors. In addition, according to the paper, 78 percent of the products manufactured by foreign-funded enterprises were sold in the international market.

### Yantai City S&T Complex Advances

SK0412141290 Jinan DAZHONG RIBAO in Chinese  
22 Oct 90 p 1

[Text] By making use of its strong points as an economic development zone, Yantai City has adopted a development style in which the new and advanced domestic technologies are integrated with the utilization of foreign funds to intensively build an advanced technical development zone—the Yantai City scientific and technological complex.

The designated acreage of the city scientific and technological complex is two square km; the total investment in the project is 450 million yuan. In meeting the fulfillment of the project, the city plans to build 80 new and advanced technological enterprises. The project has been divided into two construction phases, in which the city will build 20 advanced technological enterprises during the Eighth Five-Year Plan and will meet the fulfillment of the project during the Ninth Five-Year Plan period. Through the current selection, 11 advanced and new technological enterprises in the economic development zone have been outlined in the project. The city is beginning to build a scientific and technological building and a scientific and technological service center.

## SMALL-SCALE ENTERPRISES

### Status of Township Enterprises After Readjustment

91CE0105A Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 19 Oct 90 p 1

[Unattributed article: "Having Withstood the Dual Test of the Market Slump and Shortage of Funds, Town and Township Enterprises Exhibit a New Luster in Readjustment"]

[Text] In over a year of improvement and rectification, the quality of China's town and township enterprises has further improved, the scale of the enterprises has been expanded, the enterprises have developed solidarity, the overall structure of industries and products is gradually being corrected, social benefits have obviously improved, and the rate of development is once again higher than that of state enterprises. The achievements are very gratifying. In the first half of this year the value of industrial output of town and township enterprises was 274.3 billion yuan, a 10 percent increase over the same period last year, making abundantly clear the vigor of town and township enterprises after the adjustment and the important part that they play in development of the national economy.

At the Chinese Town and Township Enterprise Association advisory forum held recently Vice Minister of Agriculture Chen Yaobang [7115 5069 6721] used specific figures to present the gratifying change in town and township enterprises after over a year of improvement and rectification and remaining difficulties.

He said that as a result of last year's improvement and rectification, town and township enterprises throughout the country have reduced the scale of their capital construction, with rural collective enterprises reducing capital construction investments 9.54 billion yuan. Under the guidance of the state industrial policy and in accordance with market demand, town and township enterprises have exercised self-improvement and awareness and made enthusiastic and timely adjustments in the structure of industries and products. Enterprises that did not conform to the industrial policy and were inefficient were closed or merged. Last year a total of 370,000 town and township industrial enterprises were closed or merged. At the same time, they enthusiastically made fitting or resourceful adjustments in industrial products. With domestic market sales in a slump, they strove to open up foreign markets. Last year town and township enterprise foreign exchange earnings reached \$10.5 billion, an increase of 30.1 percent over the previous year. In the first half of this year, town and township enterprise export deliveries reached 18.7 billion yuan, an increase of 36.6 percent over the same period last year.

By improvement and rectification the quality of town and township enterprises has been further enhanced. The standard rate of coverage for rural industrial enterprise products reached 85 percent, with 14,000 enterprises at a calculated fixed level. Last year six rural industry products achieved national excellence and 444 achieved local excellence. Forty-seven enterprises received the national second class enterprise award and 528 enterprises were named provincial advanced enterprises.

The social benefits of town and township enterprises have been obviously enhanced. Last year 9.14 billion yuan in rural collective enterprise profits was used to support various village construction projects, a 28.4

percent increase over the previous year. Town and township enterprises provided the state with 36.46 billion yuan in taxes, a 17.5 percent increase. Town and township enterprises have over 400 billion yuan in assets, of which 380 billion yuan are rural collective enterprise assets.

Through readjustment the scale of enterprises has been gradually expanded. The average number of rural enterprise employees increased from 26.5 people to 30.7 people, the gross value of fixed assets increased from 90,600 yuan to 125,100 yuan, and the value of earned assets increased from 274,000 yuan to 317,000 yuan. In the first half of this year, the average earned asset value of enterprises increased by 8.5 percent over the same period last year. Twelve thousand enterprises had a gross output value in excess of 5 million yuan, adding another 3,000 to the previous year's total. Enterprise groups gradually grew in some key trades and superior products, greatly improving labor productivity.

In the first half of this year, by improvement and rectification, town and township enterprises have overcome such difficulties as the market slump and the shortage of funds to create favorable conditions. In the first half of this year, town and township enterprises realized a gross output value of 387 billion yuan, an increase of 9.02 percent over the same period last year. Chen Yaobang also pointed out that town and township enterprise development is presently faced with some difficulties that are not easily discernible.

There are definite impediments to readjustment of the industrial structure. The state industrial policy requires that town and township enterprises concentrate on developing agricultural byproduct processing industries, but the growth of town and township agricultural byproduct processing industries is two percentage points slower than the overall growth of town and township industries, with some trades and products bearing an increased burden. According to statistics from 18 provinces and municipalities, for the first half of this year grain processing fell by 15.4 percent and output of leather goods fell by eight percent from the previous year. This was influenced by the slumping market, but the main reason was that some departments and localities did not conscientiously implement relevant State Council regulations, monopolized resources for agricultural byproducts (with the exception of cotton), restricted town and township processing enterprises, and constructed duplicate factories in the city to compete with the peasants for profits.

Unhealthy tendencies in the trades have proven harmful to town and township enterprises. The departments in charge of some departments and trades adopt some measures, for the benefit of their own department and system to limit development of town and township enterprises. For example, some departments use the excuse of improvement and rectification to indiscriminately collect fees, indiscriminately apportion, and indiscriminately impose fines on enterprises, seriously

infringing on their legitimate rights and interests and placing an unbearable burden on them. Also, some departments use such reasons as trade management or the granting of production licenses or product evaluations, or providing parity goods to indiscriminately transfer town and township enterprise resources or change the system of ownership and the subordination of town and township enterprises. Some departments, when granting production licenses violate the original intent of State Council licensing regulations by wanting to license some products such as dumpling machines and flour mixing machines which are not at all related to the national economy, or the people's livelihood and the people's life, property, or safety. After the market slump, some departments used these methods even more to exclude outsiders and protect the enterprises of their own system.

There is a severe shortage of production funds. Because of the market slump, the turnover of enterprise funds has slowed. Last year rural collective enterprise accounts receivable offset accounts payable. The net debt of rural collective enterprise loans to external units was 7.44 billion yuan, an increase of 3.8 billion yuan, or 106.7 percent, over the previous year. Agricultural bank and credit association interest on town and township enterprise loans was high. Last year the average interest rate on town and township enterprise loans increased to 12.1 percent from 7.7 percent the previous year. Interest outlay reached 13.03 billion yuan, a 65 percent increase from the previous year. Start up funds to adjust the structure of town and township industries and products are scarce.

Reserves are obviously lacking in most enterprises. Presently less than 20 percent of the funds in town and township enterprises are their own, and quite a few enterprises are operating in excessive debt. Tight credit has caused investments to decline, and updating of technology and equipment has fallen off.

The management and administration of some enterprises are weak. The "enterprise management year" activity conducted in various localities was uneven. Some enterprises did not conduct basic management and professional management well enough. Further improving the overall quality of enterprises is still a rather formidable task.

The situation described above is extremely unfavorable for further healthy development of town and township enterprises. At present, a rather large amount of surplus village labor needs to be transferred to secondary or tertiary industries, but in the improvement and rectification last year and the first half of this year 6.28 million people were moved back to the villages and agriculture because town and township enterprises were closed or merged. The pressure on village employment is very great. So, it is necessary to continue to adopt policy measures to support and stabilize the development of town and township enterprises.

### Liaoning Township Enterprises Note Stable Progress

91CE0105B Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 17 Oct 90 p 1

[Article by Bian Jiwen (6708 4764 2429): "Production in Liaoning Town and Township Enterprises Is Stable—Planned Disposition Is Unified and Leadership and Control Is Improved"]

[Text] Liaoning town and township enterprises strived to overcome such difficulties as a weak market, overstocked products, slow sales, and a shortage of funds, and town and township enterprises throughout the province showed stable production. Through the end of August, Liaoning town and township enterprises' gross value of industrial output was 18.36 billion yuan, a 9.5-percent increase over the same period last year. It is estimated that by year's end the province can accomplish the production assignment it proposed, in which enterprises guarantee 80 percent and strive for 100 percent.

Some of the clear characteristics of the province's town and township enterprise development are bringing such development into the overall industrial production battle, unifying planning and disposition, and improving leadership and management. Since the beginning of this year, the provincial government and various municipal governments have all been concerned about the development of production management in town and township enterprises. When the provincial production committee submitted its policy on supporting industrial production and its policy on adjusting the product structure, it totally affirmed and gave the necessary support to town and township enterprises. Several municipalities promptly convened high-level town and township enterprise production management meetings to specifically study town and township enterprise production problems. When various counties (districts) of Jinzhou Municipality held production management meetings, county (district) leaders attended, conducted official business on the spot, and helped town and township enterprises resolve actual problems. In order to halt the slide in its town and township industries, Beizhen County determined that county leaders would take command in establishing professional leadership committees for production direction, information, and joint sales, and to improve the actual leadership of town and township enterprises. Haicheng City, with its very tight market in raw and processed materials, released to town and township enterprises steel, coal, cement, and paraffin wax worth an estimated 4.94 million yuan.

Important measures for the stable development of the province's town and township enterprises were improving the product and industrial structures and guaranteeing production in backbone enterprises. At the beginning of the year, the Provincial Town and Township Enterprises Bureau clarified the guiding ideology, general policies, and working requirements for adjusting

the industrial structure of town and township enterprises. It guided adjustments to these industrial structures as town and township enterprises developed. With regard to the rate of progress, it held to the guiding ideology of fine tuning industry and adjusting products quickly, ensuring stable, healthy development in adjusting town and township enterprises. According to incomplete statistics from Shenyang, Dalian, Dandong, and Anshan, from January through August, 3,300 enterprises were closed and merged. The majority of them were closed because their products lacked a ready market or because they were too small or were operated and managed chaotically. Although the number of enterprises in these four cities decreased, their rate of growth was above 7 percent. The number of enterprises in Dalian Municipality fell by 1,891, but their gross value of industrial output increased by more than 11 percent, casting off a burden. Based on a survey, Dandong determined it should protect 910 enterprises throughout the city, or 32.2 percent of the total number; it should support 943, or 33.3 percent; and it should limit development of 104, or 3.7 percent.

The province relied on scientific and technological progress and increased awareness of getting to the root of the problem as important elements in the stable development of town and township enterprises. The Liaoning Provincial Town and Township Enterprises Bureau designated this year as The Year of Town and Township Enterprises' Scientific and Technological Progress, as required by the provincial party committee and the provincial government. Several localities throughout the province that are at the forefront of scientific and technological progress organized town and township enterprises based on the actual situation, and improved new product development, technology updates, infrastructure development, enterprise management, the dissemination of new technology, and technology introduction, cultivation, and combination. Increased awareness of finding the root of the problem has become the focus of several localities as they guide the development of town and township enterprises. In the first half of the year, town and township enterprises throughout the province invested a total of 68.1 million yuan in developing 323 new products, 106 of which filled gaps where previously no products had been. Currently, 255 new products are in production, generating an output value worth 170 million yuan and profits and taxes of 25.32 million yuan. They have completed 303 projects to update technology, with a total investment of 76.13 million yuan. More than 132 of these projects had investments of more than 100,000 yuan, and 35 had investments of more than 500,000 yuan; they generated an output value worth 248 million yuan and profits and taxes of 44.37 million yuan. Town and township enterprises completed 27 projects to develop or extend new technologies. At the same time, they conducted complete quality control checks on 33 enterprises.

### Report Presented on Liaoning Township Enterprises

SK1911135690 Shenyang LIAONING RIBAO  
in Chinese 26 Sep 90 p 3

[Text] On the afternoon of 19 September, the 18th Standing Committee meeting of the seventh provincial People's Congress was held. Participants listened to the report made by Yan Hongsheng, deputy director of the provincial township enterprise administration, on the development of the province's township enterprises, and they listened to opinions on the future work.

He said: Since the Third Plenary Session of the 11th CPC Central Committee, township enterprises have vigorously developed in the province, and a comprehensive production system embracing 38 industrial departments has been established. Township enterprises have occupied a decisive position and played a decisive role in developing not only the provincial rural economy but also the provincial national economy. The development of township enterprises has broken the dual economic structure in which the cities develop industry and the rural areas develop agriculture, thus greatly promoting the development of the rural productive forces and making township enterprises an important part of the province's industrial production. In 1989, the total output value of the province's township enterprises amounted to 42.5 billion yuan, accounting for 68.1 percent of the total product of the rural society; and the total output value of township industrial enterprises amounted to 26.2 billion yuan, accounting for 24.1 percent of the province's total industrial output value. Along with the opening of Liaodong peninsula to the outside world, township enterprises have prompted a rapid improvement in their export and foreign exchange earning capacity, and have already become a vital new force in developing the province's exports and foreign exchange earnings. In 1989, the total value of goods delivered by the province's township enterprises for export amounted to 1.77 billion yuan, accounting for 15.1 percent of the province's total export value. Now, more than 300 varieties of products turned out by township enterprises have been sold to approximately 60 countries and regions. Over the past few years, township enterprises have played an increasingly greater role in developing the province's rural economy and the province's national economy.

He said: The comprehensive implementation of the principles of improving the economic environment and rectifying the economic order has caused unprecedented new cases and problems for township enterprises. To enable township enterprises to continuously maintain the trend of relatively stable development, the provincial government has, since the beginning of last year, conscientiously implemented the principles of readjustment, restructuring, consolidation, and improvement in line with the demand of improving the economic environment, rectifying the economic order, and deepening the reform. Additionally, the provincial government has

regarded the development of township enterprises as a strategic means for stabilizing the countryside and the overall situation. Thus it has effectively avoided sharp ups and downs and produced a generally slow growth in township enterprises. In the first half of this year, the total output value of township enterprises throughout the province amounted to 19.4 billion yuan, an increase of 6.5 percent over the corresponding period last year; the total industrial output value of these enterprises amounted to 13.2 billion yuan, an increase of 10.4 percent; the value of goods delivered for export amounted to 630 billion yuan, a 54-percent increase; and the taxes handed over to the state amounted to 720 million yuan, a 2.7 percent increase. By the end of August this year, the total industrial output value of township enterprises throughout the province amounted to 18.36 billion yuan, an increase of 9.5 percent over the corresponding period last year, catching up with the average national level.

He said: The major problem for township enterprises at the present is the slow growth rate. Since the beginning of this year, some localities in succession have experienced a decline in production. From January to August, township enterprises in 28 counties and districts out of the province's 75 counties and districts witnessed a decline in economic efficiency, and village enterprises in 39 counties and districts experienced a large-scale decline in economic efficiency. In addition, the amount of money-losing enterprises increased, and the amount of their deficits increased. In the first half of this year, 3,027 township enterprises in the province were operated at a loss, with the amount of their deficits reaching 86.58 million yuan. Meanwhile, more than 400,000 people returned from township enterprises to agriculture. A large quantity of products and manufactured goods of township enterprises was kept in stock a long time, and the suspension of work among township enterprises was serious. Owing to the slow sales of the township enterprises' products, 50 percent of the province's floating funds were unable to be circulated, thus causing some enterprises to be operated under capacity. The burdens on township enterprises have been too heavy, investment in such enterprises has decreased obviously, and the reserve strength has been insufficient. According to a survey, at present, township enterprises must pay 112 types of charges to collectors that are clearly defined. Adding those charges for whom the collectors are not clearly defined, the total number of the types of charges that township enterprises should pay is as high as 260. According to statistics, from 1985 to 1989, an investment of 2.5 billion to 3 billion yuan has been made in township enterprises annually; however, this year the investment in such enterprises is estimated to be less than 1 billion yuan. The major reasons for these problems are: We have lacked an understanding of the strategic position of the development of township enterprises, and we have failed to truly regard the development of township enterprises as the only way to invigorate the rural economy. Particularly since the launching of the economic rectification drive, we have failed to

formulate new policies and supportive measures in a timely manner in line with the actual situation of the province's township enterprises; nor have we fully utilized Liaoning's various advantages to further develop the lateral economic associations, thus causing a sudden downturn in township enterprises, followed by a rapid decline.

To ensure that township enterprises in the province will comprehensively fulfill this year's plans and maintain an adequate growth rate in the course of conducting the economic rectification drive, we should, from now on, comprehensively implement the principles of "giving positive support, making reasonable planning, giving correct guidance, and strengthening management." We should implement the principles of "readjustment, restructuring, consolidation, and improvement"; should positively implement the "Regulations on Rural Collectively Owned Enterprises;" should seek unity of thinking, strengthen leadership, and stabilize policies; should depend on scientific and technological progress; and should strengthen enterprise management. We should also define the development strategy of bringing along the countryside with cities, bringing along light industry with heavy industry, bringing along small enterprises with big enterprises, and developing the urban and rural economy simultaneously so as to boost township enterprises firmly and staunchly.

We should stabilize original policies, persist in the "10 not changes" and the "10 distinctions," and make feasible new policies and measures as quickly as possible. In accordance with the state's relevant stipulations, we should release one percent of the money from the sales revenues of the rural collectively owned enterprises, and earmark it for the township enterprise development fund, the working fund for financial restoration, the special loans for developing the export-oriented economy and promoting scientific and technological progress, and the fund for subsidizing interest payments. We should strengthen the functions of departments in charge of township enterprises, strengthen all levels of managerial forces, and actually pay attention to the guidance, management, supervision, coordination, and service of township enterprises. Under the leadership of party committees and governments at all levels, we should rapidly promote a climate in which the whole province fully devotes itself to developing township enterprises. Through several years of arduous struggle, we should strive to build 20 counties and districts whose output value is about 2 billion yuan each, like Haicheng. We should strive to build 100 townships and towns whose output value is about 100 to 200 million yuan each, and to build 300 to 500 villages whose output value is about 10 to 20 million yuan each, so as to make still greater contributions in invigorating Liaoning's economy.

### Anhui's Rural Enterprises Surpass 5-Year Goal

OW1612232590 Hefei Anhui Provincial Service  
in Mandarin 1100 GMT 16 Dec 90

[Text] During the Seventh Five-Year Plan period, although Anhui's village and township enterprises met with many difficulties in the course of their development, they achieved impressive results, overfulfilling two years ahead of time the production target set by the plan. This year, the total output value of village and township enterprises throughout the province is expected to exceed 26.4 billion yuan, a twofold increase over 1985, the final year of the Sixth Five-Year Plan. This means the total output value has increased at an average annual rate of 25.3 percent since 1985. At present, more than 4.8 million people are engaged in village and township enterprises throughout the province, an increase of 40 percent over 1985.

The growth of village and township enterprises has made tremendous contributions to the development of the rural economy as well as the national economy as a whole. In the past five years, the aggregate output value of Anhui's village and township enterprises totaled 84.27 billion yuan, their aggregate net profits were 9.84 billion yuan, and the aggregate taxes delivered to the state by these enterprises totaled 2.97 billion. During the Seventh Five-Year Plan period, a few hundred million yuan were used to support agricultural development.

The status of village and township enterprises in the national economy is becoming increasingly important, and their leading status in the rural economy is increasingly clear. In 1988, the total output value of village and township enterprises throughout the province exceeded that of agriculture for the first time. In 1989, the total output value of village and township enterprises accounted for 45.5 percent of the gross output value in rural areas and one-third of the province's industrial output value.

## CONSTRUCTION

### Housing Reform Aims for Reduced State Subsidies

91CE0131A Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 16, 20 Aug 90  
pp 23-25

[Article by Qi Liang (7871 0081), State Planning Commission: "Present Status of, Problems in, and Ideas for Future Chinese Housing System Reform"]

#### [Text] I. Advances Made in Housing Reform

Reform of China's housing system formally got underway in July 1987 with the start of pilot reform projects. In the more than two years since, very great advances have been made in reforming the country's housing system.

1. *Housing Reform Moved From Pilot Projects to General Promotion And Advanced Fairly Rapidly.* In early 1988, only four cities in the country (Yantai, Tangshan, Bengbu, and Shenyang) were running pilot projects for housing reform. By February 1990, complete housing reform plans had appeared and were being put into operation in 19 cities and 320 counties throughout the country. According to incomplete statistics, another 198 cities and counties had instituted partial housing reforms. In partial housing reform, "sales of newly-built public housing" became fairly universal.

2. *Housing Reform Developed Healthily in the Earliest Pilot Project Cities.* Housing reforms initially checked irrational housing demand, and restrained unhealthy tendencies in housing assignments to a certain extent. When rents were raised following reform, people had to consider how much housing their wages would permit. Quite a few people moved into smaller houses, and more houses were handed over. There were more than 1,500 such cases in Yantai alone. In addition, pilot project cities used continuous tests as a basis for summarizing experiences for promptly solving some new contradictions and new problems that occurred in the deepening of reform. These practices show that housing reform is beneficial to future economic development and social stability.

3. *Positive Propagandizing of Reform Promoted Timely Reform and Enhanced Public Acceptance.* Although many people paid a certain economic price for housing reform, the new housing allocation system that reform produced received widespread public acceptance and endorsement, and won active public support.

4. *Governments at All Levels in All Jurisdictions Gave Further Attention to Housing Reform.* The exceptionally large cities of Beijing, Tianjin, and Shanghai accelerated the pace of housing reform. During 1990, Beijing will expand the number of housing reform pilot project units to 108, and both Tianjin and Shanghai will adopt corresponding measures to actively promote housing reform.

## II. Basic Housing Reform Measures

The housing reform now under way generally has three main components: First is an increase in rents for old public housing; second is a new rent system for new public housing; and third is preferential sales of both new and old public housing. The housing reform methods used in various jurisdictions may be divided into two types, based on whether the emphasis is on raising rents or selling housing.

*One method is to "raise rents and issue more subsidies to stimulate housing purchases," using rent increases to spur people to buy.* This was the method that the four pilot project cities adopted. With this method, raising rents is actually paramount. Rent is charged to cover depreciation expenses, renovation expenses, investment interest, administrative fees, and taxes. In calculating rents for all categories of houses, they "add to or subtract from the basic rent."

*The other method is a one-time preferential sale of public housing, with little or no rent increase, and no issuance of housing subsidies.* This method was first used in several counties in Liaoning Province. People's general ability to pay forms the basis for drawing up a "standard price" for houses. The "standard price" of a new house is made up of the cost of building and outfitting the house, the cost of the land, and the cost of removal of structures from the land. The "standard price" of an old house consists of a new discount on replacement value. Preferential prices have been drawn up in order to encourage new housing purchases and actually sell housing. According to regulations, the preferential price of new housing may not be less than 80 percent of the standard price. For old houses, it may not be less than 50 percent. Statistics show that, as of the end of 1988, a total of 13.6 million square meters of housing was sold nationwide, recovering nearly 3 billion yuan.

As an accompaniment to housing reform, all jurisdictions set up financial institutions to serve housing reform. These institutions were primarily of four different types:

1. Housing savings banks. Following approval from the State Council and the People's Bank of China, both Yantai and Bengbu set up housing savings banks to put transactions on a businesslike basis.
2. Specialized banks established and wholly funded real estate investment companies. The Taiyuan Municipal Industrial and Commercial Bank invested in and established a real estate investment company which both raised and developed funds, offered both savings accounts and loans, and both built and sold houses.
3. Specialized banks established real estate credit departments. Tangshan was one example.
4. All specialized banks assumed individual responsibility for financial matters related to housing reform and commercialization. The Tengzhou municipal government in Shandong Province ruled that a housing fund be deposited in banks in which accounts had been opened, and that each specialty bank establish special housing fund accounts.

### III. Main Problems Today

On the policy side, there is a lack of a comprehensive, unified implementation strategy. When choosing specific policies, individual units frequently only take partial interests into account, with the result that some needed policies cannot be formulated and implemented. This creates difficulties for advancing housing reform further. In addition, there are no clear-cut policy requirements as to whether housing reform should focus on raising rents or selling houses. This leads to ambiguity in the leading thought in housing reform work. Moreover, during the current period of improvement and rectification, when a "double tightening" policy is in effect regarding government credit, the ability of governments, enterprises, and individuals to pay for housing reform

decreases. Because they failed to take into account society's ability to withstand increases in house rents, some cities that were ready to institute housing reforms delayed implementing them.

On the implementation side, problems are seen mostly in the following areas:

1. Although the methods for raising rents and issuing certificates to promote housing purchases seem rather fair today, if we suddenly "increase wages and realize transfers," only an extremely small number of large enterprises that are earning good returns could handle it temporarily. If we adopted a method of "issuing certificates and transferring in name only," although there would temporarily be no major conflicts, in the future it would certainly lead to housing subsidies becoming part of the wage system. Based on the country's financial circumstances today and for the foreseeable future, a sudden 20- to 25-percent increase in the base figures (the housing subsidy coefficient) of wages is impossible. If the housing reform system of raising rents and issuing certificates is promoted throughout the country, it would be hard to currently forecast when and how much housing subsidies would become part of wages.

When we raised rents and issued certificates, although individual incomes from rent increases were basically balanced with increased expenditures in any given region, for historical reasons there were very great imbalances between units with regard to the amount of available housing. Some units owned a large amount of housing, while others had little or none. It was thus unavoidable that some units showed net receipts, while other units showed net expenditures. It is not feasible for the government to make up these differences today. All that can be done is to find other means of unified planning and coordination. However, this is just a temporary expedient. Ultimately, reliance is bound to be placed on the government.

2. In the case of old houses, some jurisdictions adopted a preferential system whereby the local government, staff members and work units, and individual staff members and workers each put up one-third of the investment, and limited property rights to houses were sold to staff members and workers. Since this placed an undue burden on governments and units, and too little money was recovered from the houses, a halt to such sales has been announced. Some places sold the houses at the market price, but since these prices were too high, only very few urban residents made inquiries.

Currently, the overall situation shows sales of houses at preferential prices is a fairly common practice. In most places, sale prices for houses tend to be low, or even too low. In some places the actual average selling price of a house is only between 50 and 60 yuan per square meter. After some well-off enterprises buy a house at a high price, they turn it over to their staff members and workers at a "gift price" of approximately one-tenth the purchase price. This has the effect of tremendously

increasing the individual incomes of staff members and workers, and does not help guide consumption at all. It violates the original intention of housing reform, and it creates new unhealthy tendencies. It is extremely bad for further deepening housing reform.

3. Some housing reform policies are themselves not well coordinated. Some regions that initiated housing reform early on placed money gained from sales of old public housing into a "housing fund," as regulations required. However, the funds remain frozen even today, and cannot be used for the reproduction of housing. Although publicly pooling funds to build houses and cooperative building of houses is the major direction of post-housing reform housing construction, today it is still controlled by command plans. This hurts local governments', enterprises', and individuals' interests in housing reform. Normal housing reform work is harmed when financial systems and policies associated with housing reform are not implemented, and because some specialized banks handle them piecemeal and are unwilling to give up their management authority over housing reform funds. In addition, a credit system associated with the sale of public housing is virtually nonexistent.

#### IV. Thoughts on Future Reform

First, it is necessary to firmly unify thinking, and actively and self-assuredly continue pushing ahead with housing reform, linking housing reform with long-range development of the national economy in terms of the overall guiding thought, and placing housing reform in a suitably important position. It must have a corresponding place in the current Eighth Five-Year Plan and in the 10-year plan.

Second, based on summing up our experiences, we should revise and complete already-instituted housing reform policies as early as possible. All jurisdictions must take the initiative in suiting general methods to specific circumstances, adopting different methods on the basis of different situations, and simultaneously and properly adjusting a wide variety of irregularities. Housing system reform plans must be implemented further, and planning must be done based on the existing revenue allocation pattern and with no substantial changes, neither increasing nor decreasing the government's financial responsibility. The already formulated principle of "renting and selling simultaneously, and using rent to promote sales" should be followed, and housing reform should be divided up into two parts and implemented as follows: In large and medium-sized cities, where available land is in short supply, housing construction costs are high, and publicly-owned housing predominates, housing reform should consist primarily of raising house rents. In county seats and a small number of medium-sized and small cities, where more land is available, housing constructions costs are lower, and privately-owned houses predominate, housing sales on the present basis should predominate. In both cities or county towns, the new system must be implemented

for new houses, starting with increasing the number of new houses and using new houses to promote action on old houses. Thus new housing reforms will serve as a breakthrough for the reform of the entire housing system. In addition to selling public housing, we should raise house rents in order to increase the percentage of income used for housing from its present level of less than 2 percent to above 8 percent. Early in the Eighth Five-Year Plan, a one-time, small-scale, nationwide survey of public housing rents should be conducted, based on the premise of no housing subsidies (places that have already instituted housing reform may act as they see fit). The purpose of this survey will be to increase mass awareness of housing reform. Later in the Eighth Five-Year Plan, as wages are gradually straightened out and suitably adjusted, steps will be taken to raise rents to the level where they compensate for dwelling repair and administrative expenses (approximately 0.50 to 0.80 yuan per square meter). During the Ninth Five-Year Plan, rents should be increased to where they cover costs (more than 1 yuan per square meter). At the same time, insofar as county towns and a small number of medium-sized and small cities have already moved ahead with housing reform, and insofar as large and medium-sized cities have readied the basic conditions, public housing should be sold, private construction of houses should be encouraged, and the pooling of funds to build houses, as well as cooperative house construction, should be developed.

Third, we need better coordination and leadership of housing reform, with all units involved in housing reform taking an active part. In the process of further reforming the housing system, government, financial, and labor departments concerned must draw up policies for the new situations and new problems that appear. Coordination must be effected as quickly as possible on controversial issues, such as the use of funds recovered from sales of old houses and setting prices for publicly-owned housing. The state has invested more than 3.2 trillion yuan in urban housing construction since the founding of the People's Republic. It will be difficult to realize the hope of using housing reform to recover and return to the treasury an appreciable portion of this sum. For a considerable part of the housing reform period, the government will have to be content with reducing expenditures rather than increasing revenues. A rough estimate shows that of the 25 billion yuan invested annually in new housing construction, 20 percent, or approximately 5 billion yuan, comes from the central government's treasury. If housing reform can enliven these dead funds, and the investment in housing that comes from the treasury can be greatly reduced, then the treasury's burdens for housing will be greatly reduced when a benign cycle comes about in housing funds.

Fourth, we must push ahead with associated financial reforms in a timely manner. China should establish housing savings banks as quickly as possible. During the Eighth Five-Year Plan, preparations should be made to

build local housing savings banks in places where conditions are ripe. In places not having the requisite conditions, financial institutions may temporarily fill the function of housing savings banks. Later on, a gradual transition may be made to housing savings banks, with the aim of building a housing savings bank system throughout the country during the Ninth Five-Year Plan.

### Shanghai Housing Situation 'Very Acute'

*OW0112013090 Shanghai WEN HUI BAO in Chinese  
19 Nov 90 p 1*

[Excerpts] The construction of housing in Shanghai has been outstanding. Since the nation's founding 41 years ago, a total of 61.61 million square meters of housing have been built there. Of the total, 47.14 million square meters of new housing were built in urban areas, double the figure left over from old Shanghai. In addition, the living conditions and living environment of residents is improving gradually.

