

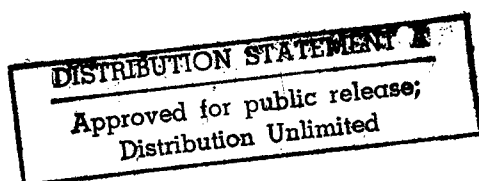
JPRS-CAR-91-051  
13 SEPTEMBER 1991



# ***JPRS Report***

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# **China**



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# China

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13 September 1991

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## GENERAL

### Analysis of Sino-Soviet-U.S. Relations

91P30170 Hong Kong TANGTAI [CONTEMPORARY]  
in Chinese No 3, 15 Jun 91 pp 19-21

[Article by Yu Ping (0151 1627): "Will China and the USSR Form Another Alliance?—A Discussion of China-USSR-U.S. Triangular Relations"]

[Text] TANG TAI commentary: Recently General Secretary Jiang Zemin visited the Soviet Union. This was the first visit to the Soviet Union by a head of the Chinese Communist Party since Mao Zedong visited the Soviet Union in the 1950's. Naturally this drew general world attention; an exchange of this nature between China and the Soviet Union clearly goes beyond bilateral relations and has a deep influence on the world situation. This article probes into developments in the China-Soviet-U.S. triangular relationship.

Of the five permanent members of the Security Council, China and the Soviet Union have it the toughest. China's global isolation following the 4 June incident of 1989 has been unparalleled since 1979. Domestically, China's leadership is taxing its brain in the face of greater and greater domestic dissatisfaction (including dissatisfaction in Tibet and other minority areas) and because the economy has been uniformly poor since 1989.

The Soviet Union has many domestic and foreign troubles: 1) Soviet minority problems are on the rise. Each republic is separately demanding independence, and the Soviet Union could possibly split into several countries. 2) The Soviet economy has been in turmoil for the past two years and there have been successive worker strikes. The economy could possibly collapse. Both have it tough, so they have become brothers in adversity. Thus the sudden intimacy of Sino-Soviet relations is completely a matter of fellow sufferers commiserating with each other.

### China and the Soviet Union Risk Falling Out With Some

Although Sino-Soviet relations have become closer since the 1989 Gorbachev visit, those who know the inside story understand that from 1989 to the present, Sino-Soviet relations worsened once and almost ruptured. Sino-Soviet ideological warfare was imminent and just missed happening.

After 4 June, Sino-Soviet relations deteriorated rapidly. On the one hand, after the 4 June incident China's thinking retrenched completely, they made great efforts to oppose bourgeois liberalization, and leftist thinking regained dominance. This was obviously out of tune with Gorbachev's thinking. In addition, following the 4 June incident, all of the socialist East European countries except for Albania abandoned socialism and changed to social democracy and capitalism. This put great pressure on China.

Under these conditions, the CPC internally assigned the following work: 1) Support Soviet conservative Ligachev in

order to put pressure on Gorbachev, 2) secretly criticize socialist thinking at the highest levels in the party in response to the "drastic changes" in the East European socialist countries, 3) internally, criticize Gorbachev directly, who not only had to take responsibility for the major changes in East Europe, but who himself is not a Marxist and wants to drag the Soviet Union toward capitalism. At the same time, the party also internally handed down a secret document to unify thinking and prepare for a Sino-Soviet debate as during the 1950's, writing another commentary like the "Nine Commentaries." At this stage, there were many secret party-internal documents, such as the one criticizing Gorbachev, the situational analysis of the "drastic changes" in East Europe, and one on the incident in Romania, etc. In addition they printed and distributed a great deal of information on the evolution of each of the East European socialist countries for party members to study. During this stage Sino-Soviet relations reached the lowest point since the 1950's.

### Fellow Sufferers Link Hands Again

However, a couple of things that happened very quickly kept Sino-Soviet relations from rupturing publicly, and things improved. Ligachev, the conservative whom China had supported to the utmost, had almost no influence in the Soviet Union; no one in the Soviet Union was interested in him. This caused China's interest in Ligachev to drop off dramatically. In contrast, Yeltsin's influence increased, with the real possibility of him replacing Gorbachev. This made China think that letting Yeltsin come to power was worse than accepting Gorbachev. Secondly, Soviet domestic problems got worse, keeping Gorbachev from stressing his policy of glasnost and new thinking. This pleased the Chinese leadership, whose argument that so-called economic construction requires a stable social environment was not only proven in the Soviet Union, it was also accepted by Gorbachev to a certain degree. Chinese and Soviet leaders' thinking began to converge again. Third, the Soviet economic situation became worse. When it could not get Western support, it turned to China for aid. China's generous support caused the Soviet Union to again feel "socialist friendship." With the West they are not, in the end, on the same "level," but with China they are. This again made the Soviet Union feel that "blood is thicker than water." This series of changes caused Li Peng and Jiang Zemin to get very different results when they visited the Soviet Union, since they went at different times. Li Peng, who went when China and the Soviet Union were having an internal confrontation, did not sign any Sino-Soviet agreements. Looking for excuses to console himself, Li said that there was not enough time and that signing joint declarations was a lot of trouble. In fact, Li Peng's visit to the Soviet Union met with much popular dissent, and more than 70 people in Moscow petitioned parliament to boycott Li Peng's visit. Jiang Zemin's visit to the Soviet Union was more fruitful. On the one hand a Sino-Soviet joint statement was signed, and on the other hand, they signed the eastern border treaty. The barometer of Sino-Soviet relations is clearly reflected in the two Chinese leaders' visits to the Soviet Union.

### Common Chinese, Soviet Requirement: Contain the United States

After the 4 June incident, Sino-U.S. relations suddenly worsened. At this time, since Gorbachev had adopted moderate policies toward both sides, the United States no longer needed to use its China card against the Soviet Union. The United States was in a position to take the initiative. But China still hoped for U.S. support to develop its economy; therefore, it was in a passive position. At this time, China did not have any cards to play against the United States. However, recently U.S.-Soviet relations have shown some minute changes which again allow China to think it might be able to use the Soviet card to restrain the United States. Since the Soviet domestic situation is getting worse, hardline Americans are calling for the United States to discontinue support for Gorbachev and transfer it to the Soviet progressive Yeltsin. In the face of U.S. hardliners' appeals, the cold war could resume. Gorbachev's warning on this had an immediate effect. Bush immediately called President Gorbachev to say that Soviet-U.S. relations were still sound. Against this background, it is entirely possible that China might use the reconciliation between China and the Soviet Union to restrain the United States and make the United States feel that it cannot ignore the combined power of the Soviet Union and China. This was probably the main idea behind Jiang Zemin's visit to the Soviet Union. In connection with this, the Soviet Union also indirectly supported China. So, just as the United States was going to discuss whether to renew China's MFN [most-favored-nation] status, the Soviet Union suddenly announced the end of the Sino-Soviet cold war posture. Jiang Zemin also elected to go to the Soviet Union half a month before the U.S. Congress was to debate the issue. This forced Bush to consider the need to maintain Sino-U.S. relations.

At this time, the Soviet Union on the one hand warned the United States that the cold war might resume, and on the other hand it announced the end of the Sino-Soviet cold war. Is not the international strategic meaning perfectly clear?

### U.S. Response to Sino-Soviet Alliance

Thus, the United States had to consider these relations. 1) The end of the cold war was very beneficial to the United States. 2) The United States suffered post-World War II setbacks during the Korean war and the Vietnam War, which were closely related to Soviet and PRC support for North Korea and Vietnam. Moreover, the recent quick defeat of Iraq was also closely related to the Soviet Union and China remaining neutral. If the Soviet Union and China had supported Iraq militarily, the United States would not necessarily have had certain victory. 3) The new international order that the United States wants to establish is inseparable from the support of China and the Soviet Union. 4) Next year Bush is running for President again. A deadlock in relations with China or the Soviet Union would be disadvantageous to his candidacy. Therefore, in the face of strengthening Sino-Soviet relations, the U.S. President has successively made two major decisions. One was to call Gorbachev and tell him that U.S.-Soviet

relations were fine and that the U.S.-Soviet summit would take place this year. The other was to announce the unconditional renewal of China's MFN status for another year. Clearly, the basic aim of recent Sino-Soviet intimacy has been met.

### China and the Soviet Union Cannot Form an Alliance

Given the rapidity with which China and the Soviet Union recently formed an alliance, will the two countries become allies in the future? I believe that this is not very likely because if they form an alliance, their relations with the United States will certainly worsen, and neither China nor the Soviet Union is willing to let this happen. At the same time, the United States will not lightly sever relations with the Soviet Union or China in order to avoid the consequence of a Sino-Soviet alliance. One thing is certain, however. Neither China nor the Soviet Union can restrain the United States on its own. Thus it is realistic for China and the Soviet Union to link hands in cooperation in order to maintain stable relations with the United States.

## UNITED STATES

### Effects of MFN Renewal Problems on Beijing

91P30172A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 258, 1 Jul 91 pp 102-103

[Article by Huan Guocang (1360 0948 0221): "MFN Status and the Political Workings of Washington"]

[Excerpt] [passage omitted] Beijing is rather nervous about the proposal to extend most-favored-nation [MFN] status. MFN status involves close to \$10 billion in foreign exchange income annually. It is of special importance that a large portion of enterprises creating this foreign exchange are the economically more efficient coastal enterprises. With Europe's economic unification next year and increased prospects for NAFTA [North American Free Trade Association], this is an important challenge. Even more worrisome for Beijing is that this proposal is considered every year. That is, every year Washington can use MFN status to negotiate with Beijing, and the scope of the fight gets bigger and bigger. Presently, Beijing has already made some concessions on human rights, trade, and arms sales. These concessions could be considered "beneficial effects."

As far as concrete effects are concerned, Beijing has spared no effort to cooperate with U.S. and Hong Kong business circles and has lobbied some Republicans and China experts to argue on behalf of the proposal on the grounds of both countries' "long-term benefit," Hong Kong's stability, and prospects for Mainland China's reform and opening up. It is noteworthy that the opening remark of many people speaking on behalf of Beijing is "I am not satisfied with China's democracy and human rights situation." They then stress that China's problems can only be solved gradually and, moreover, can only be solved after the economy has developed. Rarely does anyone defend the 4 June crackdown—there would, of course, be no market for such a defense in the United States. However, as with the participants in the democracy movement,

Beijing's diplomats have no more complete or effective way of defending their own interests and stand.

Finally, from an overall point of view, MFN will not "fail" this time—unless Beijing's human rights situation suddenly gets much worse. All the different forces participating in this proposal plan a long-term battle. This development has already opened up new areas in bilateral relations.

## SOUTHEAST ASIA/PACIFIC

### Discussion of Proposal for East Asia Trade Group

91P30181A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1082, 1 Jul 91 p 26

[Article by Lu Xiao (6424 2556): "Proposal for an East Asia Trade Group"]

[Text] During last December's GATT "Uruguay Round" negotiations in Brussels, the great powers of Europe and America, for the sake of their own interests, haggled over issues such as agricultural subsidies. They made no concessions, which caused the talks to break down. In this situation, this January, Malaysian Prime Minister Mahathir formally proposed setting up an East Asian Economic Grouping.

Mahathir's proposal goes beyond previous notions about Asian-Pacific regional cooperation. It excludes developed nations such as the United States, Canada, Australia, and New Zealand, and suggests the establishment of an East Asian Economic Grouping, which would only include Asian nations and territories, and would include different social systems and levels of economic development. According to Mahathir's proposal, this group would include China, Japan, Singapore, Malaysia, Thailand, Indonesia, the Philippines, Taiwan, Hong Kong, South Korea, Vietnam, Laos, Cambodia, and Burma. Japan would be the core of this group, and China would have an important function within it.

Mahathir's initial plan was to create a "trade group" to counterbalance the U.S. and European "groups," but Asian nations involved were cautious about this. Mahathir later altered his original plan considerably, emphasizing that "developed nations would not take a weak nation's interests into account," and that it is important for "weak nations to oppose this sort of unfair treatment with one voice." Establishing an East Asian Economic Grouping is for the purpose of speaking with one voice and increasing influence in talks during international negotiations; it will not become a protectionist "trade group."

Not long after the suggestion for an East Asian Economic Grouping came out, Solomon, the U.S. assistant secretary of state for Asian affairs, characterized it as "unwise." After Mahathir said that the East Asian Economic Grouping would not be a protectionist "group," the U.S. ambassador to Malaysia still expressed concern that it could harm affect U.S. interests in Asia.

Australia is also rather dissatisfied with Mahathir's suggestion. Australia is a leader and one of the more active participants in the Asia-Pacific Economic Cooperation Council (APEC), and it worries that the emergence of an East Asian Economic Grouping could influence the APEC and weaken Australia's role in Asia. The spokesman for Australia's Ministry of Foreign Affairs called Mahathir's plan purely "theoretical."

Japan's Prime Minister Kaifu, while on an official visit to ASEAN at the end of April, indicated that he wholly understands this suggestion but hopes that an East Asian Economic Grouping will not become a "group" in opposition to the GATT and other existing Asian cooperation. Facing the competition of the great powers of Europe and America, Japan has for a long time intended to utilize its abundant economic power to establish an "East Asia Trade Sphere" with itself as the center. Mahathir's proposal in fact conforms to Japan's intentions. However, Japan is tied up in political, economic, and security relationships with the United States and does not dare to rashly participate in an economic group that excludes the United States. On 20 May, Prime Minister Kaifu indicated to Vice President Quayle that he does not endorse putting the United States outside the East Asian Economic Grouping.

South Korea has intimate relations with the United States; to date it has not yet formally expressed an opinion.

Now that Mahathir has revised his original proposal, the ASEAN nations seem more enthusiastic than before. Singapore has publicly indicated support; Thailand has indicated support in principle but believes the issue needs further study. The Philippines indicates it can accept the proposal but hopes it will not influence free trade or existing international cooperation. Indonesia approves of mutual cooperation, but does not approve of a "trade group."

On the whole, each ASEAN nation is willing to increase cooperation among Asian nations. However, ASEAN needs U.S. and European capital, technology, and markets, and, in terms of regional security, views the United States as a necessary balancing force. Because of this, the ASEAN nations cannot wholly ignore the United States' position. Furthermore, the ASEAN nations have misgivings as to whether the establishment of an East Asian Economic Grouping could give rise to trade protectionism and whether the development of the region's externally oriented economy might suffer harm.

Majority public opinion holds that although forming a "trade group" with only East Asian nations participating is not very realistic at this time, promoting cooperation among Asian nations has great significance. Prime Minister Mahathir's proposal reflected this fact: As Asia's economic position improves, the need for strengthening economic relations and cooperation among Asian nations steadily increases.

### Broadcast Editors Conference Urges Local Initiative

*HK1608091591 Lanzhou Gansu People's Radio Network in Mandarin 2200 GMT 15 Aug 91*

[Excerpts] The fourth national conference for editors in chief of provincial-level radio and television broadcasting stations, called by the Xian People's Broadcasting Station, opened in Jiuquan yesterday.

Editors in chief from 32 provincial broadcasting stations throughout the country attended the meeting.

Ma Qingxiong, deputy minister of radio, film, and television, gave an account of achievements made in the broadcasting field over the last few years.

He said that to develop China's radio and television broadcasting, we are carrying out the principle of combining central with local efforts. We are simultaneously developing wired and wireless broadcast networks, internal and external broadcasting, and radio and television broadcasting, and we are encouraging local units to run broadcasting stations on their own. Radio and television broadcasting undertakings have made great progress. At present, China has 640 radio stations and 540 television stations. Radio and television programs are available for 79.5 and 74.7 percent of the country, respectively. There are 380 million radio sets and 180 million television sets throughout the land. [passage omitted]

Ma Qingxiong fully reaffirmed the achievements made by all province and city-run broadcasting stations over the last few years. He called on all broadcasting stations to follow the principles of maintaining unity and stability and encouraging the people to bring their enthusiasm into full play, to display party spirit, to give coverage in a positive way, to uphold the four cardinal principles, to fully utilize the characteristics of broadcasting, to improve program quality and propaganda skills, and to contribute to the building of material and spiritual civilization. [passage omitted]

### Article Urges Study of Original Marxist Works

*HK2206055491 Beijing QIUSHI in Chinese No 10, 16 May 91 pp 44-45*

[Article by Zhao Xuemin (6392 1331 2404), head of Fujian Provincial CPC Committee Standing Committee and Secretariat and student of the advanced studies class at Central Party School: "When Studying Original Works, Put Efforts Into Mastering Their Position, Viewpoint, and Methods"]

[Text] If we consider the textbooks which expound upon the basic principles of Marxism to be the "stream," then the original works of Marx and Engels (hereafter referred to as "original works") are the "source." In this sense, the study of the original works is a tracing back to the source. The Central Party School requires students "to consider the study of original works as the main part of study." This is a good tradition and a good study style. In studying the original works, of course it is necessary to clarify the aims

and historical background of the works of Marx and Engels, the people mentioned in the works, and the social and historical events touched upon. However, I consider that a more important aspect of studying the original works is to put efforts into mastering the position, viewpoints, and methods of Marxism. When I came to the Central Party School this time and again read *Ludwig Feuerbach and the End of German Classical Philosophy* (below referred to as "On Feuerbach") this point was brought home even more profoundly.

Only by seriously reading this book by Engels, which was later referred to by Lenin as "a book every politically aware worker must read," can we see the clear-cut proletarian position which the author manifests in the work. In Engels view, there is no philosophy in the world which transcends class or transcends society. In a class society, philosophy is always created by persons who belong to a certain social class. Even Hegel's philosophy, which was the highest peak of classical German philosophy, represented the interests of the German bourgeois who at that time advocated a constitutional monarchy. Engels openly declared that the philosophy which he and Marx created had a clear partisan nature. Engels held that Marxist philosophy enables the working class to find, in the development of labor, the key to understanding the overall history of society. "The more science becomes less hesitant and more impartial, the more it will be in accord with the interests and aspirations of the working class."<sup>1</sup> The study of Engels' firm proletarian position is not only a basic point we need to grasp in researching "On Feuerbach," but is also something of practical significance. With the constant change of events in international society today, twist and turns of historic significance have appeared in socialist theory and practice. At such a historical juncture, we need, like Engels, to take a firm proletarian position. Specifically, we must firm our faith in the inevitable victory of socialism, withstand the pressure, exclude interference and firmly implement the party's line of "one focus and two basic points."

In "On Feuerbach," Engels expounds in an overall and profound way on the basic points of dialectical materialism and historical materialism. What was set down included, for example: the idea that being determines consciousness, the concept of dialectical development; the idea that the changes in the modes of production are the final cause of all social development; the idea that the productive forces determine the relations of production; the idea that the sum of the relations of production, that is the economic base, determines the superstructure; the idea that the masses are the motivating force promoting the progress of history; and so on. These basic ideas of Marxism are not outdated today, and are still ideological weapons guiding us along the road whereby we are building socialism with Chinese characteristics. Linked with my practical work over the last 10-plus years, I have been struck most by two basic ideas elaborated on by Engels in this book. Engels' idea of the development of the productive forces being the basic determining factor in society is extremely important. Engels held that the contradictory movement between the productive forces and

the relations of production is "a general law" governing the course of history. Since the Third Plenary Session of the 11th CPC Central Committee, our party has, in adherence to this basic viewpoint, taken the great development of the productive forces as the basic task of socialism, and established the new line of "one focus and two basic points." Only if we put all our efforts into developing the productive forces and, on this basis, gradually perfect the socialist relations of production, will it be possible to bring the superiorities of socialism fully into play. In "On Feuerbach," Engels drew the concept of practice into epistemology and established a dialectical materialist epistemology, thereby achieving an important change in epistemological development. Comrade Mao Zedong called its practical nature and its class nature the two clear characteristics of Marxist epistemology. Marxist epistemology, which is characterized by practice, sees the transformation of the objective world as the basic task of the proletariat. In the past, "philosophers have used all sorts of methods to explain the world, but the point is to change it."<sup>2</sup> Thus, stressing the role of practice is a major point of departure for a proletarian political party in formulating its line, principles, and policies. The 12 articles on building socialism with Chinese characteristics put forward at the Seventh Plenary Session of the 13th CPC Central Committee were the product of combining the universal truths of Marxism with the specific practice of China's construction and reform, and were a summation of the twisting course experienced by the CPC over the last 40 years in building socialism. Thus, they are principles of profound guiding significance. These 12 principles were formed through repeated movement from practice to cognition and then from cognition back to practice. Their formation is also powerful testimony for the Marxist epistemological principles, which have practice as their obvious characteristic. In future, only if we seriously implement these 12 basic principles will our country's socialist construction see smooth and more stable development. Of course, Marxist epistemology also tells us that man's understanding is boundless. Our understanding of building socialism with Chinese characteristics will indeed be further deepened following the development of practice.

In "On Feuerbach," the exposition on Marxist materialist dialectics is established on the basis of criticizing the idealism of Hegel's dialectics, while drawing in its "rational core," as well as on criticizing Feuerbach's old materialism, while drawing in its "basic core." Materialist dialectics is a science concerning the universal laws of the movement and development of the natural world, human society, and thought. It is both a scientific world view and a scientific methodology. Materialist dialectics require us to use the method of one dividing into two to analyze and resolve contradictions in things, to promote changes in things, to promote the development of things, and to achieve the goal of correctly transforming the objective world. Using the method of one dividing into two to analyze the current situation in our country allows us to see the earth-shaking achievements we have realized in reform and opening up since the Third Plenary Session of the 11th CPC Central Committee. It also allows us to

maintain a sober mind and correctly deal with the difficulties we meet and the major tasks we face. Adhering to the methodology of one dividing into two will spur us to overcome difficulties and, with one heart and mind, do well in the great cause of building socialism with Chinese characteristics.