Old Shanghai was a semicolonial and semifuedal city. On one side were high-rise apartments and garden houses; on the other were dark and damp slums inhabited by impoverished families. After liberation, the party and government paid very close attention to improving the residents' living conditions, and gradually stepped up the scale of housing construction. From 1949 to 1989, the municipality invested 14.56 billion yuan into housing construction, amounting to 11.6 percent of the total fixed asset investment made by Shanghai. A total of 428 new housing estates were completed, raising the per capita living space of 3.9 square meters prior to liberation to the present 6.4 square meters. In addition to the construction of new housing, it also upgraded some of the old housing, tearing down 7.67 million square meters of old houses, including 2.54 million square meters of slums. [passage omitted]

The 11 years since the Third Plenary Session of the 11th CPC Central Committee has witnessed a rapid expansion in Shanghai's housing construction. The total investment in housing during this period reached 13.228 billion yuan, with a total of 43.68 million square meters of housing being built, amounting to 70.9 percent of the total since the nation's founding. A total of 830,000 households, numbering 2.7 million people, have moved into new dwellings; 410,000 of these families were impoverished. [passage omitted]

According to materials provided by the relevant departments, Shanghai's housing problem remains very acute despite the progress that has been made. According to statistics of housing administration departments, 326,000 households continue to reside in housing of less than four square meters of living space per person. Among these are 42,000 poor families with less than 2.5 square meters of living space per person. On top of that, there are 1.24 million square meters of slums and shacks, and 146,000 square meters of dilapidated housing. Furthermore, the present housing system is hampering a

quick solution to this problem. This grave social issue is crying out for an early reform of the housing system.

### Shanghai Promulgates Housing Reform Plan

*OW0512052590 Shanghai City Service in Mandarin  
1000 GMT 4 Dec 90*

[From the "News" program]

[Text] According to a decision of the 21st Meeting of the Ninth Shanghai Municipal People's Congress Standing Committee, the draft plan for the reform of the housing system in Shanghai will be published for discussion by residents across the municipality after it is revised on the basis of discussions held in selected units.

The municipal party committee and the municipal government released the draft plan for the reform of the housing system in Shanghai yesterday afternoon. The full text of the draft plan will be published in tomorrow's JIEFANG RIBAO and WEN HUI BAO.

The draft plan consists of two parts: 1) The basic principles for the reform of the housing system in Shanghai; and 2) the concrete plan for the reform of the housing system in the municipality.

It is hoped that residents across the municipality will take part in the discussion to express their opinions and make suggestions. We should pool our wisdom to further improve the plan.

The foreword of the draft plan says: Shanghai has made fairly big progress in housing construction since the Third Plenary Session of the party's 11th Central Committee. However, housing difficulties in the municipality are still very serious. To quickly surmount housing difficulties in Shanghai, it is necessary to reform the housing system. Through the reform, housing construction, exchange, assignment, and occupancy should be brought into the orbit of the planned commodity economy step by step in order to effect a virtuous circle of housing funds, to quickly surmount housing difficulties, to improve city residents' housing conditions, and to effectively stimulate the market and promote production.

## FOREIGN TRADE, INVESTMENT

### New Opportunities in Sino-Soviet Trade

*91CE0096A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 42,  
22 Oct 90 p 11*

[Article by Shang Yixing (0794 2496 5281)]

[Text] The Chinese and Soviet Governments agreed earlier that, beginning on 1 January 1991, major trade between the two countries would change, and begin following international market prices and using foreign exchange for payment. Many analysts believe that this

will have both advantages and disadvantages for the two countries. However, there will be a big drop in trade volume in the near future, because both China and the Soviet Union are short of foreign exchange, and both countries want to use their limited foreign exchange to purchase high-tech and high-quality products from developed western countries. They would rather not use foreign exchange to buy primary products from each other.

Du Xianzhong [2629 7359 1813], vice governor of Heilongjiang Province, disagrees however. He argues that currently both the international climate and the internal climate for reform inside the Soviet Union are favorable for China to develop its trade relations with the Soviet Union.

The grounds of Du Xianzhong's argument are as follows: 1) After the major deals between the two countries are transacted using foreign exchange, there will still be a transitional period for changing payment methods. This period is a break, and local trade as well as border trade can take advantage of this break. 2) The Soviet Union is changing from a planned economy toward a market economy. Their administration is slightly disorganized, and local governments and foreign trade organizations are taking advantage of this to expand their power. Thus the volume of trade will increase. 3) The Soviet economy has not completely shifted its focus from heavy industry to people's daily needs. The "time lag" in this transformation provides markets for products from China's light and textile industries, as well as for daily necessities. 4) Not long ago the Soviet Union decided to establish six free economic zones. Three are located in the eastern part of the Soviet Union. Although these three zones are open to the West, they are unable to import western technologies and products directly due to a lack of foreign exchange. Thus China has the ability and opportunity to get involved. 5) China's domestic market is sluggish and some commodity prices are falling. China can use this opportunity to expand export markets in the Soviet Union and Eastern Europe.

Although this writer does not fully agree with Du Xianzhong's analysis, what he says is basically reasonable. The question is whether concerned departments in the Chinese government will allow local governments and organizations authorized to engage in foreign trade to act on their own. Looking at the past two years, the department of foreign trade administration has tended to restrict local governments and foreign trade organizations' freedom of action. This is also true in the case of foreign trade with the Soviet Union. The Ministry of Foreign Economic Relations and Trade often warns that it should not be too optimistic about the trade with the Soviet Union. Yet in reality trade between the two countries has grown considerably year by year. Unlike the "exquisite products" China exports to western countries, most of the products exported to the Soviet Union are products that are abundant in China's domestic market, such as flasks, automatic umbrellas, shoes, hats, and electronic appliances. In return, China obtains raw

materials, such as wood products, steel products, and cement, from the Soviet Union. At the business conference on economic relations and trade between China and the Soviet Union and Eastern Europe, which was held in Harbin and ended on 15 June, barter trade contracts worth 1.8 billion Swiss francs were signed. Half of this amount involves Chinese exports, the other half imports. Various types of economic cooperation agreements worth 2 billion Swiss francs were signed; 90 percent of these were signed with the Soviet Union. Thus it is evident that there is great potential for trade with the Soviet Union. The official in Heilongjiang believes the five-point analysis mentioned above because he is on the scene. However, officials in Beijing who are in charge of foreign trade can scarcely see such prospects.

Finally, in the 1950's the Soviet Union helped China construct 153 key projects. These projects have now reached the stage where they must replace their old equipment with new ones. The Chinese government has expressed its hopes of obtaining Soviet cooperation. Also, the technological transformation of enterprises is the focus of China's Eighth Five-Year Plan. Not long ago the second Eurasian land bridge, the Sino-Soviet railroad, was connected. Besides fulfilling its original purpose of linking the railroads, it will also serve to develop economic and trade relations between the two countries. Thus one may infer that there is great potential for economic trade between China and the Soviet Union, especially bilateral trade. In addition, this potential can also be used to promote China's trade relations with Eastern Europe.

#### **Beijing Increases Use of Foreign Capital**

*SK3011125790 Beijing BEIJING RIBAO in Chinese  
22 Oct 90 p 1*

[Summary] The municipality has made a new breakthrough in using foreign capital. In the first nine months of this year, the municipality approved to set up 202 enterprises involving foreign capital, an increase of 35 percent over the corresponding period of last year. A total of \$180 million involved in the agreements on using foreign capital and \$80 million foreign funds were brought in, respectively showing increases of 9.9 percent and 12.6 percent.

In the first nine months of this year, another 97 enterprises involving foreign capital went into operation in succession. As of then, the municipality had 332 enterprises involving foreign capital. These enterprises realized 3.6 billion yuan of output value during this period, showing an increase of 36.8 percent over the same period of last year; their sales and business income was about 4 billion yuan, an increase of 44.8 percent; and these enterprises earned \$60.65 million foreign exchange through exports and realized 250 million yuan of profits, respectively showing increases of 63 percent and 44.2 percent.

As of the end of the third quarter of this year, the municipality approved to build another six enterprises in

foreign countries, involving \$3.513 million. Of this, our side made an investment of \$1,754,800. Our municipality has now approved to set up 55 enterprises in some 22 foreign countries and regions.

### **Air-Freighted Exports Increase 20 Percent Annually**

*OW0212140890 Beijing XINHUA in English  
1241 GMT 2 Dec 90*

[Text] Guangzhou, December 2 (XINHUA)—China's exports air-freighted has been increasing by 20 percent annually since the initiation of the country's reform policy.

China's three largest airports—of the country's 28—have all shown increases in air-freight tonnage. For example, Shanghai now handles over 20,000 tons, Beijing over 10,000 tons, and Guangzhou over 8,000 tons, annually.

Export goods shipped by air amounted to over 96,000 tons by the end of October—an increase of 42 percent over the same period last year.

When the air-freight business started in late 1950s the country's airports handled only 72 tons per year, and by the end of the 1970s the tonnage had increased to a mere 5,000 tons per year.

### **Sichuan Improves Environment for Foreign Investment**

*OW0312090890 Beijing XINHUA in English  
0738 GMT 3 Dec 90*

[Text] Chengdu, December 3 (XINHUA)—Southwest China's Sichuan Province has improved its investment environment and is now attracting increasing numbers of foreign investors.

In the first ten months of this year, the province approved a two-fold increase of 76 foreign-funded enterprises, involving four-fold increase in investments to 120 million U.S. dollars.

The 76 newly approved enterprises consist of 55 Sino-foreign joint ventures, five are Sino-foreign cooperative ventures and sixteen solely foreign-funded projects.

Provincial officials report that the province's 200 foreign-funded enterprises involve over 1.1 billion U.S. dollars in investment so far.

The officials attribute the increasing number of foreign-funded enterprises to the improvement of the investment environment in the province.

In the past decade, the province has collected a total of 660 million yuan for building highways. In addition, the provincial government has pooled resources to improve telecommunication facilities.

Many counties and prefectures have initiated international direct-dialing services, and this year alone the province has installed 4,500 telephone lines.

Telecommunications in the province are expected to improve dramatically when the Wuhan-Chongqing and the Xian-Chengdu-Chongqing microwave telecommunication network becomes operational.

### **Revisions Planned in Trade Contracts With Japan**

*91CE0151B Beijing GUOJI SHANGBAO in Chinese  
17 Nov 90 p 1*

[Article by Tao Jin (7118 6855): "China Is Revising Its Trade Contract Provisions With Japan; A Number of Specialists and Concerned Personnel Attend a Meeting in Dalian To Study Amendment Plans"]

[Text] I have learned from the parties concerned that a National Working Conference on Revising Sino-Japanese Trade Contract Provisions was held in Dalian from 29 October to 2 November 1990. The over 100 delegates who attended this conference included lawyers, specialists in the field of international economic relations and trade law, scholars, and specialists from companies that trade with Japan. Mou Yongmao [3664 3057 2021], former commercial minister counselor at the Chinese Embassy, Tokyo, and vice president of the Sino-Japanese Economic Relations and Trade Coordination Committee; Shi Yonghai [2457 3938 3189], current commercial minister counselor at the Chinese Embassy, Tokyo; and Wang Zhenpu [3769 2182 2528], deputy director of MOFERT's [Ministry of Foreign Economic Relations and Trade] Treaties and Law Department, attended the conference and spoke on special topics.

It is understood that although Sino-Japanese economic and trade relations have expanded and developed steadily and Sino-Japanese trade turnover has increased year after year since China began to reform and open up to the outside world, certain issues which need to be further studied and resolved still exist in Sino-Japanese trade development. A rather outstanding one concerns Sino-Japanese trade contract provisions.

According to the parties concerned, the contract provisions that Chinese foreign trade companies are now using for trade with Japan are basically a continuation of the Sino-Japanese trade contract provisions or patterns which were established in the 1950's. Along with the expansion and development of Sino-Japanese economic and trade relations, some of these provisions have become unsuited to the needs of Sino-Japanese trade development. For instance, some are out of line with current international practice, while others are neither rigorous nor standardized and too arbitrary in nature, which often causes disputes after contracts are signed. Thus, the concerned Japanese parties have suggested that Japan and China each set up a "Special Working Group on Revision of Contract Provisions," to jointly study and draw up certain contract provision models or patterns to guide enterprises in concluding contracts.

In China, MOFERT set up a study committee, which has collected the trade contracts signed with Japan by many foreign trade companies throughout China, classified, sorted and conducted comparative studies of contract provisions, issued many invitations to all concerned departments and foreign trade companies in Beijing to attend discussion meetings, and listened to the various suggestions and requests on revising Sino-Japanese trade contracts made by all concerned parties. The study committee sent a working group to Japan to hold its first meetings on 10-14 September 1990 with the "Japanese Committee for the Study of Sino-Japanese Trade Contract Provisions," which is made up of all large Japanese trade associations. Both sides exchanged views and reached agreement on issues, such as the principles, scope, and methods for revising Sino-Japanese trade contract provisions. They also discussed a Japanese-proposed Sino-Japanese Trade Contract Draft, and had a preliminary exchange of views on specific issues raised by the Japanese about Sino-Japanese trade contracts. They agreed on a second round of negotiations to be held in Beijing early in December 1990, at which they would strive to reach a Tentative Agreement on Sino-Japanese Trade Contract Provisions for General Merchandise to be submitted for deliberation in 1991 to organizations such as the Sino-Japanese Trade Issue Liaison Committee.

## ECONOMIC ZONES

### Ways To Accelerate Development of Pudong

91CE0040A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 9, 15 Sep 90 pp 23-26

[Article by Zhou Jianping (0719 7003 1627), affiliated with the Institute of Externally Oriented Economics, Shanghai Academy of Social Sciences; responsible editor, Liu Cen (2692 1478): "Utilizing the Experience of Foreign-Invested Enterprises To Accelerate Pudong's Development"]

[Text] The State Council has recently passed a resolution on the development of the new Pudong zone in Shanghai. This is a great event in the process of reform and opening up to the outside world, as it is also a great undertaking. A study of the existing FIE's [foreign-invested enterprises, that is, the three kinds of enterprises involving foreign investments: joint ventures, contractual joint ventures, and wholly foreign-owned enterprises] in Shanghai will undoubtedly be of great significance as they can serve as references in the development of Pudong.

#### I. The Present Condition of Shanghai's FIE's

Since the promulgation of the Joint Venture Law in 1979, Shanghai has roughly passed three developmental stages in the use of foreign capital in the operation of its FIE's: 1) The initial stage (1979-1984), characterized by: Investments by foreign firms concentrating on the construction of hotels and highrise buildings, with very few

investments and little progress in the development of industrial enterprises. 2) The stage of rapid development (1985-1989). During this phase, FIE's rapidly developed and included a year by year increasing number of industrial enterprises. According to industry statistics of the Bureau of Statistics, there had been only 14 firms in 1985, there were 29 in 1986, 52 in 1987, 110 in 1988, and their numbers reached 210 in 1989. The proportion of FIE's in Shanghai's industrial economy was also continuously increasing. In 1985, their total industrial output value accounted for 0.3 percent of the total output value of the city, and by 1989 this had increased to four percent. The proportion of product value of their direct exports accounted in 1985 for 0.1 percent of the said value of all industrial export goods from the entire city, which by 1989 had increased to 6.8 percent. 3) The phase of consolidation and upgrading (from the second half of 1989 to the present). As from the second half of 1989, the number of contracts signed for FIEs in Shanghai greatly declined. Although few new enterprises were admitted during this stage, those that had already been approved were starting up production one after the other, and their overall growth was quite considerable.

While Shanghai's FIE's rapidly developed, their economic efficiency also improved.

Looking at the all-personnel labor productivity as measured in net industrial output value, we see that the average for the entire city was 10,569 yuan, that it was 13,075 yuan in enterprises owned by the whole people, and that it reached 30,102 yuan in FIE's, which was 1.8 times above the total city rate and 1.3 times above the rate for enterprises owned by the whole people.

Looking at the average per capita earnings of profits and taxes, we see that in 1989 each employee-worker created 11,852 yuan of profits in an FIE in Shanghai, while in enterprises owned by the whole people this figure was 4,505 yuan during the same period, and the average figure for the whole city was 3,591 yuan. The average per capita profit in FIE's was 2.6 times above the figure for enterprises owned by the whole people and 3.3 times above the average figure for the whole city. Similarly, the average per capita profits and taxes created by employees-workers in the FIE's reached 18,384 yuan, which was 2.1 times the figure of 8,523 yuan in enterprises owned by the whole people and 2.89 times the figure of 6,471 yuan which was the average for the whole city.

Again, looking at the per capita foreign exchange earnings, we see that these were \$1,168 for the entire city's industrial enterprises, \$1,274 for the enterprises owned by the whole people, while they were \$5,920 for the per capita foreign exchange earnings at Shanghai's FIE's, which was 4.1 times and 3.6 times, respectively, above the figures for the two first-named.

All this demonstrates clearly the great vitality and excellent developmental prospects of FIE's in Shanghai. However, everything has its different aspects, and the FIE's are no exception. Our recent investigations and analysis

show: about one-third of the strong enterprises among Shanghai's FIE's are in a state of prosperous development; one-third is in a state of polarization with one part of the enterprises enjoying bright prospects while one part is incurring heavy losses and facing gloomy prospects. Another part of approximately one-third of the enterprises is in poor condition and can barely be saved. Since the FIE's enjoy the benefits of preferential policies, even for those that are sick to the core, the Chinese side will do its utmost to continue to prop them up. Although this situation does not apply in the case of all FIE's throughout the city that are in bad shape, there is a certain typicalness in these cases. This explains that the 98 percent success rate, said to have been achieved by the FIE's in Shanghai, is a somewhat inflated figure; actual conditions are not at all like this.

According to our investigations, Shanghai's FIE's are presently facing primarily the following problems:

### 1. The Problem of FIE Management

In China, FIE's are a new and special economic form. They are independent producers, operating under the Chinese socialist system, but according to the rules of commodity economy, under market guidance, and closely linked to the international market in supplies, production, and marketing of their products. They operate independently and assume full responsibility for profits and losses. As seen from the standpoint of China, utilization of foreign capital is an extension to abroad of internal reproduction activities. Joint ventures and cooperative management enterprises, since they are, for a time, increasing the total social demand and require a corresponding investment of domestic manpower, material and financial resources, must therefore also have the utilization of foreign capital included in the state plan, to enable state control over it, and must therefore also submit to a certain measure of administrative controls. Some FIE's have voiced in response: "We are standing exactly where plan economy and pure commodity economy intersect and therefore have to contend with a considerable amount of contradictions." They find it difficult, on the one hand, to accept the management forms of the state-run enterprises under the old system, but, on the other hand, lack an effective managerial setup applicable to the actual work process, so that they find it difficult to resolve certain problems promptly as they arise. At present, the FIE's are subject to "administrative control" by the municipalities, regions, counties, and bureaus in whose jurisdiction they are located merely before their examination and approval. After their approval, and after they have started operations, since they have been approved by many different organs, the FIE's that are from then on under the direct control of a particular bureau in charge, and only to that part and that particular line of business for which the said bureau is competent; the administrative control of FIE's is, therefore, not altogether perfect.

### 2. The Problem of Investment Climate for FIE's

Much work has been done by the municipal government and all quarters of society to improve the investment climate, and it is indeed in much better shape. However, many problems still show up in the investment climate, especially with regard to its software aspects. According to our investigation of 43 joint ventures, among the 19 indices for investment software environment that we set up to reflect the degree to which the foreign side is satisfied with the Chinese side: 12 of the indices for "very satisfied" showed nil [i.e. negative, meaning "dissatisfied"], accounting for two-thirds, while only seven of the indices for "very dissatisfied" showed nil [i.e. negative, meaning "satisfied"], accounting for one-third. This shows that the indices for "very dissatisfied" exceeded the indices for "very satisfied." In the column "understanding of the market," one-fifth of the foreign parties thought the state of affairs was extremely poor. This shows that while we had done much in the hardware environment for FIE's, we had neglected improvement of the software environment. Moreover, in our investigation we have gained a deep understanding of one thing: In every FIE that was very successful, there is no denying the merits of the personnel on the Chinese side, while in those enterprises where hundreds of problems have shown up, it is to a large degree due to the poor qualifications of the Chinese personnel. Of the seven indices which had the foreign parties evaluate working personnel in government agencies, under "very satisfied" there were four that showed nil [i.e. negative] and of the other two only one of the foreign parties of FIE's cast an approving vote. This indicates that the services rendered by government agencies must be improved by a further degree.

Generally speaking, foreign parties still approve of the investment climate in Shanghai. In our investigation of the 43 FIE's, in answer to the question as to future prospects put to the foreign parties, 28 firms, or 65 percent, were in favor of further expansions; 14 firms, or 33 percent, would decide only after a further period of operations; one firm was for terminating on expiration of its contract term; and no firm wanted to terminate its operations ahead of its contract term. This indicates that the foreign parties have confidence in the FIE's. If we could possibly improve the investment climate by a further degree, especially with regard to the software environment, i.e. to raise it from the present "medium" state to the degree of general satisfaction, there will be even greater developments in store for all FIE's.

### 3. Problems Connected With the Foreign Parties Involved

In Shanghai, economic conditions of somewhat less than one-third of the FIE's are not satisfactory. One of the important reasons for this is that the foreign party involved does not live up to its obligations. However, this state of affairs is also connected with the imperfection of management on the Chinese side, which includes such factors as insufficient preparations before starting the enterprises, and insufficiently rigorous debate of the feasibility report, also that examination before approval

had not been thorough enough, so that legally unqualified foreign firms had been allowed to take advantage of certain loopholes. There was, for instance, a large corporation that set up over 10 FIE's, all in a very bad shape, as the said corporation itself admitted. The feasibility reports on these enterprises had been unsupportive, but all had been approved, a shortcoming of the system that might be called a "congenital deficiency." There was also, for instance, the case of a Hong Kong firm that operated quite a number of FIE's in the suburban counties (one inside the municipal area) with imported Taiwan-made equipment. On the pretext of operating an FIE, this firm made a 150 percent profit on the imported equipment, and then invested a 25 percent share in the joint venture, so that the money it earned from the importation of equipment by far exceeded its amount of investment. Occurrences of this nature, which come close to constituting outright fraud, should be early detected by the relevant Chinese agencies and should not be allowed to prevail for any length of time.

There are some quite complex problems in connection with the existence of FIE's, which we shall explore in another article. Here we shall only elaborate on experiences and lessons that we may apply in the case of the Pudong development.

## **II. Additional Understanding Beneficial for Pudong Development To Be Gained From the State of Shanghai's FIE's**

As a special zone, Pudong [east of the Huangpu River] will be 50 times larger than the three development zones of Puxi [west of the Huangpu River]. If we reckon that the development of Pudong will proceed at the same speed as the present development of Shanghai's FIE's, it will hardly be possible to implement the original plan, and it seems that it is necessary to resolve some conceptual problems:

### **1. Meticulously Conceived and Cursorily Conceived Types of FIE's**

In the treatment of direct investments from abroad, we may say that the various municipalities and provinces throughout China are assuming two completely different attitudes. We may call them the meticulously conceived type and the cursorily conceived type. By meticulously conceived type we mainly refer to FIE's established by certain provinces and municipalities according to very strict preconditions, after repeated deliberations, and after repeated debate at the time of examination before approval. Generally speaking, FIE's set up in this way are of much higher quality, but cannot compare with the cursorily conceived types with regard to speed of establishment and numbers of established FIE's. Shanghai may be said to be representative for the meticulously conceived types of FIE's.

The cursorily conceived type refers to FIE's that are set up by certain provinces and municipalities—predominantly in South China—in a rather loose process, without strict examination before approval, and

also with rather perfunctory negotiations preceding their approval. There is also the special circumstance that legal procedures and customary processes at some places are providing additional benefits for foreign investments. As far as average amounts of investments, advanced nature of their technologies, economic efficiency, and production structure of FIE's are concerned, provinces and municipalities with cursorily conceived types of such enterprises cannot compare with those with meticulously conceived types of enterprises. However, due to the evident superiority in numbers, these enterprises too can promote rapid economic development within the scope of the provinces, municipalities, and the one region (similar to a county) in which they are located.

Since the new zone set up in Pudong is so large an area, the development of FIE's is critical for its development, and their selection is of utmost importance. Looking at the 10-year history of Shanghai's utilization of direct foreign investments, we see that the phenomenon of being alternately strict and lax in the measure of controls applied to them, has foreign investors feeling uncertain of what course to pursue. In South China on the other hand, some provinces and municipalities are continuously expanding the scope of importing foreign capital, and correspondingly are continuously enlarging the scope of their enterprises. This is a matter that deserves our careful consideration.

### **2. Merely Stamping Approval as Opposed to Indirect Participation**

An extremely important precondition for greater success with FIE's in the three old development zones of Puxi, as compared with conditions outside that zone, is in our opinion, apart from the granting of various kinds of preferential treatments, the "participation" afforded, to various degrees, by the administrative agencies in charge of the three development zones. There is a great difference in the effects achieved between limiting oneself to pure examination and approval, on the one hand, and active participation, on the other hand. During the examination and approval process, the foreign party and the Chinese party have identical standpoints and are in an oppositional relationship to the agency in charge of examination and approval. Regardless whether it is the Chinese party or the foreign party, both scheme to get through the impasse of the required "stamp of approval." Outwardly, the agency in charge of examination and approval has very little influence on the FIE: for one, it cannot invest; second, it cannot operate the FIE, and has also no influence on the personnel deployment and the organization of its management, but in actual fact the success or failure of an enterprise is very much dependent on the enterprise's relationship to the guiding agency of the government administration. In some well-known FIE's in Shanghai there is now in actual fact a very close indirect participation by the guiding agency of the government administration, as otherwise no great successes could possibly have been achieved. In the case of transferring the manufacture of Volkswagen cars to

Chinese production, could that have been achieved without the concern and direct assistance by the leadership of the central authorities and of the municipality?

### 3. Choice Between All-Round Development and Preferential Development of Certain Key Projects

In the absorption of foreign capital and in encouraging the direction of foreign investments, Shanghai, in the past, has had no key points of emphasis and no clearly defined key issues. It rather had adopted the method of all-round development and had accepted the method who wanted to invest. If the same method would be adopted for the development of Pudong, we are afraid it would mean achieving half the results with twice the effort, but if appropriate selective measures were taken with regard to capital coming from different sources, it might, on the other hand, result in getting twice the results with half the effort.

There is now an additional large source of investment capital for the development of Pudong, namely capital coming from Taiwan. It is characteristic for Taiwan investors that they ask for long-term investments, and, because their investments are furthermore mostly for medium and small enterprises, that they hope there would be an intermediary unit, as, for instance, in the case of approving the lease of Caohejing, when everything was so well arranged beforehand. If the medium- and small-scale Taiwan enterprises think of firmly establishing themselves, each and everyone, their confidence will prove not sufficiently strong, when they face so complex a system as in Mainland China. At present, all provinces and municipalities absorb foreign capital with certain key factors in mind, as they institute a variety of preferential measures as, for instance, Fujian for Taiwan investments, Guangzhou for Hong Kong investments, and all northern provinces and municipalities for investments from Japan and South Korea. If in the development of Shanghai's Pudong some decision cannot be arrived at as to the choice between the various potential investment sources, and all are treated the same way, the result will be that everybody can come, but nobody will be willing to come, to develop Shanghai's Pudong, and it will naturally be impossible to develop Pudong to its full potential.

### III. Suggested Measures for the Development of Pudong

1. Although development of Pudong will take 20 or 30 years, the initial phase of it is very important; a smooth start will bring earlier prosperity. For the Pudong district we suggest to adopt the method of "meticulously carrying out key projects, while cursorily dealing with the more common projects," so as to promote a rapid development. The so-called key projects must not be judged as such merely by the one criterion of investment amounts. Of course, \$5 million is one criterion, but still other criteria are: The status of the foreign investor, whether it is a transnational corporation, or whether key personalities with political or economic influence are involved, the advanced nature of its technology, its effect

on other lines of business or trade, such as whether it requires very large cooperative efforts and support, etc. For FIE's of this nature, apart from subjecting them to meticulous examination before approval, we still have to render assistance. As to the general run of medium and small FIE's, they too must be afforded as many facilities as possible.

2. Pudong must set up a development company. The role of this development company must be to participate in the formation and operation of the FIE's. The attitude of waiting for customers to come to one's door must be changed; we must of our own accord propose potential projects to attract transnational corporations. The development company must be able on its own initiative to send groups overseas. The development company must immediately involve itself in any major projects in whatever line of business or trade that shows good developmental prospects. It may participate in investments in major projects, and shall have the right to submit proposals and to veto in matters of personnel deployment and management affairs.

3. Giving full effect to the functions of consulting organizations. As a matter of policy, Pudong will in future allow the establishment of companies that will engage in counseling regarding foreign investments. Shanghai's Foreign Economic Relations and Trade Commission has already approved the setting up of 28 units to engage in counseling regarding foreign economic relations and trade. These units must most seriously perform their functions and must effectively carry out their tasks. The majority of successful FIE's in Shanghai have been established with the participation of consulting units, while a majority of the somewhat less than one-third of enterprises in poor conditions have started out completely on their own. This is indeed a very revealing comparison. Government organs should regard the consulting units as their assistants, and must keep the consulting agencies well informed of the various policies of the government. The FIE's too must regard the consulting organization as their assistants, while the consulting agencies on their part must demonstrate by their performance that they are indeed indispensable as assistants. The leadership in the municipality must periodically check the performance of the consulting units and may abolish those that are not up to required standards. The consulting units must be provided with adequate capacities; they must not only perform counseling prior to but also after the formation of the FIE's. Only if they are capable of assisting FIE's in difficulties, helping them to institute proper remedial measures and bringing about their recovery, will they have truly fulfilled their function of consulting organs. In foreign countries, consultative services, such as managerial consultations and the diagnoses of enterprise operations are very much appreciated.

4. Large-scale training of Chinese personnel for service in FIE's, effective improvement of the investment climate. In view of the large area of Pudong, it is quite possible that the development of FIE's will extend into

every corner of the urban and rural area. Shanghai has now already some village-run FIE's, and in Pudong there will be in the future an ever-increasing number of grassroots cadres and enterprise employees who will join the services of FIE's. It is therefore necessary to effectively take in hand large-scale training, in order to raise the quality of Chinese personnel and to improve business management. There are two types of persons that should undergo training: one type are people who will possibly occupy leading positions on the Chinese side of FIE's, and the other type are persons who will serve at the basic level of various relevant government organs, including those in towns and townships of the first rank.

5. Linking study of the developmental plan for Pudong's development with the actual practice. Study of the development of Pudong has by now attracted serious attention in all quarters. The study that we are presenting herewith is not on a macro-scale, but merely points to the medium-scale and micro-scale aspects. There is need here for a fixed complement of personnel, and also integration with the social forces, as the only way to achieve effective progress. For instance, we hope that some transnational corporations will come to undertake some key projects in Pudong. What kind of transnational corporation would be a suitable candidate? What projects should be considered? Would it be possible to compile some proposal that could attract these transnational corporations? And again, what kind of foreign capital would we like to attract? What appropriate ways and measures would we have to deal with Taiwan capital, Hong Kong capital, U.S. capital, and Japanese capital? Etc., etc. As we will be utilizing social forces, the authorities in charge of Pudong development must also set forth the new tasks for them and provide necessary funds. It will then remain for us to quickly transform our research results into reality.

#### **Goals Suggested for Pudong Infrastructure, Industry**

*91CE0114A Shanghai JIEFANG RIBAO in Chinese  
21 Oct 90 p 6*

[Article by Wan Zengwei (8001 2582 3555): "Thoughts on the Use of Space and Industrial Structure in Pudong"]

[Text] The new Pudong District's space utilization plan and its industrial disposition are systems software development projects which must be carried out in advance of large-scale construction in Pudong. Building the form and cultivating certain industries are two important aspects of the new district's development. The quality of the form built and the success of industrial cultivation in the future new Pudong District will be two of the principal measures of the effectiveness and economic benefit of the development of Pudong. Successful experiences in developed countries indicate that the adjustment cycle for building the form of a new district is about a century, while the adjustment cycle for an industrial structure is about 10 or 20 years. For this

reason, urban construction in the new Pudong District should meet the requirements of the 100-year plan. Principal infrastructure development projects must meet high standards of quality. Industrial cultivation should vary according to local conditions so as to capitalize on local advantages. We should guide our work by the principle of doing that which facilitates the accumulation and expansion of domestic and foreign markets. We should readjust step by step, move continually upward, and bring about the formation of an industrial structure suited to the development needs of the new district.

In accordance with the philosophy described above, we suggest that the new Pudong District's space utilization plan and industrial disposition adopt the following concrete goals and methods:

1. We should build the new Pudong District into a new entity that is oriented toward the outside world and can adapt to the international economic and technological challenges of the 21st century. By developing Pudong (and in particular, developing the deep-water berths at Waigaoqiao and modernizing the new district's 350 square kilometers), we can move Shanghai's front door from its inland river out to the seacoast. Doing this would change the face of Shanghai's backward urban infrastructure and industrial structure, and bring the old city's economy into the international arena, alongside that of the rapidly growing Chang Jiang delta region.

2. We must build a modern, three-dimensional transportation network to spur Pudong's growth. The rate of Pudong's development will be determined by how complete its transportation infrastructure is. Construction of harbors, airports, and the Shanghai-Nanjing, Shanghai-Hangzhou, and Shanghai-Ningbo highways is especially important. With respect to harbor construction, apart from the need to proceed as quickly as possible with the docks at Waigaoqiao, we must also accelerate work on Lanmensha at the mouth of the Chang Jiang, in order to deepen the channel leading into the Waigaoqiao Harbor to a depth of 10 meters or more. We must take advantage of the 11-kilometer-long Waigaoqiao deep-water channel and its enormous potential for handling traffic, so as to avoid the formation of "a thin neck and a big stomach." Airport construction must be put on the agenda for the first phase of development. We must seek to complete a large international airport and have it in operation by the end of the century. It must handle 3 million passengers per year, thereby opening up a travel outlet to serve the needs of Pudong that will arise early next century as a result of its comprehensive construction and rapid development. To a significant degree, construction of the Shanghai-Nanjing, Shanghai-Hangzhou, and Shanghai-Ningbo highways is closely linked to the development of Pudong. We should build a network of freeways that connects Pudong to both the Jiangsu and Zhejiang regions to the north and south, in order to closely link the economic and trade activities of Pudong and the Chang Jiang delta region.

3. We must build a complete, high-quality, modern urban infrastructure. The degree of completeness and the quality of our urban infrastructure will be an important determinant of the success of the new district's development, and it is one of the main factors determining whether it can support the operations of advanced industry. Therefore, from the earliest stages of planning, we must take into consideration types of infrastructures that cannot easily be redone at some midpoint in the infrastructure's lifespan (i.e.—several decades), such as high-volume water pipes, permanent multi-purpose underground trenches, anti-flood measures for floods that come once in a millennium, area heat supply systems, and use-differentiated water supply systems. These types of infrastructures must be complete and of high quality from the start. Posts and telecommunications in the future new Pudong District must carry high volumes of communications efficiently. We should build 3 million programmed switching devices, double the number of station lines, and triple the number of telephones. At the same time, we should also step up efforts to build medium- and high-quality residences, drinking water plants, environmental protection systems, and fire protection systems in order to create spacious, safe, and coordinated modern urban infrastructure.

4. We must guide the construction and development of a great industrial army which can respond quickly to the pulse of the world economy and participate aggressively in international competition. The disposition of industry in Pudong should be built upon the foundation of a higher level of productive forces in order to make up for the defects and insufficiencies of the industry in Puxi and the Chang Jiang delta. By defects I mean primarily the fact that the level of management in Shanghai lags far behind the level of production, and the fact that there is no effective coordination there between secondary and tertiary industries. By insufficiencies I mean primarily the fact that Shanghai's industrial structure is not at a very high level, and thus it is a weak competitor internationally. In terms of industrial structure, the future new Pudong District should be characterized by light industry, flexibility, intensive use of high technology, and production of high value-added products. The ratio of secondary industry to tertiary industry should be 35 to 65 percent. In terms of the size of industry, Pudong's financial, commercial, and trading enterprises should grow larger, while industrial and mining enterprises should grow smaller. In terms of industrial distribution, the new Pudong District should primarily be a place where various tertiary industries carry out operations and where the headquarters of mining enterprises, as well as their management and design departments, operate. The production departments of mining enterprises, however, can be located toward the outskirts of the new district.

5. We must build cultural, entertainment, sports, and tourism facilities capable of fully revealing the charm of the new Pudong District. We must enrich the spiritual lives of the residents of the new Pudong District and

serve the needs of Chinese and foreign tourists. At the same time that we develop Pudong's infrastructure and industry, we should also develop and improve facilities for such things as culture, entertainment, sports, education, parks, tree planting, health care, first aid, etc. We must build beautiful and unique museums, scientific exhibition halls, art galleries, movie theaters, gymnasiums, auditoriums, and tourist attractions. We must work hard to create a prosperous atmosphere in which, under highly open conditions, the new Pudong District's cultural activities will flourish and entertainment will abound. Sports facilities must be complete, and the district must be able to hold large international events and attract tourists from all over China and the world.

Since the announcement of a series of policies for developing and opening up Pudong, the development of the new Pudong District has been set in motion. This writer feels that the most important thing at this point is to assemble a team of specialists as soon as possible. We need to hire Chinese or foreign planners who will work in an earnest and sober manner to formulate space utilization and industrial plans for the short, medium, and long terms. In addition, we should quickly confirm plans to go ahead with projects in which investors have expressed interest and which do not conflict with the goals of our development, so as to maintain the enthusiasm that will be generated when the work first gets under way. At this point, based on the general philosophy described above, we would like to offer a few of our own opinions regarding several issues that will come up in the near term in connection with the first steps taken to get the project going.

#### 1. Targeting investment.

When one examines the types of investments foreign firms are interested in, it is clear that many investors will want to come to Pudong to rent land, build buildings, run financial, transportation, commercial, and trading enterprises, and get involved in restaurants, tourism, etc. We should change our way of thinking, liberate ourselves ideologically, and take advantage of the current market trend by developing Pudong's tertiary industry early on in the project.

#### 2. Bloc land leases.

All foreign firms are interested in investing in bloc land rental in Pudong. Currently there are three locations best suited for bloc land rental: areas near the ferry landing, the tunnel entrance, and the ramp to the Nanpu bridge. This writer feels that the best of these three is the area near the ramp to the Nanpu bridge. Furthermore, that area has the smallest number of extant buildings, so the cost of demolition and moving would be lower. We could call for international bids on bloc land rental, offering this parcel of land first; rentals could then advance bloc by bloc in a northwesterly direction toward the more bustling part of Pudong. The economic benefits should grow bigger and bigger. In addition, we could set rolling bloc rentals in motion from the areas near the tunnel exit

and the Nanpu bridge ramp; these rolling bloc rentals would move toward each other, and would eventually meet in the middle.

### 3. The entrepot function of the Waigaoqiao duty-free district.

There are several things we can do to expand and develop the Waigaoqiao duty-free district's entrepot function. In the short term, if we are to use duty-free transport as a way of establishing duty-free spot goods markets and future markets for raw materials, parts, and components, we must do the following two things: 1) Our object must be the bonded warehouses of several hundred enterprises in Shanghai and of thousands of enterprises in the Chang Jiang delta. 2) We must take raw materials, parts, components, and finished manufactured goods as our method. By establishing the aforementioned markets, we can develop storage and transport services for finished manufactured goods, and provide excellent services for the production and operations of all the export enterprises and foreign-invested enterprises in the entire Chang Jiang delta, including Shanghai. Over the medium and long terms, the duty-free district can play its role as an international entrepot by using the overland link between Asia and Europe provided by the Jiangsu-Gansu railroad and the Lanzhou-Urumqi railroad, and transship goods between Japan, South Korea, Hong Kong, Taiwan, the Middle East, and Europe via the Waigaoqiao duty-free district.

### 4. The New Pudong District's Industrial Plan

Based on our goal of building the new Pudong District into a modern, top-flight district, we must take the following points into consideration as we formulate Pudong's industrial plan: 1) We must maintain a cautious attitude toward building new enterprises which are capital-intensive, require a lot of land, and do not produce a return on investment for 10 or 20 years. For those which are indeed necessary, we must do all we can to locate them at the edges of the district or close to the sea. 2) With respect to existing enterprises which intend to carry out technology upgrade projects, we also need to carefully calculate the life of the project, avoiding as much as possible large investments which do not pay off for a long time. 3) As much as possible, we must attract medium- and small-size enterprises and projects which can easily set up production in big buildings and factories and truly achieve small batch production, wide variety, and flexibility, in order to meet the requirement to expand our international markets.

### Jilin Calls Meeting on Economic Development Zones

SK2611051190 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 24 Nov 90

[Text] We should emancipate our minds, accelerate construction of infrastructural facilities, give prominence to key areas, and serve the economic development of the entire province. This was the central topic of

discussion of the provincial conference on work of economic development zones, which concluded on 23 November.

In an effort to further quicken the pace in reform and opening up, the provincial party committee and government established five economic and technological development zones in Changchun, (Qianfu), Meihokou, Hunchun, and Jian in the past two years. Based on their specific characteristics, the development zones formulated plans for overall development and, through improvement of external conditions and implementation of preferential policies, developed a great number of Chinese-foreign joint ventures and cooperative enterprises, exclusively foreign-funded enterprises, and enterprises which introduced investment from other places in the country and established ties with enterprises abroad. Their economic and technological cooperation and exchanges with foreign countries have been expanded from the field of industry to the fields of agriculture, commerce, and animal husbandry, thus promoting the technological progress of enterprises. From January to October this year, the Nanhu-Nanling new-tech industrial park zone in Changchun City developed 181 high- and new-tech projects, which helped increase output value by 170 million yuan and profits and taxes 33 million yuan. This initially showed that development of high- and new-tech industries would help increase output value substantially and have a strong influence on other areas of production.

Provincial Governor Wang Zhongyu said in his speech that only by quickening the pace in opening to the outside world can inland provinces promote their economic development. Speaking on the future construction of the development zone, he stressed: First, we should have the concept of opening up, and set our sight inward to fully use our existing conditions to promote the economic development of our own localities. Second, key areas should be emphasized in the construction of the development zones. Third, we should implement a series of preferential policies. Fourth, we should continue to carry out the general principle of working out overall plans, acting according to our capacity, and phasing in development projects for the construction of the development zones. Fifth, we should step up construction of such infrastructural facilities as transportation, telecommunications, municipal administration, and services to create a good and attractive external environment.

(Zhang Fengwen), acting secretary general of the provincial government, presided over the conference. Provincial Vice Governors Liu Xilin and Wang Yunkun attended and gave speeches.

### Ningbo Economic Zone Attracts Foreign Investors

OW0312090990 Beijing XINHUA in English  
0820 GMT 3 Dec 90

[Text] Beijing, December 3 (XINHUA)—The Ningbo Economic and Technological Development Zone in Zhejiang Province, east China, has approved the establishment of over 100 joint venture projects with total investment of 220 million U.S. dollars.

PEOPLE'S DAILY reported today that 60 percent of the 55 foreign-funded enterprises now in operation in Ningbo have used foreign investment.

Since 1985, the zone has achieved a rapid economic development and its production value, taxation income and export volume have increased at an average rate of 50 to 100 percent.

Since the country has placed great emphasis on the construction of Ningbo's port, electric power facilities and raw materials projects, increasing numbers of foreign industrialists and businessmen have shown an interest in investing in the economic development zone.

The water and power supply systems, as well as transport, telecommunication and other urban construction facilities have been completed in the zone's first phase development zone, which covers 2.3 square kilometers. A total of 390 million yuan (70 million U.S. dollars) has been used thus far in constructing the facilities.

### Shanghai's Minhang, Hongqiao Zones Mark Anniversary

9ICE0113B Shanghai JIEFANG RIBAO in Chinese  
17 Oct 90 p 1

[Article by reporter Chen Jian (7115 0256): "After Five Years of Hard Work, They Are Getting Attention at Home and Abroad—the Minhang and Hongqiao Development Zones Are Gaining in Stature"]

[Text] A symposium marking the fifth anniversary of Shanghai's Minhang and Hongqiao Joint Development Companies, Ltd. was held yesterday at the newly inaugurated New Hongqiao Club. Zhang Xueyao [1728 1331 1031], deputy director of Bank of China's Hong Kong and Macao Administration and general manager of Bank of China's Hong Kong branch, Zhang Ge [1728 2047], representative of the State Council's SEZ [Special Economic Zone] Office, and Wang Daohan [3076 6670 3211], consultant to the Shanghai municipal government, attended and spoke at the meeting.

The two joint development companies, Minhang and Hongqiao, are financed jointly by the Shanghai Minhang and Hongqiao Development Company, Bank of China's Shanghai branch, and five member banks of the Bank of China and its Hong Kong Group (Bank of China's Hong Kong branch, Jincheng Bank's Hong Kong branch, the Zhejiang Xingye Bank's Hong Kong branch, Xinhua Bank's Hong Kong branch, and Guangdong Provincial Bank's Hong Kong branch). The two companies are responsible for developing and running the Minhang Development Zone and the Hongqiao Development Zone, respectively. After five years of hard work, they are achieving clear results and are gaining in stature and are getting much attention at home and abroad.

The symposium was cosponsored by the Shanghai Municipality Foreign Invested Enterprise Association

and the Minhang and Hongqiao Companies. The purpose was to review the achievements of these two development zones over the last five years and the experience of the Bank of China and its Hong Kong Group's and its Shanghai branch's financial backing of the two development zones, so as to further improve Shanghai's investment environment and to lend their experience to the development and opening of Pudong when the time comes.

In his speech, Zhang Ge, representative of the State Council's SEZ Office, said, Shanghai's Minhang, Hongqiao, and Caohejin are three among the nation's many development zones with the unique characteristics of having "two larges, two highs, and one unique." "Two larges" refer to the large percentage of foreign investments—37.5 percent of the development zones' total investment, and to the large percentage of exports—18 percent of the development zones' total production. "Two highs" refer to the high technological level and high standard of services they provide the foreign investors. "One unique" refers to the unique pattern where all three zones are operating their enterprises as Sino-foreign joint ventures, and they are all developed, managed, and administered by enterprises.

In his speech, the municipal government's economic advisor, Wang Daohan, lauded Shanghai's Minhang and Hongqiao development zones and said, "Actions speak louder than words, and truth needs few words."

In his speech, Zhang Xueyao, deputy director of the Bank of China's Hong Kong and Macao Administration and general manager of Bank of China's Hong Kong branch, said that the Bank of China and its Hong Kong Group will do as their headquarters wish and will continue to contribute to the country by supplying funds, connections, information, and qualified personnel.

Feng Renhu [7458 0086 5706] and Chen Changhua [7115 2490 5478], general manager and assistant general manager of Jincheng Bank's Hong Kong branch, respectively, Cui Shuming [1508 2579 2494], general manager of the Hong Kong branch of the Zhejiang Xingye Bank, Wei Zhongping [7614 0022 2494], general manager of Guangdong Provincial Bank's Hong Kong branch, Ma Qinghua [7456 7230 5478], general manager of Xinhua Bank's Hong Kong branch, and others made a special trip to Shanghai to attend the symposium. Also attended were officials from Bank of China's Shanghai branch, the Caohejing Development Zone, the Pudong Development Office, the three development companies in Waigaoqiao, Jinqiao, and Lujiazui, the municipal government's relevant departments and commissions, the Municipal Trade Promotion Council, and the Municipal Foreign Invested Enterprise Association.

## Minhang, Hongqiao Success Laid to Bank Support

91CE0113C Shanghai JIEFANG RIBAO in Chinese  
18 Oct 90 p 1

[Article by reporter Chen Jian (7115 0256): "Joining Shanghai in Investing in the Construction of Development Zones: The Bank of China and Its Hong Kong Group Extend Their Full Support; the Minhang and Hongqiao Zones Are Like Tigers That Have Grown Wings"]

[Text] The Bank of China and its Hong Kong Group extend full support to the construction of Shanghai's economic and technological development zones, and like tigers that have grown wings, these development zones are mightier than ever. Within five short years, the Minhang Development Zone has produced results and the Hongqiao Development Zone has become a fledgling development zone.

When the two zones were first established in 1982, large sums of money were needed to prepare the infrastructure ["the seven components of infrastructure and the leveling of ground for construction" refer to roads, running water, electricity, telecommunications, gas, drainage pipes, and sewage pipes], but there was an acute shortage of funds. Some foreign banks believe investments in infrastructure are too risky—like burying money in the ground, they will never recover their investment. Despite the arduous conditions, and with Bank of China's Shanghai branch acting as go-between, five member banks of the Bank of China and its Hong Kong Group—Bank of China's Hong Kong branch, Jincheng Bank's Hong Kong branch, Zhejiang Xingye Bank's Hong Kong branch, Xinhua Bank's Hong Kong branch, and Guangdong Provincial Bank's Hong Kong branch—showed great foresight, and in their great wisdom, decided to join Shanghai in investing in the construction of the development zones, and they opted for a Sino-foreign joint-venture format. As a result of the joint investment by the Bank of China and its Hong Kong Group, the Shanghai branch of Bank of China, and the Minhong and Hongqiao Development Company, Ltd., two Sino-foreign joint ventures—the Shanghai Minhong Joint Development Company Ltd. and the Shanghai Hongqiao Joint Development Company, Ltd.—were born in 1985. The Bank of China and its Hong Kong Group and the Shanghai branch of Bank of China own 35 percent of the total investment in Minhong and 50 percent of Hongqiao. At that time, the idea of using foreign capital and involving banks in the construction of a development zone's infrastructure was unheard of in China.

Another major contribution by the Bank of China and its Hong Kong Group to the construction of Shanghai's development zones is their role as go-between in bringing in foreign projects. Two Sino-Japanese joint-ventures—the Pacific Hotel which opened this year and the soon-to-open Shanghai International Trade Center—

were put together by the Shanghai branch of Bank of China. The Bank of China and its Hong Kong Group were responsible for direct investment in and promotion of the Shanghai-Hong Kong joint venture, the Yangzijiang Hotel, which opened this year. These projects brought along other projects and will play a positive role in attracting even more foreign investments in the future.

An even more important contribution by the Bank of China Group to the construction of development zones in Shanghai is its effort as a bank to raise funds to finance the development zones and the projects in the zones. Many projects in the development zones are financed by the Bank of China Group either in the form of direct loans or indirect loans. So far, the Shanghai branch of Bank of China has lent as much as 115 million yuan RMB [renminbi] and \$8.40 million to 29 projects in the Minhong Development Zone. Most enterprises that received loans are economically efficient enterprises. In particular, the Shiguibao and Wuzhou Knit and the Shenming Electrical Machinery companies have become fairly influential at home and abroad. In the Hongqiao Development Zone, the Shanghai branch of Bank of China has asked Japan's XINGYE Bank to co-lend money to the International Trade Center and the Pacific Hotel. Meanwhile, the Shanghai branch of Bank of China's loans to finance the Yangzijiang Hotel, the New Hongqiao Building, the Hongqiao Guesthouse, and the Yinhe Guesthouse and others are worth as much as \$270 million; they account for 40.9 percent of the total investment in the Hongqiao Development Zone today. Simply put, without the banks' financial assistance, there will be no development zone today.

Because of the Bank of China Group's support, the Hongqiao Joint Development Company, Ltd. began to make a profit in its second year of operation, and the Minhong Joint Development Company also showed profit two years ahead of schedule. Normally, the joint ventures would pay dividends as soon as they make a profit, but in order to give these two companies greater momentum and to help put the investment activities in these two companies onto a benign cycle, the Bank of China Group and the Shanghai branch of Bank of China agreed not to draw dividends but to reinvest everything, thus putting these two new development zones onto a benign cycle of rapid development.

## Mid-October Figures on Shenzhen Stock Market

91CE0113A Hong Kong WEN WEI PO in Chinese  
23 Oct 90 p 27

[Article in Shenzhen Stock Market column by Cheng Paichiang (4453 2672 3068): "The Shenzhen Stock Exchange Will Have a Day Off on a Different Day—Venke Corporation's Failure To Submit Financial Report Leads To Rash of Sell Orders"]

[Text] Trading in Shenzhen's stock market slowed down again in the previous business week (13-20 October). For

the week, total transactions were worth HK\$16,477,500 [Hong Kong dollars], down 37 percent from a week earlier. Among the stocks traded, 59,740 shares of Development Bank stock, valued at HK\$3,249,500, were traded, and volume was off by nearly 70 percent compared to the previous week; 731,500 shares of Venke Corporation stock, worth HK\$11,190,100, were traded, and they made up 69.91 percent of the value of shares traded, up almost 10 percent from a week ago; 8,454 shares of Jintian stock, worth HK\$1,621,000, were traded, and volume was off 20 percent compared to a week ago; 5,550 shares of Anda stock, worth HK\$102,700, were traded; 2,470 shares of Yuanye stock, valued at HK\$314,000, were also traded, and volume was off by more than 80 percent compared to the previous week.

With respect to stock prices at the exchange, because the Shenzhen Stock Exchange will be closing on a different day [beginning this week], the market was open seven days last week. For this reason, the price of all stocks was up between 7.21 percent to 7.24 percent for the week. Among them, Development Bank stock rose from HK\$53.15 the weekend before to HK\$56.98 last weekend; Venke Corp stock rose from HK\$14.65 the weekend before to HK\$15.71 last weekend; Jintian stock went up from HK\$183.62 the previous weekend to HK\$196.86 last weekend; and one stock went up from HK\$17.82 to HK\$19.11, and Yuanye stock rose from HK\$122.29K to HK\$131.12 in the same period.

Two stocks showed trends opposite to the general market trend last week. Trading of Development Bank shares plunged last week; practically no shares changed hands on the two last days of last week. On the other hand, trading of Venke Corp stocks has been very active for several weeks in a row, culminating in the more than \$10 million HK's worth of shares traded this week. There are several important reasons for last week's market situation: One, the trend of enterprises selling off their Development Bank shares to individuals clearly subsided last week; two, rumor that Development Bank will issue more shares has led many to hang on to their Development Bank shares and wait out the situation; three, the failure of Venke Corp to make public its mid-term financial report and performance as required of all listing companies has led to all kinds of speculations.

Many Venke Corp investors have been dumping their shares, which is why Venke stock has been very active in recent weeks. As far as Venke is concerned, it is lucky that demand in the Shenzhen stock market still exceeds supply by far. A equal number of people see Venke stocks as good and bad investment, and, therefore, despite the huge number of sell orders, its price has continued to rise.

### Foreign Funds To Boost Zhuhai Economic Zone

HK0312025890 Beijing CHINA DAILY in English  
3 Dec 90 p 2

[By staff reporter Li Zhuoyan]

[Text] Zhuhai—Zhuhai Special Economic Zone will use over \$10 billion of foreign investment and loans in the coming decade, according to Mayor Liang Guangda, 10 times as much as that spent in the past 10 years.

“We need huge amounts of foreign money to help us develop large-scale industry in Zhuhai, specially in its western part,” he said.

In the next 10 years, the zone will place its emphasis on the development of large-scale basic industries, such as steel processing and petrochemical industries, the mayor said.

The projects will be concentrated in the west part of the zone. Harbours, bridges and highways will be built in the area. “We have got approval from the central government to use foreign funds to build the projects,” he said.

Two foreign companies have signed agreements to invest \$100 million in a 100,000 ton-harbour. To make sure that the zone has the ability to repay the debt according to schedule, Liang said, the local government will welcome long-term loans for projects which would need a long period to be completed.

## LABOR

### Economists Discuss Inequitable Social Distribution

91CE0044A Beijing JINGJI RIBAO in Chinese  
2 Oct 90 p 3

[Article by Ni Di (0242 6611) and Fu Xuedong (4569 1331) 2639]: “A Further Understanding of the Problem of Inequitable Income Distribution”]

[Excerpt] [passage omitted] China is still at a very low level of socialist production. It will take a major effort to develop a diversified economic model centered around public ownership, and to develop a socialist commodity economy. This determines that distribution according to labor can only be carried out as part of a system of public ownership, and cannot serve as the sole distribution principle for all of society. In economies other than those based on public ownership, market supply and demand serves as the determining factor in income distribution. For example, because things such as the price of services, capital receipts, technology transfer fees, and “box office prices” are determined by competition and the supply-demand relationship, this forms a distribution model whose form and content is based on a nonpublic system of ownership. At the same time, due to the special characteristics of the current phase of the economy,

labor allocation in its original sense cannot be completely carried out, even though it is a component of the public ownership economy. On the one hand, along with the diversification of income sources, nonlabor incomes such as interest, dividends, and bonuses form part of staff and workers' incomes. On the other hand, labor distribution must itself go through the process of market exchange, because individual labor becomes society's labor, and is influenced greatly by market factors. The same amount of individual labor sometimes costs a bit more, sometimes a bit less, and sometimes cannot be obtained at all (when there is no market for that commodity). Therefore, with "equal pay for equal work," the quantified standard of "equal work" requires specific, scientific inquiry and appraisal.

In addition, money given to workers as wages is only one part of society's distribution of income; in addition to money, a considerable amount of income is distributed through payments in kind, welfare benefits, or financial subsidies. For example, consider such things as housing, health care, retirement insurance, and various kinds of transportation and price subsidies: these are in no way allocated according to the work one has performed. Also, there are major differences in the benefits society's members enjoy. Therefore, if income based on labor is the only measure used to gauge society's income situation, it could very easily lead to an incorrect conclusion.

## II. How Should We View the Problems of Inequitable Income and Social Inequity?

With regard to society's income distribution, the masses have commented most on the problems of inequitable incomes and social inequity. Inequitable income is not illegal income; illegal income belongs to that category of things which must be resolutely suppressed. The problem of inequitable income is more complicated, and more often than not, individuals' views and opinions on it are by no means uniform. Some salary inequities are due to national policies which allow income differentials to form; some are due to old and new policies coexisting in the course of reform, or they have been created by imperfect management systems, policies, laws, and regulations; and some are produced by policies which are currently in effect. Some examples are irrational price structures, various preferential policies, the ratio linking enterprise contract bases with work efficiency, as well as differences which result from the influences of the market and the process of state planning. This causes some people to receive more benefits from the reforms than was anticipated, while some people receive less. Some say that this is a case of unequal and unfair opportunities. But does this mean that the problem lies with our income distribution policies? We believe it does not, because our social income distribution policy discourages this sort of thing from happening. Since reforms began, the State Council has tried its best to eradicate and deter this phenomenon. When initial tax reform steps were taken, the State Council designed different profit adjustment taxes for different enterprises in order to eliminate the influence of such extraneous

matters as pricing and investment as much as possible. With enterprise contracts, they adopted various contract bases and proportions, set up individual income adjustment taxes, and strengthened tax management. But in fact, in situations where economic relationships and systems were still not running smoothly in the areas of production and circulation, relying solely on adjusting distribution makes resolving the problem very difficult. Therefore, even though we will still continue to eradicate and deter inequitable income differentials by deepening reform and strengthening macroeconomic management, inequitable incomes and unequal opportunities may be a phase which could continue for some time. They will gradually disappear only with the full establishment and perfection of the new system.

However, now we must especially stress resolutely curbing a small number of party and government organizations and their staffs from using their current power and opportunities to obtain "advantages."

## III. What Are the Principal Contradictions in the Inequitable Income Distribution We Have Now?

In the first stages of the discussions, some argued that the wide disparity in incomes is the principal contradiction, while some felt that egalitarianism is the principal contradiction. According to statistics from the State Statistical Bureau and initial findings of a survey we conducted among nearly 20 provinces and municipalities, we believe that the latter judgment conforms more closely to our current realities.

First of all, the Gini coefficient, which reflects the income distribution process in society, tends to be low. According to international standards, a Gini coefficient lower than 0.2 indicates completely equitable income distribution; a coefficient between 0.2 and 0.4 indicates relatively average or equitable income distribution; and a coefficient greater than 0.4 indicates relatively large income gaps. In 1980, the Gini coefficient of income distribution was 0.24 in China's rural areas, while it was 0.16 in urban areas. In 1988, the figures were 0.3 and 0.23 respectively. This shows that income distribution in rural areas already tends to be equitable, while that in urban areas differs just slightly from the mean. However, these are just the average figures nationwide: there are a wide scale of local factors among them. When calculated by district, the Gini coefficients are considerably lower than the national figures. For example, the Gini coefficient for workers in Guangxi's cities and towns stayed between 0.14 and 0.17 for the entire period from 1985 to 1989, while the coefficient for Liaoning's urban workers was between 0.13 and 0.15, and Wuhan's coefficient was between 0.15 and 0.16. Compare this with India and Malaysia, whose courses of economic development are close to that of China: they had Gini coefficients of 0.42 and 0.51 respectively for urban residents' incomes. One can see from this that egalitarianism in China's income distribution is still quite serious.

Second, looking at the wage structure, standard wage disparities are steadily decreasing nationally. At the same time, many people squeeze onto the same salary step, causing the original salary "ladder" to become a salary "plateau." Another aspect of this is that subsidies and allowances to equalize distribution steadily account for a greater proportion of total wages, even when compared to some awards. In 1989, standard staff wages for workers in units of the entire people only constituted 54.3 percent of their total wages, with various subsidies making up 23.1 percent.

Finally, statistical surveys show that a very small number of people earn excessively large salaries, with the income disparities between industries and enterprises being eliminated daily. According to statistical analyses of a 1988 sample survey conducted among approximately 20,000 urban and rural households by the CASS Institute of Economics, only 3.78 percent of people have an average income of more than 3,400 yuan annually. Statistics from the State Administration for Industry and Commerce show that only 10 to 15 percent of individual households have annual incomes in excess of 1,000 yuan. Moreover, a survey of enterprise contract managers shows that managers whose income is more than four times that of workers' average wages are concentrated mostly in medium- and small-scale enterprises, and that these managers make up only 10 to 15 percent of all contract managers in these enterprises. At the same time, income disparities between industries and enterprises show a tendency to expand. The principal phenomena are: wages and incomes in national party and government organizations tend to decrease compared with the incomes of other employees in society; and the income disparities between similar types of enterprises are large, sometimes even as high as 1,000 yuan.

Therefore, we can generalize by saying that the problems with China's current income distribution are the continued existence of wide gaps in income distribution and egalitarianism, but egalitarianism is the chief contradiction. However, why do the majority of people in society not perceive the problem with egalitarianism the same way that they perceive income disparities? We believe that this is due in great part to the influence of traditional egalitarian thinking. For a long historical period before reform, we were not too particular about efficiency, and did not focus on bringing the zeal of laborers into full play. We mistakenly made egalitarianism and "eating from one big pot" the principle of fair distribution, and made the "iron rice bowl" and all-encompassing material benefits the epitome of socialist superiority. This kind of thinking still has considerable influence even today. In a certain sense, reform of the economic system is a readjustment and a redistribution of social benefits. In this process, the pattern of society's income distribution and the profit relationships between people will be in accordance and change correspondingly. In a given period, some people's incomes will increase more quickly, and some more slowly; this is something that has to happen. However, this change

could have an effect "counter to pauperization." This means that, even though each person's income level increases, the corresponding position of some incomes will drop, which will cause dissatisfaction in many people.

Presently, there are two fundamental ways of thinking about the measures to deter unfair income distribution in society. One way holds that, regardless of whether egalitarianism is a way of thinking or a framework for actual income distribution, both exist objectively. This way, the wide gap in incomes is something society cannot bear without a difficult change in its historical premises. Therefore, they see income disparities as the chief contradiction facing us today. They stress the need to strengthen the fair income distribution principle and to adopt even more planned, administrative measures to decrease income disparities by lowering high incomes and supplementing lower ones. The other view holds that the decline in benefits is the fundamental problem in our current economic development and system reform, and that the egalitarian distribution system and way of thinking is the basic reason leading to this decline. This view also holds that the longer the problem of egalitarianism drags on, the more contradictions will accumulate, and the greater will be the difficulties in beginning their resolution. Therefore, they urge implementation of planned, progressive reforms of the pricing, finance, enterprise, and labor wage systems. It is only by destroying egalitarianism that the opportunity to compete on equal terms can be extended to still more enterprises and individuals.