Our study of the original works is not so that we can be pompous in our words and is not for decoration. Much less can we, in this endeavor, devote ourselves to showing up other people. The aim of studying the original Marxist works lies entirely in application. Whether or the cadres of our party and especially the leading cadres, are able to use a Marxist position, viewpoint, and method to resolve problems in practice will determine the success or failure of the cause of building socialism with Chinese characteristics. Mao Zedong once said: "In terms of the idea of taking on major leadership responsibilities, if our party had 100 or even 200 comrades who understood Marxism-Leninism, not in a piecemeal and empty way, but in a systematic and real way, that would greatly improve the fighting strength of our party, and would speed our work in overcoming Japanese militarism."<sup>3</sup> I understand the comrades whom Mao Zedong was talking about to be comrades who had mastered the position, viewpoints and methods of Marxism. At present, we face many new situations and new problems. On the one hand, these provide new scope in practice for the application of the basic principles of Marxism. On the other hand, it is only through seriously studying the original Marxist works, using a Marxist position and viewpoint, and Marxist methods that we will be able to resolve these problems.

#### Footnotes

1. *Selected Works of Marx and Engels*, Vol. 4, p 254.
2. *Selected Works of Marx and Engels*, Vol. 1 p 19.
3. *Selected Works of Mao Zedong*, one-volume edition p 499

#### QIUSHI on Socialist Artistic Creativity

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[Article by Liu Wenxi (0491 2429 6007): "In Plunging Into Thick of Life, Persistence Is Highly Valued"]

[Text] This year is the 49th anniversary of the publication of Comrade Mao Zedong's talk at the Yanan forum on literature and art. The spirit of the talk has been the guidance for my work in the last 30 years. When I look back on the path of my artistic creation, I know that the principles and theories in Mao Zedong's talk have been my inspiration. Today his talk still sparkles with the with the light of truth. Without the talk socialist literature and art will not flourish and bloom. Naturally, without the talk, there would not be a Liu Wenxi today either.

I was born in Shui Zhu An Village, Sheng County, Zhejiang Province. I always loved the art of painting, but I never gave any thought to such questions as "Why should I paint and how do I paint better?" The first time I heard about

Mao's talk was in 1951 when I was studying at the Shanghai Yucai School. My teacher Wang Qi explained to me the profound meaning of the talk and his explanation left a deep impression on me. I was greatly influenced by Chairman Mao's words: Whom should literature and art serve and how do they serve? I began to think seriously. What kind of people should literature and art serve? How were they served? Why did Chairman Mao think that the basic and principal issue was the human problem? Our nation is a socialist country with a people's democratic dictatorship. The people are the masters of society. Anything that may benefit socialist construction, "inspire the masses to work together as one mind, oppose regression, and promote progress would be considered good." Therefore, "our literature and art should be for the people; most importantly, they should be created for and used by the workers, peasants, and soldiers." This excellent theory of Chairman Mao not only indicates the correct direction for literature and art, it also presents to painters a specific instruction on artistic creation. A painter owes his existence to the people. The masses nurse him with their rich milk, and the fertile soil of his motherland gives him his wide artistic world. Any painter who dares depart from the people and from the flame of life will not succeed, even if he is a genius. The masses are the mothers who give life to the artist. This is a good reason why writers and artists should sing passionate songs for the masses and work hard to serve them. If a painter wants to use his paintbrush to paint the flame of life and to serve the people and if he wants to "unite the people and educate the people," he must first change his political position. Although I grew up in a rural village, I was not born with the correct political attitude. I must go to life and go to the people. Every day, year after year, I go through the long process of training myself.

In 1958, I had to finish my graduation project. This was the first time I went to Yanan. I was immediately touched and fell deeply in love with the thick yellow soil of the plateau of northern Shanxi, the high and wide blue sky, the simple people, and the rich folk culture. Here were not only the environment and subjects for art, but also the crib of Chinese revolution. All the proletarian revolutionaries of the older generation such as Mao Zedong, Zhou Enlai, Zhu De, Liu Xiaqi, and Deng Xiaoping had lived here and fought here. When it was time to finish my graduation project, I was so inspired that I did a painting entitled "Chairman Mao and His Shepherd." The painting created quite a stir at school. From that time on I decided to make northern Shanxi the base for my work.

In 1958 I graduated from the Zhejiang Academy of Fine Art. Armed with Mao's talk that was given to me in the Shanghai Yucai School, I went on my way to become an art teacher at the Xian Fine Arts Academy. From then on I began my life as a true artist. Since then, topics for my paintings have always been the people's lives, revolutionary history, and the yellow soil.

How does one achieve his goal as an artist and create works that are welcome by the people? This question is related to the question of "how to serve the people." The only answer

for that question is that we must go deep into life and look for artistic inspiration from life itself. "People's lives are a mine where raw materials for artistic creation can be found. The materials in the mine are natural and unrefined, but they are also lively, enriching, and basic. The reality of life outshines all creations in literature and art. Life is the only and unlimited source for literature and art." It is not difficult to understand the theory behind this concept; but it is not easy to put it into practice, nor is it easy to uphold the practice. Chairman Mao said: "If you want the people to understand you and if you want to be with the people, you must have the will power to go through a long and even painful training process." If we remain at the surface of life we will not be able to understand life's essence or its colorful content. Needless to say, if we stay on the surface, we will not be able to excavate the inside of people's minds and feelings. In order to study people's lives in detail, we must be familiar with their livelihood, environment, and folk customs. Moreover, we must have an in-depth knowledge of the relationship between man and man and between man and nature. Since my first visit to northern Shanxi in 1957, I have returned to the region 48 times in the last 30 years. I am deeply attached to the scenery and the people there. The little boy I painted that year is a driver in his village now, and the little girl in my picture is a mother with several children. In Yanan there was a young peasant named Ren Lihong. He was a simple and honest man, and he looked like a typical peasant from northern Shanxi. In 1958 I made many sketches of him. In 1965 I painted him again. Later he went on and became a team leader, party secretary, and commune leader. During these years I watched him change, internally and externally. Later, in my painting "Heart-to-Heart Talk" I painted him as the peasant chatting with Chairman Mao. Sometimes when I need to understand and befriend certain kinds of persons, I would think nothing of running out in a wind or snow storm or taking long trips day and night. As I become more involved in their lives, I understand the people more and feel for them more. Over and over again, I visit them and make sketches of them. This has helped me understand the valuable qualities of people, and has also made me more determined to present them and to praise them.

To become deeply involved in people's livelihoods one must establish a permanent base. Of course the best choice for the artist is to be able to have wide and unlimited knowledge of life. But we have only a limited amount of time and energy and therefore cannot touch on every base. I prefer to have an in-depth knowledge of a small portion of life than to run around and observe only the surface of everything. For more than 30 years, I have concentrated on Ersili Pu, Zhoujia Wan, and Sishili Pu and established these regions as my permanent bases. I stay there every summer and every winter. Their trees, their grass, their smiles, and their frowns, all have made deep imprints in my mind. The more I visit, the more I want to go there. If I have not been there for a while I will have this hollow feeling. If my stay coincides with the Spring Festival, I will just spend the festive time with the country folks. I look up to the country folks as my parents, and they treat me as

their sons. They shower me with apples, melon seeds, and dates. Older women mother me and worry about my well-being, just as they would for their sons. Their images, so touching and so inspiring, often appear before me. They remind me that I must always dedicate my best work to this land.

Ershili Pu, Zhoujia Wan, and Sishili Pu are where I established my base for learning about life. These are also the places where I acquired my ideological thinking and where I do my creative work. There I am not merely an outsider floating around the country folks. To the people of the older generation I am a son, to the people of the same generation I am a friend, and to the children I am an uncle. When I enter a village I can borrow somebody's bicycle and visit everywhere. I can make drawings of everyone, and I help solve family problems. In the field I roll up my sleeves and work with others. At someone's home I sit down on the floor and share a meal. During the Spring Festival I join the peasants and watch the unsophisticated people dance the planting dance. At the Lantern Festival I watch the yellow plateau lit up by the many lanterns. The lifestyle of this land has always moved me and inspired me. From here I painted "Daily Chats," "By the Side of Chairman Mao," "Liu Zhidan," "Four Generations of People," "The Sky of the Liberated Region," "Mountain Girl," and "The Love of Yellow Soil." Many country people have touched and criticized my paintings, and many simple folk have shared my happiness and success.

Studying life can sometimes be difficult. Even though the revolution had made great changes in the old regions in northern Shanxi, the living conditions there were still far from good. I walked at night, stayed inside caves, slept on cold brick beds, and ate leftover food. During my trips I had been without food at times and I had encountered wild animals. In 1959 when I tried to find out the life story of Comrade Liu Zhidan I was smothered by smoke during the night. In 1978 I followed the trail of the Long March. I continued to work at my drawings even though I felt dizzy, had headaches, and had trouble breathing in the mountain area. Although some people laughed at this painful experience and said that I invited the trouble myself, the trip made me realize how difficult it was to make the 25,000 li Long March, and that the victory of the Chinese revolutionary war came not without sacrifices. What I have gained from this trip is a lot more than a few sketches.

In order to learn from life, we have to have sharp eyes, make detailed observation, and study diligently. It is not enough that we "eat, live, and work" with the people. Rodin once said: "There is never any lack of beauty in life; there is only the shortage of discovery." What do we have to do to transform the raw, original images of life into exquisite artistic works? This requires artists to observe and to explore. It is not enough that we share the same viewpoint and emotion with the working people; we must have the artist's sensitivity and we must be good at discovering and expressing the beauty in ordinary things and ordinary people. Otherwise, even if we are presented with the most beautiful thing on earth, we will not be able to see it or be touched by it, and nothing can inspire us to

create. The life of art is special in its individuality. The process of discovering beauty is the process of discovering individuality. What makes the environment in northern Shanxi different from other regions? What is so special about the image of a Shanxi person? What are the characteristics of the social environment in Shanxi? What are the nature and the psychological make-up of Shanxi people? In order to find out the answers, we need to be keen and careful in our observation. One village may be different from another, even in the same Shanxi region. They may all be Shanxi residents, but there are differences among men and women, children and adults. If we are not observant we will not be able to discover their individuality, nor will we be able to exhibit their characteristics. If so, our work will not convey any meaning at all. When I was working at my painting "Journey," I visited many remote villages and made sketches of the rocks and bugs on the river and the wildflowers and weeds on the river bank. I discovered that even the rocks, which were lifeless, could be full of characters and could be colorful. Imagine what wonderful things human beings, with their infinite world of emotion, can reveal to us. After several more observation trips, instead of making ordinary sketches, I begin my attempt to record history, reality, and art in my work.

To study life we must be persistent in our efforts. Of course we can go to a place once in a while and make some quick sketches. And we can finish our paintings when we go home. However, I believe in staying in one place longer and mingling with the people. Only when we persevere in our study can we truly feel the gifts of life. Then we will find that the passion to create and the inspiration for our work will never die. "Life is the soil that produces art, and people are the mothers of artists." This is the simplest and most familiar truth; yet it will take us a lifetime to find out, to understand.

Recently, because of the influence of bourgeois liberalist thinking, there has been a trend to degrade the importance of Mao Zedong Thought; and even his talk is under severe attack. The people who advocate this ignore the historical facts of Chinese revolution. They claim that the political position, viewpoint, and method described in the talk are outdated. Some people argue that the talk emphasizes the political function of art and denies the aesthetic side. Some say that the talk aims at taming people as political tools, not producing artists. Some even suggest that the direction mentioned in the talk, which later became the basis of the saying "literature and art must serve the people and socialism," is basically wrong. These people think that it is necessary to "lessen artists' social responsibilities." Therefore, artists should be allowed to deny people's need and aesthetic taste or the requirement of time. "Let art be art." They ignore the historical role of the people and they are indifferent to the need to study life. All day long they are intoxicated by their self-proclaimed fame in being the "spiritual nobilities." They know nothing of life and understand no one. They can only play tricks in style and technique, take absurdity as fun, and present chaos as profundity.

For a time their "artistic explorations" and "daring experiments" may bewitch the young people who are after new trends. In the end their works, because they lack vitality, will be quickly forgotten by history.

We uphold the direction proposed in the talk. This means that we uphold the direction of "literature and art serving the people and socialism." I can persevere in my study of life because I follow the spiritual guidance of the talk. For 33 years, I have had a busy teaching schedule and carried a heavy administrative duty, yet I manage to continue with my artistic pursuit. I have finished over 10,000 sketches and paintings, exhibited thousands of works both in and out of the country, and published many books of my art works. In the National Art Museum is a collection of 25 of my paintings. Seven of my works have won national awards. My major works such as "Sharing Happiness," "Four Generations of People," "Heart-to-Heart Talk," "Foundation Stone Laying Ceremony," "People in Ditches," "The Big Dipper," "Landlady's Daughter," "The Sky of the Liberated Region," "Mountain Girl," "Zhang Daqian," "Young Lady with the Land Boat," "Hu Wa," and "The Love of Yellow Soil" have made a wide impact and they are recognized and loved by the people. I can only repay Shanxi people's gifts to me with more hard work. In return, the people from northern Shanxi entrust me with their confidence and support. In February 1990, at the First Session of the 12th People's Congress of Yanan City, I was again chosen as the vice mayor of Yanan City. I thank the people of northern Shanxi for their trust. I will always set my root in this yellow soil and dedicate my art to the people of northern Shanxi.

My artistic experience has proven the correctness of Mao's talk. It still guides artists to the correct course and it is the tool that promotes creativity. It tells us that any artist who dares depart from life and from the people will be eventually deprived of vitality. All artists who are just and who carry their social responsibilities will continue to follow the talk's guidance. We have chosen this path in the past, and we will continue to uphold this correct direction today.

#### **Ban on Trade in Certain Printed, Audio-Video Matter**

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[Text] Beijing, July 9 (XINHUA)—China's General Administration of Customs has issued new regulations on the exit and entry of printed matter and audio-video products.

The new regulations are an updating of previous regulations issued in June 1988 and are designed to promote international cultural and technological exchanges, as well as socialist culture and morality.

They spell out bans on the import and export of counter-revolutionary, obscene, superstitious and violence-inducing printed and audio-visual matter, as well as such matter containing state secrets.

It also stipulates that the exit of printed matter should be limited to a reasonable amount.

#### **RENMIN RIBAO Head Discusses Socialism**

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[Article by Shao Huaze (6730 5478 3419), editor in chief of RENMIN RIBAO: "Study of National Condition, Building of Socialism With Chinese Characteristics"]

[Text] I. The Purpose of Studying the National Condition Is To Solve the Problem of Combining the Basic Principle of Marxism With the Reality of China.

Every country has its national condition. Each country follows different guidelines and implements different policies to suit its individual national condition. During the process of long-term struggle, the Chinese Communist Party decided to follow Marxism and used it to guide China's revolution and construction. It also decided to adopt the socialist cause and carry out the new democratic revolution. Some people thought that because Marxism was a Western ideology it must therefore be most unsuitable for the national condition of China. There were two reasons why some people would hold such an opinion. One was related to the perception and understanding of Marxism, and the other was related to the perception and understanding of China's national condition. By continuously conducting research and studies and by experiencing many difficult revolutionary struggles, the members of the Communist Party of China, represented by Comrade Mao Zedong, gradually acquired the correct understanding of the national condition of China and solved the problems related to the essence, course, objective, motive, and future of the Chinese revolution. Because of their endeavor, the Chinese revolution and struggles moved closer and closer to victory. Finally, our nation defeated Japanese imperialism, overturned the reactionary government of the Kuomintang, and founded a new China. Mao Zedong had a famous saying: We must first understand the national condition of China before we can hope to understand all the issues related to the revolution. In December 1936, he wrote in his article "The Strategic Problem of Chinese Revolutionary War": "The law of war—people directing a war must study and solve this problem. The rule of revolutionary war—people directing a revolutionary war must study and solve this problem. The law of Chinese revolutionary war—people directing Chinese revolutionary war must study and solve this problem. At present we are involved in a war. Our war is a revolutionary war. Our revolutionary war is being conducted in China, a nation that is half colonial and half feudal. Therefore, not only do we have to study the law of general war, we must also study the special law of revolutionary war. More importantly, we must study the special law of Chinese revolutionary war." These words are profound and precise. These words convey one important message; that is, to master the law of the Chinese revolutionary war, we must study and have a thorough understanding of the national condition of China. I find that Comrade Mao Zedong's words on the law of war are still inspiring; we can

use the same law and change it to the law of construction. Today we are in the process of building socialism, which is different from building capitalism. Therefore, we must study the law of socialist construction. We are building socialism in a nation such as China; it will not be the same as building socialism in other nations. Therefore, we must study the law of socialist construction in China. This is to say, it is not enough that we know the law of construction; we must also study the law of socialist construction, especially the law of socialist construction in China. Hence, we have to bring up the issue of learning about the national condition of China. If we do not understand the national condition and do not plan our policies according to it, we will end up leading socialist construction away from reality and eventually we will fail to achieve the socialist cause. We ran into many obstacles in the past. One thing we have learned from our experience is that we must not ignore our national condition. For instance, we now realize that the Great Leap Forward was a mistake. Then we thought we could speed up economic construction in China, get rid of the backward condition in a short time, catch up with the United States, and bypass the United Kingdom. It was not an unreasonable idea, but we should not have ignored the national condition at the time. We did not know to achieve economic construction in a nation such as China, a country with a large population and a backward economy and culture. We must observe certain rules, follow a development strategy, and maintain a growth rate. We can only achieve our objective, which is to modernize China, slowly and gradually. It has been proven by facts that subjective wishes and passion alone will not get us to our goal; disobeying the objective law will only result in being punished by it. During the political disturbance in 1989, many students were misled into believing a few slogans. They refused to go to class, refused to sleep, and even went on a hunger strike; all in the name of promoting democracy. Later, many of these students began to think this over. They finally realized that they did not understand the national condition of China, a country that went through 40 years of socialist revolution and socialist construction. No doubt, we need to establish democracy in this land. The question is what kind of democracy do we need, what course should we take, what are our principles and objectives, and whether we should establish and develop this kind of democracy one step at a time. It seemed that while many were not aware of the problem, a few others did have an ulterior motive. Many young people did not realize this. Studying and understanding the national condition is of the utmost importance, not only to the leaders and the people directing the construction, but also to every citizen and each cadre. Only when we understand the national condition will we be able to seek truth from facts and avoid going too far to the "left" or right side. Only when we understand the national condition will we understand properly the strategy and measures implemented by the party and the government, and not be bewitched by people with ulterior motives. Therefore, the issue of national condition is a big issue, relevant to the problem of observation and the problem of providing guidance.

We must realize that our party, in order to understand, study, and master the national condition of China, had to overcome many difficulties, go through many detours, and pay a hefty price during the time of democratic revolution. It took 20 years, from 1921 when the party was first established to the early 1940's rectification movement in Yenan, before the party could achieve ideological unification. The party agreed on the correct course of the new democratic revolution recommended by Comrade Mao Zedong and agreed to follow Mao Zedong Thought. The reason why Comrade Mao Zedong's line and theory of the new democratic revolution was an absolutely correct and a scientific theory system was that it fit into the general principle of Marxism-Leninism as well as the national condition of China. It is the product uniting the two factors. All the rightist or "leftist" viewpoints in the party are totally incorrect because they are opposite to Marxism and because they deviate from the national condition of China. The basic principle and essence of Marxism is that it requires us to follow our national condition. Once we deny our national condition, and once we separate ourselves from reality, we will not be able to truly understand and master Marxism or to apply the theory correctly. Mao Zedong's political, military, and cultural ideologies were formulated according to the national condition of China. His philosophical ideology was established and developed the same way; he focused on the national condition of China and summarized the experience of Chinese revolution. Mao Zedong once said that we had no right to speak if we failed to conduct research; we should oppose book worship and dogmatism; and we must combine the universality and particularity, and the generality and individuality of contradiction. All his words emphasized the importance of mastering the national condition. Comrade Mao Zedong's works such as *Anti-Book Worship, On Practice, On Contradiction*, and many other books on military, political, and cultural affairs contained rich philosophical thinking. All his philosophical thoughts were scientific theories originating from the national condition of China and the practical experiences of revolutionary struggles.

During the initial stage of building socialism, our party, together with Comrade Mao Zedong, began to explore the possibility of building socialism according to China's national condition and to look for the way to industrialize the nation and develop national economy. We can say that the exploration has yielded good results. For instance, on the question of the path of Chinese industrialization, they suggested we concentrate on heavy industries while at the same time fully develop agriculture and light industries. We built the economic foundation and made economic planning on the basis of agricultural production. Let's look at another example. In the 1950's Comrade Mao Zedong clearly said that there was much to be learned from all socialist and capitalist countries. However, we should not just copy everything. We must consider the reality of China and learn whatever might suit our national condition only. Unfortunately because of inexperience and because we misunderstood the basic situation of China

and the laws of economic development, we overemphasized the importance of subjective determination and subjective diligence. Because we were too eager to succeed in our construction, we hastily started the Great Leap Forward movement. As a result, social economy not only failed to take off, it suffered great damage. We also inflicted damage on agricultural production when we hastily set up the "one large and two public" system, a system which seriously diminished peasants' motivation to work. After our society went through the socialist transformation, the exploiting class was eliminated. This was the great change in our national condition. However, our guideline was still based on class struggle and we continued to believe that class struggle was the major social contradiction; as if the exploiting class still existed. We continued to develop political movements; until the Cultural Revolution happened, and our state and our people suffered greatly.

When we review our history we find that the reason that our nation had to suffer so much and have such difficulties was because no one had a clear understanding of the national condition, and no one realized that revolution and economic construction cannot deviate from the national condition.