We believe that starting now, and even up through the period of the "Eighth Five-Year Plan," we should study the following few points before settling on an income distribution policy:

1. Treat the problem of great disparities in society's income distribution using existing improvement and rectification measures, and stress punishment of those who engage in the corrupt practices of illegal cash transactions and trickery for personal gain.
2. Make deterrence of inequitable income distribution a part of deepening reform, and include it together with others for research and resolution. Deterring the problem of unequal income distribution across regions, industries, and enterprises will be done by reforming the pricing and taxation systems, and by linking perfection of the enterprise system with reform of work efficiency.
3. Make reform of the income distribution system the focus for moving forward in smashing the egalitarian distribution system of "eating from one big pot." Quickly establish regular adjustment mechanisms so that wages of workers in organizations and industrial units increase in step with the national income. Establish different wage systems suited to the organizations, industries, and enterprises. Adjust income structure, greatly increase the share of income that comes from basic wages, gradually increase the wage differential,

increase wage transparency, and fully utilize wages as an incentive. Speed up reform of the labor systems for government functionaries, contracts, etc., and also reform the system of societal safeguards. Establish competitive mechanisms for equitable mobility and opportunities for personnel, and for safeguarding their basic livelihood. [passage omitted]

## POPULATION

### Effect of Pension Plan on Family Planning Studied

OW1812202690 Beijing XINHUA in English  
1323 GMT 18 Dec 90

[Text] Beijing, December 18 (XINHUA)—China is exploring effective ways to solve the problem of caring for the aged in rural areas so as to implement family planning more effectively.

The one-child policy is well carried out in Chinese cities, but in the rural areas, which account for 73.77 percent of the total population, the problem of caring for the aged has not been solved and this is believed to be one of major causes of the high birth rate in rural areas.

Reporters recently visited Beijing Municipality's Shunyi County, which pioneered an old-age pension scheme for rural parents who have only one child last March.

Each of the members of the foundation is required to pay 300 yuan to 910 yuan a year. When they are 60 years old they will be eligible for payments of 100 yuan each month.

In principle, one third to half of the money is raised by the members and the rest is provided by the local townships.

By December 5 the foundation had over 9,000 members, accounting for 22.5 percent of the one-child families in the county.

Lu Changhai, deputy director of Shunyi township, said the scheme has been welcomed by the local peasants.

Li Shufen, a family planning cadre in the countryside, said it is very difficult to implement family planning before the problem of caring for the aged is solved. "Traditionally, country people regarded their children as a guarantee for their old age. But now the foundation has lightened my work load."

Shunyi County has a population of 535,000. It has been named as an advanced county in implementing family planning for 13 successive years. About 100,000 fewer children have been born since it started to implement family planning in the 1970s. Its family planning rate reached 95.6 percent this year, while the average for the whole country is about 60 percent to 70 percent.

Zhao Zhenbo, director of the family planning commission of Shunyi County, said the commission will try to

persuade all the one-child parents to join the pension scheme within three to five years.

Yang Zihui, a demographer, noted that family planning has progressed from relying mainly on administrative measures to relying mainly on guidance through self-interest.

### Census Shows Population Shift to Beijing Outskirts

HK1912023690 Beijing CHINA DAILY in English  
19 Dec 90 p 4

[By Cai Yan]

[Text] More Beijingers are moving out of the city to live on its periphery, according to the Fourth National Census, which was conducted in July.

The Census tracked down 2.336 million residents in Beijing's East City, West City, Chongwen and Xuanwu districts. The figure is 82,000 less than in the 1982 Census.

It is only natural that more citizens move out of the city proper as the metropolis sprawls, experts say.

From a close look at the city map, one can see that the above mentioned districts cluster in the midst of the city with their axis at Chang an Boulevard.

This is known as the "old city" and people enjoyed living here as it is the city's most flourishing section and the location of most big commercial centres.

As capital construction speeds up, Beijing is expanding fast. The renovation of the Second and Third Ring roads in the past decade has greatly improved road conditions at the city's periphery.

Meanwhile, neighbourhood districts on the outskirts are no longer as inconvenient as they once were.

Tuanjiehu Neighbourhood at the northeast tip of the Third Ring Road was virtually desolate a decade ago. It has burgeoned into a densely populated area with a complete service network that includes a four-storey department store, a free market, post-office, laundry, barbershop, hotel, groceries—all the amenities of a metropolis.

Under preferential policies, people who move out of the city centre are usually provided larger housing.

When daily services are updated and when there are commuter buses to get employees to and from work, most citizens are willing to live away from the centre where both air and noise pollution are much heavier.

This has contributed to the population increase on the periphery.

The increase in Chaoyang, Haidian, Shijingshan and Fengtai districts grossed 40 percent over the past eight years.

The northwest Haidian District, for instance, has witnessed a 30 percent population increase.

In 1982, the debut of the "electronic street" and later the high-tech zone here drew science institutes and some government institutions to buy land or commercial housing in the district for their employees.

The district also hosts a large number of university and college students. Both Beijing University and Qinghua University are located here.

While outskirts districts have their own causes for a population boom, a commonly shared reason is the population influx.

As one of the Census regulations, transients were registered in the place they had resided for the previous year.

Among the 4 million residents in the four districts, about 300,000 are transients, representing 57 percent of Beijing's floating population. The figure stands as a 4.5-fold increase over the 1982 Census.

Most of the transients are inlanders from relatively backward areas like rural Anhui and Sichuan, in search of jobs and better living.

They work as construction workers, sales clerks, maids, or in other service trades.

According to Beijing's population bulletin, the floating population at the periphery is bigger than in any other areas in the city.

Comparatively speaking, the population in the outer suburbs is growing steadily at a rate of 13.1 percent, lower than that of the city's 21.4 percent.

That has to do with the decade-long endeavour at building satellite towns around the swelling capital.

Daxing leads other ex-urban districts capital construction. In eight years, its population has increased by 22 percent.

Population influx to the outer suburbs is characterized by an imbalance. Usually, districts with a faster development pace attract more migrants. These include Fangshan, Daxing and Changping districts, whose migrants have surpassed 200,000.

The mountainous Miyun, Pinggu, and Yanqing counties, where there is little transportation, have the least migrants; less than 5,000 each.

At present, the total population in Beijing is more than 10 million, and of these, 7.9 million are urbanites.

As China's political, economic and cultural hub, Beijing is experiencing a changing population pattern.

### Rural Family Planning in Heilongjiang

SK3011030590 Harbin HEILONGJIANG RIBAO  
in Chinese 14 Oct 90 p 3

[Article by Wang Yuehua (3769 1878 5478), vice mayor of Jixi City: "Difficulties in Rural Family Planning and Countermeasures"]

[Text] Editor's Note: Family planning work is called "the most difficult work in the world," and rural family planning work is the "most difficult of the difficult." Where does the difficulty lie? What is the reason for the "difficulty"? What is the way to solve the problem? Wang Yuehua, vice mayor of Jixi City, recently conducted a survey on family planning in the rural areas of the city and outlined the answers to the aforementioned questions. [end editor's note]

Specifically speaking there are "10 difficulties" with rural family planning work.

1. Because grassroots leaders fail to pay sufficient attention to the work, it is difficult to implement state policies. A major leader of a certain township in Jidong County did not attend to family planning work for a long time. As a result, the township lacked propaganda workers for its family planning for a long time and relied merely on two last minute activities for its family planning. According to a household survey, 80 percent of the township's women had no idea about current family planning policies. The party branch secretary of a village made comments illustrating the situation: "As most people in rural areas are as interrelated as kinsfolk, it is impossible to carry out family planning. Besides, having more than one child does not matter in rural areas...."

2. Traditional ideas are deep-rooted, and it is difficult to change them. In rural areas, such small-scale peasant ideas and old family planning concepts as "being firmly determined to have a boy to continue the family line" stubbornly remain. There are two brothers in the Duan family in Mashan Village. The elder already had four girls and the younger brother already had three. But in 1988, a boy was born in the elder brother's family. When we visited his family to conduct the survey, a woman who was older than 70 years was sitting on the heated brick bed. She smiled and said approvingly, "The fifth child is a boy. Now that I have a grandson, I will die satisfied."

3. It is difficult to implement family planning policies. For numerous reasons, only a very few villages in the Didao and Liuniao areas implemented family planning policies such as approving housing construction, farmland contracts, and free nursery child-care and children's medical services for couples with only child, and providing jobs at township enterprises to parents of only children on a priority basis. More than 300 other villages in the area failed to put the policies into effect.

4. Due to a lack of effort, it is difficult to tackle problems in a comprehensive manner. As a basic national policy,

family planning should be carried out by various departments with concerted efforts under the leadership of the party and the government. However, in some localities, the practice is that family planning departments put on a "one-man show." Due to a poor job in controlling early marriages and early childbearing, common-law marriages exist in every village. In Hongxing Village alone, more than 100 couples married early and bore children early last year. There are also many problems with controlling transients. The provincial government has an explicit regulation for controlling transients: Certificates from family planning departments are required when applying for transient certificates. There were 50,000 people who migrated from this city to other localities, and most of them failed to meet the requirement as stipulated in the regulation. Due to poor coordination among some doctors and medical personnel, and to rather serious problems in the aftermath of operations, some women flinch from tubal ligations.

5. Because organizations fail to meet demand, it is difficult to stabilize the workers contingent. The contingent of township and village family planning cadres is the propagandist, organizer, and enforcer of current family planning policies. The quality of this contingent and whether it is stable are key factors in the success or failure in the rural family planning work. Family planning organizations of townships (towns) and villages cannot meet demand. Of the 25 towns and townships in the city, only 10 have their own family planning assistant. The overwhelming majority of the villages do not have full-time family planning cadres.

6. Due to a low technical level, it is difficult for comprehensive services to catch up. Basic conditions are still lacking. Although 22 of the 25 towns and townships of the city have established service and guidance stations, they have few personnel, poor technical skills, and their basic facilities falling short of demand. There are even fewer villages with service stations. Due to a lack of necessary tools, means of propaganda, and contraceptives, remote areas where transportation and telecommunications facilities are backward cannot obtain publicity on family planning, contraceptives, information, and technical services.

7. Due to a large number of transients, it is difficult to control births in other localities. Xingnong Village has a population of 4,974, and 2,456 of these people are transients from other localities. The village had 57 above-quota births last year alone. The number of people who ran away to other localities to give birth was also increasing. Hongxing Village had 15 above-quota births last year, 10 of which were born in other localities. In the Xinhua, Xinxing, and Yongping villages of Changqing Township, there were more than 100 families of transients from cities. No one cared to calculate their population or bothered about family planning work.

8. Because the legal system is not perfect, it is difficult to strictly enforce laws. Although family planning is part of national policy, rules and regulations remain imperfect.

It is difficult to collect fines on above-quota births. In rural areas, people, rich or poor, refuse to pay the fines, and nothing can be done about it. After 1980, the city should have collected 5.67 million yuan in fines on above-quota births, but only 50 percent of this was collected. The state has yet to formulate laws restraining migration for childbearing purposes.

9. Due to their low social status, it is difficult for family planning personnel to carry out their work. Most family planning work is carried out by family planning personnel on the front lines. We can imagine how difficult their work is. When these personnel go to rural areas, peasants give them the cold shoulder. Incidents in which houses of township and village family planning personnel were smashed, their greenhouses damaged, and their crop seedlings rooted up are too numerous to mention.

10. Due to shortages of operational funds, it is difficult to carry out activities. In family planning work, we stress propaganda as the major method, but lack funds for propaganda. We stress the need to improve the policy level and professional competence of family planning cadres, but lack funds to train them. We stress the need to intensify scientific research, but lack funds. We stress the need to do a good job with population statistics and family planning, but lack funds for doing statistical work. Because there is no special fund for family planning, it is difficult to pay village family planning personnel.

In view of the actual problems in rural family planning work, we explored some countermeasures in the process of our actual work.

1. We should enhance understanding, strengthen leadership, and make the thinking and action of the cadres of townships and villages truly reflect national policy. Because family planning is an issue that concerns future generations and the rise and fall of the nation, cadres at various levels should have a strategic insight and truly overcome myopic behavior. Leading people at the district, township, and village levels should ensure that "the two fields of production are attended to, the targets for both of them are assigned, and good results are achieved in both." They should include family planning work in their agenda, solve problems by conducting study on a regular basis, and ensure that family planning work is arranged, examined, evaluated, and accomplished with other work. Family planning commissions should exercise their power as functional departments, conduct spot checks and annual general inspections of rural family planning work, and regard fulfillment of family planning targets and results in family planning work as important criteria for evaluating the performance of cadres.

2. We should form realistic and feasible policies. In the future, fines on above-quota births should be collected in a unified manner by township family planning offices. District and township family planning offices should

open their own bank accounts, and no units or individuals will be allowed to use or embezzle the social security funds they collect. Counties and townships should allocate some funds every year for use in family planning work. We should both conduct propaganda and education and impose economic sanctions to manage people who do not live in the place where their residence is registered, transients from other localities, and people of childbearing age.

3. We should intensify efforts to improve the contingent to develop competent personnel for managing family planning. In townships where family planning work is more difficult, it is better to appoint a deputy head to take charge of the work full time. Townships should establish family planning offices and assign township assistants to serve as directors or deputy directors. Each office should also have two service and technical personnel, one propaganda worker, and one statistical worker. In every village, one family planning information worker should be appointed per 100 households. Full-time district and township family planning cadres should be given proper allowances, and city family planning commissions should establish urban contraceptives supply stations to meet the family planning demand in rural areas.

4. We should exercise management according to the law and establish a new order in family planning work. We should pay attention to the publicity of the provincial "regulations" to enhance the sense of respect that cadres at various levels and the public have for laws and the legal system. Judicial and public security departments should properly mediate social disputes arising in family planning, deal blows to lawless people whose criminal activities undermine family planning work, and ensure that family planning personnel perform their official duties according to law. Townships and villages should establish and improve the rules and regulations for basic grassroots work and exercise scientific and standardized management of people of childbearing age. All the family planning contracts signed by villagers' committees and peasant households should be notarized by judicial departments, so that both sides will have more initiative in enforcing family planning regulations according to law. This will also allow family planning to gradually become standardized and legalized, and both cadres and villagers will be protected and supervised by legal notarization. Every township should designate a date for marriage registration, and personnel from various departments should work together on the designated day. That is, township heads in charge of family planning work should take charge, and civil affairs assistants, residence registration personnel from police stations, family planning assistants, secretaries from Communist Youth League committees, and chairmen of women's federations should participate in the marriage registration work. They should not give marriage registration permission to people who have not reached the legal age for marriage.

5. We should exert concerted efforts to tackle problems in a comprehensive manner. Leading bodies of counties, districts, and townships should regard family planning as their major work. In line with the requirement that pertinent departments apply the responsibility system to family planning work, we should mobilize and organize all departments of the entire society to make concerted efforts, establish a social insurance system to tackle problems comprehensively, clearly define the work responsibility of pertinent departments, and ensure that the responsibility is fulfilled.

6. We should give handsome rewards to family planning personnel with outstanding achievements. The methods of our Jixi City are as follows: Districts will reward townships free of unplanned births, early marriages, early childbearing, marriages between close relatives, and late, induced abortions by giving them 10,000 yuan each. If townships achieve this for three successive years, their major party and government leaders and family planning personnel will be promoted by one grade. Yearly meetings will be held to commend leading people, pertinent departments, and family planning personnel who have contributed to family planning work, and to commend people of childbearing age who have had outstanding performances. People engaged in family planning work for 15 years and those engaged in family planning work for 10 years, but whose length of service has reached 30 years, will be promoted by one grade if their performance is good.

#### **Sichuan Claims Progress in Population Control**

*OW1312115190 Beijing XINHUA in English  
1054 GMT 13 Dec 90*

[Text] Beijing, December 13 (XINHUA)—The fourth national population census shows that southeast China's Sichuan Province has made remarkable progress in population control over the past seven years, the "PEOPLE'S DAILY" reported today.

The census revealed that Sichuan's natural population growth rate in 1990 was three per thousand less than the average national natural population growth rate.

Sichuan's population growth rate ranks sixth in the country after Beijing, Tianjin and Shanghai, and Liaoning and Zhejiang Provinces.

In 1983 the province's population accounted for 9.93 percent of the country's total, and this figure had decreased to 9.46 percent by this year, the paper said.

#### **TRANSPORTATION**

##### **Shipbuilding Gears Up To Meet Rising Demand**

*HK0312031190 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 3 Dec 90 p 2*

[By staff reporter Wei Min]

[Text] Chinese shipbuilders are gearing up production to meet rising domestic and foreign demand.

Experts said a program launched three months ago and now being pushed further ahead will triple production within a couple of years.

Shi Guoqi, an official from the China State Shipbuilding Corporation (CSSC), told BUSINESS WEEKLY the program is aimed at shortening the time for construction of vessels of 10,000 dwt (dead weight tons) and above.

Shi said the period for building a 35,000-dwt vessel—now at about 18 months to launching—can be shortened by one-third in three years.

Such an “ideally” short cycle has already been gained at some of the larger shipyards, Shi said.

Demonstrating the achievement, which may be the industry's best effort so far, was the construction of a 65,000-dwt freighter for an American client at Jiangnan Shipyard in Shanghai, China's largest industrial port city.

The freighter was launched in August instead of the end of December as set by contract, Shi said. That means the building period was shortened from 19 months to 15 months.

Under the administration of CSSC, which oversees marine engineering, are six slips capable of constructing 35,000-dwt-and-above vessels. Another slip is now being expanded to that size.

Such a speed as the Jiangnan Shipyard achieved—12 months for one vessel—is also expected to be reached at the slips capable of constructing vessels of 10,000 dwt and above, Shi said.

However, officials from CSSC admit there is a large gap in vessel construction time between the efficient yards and inefficient ones.

Shi attributed the shortened cycle mainly to technical renovations in the past decade.

Chinese shipbuilders used to first weld steel sheets into a ship shell and only after the entire shell was framed and lifted onto the slip did the work to equip the ship begin.

Since the early 1980s, as soon as the welding of the segments of a ship shell begins, the work to equip the ship begins on the segments.

This method is more rational and can shorten the cycle dramatically.

But not until two years ago did the method begin to be widely used, Shi said.

And in the recently-launched program, every shipyard is urged to take solid measures to adopt the improved method.

Shi said the shipbuilders expect to strengthen their competitive position on the world market through these efforts to shorten the construction cycle.

So far the industry has in hand orders from overseas clients for some 2.6 million dwt of vessels.

Chinese shipbuilders are optimistic about the 1990's world market, saying they expect to win a larger share.

## AGRICULTURE

### Benefits Follow Rapeseed Price Reforms

9ICE0137A Beijing NONGMIN RIBAO in Chinese  
24 Oct 90 p 2

[Unattributed article: “Insights Following Rise in Rapeseed Procurement Prices”]

[Text] The state readjusted oil (meaning oil-bearing crop) procurement prices in 1990, raising the fixed procurement price of six different edible vegetable oils by an average 47 yuan per 50 kilograms. In principal rapeseed producing areas, the fixed procurement price was raised 70.40 yuan in a 30.9 percent increase over 1990. Nationwide rapeseed output for the year reached 61.69 million tons, a crop that was 27.6-percent larger than in 1990 being harvested.

The situation reported by information network outlet points in the agricultural economy suggests that the 1990 substantial state increase in the fixed procurement price of rapeseed has boosted peasant interest in production. In most areas, market supplies of rapeseed are ample; procurement quotas have been well fulfilled; the difference between list price and market price has narrowed; and in some places the negotiated price is even lower than the fixed procurement price. This has had a surprising social effect. Because of the tremendous decline in market and negotiated prices in this bumper rapeseed harvest year, many places have instituted centralized procurement at an overall price. As a result of the change in the price structure, peasants have been unable to gain full benefit from the rise in prices. Downgrading in order to lower prices, limiting quantities accepted, and refusals have also occurred. Nevertheless, the substantial increase in the fixed contract procurement price has supported and stabilized the earnings of rapeseed growers. Peasants have increased their incomes as a result both of the price increase and the increase in output. Therefore, even though everyone is very dissatisfied about the damage to peasant benefits in procurement, the impetus for increasing rape output is strong with no signs of weakening. Concrete analysis of this increase in the price of rapeseed provides us several insights:

**The 31-percent increase in the rapeseed procurement price narrowed the differential between list and market price substantially.** Ministry of Commerce statistics show an average country fair transaction price for rapeseed of

272.50 yuan per 50 kilograms in 1989, a 71.4-percent difference from the 158.4 yuan fixed procurement price for the same year. During July 1990, the average country fair market transaction price was 258.50 yuan for a 24.6-percent difference from the 207.40 yuan fixed procurement price. The difference between list and market price was 46.89 percentage points lower than in 1989. The degree of narrowing exceeded the degree of increase in the fixed procurement price.

**The rise in the contract fixed procurement price did not drive up the market price. On the contrary, a tremendous decline occurred.** In July 1990, the commercial country fair market transaction price averaged 5.17 yuan per kilogram of rapeseed, versus 5.45 yuan in 1989 in a 5.3-percent decline. In some producing counties (or cities), the difference between parity and negotiated price was lower than the fixed procurement price; even the negotiated price was lower. Clearly, the rise in the contract fixed procurement price did not drive up the market price.

**The price increase spurred development of rapeseed production, producing socioeconomic benefits in many regards.** These benefits showed up particularly in the easing of difficulties in fulfilling fixed procurement quotas and in increasing effective supply, thereby creating conditions for straightening out oil-bearing crop procurement and sale prices. A fine momentum occurred in rapeseed production, enabling Sichuan Province to switch from parity price to negotiated price in supplying oil to industries. The Guangxi-Zhuang Autonomous Region canceled its contract procurement of oil-bearing crops, freeing prices. City and town residents' oil rations, which had been subsidized in hidden ways, were now openly subsidized for marked results. The change also provided useful lessons for straightening out oil-bearing crop procurement and marketing nationwide, permitting the freeing of oil-bearing crop prices and planning for the building of a normal flow order.

### Central, South Regionalism Hampers Grain Sales

9ICE0047A Beijing JINGJI CANKAO in Chinese  
7 Oct 90 p 2

[Article by Yang Shanqing (2799 0810 3237), Li Hu (2621 3337), and Chen Xinrun (7115 2450 3387): "Knock Down the Wall of 'Regional Blockades'"]

[Text] In the past year the shadow of "grain-selling problems" has enshrouded central and southern China, and cadres and peasants everywhere complain frequently. The authors recently conducted a survey of Hunan, Hubei, Guangdong, and Hainan, which revealed that, while there are no doubt many reasons behind the "grain-selling problems," "regional blockades" is one of the chief reasons.

During the first half of 1988, there was a nationwide grain shortage, but the big grain-producing provinces—Hunan (which was hit by natural disasters that year) and Hubei—did not seize the opportunity to sell their grain.

On the contrary, they erected a "wattled wall": at each crucial juncture on highways, railways, and waterways, they set up checkpoints to prevent grain exports. This created a tense situation for a time. Who knew that the last half of the year would produce a nationwide grain bonanza, changing the market dramatically and making previously scarce goods suddenly undesirable? Stored grain became unsaleable and new grain could not be harvested, making the government nervous and causing the peasants to curse the grain.

An authority at the Hubei Grain Bureau reported that, as of the end of May 1990, there were 5.85 billion kg of grain stored in Hubei, an increase of 36 percent over the same period in 1989. Granaries were bursting with grain, and there were an additional 1.4 billion kg stored out in the open, subject to severe spoilage. Hubei had a bumper early-season rice harvest this year, and it looks as though the fall grain crop will also be bountiful. Projections indicate that the peak season in the last half of the year will result in 4 billion kg of grain stored out in the open, while there will be a 3 billion yuan gap in grain procurement funds. Although the departments concerned have made heroic efforts, it is still difficult to solve the problem effectively, and "grain-selling problems" will continue.

Because of obstacles to grain sales and transfers and the extra pressure on storage facilities, grain prices have fallen time and again, and grain enterprises are experiencing widespread losses. Some grain-producing provinces complain heatedly about grain-marketing provinces, claiming that their failure to move and sell the grain in a timely fashion is tantamount to regarding the grain-producing regions as "rice pots," increasing their storage burden and exacerbating pressure on funding.

At the same time that Hubei, Hunan, and other grain-producing provinces are complaining loudly of hardships, Guangdong, Hainan, and other grain-marketing provinces report that they too are suffering substantial losses due to the grain situation. Chen Yu [7115 5940], deputy directory of the Guangdong Grain Bureau Office, told us that in 1988 grain was scarce in Guangdong, and the Ministry of Commerce decided to transfer a quantity of "negotiated-price" husked rice from Hunan and Jiangxi and sell it at par in Guangdong. Who knew that those provinces would erect blockades so that the grain could not be transferred? As a result, the price of grain in Guangdong suddenly jumped from 0.8 or more yuan per kg to around 2.5 yuan per kg, and everyone—officials and ordinary people alike—worried themselves sick about it. If we cannot rely on transferring grain from domestic sources, then we can only rely on imports.

In addition, it is our understanding that because Hunan and Hubei have instituted protective prices on grain procurement in the past two years, the current price for husked rice transferred out of the province is around 1.26 yuan per kg. The more rice they transfer, the greater their losses, so they have no enthusiasm for the job.

Although it will not be easy to resolve the impasse between grain-producing and grain-marketing regions, we have reached the point where it is essential that we do so. To this end, Hunan, Hubei, Guangdong, and Hainan and the authorities of the Composite Grain Department of the Ministry of Trade have made the following proposals:

First, the state must assert the "authority" to institute macroeconomic regulation and control. Comrades in Guangdong have told me that in China it is bad business to rely on any single department for grain. The leading organs of the state must assert their "authority" to coordinate the multiple relationships and interests involved and reform the unreasonable circulation system. Based on a thorough investigative study, they should decisively "regulate" whatever must be regulated and resolutely "control" whatever must be controlled.

Second, there must be sincere cooperation between provinces, rather than individual "selfish calculations." In addition to enhancing macroeconomic regulation and control, the state must also encourage direct links between supply and marketing sectors across provincial borders. Cooperative relationships, featuring mutual reciprocity, mutual interests, and long-term stability, should be established between provinces.

Third, we should be cautious about importing grain. China has a grain shortfall overall, so it is necessary to import some grain. However, we cannot import grain indiscriminately. According to the authorities concerned, the large volume of grain we imported from 1988 through the first half of 1989 put us in a very passive position. First of all, the grain was too expensive and produced serious losses for the grain sector. In addition, the grain was inferior and sold poorly, so that we had no choice but to process some into fodder. Finally, huge imports of grain assaulted the domestic market and exacerbated "grain-selling problems" for some grain-producing provinces.

Fourth, we cannot continue ignoring problems with grain procurement funding and grain storage. It is our understanding that this year there are various shortages in the grain procurement funds of six central and southern provinces. In addition to loan shortages and the fact that too much money is tied up in overstocked grain, agricultural credit is still being diverted in too many different directions. Some people have suggested that we should establish an internal grain bank to make decisions concerning special grain funds and guarantee a supply of money for grain procurement and marketing.

#### **Water Conservancy Investment Expected To Double**

*OW0312122290 Beijing XINHUA in English  
1211 GMT 3 Dec 90*

[Text] Beijing, December 3 (XINHUA)—China is scheduled to double its investment in water conservancy

during the next five years to harness the country's large rivers and build more irrigation facilities.

A Ministry of Water Resources official said during a recent press conference that in the past five years China has invested over 7.3 billion yuan to harness rivers and repair reservoirs, and as a result, dikes along the major rivers and at 43 major reservoirs have been strengthened.

Over 40 million Chinese farmers participated in the construction of irrigation facilities each year since 1987. Their work has helped curb the tendency of irrigated areas to fail, the official said.

However, experts point out, water conservancy as a base for national economic construction is still weak in many respects. The danger of flooding still exists along major Chinese rivers and many irrigation facilities are too old.

Therefore, the Chinese Government is ready to increase investment in this area in an effort to curb soil erosion in some areas and to improve old or construct new facilities during the next five years.

#### **Northeast Provinces Report Record Grain Harvest**

*OW0312082590 Beijing XINHUA in English  
0809 GMT 3 Dec 90*

[Text] Beijing, December 3 (XINHUA)—The total grain output of northeastern China's three provinces set record of 53.6 billion kilograms this year.

Today's overseas edition of "PEOPLE'S DAILY" reported that the grain output of Heilongjiang, Jilin and Liaoning Provinces for this year increased by 12.75 billion kilograms over last year.

The newspaper quoted local officials as saying "the three provinces are expected to sell over 25 billion kilograms of commodity grain to the state."

#### **Agriculture Bank Notes Higher Rural Savings Deposits**

*OW1012043890 Beijing XINHUA in English  
0215 GMT 10 Dec 90*

[Text] Beijing, December 10 (XINHUA)—According to statistics from the Agricultural Bank of China, total rural savings deposits had reached 302.4 billion yuan (about 60.4 billion U.S. dollars) by the end of last month.

This was an increase of 30.1 billion yuan over the same period of last year.

The figure shows that the farmers had more money from this year's good harvests, and the stable market gave them a feeling that they didn't have to rush to buy things that they were not in urgent need.

Meanwhile, the bank and the rural credit cooperatives extended 504 billion yuan in loans during the period, 92 billion yuan up over the 1989 comparative figure, an all time high.

### Vegetable Exports Increase; Target Overfulfilled

*HK1012034490 Beijing CHINA DAILY in English  
10 Dec 90 p 2*

[By staff reporetr Wu Yunhe]

[Text] China witnessed a rise in vegetable exports this year.

The China National Cereals, Oils & Food Import and Export Corporation, the country's leading agri-business institution, announced yesterday that it would overfulfill this year's vegetable export target by 15 percent.

The target, set by the State at the beginning of this year, was \$4 million, a jump of nearly \$1 million over last year, according to a corporation official.

These exports included fresh and quick frozen vegetables, processed wild vegetables, dried vegetables, dried bamboo shoots, vegetables in brine and salted vegetables, the official said.

These agricultural products came mainly from seven export commodity production bases jointly funded by the corporation and local agricultural units in Anhui, Jiangsu and Zhejiang provinces and Shanghai, she said, adding that such bases had ensured a reliable channel for the corporation to organize its exports over the past few years.

Garlic was the biggest foreign exchange earning item among Chinese vegetable exports this year, with a trade volume of around \$1.5 million so far, the official said.

She hinted that the figure represented a considerable increase compared with last year's, but refused to give any further information.

Chinese vegetables were particularly popular in the markets of Japan, Singapore, Hong Kong and other South-east Asian countries and regions.

The corporation was now making efforts to develop new markets in Europe and America to maintain the momentum in vegetable exports next year, she said.

But there were still a number of factors hindering the corporation from realizing its ambition to become a leading vegetable trader on the world market, such as poor packaging and freezing equipment and the unacceptably high cost of transportation, the official said.

She added that vegetables differed from other agricultural exports in that they weighed a lot, cost a lot to transport and resulted in slender profits.

### Tobacco Exports Set Record

*OW1112152090 Beijing XINHUA in English  
1310 GMT 11 Dec 90*

[Text] Beijing, December 11 (XINHUA)—China earned 260 million U.S. dollars from tobacco exports in the first ten months this year—62.5 percent above the quota and an all-time record.

As a result of imported advanced technology and equipment and better quality control of tobacco and cigarettes, the country's export volume of cigarettes during the period surpassed the total export volume of the past five years.

Statistics show that the country's earnings from tobacco exports in the first 10 months this year were four times greater than in 1985.

### New Grain Storage Facilities Planned

*HK1112105990 Beijing CEI Database in English  
11 Dec 90*

[Text] Beijing (CEI)—China plans to build new granaries to accommodate 25 billion kg of grain during the Eighth Five-Year Plan (1991-1995) period.

According to an official of the Grain Storing and Transportation Bureau of the Commerce Ministry, restorations of the existing granaries are scheduled to be completed within the coming three years.

China has long been short of grain storage facilities. The ratio between granaries and grain in stock at present is 1 to 1 while the reasonable ratio should be 1.45 to 1, the official said.

Some makeshift granaries with storage capacities of 7.87 billion kg of grain were built this year to meet the demand, the official said.

### Germ Plasm Bank of 'Precious' Trees Established

*OW1312120590 Beijing XINHUA in English  
1105 GMT 13 Dec 90*

[Text] Beijing, December 13 (XINHUA)—A germ plasm stock bank of precious and fine varieties of trees has been recently set up in south China.

The bank, first of its kind in the country, stores genes of eleven genera including camellia, the rose family, sensitive plants, the mustard family, begonia, eucalyptus, China fir and others.

The storage facility is capable of an annual output of one million saplings. Experts say it will help the future efforts towards afforestation in the country.

### Anhui Peasants Living Standard Up Since 1985

*OW1112075490 Hefei Anhui Provincial Service  
in Mandarin 1100 GMT 8 Dec 90*

[From the "Provincial Hookup" program]

[Text] According to a sample survey, the income of peasants in our province continued to rise and their living standards and consumption levels continued to improve during the period of the Seventh Five-Year Plan.

It is estimated that the net per capita income of peasants in our province will increase 146 yuan from the 369 yuan posted at the end of the period of the Sixth Five-Year Plan to reach 515 yuan in 1990, posting a growth rate at an average of 8.7 percent per annum, while the per capita personal consumption level will increase at an average of 13.6 percent per annum from 299 yuan posted at the end of the period of the Sixth Five-Year Plan to around 500 yuan in 1990. Improvements are manifested in the following areas:

The collective economy in the rural areas of our province continued to develop during the period of the Seventh Five-Year Plan. In particular, the rapid development enjoyed by the village and town enterprises enabled peasants to increase their income from the collective economy. The peasants in our province only received 3.92 percent of their net income from the collective economy in 1985, but the ratio rose to 5.3 percent in 1989. The fact that commercial production enjoyed further development enabled peasants to keep increasing the monetary extent of their total income. The per capita income derived from peasant household management of production reached 513 yuan in cash in 1989, posting a growth rate of 79.9 percent over that of 1985 and an increase at an average of 15.7 percent per annum.

The material life and cultural life of peasants were also further improved. As the peasants in our province kept improving their material life, they paid even more attention to enriching their cultural life during the period of the Seventh Five-Year Plan. The peasants spent 468 yuan out of their per capita consumption expenses on material consumption in 1989. The figure accounted for 93.8 percent of their consumption expenses, which was lower than the ratio of 96.9 percent registered in 1985. Meanwhile, they spent a per capita 31 yuan on cultural life and services in 1989. The figure accounted for 6.2 percent of their consumption expenses, posting a growth of 230 percent over the ratio of 3.1 percent registered in 1985 and an average increase of 34.7 percent per annum.

### Anhui Oil Crop Area

*91P30050B Hefei ANHUI RIBAO in Chinese 22 Nov 90  
p 1*

[Summary] This year the oil crop area in Anhui Province is 15,013,000 mu, and estimated output is 1,289,000 tons, a 26.8 percent increase over 1989.

### Guangxi Peasants Living Standard Improves 1985-90

*HK1312135690 Nanning Guangxi Regional Service  
in Mandarin 1130 GMT 11 Dec 90*

[Text] During the Seventh Five-Year Plan period, the peasants of our region have benefited a great deal from the reform. Their per capita net income has exceeded the figure listed in the plan while their livelihood has witnessed a continued improvement. It is estimated that the per capita net income of the peasants of our region will approach 500 yuan in 1990, representing a 60-percent increase over 1985. The average annual increase rate of their per capita net income over the past five years is expected to exceed 9 percent, thus exceeding the 8-percent increase listed in the plan.

With a continued increase in income, the livelihood and consumption of peasants have also witnessed a substantial improvement. It is estimated that the peasants' per capita expenditure on consumer goods will reach 370 yuan in 1990, representing an increase of more than 40 percent compared with 1985. The average annual increase rate of the peasants' per capita expenditure on consumer goods over the past five years is expected to exceed seven percent. Meanwhile, a fundamental improvement is also manifested in consumption structure. With a steady growth of food and clothing consumption, the peasants' per capita expenditure on daily necessities and other necessities is expected to exceed 50 yuan in 1990. The average annual increase rate of their per capita expenditure on daily necessities and other necessities over the past five years is expected to reach 14 percent. The consumption of high-grade and durable consumer goods has increased more rapidly. It is estimated that there are more than 24 television sets, 14 cassette-tape recorders, and 52 electric fans in every 100 peasant households in 1990, representing a 300 percent increase over 1985 respectively. The peasants' per capita expenditure on housing is expected to exceed 50 yuan. Their housing conditions have improved to a great extent.

### Hainan To Establish Agriculture Development Zone

*OW1312114790 Beijing XINHUA in English  
1050 GMT 13 Dec 90*

[Text] Haikou, December 13 (XINHUA)—Hainan, China's newest province, is planning to set up the country's largest agriculture development zone in a comprehensive manner.

Unlike China's four other special economic zones, Hainan is enriched with agricultural resources. Local officials said that they are working to attract foreign funds and technologies so as to utilize the zone's uncultivated and low-yield lands to grow tropical plants, develop animal husbandry, aquatic production and processing industry.

"Our purpose is to build up a modern agriculture base which combines farming, industry and foreign trade. We want to gradually transform the area's traditional form of farming into a commercialized and export-oriented one," an official said.

To achieve these ends, the province began inviting overseas businessmen to invest in different kinds of projects in the five-county 246,700 hectare zone.

Local officials said that so far up to a thousand businessmen from both domestic and overseas companies have come to Hainan to discuss cooperative projects in the zone.

The local government has decided to provide preferential conditions to investors in agricultural projects and related fields with high efficiency and fast economic returns.

The zone is enticing foreign investors to open up large parcels of land with transferable land use rights agreements that are valid for a maximum of 70 years.

In addition, future investors will enjoy the right of tariff exempt unlimited trade with the country's other provinces and foreign countries.

Among the potential investors, many come from Hong Kong and Taiwan. However, the zone has also attracted the interest of many other countries and foreign commercial representatives stationed in China.

### Heilongjiang Grain Output Reported

SK0812052290 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 7 Dec 90

[Summary] Heilongjiang Province has reaped a bumper grain harvest this year thanks to the measures of enforcing the special policy on farming operation and the 3.9 billion yuan investments in agriculture. According to the latest statistical data compiled by the provincial statistical bureau, the province's total grain output has reached 23.25 billion kg, a 5.75 billion kg increase over the previous peak in 1986. The grain output of 10 grain producing counties, including Nehe, Hailun, Shuangcheng, Suihua, and Zhaozhou, has surpassed 500 million kg and their total grain output has reached more than 7.35 billion kg, which accounts for 31.8 percent of the province's total.

### Henan Rice Area, Output

91P30051A Zhengzhou HENAN RIBAO in Chinese 22 Nov 90 p 1

[Summary] This year the rice area in Henan Province totaled 6,591,000 mu, the average per mu yield was 409.5 kilograms, and gross output 2.69 billion kilograms, increases of 12.6 and 15.9 percent respectively over 1989. This year the area sown to rice seeds increased from 7,000 mu in 1989 to 32,000 mu.

### Grain Payment Problems in Hubei Aired

91CE0137B Wuhan JINGJI XINXIBAO in Chinese 25 Oct 90 p 3

[Article by Fu Zhanqing (0265 1455 0615), Zhang Guangcheng (1728 0342 2052), and Zhang Guangxin (1728 0342 2450): "Reasons Affecting the Removal From Circulation of Grain Allocation Sale Funds, and Remedies Therefor"]

[Text] No sooner was the issuance of IOU's for agricultural byproduct procurement gradually reduced than the issuance of IOU's for grain allocation sales appeared, making restitution of allocation sales funds difficult. In this connection, we looked into the situation regarding the removal from circulation of grain allocation sales funds in Suizhou City, Hubei Province, discovering the main reasons to be as follows:

1. When areas are unable to sell grain shipped in accordance with plan allocations, they delay payment for it. During the past several years the country has tightened grain controls, requiring that areas shipping grain and areas receiving grain to enforce allocation plans strictly. Grain-receiving areas, in particular, are to accept grain in order to reduce the burden on grain shipping areas. However, instead of reducing their burdens, enforcement has increased them. This is because areas receiving the grain may not refuse shipments according to plan, but they also do not have the money to pay for it. This creates a "chain of debt" for grain and the issuance of IOU's for allocation sales. As of the end of August 1990, Suizhou City had more than 26 million yuan receivable in grain allocation sales funds. This was 18.55 percent of total grain allocation sales.

2. No government subsidization of losses resulting from policies impairs recovery of procurement funds. In recent years the state has steadily raised grain procurement prices in order to increase peasant income, but it has adopted a system whereby "the central government invites the guests, but local government pay the bills," local government being required to digest the price increases. Consequently, the more the allocation sales, the greater the losses, and an increase with each passing year in the amount of government financial subsidies. In a situation of an economic slump among enterprises and insufficient money, local governments have sometimes been hard pressed to insure even payment of wages, to say nothing of providing timely recompense for grain business losses attributable to policy reasons. By the end of August, Suizhou City was liable for, but had not yet paid, more than 42 million yuan in policy-attributable grain losses.

3. The grain market slump makes negotiated price sales difficult, causing a great accumulation of grain in inventory. First of all, demand for grain has weakened. As a result of the upward trend of prices in recent years, grain prices shot up for a time, forcing grain-short coastal areas to import some grain. Rice from Thailand and Burma flowed into Guangdong and Guangxi markets, so that

there is sufficient grain in storage to meet local needs for up to one year. Following improved relations on both of China's borders, border trade between China and the USSR and between China and Vietnam has become increasingly lively; this trade has caused some grain to enter domestic markets, causing problems for domestic grain sales. Second, because of the tremendous increase in procurement prices and transportation costs for grain in inventory and the slide in market sale prices, costs are higher than sale prices. The unwillingness of some grain processing enterprises to lose money on sales has occasioned an oversupply in storage. Third, some illegal companies were stamped out during improvement of the economic environment and rectification of the economic order, resulting in the dispersal of temporary workers and artisans. Large numbers of the floating population of cities and towns returned to farming, causing a sharp decrease in sales of grain at negotiated prices in cities and towns.

4. The obstruction of financial settlement channels has made the return flow of payments for grain difficult. This situation has existed for a long time, and even though all jurisdictions have tried to rectify it, the problem has not been entirely solved. After revival of the entrusted collection and payment system, banks in some places developed a severe case of selfish departmentalism, refusing to act as the settlement system requires. Failure to examine and verify collections closely frequently resulted in rejections. As a result, owed money could not flow back in a timely fashion.

Difficulties in recovering grain allocation funds not only hurt procurement of agricultural byproducts, but also impaired the turnover of funds and economic returns of grain businesses. This is a matter about which departments concerned should devote serious attention and take effective actions to solve. Remedies include the following:

1. The People's Bank should obligate some startup funds for use in debt clearance as a means of stimulating the ordinary recycling of grain allocation funds.

2. Grain businesses should designate a Bank of Agriculture account for transactions. This would both help the central bank's regulation and control of grain procurement funds, and better specialized bank control over grain funds. It would also help achieve a "clearing of both money and goods," reducing the transit time of funds.

3. Final settlement of grain allocation sales funds should be apportioned and handed over by the People's Bank. A cash on delivery system should be instituted for units that take grain without paying for it, the alternative being to halt plan allocation supply.

4. A change should be made in the grain loss subsidization contract system, grain department losses attributable to policies being reimbursed in total out of the

central government treasury as a means of stirring enthusiasm in grain producing areas to promote diligent procurement and quick sales that will speed up the turnover of funds.

#### **Hunan Grain, Cotton Procurement**

*91P30050D Changsha HUNAN RIBAO in Chinese  
17 Nov 90 p 1*

[Summary] As of 10 November, Hunan Province had procured 4,187,000 tons of grain, of this amount 3,351,200 tons of contracted grain were put in storage, an increase of 61,200 tons over the same period in 1989; and 836,000 tons of grain were procured at negotiated prices. In addition, 85,700 tons of cotton were procured.

#### **Hunan Pork Exports**

*91P30050C Changsha HUNAN RIBAO in Chinese  
18 Nov 90 p 1*

[Summary] At the end of October, the Hunan Grain, Oil and Food Import and Export Corporation signed a contract with the Pengli Corporation of France to export 1,020 tons of pork. So far this year the Hunan Corporation has exported over 13,000 tons of pork and has earned over \$20 million in foreign exchange.

#### **Jiangxi Opens Provincial Grain Wholesale Market**

*OW0812181490 Beijing XINHUA in English  
1605 GMT 8 Dec 90*

[Text] Nanchang, December 8 (XINHUA)—The Jiangxi Provincial Grain Wholesale Market in Jiujiang City, the second of its kind in China, has been set up and started business today.

With all necessary facilities and granaries, the Jiujiang market is mainly engaged in spot transactions of rice. In the first two hours after the market opened today, transactions of a total of 18,300 tons of rice were concluded.

Jiangxi Province is one of China's major rice producers. Every year, the province provides the state with 1.5 billion kilograms of marketable rice. Besides, it also supplies 20 percent of the nation's total volume of inter-provincial trade in rice.

Earlier, Henan Province has set up a similar grain wholesale market in Zhengzhou, capital of the province.

#### **Jilin Forestry Departments Fulfill Plans**

*SK0612035790 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 5 Dec 90*

[Summary] Forestry departments of the province have fulfilled the state-assigned tasks for the Seventh Five-Year Plan period. During the period, they afforested nearly 810,000 hectares of land, exceeding the plan by

15.4 percent; and produced more than 32 million cubic meters of timber, exceeding the plan by 6 percent.

### **S&T Helps Jilin Increase Grain Output**

*OW2611053690 Beijing XINHUA Domestic Service  
in Chinese 1103 GMT 22 Nov 90*

[By reporter Xin Minghua (6580 2494 5478)]

[Text] Changchun, 22 Nov (XINHUA)—XINHUA editor's note: Jilin Province set a new record in agricultural production this year, with an increase of grain output accounting for one-third of the nation's total grain output increase. This is inspiring news. Among all provinces, Jilin Province ranks first in four aspects in terms of application of science and technology in agriculture—the number of scientists and technicians helping agricultural production, the length of time spent in providing scientific and technological guidance to peasants on the forefront of agricultural production, the number of scientific and technological achievements being applied, and the level of scientific and technological knowledge among peasants. There are more than 10 major grain-producing provinces in China. If all those provinces formulate and implement their production plans seriously, as Jilin does, it will give the promise of high hopes of success in further raising our grain output next year. (end of editor's note)

There is inspiring good news, namely, that Jilin Province, an important commercial grain base in China, has reaped a bumper grain harvest. Its total grain output this year amounted to 18.7 billion kg, 5.2 billion kg more than last year. The increase accounted for one-third of the nation's total increase of grain output.

The leading comrades of the provincial government told this reporter: The increased portion of the grain output this year equals the province's highest annual grain output of 20 years ago. Today, the per capita amount of grain in the province is 775 kg, and the province can supply to the state more than 7.5 billion kg of grain.

In the peasants' courtyards, filled with golden corn, as well as at the bustling construction sites of farmland and capital construction projects, this reporter saw cadres and peasants, with the joy of a bumper harvest, working and talking about the reasons for their bumper harvest. Many of them attributed the good harvest to correct policies, science and technology, investment, and favorable weather. Nevertheless, the policies have remained unchanged for several years, investment has been increased year after year, and the same good weather existed also in other years. So, science and technology must have played an important role this year.

Jilin Province paid attention to applying science and technology in the past, but it had never paid as much attention as it did this year. In order to give full play to the role of scientists and technicians, every county has a deputy head in charge of science and technology, and many townships also have deputy heads in charge of

science and technology, gradually forming the rural scientific and technological leadership. In addition, the province has established a system for popularizing science and technology, involving the leadership and the scientific and technological, banking, and materials departments. Now, scientists and technicians directly take part in contracting for scientific and technological jobs, and in giving scientific and technological demonstrations. The provincial authorities have formulated a "31 May" science and technology plan outline, and all localities have prepared their own development plans accordingly. Despite financial difficulties, the provincial authorities this year have appropriated one million yuan for applying science and technology in agriculture. They have also formulated some preferential policies and measures to stabilize the ranks of agricultural scientists and technicians, and improved the working and living conditions of first-line scientists and technicians. As a result, Jilin Province ranks first among all provinces this year in four aspects in terms of application of science and technology in agriculture—the number of scientists and technicians helping agricultural production, the length of time spent in providing scientific and technological guidance to peasants on the forefront of agricultural production, the number of scientific and technological achievements being applied, and the level of scientific and technological knowledge among peasants.

On 17 November, the representatives of various science and technology demonstration zones, scientific and technological contractor groups, and scientific and technological service teams met in the auditorium of the provincial agricultural college to sum up the year's work of applying science and technology in agriculture. Over 10,000 agricultural scientists and technicians in the province have provided their service in the countryside this year. In particular, scientific and technological contracts, dealing mainly with "management, technology and materials," have played a great role. The work of the 65 scientific and technological contractor groups and scientific and technological experimental and demonstration zones, and 20 scientific and technological service teams, organized by the provincial authorities and composed of agricultural scientists and technicians of provincial, prefectural, county and township levels, has covered 38 counties (cities) in the province. They are popularizing 150 scientific and technological items, and the area of land farmed by them under contract and the area of demonstration farmland managed by them total 11.31 million mu. This farmland alone scored a grain output increase of 1.8 billion kg this year over last year, and the increase accounted for one-third of the province's total grain output increase this year.

The peasants in Jilin Province, inspired by the successful application of science and technology in agriculture, have raised their awareness of the importance of science and technology. They have an intense demand for science and technology. Some localities have even contended with each other over scientific and technological personnel, and families there vie to become model

science and technology households. The peasants voluntarily seek technical training to learn advanced technology. The provincial authorities have successively sponsored a dozen or so meetings to exhibit and popularize scientific and technological achievements, and have organized mobile scientific and technological services and on-the-spot consultant services. Many peasants took part in those activities. This year, 90 percent of peasant families have members with "technical know-how," more than 95 percent of crops are grown from superior seeds, and more than 100 new techniques have been popularized among peasants. The new techniques include a formula for cultivating high-yield corn, cultivation of rice seedlings with acid mixture [shui dao tiao suan yu miao 3055 4470 6148 6808 5148 5379], soil diagnosis and fertilization, and mechanized seedling protection. While the Jilin Agricultural University is popularizing the use of red-eye bees [chi yan feng 6375 4190 5762] to control European corn borers in Nongan County, 70,000 peasants in the country have voluntarily taken part in breeding red-eye bees.

#### **Jilin Beet Purchase Results Reported**

*SK1312075890 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 12 Dec 90*

[Summary] By the end of November, Jilin Province had procured 1.1 million tons of beet and fulfilled the purchase plan of this year by 92.5 percent. This is the third highest purchased volume, which is over a million tons, in the province's history. The per unit yield has reached 1.5 tons, topping the previous peak.

#### **Jilin Sunflower Seed Procurement Reported**

*SK1312073990 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 12 Dec 90*

[Summary] According to statistics compiled on 4 December, Jilin Province had stored 300,000 tons of sunflower seeds and fulfilled the fixed-quota purchase plan. The cities and counties of Changling, Zhenlai, Jian, Fuyu, Daan, and Tongyu overfulfilled the state assignment plan in this regard.

#### **Shandong Rural Output Value**

*SK1312074790 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 12 Dec 90*

[Summary] During the Seventh Five-Year Plan period, our province has overcome all sorts of difficulties to end the stagnant situation. The rural economy has developed at a fairly rapid rate. Data provided by the provincial Statistics Bureau show that the total social output value of the rural society of this year will exceed 179 billion yuan, a 200 percent increase over 1985. Of this, the total output value of agriculture reached more than 58.4 billion yuan, an increase of 16.5 percent over 1985, showing that the target set for the Seventh Five-Year Plan has been basically attained. During the past five years, the rural areas delivered a total of more than 40

million tons of grain, nearly 5 million tons of cotton, and 2.2 million tons of oil-bearing crops to the state. During this period, noticeable changes were seen in the production setup. The proportion of agricultural output value to the total output value of the rural society dropped from 58.2 percent to 34.3 percent. The rural industrial output value increased at an average annual rate of 45.8 percent. It is expected that the industrial output value will reach 92.5 billion yuan this year. Thus, industry will become the important pillar in the rural economy.

#### **Sino-German Afforestation Project in Sichuan**

*OW0812082390 Beijing XINHUA in English  
0659 GMT 8 Dec 90*

[Text] Chengdu, December 8 (XINHUA)—General planning for a Sino-German afforestation project in southwest China's Sichuan Province is complete and the project is being implemented.

The project—the first of the kind between China and a foreign country—is jointly funded by the Sichuan provincial bureau of forestry and the German Friedrich Ebert Foundation. Total investment in the project will reach 988,000 yuan (200,000 U.S. dollars).

The project in Jueshan Town, Suining City of Sichuan Province, will include planting trees and grass to control water and soil erosion, improve the ecological environment of agriculture, and promote comprehensive economic development.

The project plan calls for the demonstration town to first build a forest protection zone with trees, bushes and grass, in a three to five year period.

Upon completion the project will increase the town's tree coverage to 748 hectares, an increase from 3.2 percent in 1990 to 12.4 percent.

By the year 2000 the number of fruit trees will be increased by 15.2 trees per capita to 175,900 trees, and mulberry trees will number 908,400. Soil erosion will decrease from the present 158,700 tons per year to 27,500 tons in 2000.

The demonstration town was selected because of its large population and because of a serious soil erosion problem in hilly areas.

The Friedrich Ebert Foundation and the Sichuan bureau of forestry held their first joint technical training class in March of this year to initiate the training of local technicians. A second class is scheduled to be held in January next year.

#### **Sichuan Autumn Grain Area**

*91P30050E Chengdu SICHUAN RIBAO in Chinese  
20 Nov 90 p 1*

[Summary] By the middle of November, the autumn grain area in Sichuan Province was 30 million mu, fulfilling 80 percent of the plan.

**Japanese Joint Venture Grows Hops in Xinjiang**

*OW0512212490 Beijing XINHUA in English  
0708 GMT 5 Dec 90*

[Text] Urumqi, December 5 (XINHUA)—An especially aromatic beer hop, which used to be grown in Germany, Czechoslovakia and Poland, has found a new home north of the perennially snow-covered Tianshan mountains in China's northwest.

A Chinese horticulturist says: "This is the first time this type of hop has been grown outside of beer-thirsty Europe."

Scientists from a Sino-Japanese joint venture introduced six heat-resistant strains of the hop (*humulus lupulus*) in 1987, and began growing the strains experimentally on ten hectares in Fubei, Xinjiang.

The scientists selected two strains and harvested 2,700 kg per hectare, twice as much as in European fields, on land belonging to the joint venture in an area 70 km east of Urumqi on the southeastern edge of the Jungar basin.

"The quality matches that of hops grown in Czechoslovakia and is first-rate," said a Japanese horticulturist, who works at the company.

The Chinese and Japanese partners in the Fubei Sattoro Hop Co. Ltd. decided to shorten the trial period and put the hops into production one year ahead of time on 50 hectares.

Wang Liangbin, the company's Chinese general manager and a senior horticulturist, said that the acreage will be expanded to 100 hectares, which is expected to produce an output of 200 tons of hops in 1992.

The Japanese company, Sattoro, which used to import 2,000 tons of hops per year from Europe will purchase the entire output.

Xinjiang, an area characterized by dry weather, longer periods of sun exposure each day and an abundance of snow-melted water, is China's main area for hop production and an export base with an annual hop output of 10,000 tons.

The province now plants 4,600 hectares which produce an annual output equal to 70-80 percent of the national total.

In addition, the province exports 3,000 tons of hops, annually, to the Soviet Union, Czechoslovakia, Romania, Bulgaria, Belgium, Italy, Germany, Sweden, North America and Southeast Asia.

Beer is fast becoming the beverage found on a Chinese dinner table, and beer output, which accounts for 48.8 percent of all alcoholic beverages, has been growing at a rate of 35 percent each year.

The country produced over 7.9 million tons of beer last year, and Beijing, the Chinese capital, produces over 300,000 tons per year.

### Assessment of New Administrative Law of Procedure

91CM0056A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 44, 29 Oct 90  
pp 10-11

[Article by Liu Jinghui (0491 2417 2037): "The 'Administrative Law of Procedure' Takes Effect in China"]

[Text] The "People's Republic of China Administrative Law of Procedure" took effect on 1 October 1990, giving the Chinese masses an unprecedented legal standing to sue "government officials," and placing the activities of administrative organs within the supervision of the law for the first time. This breakthrough is of monumental significance and wide-reaching effect for China's efforts to build a legal system, and it represents an extremely vital step forward on the path toward democratic government in China.

#### From Pleading for an Audience With Higher Authorities to Legally Bringing Suit Against "Officials"—A Historic Breakthrough

Throughout China's several thousand year history, centralization of political ruling power has been a fact of life. The masses have always been viewed as small potatoes, whereas the officials have always enjoyed absolute "authority." In the minds of the people, officials represented the law and the law was equal to the will of the officials, therefore, the popular understanding was that "officials will protect each other" and that "the people cannot sue officials." The masses, despite having suffered enormous injustices, could only hope to come across an "honest and upright official" such as the legendary Magistrate Bao to have their injuries redressed.

In the socialist system that went into effect with the establishment of New China, the people were made the masters of their own destiny, and government and its workers became public servants representing the people in the exercise of administrative functions and powers. This basically did away with the old system of government. However, the abolition of the old system did not, in any fundamental sense, erase the old idea that "officials are noble and the people are lowly." Also, the administrative organs of the state, in fact, continued to operate without any legal supervision. As a result, in some places bureaucracy grew severe, and it was not uncommon to see instances of public power used for private gain and encroachments on the legitimate rights and interests of the citizen. To cope with this, the people resorted to appealing, in person or by letter, to higher level organs, discipline inspection departments, news and public opinion units, and even to state leaders. As a consequence, many disgruntled people and many more letters of grievance ended up in Beijing. The department responsible for handling appeal letters was inundated with pleas for help, and so, in the end, 95 percent of the administrative disputes were referred back to the very

same level where the problem originated or were handled by grassroots administrative organs. In reality, many of the letters were sent back to the "defendants" themselves, and one can easily imagine how they were disposed of there. One person in a department concerned says that, because the grievances got bounced from level to level and because many problems could not be handled in a timely manner, up to 50 percent or more of the injured appellants turned around and went back up the chain or else sent another letter renewing their grievance. And sometimes the person seeking redress would make an attack on the administrative organ or intercept a state leader's car so as to personally present his plea.

In this new age, through our work to strengthen the establishment of democracy and a legal system, the people have grown much more aware of the law. Now we have a trend, not only among the people, but also in the administrative organs, to conduct affairs in accordance with the law. Thus, there is a growing number of lawyers in China, people are requesting the services of lawyers to help them bring complaints against officials, and corporate enterprises and heads of administrative organs are starting to study law and request legal advice from lawyers. Under these circumstances, certain "bold and reckless" individuals are now starting to march into the courtrooms of China and file complaints against government organs, and even against provincial governors and department heads. A few years ago, a farmer named Zheng Zhao [6774 3564] from Cangnan County, Zhejiang Province, went to court to sue the county government. In his speech before the court he said, "The loser at trial is perfectly willing to go to jail, as long as the law treated him fairly." As a rare instance of "a citizen suing the government," this case attracted enormous attention from legislative organs and other circles as well.

At the time the "People's Republic of China Law of Civil Procedure (Test Application)" was promulgated in 1982, the people were happily astonished to learn that Article 3 of this law clearly stipulated: "It shall be proper to apply the rules in this Law to lawfully based administrative cases tried by people's courts." Although this rule is extremely broad and in the form of a principle, it does mark the first time a regulation explicitly authorized lawsuits against administrative organs in a court of law, and it opened the legal door to "citizen suits against officials." In the wake of this, more than 130 laws and regulations formulated and promulgated by the National People's Congress, its Standing committee, the State Council, and other departments contained similar rules.

Once the precedent for "citizen suits against officials" had been set, the number of administrative lawsuits multiplied daily. According to incomplete statistics, in 1987 people's courts of all levels nationwide accepted and heard 5,240 administrative lawsuits involving over 20 administrative departments. Under these circumstances, broad rules taking the form of a principle were no longer suitable for the new requirements, and so, in 1986 the Standing Committee of the National People's

Congress began formulating a draft of the Administrative Law of Procedure. After three years of drafting work and deliberations, the "People's Republic of China Administrative Law of Procedure" was finally passed at the second session of the Seventh National People's Congress Standing Committee on 4 April 1989 with the voting as follows: 2,662 for, three opposed, and 23 abstentions. The law formally took effect on 1 October of this year.

#### **The Progression From Opposition to Lawsuits to Fear of Being Named as Defendant in a Lawsuit to Administrative Compliance With the Law**

There were sensational social effects after "citizen suits against officials" became a reality in China. Both the broad masses and knowledgeable persons in various parts of society were of the mind that this represented an inevitable trend in China's democratization and that it was wonderful news deserving to receive the boldest typeface. But others, particularly government officials, were worried about this development. They felt that it would be a "loss of face and prestige" when government organs were made defendants in lawsuits. In 1987, a poll taken in a certain city regarding the issue of "whether the 'Administrative Law of Procedure' can be formulated and put into effect at this time" revealed that, of the 68 city government organs and 12 district and county government organs polled, 95 percent of the administrative organs felt that this law was a maverick development that went way too far and that it should be shelved. One official even attached a special note to his survey sheet, pointing out that, whether one considered the matter from the standpoint of the legal awareness of the people or the management qualities of administrative personnel and the state of the legal system, either way, it would be inadvisable at the time to formulate and put into effect the "Administrative Law of Procedure." The opinions of these people reflected the attitudes of the majority of administrative organ personnel at that time.

In fact, since 1983 when they began hearing administrative lawsuits, judges of the people's courts have encountered numerous instances where administrative organs have refused to come into court to answer a complaint out of fear that being a defendant in a suit would cause them to "lose face." One head of a central government department refused to answer a lawsuit in court. When the news media disclosed this fact, it created quite a public uproar. In Nanning City, Guangxi Province, the court of a certain district was slated to hear an administrative lawsuit involving a violation of the rules concerning public security administration. The court repeatedly notified the public security organ to answer the complaint and to provide various pieces of evidence and relevant standardized documents, and so forth, but the organ hemmed and hawed and did not provide the information. And, in order to avoid having to go into court as a defendant, the public security organ located the plaintiff and demanded he withdraw the complaint and end the matter. Only after the court repeatedly

informed the organ of the regulations pertaining to administrative lawsuits did the organ finally appear in court and defend the suit.

The fact of the matter is, when administrative organs answer a complaint in court and become defendants, it does not necessarily mean that they will lose the suit. However, this incorrect understanding of what it means to be a "defendant" and their invidious assumption that "officials are noble and the masses are lowly" lead them to believe that "defendants" stand a bit lower than plaintiffs and that, as defendants, they will lose face, their prestige will be sullied, and they themselves will be put in a position of passivity. One judge told reporters: "Things have gotten much better in this regard since the 'Administrative Law of Procedure' was promulgated in 1989. Speaking in this sense, the formulation and promulgation of the 'Administrative Law of Procedure' was not an abrupt departure from precedent. It only means that administrative organs will have to revise their thinking and customs."