We finally realized the importance of the issue and looked for solutions when the second generation of collective leadership, represented by Comrade Deng Xiaoping, began to emerge. After the gang of four was destroyed, particularly after the Third Plenary Session of the 11th CPC Central Committee, the party summarized our experience of socialist construction and learned the lessons from the past. We realized that the success of socialist construction in China depends on our attending to the needs of our national condition. This important discovery was the result of our rediscovery of the truth and standard. Comrade Deng Xiaoping, together with other leading comrades of the party central authorities, has suggested liberating our ideology. We should reestablish and expand Comrade Mao Zedong's ideological thought. This is to say that we should seek truth from facts, connect theories with reality, make policies according to reality, and test truth with practices only. This ideological line establishes the foundation of scientific study and knowledge of the national condition. And from this we establish the correct course for political and organizational growth. This is where socialist construction takes off and onto a new path of development. Since the Third Plenary Session of the 11th CPC Central Committee, we have been taking the route originating from our national condition. Our party's direction and policy are correct because they fit into our national condition. This comes as a result of practical work. The party's line, direction, and policy since the Third Plenary Session of the 11th CPC Central Committee have contributed a lot to the progress of socialist construction in China. In the 10 years of implementing reform and openness, our comprehensive national power has been strengthened, the people's living standard has improved, and we have had social and political stability. The situation in itself is convincing enough, not only to the people in this country, but to the people of other countries as well.

Anyone who has fair judgment will agree to this conclusion. There is another achievement on the theoretical side. Since the Third Plenary Session of the 11th CPC Central Committee we have a more profound understanding of our national condition, and the political theory, line, direction, and policy that have so far provided guidance for our economic construction continue to become richer and more developed. This has helped us understand the laws of Chinese socialist construction more deeply and more thoroughly. At the Sixth Plenary Session of the 11th CPC Central Committee, the party made decisions on several historical problems, described the national condition of China, summarized our historical experiences and lessons, and defined the correct course of socialist modernization construction befitting our national condition. This conference created a very important historical document. At the opening ceremony of the 12th National Party Congress Comrade Deng Xiaoping described precisely and exactly the ideology of building socialism with Chinese characteristics. On this basis, the 13th National Party Congress recommended the theory concerning the initial stage of socialism and the party's basic line of one center, two basic points. Since the Fourth Plenary Session of the 13th CPC Central Committee, the party's basic line has been further expanded and developed. We have all learned the historical lesson of acting "tough on one side and soft on the other." We emphasized comprehensive understanding and thorough implementation of the party's basic line. We made new discoveries and explorations in the theoretical and practical field of building socialism with Chinese characteristics. At the Seventh Plenary Session of the 13th CPC Central Committee, the party approved the motion to design a 10-Year Program and recommended making the Eighth Five-Year Plan for national economic and social development. The committee also gave a brief summary of the 12 major principles. As a result, we have a deeper knowledge of our national condition. There are important theories and principles that we must follow, and we have to do important chores such as balancing the many economic factors and maintaining public ownership as the major portion, coordinating several distribution formats and following the principle of distribution according to labor, and combining planned economy with market adjustment, etc. All these policies and principles are created to suit our national condition; they will play a vital role in our national development in the future. Of course, we have made some mistakes in our work since the time of the Third Plenary Session of the 11th CPC Central Committee, and we need to make more progress. In a way, the mistakes and the slack progress are also caused by insufficient understanding of the national condition. Right now we are in the process of reviewing, studying, and summarizing our work experiences.

The history of New China, particularly the history since the Third Plenary Session of the 11th CPC Central Committee, tells us that socialist construction in China cannot be separated from the national condition at all.

## II. The Study of National Condition—The Basic Question for Building Socialism With Chinese Characteristics

At the 13th National Party Congress the party confirmed that the party's basic line during the initial stage of socialism was building socialism with Chinese characteristics. This is to say that the party should guide and unite the people of all nationalities to build up the economy; uphold the four cardinal principles; uphold the reform and open policy; maintain self-reliance; work hard in building up enterprises; and turn China into a socialist and modernized nation with prosperity, democracy, and civilization. This basic line is the foundation for all the guiding principles and policies. The proposal of the basic line has a significant and decisive effect on the fate and future of China.

How do we carry out the basic line more thoroughly? The bottom line is to study the national condition of China continuously. Only when we can truly understand the national condition of China will we realize the rationale of following this basic line and understand why it is impossible to do it any other way. Why do we say that our nation is at the initial stage of socialism? Why must we focus on economic construction at all times? Why should China uphold the four cardinal principles and oppose bourgeois liberalism? Why must China uphold the reform and open policy? Why can China not depend on foreign countries for socialist construction and why is it important to be self-reliant and to work hard to establish more enterprises? Why must China stick to the principle of combining planned economy and market adjustment, instead of concentrating on central planning and denying the use of market regulation, or instead of totally switching to a market economy? Because our national condition determines that it is best to do it this way. Only when we have a clear knowledge of the national condition can we acquire a comprehensive understanding or master the party's basic line. Then, we will be motivated to propagate and to implement the basic line. The proposal and drafting of the basic line resulted not from the work of people's subjective will or wishes, but as the result of the objective demand from our national condition. The "source," or "root" of the matter is our national condition. If we are confused about our national condition, then we will not be too keen on carrying out the basic line. Hence, the basic line will be like a river without a source, a tree without a root.

As to the issue of focusing on economic construction, Comrade Deng Xiaoping says that the center of our political line is the four modernizations, and the fundamental task of socialism is the development of social productivity. We shall always concentrate our effort on accomplishing this objective, unless there is a large scale foreign invasion. Even then, we still need to continue immediately with economic construction to supply the essential things for war, and we need to continue immediately with economic construction when the war is over. Our biggest mistake was that for a long period of time after new China was founded, we had ignored the importance of developing productivity. The development of productivity

is, in fact, the key to the existence of socialism in our country. Whether Chinese socialism will stand firmly depends on the level of economic, cultural, scientific, and technological development, and on how well we can display the superiority of socialism. If this problem is not solved, then there is not much we can do about problems such as democratic development. Our foremost duty is to understand why China must first concentrate on economic construction. We will then know how to make use of the environment and make sure economic construction proceeds smoothly. Everyone has the duty to accomplish this objective; the objective that is intertwined with the demand of our national condition.

Why must we uphold the four cardinal principles and oppose bourgeois liberalization? This is also demanded by our national condition. China must not forsake the socialist cause. China has tried before to go the capitalist route; it turns out to be a dead end road. Imperialism refused to let us advance. Feudalism would not let us go. Together they turned China into a semicolonial and semi-feudal state. We were in such a fix. History has already given us the conclusion on the collapse of the economy in old China. The advocates of bourgeois liberalization insist that China can be "totally Westernized" and switch to the capitalist cause. These people do not know China, nor do they know the Western world. They do not understand history; they have no idea how developed nations become developed, nor do they know anything about the process and nature of capitalist democracy. China wants to be modernized and the Chinese nation needs to be more prosperous; but these can only be accomplished through socialism. Upholding the four cardinal principles is the historical choice made by the Chinese people who have known their national condition too well and who have done so much in searching and struggling. Today, several decades after the founding of new China, the nation is more developed; it is quite different from the old China. This proves that we have made a correct choice. We must acquire a profound understanding of our national condition so that we can realize why we must uphold the four cardinal principles and why we have to take the socialist course, instead of following the capitalist path.

Why must we uphold the reform and open policy? What does it mean when we say we shall not retreat from reform and openness? Why do we say that to betray the reform and open policy is to alienate the masses? To find the answer we must study our national condition. Because China wants to develop its social productivity and accomplish the grand objective of building socialism and strengthening the country, it needs to find a way to motivate the masses and arouse their initiatives. We do not just close our door and try to build up our economy. Since the Third Plenary Session of the 11th CPC Central Committee we have benefited by reform and opening up; the economy has improved and people's lives have been improved. Obviously, without economic and political system reform, without opening up, and without enforcing international economic, technology, and cultural exchanges, there is no way we can succeed and be prosperous. Comrade Deng Xiaoping has said that the last

decade shows us that our proposal, development strategy, guiding principle, and policies, including that of reform and openness, have been correct. If there is any regret, it is that we have not implemented more reform and openness. Therefore, now is not the time to say whether we need reform and openness. Now is the time to uphold the four cardinal principles, to expand our relationship with the outside, and to continue with the reform and open policy.

If we understand our national condition we will understand why to build socialism in China is to insist on self-reliance and to work hard. Any country that wants to build up its economy has to work hard and struggle. The same rule applies to China. China is a big country, with a large population and a poor foundation. For such a big country, imported funds and foreign loans will only subsidize some needs; the main support should still come from our own country and own people. One thing we must notice is that our country has uneven economic and cultural development. There are various standards of development and different levels of prosperity among the regions. There are places along the border that remain quite backward. Even in a province like Guangdong, there are backward places in its northern region. On the whole, the production standard in our nation is low. The only way to solve this problem is for everyone to stay together and prepare to work hard, then it is possible to strengthen our national power.

Why is it that we have to carry out our economic development strategy in three stages? Our general objective is to double our GNP in the 1980's and quadruple the GNP by the end of the century, so that the people's living standards will reach the comfortable level. And it will take another 50 years, half way into the next century, for us to reach the living standard of a moderately advanced country. This formula is developed according to the national condition of China. This formula is to be carried out step by step. The progress is gradual and the steps will be firm and steady. To build a factory we need to have electric power, transportation, raw materials, and markets. In short we need to prepare for a great deal. Just because we can build a factory, it does not mean we can manufacture goods. Even if we are able to produce, it does not necessarily mean that we can sell the goods or obtain economic profits. If we do not improve our capital industries, we will not be able to develop processing industries. Capital industries require large amounts of funds, and it takes time to accumulate funds. This is why our economic development can only proceed gradually. This is the same reason why we can only improve our living standard gradually. All these problems have to be understood within the context of our national condition.

After the 1989 political disturbance, many students, having had a year or so to think the matter over, began to understand the situation more. After they took part in social practices, some students said: "Now we really feel that we have been too far away from the workers, peasants, and the masses. We have been too remote from reality. We knew so little about our national condition and the condition of our people. We must come down to earth, with our

eyes down and our feet on the ground, and we should become elementary school students again and learn from the workers and peasants." "After looking at our national condition, we begin to complain less, feel more responsible, utter less negative talks, and involve more in practical work." When it comes to the topic of democracy, some students said: "To a nation which has just solved the problem of feeding and clothing its people, and which has one quarter of the population either illiterate or semiliterate, building democracy must be orderly and gradual. China has gone through too many difficult times; it cannot afford another shock. We hope people value stability and unity like they value their eyesight." This has proven that it is correct to recommend the study of the national condition and to make sure everyone becomes aware of the situation.

There is another important reason why we should study the national condition. To build socialism with Chinese characteristics we need cadres and successors who are good at analyzing and solving problems by combining Marxism and China's national condition.

On 20 June 1990, Comrade Jiang Zemin gave a talk to the comrades at a conference for principals of party schools. He said that there were five factors affecting the qualities of cadres. We need cadres who know their jobs and have knowledge of Marxism, who understand China's national condition, who can link theories with reality, and who never fail to uphold Marxism-Leninism and Mao Zedong Thought. There is a reason why knowledge of China's national condition is considered an important element. If a person knows nothing about China's national condition, he will not be able to link theories with reality or use Marxism to solve China's practical problems. Also, his knowledge of Marxism is indicated by his flexibility in combining national condition with Marxism. Obviously, if we do not have cadres who are good at applying Marxism to our national condition or provincial condition, and good at finding out and solving problems, then it is impossible to implement the party's line correctly and thoroughly. Our experiences tell us that when a leader is capable of making development strategy that fits into his local situation and capable of motivating the masses to work hard, he can help his region become developed and prosperous. All cadres should have this important quality. As a matter of fact, there are two elements in this quality. First, a cadre should seek truth from facts; he must know the national condition as well as the regional condition. He will resist taking any impractical measures. Individual nations have their individual condition, and each region has its own condition. We do not make any move unless we know doing so will be beneficial to the local condition. This way we can take advantage of any superior condition and avoid difficulties, and we will be able to develop the economy and stimulate growth in other sectors. Sometimes a leading cadre wants to get more credit towards his tenure. He will ignore the local condition and orchestrate a large scale construction of infrastructure. As a result, there is little economic growth and the region exhausts its financial reserves. A quest for a good name ends up as a disaster for everyone. Obviously this is not the way to work. Second, a

cadre must know how to seek truth from facts. He should conduct a serious investigation and he should study. This way, he can find out the nature of the provincial or regional condition, decide on the development strategy, set up plans and procedures, and transform the outlook in a gradual pace. If we have a whole lot of cadres like this, we will be able to implement our party's basic line thoroughly and economic construction will proceed healthily.

Therefore, there is one condition we must follow when we evaluate and train cadres. That is, we must find out whether the cadres understand the national condition, whether they are willing to be practical, and whether they are good at being practical. When we want to judge the level of maturity of a cadre, we want to see if he is willing to or is good at working with the reality. We have to ask this: Can he apply the general principle of Marxism in a national, provincial, and county situation, and can he work independently, creatively, and efficiently? This is one way to judge the depth of his knowledge of Marxism.

One guiding principle of the study of national condition is that we must educate, train, and create a group of cadres who understand the national condition. We must think of the future, and we must prepare our cadres and find successors for the next century. Especially the young people and university students of today, we must help them truly understand the national condition and help them become more practical in analyzing problems and in finding solutions. Today, young people do not have an in-depth knowledge of ideology. This is because they do not know the national condition, nor can they analyze the national condition scientifically. Even though they mean well and they are full of patriotism, they are impractical in their thinking. Therefore, it is vital that young students learn about the national condition. They should understand the Marxist position, viewpoint, and methodology, and they should learn about China's national condition. A young man, or student, like this, will learn to form his own opinion and be able to observe and analyze problems more correctly and independently; he will not be easily bewitched. He will grow into a practical and healthy person and he will contribute to the building of socialist modernization.

### **III. It Is Vital To Hold a Correct Position and Follow the Proper Ideological Line**

It is vital that we learn about our national condition. Yet it is not easy to understand the national condition in a truly scientific manner. First, national condition is a complex entity; it includes nature, history, politics, economics, and culture. It will not be easy to acquire a comprehensive knowledge of the whole situation. Second, national condition develops and changes all the time, and in the process of development and change, new situations will appear. It is not easy to observe and master the situation in a systematic manner and to merge history with reality. Third, China is a big country with a long history. It covers a wide area and has a large population. It has a most complex composition. Therefore, it will not be easy to acquire the knowledge of the national condition. Fourth,

the study of the national condition is restricted by subjective conditions which include political position, ideological line, organizational ability in conducting research, and modernized study method. The factors involving political position, ideological line, and organizational ability are the most important. The national condition may be the same, but the study results can be entirely different because of different political positions and ideological lines. Therefore, to study the national condition we must have a correct political position and ideological line.

(1) We must stand by the people's position. If our only motive is concern for the interest of the people, we will be able to truly and scientifically study the national condition.

The ultimate goal of studying the national condition is to uphold the socialist cause, invigorate China, help the country be more prosperous and strong, and improve the people's livelihood. If we can look at everything from this standpoint, we will not be persuaded by personal interest and avoid prejudicial judgment. We can observe the reality more objectively and justly and we will be able to distinguish right from wrong.

A few years ago, some people advocated implementing capitalism as a part of the open policy; they suggested China allow capitalist competition. Deep in their hearts, they thought they were the "elites" and they believed they would rise "above everyone." Persons holding such a standpoint will never acquire a correct understanding of the national condition of China, and their ideas will definitely not be applicable either. For instance, in his speech Liu Xiaobo said: "We should not divide tradition into essence or refuse. Tradition is a collection of extreme prejudice. We cannot just break a little of the tradition, we can only discard the whole lot." "I reject every bit of the traditional culture. I believe that we should have disinherited the traditional culture of China long ago. The moment we learn to discard the traditional culture will be the moment we feel reborn." According to this, should we throw away the entire Chinese history? Do several thousand years of civilization have to go down the drain? What is there to say about China's national condition? To observe the national condition from the standpoint of national nihilism will only lead us to the road of "total Westernization." If we are determined to disinherit or deny the essence of Chinese culture, we will only end up distorting the national condition and history.

A Chinese journalist who has been posted in the United States for a long time writes: "I have always read all the news, commentaries, and telegraphic dispatches about China from U.S. newspapers and news agencies. Some of these reports are objective and fair, but many are biased. The writers of some of these news reports and commentaries can in fact be called experts in nit-picking; their professional interest is fault finding. To them, our achievement in socialist construction is not news. However, it is news when we make errors or when we encounter misfortune. Our party emphasizes the importance of upholding the basic principles of Marxism; this is not news. Our party

suggests reinterpreting certain outdated conclusions in the classical work of Marxism; this is news. They rampantly exaggerate and distort facts. When our party confirmed the historical achievements and status of Comrade Mao Zedong, they discarded the information. When our party criticized and made corrections on the mistakes made by Comrade Mao Zedong in his later years of life, they thought that was news. However, in their reports they would deliberately twist and smear the facts. They will not mention in their reports the heroic figures and their impressive work of the construction of the four modernizations. It is news only when they find out that within the party and society there are a handful of bad people. Because of this attitude, the national image of our society painted by the U.S. capitalist news organizations will always be twisted, negative, and unfair. Among the people of the U.S. capitalist class, there are some who are friendly and warm towards China. But as a whole, the U.S. capitalist class tends to be unjust in its reports about our country. The U.S. capitalist class, because it wants to maintain its political power in the country, needs to degrade, slander, and smear the communist ideology and socialist system. This is particularly true with its right wing faction. We have witnessed capitalists' work from their latest attack on our birth control planning." This is why we say people can have different understandings or make different conclusions from the same national condition or the same fact because they have never shared the same viewpoint and objective.

(2) Not only do we have to have the correct standpoint, we also need a correct scientific ideological line. Only when we employ scientific method and viewpoint can we correctly understand the complexity of the national condition and make a judgment that has historical significance. We are required to study the national condition if we want to thoroughly carry out the correct ideological line. At the same time, we need the correct ideological line to be our guidance when we study the national condition. In reality, without first discussing the standard of truth and without first perfecting the ideological line, we would not have created such a profound slogan and objective as building socialism with Chinese characteristics, nor would we be able to make a proper summary of the historical experience of our nation. It would have been impossible to formulate the political line of the Third Plenary Session of the 11th CPC Central Committee and to achieve the great success of today.

How do we observe the national condition with scientific ideological method?

1. We look at issues with a historical viewpoint. We must have a profound understanding of the nature of history and we must master the laws of history. We cannot be affected by historical idealism. We uphold historical materialism, reject any distortion of history, and oppose historical nihilism. We should enthusiastically digest the fruit of material and spiritual civilization created by human history, learn from our historical experiences, and avoid making the same historical mistakes. However, some people do not see things this way. They say that the

socialist system of China was born prematurely, and suggest supplementing our system with capitalism. Their idea is that we should let capitalism develop to a certain stage before we initiate socialism. In other words, China should not have implemented socialism, and the PRC should not have been founded. This is a total denial of history and of the laws of history. Why was the communist party born in China? How did the new democratic revolution happen? Why did the nation decide to adopt the socialist cause? The Chinese people made this historical choice. This was a logical development of Chinese history. This was the reality firmly accepted by millions of people. No subjective will can alter this fact.

Hence, to understand the national condition, we must first understand history. National condition is intertwined with the process of historical development, and history is the important component of national condition. The national condition today is the result of historical development.

2. We should always analyze the condition with dialectic tactics and avoid making one-sided conclusions. We must always analyze the entire complexity of the national condition. We should do this scientifically; we cannot concentrate on one point and ignore the rest. For instance, "poverty" is a characteristic of our national condition. Our view on this issue in the past tended to be lopsided. It is proper to consider change because we are poor. However, we must not ignore the fact that "poverty" will restrain the speed of change and restrict the scale of construction. Because we are "poor" we must proceed gradually with our construction; we should not exceed our ability and our progress should be slow and gradual. This was something we did not know in the past. Another characteristic of China's national condition is the large population. It is true that more people means more power. But, people consume as well as produce. The large population naturally brings along many difficulties and creates an economic and social burden. We should not simply emphasize that the more people, the more power and that the more the better. While we work with our hands, we must feed many mouths. The level of our economic development is low and so is our productivity rate. Under these circumstances, excessive population growth is a burden in itself. It hinders economic development and diminishes the effect of socialist superiority. This is why we must have birth control and make family planning our national policy. Let us look at another example. In the past we always said that we had rich resources. After investigation and research, we have found out that we are both rich and poor. The amount of resources that can be allocated to each person is neither abundant nor rich. Or we used to say that China had superior small scale peasant economy, and in order to fight off natural disasters and develop production we must organize all individual peasant households. The number of small-scale productions dominant in our country is uncountable; and their production habits can be traced back to several thousand years ago. It is not easy to convert backward production methods and customs into the sophisticated format of a collective economy; we can only climb up from the lowest level, step by step. China is a big country. The conditions of individual regions differ; each

has a different development standard. We must make concrete analysis of the nation, provinces, and counties. We have to be able to make general as well as specific conclusions. At the time when we were still at war, Comrade Mao Zedong said that the east was dark while the west was bright, and while the south was blackened, the north was lightened. His conclusion was based on the individual and unbalanced development of our country. How did we manage to succeed in surrounding cities with rural areas? Because we have this imbalance. The building of socialist modernization in China can also be accomplished in the same way. We do not have even allocation of resources; some places are rich in resources and some are not. Shanxi has plenty of coal but Zhejiang has little. Some provinces have higher productivity, others have lower. Geographic locations also play a part; coastal regions are more benefited by the open policy while the inland regions suffer from disadvantages. Moreover, there are differences in cultural development and human qualities. In short,

because of the gaps existing in economic, political, cultural, and historical development, each region should be treated differently. We must conduct scientific analysis on the individual characteristics if we want to have a complete and correct understanding of the conditions of the nation, provinces, and counties and if we want to promote the economic growth and development of other sectors everywhere.

For the past few years we have had more success in studying the national condition, and we have had a deeper understanding of our situation. However, we cannot claim that we have acquired the best knowledge of our national condition. In fact, there are quite a few problems we are not sure about, and many things require further study. As long as we stand firm on the correct position and follow the proper ideological line, we will be able to understand our national condition more and more, cut down or prevent mistakes in our work, and push forward with our socialist construction.