In the year and a half since promulgation of the "Administrative Law of Procedure," officials of administrative organs, faced with the clear requirements of the law, have come to recognize that this is not a trifling matter, but instead is a sign of a much larger trend. Thus, throughout the nation there has been a feverish study of the "Administrative Law of Procedure" by administrative organs. Departments one after another have established offices to reconsider administrative decisions and to handle lawsuits, and have sorted out and cleaned up their own administrative activities and those areas where their regulations are in conflict with state rules and regulations. According to incomplete statistics, over 30,000 local government leaders and persons in charge of administrative organs nationwide have had training in the "Administrative Law of Procedure." In the Muslim autonomous region of Ningxia, 83.7 percent of the cadres at the local, city, county, and higher levels have been trained in the "Administrative Law of Procedure."

One government official told reporters: "The attitude of administrative organs toward the 'Administrative Law of Procedure' has already undergone two massive shifts—from opposition to lawsuits to fear of being named as defendant in a lawsuit, and then, to administrative compliance with the law. This is due to the promotion of 'citizen suits against officials,' but, more important, the 'Administrative Law of Procedure' has placed the administrative activities of the government under the supervising gaze of the law. Massive developments like this are beyond one's wildest expectations."

#### **The Scales of the Law Are Balanced—Officials and Citizens Both Win Some and Lose Some**

When a citizen sues a government official, the citizen is plaintiff and the official is defendant. But, in the eyes of the law, both parties enjoy equal rights at trial, and there is no reason to believe that the citizen-plaintiff will win or that the official-defendant will lose. No, trials are won

and lost on the basis of the legal equities. It is reported that people's courts have set up 2,638 administrative tribunals nationwide, and from January 1983 to June 1989 people's courts throughout the nation accepted a total of 31,264 administrative cases, with officials winning some of the cases and citizens winning others.

Some people contend that "officials take care of each other" and that a citizen is bound to lose if he sues a government official. In fact, this is not true. On the afternoon of 3 July 1988 a flour mill worker named Li Yong [2621 0516] from Liaoyuan City, Jilin Province, went to the farmers market with his wife to sell vegetables. Once there, he was approached by a Mr. Tian [3944], the chief of the farmers market office of industry and commerce, who, before collecting Li's 1 yuan management fee, picked up Li's weighing scale. After paying his fee, Li got upset, the two quarreled, and Mr. Tian broke Li's scale. The two then started scuffling and Li was roughed up pretty good, receiving injuries to his head and open wounds on his scalp. Li was hospitalized for 52 days and the medical fees were 550.88 yuan. Mr. Tian's medical fees, on the other hand, were 47.02 yuan (he was not hospitalized). When the matter reached the public security organ, they handled it under the "Public Security Provisions and Penalties." Li was found guilty of obstructing official business and of battery and was sentenced to 15 days public security detention and made to pay off Mr. Tian's medical expenses. Li refused to comply. He lodged numerous appeals to higher ups, and finally a city court of appeals found that the facts of the incident were not clearly established, the evidence was not sufficient, culpability was not clearly shown, and the sentencing of Li to 15 days public security detention for obstruction of official business and battery was inappropriate. After it was held that the verdict of the public security organ was improper, the trial court went on to make the following rulings in accordance with the law: The judgment of the lower court was revoked, as was the 15-day sentence imposed on Li by the public security organ. The civil judgment was that Li should pay 50 percent of Mr. Tian's medical expenses, and Mr. Tian should pay 70 percent of Li's medical expenses and lost wages. At this point, the case was concluded.

It is not dishonorable for a government official to be a defendant in a suit, to say nothing of "losing face." In Zhengzhou City, Hunan Province, a farmer named Liu Yushun [0491 3768 7311] sued the town and country bureau of construction and environmental protection after refusing to comply with the administrative penalty imposed on her by the city planning department. After a trial and an appeal, a Nanyang appeals court held that the penalty imposed by the Zhengzhou county-city bureau of construction and environmental protection was in accordance with the law. Not only was there no "loss of face" for this governmental organ in defending the suit, but popular trust in the organ actually grew.

Above we recounted only two cases, one where the citizen won and one where the government prevailed. However, if we look at the results of the administrative

cases that were decided in the four provinces and municipalities where the "Administrative Law of Procedure" was implemented in a test run, the argument that both citizens and government officials have equal chances of winning a suit becomes even more persuasive.

In the 13 courts of Henan Province that were used in the trial run, 211 administrative cases were accepted between July 1989 and July 1990, and 172 cases were resolved. In these cases, the decision of the administrative organ was upheld 61 times, revoked 42 times, and modified 6 times, the plaintiff withdrew his suit in 48 cases, and nine cases were disposed of in other ways.

In Guangdong Province, 285 new administrative cases were accepted by the courts from January to June 1990, and 209 cases were resolved. In these cases, the decision of the administrative organ was upheld 110 times, revoked 18 times, and modified 29 times, and the plaintiff withdrew his suit in 39 cases.

In Sichuan Province, 93 administrative cases were accepted by the trial courts between November 1989 and June 1990, and 74 of the cases were resolved. In these cases, the decision of the administrative organ was upheld 37 times, revoked three times, and modified three times, and the plaintiff withdrew his suit in 31 cases.

In Tianjin Municipality, 241 administrative cases were accepted by the courts from 1987 to 1990. In these cases, the decision of the administrative organ was upheld 209 times and revoked five times, and the administrative organ itself either revoked or modified 27 of its decisions during the course of the suits.

The increase in the number of "citizen suits against officials" is not necessarily a bad thing, for it proves that, in acting as a defendant in lawsuits, government organs are safeguarding the lawful rights and interests of the citizens. Also, it promotes law-abiding behavior on the part of the administrative organs, and it can be a powerful tool in advancing the current work of building honest government and making improvements and rectifications.

#### A Long Road Ahead

One legal scholar told reporters that the success of the "Administrative Law of Procedure" hinges on the administrative organs. Some administrative organs are now implementing the "Administrative Law of Procedure" in merely a passive way, and they have still not grown beyond the old ideas that "officials are noble and the masses are lowly" and that "authority" is at stake. Thus, before the "Administrative Law of Procedure" can be genuinely effective, a tricky section of road will have to be traveled.

Information provided by the national administrative trial work conference held not long ago in Henan reveals that throughout the nation, to various degrees, "people fear suing officials," "lower levels fear suing higher

levels," and "officials fear being named as defendants in lawsuits." In Pingding Shan, Henan Province, the Yaomeng Electronics Factory refused to comply with the penalty assessed by the city bureau of technology supervision, and, after filing suit in a municipal people's court of appeals, the factory repeatedly requested from the court permission to withdraw its suit. It seems the factory was, at that moment, being considered for an upgrade, and it was worried that the suit would annoy the assessment department and thereby hurt the factory's chances for the upgrade. Although the case was finally tried in the court and satisfactorily resolved, what this shows us is that, when citizens sue officials or when lower levels sue higher levels, there is a fear that the defendant will make things hard on the plaintiff by abusing its power in a retaliatory way and that leading departments will use their powers in various ways to make the lower level plaintiff "tread a bit more lightly." Thus, it is vital that we raise legal awareness and improve the social environment. I am told that in Beijing Municipality more than 40,000 administrative penalty cases are punished each year, but only a few more than 80 of the penalties are appealed in court. And nationwide, fewer than 2 percent of all public security administrative penalties are appealed in court.

In addition to the problems discussed above, flawed and ill-conceived laws and regulations are another obstacle to the smooth implementation of the "Administrative Law of Procedure." For example, childbirth planning is a basic national policy, and the government has strenuously advocated late marriage and childbirth. And many departments require the male to reach the age of 25 and the female to reach the age of 23 before they may marry. But, in the "Marriage Law," the law states that "the male must be at least 22 years old, and the female must be at least 20 years old." If a case goes to court, the administrative organ would surely lose. Similar instances abound, such as the coercive tactics used by public security organs, compensation issues in administrative cases, and so forth. In addition, certain departmental rules, regulations, and basic laws conflict with one another, some laws and judicial practices are not compatible, and so on.

The key issue determining whether the "Administrative Law of Procedure" can effectively be given full effect is whether "citizen suits against officials" are given fair trials. That is, is the law enforced in a strict manner, are all persons treated equally before the law, etc.? In one region, the people's court heard an administrative case where the appellant refused to comply with the penalty imposed by the city construction department. The court revoked the penalty, and, as a consequence, the court's own application to build a four-story courthouse came back approved, but only for a three-story building. The reason given was that four stories were too extravagant. Another grassroots-level court was hearing a case involving a public security penalty, but it kept stalling

and would not render a decision. Finally, the court asked the higher level public security bureau above the defendant to come in and make the decision on the case. It did this because the courts in that county were inundated with cases where agricultural households sought registry as nonagricultural households, the cases had not all been worked out, and the public security bureau still retained authority over the original matter.

Once the truth of the matter had been brought to light, this judge pointed out that the "Administrative Law of Procedure" has now taken effect, and it will pave a completely new road. Traveling the road will be difficult but not impossible. As society progresses, and as the legal system is improved and perfected, the "Administrative Law of Procedure" will come to exert the monumental influence it deserves.

### Education Reform Results in New National Textbooks

*OW1112150990 Beijing XINHUA in English  
0908 GMT 11 Dec 90*

[Text] Beijing, December 11 (XINHUA)—Primary and middle school textbooks in China represent the country's new progress in education reform.

As of the beginning of this year's fall semester, more than 400,000 Chinese students in primary and middle schools have begun using the new national textbooks. This event marks the implementation of the textbook reform which has been deliberated for nearly five years.

Experts from the State Education Commission said that the new national textbooks emphasize training students' ability instead of mechanical memorization, as was previously practiced. New textbooks are now supplemented by illustrations and plates, as well as slides, cassettes, hanging charts and collections of exercises.

This set of national textbooks, edited and published by the Authoritative People's Education Press for nine-year compulsory education in China's primary and middle schools, represents the eighth set to come off the press since the first set, translated from those of the Soviet Union, was published in the early 1950s.

After the National Committee on Approving Primary and Middle School Textbooks was established in 1986, local educational departments have been encouraged to edit different textbooks to suit their particular needs in different areas. The initiative, aimed at breaking the textbook monopoly, was regarded as an important step in China's education reform.

Meanwhile, Chinese education experts have been editing several kinds of special textbooks for primary and middle schools in coastal open cities, rural and border areas, and areas inhabited by ethnic minorities. Experimental editions of these books were also used this autumn in Guangdong, Hainan, Sichuan and Fujian Provinces.

### Nuclear Test Site Unit Works in Gobi Desert

91CM0085A Urumqi XINJIANG RIBAO in Chinese  
13 Oct 90 p 4

[Article by Liu Cheng (0491 4453): "A Special Battlefield"]

[Text] This is a special military unit. They carry neither guns nor bullets, and their battlefield is merely a desolate stretch of desert with a few noisy drilling rigs.

Perhaps no one can give this unit an accurate military designation, but the people who live at the nuclear test site are all clear about one thing: After every burst of "spring thunder" rolls across the desert, and after the earthquake subsides, it is their job to race to the center of the nuclear blast, erect a drilling rig as quickly as possible, drill to the core of the blast, and retrieve high-quality samples as soon as possible for scientific analysis. Thus, when you see what they do up close, you will not feel that their style of combat is any less arduous than that of a battlefield where bullets fly.

In the middle of July, I visited them once again. A nuclear blast had just been carried out. The enormous nuclear blast had remolded the flat desert into a series of waves. Black ravines and gullies crisscrossed the desert, and every single pebble and stone seemed to have been turned upside down, leaving a yellow clay-colored reminder of the blast that had taken place. Three rigs stood above the blast center, and the roar of the drilling caused the ground to shake. This is their battlefield.

In spite of the sweltering heat, each officer and man wore a big chemical warfare suit and a thick dust mask. Only a pair of eyes remained exposed by which to distinguish ages and recognize familiar friends.

Finally, I picked him out—the young engineer He Weiya [0149 0251 0068]. He had volunteered to come to the base after graduating from the Wuhan Institute of Geology in 1982, and had been drilling and retrieving samples for eight years. He was one of the main persons in charge of the sample retrieval task they were then working on.

He Weiya took off his sweat-soaked dust mask and talked about the hardships of the drilling and sample retrieval forces.

The work of retrieving samples after every underground nuclear test is complex and demanding. In order to train themselves to be able to arrive rapidly at the blast center and to adapt to work in zones contaminated by radioactivity, they train hard during the coldest and hottest times of the year. They often train in 40-degree [Celsius] weather wearing airtight chemical warfare suits. Every time they train, they pour out a half-basin of sweat when they take their boots off. Even though their living and working conditions are so tough, it has not weakened their fighting spirit. For the sake of their fatherland's nuclear undertaking, they silently give their all.

In the spring of 1984, China carried out a new type of nuclear test in a horizontal shaft, and it was necessary to retrieve samples in a timely manner. Because it was the first time they had drilled horizontally to retrieve samples, they had no materials to study or experience to go on, and the base commander was worried that they might not be able to complete the task. The commander of the 14th Unit, Xie Quansheng [6200 0356 0524], spoke for all the officers and men in his unit when he issued the following order: "We must at all costs get the drill bit into the blast cavity as quickly as possible and retrieve top-quality samples on schedule."

However, the work went poorly. The bedrock had been shattered, and the core tube fell into the hole when they drilled into the intermediate layer. Xie Quansheng worked without rest, leading his key cadres in a continuous 30-hour struggle to overcome the problem. When two of the rigs neared the blast cavity, the level of radioactivity at the work site rose higher and higher. In such situations you are supposed to withdraw from the area for a while, but Xie Quansheng let his men retreat to safety while he himself worked in the radioactive zone for 20 hours longer than he was supposed to. No one remembered the dosage of radioactivity he had received. They only remembered the big smile that broke across Xie Quansheng's tired face when they retrieved the sample of molten rock ahead of schedule and specialists proclaimed it the best sample ever obtained from a nuclear test.

### Jiangsu Pursues Excellence in Military Service

#### Content of Campaign Explained

91CM0083A Nanjing XINHUA RIBAO in Chinese  
29 Oct 90 p 1

[Article by Kong Dehong (1313 1795 1347) and Zhang Chenglin (1728 2052 2651): "Campaign To 'Achieve Three Excellents' in Province's Military Service Work a Roaring Success"]

[Text] On 28 October, a meeting to exchange experiences in the campaign to "achieve three excellents" in the province's military service work came to a close. A large body of facts informs us of a roaring success in the three excellents campaign of carrying out the selection of outstanding soldiers for the armed forces, in helping the armed forces train outstanding soldiers, and in making use of discharged soldiers in the province's reform of military service work. This infused new vitality into military service work; enabled a dovetailing of the three links of soldier recruitment, service, and demobilization; integrated the recommending, training, and use of talent; further improved the national defense outlook of the whole people; promoted continuity in the armed forces and improved the quality of the armed forces and government; and advanced local economic construction. Experiences in these regards were affirmed by general headquarters and the Nanjing Military Region.

Selection of outstanding recruits was the nucleus of the campaign to "achieve three excellents." In order to ensure the political quality of new soldiers, during the past several years every city and county in the province adopted a system of "linking central and local authority, and overlapping joint examinations." They persevered in "three background checks" by looking into the school performance, performance in the area of residence, and work unit performance of youths of military age. When choosing soldiers, they made sure to select the best from among the politically reliable, the most robust from among the physically strong, and the highest standing from among the educated. When the unit of some outstanding qualified youth "hated to part with him," party and government leaders at all levels conducted diligent ideological work to make these units willing, albeit reluctantly, to part with their treasures. During the 1990 spring recruitment, 13 enterprises in Wuxi sent to the armed forces 21 people possessing special skills on whom they had spent tens of thousands of yuan for training.

By way of helping the armed forces train outstanding soldiers, every city and county in the province raised the slogan, "no losing heart once the soldiers depart." The organization roused all forces in society to carry out "follow-up services" for soldiers in service. It took the initiative in coordinating with the armed forces in doing ideological work with the hometown soldiers, regarding it as a task to which all efforts should be bent. First was the general signing of two-way service agreements with the units receiving the soldiers for working with the units to do organized, directed, and planned work as the units required. Second was keeping in contact through letters and conducting interviews for timely understanding of the hometown soldiers' ideological, work, and family circumstances, linking help for the armed forces in doing good ideological work with the provision of special care for servicemen and the families of servicemen. Third was the general building of "secondary files" on soldiers, noting at all times the soldiers' "service period performance," and the "status of skills useful in either military or civilian life," as well as linking special care for servicemen and the families of servicemen, and assignments with service performance.

Making good use of outstanding discharged servicemen to ensure a benign cycle in the campaign to "achieve three excellents." Back in 1984, cities and townships throughout the province set up 931 placement offices for discharged servicemen. Once discharged servicemen returned to a township, every level acted on the basis of unit circumstances in giving priority to "finding a position" for them, taking the initiative in "giving them a boost," and doing all possible to get them started. According to incomplete statistics, 85 percent of nearly 100,000 servicemen discharged throughout the province since 1988 have been put to work. In Huaiyin City, approximately 40 percent of the 11,000 administrative village and township and town enterprise cadres are discharged servicemen. In economically developed areas

such as Suzhou, Wuxi, and Changzhou, 1,348 discharged servicemen have been sent to institutions of higher education and to scientific research units for advanced training, and some of them have been sent to Germany and Japan for study and surveys. Not only does this relieve active duty servicemen of worry, but it also enhances the attractiveness of the armed forces. It gives powerful impetus to the enthusiasm of the broad masses of youths for rushing to register to join the armed forces.

This meeting for the exchange of experiences was convened by the provincial government.

Provincial CPC Committee secretary Shen Daren [3088 6671 0086] gave a speech, and deputy provincial governor Ling Qihong [0407 0796 7703] delivered opening remarks. Provincial military region deputy commander Chen Kehou [7115 0668 0709] delivered a work report to the meeting; delegates from 23 units provided briefings on their experiences; the provincial military region commander, Zhang Zhaoxun [4545 2507 5651], and political commissar Wei Changan [7614 7022 1344] gave speeches.

At the meeting, the honored title of advanced unit in the Jiangsu provincial military service work campaign to "achieve three excellents" was conferred on 27 units.

#### Importance Cited

91CM0083B Nanjing XINHUA RIBAO in Chinese  
29 Oct 90 p 1

[Commentator's article: "Take Firm Grip on Military Service Work Reform"]

[Text] The campaign to "achieve three excellents," which consists of the selection of excellent soldiers, helping the armed forces train excellent soldiers, and developing the use of excellent discharged servicemen, is a successful experience achieved in the province's reform of military service work. It has been fully endorsed by general headquarters and the Nanjing Military Region.

Achievements made in reform of military service work during the campaign to "achieve three excellents" have produced a positive role in the province. First, they have effectively solved new problems that appeared in recruitment work, giving vigorous support to the revolutionization and the modernization of the armed forces. The key factor in building the armed forces is people, meaning officers and men, and the first requirement in the campaign to "achieve three excellents" is sending excellent recruits to the armed forces. This is in keeping with new requirements for building the armed forces. Likewise, the launching of this campaign also played an important role in the building of the two civilizations. With the development of the economy and society, every trade and industry and every battle line needs large numbers of talented people. Where are these talented people to come from? Many channels have to be relied upon. One important channel is make use of demobilized and discharged servicemen with skills useful in

both military and civilian life. The PLA [People's Liberation Army] is a university for the training of talent. Not only can people's indomitable will and outstanding qualities be tempered there, but people can also acquire scientific and cultural information and skills. Our sending of outstanding youths to the armed forces for training for the shaping of a benign cycle of "recruitment, training, and use of soldiers," and our sending of outstanding talent in a steady stream to all aspects and all levels of work in various trades and industries is extraordinarily beneficial for the country, the armed forces, and the people. Therefore, CPC Committees and government at all levels should fully recognize the important significance of the campaign to "achieve three excellents" in military service work. They should continue to take a genuinely firm grip on this campaign to advance the revolutionization and modernization of the armed forces, and the local building of two civilizations.

Improved national defense education is an important support for the campaign to "achieve three excellents" in military service work. Only when the public's national defense concept is improved will military service work have a reliable social foundation, and only then will it gain the protection and support of the broad masses of people. Therefore, we must permeate the whole process of the campaign to "achieve three excellents" with national defense education. We must use widespread and deepgoing propaganda and education to shape a social ethic in which everyone is concerned about the building of national defense to build a fine social environment for the campaign to "achieve three excellents" in military service work. Recruitment is to begin during the winter of 1990. All jurisdictions must emphasize the education of military-age youth in ardent love for the motherland, ardent love for the armed forces, and concern for national defense endeavors; encourage them always to harken to the call of the motherland, to discharge their military duties according to law, and to resolve to perform military service for the country, and to lay an ideological foundation for the sending of outstanding recruits to the armed forces.

The campaign to "achieve three excellents" has a bearing on every aspect of life. Party and government units at all levels must all take firm grip on it and control it, closely coordinate, and pool efforts. They must carry forward the glorious tradition of the party controlling the armed forces. CPC Committees and governments at all levels must adhere to the compulsory military service system, genuinely strengthen leadership of the campaign to "achieve three excellents," conscientiously summarize experiences, and deepen military service work reform.

### **Role of Military Industries in Yunnan Economy**

*91CM0085B Kunming YUNNAN RIBAO in Chinese  
2 Nov 90 p 2*

[Article by Tie Jun (6993 6511) and Bo Shun (0130 7311): "Military Industrial Enterprises Play Large Role in Local Economic Construction"]

[Text] Yunnan Province's military industrial system has tens of thousands of workers and staff, as well as hundreds of millions of yuan in fixed assets. The system is relatively strong in scientific research, design, and product development. Fully tapping the potential of a social productive force as personnel-intensive, technology-intensive, and capital-intensive as the military industrial system would play a positive in the development of Yunnan Province's economy.

Since the Third Plenary Session of the 11th CPC Central Committee, Yunnan Province's military industrial enterprises have adhered to the policy of "combining military and civilian" production. At the same time that they have given first priority to fulfilling production quotas for military goods assigned by the state, they have also vigorously developed production of civilian goods, obtaining relatively good economic and social benefits. These enterprises produce over 100 different civilian products, including Lanjian passenger cars, Lanhua refrigerators, Chunhua bicycles, Xiongmao binoculars, tobacco shredders, and plastic injectors. Some of these products have filled an unmet need in Yunnan Province, some have come into high demand throughout China, and some have served as either import substitution products or foreign exchange-earning export products. In 1988, the output value of civilian products manufactured by military industries throughout the province amounted to 506 million yuan, and total profit taxes reached 94 million yuan. The production of civilian goods has caused the military industrial system to play a more and more pronounced role in Yunnan's economy, demonstrating its competitive edge.

However, the full potential of the military industrial system remains largely untapped at this point, and some enterprises are still in difficult straits. There are several reasons for this: 1) For historical reasons, military industrial enterprises are generally scattered about in mountainous areas far from any cities and far from each other. Transportation is difficult and information is hard to obtain. This is a serious obstacle to efforts to develop civilian products and compete in the commodity economy. 2) Another reason is the restraints imposed by the many barriers between higher and lower levels and between different departments or regions. Military industrial enterprises, and especially enterprises directly under the jurisdiction of the central government, are under highly centralized management, with a rigidly vertical structure. This makes it difficult for their civilian goods to enter any local economic plans or industrial development programs. The products cannot easily enter the marketplace and gain a foothold. The result has been that some products that are needed in Yunnan Province and which the military industrial enterprises are capable of producing have been unable to enter markets in the province. 3) Another reason is that these enterprises are saddled with many very burdensome responsibilities. Some equipment which was very advanced when these factories were built has become old and obsolete, so these enterprises are faced with a

daunting task of technological upgrading. This gives rise to a situation in which enterprises "were born with bad genes and were malnourished thereafter." In addition, because military industrial enterprises are located in such inaccessible places, production and daily living are difficult in many ways. These enterprises have been forced to build relatively complete social service systems, including cultural and entertainment facilities, medical clinics, schools, job placement services, law enforcement, stores, tax collection, and savings accounts. Social services constitute a severe burden on these enterprises.

In the recently held fifth provincial party congress it was proposed that Yunnan Province strengthen transportation and energy infrastructure in the next five years, that four key industries (including phosphate chemicals and rubber processing) be targeted for priority development, and that conditions be created for the development of downstream industries. Under these circumstances, it would be of practical and longlasting significance if we: 1) used the considerable assets, scientific research capacity, and products that Yunnan Province's military industrial enterprises have amassed in order to tap this province's advantages; 2) provided equipment to enable Yunnan to develop industries and resources that offer competitive advantages; and 3) developed high-tech products in order to upgrade traditional industries in Yunnan. In order to enable military industrial enterprises in Yunnan Province to play their role, and to spur local economic development, these writers urge the following:

1. We must accelerate readjustment of the distribution of military industrial enterprises in Yunnan Province. During the Seventh Five-Year Plan, in accordance with plans formulated by the state, some military industrial enterprises in Yunnan Province were relatively successful in relocating to areas near large and medium-size cities. At this point 40 percent of the military industrial enterprises in Yunnan are faced with the task of moving their factories. Relevant departments in the provincial government should formulate a unified plan, prioritize different projects, aggressively create the necessary preconditions, and accelerate the pace of factory moving in order to complete the redistribution of military industrial enterprises in Yunnan during the Eighth Five-Year Plan.

2. We must deepen the reforms and further integrate military industrial enterprises into local economies. In order to prompt local governments to take an interest in and support military industrial enterprises, and to strengthen local guidance and management of civilian production which occurs in military industrial enterprises, the civilian production of military industrial enterprises should be included in local planned economies. In accordance with the state's industrial policy and the need to readjust industrial structure and the product mix, military industrial enterprises should develop the equipment and civilian goods needed for local economic construction, bringing about a combination of the

advantages of military industry with those of local industries and resources. The profits and taxes obtained from civilian production should be divided appropriately among the central government, local governments, and enterprises so that military industrial enterprises will "sink roots at the local level, serve local interests, rely on the various industries, and support the various industries." By so doing we will increase the degree of integration of military industry into the local economies, and will obtain more support and assistance from local governments.

3. We must strengthen cooperation and bring the advantages of enterprise groups into play. Military industrial enterprises in Yunnan are characterized by the fact that they are either "big and complete" or "little but complete," but their ability to carry out large batch production is relatively weak. There are several important methods by which to tap the advantages of military industry, including: strengthening cooperation among military industrial enterprises and between military industrial enterprises and local enterprises; changing scattered advantages into concentrated advantages; strengthening their ability to work together with other enterprises; and expanding economies of scale. In its efforts to develop tobacco-processing facilities, Kunming Ship Corporation drew upon the strength of an enterprise group to attack the project in a concerted fashion and engage in cooperative production. A high-quality product was introduced within a short time which entered markets outside the province with notable success. Yunnan Machinery Factory No. 5 linked up with local enterprises in its effort to start production of a passenger car. It organized a passenger car enterprise group with itself as the main factory and the Lanjian passenger car as the main product. Not only did the factory achieve the capacity to manufacture 10,000 automobiles, but it was included in the state plan for passenger car production. It has recently also been designated by the state as the production base for the 50-Bell-N series light vehicle. From these facts it is apparent that one must not underestimate the role played by enterprise groups in tapping the advantages of military industry, spurring the integration of military industrial and civilian enterprises into an organic whole, and strengthening the competitiveness and flexibility of enterprises.

#### **Returned Students 'Major Force' at Defense University**

*91CM0085C Changsha HUNAN RIBAO in Chinese  
19 Oct 90 p 1*

[Article by Wang Mengling (3769 1322 7117): "Returned Overseas Students Become National Defense Science and Technology University Teaching Backbone"]

[Text] The National Defense Science and Technology University has created an environment in which Chinese students and scholars returning from abroad can make

use of their talents. The university has provided favorable conditions and boldly utilized these people, thereby cultivating their enthusiasm for serving the country. Yesterday, a comrade from the university who had joined a delegation which traveled to inquire after the welfare of Chinese students abroad told this writer that every student with whom he met expressed the intention of returning to serve China after completing their studies.

Since 1980 the National Defense Science and Technology University has sent more than 140 students and visiting scholars abroad, of whom 47 have returned to China. To better make use of their intelligence and abilities, the school leadership has worked to understand their ways of thinking and their needs. The school has provided funding and various forms of assistance to enable them to participate in academic activities both in China and abroad. Students and scholars who have returned from abroad have been given ample opportunity to use the knowledge and research they have taken back home from abroad. The departments of materials science and applied chemistry have enthusiastically supported the young instructor Song Yongcai [1345 3057 2088] in his efforts to continue with the same scientific research that he had been pursuing abroad. The school has twice invited him to the school to conclude his project within a little over a year after returning to China. Last year he received funding from the State Young Scientists Foundation to begin another groundbreaking research project. By supporting returned students and scholars in their efforts to maintain foreign contacts, the school has established long-term cooperative relationships with four well-known universities and research institutes abroad.

By shattering distinctions concerning age and technical specialties, this school has boldly allowed returned scholars to play principal roles and shoulder key responsibilities in important research projects. Shen Yan [3088 1159], an assistant professor in the computer sciences department and barely 40 years old, was appointed assistant chief designer of the "small supercomputer" section of a key state project after he returned to China in 1988. Very soon thereafter he was promoted to serve as assistant director of the laboratory, becoming a young leader in academic circles. It is reported that, among the returned students and scholars, 28 have received high-level professional titles, 15 have joined departmental or laboratory leadership groups, 20 are serving as graduate student advisors, and two are serving as doctoral candidate advisors. They have opened up 17 new research fields for the school, started 24 new courses for undergraduate and graduate students, and achieved 40 breakthroughs in scientific research. They have become a major force in the school's pedagogical and research work.

### **Beijing Formalizes Military Installation Protection**

*91CM0085D Beijing JINGJI RIBAO in Chinese  
17 Oct 90 p 2*

[Article by Yu Baoyue (0060 0202 2588) and Lu Gaopai (0712 7559 2226): "Beijing Establishes Military Installation Protection Organ"]

[Text] In order to carry out the "Law on the Protection of Military Installations in the People's Republic of China," which went into effect in August, and in order to regulate the relationship between local economic construction and national security interests, the Beijing Garrison Command jointly called a work conference on 15 October on military installation protection. At the same time, they announced the establishment of the Beijing Municipal Committee on the Protection of Military Installations.

The conference took the opinion that the fundamental principle that threads through the entire "Law on the Protection of Military Installations" is the part which reads: "When we define the difference between off-limits military zones and military management zones, or when we readjust this definition, we should do so in such a way as to maintain the security, secrecy, and performance of military installations. At the same time, we must pay attention to economic construction, environmental protection, and the production and daily lives of the masses." The protection of military installations and the simultaneous attention paid to economic construction is a unity of opposites. If national security interests are not protected, then it is meaningless to talk about the people's production and daily lives or any other of society's interests. At the same time, however, only by paying attention to economic construction and the people's production and daily lives can we accumulate the necessary material and financial resources to improve and strengthen our military installations. The participants in the conference arrived at a consensus on this point.

The conference announced the establishment of the Beijing Municipal Committee on the Protection of Military Installations, with Vice Mayor Su Zhongxiang [5685 0112 4382] as director, and Beijing Garrison Command Deputy Commander Gao Yunjiang [7559 0061 3068] as first deputy director. In their speeches they called on relevant departments in the military and in local governments at every level to earnestly study and carry out the Law on the Protection of Military Installations, to use many different methods to strengthen the people's concept of national defense, and to make the people take an active interest in protecting military installations.

### **Guangdong Sets Standards for Winter Conscription**

*91CM0086B Guangzhou NANFANG RIBAO in Chinese  
12 Oct 90 p 1*

[Article by Yuan Wen (5913 2429) and Wu Haineng (0702 3189 5174): "Provincial Government and Provincial Military District Make Arrangements for This Year's Winter Conscription"]

[Text] From 9 to 11 October, the provincial government and provincial military district jointly held in Guangzhou City a provincial-level work conference on conscription. In line with the decision made by the State Council and the Central Military Commission to change the period of conscription from spring to winter, the conference made specific arrangements for this winter's conscription in Guangdong. Ye Xuanping, governor and deputy secretary of the provincial party committee, and Ling Baitang [3249 0184 2768], vice governor, went to the conference and made speeches. Zhang Juhui [1728 1565 1920], political commissar of the provincial party committee and commander of the provincial military district, gave the conference's summation report. Zhang Hongyun [1728 3163 6663], political commissar of the provincial military district, and other leading comrades attended the conference.