## NATIONAL AFFAIRS, POLICY

**Zhu Rongji Recommendations on Enterprise Groups**

91P30168A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 25,  
24 Jun 91 p 7

[Article: "Zhu Rongji Urges Enterprise Groups To Pay Attention to Strategic Studies"]

[Summary] During a recent visit to Shanghai, Vice Premier Zhu Rongji made the following comments on enterprise groups. He said that there are three "starting points," or primary motives, for organizing enterprise groups: 1) Since the elimination of certain administrative offices, the functions of planning and management have actually been weakened. At a time of transition to a market economy, corresponding changes should also be made at different management levels. Therefore, enterprise groups need to be established to perform planning and management functions. 2) Shanghai's products have enjoyed a dominant position. The association of similar manufacturers will further improve their combined products, facilitate the creation of new varieties, and enhance the competitiveness of Shanghai goods. 3) Enterprise groups are beneficial to readjustment of the industrial structure. Closing, suspending, merging, and transforming unfit enterprises will enable Shanghai to engage in more advanced processing industries.

Regarding the selection of models, Zhu stated that at the outset it is better to adopt two levels of legal entities [erji faren 0059 4787 3127 0086] because enterprise groups are relatively large in size; moreover, they cannot operate well without the expertise coming from managers with broad experience working inside and outside China. In addition, Zhu believes that enterprise groups should conduct extensive research in marketing, developing new products, and promoting sales; pay more attention to strategic planning; formulate tactical policies; and allow enterprises to study business warfare. Meanwhile, enterprise groups should not be overly large in size, and one major enterprise should assume leadership. Membership should be voluntary and should be based on industrial structure and internal links. After such groups are formed, the main company should not interfere unduly with the business of group members or impair their independence.

**Zhang Yanning Views Developing Enterprise Groups**

91CE0634A Chongqing TIGAI XINXI [SYSTEMIC REFORM NEWS] in Chinese No 9, 5 May 91 pp 3-6

[Article by Zhang Yanning, vice minister of State Commission for Restructuring Economy: "Tasks Ahead in Developing Enterprise Groups"]

[Text] The vigorous development of enterprise groups is creating greater demands on our work; we must effectively enhance leadership. The following several ideas are put forth on the basis of current realities.

First, rectify the guiding ideology on developing enterprise groups.

1. Clarify objectives, and prevent everyone rushing into action.

Our development of enterprise groups is for the purpose of solving real problems in economic development. In view of the current situation, the following problems need to be, and are capable of being, solved to some extent through the development of enterprise groups: The first is to readjust and optimize enterprise organizational structures to improve overall economic efficiency. The second is to breakthrough regional and sectoral boundaries to facilitate the rational flow of factors of production, achieve the complementing of each other's strengths, and raise the level of specialization, and develop existing productive capacities. The third is to foster overall strong points and comprehensive functions to improve the ability to adapt to market situations and technological innovation. The fourth is to improve international competitiveness to consolidate and gradually expand international markets. The fifth is to raise the degree of concentration of enterprise organizations to enhance conditions for macroeconomic regulation and control.

The objective of the items discussed above are to develop enterprise groups and the criteria for determining the success or failure in the work of developing enterprise groups. Therefore, in organizing any enterprise group, it is necessary to have thorough advance supporting analysis to clarify what problems can be solved, and what objectives can be achieved. It is necessary to carry out careful follow-up examinations to find out to what extent the objectives have been achieved, and to what extent the real problems in economic development have been solved.

Now many comrades say that it is necessary to prevent everyone rushing to action in developing enterprise groups; this is doubtless timely pertinent advice. The question is, what is everyone rushing to? How to prevent everyone rushing to action? We should say, blindly organizing enterprise groups without clear objectives means everyone rushing to action. In emphasizing developing enterprise groups, only having a clear objective is it possible to effectively prevent everyone rushing to action. We must refrain from pursuing quantity, but should emphasize real effects. And must proceed in a step-by-step way in accordance with the state's industrial policies, the industries' development plans, and the enterprise's actual situation to avoid first having a great development only to be followed by readjustment.

2. Insist on basic conditions, and seek to develop practical roles.

With regard to basic conditions that enterprise groups must have, we suggest four: First, it is necessary to have a powerful group core. This core can be a large enterprise, or a holding company strong in capital. Second, it is necessary to have a multi-layered structure; besides the core enterprise, there must also be a certain number of inseparable enterprises. Third, there must be certain ties between

the core enterprise and the member enterprises, so that they can form an organic whole. Ultimately, the core enterprise and inseparable as well as semi-tight-layer enterprises must develop assets ties between them. Under current conditions in China, there could also be production-management ties, that is, the "six-way union" covering manpower, finance, and materials as well as production, supply and marketing, and the "three-way union" covering production, supply and marketing. Fourth, every member is an independent legal person of an enterprise, and the enterprise group is the union of these legal persons.

Why is it necessary to stipulate the conditions that enterprise groups must have? The main purpose is to ensure that enterprise groups shall play their proper role. For instance, if there are no inseparable enterprises but only loosely united enterprises, and if the core enterprise does not have assets relations with member enterprises, and cannot manage major activities regarding production, supply and marketing as well as manpower, finance and materials, it will be impossible to employ investments according to an overall plan, and even less possible to readjust and optimize structures. At present, the reason that a significant number of enterprise groups cannot play their proper role is that they do not have the conditions that enterprise groups should have. It can be said that there is an inherent cause-effect relationship between conditions that enterprise groups must have and the role that enterprise groups play, and that it is necessary to insist on having basic conditions, if one wants them to play their proper role. Consequently, enterprise groups can have different specific modes, and can develop and be organized in different ways, but they must all have the basic conditions. Otherwise, it will be impossible to achieve the desired results, or to play the proper role.

What to do with existing enterprise groups that do not have the conditions? There are two situations that should be dealt with differently: If there is an objective need for developing an enterprise group, it is then necessary to do an effective job of perfecting and improving to gradually achieve the conditions required and to become an enterprise group both in name and in fact. If there is no objective need for developing an enterprise group, then the name and the role should be determined by the type of organization it really is. Various forms of enterprise unions all have their respective roles, and can all co-exist and develop together with enterprise groups.

3. Persist in combining centralization with decentralization, and prevent two tendencies.

With regard to the enterprise group's internal relations, it is necessary to prevent two tendencies: One is over-centralization where the core enterprise controls too tightly the member enterprises' production and management activities, which affects the initiative of member enterprises, and even manages plant workshops and branches, which affects member enterprises' status as independent legal person. Second is over-decentralization where the core enterprise cannot exercise effective and necessary control over the major management activities of

member enterprises, making it impossible to put into effect the enterprise group's unified development strategies and plans.

From a long-term perspective, the way to solve this problem lies in establishing parent-subsidiary company relations between the core enterprise and inseparable enterprises. As the parent company of the inseparable enterprise, the core enterprise will have influence over major management activities through exercising the right of the shareholder. As the subsidiary of the core enterprise, an inseparable enterprise is an independent legal person, and independently carries out production and management activities. On such a basis, the combination of centralization and decentralization will be achieved.

But, under the current conditions in China, in the immediate future there are no conditions to widely establishing parent-subsidiary company relations. Therefore, it is proposed that the core enterprise carry out unified management of the inseparable enterprises' major activities regarding production, supply and marketing as well as manpower, finance and materials, that is, the "six-way union"; but this does not mean a suffocating control over all production and management activities. The contents of the "six-way union" are clearly defined, that is, the core enterprise acting as the single head for planning, the single head for reaching contracting agreements with higher authorities, the single head for getting loans from and repaying loans to banks in a unified way, the single head for conducting import and export, the single head for appointing and dismissing leading cadres of inseparable enterprises, and the single head for bearing the responsibility for maintaining and increasing the value of state assets. In short, in the above-mentioned major activities, there is "one single head to deal with the superior and the outside," so as to ensure that the enterprise group shall become an organic whole and achieve unified planning, and on that basis, member enterprises shall be allowed to carry out independent management.

4. Promote the "three breakthroughs," and prevent self-closure.

Presently, it is difficult to breakthrough regional, sectoral and ownership boundaries to develop enterprise groups, and quite often enterprise groups are formed within the regional or sectoral confines. At the beginning stage, it is difficult to totally avoid such situations, but from a long-term perspective, it is necessary to breakthrough regional, sectoral and ownership boundaries. Certainly, developing enterprise groups by breaking through regional, sectoral, and ownership boundaries, will encounter restrictions imposed by the existing system; it is necessary to clarify two points with regard to guiding principles: First, the various comprehensive departments in government organizations should study how to reform the existing system so as to accommodate the "three breakthroughs," and should not accommodate the existing system, and restrict breaking through regional, sectoral and ownership boundaries to develop enterprises groups. It is exactly in this sense that we need trial points on developing enterprise

groups. Second, local governments at all levels and industrial departments in charge should not only encourage their regions' and sectors' core enterprises to breakthrough regional and sectoral boundaries to develop inseparable members, but also encourage their own regions' and sectors' enterprises to become inseparable members of other regions' and sectors' enterprise groups. Without the establishment of such a principle, it will be difficult to avoid the formation of closed enterprise groups within regional and sectoral confines.

**Second, it is necessary to do a good job of perfecting and improving existing enterprise groups.**

Last year, the State Restructuring Commission called for "perfecting and improving as well as growing and maturing," making clear the three tasks of perfecting and improving, that is, strengthen the group core, develop layers, and strengthen linking ties. During the entire Eighth Five-Year Plan period, it is necessary to make unremitting efforts in the three tasks of perfecting and improving enterprise groups.

Strengthening the group core is an important task in perfecting and improving existing enterprise groups. Strengthening the group core mainly consists of two aspects: the first is to increase the strength of the core enterprise, and the second is to enhance the core enterprise's function as an investment center. The so-called investment-center function mainly refers to the core enterprise carrying out overall planning on the enterprise group's major investment activities. Now we already have some experience in this regard, and should conscientiously sum up and popularize it, while hoping that all enterprise groups will further explore and create more experience and methods.

Developing inseparable enterprises is another important task in perfecting and improving enterprise groups. The difficulty in developing inseparable enterprises beyond regional and sectoral confines lies in coordinating the interest relationships between the parties concerned. In view of current experience, the following methods are effective: First, in its status as a legal person, the core enterprise conducts contracting or leasing regarding the relevant enterprises. This method, while not affecting the interests of the departments in charge of the enterprises subject to contracting or leasing, can also achieve unified management during the term of contracting or leasing. The problem is that both contracting and leasing have time limits; this will affect the core enterprise's enthusiasm for increasing long-term inputs, and harm long-range development. Second, the core enterprise uses visible and invisible assets to invest in and acquire shares of relevant enterprises, and arrives at the controlling amount, so as to establish parent-subsidiary company relations, and become inseparable members. This method coordinates the interest relationships between all parties, reduces contradictions in the existing system, and forms long-term interest communities. The third is to conduct contracting or leasing first, then increase input during the term of contracting or leasing, and gradually develop controlling

shares. This method can avoid the problems of the two preceding methods, incorporate the strong points of the two preceding methods, and should be popularized.

Strengthening linking ties mainly refers to strengthening assets ties. The purpose is to have the core enterprise and inseparable enterprises be mutually dependent in production and management, stand together in terms of economic interests, and enhance the enterprise group's cohesion. There are many reasons why, as has already occurred, some inseparable enterprises ask to leave the enterprise group at times of weak market and difficulties; an important reason is the failure to establish assets ties. Strengthening assets ties is achieved mainly through holding shares and acquiring controlling shares: First, when the core enterprise and other legal persons jointly invest to establish new enterprises, it is necessary to form a limited liability corporation from the very beginning. Second, the core enterprise invests in and acquires shares of member enterprises, gradually turning the administrative ties of unified management on production, supply and marketing as well as on manpower, finance and materials into assets ties. Third, the core enterprise and member enterprises exchange each other's shares at the same amount, and establish parent-subsidiary company relations. Fourth is to authorize the core enterprise to manage member enterprises' state assets, in connection with the reform of the system of state-asset management, so that the core enterprise can acquire the status of share ownership representative, and thereby become the parent company of inseparable enterprises. Some of these methods have been practiced, and some are still only ideas and need to be explored in practice.

**Third, pay attention to a bunch of large enterprise groups as trial points.**

According to Premier Li Peng's instructions, we must select around a hundred large enterprise groups to be trial points. To do a more effective job, it is planned that around a hundred large enterprise groups are to be made trial points in several groups over time. The first bunch will be selected from among production enterprises of industrial and transport sectors. Other sectors need to organize and develop enterprise groups, which will be considered at the next stage.

To select trial-point enterprise groups, it is necessary to fully consider the status and role in respective industries. It is necessary to be in an advanced position and have a rather large share in the relevant industry as a whole in terms of output value, output, profit and tax, and export and foreign-exchange earnings. That is, if well-developed, these enterprise groups will have substantial impact on the national economy.

Trial-point enterprise groups should as much as possible have a large production enterprise or a holding company as the core. It is not necessary to turn a ministry-administered corporation into a group corporation through changing the sign, and it is not proper to organize a corporation to exercise management functions over the heads of several enterprises. Under these two circumstances, it is easy to

form an administrative corporation in disguise, and industrial monopolies could take shape. Surely, administrative corporations can also be transformed into holding companies, but it is necessary to select only a few to be trial points, which shed governmental industrial management functions, shoulder economic responsibility, and establish assets ties with the enterprises under them.

Trial-point enterprise groups' relations with the superior and the inferior. With regard to the superior, select some enterprise groups to be covered by separate sections in state plans; some can be covered by separate sections in local plans. With regard to the inferior, presently, it is proper to have the core enterprise exercise unified management of inseparable member enterprises' major activities regarding production, supply and marketing as well as manpower, finance and materials. From a long-term perspective, it is necessary to gradually establish parent-subsidiary company relations. The purpose of both methods is to ensure that enterprise groups shall play the roles of facilitating the flow of factors and promoting structural readjustment.

The discussions above call for breaking through the existing system. Therefore, we cannot use "contradicting the existing system" or "lacking basis in the existing regulations" as a reason to prohibit breakthrough. In some sense, it is exactly because of the need to breakthrough the existing system that it is necessary to have trial points, and only on the basis of trial-point successes will it be possible to formulate legal norms.

**Fourth, we need to study and formulate policies to facilitate the development of enterprise groups.**

The development of enterprise groups depends on efforts of self-perfection and improvement, as well as on the guidance of state policies. Now, the departments concerned have studied policies to support the development of enterprise groups, and the following is a summary.

**1. On separate sections in plans**

With regard to the trans-regional enterprise groups that affect state plans and people's life, and sell products nationwide, it is proper to provide separate sections in state plans, and authorize industrial departments in charge to exercise regulation. There are two main purposes: The first is to correspondingly expand autonomy; the second is to facilitate direct dialogue with the State Council's various comprehensive departments. Separate plan sections include the core enterprise and inseparable enterprises, but not semi-tight-layer and loose-layer enterprises. The contents of separate plan sections should mainly include: plans on output of major products, plans on capital construction and technical transformation, plans on using foreign investment and introducing technologies, plans on materials supply, plans on science, technology and education, plans on employment and wages, and financial plans.

**2. On autonomy for international operations**

Large enterprise groups cannot enter the international market without autonomy for international operations.

The Ministry of Foreign Economic Relations and Trade supports greatly productive enterprise groups in expanding their autonomy for import-export operations, and proposed permitting productive enterprise groups that have the conditions for independent import-export operations, to independently manage the export of their own products, and the import of technologies, equipment and raw and other materials for their own use (except the first-category import-export commodities). Where conditions exist, it is also proper to arrange the export of sets of equipment based mainly on the enterprise groups' own products. But, the enterprise group can only have one international outlet; after the enterprise group acquires autonomy for independent management of import and export, inseparable enterprises should no longer have autonomy for international operations. Production enterprises which are not in the same locality as the group corporation can go through customs procedures locally or at nearby ports in accordance with the instructions of group corporations.

**3. On the issue of establishing a finance company**

During the past two or three years, with the approval of the People's Bank of China, seventeen enterprise groups have established finance companies, which have played positive roles in facilitating the groups' internal capital flows, and give play to the group corporations' functions as investment centers. The People's Bank of China has proposed that if they meet requirements enterprise groups selected to be part of this bunch of trial points can all be given approval to establish finance companies. But when one is ready approval will be granted, and that one should carry out business activities within the approved scope of operations.

**4. On the issue of management authorization regarding state assets**

Now, in most of our enterprise groups, the core enterprises and inseparable enterprises have yet to establish between them the parent-subsidiary company relations based on assets ties. Therefore, it is proposed that the method of "six-way union" be used to ensure the achievement of the enterprise groups' unified development plan. Recently, the State-Asset Management Bureau selected several enterprise groups to be trial points on management authorization regarding state assets, that is, the assets management departments authorize the public-owned core enterprise to manage the inseparable enterprises' state assets, and grant it the status of share ownership representative, thereby establishing parent-subsidiary company relations, and enhancing assets ties.

The enterprise group is a product of reform, and to develop the enterprise group depends on continuing reform. We often say that reform should be comprehensive, developing enterprise groups involves such various aspects as planning, fiscal matters, finance, materials, economic and trade matters, science and technology, labor, personnel, state-asset management, statistical work, industry and commerce, and taxation, and only by

achieving comprehensive reforms in all the aspects will it be possible to facilitate the development of enterprise groups.

(Editor's note: this article is the third part, abridged, of Zhang Yanning's speech at the work conference on enterprise groups.)

### Article Examines Regional Blockades

91CE0639A Kunming JINGJI WENTI TANSUO  
[INQUIRY INTO ECONOMIC PROBLEMS]  
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[Article by Yue Yihong (2867 1355 4767) and Tu Benguo (1458 2609 0948), affiliated with the Jiangsu branch of the Industrial and Commercial Bank of China; Editor: Shi Yinsheng (0670 1377 3932): "The Causes of, Damage Caused by, and Measures To Counter Regional Blockades"]

[Text] Structural market weaknesses are causing glaring conflicts in China's current economic life, such as a decline in industrial production along with overstocking of finished products, which have become a puzzling problem for our economic development. While the basic solution to the problem would be to make our structures more rational and raise our economic efficiency, some regions and sectors are not interested in structural readjustment or improved efficiency. They are proceeding instead from immediate and selfish interests, by taking administrative and economic steps to interfere with the decisionmaking power of enterprises to import and market, by banning or restricting entry into their region of products from other parts of the country, especially those that are high in quality, low in price, and competitive with local products, and through forced sales of local products, i.e., by establishing regional blockades.

While the installation of tax offices, building of barriers, and closing of borders for self-protection by administrative divisions are certainly not new problems, having never been stopped in the 40 years since the founding of the PRC, the great impact of and severe damage caused by such regional blockades are now more conspicuous than ever, so that breaking down regional blockades has become a task of top priority. We have tried in this article to make an initial analysis of the causes of and damage caused by current regional blockades, in order to find solutions to the problem.

### Causes

While the various current forms of regional blockades seem to have been caused by the market slump, because much local protectionism has followed in its wake, this is certainly not the case, and it has become extremely important to look into their real causes in order to eliminate the problem. It must be pointed out that, along with the market slump, the following current system defects have helped to cause the setting up of regional blockades to protect local interests:

**1. Our market operation forces are imperfect, and an integrated market has not yet evolved.** Since we began to

reform and open up to the outside world, our circulation reforms have been aimed precisely at beginning to break down regional blockades and separatism. But it takes a long period of exploration and hard work to bring market forces, such as supply and demand, price regulation, competition, and dynamic balance, from the stage of establishment and development, to the point where they are basically sound and their overall functions have been brought into full play. While we have established the components of an integrated market, such as commodity markets, capital goods markets, money markets, and manpower markets, they are very unsound, untested, and generally still developing. Moreover, as our enterprises are still subordinate to administrative organs, and our economic construction and economic activities are still basically organized by administrative division, all regions and sectors are putting undue emphasis on their own "complete economic systems," violating the demands of the social division of labor and specialized production, and blindly striving for self-sufficient natural economies that ask for no help. To a certain extent, our current markets are still of an administrative nature. Our regional administrative monopolies, which are dominated by local economic interests, are forced to adopt a policy of unilateral protection of their own products, and refuse to allow products from other regions or sectors to enter their markets, which has caused the formation of "feudal" separatist blockades.

**2. Our "carved up" fiscal system has objectively encouraged blockades.** Some years of experience have proved that defects exist in our level-by-level fiscal contracting. In order to increase their revenues, all areas have greatly increased their investment as their local financial might has increased. In addition, the authority to examine and approve investments having been devolved to lower administrative levels, the banking trend toward becoming more localized, and the large increase in extrabudgetary funds, have had a joint impact of multiplying the number of local projects, while concentrating them on ones that need little investment and produce quick results. In actual practice, many regions often base their production rates on their annual fiscal contract targets, and compete for faster rates to increase their revenues. When the economy was overheated, brisk market demand concealed production conflicts. But when markets experienced an abrupt downturn, markets could not handle the pace of production, and industrial structure and product mix conflicts suddenly became more conspicuous. Although the basic solution was still structural readjustment and improvement of efficiency, it was objectively impossible to achieve instant results, and poor market sales became a very immediate problem again, since production rates had to be maintained to keep immediate revenues intact. Faced with soft markets, it became hard to sell the products that were produced, particularly ones that were very unequal with those from other regions in areas, such as trademark, variety, price, and quality. As they could not be marketed elsewhere, and products from other regions were not allowed in, a one-sided "feudal" self-sufficiency evolved.

**3. Our macroeconomic regulation and control is weak, and our microeconomic operations lack self-restraint mechanisms.** As we have overemphasized devolving authority and conceding profits to enterprises and local governments since we began to reform and open up to the outside world, and the Central Government has not established a macroeconomic system to regulate and control such devolving of authority and conceding of profits, local governments have not developed a sense of responsibility that corresponds to their increased authority, and self-restraint mechanisms have still not evolved, which has made it hard for the Central Government to curb local protectionism.

As far as the Central Government is concerned, while state macroeconomic regulation and control strength has decreased, with the percentages of state-budgeted financial and material resources and foreign exchange having decreased too much, such as the ratio of state revenue to national income having dropped from 31.0 percent in 1979 to 19.7 percent by 1988 on one hand, the state has abandoned its former macroeconomic regulation and control measures too soon, before it had new ones in place that were suited to modern large-scale production on the other. This has made it hard to regulate markets effectively, or to control the direction and behavior of local governments and enterprise operations. As to localities, while local governments and enterprises have no clear responsibility to act with self-restraint, and feel that their increased authority might be taken back by the Central Government, the strong impulse to pursue local and immediate interests is very likely to result in short-term behavior.

Along with soft markets, the lack of correspondence among local authority, responsibility, and interests has resulted in proceeding from local interests, a lack of concern for the overall picture, a unilateral exercise of authority, and establishing separatist blockades. Even though the Central Government has called for all areas to break down regional blockades, all areas have still been able to go their own ways by varying their tactics.

#### **Damage**

Whether from an immediate or long-range perspective, the establishment of regional blockades has caused the following quite severe damage to China's economic and social development:

1. It has had a direct impact on the deepening of improvement and rectification. As China's improvement and rectification has achieved only superficial results so far, and has yet to be further deepened, market blockades are like a wall blocking improvement, rectification, and furthering reform. On one hand, the prolongation of backwardness by blockades has made the optimization of economic structures and improvement of economic efficiency, which were already suffering considerable difficulties, even harder, and made it impossible to go forward to a less superficial stage while, on the other, the man-made cutting off of normal interregional commodity circulation was bound to encourage a number of speculators to engage in profiteering, throw market order into chaos, and make it harder to establish an integrated market. Moreover, the

rewards, which have emerged under a multitude of names out of local protectionism, have increased consumer fund expenditures, caused social distribution to be less fair, and made government administration less honest.

2. It has exacerbated the current market slump. Interregional blockades are inimical to the resolution of, and are undoubtedly adding fuel to the flames of, the market sales slump. As long as market circulation is blocked, while active steps should be taken to develop markets, look for new targets, and promote sales, market protectionism instead creates separatist blockades, obstructs sales channels, makes formerly marketable products unmarketable, and causes varying degrees of marketing difficulties. As markets are blockaded and options are limited, consumers will put off purchases and wait for market changes, except where they have no alternative. This curbs consumption and damages consumer interests.

3. The installation of blockades has made backward areas even more backward. Historical experience tells us that closing a country to international economic intercourse only tends to make its economy more backward (this may be so either absolutely or relatively). Without internal motivation or external pressure, the few advanced enterprises in backward areas will become even more backward due to the lack of competition, while the majority of backward enterprises will tend to be eliminated because of unchecked production. Short-term protectionism leads to long-range difficulties.

4. It has weakened state macroeconomic regulation and control strength. When one region takes protectionist steps, others are likely to imitate them, and when backward areas openly set up barriers, developed ones will surreptitiously follow suit. Such chain reactions cause market disintegration. It is very hard for macroeconomic regulation and control to achieve its proper degree of strength unless it is nationally oriented. For instance, the increased credit that the state has extended in 1991 has not clearly stimulated production, so that triangular debt is still increasing and product overstocking continues to grow. The key problems here are that circulation is blocked and markets have not yet been invigorated.

5. It has left no way to bring the "reservoir" and major-channel roles of state-owned commercial enterprises and supply and marketing cooperatives into full play. As local governments have made rigid rules that local manufactured goods must be procured completely, industrial inventories have been turned into commercial ones, and the "reservoirs" of state-owned commercial enterprises and supply and marketing cooperatives have become dead backwaters that do not move. As inventories of commodities that should be "stored" do not exist, and inventories of those that should not be "stored" are swollen, it is impossible to supply markets with marketable products, not to speak of any major-channel role. Commercial bank loans provided at the lowest interest rates are likely to support procurement that should not be supported and thus, be unable to invigorate markets. As the commercial sector then pays higher interest rates than it should, its

profits suffer and its management initiative is dampened, which sharpen the conflicts between industry and commerce;

6. It has obstructed structural adjustment and improvement of efficiency. The basic ways to open up markets and invigorate production are to adjust product mix and improve economic efficiency. In order to accomplish this, it will be necessary to follow national industrial policy, by firmly cutting back and strictly controlling production of products that consume too much energy and raw materials, require too much foreign exchange, are of low quality, and are severely overproduced, developing new products and varieties that meet diversified market demand, and increasing production of products that are of famous brand, high in quality, and in short supply and great market demand. While this involves the distribution of the productive forces, the disposition of resources, specialized cooperation, and economy-of-scale operations, regional blockades grow out of a unilateral emphasis on local interests, and an unwillingness to make adjustments based on industrial policy that are adverse to one's own immediate interests. Thus, production that should be protected is not, that which should be cut back is not, timely structural adjustments are impossible, and poor efficiency remains unchanged. Until such deep economic conflicts are resolved, it will be impossible to achieve a good cycle of economic development.

#### Countermeasures

These prevalent regional blockades have complex causes, cause much damage, and are very hard to control. We think that the following combination of stopgap and radical steps should be taken to alleviate and permanently control local protectionism:

1. Markets should be opened up in all directions, and vigorous steps should be taken to promote commodity sales. The so-called "all directions" means that urban, rural, and international markets should be developed. As domestic markets have very large purchasing potentials and consumer differences, detailed market analyses should be made of the demands of various regions and consumers, and market circulation channels should be broadened. Particular attention must be paid to taking advantage of the current favorable opportunity presented by bumper harvests and fulfilled procurement, to do a good job of sending manufactured goods to the rural areas, by promptly delivering new products and commodities that are up to standard and of suitable variety to peasant families. Only by invigorating markets and increasing commodity sales to a certain extent can local protectionism be weakened naturally;

2. Interregional economic cooperation should be enhanced. As markets are soft and commodity sales are poor, interregional economic cooperation should be enhanced. The principle of reciprocity should be followed, by widely developing transregional marketing alliances and mutual supply markets. The steady expansion of interregional economic ties, plus the implementation of

national policy measures, should gradually promote the formation of an integrated market.

3. Our industrial structure should be readjusted vigorously. Our current industrial policy outlines should be made more rational and scientific. Product mix adjustment should not only serve the industrial structure, but should also speed up industrial structure adjustment. Things that are secondary but necessary to industrial policy, such as credit and pricing, must also be promptly adjusted to being their leverage role into full play, so that they can guide local investment orientation and harmonize interregional economic relations. We could consider increasing the money supply to support structural adjustment, and promptly increasing prices slightly, in order to turn many small advantages into one big one.

4. The macroeconomic regulation and control capability of the Central Government should be enhanced. The limit to granting and regaining of authority must be appropriately controlled. That is, while reform should be increased to gradually improve the Central Government's macroeconomic regulation and control forces, so that it can effectively control economic operations, attention must also be paid to preventing the dampening of local and enterprise initiative. As banking and finance are two key macroeconomic regulation and control tools, they must be suited to modernized large-scale production during the years of improvement and rectification. Banking should be used mainly to strengthen the macroeconomic regulation and control capability of central banks, bring the leverage role of interest rates in regulating money demand into full play, and develop and improve money markets. Finance should be used mainly to handle Central-local and Central-enterprise distribution relations, make a gradual transition from a guaranteed fiscal payment system to one of tax separation, and distinguish Central and local administrative and fiscal authority. While stabilizing and improving the current enterprise contract management responsibility system, active steps should be taken to test new forms of contracting.

5. Markets should be standardized, and our market system should be made gradually sounder. While striving to consolidate and improve our existing market base, we should take conscientious steps to rectify our market order, improve our market organization, formulate market regulations, establish market standards, and carry out market guidance, so that our markets can operate according to a normal order. We must further improve our commodity markets and, in particular, open up and develop capital goods markets, money markets, technology markets, real estate markets, and labor markets. Through developing and standardizing market order, we should gradually establish a nationally integrated market.

#### Revitalizing Large-, Medium-Sized Enterprises

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[Article by Lu Zheng Jinbei (0712 2398 6855 8951):  
"Analysis of Remedies For and Ways of Invigorating Large- and Medium-Sized Enterprises"]

[Text] Profound changes have taken place in both the national economic pattern and the way in which the economy operates since adoption of the policy of reform and opening to the outside world. However, no substantive advances have been scored in reform of state-owned large- and medium-sized enterprises. In the process of changing from a traditional system to the newly planned commodity economic system, efforts in putting large- and medium-sized enterprises on a different track and refashioning them have been seemingly extremely passive, slow, and lacking in vigor. Faced with the difficult circumstances found in large- and medium-sized enterprises, different government departments as well as scholars and experts holding different views have proposed various ideas and remedies for invigorating large- and medium-sized enterprises. Nevertheless, on one fundamental prerequisite there must be agreement, and that is that the development of the country's economy in the basic direction of a planned commodity economy is irreversible. Ideas and remedies for invigorating large- and medium-sized enterprises must proceed from the objective realities of the major changes that have taken place in the country's economic pattern, and the way in which the economy operates. The laws of a socialist commodity economy must be followed.

#### **1. Basic State of Affairs Regarding the Vitality of Large- and Medium-Sized Enterprises**

By enterprise vitality is meant an enterprises vigor in the production and reproduction process. It includes at least the following several requirements:

1. Fairly strong competitiveness of the enterprises' products in domestic or international markets, with a fairly solid position in old markets and ability to expand in new markets, the enterprise having a fairly strong capability to respond to market competition.
2. Sustained and steady improvement in economic returns from the enterprise's production operations.
3. Steady increase in profits and taxes paid the state and earnings of staff members and workers as production develops and economic returns rise.
4. Ability to update and steadily improve the enterprise's production technology.
5. Fairly strong cohesiveness, staff members and workers in the enterprise having a fairly high interest in production and work.
6. The enterprises' is able to accumulate capital itself, transform itself, develop itself, and limit itself.

Judged by the above standards, only approximately 10 percent of all large- and medium-sized enterprises nationwide are alive. Approximately 60 percent lack vitality, but are still able to maintain production and do business; and approximately 30 percent have fallen into a serious predicament.

A Beijing municipal adjustment analysis of 100 large- and medium-sized enterprises shows 10 percent as being relatively lively; 70 percent lacking vitality; and 20 percent lacking vitality and in a predicament. Enterprises possessing a fair amount of vitality in production and doing business today are of four general kinds as follows:

1. An extremely small number of enterprises, of which the Capital Iron and Steel Complex is an example, that have autonomy in operation, are able to accumulate funds themselves, are able to develop themselves, and are able to limit themselves.
2. Key state projects that were built and went into production during the 1980's whose technology and equipment is advanced, and who supply of products cannot keep up with demand.
3. Enterprises for which the state provides definitely preferential policies, not only regarding taxes, but also in the form of little interference, their production and business being entirely market regulated.
4. Sino-foreign joint venture enterprises.

Enterprise lack of vitality or serious trouble shows up primarily in the following ways:

First is when a sudden market change results in no markets for the enterprise's products, thereby occasioning a tremendous decrease in production quotas but no corresponding decrease in fixed costs. This leads to a rise in production costs and a fall in economic returns. Since, in most countries, the products from large- and medium-sized enterprises are the means of production that are directly limited by the scale of investment in fixed assets, once a macroeconomic retrenchment occurs, social demand declines, or else the rate of growth declines markedly causing large amounts of products to accumulate in inventory.

Second is when various measures to increase an enterprise's autonomy are not genuinely implemented, and the enterprise has not completely broken free from its dependence on government. Analysis of a Beijing survey shows that the Capital Iron and Steel Complex implemented 11 and one-half of 13 state measures to increase enterprise autonomy and invigorate large- and medium-sized enterprises. The remaining one and one-half measures that were not implemented had to do with foreign trade operating authority and investment business authority in other fields outside the enterprise. Most large- and medium-sized enterprises implemented only one or two, which is to say that once an enterprise fulfilled state-issued production places and had the authority to plan production according to market demand, they did not apply the remaining 80 percent of the measures to increase their operating autonomy.

Third, is a serious lack of circulating capital for production. Currently, most state-owned large- and medium-sized enterprises own between 21 and 23 percent of the funds they use. Enterprises' working capital remains at the quota set prior to 1983; however, the price index of the means of

production has risen more than 80 percent since 1983, and wage costs have nearly doubled. Enterprises must rely on bank loans for more than 75 percent of their working capital. No doubt the rise in loan interest rates has increased enterprises' loan repayment and interest burdens, leading to a rise in costs and a decline in profits.

Fourth is too low a level of enterprise retained profits, which translates into inability to carry out technological transformation. Statistics on Beijing City show that in 1990 enterprises paid to the state more than 86 percent of profits in the form of various kinds of taxes. Retained 1990 profits of 506 Beijing industrial enterprises within budget (not including the Capital Iron and Steel Complex) having a total of 420,000 staff members and workers amounted to approximately 300 yuan per capita. However, enterprises currently pay 400 yuan in welfare expenses and medical expenses, meaning the per capita retained profits amount to 75 percent of expenditures for welfare and medical expenses. Consequently, most enterprises are unable to rely on their own accumulations to carry out technological transformation and to develop themselves. In a situation of uncertain market prospects, they also dare not take the risk of taking out bank loans.

Fifth is the worsening of enterprise administration and management, which is manifested largely in the following ways: 1) Among cadres and members of the enterprise in general, a psychology of wait and see exists. They wait for a turn for the better in the macroeconomic environment; they wait for higher authority to offer a preferential policy; and they wait for an upturn in market demand. 2) Problems with lack of coordination between Party and government leaders within enterprises increase. 3) Continued deepening of the optimization of labor teams is difficult, and overstaffing becomes more serious. 4) Labor discipline is lax. 5) Apathy pervades the staff member and worker corps, which generally envies the higher wages and the better benefits of staff members and workers in joint venture enterprises. They want to work in a joint venture enterprise.

The foregoing capsulizes the current general situation regarding lack of vitality in large- and medium-sized state-owned enterprises. In different trades, however, the difficulties that enterprises face are not entirely the same.

The glaring problem that enterprises in the energy industry faces is overly low product prices. As a result of the rise in extraction costs, their losses are serious; thus they find maintenance of simple reproduction difficult.

In the steel industry, improving varieties and quality requires a large amount of investment for the transformation of old technology and equipment, but except for the Capital Iron and Steel Complex, the ambition of most steel making enterprises falls far short of their ability.

The prominent problem that the machinery and electronics industry faces is having too much capacity at a not very high technological level. Production capacity in the machinery and electronics industry is overbuilt. Most enterprises are in a situation of not having enough work to

stay alive, but having enough to delay dying. The not very high technological level shows up in the generally antiquated equipment and technology of principal large- and medium-sized enterprises, and their slow development of new products. Consequently, no one wants their old products, yet they cannot produce new advanced products. Their market competitiveness is weak. In the machinery and electronics industries, the difficulties of military industrial enterprises are most pronounced.

The lack of vitality in the textile industry stems mostly from limitations in two regards: The rise in raw and processed material prices has greatly increased production costs. In addition, although the state increased retail prices because of flat market sales of textile products, no such rise occurred, so enterprises had no choice but to lower prices in order to sell.

The high profits obtained in light industry prior to 1978 came mostly from the agricultural sector as a result of the price scissors between industrial and agricultural goods. After 1978, when procurement prices for agricultural by-products were raised substantially, light industry's profits per 100 yuan of capital fell from 53.51 yuan in 1981 to 31.26 yuan in 1988, and fell further to 25.67 yuan in 1989. The extent of losses in light industrial enterprises increased with each passing year, and today one-third of enterprises in the light industry sector have trouble paying wages.

## 2. Different Ideas About Invigorating Large- and Medium-Sized Enterprises

The lack of vigor in state-owned large- and medium-sized enterprises has aroused serious attention in every quarter. Invigoration of large- and medium-sized enterprises is the common point of departure of everyone. However, just how to go about invigorating large- and medium-sized enterprises raises very many different policy choices. Generally speaking, from the standpoint of macroeconomic control, the emphasis should be on improved macroeconomic regulation and control capabilities, stress going to improvement of enterprise quality and correcting the way in which enterprises behave. From the standpoint of the enterprises themselves, the emphasis must be on improvement of the macroeconomic climate, and readjustment of economic policies. Economists more emphasize a change in the economic operating mechanism to make large- and medium-sized enterprises more market oriented. Some comparative analyses of alternative methods are provided below.

1. Fulfillment of the command style plans of large- and medium-sized enterprises, implementing a "double guarantee" policy.

This proposal is predicated on the assumption that most large- and medium-sized enterprises are key enterprises that have a bearing on the national economy and the people's livelihood, or that have an important effect on state fiscal revenues, and that some are monopolistic, noncompetitive industries that the state must and can manage and manage well through command-style plans. Simultaneous with the issuance of command-style plans,

the state must institute a "double guarantee" policy tilting in favor of large- and medium-sized enterprises in the supply of capital, energy, and raw and processed materials, as well as transportation.

This line of thinking is based on the protection of, and preferential policies for, large- and medium-sized enterprises. In the short run, it may help some large- and medium-sized enterprises escape from their present predicament. For those enterprises that are in serious trouble, in particular, it may provide a bail-out. Nevertheless, the "double guarantee" policy can only solve present problems in production and operation; it cannot solve the problem of enterprises lack of reserve strength. The vitality of enterprises lacking reserve strength can scarcely be maintained. Moreover, the "double guarantee" policy increases enterprises wait and see attitude of dependence. It weakens enterprises' competitive sense. Therefore, the "double guarantee" policy is not a basic way in which to enliven large- and medium-sized enterprises.

## 2. Improvement of Industrial Management, Development of Enterprise Blocs, and Increase in the Competitiveness of Large- and Medium-Sized Enterprises.

Some comrades maintain that the too great a delegation of authority to enterprises during the 1980's is a major reason for the present lack of vitality in large- and medium-sized enterprises. The too great a delegation of authority occasioned a series of negative consequences.

(1) The former direct control over large- and medium-sized industrial enterprises that central government industrial units in charge exerted was consistent with the principle of specialized control, and it permitted enterprises to exercise effective planning, direction, and regulation for a fairly high degree of control. However, after authority was delegated to the local level, a decline in the level of control ensued.

(2) For the most part, the coordination of large- and medium-sized enterprises' production and their markets were oriented toward the country as a whole, but once authority was delegated, the former coordination and market networks were thrown into turmoil, creating new difficulties for enterprises' production and management.

(3) Following the delegation of authority over large- and medium-sized enterprises, although the amount of central government industrial department interference in enterprises' affairs was reduced, local government administrative interference in enterprises increased, so large- and medium-sized enterprises gained no real autonomy over production and administration.

(4) Local governments regarded large- and medium-sized enterprises as local money trees to be shaken, frequently increasing these enterprises' payments of profits and taxes.

(5) In the absence of fiscal and personnel authority, the regulatory and control capabilities of central government industrial departments in charge weakened.

Therefore, comrades in some industrial departments in charge suggested that some of the authority over large- and medium-sized enterprises that had been delegated must be taken back if large- and medium-sized enterprises were to be invigorated. Departments in charge should directly control personnel, finances, and materials, as well as supply, production, and marketing. Some might organize enterprise units to do planning as a means of enhancing enterprises' power.

Such a change in the subordination of enterprises are old methods tried out many times previously, but one may wonder whether they are in keeping with the new situation that has resulted from major changes in the economic pattern and the economy's operating mechanism. Furthermore, for higher authority to take back newly delegated authority over enterprises would meet with opposition from the local level. Local governments would be willing to turn over to the central government departments those large enterprises that are losing money while retaining those that are making money, but this would not meet the objectives of the central government departments in charge in taking back authority over large- and medium-sized enterprises.

## 3. Improvement of Enterprise Quality, and Strengthening of Enterprise Management

Economic departments responsible for macroeconomic management maintain that the basic orientation of reform during the past 10 years has been toward a delegation of authority and making concessions to enterprises, the results of which have been as follows: This has stirred the fervor of both enterprises and staff members and workers, but it has also occasioned problems of imbalance in distribution of national income, bringing about a tremendous decline in government revenues as a percentage of national income, and intensifying fiscal difficulties. It has also weakened macroeconomic regulation and control capabilities. Therefore, concessions to enterprises cannot continue to be made. The key to invigorating large- and medium-sized enterprises lies in enterprises doing more to improve themselves, to improve and strengthen the administration and management of production, and to tap enterprise potential.

This proposal makes a certain amount of sense. A very great potential does exist for improving administration and management of the country's large- and medium-sized enterprises. However, the quality of most peasant entrepreneurs is by no means higher than that of plant managers of large- and medium-sized enterprises, and most administrative and managerial personnel in some joint venture enterprises are cadres from state-owned enterprises, so why is it that these enterprises are filled with vitality? Clearly the problem shows up in enterprises' administration and management of production, but the source of it still lies in economic relationships and the economy's operating mechanism. Unless economic relationships are straightened out and changes made in the economy's operating mechanism, improvement of the quality of enterprises will very likely be only a slogan that is never put into effect.

#### 4. Improvement of the Macroeconomic Climate; Continued Delegation of Authority and Concessions to Enterprises

Most plant managers feel that the main reason for the lack of vitality in state-owned large- and medium-sized enterprises is the deterioration of the macroeconomic climate. The operating autonomy given enterprises has not been applied, and the state takes too much away from large- and medium-sized enterprises. Consequently, they suggest that all of the measures of the state in delegating authority and making concessions to enterprises must be implemented if large- and medium-sized enterprises are to be invigorated.