At the conference the Guangzhou Military Subdistrict and Shixing County separately introduced their experiences. The conference commended 15 units for overall excellence in conscription in Guangzhou, Zhanjiang, Huizhou, Shanwei, Heyuan, Foshan, Jiangmen, Yangjiang, Maoming, Zhaoqing, Shaoguan, Shenzhen, Zhuhai, Zhongshan, and Dongguan.

The conference decided that this winter's conscription will get underway comprehensively on 10 November; those subject to conscription and their range are young people in rural areas who have an education level of junior middle school graduate and above. For young people in areas where minority nationalities are concentrated, on islands, in border areas, and in remote rural areas, this requirement is relaxed to include higher primary school graduates, but young people who are lower primary school graduates or who are illiterate must not be conscripted. Young people in nonagricultural households should be graduates of senior middle schools (including vocational senior middle schools). Young men are to be between the ages of 18 and 20, but for staff and workers of enterprises the age is extended to 21. This year's senior middle school graduates who are 17 years old may, if they volunteer, be enlisted.

The conference stressed that all levels of government and all relevant departments must pay a high degree of attention to conscription, vigorously initiate activities of conscription propaganda and national defense education, and conscientiously and thoroughly implement the "Regulations on Conscription in Guangdong Province." Military service organizations at all levels must arrange other work around the central task of improving the quality of military personnel. With a highly responsible attitude toward the party, state, armed forces, and people, they must ensure the good quality of military personnel by sending to the units physically strong young people who are politically and ideologically sound.

### Hebei Military Commander Discusses 1990 Conscription

91CM0086C Shijiazhuang HEBEI RIBAO in Chinese  
2 Nov 90 p 1

[Interview by HEBEI RIBAO staff reporter with Han Shiqian (7281 0013 6193), provincial military district commander: "What Are the New Regulations for This Year's Conscription?"; date, place not given]

[Text] This year's winter conscription will be carried out in November. What are the new requirements and regulations for this year's conscription? Han Shiqian [7281 0013 6193], commander of the provincial military district and deputy head of the provincial leading group for conscription, answered relevant questions put by a staff reporter, as follows:

[HEBEI RIBAO] In this year's conscription, what qualifications do young people need when signing up to join the armed forces?

[Han Shiqian] To be recruited, a young person must sign up at the place in which he has his permanent registered residence and, in accordance with legal procedures, have a physical examination and a political investigation. The age requirement for young men is that they be 18 to 20 years old in 1990; but the age requirement for staff and workers in enterprises or institutions is extended to 21. A young man who is a senior middle school graduate and who is 17 years old may, if he volunteers, be recruited. Young people of nonagricultural households must be junior middle school graduates, and young people of agricultural households must be junior middle school graduates.

[HEBEI RIBAO] What are the differences between this year's conscription and those of previous years?

[Han Shiqian] First, the period of conscription has been changed from spring to winter. Because of a certain effect that spring conscription had on the demobilization work of the armed forces and the localities, with the approval of the State Council and the Central Military Commission, from now on conscription and demobilization will take place in the winter of each year. In the future, if there are no special circumstances, there will be no change in the period of conscription and demobilization. In society there have been some comments about the two conscriptions this year. Some people said that there will be no conscription next year because it will be a "year of international peace"; others said that the armed forces are being expanded. Both of these statements are groundless rumors. The decision to have two conscriptions this year was made out of consideration for their benefit to the adjustment of the personnel structure in the armed forces. Also, with regard to the number of young people to be conscripted and the number of military personnel to be demobilized, there is no connection with having no conscription next year or with expanding the armed forces. Second, to lighten the pressure on cities and towns in making arrangements for

the placement of demobilized military personnel, the number of recruits from cities and towns will be strictly controlled. Young people in townships and towns who belong to nonagricultural households are to be recruited in the same way as those in cities and towns, and they must be senior middle school graduates. It is strictly forbidden to possess false permanent residence registration cards, false age identity cards, or false diplomas. Those who violate this regulation must be seriously dealt with in accordance with the relevant provisions in the "Measures for Reward and Punishment in Conscription in Hebei Province." To ensure that the physical examination is strict, for this year's winter conscription there will be tests for AIDS, as well as for venereal diseases. For the eye test, the vision chart that was formerly used has been replaced by a logarithmic vision chart to ensure that physically qualified personnel are sent to the military units. The Ministry of Public Security, PLA [People's Liberation Army] General Staff Department, and PLA General Political Department recently issued new criteria for the political investigation that make higher demands on the political quality of recruits. To ensure the political purity of the armed forces, these criteria must be met.

[HEBEI RIBAO] What arrangements and requirements have the provincial government and the provincial military district made for completing this winter's conscription?

[Han Shiqian] In line with high-level regulations, this winter's conscription will begin on 10 November; on 10 December recruits will begin to be sent to units, and by the end of December the process of sending recruits to units will be finished. The provincial government and the provincial military district have called for scientific arrangements, tight organization, and mobilization of all forces in society in the process of conscription to ensure the good quality of recruits. They have put a major emphasis on correcting unhealthy tendencies in conscription. First, they have invited discipline inspection departments at all levels to take part in the conscription in order to strengthen discipline and supervision in this work. Second, they have made public the conscription range, conscription age, conscription education level, namelist of young people subject to conscription, namelist of young people preliminarily approved for recruitment, and the disciplinary standards required of conscription workers in order to facilitate the masses' supervision of the conscription. Third, conscription

offices at all levels have set up report letter boxes and report telephones for people responsible for receiving and handling letters and visits by the masses.

### Hubei Begins Winter Military Conscription

91CM0086A Wuhan HUBEI RIBAO in Chinese  
13 Oct 90 p 1

[Article by correspondents Wu Yongkun (6762 3057 0981) and Ye Fangxin (0673 2455 2450): "Beginning This Year Conscription Will Be Done in Winter"]

[Text] Winter military conscription has begun in Hubei Province this year.

It is reported that in society there have been some incorrect comments about the change from spring conscription to winter conscription: Some people said that next year will be a year of peace and no conscription will take place then; others said that the two military conscriptions this year mean that the military establishment is being expanded. Both of these statements are incorrect. The purpose of having another conscription this year—this time in winter—is to adjust the military personnel structure in order to fill the gap caused by the lack of any conscription in 1988.

In this year's winter conscription in Hubei, there are new requirements with respect to the range and physical condition of those subject to conscription. Young men and women of 17 years old who are this year's senior middle school graduates may be enlisted if they volunteer. The proportion of those conscripted who are in the nonagricultural population at the level of township and town and above will be controlled, and they must be senior middle school graduates. In the physical examination, the new "standard logarithmic visual chart" will be used, the number of items for the examination of transmissible diseases will be increased, and young people with tatoos cannot be enlisted. The "registration form for the recruitment of young people," which is now in force, will be changed to the "approval form for the recruitment of citizens into the armed forces" and the "examination form for the recruitment of citizens into the armed forces." For each young person who is approved for enlistment, there must be an approval form, an investigation form, and a physical examination form. A young person for whom the procedures are incomplete will not be recognized as an active-duty member of the military.

**EAST REGION****Shanghai Center Assists Residents Traveling Abroad***OW0412091890 Beijing XINHUA in English  
0835 GMT 4 Dec 90*

[Text] Shanghai, December 4 (XINHUA)—A service center which provides assistance to Shanghai residents, who are going abroad on personal affairs, has helped over 150,000 people in the past two years.

The non-government organization was established in July, 1988, when the number of residents from China's largest city going abroad increased dramatically.

The service center offers applicants 10 service items including delivery of passports, visa applications, currency exchange, assistance in booking airline tickets and other information services. Self-supporting individuals who are going to study abroad can also obtain information concerning possible educational programs.

The center has thus far provided over 100,000 passports to applicants going abroad. The services it provides has eased the anxiety and pressure concerning contacts with banks and foreign consulates in Shanghai.

The center co-operated with the city's Aijian Trust and Investment Corporation in 1988 to provide exit applicants, who were going abroad for personal reasons, with foreign exchange loans. The loan applicants sign a Renmenbi based mortgage loan and the center in turn loans the equivalent value in foreign exchange. Over 100 people have received thousands of U.S. dollars in this manner in the last two years.

In 1988, over 30,000 self-supporting passport holders, who were going to study Japanese were not allowed to leave China because of a change in Japan's policy. The center provided legal assistance and as a result money was refunded to over 2,000 people.

Prior to the establishment of the center, Shanghai's public security bureaus, foreign consulates and banks were often crowded with exit applicants. In addition, applicants were often defrauded when they attempted to trade for the foreign exchange on the black market.

**CENTRAL-SOUTH REGION****Governor Says 5-Year Plan Conference Helps Guangdong***HK1412034790 Hong Kong TA KUNG PAO in Chinese  
12 Dec 90 p 2*

["Special dispatch" from Guangzhou: "Ye Xuanping Speaks at National Conference on Eighth Five-Year Economic Plan"]

[Text] Guangzhou, 11 Dec (TA KUNG PAO)—Guangdong Provincial Governor Ye Xuanping indicated that the national economic planning conference on the Eighth Five-Year Plan would be beneficial to the continuing economic development of Guangdong Province. On the question of the central government's reclamation of power from the localities, he compared the issue's relation to the economy to the tuning of radio frequencies, saying that its main direction will still be beneficial to economic development.

Ye Xuanping maintained that the conference on the Eighth Five-Year Plan could promote the work in Guangdong Province and benefit the continuing advance of Guangdong Province's economy.

Asked about reports that some people had suggested at the conference that the central government reclaim powers from the localities, Ye Xuanping noted that the question of reclaiming or not reclaiming powers involved complicated economic issues. He compared it to listening to the radio, saying that the tuning of radio frequencies requires adjustments, adding that it was a minor adjustment. Macroeconomics is favorable to economic development and is reflected in the 15 percent growth in the total output value of Guangdong Province's industry.

The reporter jokingly asked, "With this adjustment, are there any concerns about having to change the radio set?" Ye Xuanping retorted, "If that is the case, then let us get a newer set."

Asked about recent rumors that his position was about to change, Ye Xuanping laughingly said that he had once told the press that if he were to assume for a year all the positions they reported, it would last him more than a lifetime.

**SOUTHWEST REGION****Minority Cadres Occupy Important Roles in Tibet***OW0612074290 Beijing XINHUA in English  
0259 GMT 6 Dec 90*

[Text] Lhasa, December 6 (XINHUA)—The number of minority nationality cadres in Tibet has been growing rapidly in the past 40 years, and many have been put on leading posts at all levels of government.

Raidi, deputy-general secretary of the party committee of the Tibet Autonomous Region, said that, at present, Tibetan cadres account for 66.6 percent of the total number of cadres in the region. Minority nationality cadres at the autonomous regional level account for 72 percent of the total, at the prefectural level 86.1 percent, and at the county level 61.2 percent.

The top leaders of the prefectures, cities and counties in the entire region are all Tibetans, with the exception of only one, said Raidi, adding that 63 party leaders in 75 counties are Tibetan.

The party attaches great importance to the work of promoting minority nationality professional technical cadres, and sending Tibetans to universities and colleges throughout the country for further education, in order to develop the Tibetan economy.

In addition, the universities and colleges that have been established to promote education among the region's cadres have progressed significantly.

Throughout the country over 19 provinces and municipalities have initiated Tibetan classes, and over 6,300 students will be sent back to Tibet to work when they graduate.

### **Tibetan Cultural Encyclopedia Published**

*OW3011193790 Beijing XINHUA in English  
0651 GMT 30 Nov 90*

[Text] Chengdu, November 30 (XINHUA)—The "Tangyur", praised as the encyclopedia of Tibetan culture, was recently published in China for the first time using modern printing methods.

The "Tangyur", or the "Tripitaka", was previously regarded as simply a copy of the Buddhist scripture and was only printed on wood block prints and then spread among temples and monasteries.

The book contains the interpretations and commentaries of the disciples of Sakyamuni concerning the words of Buddha after his nirvana. The collection is actually 3,464 books covering astronomy, medicine, linguistics, philosophy, logic, art, history, literature, architecture and other fields.

The recent publication of the book by the Lixian County Tibetan Press located in the Aba (Ngawa) Tibetan and Qiang Nationality Autonomous Prefecture of Sichuan Province consists of 225 volumes and 62 million words.

Over 1,000 copies have been issued to units or people who study the Tibetan culture and Buddhism.

### **Tibet Continues Support for Handicapped**

*OW2911203190 Beijing XINHUA in English  
1527 GMT 29 Nov 90*

[Text] Lhasa, November 29 (XINHUA)—Qamba Chili, a 28-year-old blind Tibetan who was once so desperate that he wanted to commit suicide, has now become a well-known doctor of massotherapy in Lhasa, capital of the Tibet Autonomous Region.

Chili lost both his parents and became an orphan early in his childhood. Soon after, he suffered from the measles and lost sight in both eyes.

At this most difficult point in his life, the local government, concerned for his well-being, sent him to a hinterland school that specialized in teaching the blind massotherapy.

Upon graduation, he went to work in the Lhasa Massotherapy Hospital. In the past year, he has treated 2,480 patients with an effective rate that surpasses 95 percent.

According to a regional sampling survey made in 1987, Tibet has a total of 146,000 handicapped people, and the proportion of the handicapped to the whole population is greater than the national average.

Thanks to the efforts made by the local governments and departments concerned, most of the handicapped in Tibet who have the ability to work have been given a place in factories, shops or service trades, enabling them to earn their own livings. In Lhasa alone, the government and street or neighborhood committees have given employment to 328 handicapped people.

Since the establishment of the Lhasa Welfare Printing House, the region's first enterprise created especially for the handicapped, in 1977, 14 similar enterprises have been set up throughout the region.

More than 60 percent of these enterprises' workers and staff members are the handicapped. These enterprises have fixed assets totaling 8.088 million yuan (1.5 million U.S. dollars) and their annual production output value and net profit reach 3.7 million yuan (700,000 million U.S. dollars) [as received] and 705,000 yuan (140,000 U.S. dollars) respectively.

As stipulated by government regulations, these enterprises are either exempt from paying taxes or pay very little in taxes.

The continued development of education in Tibet has made it possible for most of the region's handicapped children to attend school. Many now have a junior or senior high school education. Welfare enterprises have also contributed by offering technical training to the handicapped.

In the period between 1982 and 1985, the regional government taught eight teachers how to communicate in, and teach sign language. In addition, four blind people were trained to as massotherapists during this three year period.

The region's first special education school is expected to be set up in Lhasa in 1991.

As part of the national Five-Year Plan (1989-1993), the Tibetan rehabilitation center for deaf children was set up in 1989 to treat and rehabilitate those who suffered from the after-effects of infantile paralysis, cataracts and deaf and mute.

Besides the treatment and training, the center offers six educational courses, including Chinese and ethnic Tibetan languages, mathematics, painting, music and physical culture.

Qoicang, a nine-year-old girl who could not speak a single word when she entered the rehabilitation center, can now read clearly all the texts and language books she has been taught.

In the past two years, 648 patients with cataracts have received operations in centers that were set up in all the seven major cities of the region to help rehabilitate cataracts patients. Over 90 percent of these patients have regained their sight.

During the same period, 25 sufferers of the after-effects of infantile paralysis have also received operations. All the operations have produced favorable results.

In order to further strengthen efforts to help the handicapped, the Tibetan Regional Government has drafted a plan allocating 1.25 million yuan (250,000 U.S. dollars) of government funds for the rehabilitation of the patients with cataracts, suffers of the after-effects of infantile paralysis and deaf children [as received].

### NORTHEAST REGION

#### Liaoning Stresses Education on Party Discipline

SK1412042290 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 12 Dec 90

[Text] The provincial Discipline Inspection Commission sponsored its second plenary session on 12 December, at which Zhang Chenglun, deputy secretary of the provincial Discipline Inspection Commission, delivered a speech in which he stressed that the Discipline Inspection Commissions at all levels across the province should bear in their minds the activities of conducting education on socialist ideology to do a good job in conducting education on party style and discipline in the rural areas and in conducting the work of correcting wrongdoings and of firmly carrying out the task of investigating and handling the cases violating party discipline. A good job should be done from start to finish in carrying out inspection over the work of improving party style, enforcing party discipline, and of building administrative honesty.

In his speech, Zhang Chenglun stated that the education on party style and discipline in rural areas should be based on the center of developing the socialist economy in rural areas, implementing the spirit of the decision made at Sixth Plenary Session of the 13th CPC Central Committee, restoring and developing the party's fine tradition and work style, and of further tightening the ties between the party and the masses and between the cadres and the masses. Through the education on party style and discipline, efforts should be made to bring into better play the model role of rural party members and to lead the masses to be self reliant, to wage arduous struggle, and to take the road of becoming wealthy through industrious work and of commonly becoming wealthy.

In his speech, Zhang Chenglun stated that while conducting education on party style and discipline, it is imperative to earnestly correct the wrongdoings strongly complained of by the vast number of rural people and to pay attention to investigating and dealing with specific cases violating discipline while attaching importance to educational work. Meanwhile, attention should be also paid to coordinating the governmental departments to do a good job in consolidating the polluted environment and the chaotic social order so as to relieve peasants' burden.

Attending the plenary session were Sun Qi, deputy secretary of the provincial party committee and acting secretary of the provincial Discipline Inspection Commission; Liao Caisang, deputy secretary of the provincial Discipline Inspection Commission; and 31 members of the provincial Discipline Inspection Commission, including Fu Jiayi.

### NORTHWEST REGION

#### Personnel Reduction Urged in Shaanxi Government

91CM0095A Beijing JINGJI CANKAO in Chinese  
7 Nov 90 p 1

[Article by correspondent Bu Yuntong (0592 0061 1749): "Reducing the Bulge, a Job That Brooks No Indecisiveness—The Issue of Cadre Overstaffing in Party and Government Offices of Shaanxi Province"]

[Text] Ever-increasing numbers of cadres and ever-increasing expenditures are two important issues that are now receiving growing attention in pertinent quarters of Shaanxi Province.

Up to the end of 1989, there were more than 1,000 supernumerary party and government agencies among the offices of county and higher rank in Shaanxi Province, with a supernumerary staff of more than 20,000 persons. Included in this number are 80 organizations of the deputy and department level in provincial party and government organs, which is 10 more than the average for every provincial establishment throughout the country, and 30 more than the establishment set by the Central Committee and the State Council. The newly readjusted provincial commission for organizational affairs, with provincial governor Bai Qingcai concurrently chairman of the commission, has decided to achieve within three years a complete elimination of the 20,000 supernumerary staff. This is an extremely difficult task, but a job that brooks no indecisiveness.

#### "Free Meals at Public Expense," When Will It End?

The supernumerary cadres are eating up, by the sheer number of people drawing personal expenses, most of

what had already been very limited operational allocations at all levels of the administration, and have turned the situation for most into one of "free meals at public expense."

There is overstaffing in 113 of the 117 prefectures, municipalities, and counties of the province, and this is most pronounced in the poor regions. Most overstaffing exists in Yulin and Yanan in the north, and in Ankang in the south of the province, the three prefectures accounting for 53 percent of all overstaffing throughout the province. Setting up extra supernumerary positions at leadership levels is also very prevalent. In organs at the provincial level, over 200 leadership positions of section chief and deputy chief are in excess of the limits that had been set by the provincial CPC Committee. The situation in many units is one of "half generals, half soldiers" or "more generals than soldiers." In 25 sections and offices of 20 units it was even a situation of "only generals and no soldiers," and frequently among 20 staff there are only one or two "soldiers" who do all the work.

Shaanxi's public finances provide the livelihood for 870,000 persons. Calculated at 2,500 yuan per person per year, this requires 2.1 billion yuan, while financial revenue is only somewhat over 3 billion yuan. During the five years from 1984 to 1989, Shaanxi's expenditure for personnel has increased 147 percent, and 75 of the 108 counties depend on subsidies. The annual revenue of Shangluo Prefecture is 60 million yuan and its provincial subsidy is 50 million yuan, making a total of 110 million yuan, while the expenditure for personnel is exactly that very same amount, namely 110 million yuan.

#### How Did "Overstaffing" Develop?

This reporter has asked many persons in leading positions and cadres in government agencies: Could regular work be accomplished if the number of cadres were reduced by one-third? Most replied in the affirmative, and in some particular departments it would be possible to work if staff were reduced by half. With fewer people, work would possibly be even more orderly, as overstaffing is the hotbed for bureaucratism, such as dilatory handling of business. Since it is so, why are we still seeing the number of cadres increase and never decrease? There are several reasons for this:

Acting completely at will, without regard for scientific methods. If the chief gives the order, relevant documents are passed to lower echelons, and that will establish an organizational structure. It is reported from Yanan Prefecture that the excessive establishment of organizations in recent years is based on official documents from higher-ranking authority or directives by persons in leading positions.

The employment problem. There are few enterprises in the impoverished regions of northern and southern Shaanxi, economically they are in poor condition and people have no other way earn a good living. Some people therefore believe that if one can become a cadre and get into a government office, that will provide not

only a good reputation but also a guarantee of income, so-called "eating the emperor's food," so that everybody is trying to worm his or her way in by hook or by crook.

Erroneous concepts. Some administrators in leading positions believe that more can be accomplished with more staff, and that a larger complement of staff obviously makes the unit appear more important. Everybody hopes to have a comfortably large staff establishment so that no one will be overworked.

#### Staff Establishments Must Be Ruled by Law

In my interviews I understood many comrades to believe that placing the system to a greater extent on a legal and scientific basis would be the right way to solve the overstaffing of government agencies.

Organs of state power should indeed move at a relatively steady and progressive pace toward greater legality. China so far has no staff establishment law, merely some provisional regulations. Since the founding of the PRC, there have been almost 10 large and small readjustments of the organizational system. Some adjustments have been very successful, for instance, the adjustment in 1950 that decreed retention of personnel of the old regime. Some have left us with bitter experiences as, for instance, the great retrenchment of 1960 which left behind problems that could never be completely solved even to this day. In the question of organizational structure, for many years it has not been possible to break away from the bewildering cycle of retrenchment-inflation-renewed retrenchment-renewed inflation, which reflects the insufficient maturity of China's administrative methods. Retrenchment of staff and reduction of the government apparatus must rely on a perfect set of rules and regulations governing the organizational structure and staff establishment and on restrictive measures. Large-scale dismissals, cuts, and mergers, if only of a temporary nature, will be the cause of endless trouble in future.

Strengthening measures. First, it is necessary to strengthen the authoritative nature of the departments in charge of organizational affairs in their unified control of the organizational structure. The staff establishment for the department in charge of organizational affairs in Shaanxi Province provided for 370 persons, but for a long time it was not possible to fill all these posts, and at the end of 1989 there were only 171 persons in these positions. Some places have a very lax idea about the organizational structure, and have up to now no single full-time cadre in the commission for organizational affairs.

Second, it is necessary to adopt certain compulsory measures. Some questions are left pending for long periods because of the indecisiveness and weakness of the leading departments. In many matters, the documents prescribe that it is not permissible to select for work only matters that one chooses to work more on and then work less on matters that are problematic. Recently, when Yanan Prefecture decided to employ somewhat

over 5,300 persons as extraplan personnel at the retirement agencies [qing tui ji guan 3237 6622 2623 7070], 22 of 67 departments did not finish their work in time. The prefecture then decided to take firm measures: any day that work is not finished, no pay or wages are paid. During the two months of August and September, nobody in the agency, from secretary and specialist down to common cadre, received any pay.

Third, whatever policy is formulated, it must not be the honest and well-behaved who get the worst of it. There are many cadres now who have reached retirement age but for all kinds of reasons delay retirement. In Ankang Prefecture, over 300 persons who should retire have not yet retired. In a certain county a cadre who is already over 67 years old is still working. However, at the last wage adjustment it was decreed that no adjustments would be made for those who have already retired, but that adjustments will be made for those who have not yet retired. This had those who had completed retirement procedures complain loudly about the injustice of this system.

Controlling the organizational establishment is tantamount to controlling expenditures. Conversely, controlling expenditures is tantamount to controlling the organizational establishment. The Xian municipality began in April 1989 to institute unified control of the personnel establishment and of the wage funds for all party, government, and mass organs, as well as for public institutions. It had the department in charge of organizational affairs determine, on the basis of the labor and wage plan and according to the authorized staff and worker establishment for each unit, the total amount of the annual salary and wage fund plan, and on that basis determine and approve the monthly amounts needed. According to statistics for 20 units, this has already resulted in a reduction of 4.19 million yuan. It additionally prescribed a method for penalties; for supernumerary staff it deducted 20 percent by cutting down on salaries and bonuses, and for newly added supernumerary staff it held back leadership bonuses. At the end of 1989, the party, government, and mass agencies of Xian municipality employed 4,726 persons, 615 persons fewer than at the end of 1988. This measure not only successfully put a stop to the trend of many years of personnel inflation, but even cut positions for 229 persons.

The organizational setup must allow adaptation to local conditions, and it is not necessary that the setup at all places be geared to one uniform model. For instance, in some poor and backward counties with constricted and small territory and sparse population, the organizational setup may be appropriately reduced. Huanglong County in Yanan Prefecture has a population of only 47,000, but it has a full fourfold set of leadership teams. With few outstanding personalities at the county seat and little target for united front activities, they still set up a political advisory committee and a united front department, but there was actually very little work to do. It should be possible to adopt a way of having one prefectural and one county cadre assume responsibility for the

total volume of work; localities should adopt some flexible methods in matters of the organizational establishment.

Considering the difficulties of "reducing the bulge," all places could begin with the employment of workers outside the retirement plan, replace cadres with workers, and promptly attend to carrying out cadre retirement procedures, in order to relieve some pressure on the agencies. Then again it will be necessary to do a good job of investigation and study as to how to accomplish organizational reform so as to effectively prepare for organizational reform at the local level.

### **Kashgar Fights Splittism, Religious Infiltration**

*91CM0095B Urumqi XINJIANG RIBAO in Chinese  
20 Oct 90 p 1*

[By Kashgar correspondent Shi Jian (4258 1017) and reporter Jia Qingxuan (6328 3237 8830): "Oppose Ethnic Divisiveness, Resist Religious Infiltration—The Situation in Kashgar Prefecture Takes on a New Look as Teachers Engage in Rectification Studies"]

[Text] During summer vacations this year, the 12 counties and one city of Kashgar Prefecture organized general rectification studies for school teachers in a powerful move to counter the forces of ethnic splittism and to counteract infiltration of schools by religious influences. It succeeded in straightening out the whole body of teachers and in cleansing the atmosphere at the schools, thus consolidating the position of socialist education.

For quite a time already, domestic and foreign forces of ethnic splittism and religious forces have again and again infiltrated the schools. On the other hand, some schools had neglected and relaxed ideological-political work, and some teachers had emphasized book learning while making light of character education, an attitude which provided the enemy with opportunities that he was able to take advantage of.

To cope with this situation, the Kashgar Prefectural CPC Committee and the office of the provincial administration sent an investigation team to Kashgar City and to the counties of Kashgar Prefecture to investigate the educational situation, to analyze particular cases, and to obtain a thorough knowledge of the situation. Serious problems in the educational field existed in Yecheng County, and this has attracted the serious attention of the prefectural CPC Committee and the office of the provincial administration, so that they decided to use the summer vacation time to conduct one round of rectification studies for off the teachers in the prefecture.

Each county and township set up a rectification studies leading group, in which the county's leading personnel in charge of cultural and educational work assumed command. To cope with the special situation that the large numbers of teachers are dispersed over a large area, each county divided the task into subsections, with wards and townships as the subsections, and the county released

several tens of their cadres to guide and check the various subsections. During the rectification studies, particular attention was given to having model cases show the way and provide all-round stimulation.

The main purpose of the rectification studies was to counteract ethnic divisiveness and fight off religious infiltration by using criticism and self-criticism as weapons, with the objective to raise consciousness, enhance knowledge, and to purify the whole body of teachers. During rectification studies, self-checking and mutual assistance activities were started; each county, according to its particular condition, drew up as key points several tens of topics for self-checking, and gave these to the teachers for self-checking and discussion, thereby strengthening the positive nature of the rectification studies. Through earnest studies, the vast number of teachers became aware that the most serious danger for Xinjiang is ethnic splittism and that religious infiltration into the schools is the favorite trick used by agitators of ethnic splittism. In this struggle, with opposition to ethnic splittism as its main theme, all participants in the studies in a common effort succeeded in the clearing up of seven problems and the critical condemnation of 10 fallacies.

Present rectification studies were participated in by 1,763 county and municipal schools, 14 schools under

the direct jurisdiction of the prefecture, and four factory-run schools; over 25,000 teachers participated in the studies. In the course of the rectification studies, the various subsections also engaged in clearing up and rectifying such matters as the problem of the religious beliefs of teachers, the problem of the religious beliefs of students, the ethnic splittism activities of certain teachers and their having spread reactionary and erroneous ideas. The subsections also found out and appropriately dealt with some of the teachers who were not fit to be teachers.

After the start of the new year of instruction, all the teachers in Kashgar Prefecture have assumed a new spiritual appearance, and a profound change has occurred on the educational front. Patriotic education activities were launched in a variety of forms among the vast number of students in universities, middle schools, and primary schools, and thorough education was carried out on the general situation, on the unity of all ethnic groups, and on atheism. In general, every school is conducting national flag-raising activities. A plan was also drawn up for the evaluation of moral education; an organizational structure and an educational network were established and perfected for ideological-political work at the schools; and personnel for political work were replenished. Some schools also replenished and readjusted the leadership groups at their schools.

**Taipei Rejects Beijing Appeal for Party Talks**

*HK1412023390 Hong Kong SOUTH CHINA  
MORNING POST in English 14 Dec 90 p 10*

[By Chris Yeung in Guangzhou and Willy Wo-lap Lam]

[Text] Taipei has rejected Beijing's appeal for party-to-party talks between the Chinese Communist Party and the Kuomintang [KMT].

The call was made at the just-concluded National Conference on Taiwan Work in Beijing.

However, the KMT has called on Chinese authorities to accept an intermediary body Taiwan has set up to handle unofficial bilateral ties.

The vice-chairman of Taiwan's cabinet-level Mainland Affairs Council, Mr Ma Ying-jeou, said yesterday: "The Government will absolutely not agree to party-to-party talks since this is not a workable formula."

And in a statement, Taiwan spokesman Mr Shaw Yuming added that the Taiwan Government had no plans to negotiate with the Communist Party "either at the official or people level".

Mr Shaw also warned Beijing against setting a timetable for reunification, which, he said, would presume the threat of force.

"The question of Chinese reunification can only be solved when the time and circumstances are ripe. Any talk about a timetable does not accord with the principle of peaceful reunification," he said.

Taiwanese sources say, however, that Taipei has paid attention to the flexibility the National Conference had shown on the way bilateral talks could take place.

Beijing had indicated negotiations could take place at relatively low levels and over non-political questions such as trade and investment.

Taiwanese analysts said the flexible stance adopted by Beijing probably meant the mainland would agree to deal with the non-official Foundation for Exchanges Across the Taiwan Strait (FEATS), an intermediary body set up by Taipei last month.

FEATS hopes to establish branches in China and Hong Kong, but Beijing has not made an official response.

Taiwanese officials have hinted that if Beijing could accept FEATS, relatively low-level non-political interchanges between both sides could begin.

"In its dealings, the intermediary body will inevitably make contacts with Chinese communist units or personnel. Yet this does not go against the stand of no political contacts", Mr Ma said.

While Beijing has attacked the intermediary body as a means by Taipei to indefinitely postpone reunification talks, it has recently hinted at a possible acceptance of FEATS.