These views make sense, no doubt. However, people have some grounds for wondering why results are so unremarkable after more than 10 years of reform, during which ideas for delegating authority and making concessions have been carried out in the reform of enterprises. Today, if further delegation of authority and concessions are to be made, state policies offer less room for maneuver.

#### 5. Orientation of Enterprises Toward Markets

Some economists suppose that the key reason for the lack of vitality in large- and medium-sized enterprises lies in the insufficient breadth and depth to which the market mechanism plays a role in the management of production in large- and medium-sized enterprises. Budget restrictions on state-owned large- and medium-sized enterprises have softened with the result that these enterprises do not yet truly labor under market pressures and risks. Therefore, invigoration of large- and medium-sized enterprises does not require tilt-style protection policies, but rather a decision to orient them toward markets to increase their market competitiveness. The principle of survival of the fittest should be used to invigorate state-owned large- and medium-sized enterprises through competition.

Looked at in terms of the requirements of economic laws and the trend toward the deepening of reform, the orientation of large- and medium-sized enterprises toward the market is a road that must be taken. The problem is that simultaneous with the orientation of large- and medium-sized enterprises toward markets, the market system, market regulations, and an effective social security system must also be built and perfected. This is easy to say, but extremely difficult and complicated to do. It requires a process. It can be only gradually put into practice with deepening of system reforms. In addition, some crucial difficulties must be solved in orienting large- and medium-sized enterprises toward the market; these difficulties cannot be skirted.

#### 2. Difficulties in Invigorating Large- and Medium-Sized Enterprises

The reason people so greatly disagree amount the main reasons influencing the vitality of large- and medium-sized enterprises and their understanding about how to enliven large- and medium-sized enterprises is more than just their position and the angle from which they look at the problems. The main reason is that the country's large- and medium-sized enterprises are truly in a rather conflicting

situation. All the policies that the state implements to enliven large- and medium-sized enterprises dare are limited by objective factors, policy implementation facing the following several difficulties:

1. Large- and medium-sized enterprises are in an overburdened situation of having to carry two poles on one shoulder. State-owned large- and medium-sized enterprises in every country carry a double load. Their actions have double goals as follows: First, as enterprises, like all enterprises they must realize their operating goals, which means mostly lowering costs and increasing direct economic returns. (This goal is called the economic returns goal for short). Second, as state-founded economic organizations, they must also realize certain state-prescribed social goals, such as providing certain important goods to other enterprises and consumers, increasing employment, holding down prices, and realizing a relatively fair distribution, etc. However, by contrast with large- and medium-sized enterprises in other countries, the overburdening of China's large- and medium-sized enterprises in carrying two poles on one shoulder is truly extremely heavy. Not only do they have to pay more taxes and profits to the state, but whenever a policy requires a sacrifice, they must "help the country through its difficulties" virtually every time. Economic methods, administrative measures, and the focus of policies fall mostly on large- and medium-sized enterprises. For example, in controlling open inflation, it was mostly the prices of products that large- and medium-sized enterprises produced that were controlled. When there are cutbacks in consumption, it is mostly the wage quotas of large- and medium-sized enterprises that are controlled. When "uniform distribution" and "monopolies" are invoked, naturally it is large- and medium-sized enterprises that are first to be hit. Enterprises' have too many social goals, too heavy duties, and the macroeconomic policy pressures they are under are too great. It is difficult to avoid having these things impair realization of the goal of economic returns. Moreover, considering the fairly difficult situation in the national economy today, even when large- and medium-sized enterprises make substantial sacrifices to realize social goals, they find economic recompense difficult to obtain to the point where they obtain no reimbursement whatsoever. Thus, the management of production in large- and medium-sized enterprises encounters some special difficulties.

#### 2. Glaring Contradiction Between Enterprise Accumulations and Increase in Government Revenues.

One of the main reasons large- and medium-sized enterprises lack vitality and that their technological progress is slow is the shortage of capital. Their own ability to accumulate is woefully inadequate. Many enterprises, particularly some old enterprises that have made major contributions to the state, are now "senile" because of their enduring shortage of investment funds. Their technology is antiquated and their equipment is old making improvement of the enterprise difficult. Thoroughly changing this state of affairs so that these enterprises glow with the radiance of their youth requires a minimum amount of money for equipment replacement, technological advance,

and research and development of products. Since large- and medium-sized enterprises have numerous fixed assets, and since new product research and development time is long, even the minimum amount of money required is frequently very great. If mostly bank loans have to be relied on to provide it, as is now the case, solving the problem will be very difficult indeed. Thus, large- and medium-sized enterprises just have to have their own regular source of funds for technological progress, equipment replacement and product development. Enterprises' main regular source of funds is mostly depreciation funds, which they re-invest, and they use retained profits for new investment. However, the country's present depreciation rate is fairly low (averaging about 5 percent), and enterprises have little retained profits. (The actual retained profits of profitable large- and medium-sized enterprises are approximately 15 percent of enterprise profits). Furthermore, a portion of depreciation funds must be paid to the treasury in payment of the "two fees," and a substantial part of enterprises' retained profits must be used to pay for collective welfare and staff member and worker bonuses. Therefore, it is extremely difficult for the country's large- and medium-sized enterprises to have their own source of funds on which they can draw.

There seems to be a very simple solution to this problem, namely one that economists proposed long ago and have repeatedly called for: First is an increase in the depreciation rate, and second is a lowering of the tax rate (including the payment of profits) to increase enterprises' retained profits. However, the real situation is not that simple, because this may clash with the treasury's goal of increasing revenues (or stabilizing fiscal revenue). The country's current financial difficulties are extremely grave. In a certain sense, the reason that the state urgently requires the quickest possible invigoration of large- and medium-sized enterprises is, first and foremost, in order to ameliorate its fiscal hardships inasmuch as large- and medium-sized enterprises are the state's main source of fiscal revenues. Furthermore, practice in 10 years of reform has demonstrated that a high or low tax rate is not a simple function of the percentage of distribution of national revenues. In the absence of any fundamental changes in the economic mechanism, simply lowering the tax rate is futile. Currently, the actual tax payments of enterprises are of two kinds. The first kind are open taxes, such as various expressly stipulated transaction taxes, added value taxes, and income taxes. The second kind are hidden taxes, including both various long-term and ad hoc charges, as well as payments that the government should make, but that enterprises carry. Examples include payments made for "enterprises to run society." Such payments may be termed "near taxes." In practice, we frequently see a situation in which the state's open tax rate falls, but the "near taxes" that enterprises pay rise. Currently most (profitable) large- and medium-sized enterprises that deduct open taxes and various near tax payments hold back between 15 and 20 percent in retained profits. Any really large- increase in this percentage would be rather difficult. So, will a major increase in the depreciation rate work? Actually, that is also difficult. On the

one hand, the effect on the treasury of increasing depreciation rates is similar to lowering taxes; and, on the other hand, enterprises themselves cannot really stand a large-increase in the depreciation rate. Today, enterprises' account books show approximately one-third of enterprises under ownership of the whole people in the country are losing money. Were a substantial readjustment to be made within a short period of time in the amount that enterprises withhold for the depreciation fund, either by raising the depreciation rates or figuring depreciation on the basis of a reappraisal of the value of fixed assets (as a result of inflation, the fixed assets of enterprises in China have actually greatly "appreciated"), more enterprises would lose money. In theory, this would not be a bad turn of events because it would, without doubt, bring out in the open enterprises that are losing money but that pretend to be making a profit. Conversely, it would help readjust certain economic relationships and policies; however, in reality, for most enterprises to report a loss would be a fact that everyone would find hard to bear.

### 3. Improvement of Internal Management Very Greatly Restricted by Enterprises' Operating Conditions.

The level of management in the country's enterprises is still very low. Getting returns through management and relying on management to increase vitality are necessary for enterprise development. No matter how fine the policy, and no matter how perfect the system, unless the enterprise works hard itself and perfects itself, improvement of enterprise vitality is just empty talk. Nevertheless, people are always puzzled by the following: If it makes sense to say that three kinds of partially or wholly foreign-owned enterprises have a higher level of management and are better in quality than state-owned large- and medium-sized enterprises, how is it that the management level and the quality of collective enterprises, particularly township and town enterprises, privately owned enterprises, as well as all sorts of "civilian-operated enterprises" is higher than that of state-owned large- and medium-sized enterprises? Is it possible that the plant managers in state-owned large- and medium-sized enterprises do not understand as well as other "entrepreneurs" the returns to be had from management, and the importance that improvement management plays in increasing enterprises' vitality? If the answers to these questions are affirmative, then the much put upon millions upon millions of plant managers in large- and medium-sized enterprises who dash about tirelessly for the survival and development of enterprises should be dismissed. Management is a science, and it is also an art. Neither the practice of science nor the free play of art can occur in the absence of certain economic conditions. It is necessary to recognize that objectively operating conditions are really not too good, and difficulties are truly numerous for the improvement of management along scientific lines of large- and medium-sized enterprises today. To say this is not to invalidate the importance of improving the internal management of enterprises; nevertheless, the disadvantageous operating conditions in which large- and medium-sized enterprises find themselves is

undeniably a limiting factor influencing the improvement of enterprise management. Many difficulties stem from this.

#### 4. Ideas About Main Remedies

Overcoming the various difficulties that enterprises face, and solving the various knotty problems in enlivening enterprises cannot rely solely on the state "protecting" enterprises, nor can it rely solely on various "tilt policies," much less bringing large- and medium-sized enterprises willy-nilly within the purview of command-style management. For most large- and medium-sized enterprises, the only way to achieve a bright future lies in wholehearted orientation toward the market, improving enterprise quality and increasing enterprise vitality through effective market competition. Moving large- and medium-sized markets in the direction of the market, enabling them to throw themselves wholeheartedly into market competition requires that the state create certain conditions. The management of production in large- enterprises, in particular, entails a series of special requirements, and in their adaptability to markets too, they differ from medium and small enterprises in distinctive ways. Thus, the state must fully heed these needs when framing and implementing policies.

1. Effective market competition requires consistent national macroeconomic policies. Sudden changes in macroeconomic supply and demand relationships, and great ups and downs in economic growth may occasion numerous difficulties that enterprises, particularly large- and medium-sized enterprises, find hard to overcome. Numerous changes in national policies may also arouse "negotiation expectations" among enterprises, meaning the possibility of changing policies merely by pressuring the state. If this happens, enterprises will be unable to orient themselves wholeheartedly toward the market, but will always first consider haggling with the state. Therefore, consistent national macroeconomic policies not only help even out overall supply and demand and smooth changes in the relationship between supply and demand, thereby providing a fine economic climate for enterprises, but it will also help weaken enterprises' mentality of negotiations (with the state) for a strengthening of their market competition mentality. In this sense, the state must not make too many promises or purposely pile on "preferential treatment" or policy "tilts" for enterprises. Actually, the state does not have the resources to provide many enterprises with preferential treatment or tilt policies. To do so will make enterprises dependent, and stir mistaken expectations and behavior in waiting for preferential treatment from the state.

The problem now is not promising more preferential treatment, but really putting into practice the rights expressly delegated to enterprises, and keeping policies consistent. At the present time, state policies are most consistent with regard to three kinds of partially or wholly foreign-owned enterprises. Next, policies toward collective enterprises and township and town enterprises are relatively consistent. The greatest inconsistency in policies, must be, we fear, policies toward enterprises under ownership of the whole people, particularly large- and

medium-sized enterprises under ownership of the whole people. In virtually every case, there is room for negotiation and "reinterpretation" of policies. This state of affairs must be changed with all possible speed.

2. Solving the problem of increasing enterprises' accumulations while simultaneously increasing government revenues requires doing more to increase enterprises' reserve strength. Large- and medium-sized enterprises are one of the main sources of state financial revenues. Readjustments to state fiscal policies must have as one of its main objectives an increase in enterprises' reserve strength. At the present time, a common language is absent on fiscal and enterprise reform. When discussing the second round of contracting, the separation of taxes and profits, and after-tax loan repayments, the first concern of both parties is not the reform plan per se, but how to figure the way in which benefits are to be divided. The government always works on ways to get a little more out of enterprises, and enterprises always figure how much more they will have to pay after "reform." Such a state of affairs is extremely harmful. Government financial departments and large enterprises must have a meeting of the minds and jointly study how best to increase enterprises' own sources for obtaining funds (depreciation and retained profits). In addition to working hard on distribution between the government and enterprises, it might be possible to explore somewhat how to widen avenues whereby enterprises can find their own sources of funds such as development of a securities market, using the issuance of enterprise stock shares and debentures to raise money. Alternatively, it may be possible to use foreign capital to carry out the technological transformation of large enterprises. By way of supporting enterprises in finding other sources of funds, the state might draw up some fairly consistent policies and regulatory systems that permit enterprises solve their capital shortages problems with fairly consistent expectations in a relatively transparent financial climate. Large- and medium-sized enterprises possess solid strength, and the credit climate is fairly good. If only they had a fairly good government finance and banking climate, they might be able to do something about raising money.

3. The key to lightening enterprises' burdens lies in further building of a social stabilization mechanism. Every society must have a certain economic and social stabilization mechanism. In designing their tax systems and social security systems, western countries consider that their economic system must have a so-called "inherent stabilizing" mechanism. Today, the stabilization mechanism in the Chinese economic system depends, to a large degree, directly on enterprises. When enterprises have too many staff members and workers, they must take care of them themselves; they cannot push them off on society. Enterprises must bear responsibility for the various contingency risks of their staff members and workers. The function that large- and medium-sized enterprises perform in insuring their staff members and workers in particular, is probably no less than that of an insurance company in western countries. Such a social stabilizing mechanism is rooted in history and realities; it is very difficult to say that it is not superior in certain ways. Nevertheless, for the enterprises,

it is really too great a burden. Invigorating large- and medium-sized enterprises requires reform of this social stabilizing mechanism. Right now a beginning can be made by building and perfecting a social labor security system and a workers' re-employment system to set the stage for enterprises to handle the work force. This will require energetic development of the insurance industry, linking together the welfare system with the insurance industry that depends on the operation of economic laws, thereby solving the problems of a source of funds for the building of a social security system.

4. Improvement of enterprise management must be linked to greater fairness in distribution relationships. Suitable measures must be adopted for real solution to remove the major factor limiting the improvement of enterprise management—the problem of inequitable distribution of income. The income of staff members and workers in enterprises has truly risen ever since reform, and revival of the bonus system and played a genuinely positive role in improving enterprise management. At the same time, however, it must be realized that the rise in the real wages of staff members and workers in enterprises has not been as fast as it seems. In particular, the relative wage level of staff members and workers in state-owned large- and medium-sized enterprises (by comparison with the income level of other recipients) has actually declined. Prior to the 1970's, the income of staff members and workers in state-owned large- and medium-sized enterprises occupied a "high standard" position relative to society as a whole. Today, the income of many residents (private operators, small retailers, staff members and workers in three kinds of partially or wholly foreign-owned enterprises, hotel receptionists, staff members and workers in businesses, and even two-wheeled cart pullers etc.) is tremendously greater than the wage level of staff members and workers in large- and medium-sized enterprises. Unless this situation is changed, the adverse effect on large- and medium-sized enterprises will be revealed with ever increasing severity.

Increase in staff member and worker earnings, and readjustment of the way in which income is distributed must be premised on the improvement of enterprises' returns, and increasing enterprises' returns. This requires the linking of readjustment of the way in which income is distributed with improvement of enterprise management and tapping enterprises' potential. In policies regulating income, special attention must be accorded to narrowing too large a gap between the income level of wage recipients and other recipients of income. Provided the government financial system is rigorously enforced and enterprise returns truly rise, controls over wage levels in large- and medium-sized enterprises should be relaxed.

5. Making the actions of enterprises more rational requires reform and perfection of the ownership system for state-owned assets. Fearful lest enterprises act out of short term interests, simultaneous with the delegation of authority and the granting of concessions, the state also prescribed ever greater limitations, and the matters covered in contracts under the contract system also increased steadily. This was bound to have an adverse effect on enterprises

becoming true commodity producers and operators. It was bad for the enhancement of enterprise vitality. This situation shows that certain serious flaws exist in the enterprise property rights system under the country's system of public ownership. As a result, the rules and regulations in the "Enterprise Code," the "Enterprise Bankruptcy Code" and even in "Civil Code Detailed Rules and Regulations" are very difficult to enforce. Genuine strengthening of the vitality of large- and medium-sized enterprises, and reforming and perfecting property rights in the country's publicly owned economy is an issue that cannot be avoided. It is necessary to clarify one perception on this issue, namely that reform and perfection of the public ownership property rights system does not mean privatization or carving up publicly owned assets. On the contrary, it happens to be for the purpose of more effectively protecting public property, increasing the appreciation of publicly owned assets, and increasing the operating efficiency of publicly owned assets.

#### Yang Peixin Discusses Invigorating Enterprises

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pp 14-15

[Article by Wen Yi (2429 1942): "Yang Peixin on Invigorating Large-, Medium-Sized Enterprises"]

[Text] Recently, when he talked about the current hot topic—invigorating enterprises, Yang Peixin [2799 1014 2450], a research fellow of the Research Center of the State Council, analyzed in detail the degree and reason for difficulties enterprises faced and proposed how to invigorate large- and medium-sized enterprises.

#### To What Extent Do Enterprises Face Difficulties Now?

Yang Peixin maintains that the extent of difficulties that enterprises now face is no less than that in the period of national economic difficulties in 1960, and it is now the most difficult period since reform started in 1978. In 1990, industrial production increased 6 percent, but the increase for whole-people-owned enterprises was only 2.9 percent, of enterprises within the budget the increase was only 1.5 percent. The increase of collective-owned enterprises was 6.9 percent. Of which, township enterprises increased 12.5 percent. Other enterprises increased 42.8 percent, mainly foreign-funded enterprises. In 1990, the newly-increased value of industrial output was 78 billion yuan. Of which, only 29.5 percent went to whole-people-owned enterprises, 38.2 percent to township enterprises, and 32.3 percent to foreign-funded enterprises. Of diversified elements, there is a drop in the proportion of the whole-people-owned enterprises. In the value of industrial output between 1985 through 1990, the proportion declined from 70.7 percent to 60.4 percent. The proportion of township enterprises increased from 27 percent to 33.5 percent. The proportion of foreign-funded enterprises increased from 1.5 percent to 6.1 percent. In some coastal cities, the proportion of foreign-funded enterprises was 52 percent.

There is an evident drop in economic results for enterprises within the budget. In 1990, costs increased by 7

percent, accounting for 12.5 percent of the circulating funds. Finished products increased 27.8 percent, capital profit rate declined 3 percent, and sales increased by 3 percent. Realized profits and taxes dropped by 18.49 percent; of which, tax revenues increased 5.35 percent, profits dropped 58.05 percent, and profits and taxes turned over to the state declined 3.41 percent.

In 1990, enterprises which incurred losses accounted for 31 percent of the total number of enterprises. Industrial bases and cities were hurt most. In Liaoning Province, 50 percent of enterprises incurred losses; in Harbin 50 percent, Wuhan 50 percent, Guangzhou 36 percent, Hainan 50 percent, and Chongqing 49 percent, the amount of losses increased 127 percent. The above-mentioned figures only refer to enterprises that have open-losses; there are also enterprises that have hidden-losses. Chengdu investigated 189 state-run enterprises, 56 incurred losses, and 105 incurred losses that were not entered as an item of expenditure in the account. All together, 161 enterprises incurred losses, accounting for 85.2 percent of the total number of enterprises. Shandong Province investigated 1,222 state-run enterprises, the amount of losses was 1.22 billion yuan, 520 million yuan was entered as an item of expenditure in the account and 700 million yuan was potential losses. Of the hidden-losses, 19.8 percent resulted from the sluggish market, discount sales, under-capacity, and increasing costs. Loss due to material inventory over the years, the stock of finished products, scrapped products not entered into the expense account, apportioned items not apportioned, and bad debts accounted for 44.3 percent, and 34.8 percent referred to costs that were not transferred and unrealized sales which were transferred.

#### Where Are the Sources of Enterprise Difficulties?

Yan Peixin thinks that the major reasons for enterprises difficulties are as follows:

(1) State-run enterprises do not have the right to determine investment, the core of the self-management right. An enterprise that does not have the right to determine investment, does not have the self-management right. The Economic Commission of Guangdong Province investigated state-run enterprises there were corporations, responsible industrial departments and planning, finance and taxation, labor, and foreign trade departments. All of them could give orders and instructions to enterprises. Although emphasis was on separating administration from enterprises for several years, enterprises were still affiliated with the administrative departments. Because government departments controlled enterprise management, enterprises, in fact, did not have the self-management right. Especially they did not have the right to determine investment, which blocked the future of technological progress and development of new products.

(2) State-run enterprises do not have the right to engage in foreign trade. They are self-closed, do not make a use of opening to the outside world, expanding the international market, and attracting foreign advanced technologies. The rate of product substitution in the Guangzhou Wuyang Bicycle Corporation is less than 20 percent, exported

products incur losses. But the Zhonghua Bicycle Corporation has the right to engage in foreign trade. According to changes in the international market, the corporation has developed 1,500 new products over the past five years, 100 percent of the corporation's products are exported. The lowest sale price for a bicycle is \$100, more than twice as high as the Wuyang and Phoenix Brand bicycles.

(3) Mandatory plans have bound the state-run enterprises' hands and feet. Under mandatory plans, enterprises, in essence, have become the workshop, losing the right of self-management. Mandatory plans stipulate that each year enterprises turn over more products, which have been close or over the designed capacity of enterprise equipment. But material supplies are not guaranteed.

(4) Because state-run enterprises are overloaded with heavy taxes, they have lost the self-accumulating function and are in an unfavorable position in competition with township and foreign-funded enterprises. According to the Guangdong investigation, the sale tax for enterprises within the budget was 7.43 percent and 3.64 percent for township enterprises. The average product tax for state-run enterprises was more than 100 percent over township enterprises, sale costs, nonbusiness expenditures, and the "two money" from their retained profits that are turned over to the state are all larger than township enterprises. State-run enterprises' retained profits are far lower than township enterprises.

(5) The lack of macroeconomic control has made enterprises lose their conditions to exist. In 1988 there was hypo-inflation, and in 1989 there was tight control over the money-supply. One was hot and the other was cold. When it was hot, there was panic purchasing in the market and prices of raw materials skyrocketed; when it was cold, the market was sluggish, industrial production sharply declined, putting enterprises in a miserable position. In 1988 prices of raw materials soared. At that time, enterprises were allowed to raise product prices, and parts of costs could be transferred and others were digested by enterprises. In 1989 prices were stable. Enterprises were prohibited from increasing product prices, but prices of raw materials continued to rise and enterprises incurred losses.

(6) The problem of nonseparation of administration from enterprises became worse. Enterprises' self-management right was weakened, and created tremendous difficulties for enterprises. There are so many "mother-in-laws" over the state-run enterprises. Organizational duplications occur at every level. Organizations are too big, overstaffed, and have low working efficiency.

#### How To Really Invigorate Large- and Medium-Sized Enterprises?

Yang Peixin put forward the following constructive proposals:

(1) Reform investment and planning systems and give enterprises rights to determine investment. China has followed the Soviet highly-centralized mandatory planned investment system for several decades, but the results have

been poor. This kind of system cannot control investment expansion, and has also brought about severe investment expansion several times, which led to inflation, and dislocation in the national economy. Meanwhile, it has also led to low economic results. From 1979 to 1989, the whole-people-owned investment was 1.1362 trillion yuan. The newly-increased profits and taxes were 524.1 billion yuan. The input-output ratio was 1:0.46.

(2) Give enterprises self-determination rights in foreign trade. This year the right is extensively given to large enterprises, later it will be given to ordinary enterprises level by level. Now we must even more resolutely and widely uphold the policy of opening to the outside world.

(3) Reform the financial system and reduce enterprises' tax burdens. From 1979 to 1990, China's financial revenues increased from about 100 billion yuan to 300 billion yuan, an increase of 200 percent which exceeded the growth rate of industrial and agricultural production. From now on, we should pay more attention to saving revenues than to increasing them, and freeze the size and spending of government organizations so as to make room for enterprises to rehabilitate and reduce tax burdens.

To ensure that enterprises will not lose the capacity for extended reproduction or even in simple reproduction, and to avoid the tendency that enterprises "live off their past gains," or become "empty shells," ageing, and scrapped, we should raise the rate of depreciation. The financial department now levies too many categories of taxes. According to the statistics from each province, there over 60 categories of city taxes. We should stop collecting new categories of taxes or increasing tax rates. If collecting new categories of taxes or increasing tax rates is to engage in the macro-regulation, we should reduce enterprises' contract bases or use "taxes to compensate for profits." We should not increase extra-burdens to enterprises and guarantee that enterprises definitely turn over revenues to the state.

(4) Improve the macro-regulation to guarantee the development of the national economy in a sustained, stable and coordinated manner, and create a favorable external environment for the invigoration of large- and medium-sized enterprises. Since 10 years reform, we deeply experienced that inflation was not good but harmful to enterprises. We should under no circumstances engage in inflation again. We also experienced that tightening money supply would bring about a sluggish market and drop in industrial production. Enterprises would need two or three years to regain their strength. We experienced that interest rate which was on the high side could lead enterprises to death. We even more experienced that the impatience in price reform would result in price-soaring. Its damages were not less than inflation. To create a favorable business environment for enterprises, we should keep lower interest rate dependent on the low-speed growth rate in price. Thus, from now on, in addition to preventing inflation from reviving, we should stipulate the rising rate for price adjustment. Each year the rising rate should not surpass 5 percent. The saving interest rate is fixed at about 6 percent.

The interest rate on loans should not exceed 7 percent or so. Only in this way, is it possible to relieve enterprises of the heavy burden of usurious loans.

(5) Separate administration from enterprises, simplify government offices and release some powers to enterprises, so as to protect enterprises' self-management right from being violated.

### Measures To Invigorate Enterprises

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[Article by Wang Dong (3769 2639) from the Bureau of Production Management of the State Planning Commission and Hu Xiaoli (5170 2556 7787) from the China Association of Enterprise Administration: "Centering on Reform's Central Part and Invigorating State-Run Large- and Medium-Sized Enterprises"]

[Text] For a variety of reasons, large- and medium-sized enterprises have faced many difficulties in production and management in recent years. Their vigor and role have not been developed, which has directly affected the state's financial revenues and economic construction. Thus, the state has put the invigoration of enterprises owned by the whole people, especially large- and medium-sized enterprises, as a key task in this year's economic work. At present, the state has been and is adopting the following major measures.

#### 1. Establish a macro-monitoring system over production and management of large- and medium-sized enterprises.

The Industry and Transportation Department of the State Statistical Bureau is preparing a monitoring, tracing and investigating system over the production and management of large- and medium-sized enterprises. More than 30 indicators have been proposed including enterprises' industrial output value, net industrial output value, sales revenues, material consumption, energy consumption, realized profits and taxes, enterprise costs, the sources and uses of circulating funds, the original value and net value of fixed assets, input for technical transformation, number of staffs and workers, and the total amount of wages. These indicators provide first-hand data to study and control the production and business of large- and medium-sized enterprises, and provide reliable basis for the state to make policies and to engage in macro-regulation and control. This system will be put into operation this year.

#### 2. Continue to implement and perfect the special policy of "double guarantee."

Starting in April, 1990, the State Council approved the "double guarantee" policy made by the State Planning Commission and the Production Committee of the State Council for 234 key state-run large- and medium-sized enterprises. The "double guarantee" policy means that backbone enterprises, which have a substantial influence on the national economy, undertake a large portion of the state's mandatory plans, have good economic results, make a large amount of foreign exchanges through exports and are in line with the state's industrial policies, promise to

turn over profits and taxes and the mandatory planned products to the state. The state provides these enterprises with major production conditions. Thus, the two-way guarantees between the state and enterprises are achieved. The value of industrial output of these 234 enterprises account for 46 percent of the industrial output value of all the large- and medium-sized enterprises in the entire nation, and 35.2 percent of the profits and taxes turned over to the state by enterprises within the budget. Since implementing the "double guarantee" policy, various localities and departments have strived to supply funds, transportation, energy and material; the practice has been proven and results have been achieved. In 1990, the gross value of industrial output of the 234 enterprises under the "double guarantee" policy increased 3.5 percent over 1989. Their growth rate was two percent higher than the 1.5 percent increase of the other 37,800 enterprises within the budget. Sales revenues of the "double guarantee" enterprises increased 9.5 percent over 1989, 6 percent higher than the growth rate of the industries within the budget in the whole country. The rate of combination between production and sale in the "double guarantee" enterprises was over 95 percent. The annual growth rate in realized product taxes was 8.2 percent, 2.6 percent higher than industries within the budget in the entire nation. The declining rate in realized profits was lower than other enterprises. The rate to carry out major directive product contracts was also good. At the national enterprises working conference held in February this year, the Production Committee of the State Council summarized the working experience of "double guarantee" and drew up measures and methods to continue to perfect the "double guarantee" work this year.

### **3. Continue to improve and perfect related policies to invigorate large- and medium-sized enterprises.**

To really establish the mechanisms of self-management, responsibility for losses and profits, self-development and self-restrictions in large- and medium-sized enterprises, the state continues to carry out preferential policies for large- and medium-sized enterprises, to improve their external environment and to invigorate them. Preliminary policies have been made recently. First, appropriately expand enterprises' right to sell their products. As for enterprises that currently undertake too many mandatory plans, the proportion of mandatory plans should be gradually reduced while the proportion of self-sales should be increased to raise economic results. For self-sale products within plan, they can be put into unified allocation practicing the method of "fixed point and fixed quantity without fixed price." Except for profits and taxes turned over to the state, the remaining income from the increased self-sale products is used for enterprises' technical transformation and new product development. Second, perfect the depreciation system. Under digestible conditions, the rate of depreciation of those enterprises, which are in line with the state policies, whose products are marketable, and which have heavy tasks for technical transformation and new product development, should be properly raised. The newly-increased portion in depreciation is exempted from paying "double money." Third, appropriately increase

product development funds. Enterprises which have strong bearing ability can draw special funds based on certain proportions from their sales revenues and put the funds into the independent account to develop new products. Fourth, supplement enterprises' own circulating funds. According to different situations, enterprises can draw certain proportion of funds to supplement enterprises' own circulating funds from enterprises' sales revenues, adjusted product prices, and from the increased portion of self-sales. From now on, newly-built enterprises should put the bottom circulating funds into the project budget according to regulations and not leave gaps for normal production after the project goes into operation. Fifth, give more autonomy for foreign trade to qualified large- and medium-sized enterprises. These enterprises must have products that are high-quality, high added-values, marketable, low costs to earn foreign exchange, and high-quality personnel to handle foreign affairs. Sixth, earnestly reduce various social burdens to enterprises and effectively control the "three disorders." Departments concerned are making specific and implementable rules and regulations on these policies, which will be implemented in the near future.

### **4. Organize and develop enterprise groups.**

To meet the needs of the planned commodity economy, and socialized big production, and develop the backbone role of large enterprises, the state plans to organize and develop some enterprise groups in the near future. Production, capital construction, material allocation, labor, financial affairs, science and technology, education, foreign fund uses, and technological imports of enterprise groups are put in an independent category in the plan. The chosen enterprises must have real strength, which can serve as an investment center, and have a close integration of production, supply, sale, labor, finance and materials. Their output values, business activities, and the areas of their product sale must occupy the decisive position in their own industries. The purpose of establishing enterprise groups is to first solve the problem of diversity in the form of "big and complete" and "small but complete," repetitive projects which cannot reach economies of scale, and to promote the adjustment of both enterprise organizational and industrial structures. Second, establishing enterprise groups is conducive to the rational flow of factors of production, realizing superior complements among enterprises, and forming group superiority and comprehensive functions in scientific research, production, circulation and services. Third, is to raise products' competitive ability, and form enterprise "national teams" to join international competition. Fourth, is that large- and medium-sized enterprises can serve as the core and organize corresponding medium and small-sized enterprises. Through regulating and controlling enterprise groups and guiding the economic activities of a large number of group members, the state can increase the effectiveness of macroeconomic regulation and control.

In addition to the state providing the necessary policies and conditions, the key point to invigorate large- and medium-sized enterprises also lies in enterprises' internal

affairs. They must take care of their own business, strengthen management, and engage in internal reform. They must also earnestly establish the concepts of market competition, customer first, and quality first, strive to reduce resource consumption, increase product varieties and models, and enhance after-sale services to genuinely turn enterprises into independent producers and managers in the socialist planned commodity economy.

## PROVINCIAL

### Shanxi Enterprise Debts Increase Despite Bank Assistance

91CE0640A Taiyuan JINGJI WENTI [ECONOMIC PROBLEMS] in Chinese No 5, 25 May 91 pp 36-37

[Article by Zhang Yanlin: "Why Inter-Enterprise Debt Proliferates Despite Bank's Clearing Effort"]

[Text] According to statistics from the Bank of Industry and Commerce [BIC] in Shanxi Province covering 2,777 enterprises in 1990, funds used to ship goods amounted to 4,246,720,000 yuan, receivables and advanced payment 1,900,590,000 yuan, and payable and advanced receipts 3,950,020,000 yuan. These three items totaled 10,097,330,000 yuan, an increase of 4,127,800,000 yuan over 1989. The increased portion of inter-enterprise debt was 1.22 times higher than the loans. In 1990 the BIC cleared the debt payment for Shanxi's industrial enterprises in the amount of 2.74 billion yuan (with an injection of 670 million yuan of loans), but the newly incurred debt was 1,387.8 million yuan or 50.6 percent higher than the amount cleared in 1990. Why did the "triangle debt" proliferate despite the bank's clearing effort? The major reasons are:

1. Overstocked products hold up a portion of funds. In 1990 alone overstocked products increased by 1.07 billion yuan, an increase of 34.3 percent. Of which the overstocked products in the metallurgical industry increased by 260 million yuan or 50.2 percent, coal industry 230 million yuan or 33.9 percent (an overstock of 5.75 million tons of coal), machinery industry 150 million yuan or 28.2 percent, arms industry 69.8 million yuan or 32.7 percent, small chemical fertilizer grew by 57.5 million yuan, and products exceeded the normal inventory level by 250,000 ton. In light industry, bicycles, soaps, and laundry detergent alone increased by 25 million yuan.

2. Insufficient investment in fixed assets, over-expenditure in capital construction and technical transformation, and shortage of funds for capital construction due to price rises took away a portion of funds. In 1990 alone the newly incurred budget over-run on the specialized fund for capital construction amounted to 106.27 million yuan. The uncleared amount accumulated over the previous years stood at 226.88 million yuan. These are only the figures that were provided by enterprises to the extent possible. The actual over-expenditures of loans used by enterprises are much greater.

3. Enterprise economic inefficiency, growing losses, increase in the booked losses, and serious hidden losses led

to the depletion of a portion of funds. Based on 1990 statistics covering the 2,777 industrial enterprises, gross profits were 3,698 million yuan, 275.41 million yuan or 6.94 percent lower than 1989. Total losses were 858.5 million yuan, an increase of 406.96 million yuan or 90.13 percent. Operating funds per 100 yuan of sales revenue was 66.81 yuan, an increase of 5.74 yuan or 9.4 percent. The turnover rate for total operating funds was 240 days, 20 days slower than the previous year and thus holding up an additional 2,390 million yuan in 1990. Because contracting enterprises are responsible for profits and not for losses, the number of loss-making enterprises in 1990 increased. Enterprises were not able to absorb the losses. Finance departments did not subsidize the losses, they set up a minimum level of contracted profits to be remitted by enterprises. Enterprises that were not able to attain the profit target had to use their own funds for remittance to achieve fiscal balance. Such rigid single-unit contractual approach dominated the enterprises which had to book their losses and use operating funds, which amounted to 920 million yuan in 1990 according to incomplete statistics. Hidden losses were also serious. A portion of funds was therefore lost. Based on a BIC investigation into 359 enterprises, 80 percent had hidden losses that totaled 458.21 million yuan, accounting for 10.42 percent of their loans in the same period. To compute on this basis by the end of 1990 industrial enterprises had a loans balance of 9,560 million yuan, hidden losses were as high as 1 billion yuan, and these funds became an empty shell and were completely lost.

4. The increased value of inventories due to price rises was not used to supplement the enterprises' own operating funds; instead, it became phony profits. A portion of funds was thereby swallowed up. The state stipulated that enterprises must use their increased income from the appreciation of existing inventories due to price adjustment to supplement their own operating funds. In recent years, however, driven by local and enterprises' own interests, the majority of enterprises did not carry out this policy. They used increased income as operating income for the remittance of profits and taxes and for their internal distribution. Based on the statistics of a related department, at the end of October 1990 the price of major means of production rose by 84.11 percent compared to the end of 1989. In 1985 the raw materials reserve amounted to 2,698.63 million yuan. Calculated on this basis, Shanxi should have 2,270 million yuan of appreciation income over a four-year period that was not used to supplement their own working capital. On average 567.50 million yuan per year was eaten up in the form of phony income by the financial department and enterprises.

5. Enterprises did not replenish their own funds that are indispensable for the expansion of production and operation. They were short a portion of funds in the circulation process. When Shanxi was checking the assets of enterprises in 1980, their own working capital accounted for 52.7 percent of registered capital. By the end of 1990 this share became 22.65 percent. In 1990 the registered capital of the 2,777 enterprises in Shanxi was 12,557.56 million

yuan, the working capital was short by 30.05 yuan for every 100 yuan of the registered capital, the total shortage was 3,770 million yuan.

6. Enterprise departmentalism and their point of view that "benefits and efficiency come from arrears" contributes to the increase of inter-enterprise debt. Over the last year, several local enterprises developed local protectionism and the erroneous inclination of making profits from arrears. Localities put up trade blockade between each other. They not only forbid the entry of competitive products from other localities, but also refuse to honor payment for goods that they already bought and received. Some enterprises default on payments for goods of other enterprises as a means to make profit and generate efficiency. On one hand, they use various excuses to unreasonably default on payments being collected by banks. On the other hand, they complain and blame other enterprises for defaulting on payments for goods to them at discretion. They even take advantage of the state when it is clearing debts for them. They condition their debt payment on the receipt of payments from others, making payments after receiving payments, paying less than what has been received, making deposits to their bank accounts instead of making debt payments, and feel reluctant to use bank loans to make debt payments for fearing the cost of interest. In the debt clearance in 1990, Shanxi was one of 12 provinces and cities in the country that had a good record, but its debt service rate was only 40 percent. At present, the real situation among the majority of enterprises is that the amount owed to and owed by other enterprises are kept at the same level and enterprises are always concerned about the possible losses that they themselves may suffer. This makes it difficult to clear debts and contributes to the proliferation of inter-enterprise debt. Last year Changzhi City tried to collect payment on goods in the amount of 300,000 yuan from another locality. That enterprise defaulted the first time using the excuse that the amount was not large enough for clearance, second time that it did not have an account with the BIC, and the third time that the clearance period had expired. Similar cases are numerous in the province.

In addition, the bank's lax supervision on adherence to settlement discipline, the lack of serious review of enterprises' unreasonable default and inconsistent implementation of the penalty system all bring difficulties to debt clearance. The existing banking system stipulates that centrally controlled enterprises must follow the nationwide unified settlement system. But state banks have a heavy local color, protect local interests and the interests of enterprises under their administration. The state has no powerful measures and local banks are powerless to curb violations of the settlement system. These make it more difficult for enterprises to clear the default on the payments for goods.

The inter-enterprise debt is a synthetic reflection, in monetary terms, of many factors such as irrational industrial and product structures and disequilibria between aggregate demand and aggregate supply. The contributing factors are many, so solutions to the problem are many. Only a

comprehensive strategy can effectively solve the root of the problem. It is necessary, for instance, to adjust product structure to produce marketable products, to organize marketing teams to market finished products, to include in the investment estimate such factors as price rise, interest on loans and the minimum working capital needed to start production and leave no funding gap for any capital construction and budgeted technical transformation projects, to clear up the historical arrears on enterprise books and subsidize losses on a regular basis, to sufficiently supplement the working capital whose replenishment is necessitated either by the factor of price rise or by regulations. During the management year that focuses on "quality, variety, and efficiency," it is necessary to strengthen enterprise management, strive to improve economic efficiency, and solve the deep-rooted problems that have accumulated over so many years so as to get enterprises out of the straits of inter-enterprise debt.

In the short run, policies that should be adopted are:

1. It is imperative to continue clearing inter-enterprise debt, but a somewhat different approach is needed. This year the banks are imposing relatively more strict control over the size of credit. Before the scale for debt clearance is attained, the major approach should be to mobilize enterprises themselves to clear their debt in a positive manner, for banks to actively assist in the clearance of debt, and for banks and enterprises to coordinate in the collection of payments.

2. We suggest that the state formulate a "banking law." Banks at various levels should conscientiously adhere to the settlement system for collection and payment. The People's Bank should set up penalty rules to be forcibly carried out. Banks should practice a chief accountant's double-check responsibility system to review reasons for default, for returned payment notices and delayed payment certificates to strengthen the settlement discipline. The chief accountants responsibility will be to investigate whatever problems rise. Economic punishment should be levied on enterprises that violate the settlement discipline and default on payment for goods at their discretion.

3. We suggest that materials departments hold materials exchange fairs where inventories can be brought out, and enterprises and capital construction departments select and buy. When productive enterprises can not buy means of production due to lack of funds, banks can lend directly to enterprises or withdraw loans from materials departments and re-lend the loans to enterprises.

#### **Tianjin Establishes Conditional Tax-Free Zone**

91CE0618A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 21, 27 May 91 pp 3-4

[Article by Ts'ung Wen-tzu (0654 2429 3320): "China Is Establishing a Tax-Free Zone in the Port of Tianjin"]

[Text] A major step that the City of Tianjin is taking recently to reform and open up to the outside world—the establishment of a tax-free zone in the port of Tianjin, has

been approved by the State Council, and was officially announced to the outside world on 3 May 1991.

The tax-free zone in the port of Tianjin will be located in the northern part of the port zone, being bordered by the Dongtu Dam on the east, the Tianjin EDZ on the west, the Beijing-Tianjin-Tanggu Expressway on the north, and Highway No 4 on the south. It will have an area of 1.4 sq km, and will be completely closed off. It will practice a policy of duty-free imports, and follow the current international practice for free ports of allowing domestic and foreign enterprises to engage in foreign trade, international entrepot trade, and trade services, such as manufacturing, packaging, shipping, storage, and exhibition.

#### **The Establishment of a Tax-Free Zone in Tianjin Is an Inevitable Result of Developing Circumstances**

The establishment of a tax-free zone in the port of Tianjin is an inevitable result of Tianjin City's reform and opening up to the outside world. As early as 1988, Tianjin had established, as a joint venture with the Dutch Charter Group, China's first commercial duty-free warehouse—the Tianjin Commercial Duty-Free Warehouse Corp Ltd, which was a breakthrough in Tianjin's attempt to change China's single-purpose port handling capacity by combining it with trade. This duty-free warehouse, with an area of 45,000 sq m and an investment of \$30 million, which has been in operation for over two years, has developed special functions and taught valuable lessons. As to exports, its FOB [free on board—does not include cost of transporting goods to consumer] commodity transactions, and its collection of exchange and settling of accounts in advance in its duty-free warehouse, have speeded up its fund turnover and reduced its risks. Through remanufacturing, resorting, and repackaging some export commodities in its duty-free warehouse, it has raised their added value and increased its workers' incomes. Storage of imported goods in its duty-free warehouse by foreign businessmen, has made it easier for consumers from all areas to buy in urgently needed goods promptly and flexibly, and has reduced the amount of consumers funds that are tied up.