Meanwhile, a senior Chinese official has ruled out the possibility that China would promise not to use force to reunify Taiwan.

Speaking in Guangzhou yesterday, the vice-chief of the United Front Department, Mr Wu Lianyuan, said: "We absolutely will not make the promise (of not using force). We've made it clear in the past that the resort to force is not aimed at Taiwan people."

"We are not trying to intimidate Taiwan people into agreeing to reunification. We might have to use force if some people collaborated with foreigners to split the country. It's also good to Taiwan people."

Mr Wu said the National Conference on Taiwan Work was significant because it reaffirmed the policy of seeking peaceful reunification.

The other important conclusion was that contacts at all levels across the Taiwan Strait should be increased to pave the way for negotiations in the long-run, he said.

**Taiwan Work Meeting Emphasizes Reunification**

*HK1312021390 Hong Kong SOUTH CHINA  
MORNING POST in English 13 Dec 90 p 13*

[By Willy Wo-lap Lam]

[Text] Beijing has designated reunification with Taiwan the major political task of the 1990s for the Communist Party and the country.

The National Conference on Taiwan Work convened by the party, which ended in Beijing yesterday, called on party members and citizens alike to speed up the process of the peaceful reunification of the motherland.

The party also urged the Kuomintang [KMT] to start party-to-party talks, adding that such talks could include representatives from other political parties or organisations.

Leaders who delivered speeches during the seven-day conference, which is the largest meeting on Taiwan ever held, included party boss Mr Jiang Zemin, President Mr Yang Shangkun and Prime Minister Mr Li Peng.

Participants included not only leading members of the Taiwan Affairs Offices of the party and Government but cadres involved in Taiwan work in such ministries and departments as the United Front, Propaganda, and Foreign Trade.

The conference affirmed the basic reunification formula first spelled out by senior leader Mr Deng Xiaoping: "Peaceful reunification; one country, two systems".

However, the conference pointed out, apart from the party and the Kuomintang, "representative figures from other political parties and organisations" in the mainland and Taiwan could take part in the negotiations.

"The talks could take place at the highest levels, or they could first begin at relatively low levels," the official China News Service quoted the authorities as saying.

The talks could start either with the question of reunification, or with how to expedite interchanges across the Taiwan Strait so that direct trade and other links could be established.

"We must implement comprehensive contact and exchanges with people from different parties, organisations and circles in Taiwan," the conference noted.

Analysts said that by stressing that reunification talks could start at relatively low levels and could involve non-party and non-KMT representatives, Beijing had shown unprecedented flexibility.

Beijing has consistently denied that it has a timetable for reunification with Taiwan. However, in internal talks, leaders including Mr Deng have hinted at a three-year or five-year time-frame for re-absorbing the province.

"By pointing out that reunification is the priority task for the 1990s, Beijing clearly wants Taipei to know that its patience will not last until the next decade," a Western diplomat said.

While the conference stressed peaceful means, pointing out that reunification was not a question of "who is eating up whom", it did not rule out the use of force.

Sources close to United Front circles say conference participants had examined other options that Beijing could take if Taipei continued to resist peaceful overtures.

#### **Vice Minister Heads Goodwill Mission to Panama**

*OW0312062490 Taipei CNA in English 0335 GMT  
3 Dec 90.*

[Text] Panama City, Dec. 2 (CNA)—Panama's Second Vice President Guillermo Ford said Saturday that the relations between the Republic of China [ROC] and Panama are now so excellent that nobody can alter them, thanks to the efforts made by ROC Ambassador Soong Chang-chih.

Vice President Ford, who is also minister of economic planning and policy, made the remarks when speaking at a dinner party hosted by Ambassador Sung at a local restaurant for bidding welcome to Vice Foreign Minister Cheng Chien-jen.

Ford indicated that the ROC and Panama have long maintained cordial relations. Nevertheless, he emphasized, Ambassador Sung always has his mind in further

promoting the bilateral ties and Panama's development in accomplishing his diplomatic mission.

The Panamanians see the Chinese diplomat as Panama's ambassador to the ROC rather than his real status, Ford stated, adding that the mentality represents their friendship toward Ambassador Sung.

The vice president encouraged ROC businessmen to make investments in Panama as the nation has many advantageous conditions that can not be acquired elsewhere. Besides, he continued, the Panamanian people and government are confident in establishing a peaceful and stable nation.

Panama welcomes foreigners to make investments here, by which to help solve some problems facing the nation, such as unemployment, he said frankly.

Attending the party were also Foreign Minister Julio Linares, Minister of Commerce and Industry Juan Chevalier, Vice Minister of Government and Justice Ramon Lima, Vice Minister of Economic Planning and Policy Bolivar Parentes, members of the ROC's investment exploration mission organized by the BES Engineering Corp., officials of the ROC Embassy and Overseas Chinese leaders.

Vice Minister Cheng, leading an eight-member mission, arrived in Panama Saturday for a three-day goodwill visit. The 9-member ROC investment exploration mission also arrived in Panama on the same day.

Cheng said that purposes of his visit to Panama are to make more contacts with the Panamanian authorities in order to better the mutual understanding and further strengthen the bilateral ties, as well as to extend the ROC Government's regards to Overseas Chinese and express his gratitude to Ambassador Sung and officials of the ROC Embassy for their contribution to the promotion of the ROC-Panamanian friendship.

The vice minister affirmed that the ROC is willing to extend cooperation with and to make contribution to Panama's development.

#### **Premier Hau Compared to Chiang Ching-kuo**

*91CM0020A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 182, 9 Sep 90 pp 18-21*

[Article by Nan Min (0589 3046): "Hau Pei-tsun Becomes a Second Chiang Ching-kuo"]

[Text] Premier Hau Pei-tsun comes to resemble more and more Premier Chiang Ching-kuo of 18 years ago. Moreover, he may possibly still become a "super-Chiang Ching-kuo"!

#### **Emergence of a Super-Chiang Ching-kuo**

This can be said because of the way they both aimed their conduct as models of good reputation combined

with power, as if on the same track; and, furthermore, both found themselves in extremely similar unfavorable circumstances.

Eighteen years ago, Chiang Ching-kuo assumed his post of premier at the time of much bad news; the rural economy was depressed, the land was ravaged by typhoons, there was a militant movement among the students, the country was evicted from the United Nations, and it was the time of the first international energy crisis. After he had assumed the premiership, he initiated a series of measures that showed his capability for "speedy action," "effectiveness," "clean and honest conduct," "an iron hand," and "a sense of responsibility," so that finally he restored public confidence in the once very disturbed minds of the people, and guided the militancy of the intellectuals and students into "lawful" channels; that was the emergence of the Chiang Ching-kuo era. Today Hau Pei-tsun assumes the post of premier under even worse circumstances: Public security is in shambles, the stock market has crashed, the opposition movement is getting fiercer, the economy is in a state of stagflation, the investment climate has deteriorated, and the country is diplomatically becoming even more isolated. However, with the same model for conduct, he was able, within two months of assuming office, to raise his reputation to close to that of Li Teng-hui. Only 28 percent declared themselves "extremely satisfied" with Li Teng-hui and 52 percent "satisfied," for a total of 80 percent, while in the case of Hau Pei-tsun the figure of "extremely satisfied" was as high as 37 percent, and "satisfied" 41 percent, making a total of 78 percent.

Hau Pei-tsun is not of famous parentage, and that he could acquire his good reputation in so short a time was perhaps due to his model of conduct being almost the same as that of Chiang Ching-kuo.

That year, when Premier Chiang had been in his post for only a short time, he called together all the country's civil servants of section chief and higher rank at the Sun Yat-sen Memorial Hall to give them an admonitory talk. That speech, with its "open a large gate, go the broad road," gave the civil servants much encouragement and much to hope for and was brimming with warm feelings and a sense of responsibility. Premier Hau, 18 years later, again called a similar meeting at the same place. He also called together the country's civil servants of the same rank and delivered a speech on "perfecting the rule of law and building up the country through thrift and hard work." It was transmitted live on television and printed in full in all newspapers. And, similarly, in its wording it was a speech which, as far as the civil servants were concerned, would ring like metal even if it were thrown on the ground.

#### **Chiang Outlined the Path, Hau Followed, One Model and One Pattern**

Shortly after he had assumed his office, Chiang Ching-kuo raised the "banner of high morality" for his administration. He prohibited civil servants from playing

mahjong, dancing, feasting, and from frequenting girlie restaurants and teahouses. An official of the rank of bureau chief in the Ministry of the Interior was singled out as a "sacrifice to the flag," when he feasted several tables of guests to celebrate a family wedding. He was summarily dismissed and deprived of his pension. Chiang Ching-kuo's "banner of morality" came down even on the heads of his own relatives. There was the case of Wang Cheng-i [3769 2973 6146], first head of the Bureau of Personnel Administration, who was given a stiff sentence because he was found guilty of corruption by accepting kickbacks. The way the "banner of morality" was demonstrated by Premier Hau was that he wanted to suppress the unauthorized use of underground parking places. The first to be "sacrificed to the flag" was the "Friends of the Military Restaurant," which operated in violation of regulations in the parking lot under the "Center of the Heroes of the National Armed Forces," Hau's old domain. To enforce the prohibition against the employment of illegal foreign workers, he demanded that heads of ministries or commissions set an example in the hiring of domestic help. Of course, the "military plane purchase scandal" is yet another example.

In Chiang Ching-kuo's time, during the energy crisis, when efforts were made to keep commodity prices down and to suppress hoarding, one merchant who had stored large quantities of reinforcing bars was sentenced to a heavy penalty. In these days when there is chaos rather than economic order, Premier Hau chose, not too early and not too late, at the most opportune time to deal with great severity with the Hong Yuan case; Wang Chien-hsuan [3769 1696 3551], moreover, threatened that he will now take up large cases of misuse of inside information in the share market to impress the people.

In his day, Premier Chiang initiated a routine for the premier to inspect the various ministries and commissions and to personally deliver his directives. A hallmark of Chiang Ching-kuo's inspections was that he would do careful homework in advance, based on information from his own special network, so that his so-called inspections were actually to make the various ministries and commissions aware of what they had to watch out for and to impart some directives on critical points that the ministers and heads of commissions had not thought of themselves, and thus to establish an image of omniscient authority. However, the secret of success of Chiang Ching-kuo's inspections was apparently not mastered by those who succeeded him, and, as a result, inspections degenerated into perfunctorily performed routine affairs. However, since Hau Pei-tsun had obviously been very shrewd about it early on, his speech during his first tour of inspection was concise and comprehensive and contained much new substance, and he gave some directives that would have obviously been impossible without a special information network, especially on that first day when he might have been unaware of things like newborn snails creeping on to the street. Just as did Chiang Ching-kuo, Hau Pei-tsun has an

ample information network, and that is why they both could pull off these "inspection shows."

#### **Another Show of Excellent Performance in Matters of Public Safety and Morality**

Eighteen years ago, Chiang Ching-kuo's time was not too far removed from the early agricultural era, an era when paternalistic government was effective in befriending the people, and that is why he moved about so much in the country and engaged in small talk with the old-timers. However, the present time of Hau Pei-tsun is a time of an industrial-commercial society, and that is why he plays golf, swims, jogs, gives speeches in English, and thus gives himself the appearance of a manager and of an upper-middle-class person. Hau Pei-tsun is most highly esteemed among the managerial class, and the reason for that is possibly the image he conveys.

In his day, Chiang Ching-kuo was noted for his "good showing in public safety and morality," he was very adept at eliminating underground economic activities and immorality, while 18 years later Premier Hau shows himself even more adept at the same game. Suppressing smuggling and eliminating underground economic activities and immorality are important matters included in the "Executive Yuan Report on Public Safety" which has Hau Pei-tsun's personal attention. So far he has brought to justice over 1,000 underground operators, and he also limited the business hours for videotape parlors and music television centers. He is preparing to order all taxis to be painted yellow, straighten out all cases of illegal commercial activities, and so on. In recent years, "a good show of public safety and morality" has been the magic weapon of conservative regimes all over the world. As soon as Reagan became president he started a war on crime, and when Bush became president his first great concern was to fight drugs. The reason that "a good show of public safety and morality" is so effective is because a "good show of public safety and morality" has an extremely strong moral repressive character; it is a blind spot in human consideration of problems, and, although it simplifies problems, it is apt to close out all fanciful talk by the opposition, and retain one's own superiority in the argument.

#### **In Ironhanded Policies Chiang Ching-kuo Is the Better**

In earlier years, Chiang Ching-kuo was highly successful thanks to his sagacity, he was quick in informing himself and always capable of an appropriate decision at the right moment. When he became premier, he knew of the depressed state of the rural areas and immediately reduced or exempted peasants from land taxes and instituted "measures for accelerated rural development." Hau Pei-tsun is equally quick at gaining information. He asked the Taipei municipal government to adopt a two-shift system, he accelerated the slowly progressing expressway construction, and he also had an earlier start made on the Taipei-Ilan speedway.

Both Chiang Ching-kuo and Hau Pei-tsun are really extremely similar; before they assumed office as premiers, they each had a strong power base which enabled them to have things done. Yen Chia-kan [0917 1367 3227], Yu Kuo-hua [0205 0948 5478], and Li Huan, on the other hand, had only a limited domain of their own, and it was only natural that, after the three years of instability after Chiang Ching-kuo's death, Hau Pei-tsun would be destined to again become master of the whole situation.

However, Hau Pei-tsun is possibly much stronger committed than was Chiang Ching-kuo in his ironhanded show of discontent with some social phenomena. He indicated that he will punish "environmental protection hooligans," "labor movement hooligans," and "peasant movement hooligans." He intends to make the Fifth Naphtha Cracking Plant the target of a test of ironhanded action, and later he will tackle the nuclear power stations. This kind of super-forceful workstyle is something that Chiang Ching-kuo had avoided. Now, however, Hau Pei-tsun is preparing to do it with the power and influence accumulated as part of his "good show of public safety and morality." If we would want to point at a victory angel for Hau Pei-tsun's tour de force, that angel is economic depression and social instability, because these two things are usually critical factors helping a conservative strongman to come to power. Eighteen years ago, when Chiang Ching-kuo's power became stabilized, that also happened just after the outbreak of the energy crisis.

#### **His Reputation Comes Close to That of Li Teng-hui**

Since Hau Pei-tsun is getting more and more like Chiang Ching-kuo and, furthermore, his reputation has risen to close to Li Teng-hui's, this has finally also compelled Li Teng-hui to become more active, and Li is now indeed more frequently on inspection tours.

Of course, with all the similarities between Hau Pei-tsun and Chiang Ching-kuo there are also many differences. Chiang Ching-kuo did not play golf, did not swim, spoke no English, and did not dress up in name-brand leisure clothes. Chiang would only go to inspect villages and factories, he occasionally hugged some little children, he wore a simple jacket or a Chinese tunic suit, and he also occasionally ate at roadside stall. Not so Hau Pei-tsun, he is a Westernized military man, a "meat eater" [a classical term for "elitist"], who emphasizes discipline and orderliness. According to the way he has shown himself since becoming premier, he is more like a "Chiang Ching-kuo of a different mold," like Lee Kuan Yew [prime minister of Singapore]. The blueprint for the future that they design for the masses would look like this: Everyone shall become conservative middle class, will not frequent the videotape parlors, nor participate in social movements, nor engage in money games, strictly obey discipline, work, make money, and play golf. That is the way to live! But their common problem is that there has not been nor will there be any society that

follows this blueprint. This kind of society exists only in the minds of these new types of conservative politicians.

Discipline, morality, efficiency are criteria that all people hope to see realized, but their realization in absolute terms becomes a new dictatorship. And the strange thing about it is that Hau Pei-tsun, who shows these traits and desires, is now highly esteemed. From Hau Pei-tsun's popularity we can directly deduce one thing, namely that the past three years of chaos on Taiwan are gradually coming to an end. Theoretically, a society undergoing changes will always show during the period of change a tendency toward chaos. If better institutions and a better order is engendered in this period of chaos, that is progress. But what Taiwan is now gaining after three years of chaos is "another Chiang Ching-kuo"!

#### **Government Incompetence and Society in Turmoil**

Because Taiwan had lost its strongman, its society during the last three years tended toward chaos and restlessness. It was a time of "no emperor and anything goes." If our society had really understood the situation, then during the time of "no emperor" everybody would have played the role of emperor, been responsible for himself, or perhaps people would have tried to create by themselves a new and even better order. But the Taiwanese have not manifested that kind of self-awareness and foresight.

What appeared in the end was a common irresponsibility by both sides, by officialdom and by the public. In the past three years, our government has shown extreme incompetence, incapable of playing the role of vanguard of democracy and also incapable of any positive initiative. Since in past years all departmental interaction had been directed by the strongman and everybody had worked under orders, there was a lack of experience in negotiation and cooperation, and during the last three years nobody even cared to acquire this experience. The heads of all government agencies had shown themselves courageous in fighting each other and prided themselves on whatever power they possessed. In the end the bureaucratic system became paralyzed, and Taiwan changed from a nondemocratic but efficient society to a democratic but incompetent society.

And on the part of the people, it was like the sorcerer's apprentice, who in the absence of the sorcerer mixed up his tricks, lost control of the magic processes, and could not regain mastery of what he had created. In three years Taiwan has become a society in a raging storm, everybody is drowning in this storm, but they have forgotten what can calm down the storm. The opposition party and those engaged in social movements are equally in a raging storm, in a competition where everybody is watching to see who can be the fiercest, and nobody is giving thought to how this development can be stopped. During three years of wild storm, Taiwan has neglected all kinds of work. The stock market, houses and land affairs, social order, public moral principles, all have collapsed because of this, and now that the collapse is

spreading and is coming closer to the threshold of tolerance of the people, Hau Pei-tsun has become the hope of the people.

Hau Pei-tsun has therefore been welcomed, much like military men were welcomed in many Latin American countries, all as the result of "incompetent democracy" and "freedom without order," and they had all been chosen as "the lesser of many evils." Because of the lack of wisdom and insight among the reformers and because of the incompetence of the bureaucratic system, he got his opportunity in a time of historical retrogression.

#### **A New Record in the Disparity Between Rich and Poor**

While Hau Pei-tsun's reputation is constantly growing, there are fewer and fewer achievements in Taiwan's democratization. Taking most recent statistics as an example, the disparity between rich and poor on Taiwan is getting wider and wider and has set a record for the last nine years. A worker on Taiwan needs nine years' wages, without spending on food and clothes, to buy a house. An American worker requires three years; a Japanese worker, the most unfortunate, still requires only 6.3 years. And, on Taiwan, if the worker is involved in the labor movement, he might also be tagged a "labor movement hooligan."

It is not merely the problem of the widening discrepancy between rich and poor that is growing worse, all other problems are also getting worse: There are more and more public and private tragedies, and at the same time that Hau Pei-tsun's reputation is growing, more than 100 lives have been lost in various calamities. Some say this is the result of Hau Pei-tsun's "inclination to violence." Moreover, misuse of power by the KMT [Kuomintang] is going on as before in various ways. However, people have no other choice because the opposition parties are in a more serious self-inflicted dilemma of "going the way of becoming law-abiding." In the past three years, the various opposition parties on Taiwan, competing for financial sources, each made up its own particular label, and these various persons and groups with their own particular labels attacked each other and cut down each other, testing each other's strength for leadership. This has fragmented society, and the different groups view each other with hostility. A most glaring case is that of Chu Kao-cheng's [2612 7559 2973] new party, when its inaugural meeting turned into a free-for-all. Not only in politics is it like that, but also in the social movement, in the labor movement, in the peasant movement, in the student movement, and in almost every field. Every field is full of little emperors, and these emperors fight each other, which in the end turns out to be fighting for fighting's sake, without any relation to concern for public affairs. In fact, they are selling out the public interest. Hau Pei-tsun dares to blatantly call them "environmental protection hooligans" and "labor movement hooligans" and what he obviously relies on behind their backs is precisely that they will of their own volition "go the way of becoming law-abiding."

### **Reappearance of a Chiang Ching-kuo Means the People Have Failed**

During the three years of chaos on Taiwan, there was very little that the people hoped for, and so they were more and more hoping for a new "Chiang Ching-kuo." Who is after all to blame for that? Objectively, one must perhaps say that it is the people of this generation, they all have not lived up to their responsibilities.

The KMT is ignorant and incompetent in matters of democracy. It has never examined its qualifications to be a vanguard of democracy, when all they did in times of chaos was to look on with folded arms, and only at the very end did they do the easy job of cleaning up the mess left by the chaos. Its incompetence during the three years may be termed a kind of "malicious absenteeism."

The politicians and agitators of the opposition parties, who really should have exerted more effort than the men of the ruling party, have made only insufficient efforts. They have no sense of responsibility, no moral principles, and no purpose, and they have not changed in substance. They persist in their preference for bravado and fighting, but conversely have lost much of the space they had formerly gained.

All we see is that Hau Pei-tsun's reputation is constantly rising, and that Taiwan seems to move into a new historical direction. Because the opposition parties are disintegrating with ever-increasing momentum and are increasingly made to "go the way of becoming law-abiding," they are being pushed into a neglected corner of society, while the ruling strata, by manipulating the technocrat system and its medium, take advantage of the fears of the people to continue their exercise of political power. Hau Pei-tsun resembles Chiang Ching-kuo, but enjoys extremely high popularity, so that a large circle is formed, and Taiwan is possibly returning to its original starting point! This is perhaps the critical point that people should awaken to and ponder!

### **Eavesdropping Activities of National Security Bureau**

*91CM0091A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 188, 21 Oct 90 pp 12-15*

[Article by Li Wan-tsun (2621 2519 2625): "The National Security Bureau Has Two Mysterious Code Names"]

[Text] At first glance, the names "Ankang" [1344 1660] and "Anhua" [1344 5478] seem quite ordinary, but if you know that these are mysterious code names for the electronic eavesdropping activities of the National Security Bureau, then these two seemingly innocuous names take on an aura of mystery.

### **Ankang and Anhua Specialize in Eavesdropping**

Ankang is the code name for the National Security Bureau's international electronic eavesdropping operations, and Anhua is the code name for its domestic

telephone bugging operations. Neither of these names has ever been known to outsiders.

International eavesdropping activities, codenamed Ankang, are carried out by a National Security Bureau agency in Hsintien officially named the Scientific Intelligence Research Laboratory.

The Scientific Intelligence Research Laboratory has an enormous staff. The people employed there outnumber by far those at National Security Bureau headquarters. This agency is under the leadership of a lieutenant general, under whom there are two vice directors with the rank of major general. Under the vice directors are seven departments. All the department heads are colonels, and one department head is promoted to major general every year.

Most of the personnel at Ankang were earlier involved in communication and electronics in the Air Force. Because there are many hands and little work, many employees get stir crazy and frequently play mahjong to kill time. The level of their productivity can be imagined.

The secrecy surrounding domestic eavesdropping work—Anhua—is still greater than that surrounding Ankang. Anhua's special cases for investigation belong to the organization of its mission, unlike at Ankang, for which there is an official staff. It is said that its offices are in the Presidential Palace. Anhua was established at the beginning of Chiang Ching-kuo's tenure as president. Its task was to bug the telephones of non-Kuomintang persons active at that time. When the Kaohsiung Incident occurred, Anhua played a very important role. Information obtained by this agency through wiretaps was reported via the director of the National Security Bureau directly to President Chiang Ching-kuo.

Apart from wiretap materials from Anhua, Chiang Ching-kuo also secretly made use of wiretap materials from the Garrison Command's Electronic Surveillance Department to keep informed on non-Kuomintang activists. Chiang Ching-kuo always liked to obtain intelligence through a variety of channels, and his method of eavesdropping on these activists was one example of this proclivity.

### **Everyone Is Afraid of Having His Phone Tapped**

However, because of the political battle which broke out early this year between the "mainstream" and the "non-mainstream" factions, a storm of suspicion arose about whether the National Security Bureau had bugged the telephones of key members of the Kuomintang [KMT]. It is reported that the Anhua personnel originally working in the Presidential Palace have now all been reassigned to the National Security Bureau headquarters. However, because most of these Anhua personnel have been placed in high positions at headquarters, there has been dissatisfaction among headquarters personnel and those Anhua personnel who failed to get a high position, and the situation has caused ripples. The National Security Bureau director, Sung Hsin-lien [1345

1800 3425], once openly spoke to console personnel during a monthly mobilization conference within the bureau.

Almost everyone who was active in non-Kuomintang activities has had the experience of being eavesdropped upon by security agencies, and during the political scrap of this past March all of the key KMT members in the nonmainstream faction were worried about their phones being bugged. Many even went out and bought anti-eavesdropping devices, but because of the sophisticated eavesdropping techniques of the security agencies, many key KMT members were unable to escape the fate of having a "third ear" eavesdrop on them. The anti-eavesdropping devices only served to calm their nerves!

However, it is not so difficult for a professional intelligence agent to frustrate attempts to eavesdrop. The following story once circulated within the National Security Bureau.

When Wang Ching-chao [3076 2417 3564] was director of the National Security Bureau, the National Security Bureau's Ankang as well as its overseas agencies obtained the following piece of intelligence: A male and female suspected of being KGB agents would be arriving in Taiwan via Japan carrying Australian passports. As soon as the National Security Bureau received this intelligence it made preparations to eavesdrop and carry out surveillance on the pair. When the couple checked into Taipei's Lai Lai Hotel, the National Security Bureau also bugged their phone immediately. As soon as these two KGB pros entered their hotel room, the first thing they did was unscrew the telephone receiver and put it under a pillow. The people in charge of the bugging thought they would be able to hear everything the pair said over the phone, but they never picked up a word. Only then did they realize that they had run up against some of the best in the business.

#### **The Mysterious Couple Turns the Tables on Their Eavesdroppers**

That was not the only thing that made the National Security Bureau angry, though. After tweaking the noses of those in charge of bugging their telephone, the couple went to a public telephone on the street and made a call. Only later was it learned that this call had been to the Chi Hai residence of Chiang Ching-kuo, and they had actually asked to speak to Chiang Ching-kuo's wife, Chiang Fang-liang [5592 2455 5328]. When the Chi Hai personnel answered this call (the caller spoke in English), they were shocked. They repeatedly asked the caller's identity and the reason for the call, which the caller never revealed. Their conversation futile, the Chi Hai personnel had no choice but to hang up the phone. They immediately reported the incident to Wang Ching-chao and asked him to investigate it.

After the National Security Bureau received the call from Chi Hai reporting this incident, it concluded that it must have been the mysterious couple at Lai Lai Hotel that had called Chi Hai, but this couple's motive in coming to

Taiwan was a matter of guesswork since the bugged telephone and surveillance had revealed nothing. Their motive for calling the president's wife was even more puzzling. In order to prevent this uncontrollable situation from developing any further, the National Security Bureau made a quick decision to order the Department of Police Administration to have its foreign affairs police go to Lai Lai Hotel and order the couple to leave Taiwan by a specified time on the grounds that they were "unwelcome" in Taiwan. The mysterious couple protested vigorously, but in the end they were still deported.

Although the National Security Bureau failed in its efforts to eavesdrop on the KGB agents in Taiwan, the fact that the bureau knew that KGB personnel were coming to Taiwan indicated that Ankang and the various overseas ears and eyes of the National Security Bureau still have some success in intelligence gathering.

#### **The Bureau Has Five Departments, Each With Its Subordinate Offices**

The National Security Bureau headquarters has five departments. Department No. 1 is responsible for the mainland; Department No. 2 for overseas; Department No. 3 for domestic security; Department No. 4 for strategic intelligence; and Department No. 5 for electronic intelligence operations. As for the various levels of organizations stationed overseas, their staffing generally varies according to region. For example, the National Security Bureau has a special representative in important countries such as the United States, Japan, West Germany, and Indonesia, and officials usually hold the rank of lieutenant general. Below the special representative there is a "monitoring team" (in New York, for example), a "large work team" (in Houston, for example), or a "small work team" (in Hawaii, for example). However, this traditional organization has changed somewhat. Sung Hsin-lien has ordered the abolition of the former method of organization and staffing, changing everything to "work teams" in which several team members are under the leadership of a team head. The monthly salary of the team head generally runs from \$5,000 to \$6,000 per month, while team members earn about \$4,500. Because these salaries are so high, everyone in the National Security Bureau strives for an overseas assignment.

Although overseas positions are highly sought after, the nature of the National Security Bureau's work frequently incurs resistance by the governments of the host countries. In the United States, National Security Bureau agents once entered all the information on all the blacklisted people in the United States into a computer in order to check on people entering Taiwan. After the U.S. Government learned of this situation, though, it pressured our diplomatic representation to get rid of the computer files on which this blacklist was stored. This could be one of the factors which has enabled people formerly on the blacklist to sneak back into Taiwan.

### **Sung Embarrassed When China and Saudi Arabia Break Ties**

The main task of National Security Bureau personnel stationed abroad is to gather political intelligence and report it directly to the National Security Bureau headquarters. This intelligence, depending on its importance, may then be passed on by the director of the National Security Bureau to the president, the premier, or the Minister of Foreign Affairs to assist them in their formulation of policy. The intelligence from the overseas agencies of the National Security Bureau is not usually too far off the mark, but the National Security Bureau was recently embarrassed badly by its performance of this task.

Before Saudi Arabia severed relations with Taiwan, the National Security Bureau had continually assisted the Saudis for years in setting up its national security apparatus. This program was codenamed Operation Dragon. Because it had this cooperative relationship with the Saudis, the National Security Bureau had always felt it had a firm grasp of the political situation there, but diplomats have revealed that just two weeks before Saudi Arabia decided to break its ties with Taiwan, Sung Hsin-lien submitted a report to President Li Teng-hui in which he stated without reservations his judgment that there would be no change in the next two to three years in relations between Saudi Arabia and Taiwan. Two weeks later Saudi Arabia announced it was severing its relations with Taiwan. This was a hard slap in the face for Sung Hsin-lien, and it badly tarnished the image of the National Security Bureau's overseas apparatus.

When Saudi Arabia broke relations with Taiwan, it was quite embarrassing to Sung Hsin-lien. He has been hoping for an opportunity to repair his image, and a few days ago he finally seized his chance. When the Guangzhou airplane hijacking and crash occurred on 2 October, Sung Hsin-lien immediately announced in public that the National Security Bureau had known about the hijacking in advance and had been fully prepared for it. Sung Hsin-lien had never made public statements before, but he broke with custom in the case

of the Guangzhou air crash, which perplexed many people. However, those familiar with the inside story behind the severing of relations with Saudi Arabia understand perfectly that Sung Hsin-lien used this event to repair his personal image as well as that of the National Security Bureau.

### **Frequent Movements and Changed Intentions**

There is no doubt that Ankang, through its eavesdropping activities, and the National Security Bureau's Department No. 1 had both picked up intelligence on the Guangzhou hijacking, and that this is why Sung Hsin-lien dared to announce so loudly that the National Security Bureau had known about it ahead of time.

Sung Hsin-lien has been very active recently. Apart from blowing his own horn in public, he attracted a great deal of scrutiny when he used the opportunity of the National Security Bureau's report on the status of law and order throughout the nation to align himself with Hau Pei-tsun, and used Hau Pei-tsun's name to strengthen the position of the National Security Bureau as the highest security agency in the country. At the same time, Sung Hsin-lien has repeatedly invited independent-minded scholars to participate in informal discussions and dinners in order to improve the National Security Bureau's image. The purity of his motivation and the diligence with which he has set to his present task stand in stark contrast to the way he used to operate.

However, the fact that eavesdropping by the South Korean military on dissidents caused a scandal and led to the resignations of the minister of national defense and the head of the Security Command has caused the eavesdropping activities of the National Security Bureau to become a focus of many people's discussions.

If South Korea can do it, then of course Taiwan can, too. However, the scandal of eavesdropping only came to light because of Yun Sok-yong. Where is Taiwan's Yun Sok-yong. When will he appear?

Sung Hsin-lien surely fears that day, but there are more people who long for it.

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