This duty-free warehouse has also make it possible for foreign enterprises to engage in international entrepot trade through Tianjin. As to transit goods and land-bridge transport, the duty-free warehouse has been utilized to open up a transit shipping line from Tianjin through Erenhot to Ulan Bator, Mongolia, with goods from places such as Singapore, Thailand, Japan, South Korea, and Hong Kong. This line, with a current freight volume of 50 containers a month, has laid the foundation for Tianjin to act as a seaport for Mongolia, and accumulated experience for opening up a continental bridge for transportation between Asia and Europe.

Expanding this existing duty-free warehouse to a tax-free zone is an inevitable result of Tianjin's deepening of reform and further opening up to the outside world. It is not only an increase in size, but also shows a further easing and flexibility of policy. As import tariffs in this whole tax-free zone will be subject to customs supervision and

control, it will be much easier for businessmen from all countries to store, classify, pack, select, label, and rough manufacture transit goods, and it will also be easier for Chinese export goods to be classified, selected, remanufactured, reprocessed, and carefully packaged prior to shipment. This will not only speed up Tianjin's development into a large, multifunctional, and modern international commercial port, but will also promote the development of an externally-oriented economy in Tianjin and all of North China.

Early in 1990, many specialists from the State Council Development Research Center and throughout China gathered in Tianjin, discussed the matter, and reached the unanimous conclusion that it was imperative to establish a tax-free zone in the port of Tianjin.

#### **It Is the Right Time To Establish a Tax-Free Zone in Tianjin**

The concerned specialists noted that it was absolutely essential to expand Tianjin's functions by establishing a tax-free zone. As far as the world economic order is concerned, the international economic center is now shifting from the Atlantic Ocean to the Pacific Ocean, and the 21st century is going to be a "Pacific Ocean century." As Southeast Asia now has a multitude of free ports in sharp competition with each other, while Northeast Asia has almost none except for the manufacturing zone that South Korea has established in the port of Pusan, it is undoubtedly the right time to establish a tax-free zone in Tianjin.

The establishment of a tax-free zone in Tianjin will also provide the opportunity to coordinate the development of North and South China. As South China is closer to Hong Kong, Macao, and Taiwan, its externally-oriented economy began to develop sooner and has grown faster, while that of the North China coast has developed more slowly. Tianjin's tax-free zone will promote the development of an externally-oriented economy in Beijing, Tianjin, North China, and Northwest China. As this economic region brings its port functions and advantages into fuller play, its industrial structure and order will become more externally-oriented.

#### **Tianjin Has All the Geographic Advantages for the Establishment of a Tax-Free Zone**

The international practice in selecting a site for a tax-free zone is that it must have a developed urban economy, a vast hinterland, a strong port handling capacity, and developed communications. Tianjin is the economic center of North China. The port of Tianjin has a 130-year history of foreign trade, and now has trade contacts with more than 300 ports in over 160 countries and regions throughout the world. As North China's communications hub, Tianjin has three railways and five highways connecting its port, and all types of large aircraft can take off and land at the Tianjin Airport, which is only 30 km from its port.

The port of Tianjin has a land area of 200 sq km, and is dredging sludge to build more land every year, so that

expansion of its manufacturing and storage industries does not have to compete for space with the urban area or take over farmland. The port of Tianjin has a 2 million-sq-km hinterland, most export goods from cities and provinces, such as Beijing, Hebei, Shanxi, Inner Mongolia, Shaanxi, Qinghai, Ningxia, Xinjiang, and Henan, are transshipped through the port of Tianjin, and large amounts of imported equipment, rolled steel, chemical fertilizer, industrial chemical raw materials, and light manufactured goods are shipped through Tianjin to the interior every year.

The Tianjin EDZ [Economic Development Zone], which borders on the tax-free zone, is North China's development zone that imports the most projects and funds. If it can take advantage of the tax-free zone's duty-free conditions, this will facilitate its multipurpose development and utilization. Tianjin has three foreign export land ports, which can be regarded as one end of a Eurasian land bridge. As many foreign businessmen have already been using the port of Tianjin for storage and transfer, the establishment of the tax-free zone will open things up even further.

#### **The Tianjin Tax-Free Zone Will Have Completely New Policies**

It is understood that Tianjin's tax-free zone will have more open policies in the following areas:

- Customs Policy:** The goods allowed to be shipped into the tax-free zone will be exempt from collection of import tariffs, and other taxes for which customs is the legal representative. The possession of goods entering the tax-free zone can be transferred, such goods can be processed by industry or commerce, and the tax-free zone will practice a closed type of supervision and control;
- Monetary Policy:** The tax-free zone will not be subject to foreign exchange control, so that funds can be freely transferred in or out. Banking and insurance departments of wholly foreign-owned enterprises or Sino-foreign joint ventures can set up branches in the zone.
- Trade Policy:** Legally qualified Sino-foreign joint ventures and wholly foreign-owned enterprises will be allowed to register, operate, and engage in international entrepot trade within the zone, and domestic foreign trade enterprises with foreign trade management authority will be allowed to register and carry on international trade within the zone.
- Tax Policy:** Enterprises that manufacture, store, and transport within the tax-free zone will be subject to applicable EDZ tax policies.

These completely new policies will be aimed at turning the port of Tianjin's tax-free zone into a multipurpose and multifunctional economic zone, with the priorities being focused mainly on the development of storage, manufacturing, and banking functions for port trade. This means mainly entrepot trade operations, such as loading and unloading, storage, transfer, classification, packaging, repackaging, exhibiting, and wholesale marketing.

It is tentatively planned to establish within the tax-free zone separate zones, such as a multipurpose trade zone, a storage zone, a commercial manufacturing zone, and an oil products trade zone. The leading group in charge of the preparations for the establishment of the tax-free zone has been organized, the task of leveling the land within the zone has begun, and the zone is scheduled to be completed and put into operation by the end of 1991.

The news that Tianjin is establishing a tax-free zone has long since spread abroad. As enterprises and foreign trade departments from many countries and regions, such as the United States, Germany, the Netherlands, Switzerland, Italy, Japan, Hong Kong, South Korea, the Soviet Union, and Mongolia, have expressed their intention to invest and operate there, Tianjin's tax-free zone has enticing prospects.

#### **Magazine Reports on Shanghai Socio-Economic Survey**

OW0707045791 Beijing XINHUA in English  
0141 GMT 7 Jul 91

[Text] Beijing, July 7 (XINHUA)—A recent survey conducted in Shanghai showed that the gap between the city's urban and rural residents has become narrowed in recent years, according to today's BUSINESS WEEKLY.

The survey, conducted by the Shanghai Socio-Economic Survey Organization, revealed that the per capita income in the city's urban area was 2,050 yuan (about 380 U.S. dollars) last year, up 102.6 percent compared with 1985, the paper said.

During the same period, the paper said, the per capita income in its rural areas rose 109.4 percent to 1,656 yuan (about 310 U.S. dollars).

Statistics show that per capita spending by urban residents reached 1,936 yuan (about 370 U.S. dollars), compared with 944 yuan (about 180 U.S. dollars) in 1985, while that of the rural citizens rose 62.2 percent to 1,262 yuan (about 240 U.S. dollars) over the same period, the paper said.

According to the survey, most urban residents spend their money on items for daily living while farmers spend money on daily life as well as invest in expanding production and building houses. But for both, food is the number one expenditure.

Without the price rises for production materials, industrial products and other production expenses since 1988, the rise in rural per capita income would be even higher, the paper said.

#### **Shanghai Gains More Foreign Investment This Year**

OW0707083991 Beijing XINHUA in English  
0733 GMT 7 Jul 91

[Text] Shanghai, July 7 (XINHUA)—East China's Shanghai Municipality has in the first half of this year added another 181 overseas-funded enterprises with a

investment of 228 million U.S. dollars, showing 135 and 85 percent increases over the comparative period of last year.

Of the new overseas-funded firms, 30 are solely funded by overseas investors, while in the period between 1978 and 1990, only 44 solely foreign-funded firms were operational in Shanghai, the largest industrial metropolis in the country.

By the end of 1990, 70 percent of the over 400 overseas-funded firms in the city were profit-makers, and among them many decided to expand investment and production.

Furthermore, at present nine solely foreign-owned banks have opened their branches in Shanghai, of which five are newly established this year.

According to official sources, another 50 overseas-funded projects are now under negotiation, expected to be launched soon.

### Shanghai Takes Steps To Increase Exports

OW1007212591 Beijing XINHUA Domestic Service  
in Chinese 0428 GMT 8 Jul 91

[By reporter Xia Ruge (1115 0320 7041)]

[Text] Shanghai, 8 July (XINHUA)—The implementation of a system which makes enterprises responsible for their own profits or losses has led foreign trade enterprises in Shanghai to pay higher attention to exporting products more efficiently. According to an estimate, Shanghai's exports reached \$2.86 billion in the first six months of this year, an increase of 10.34 percent from the same period last year. Not only has Shanghai cut down export costs, freed more tie-up capital, reduced inventories and overheads, it also has maintained a certain export growth rate and raised efficiency.

Officials at the Shanghai foreign trade department held that the system of making enterprises responsible for their own profits or losses has created a fair competition environment for foreign trade enterprises, compelled them to improve enterprise management, and greatly enhanced their awareness of competition and efficiency.

Since the beginning of this year, foreign trade enterprises in Shanghai have taken many effective measures to raise efficiency. Those measures include reducing inventories, appropriate raising of price quotations, tapping potentials within the enterprise, and cutting down on overhead expenses. Many companies launched the "I will offer good suggestions on and contribute to increasing efficiency" labor emulation activities and the drive "to increase production and practice economy and to increase revenues and retrench expenditures" among workers and staff members with good results. By the end of May, inventories at foreign trade companies and industrial trading companies were down 1 billion yuan from the beginning of this year, which lightened the burden of enterprises in interest payments. Export costs for foreign trade enterprises in the municipality were also down 1.5 percent from the same period last year. As a result, enterprises have enhanced

their capability to hold responsibility for their own profits or losses. In the first half, most export commodity costs were down from the same period last year, which helped maintain a basic balance in the balance sheets of foreign trade enterprises in the municipality.

Raising product quality and increasing product varieties are other measures for enhancing export efficiency. Many foreign trade enterprises set up quality control teams, revised export commodities procurement standards, employed specialized personnel to step up inspections of export product quality at manufacturing plants, helped plants solve quality problems, and strictly prevented the export of inferior products. According to the Shanghai Commodity Inspection Bureau, the number of claims made by foreign businessmen against Shanghai enterprises for having exported poor quality products were down by half in the first half of this year as compared with the same period last year. In the meantime, foreign trade enterprises paid close attention to doing a good job in readjustment of product mix and in developing new products for export. Municipal Textile Import and Export Company has developed and marketed 77 new products since the beginning of this year. Of the nearly \$100 million worth of products this company exported in the first half of the year, new products accounted about 25 percent of the total exports. When their old line of furniture did not sell, the municipal arts and crafts import and export company promptly developed European-style furniture, which was well-received on U.S. and European markets. According to local customs and conditions in different parts of the world, they also greatly promoted gift lines like foamed gift wares and gift wares for special occasions. Their exports of giftware alone in the first half of this year increased \$3.70 million over the same period last year.

### Shanghai Foreign-Funded Ventures Improve Performance

OW1507030191 Beijing XINHUA in English  
0157 GMT 15 Jul 91

[Text] Shanghai, July 15 (XINHUA)—The Shanghai-Bell Telephone Equipment Manufacturing Company, Ltd. produced and sold 350,000 program-controlled telephone exchanges in the first half of this year.

For three consecutive years, the Sino-Belgian co-funded company has been increasing production at an annual rate of 50 percent, and its products now take up 35 percent of the telephone equipment market in China.

The company's Belgian General Manager Bert Degraeve remarked that his company has grown up and matured.

Like the Bell Company, most of the foreign-funded enterprises in Shanghai are making good economic returns, according to a report from the Shanghai Foreign Investment Committee.

The report shows that 70 percent of the over 400 foreign-funded enterprises operational in the city are making profits, ranking first in the whole country in terms of economic performance.

In the first six months this year, the industrial output value, volume of business and foreign exchange returns all increased by wide margins compared with the same period last year.

Most of the foreign-funded enterprises have from the very beginning adopted international standards in production and management, ensuring good quality of their products.

With good quality products, the Sino-British co-funded Shanghai Yaohua General Glass Company has exported 260,000 tons of glass to 20 countries and regions in the past three years, and has made more than 88 million U.S. dollars of foreign exchange. The company now tops all other foreign-funded industrial enterprises in China in economic returns.

Chinese economists noted that the sluggish market that has been bothering many Chinese enterprises doesn't seem to affect foreign-funded enterprises. This is due to the high and reliable quality of their products, they said.

Many Shanghai-based foreign-funded enterprises have set up sales and service networks throughout the country and are trying to expend their sales through all channels on the international market.

The Santana Sedan cars produced by the Shanghai Volkswagen Corporation have been in short supply in China, and 8,900 santana sedan cars have been sold in the Chinese market. The company has also sold 560 santana cars on the international market by the end of June.

The Xerox-Shanghai Corporation Co. Ltd has produced some 20,000 copiers since it began production in 1989 and it occupies one-third of the country's copy machine market.

To date, Shanghai has approved 1,094 projects since late 1978 involving 3.1 billion U.S. dollars of foreign investment.

In order to attract more foreign investment, Shanghai has worked out preferential policies to improve the environment for foreign investment and the procedures for setting up foreign-funded ventures have been simplified.

More than 60 agencies have been set up in the city to handle matters with foreign businessmen.

An official from the Shanghai foreign investment committee disclosed that more specific policies to improve the investment environment will be launched soon.

### **Operation of Shanghai Securities Exchange Discussed**

*91CE0712C Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 30, 29 Jul 91 p 29*

[Article by a correspondent: "Ways for Sino-Foreign Joint Venture Enterprises To Raise Capital in Shanghai"]

[Text] Shanghai is considering open securities markets as a means of marketing foreign currency shares and B shares

(shares purchased with foreign exchange having a renminbi face value) in further reform of the financial system. Quite a few Sino-foreign joint venture enterprises have already applied for listing on the Shanghai securities exchange, including some in Hong Kong. By way of assisting Hong Kong commercial circles understand the way to invest and raise capital in Shanghai from the industrial production and trade angle, the Hong Kong Trade Development Bureau held a workshop a few days ago on 25 July on the subject of "exploring how Sino-foreign enterprises can raise capital on the Shanghai Securities Exchange."

### **Development of the Shanghai Securities Exchange**

The formal opening of the Shanghai Securities Exchange on 19 December 1990 marked a major turning point in China's financial reform. During the workshop, French Banque de l'Indochine assistant director Lizhouxuanji [phonetic], and Hong Kong Trade Development Bureau Manager Leung Kwun Shing [2733 6034 6134] presented information about the Shanghai Securities Exchange.

According to their report, as of the end of June 1991, the Shanghai Securities Exchange was buying and selling 35 different financial securities, including the following: six different treasury bonds, eight different financial debentures, 13 different corporate bonds, and eight different share certificates. The total face amount marketed is 18.4 billion yuan having a total market price of 27.7 billion yuan. Currently eight corporations are listed on the securities exchange. This includes the Shanghai Vacuum Electronic Parts Share Corporation, whose profits are highest and whose market value is greatest at more than 900 million yuan renminbi, the equivalent of \$170 million.

Lizhouxuanji said that the Jingan [7234 1344] Index for the past year had made a superb showing. In 1990, the Jingan Index climbed to 439 in a 39.3 percent increase. At the beginning of 1991, the Shanghai stock market remained strong, the index increasing 49.1 percent during the first six months. The market's outstanding performance stems from the sustained growth of Shanghai's economy, and improved corporate profit prospects.

Lizhouxuanji also said that despite the rise in the index, the performance of eight listed corporations was uneven, the performance of Yuyuan being best with a growth rate approaching 100 percent. Yanzhong was a weak performer among the eight showing a 2 percent slide in its share price during the first half of the year.

It is easy to see from Lizhouxuanji's remarks that the volume of dealings on the Shanghai stock market is becoming greater and greater, and that public interest in the market is also getting stronger and stronger. Reportedly, trading volume climbed from 300 million renminbi in 1988 to more than 2 billion yuan in 1990. Shanghai's present population is more than 12 million, approximately 1 million of whom have engaged in the buying and selling of securities of various kinds.

### **"Five Hurdles" To Be Crossed in the Marketing of Securities**

During the workshop, Leung Kwun Shing provided information about applying for permission to market securities and related matters. First he explained just what is meant by "raising capital." He said that in China, the term raising capital can be understood in three ways: First, is raising capital internally, meaning the raising of capital from among staff members and workers in one's own unit. The second is directional raising of capital, meaning the joint raising of capital by cooperating units. Units providing capital are mostly units that provide raw and processed materials, and processing or equipment units, or product marketing units. Third is the raising of capital through public subscription. Mostly township and town enterprises do this because regulations stipulate collective enterprises.

Leung Kwun Shing said that from 1984 until the present, a total of 11 Shanghai share corporations had raised capital through the issuance of share certificates. This included seven that are listed for trading on the securities exchange.

Later on, Leung Kwun Shing also spoke about applications to list securities and specific procedures. He said wittily that trading in China requires getting over "five hurdles." Marketing of securities first requires the agreement of authorities in charge, and only when they acknowledge feasibility based on a report from a registered accounting office can application be made to the System Reform Office. (For Sino-foreign joint venture enterprises, the Chinese authorities in charge are of primary importance). As the executor in the application process, the System Reform Office holds examination and approval authority. Thus, any feasibility report submitted to it must explain the professional circumstances, financial circumstances, purpose in issuing shares, the amount of money etc. Once the System Reform Office approves, the application has to go through the Finance Bureau and the People's Bank. The People's Bank has to determine whether the enterprise requesting the marketing of shares meets the following requirements: 1) has a paid-in share capital of no less than 5 million yuan renminbi; 2) no less than 30 percent of the total face amount issued is the originator's own capital; 3) the corporation showed a profit for the past two years, and provides balance sheets and profit and loss statements for the past two years; and 4) the amount of the shares that the company is issuing to the public are no less than 25 percent of paid-up share capital. Once this process has been completed, the enterprise then mandates the Securities Exchange Council to submit an application. Once this process is completed, the application must be sent to Beijing for final examination and approval.

#### **Feasibility of Joint Venture Enterprises' Raising Capital**

On the issue of Sino-foreign joint venture enterprises requesting listing in Shanghai, most speakers said that Shanghai is currently in the midst of active listing preparations, but the main problem is that laws and regulations have not yet been completed.

Leung Kwun Sing said that Shanghai is now in process of drawing up "Shanghai Share Corporation Temporary Regulations" consisting of 142 articles in 12 chapters. This regulation will solve some problems in foreign-owned

enterprises listing their securities, including the following: Sino-foreign joint venture enterprises may not use the issuance of share certificates as a means of withdrawing their original investment. The total amount of share certificates issued must also be distributed in accordance with the Sino-foreign joint venture agreement percentage. Share certificates issued are to be denominated mostly in renminbi, but the foreign own portion is to be denominated as special renmin (foreign exchange certificate) share certificates. Overseas investors may purchase special renminbi share certificates by remitting foreign exchange to China. Funds obtained from same may likewise be remitted outside of China through the Foreign Exchange Regulation Center. In short, in the absence of a completed corporation code and other rules and regulations, the Shanghai authorities concerned are striving to create a climate that accommodates joint venture enterprises both inside and outside China in raising capital through listing on the Shanghai Securities Exchange.

Leung Kwun Sing said that there have been reports that approximately 20 enterprises have applied for a Shanghai listing. Three or four of them are joint venture enterprise corporations that are partly Hong Kong owned. Shanghai City has already approved their applications, which are now awaiting final examination and approval from the State Council in Beijing, after which the main office of the People's Bank will notify Shanghai. Additionally, quite a few Chinese and Sino-foreign joint venture enterprises are planning to list shares on the Hong Kong Stock Exchange to raise capital; thus it is anticipated that cooperation between Hong Kong and Shanghai will increase in the securities business.

Lizhouxuanji said that during November 1990 Banque de l'Indochine also set up a "Shanghai Fund" in China. However, since legal regulations have not yet been established, it has not yet undertaken any activity. Reportedly, the drawing up of rules and regulations will be completed during the fourth quarter of 1991.

Liang Zhengsheng [2733 2973 3932] of the Shanghai exchange-listed Shanghai Vacuum Electronic Parts Corporation said that Sino-foreign joint venture enterprise ideas for issuing B shares in Shanghai to raise capital came from a Sino-foreign joint venture enterprise under his corporation, namely the Shanghai Yongxin Color Tube Corporation. It was because of that corporation's need for foreign currency to buy foreign equipment that it proposed the issuance of special shares. Shanghai City strongly supports this plan. He estimates that once this plan is implemented, that the Shanghai Vacuum Electronic Parts Share Corporation will be the first corporation to market B shares.

### **FINANCE, BANKING**

#### **Analysis of Savings Growth Trend**

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pp 3-8

[Article by Fan Gang (2868 4854): "Understanding the Increase in Saving in China During a Period of Economic

Contraction—A Preliminary Analysis of the Causes of the Savings Increase Among the Citizens in China's Cities and Towns." The author is affiliated with the Economics Institute of the Chinese Academy of Social Sciences]

[Text] There has been a rapid increase in the Chinese citizens' total savings in recent years. Between 1978 and 1989, savings by citizens in the cities and towns have grown from 15.49 billion yuan to 373.48 billion yuan, increasing at an average rate of 30.4 percent a year. Saving as a percentage of the total wage bill has risen from 27.2 percent to 142.6 [as published] percent. What is even more remarkable is, 1990 was a year marked by economic contraction; the rate of increase in the worker's wage income dropped, and the rate of increase in average real income fell to -7.1 percent, much lower than the 10 percent or so rate of increase in previous years, but saving by citizens in the cities and towns continued to grow at 40.4 percent rate, comparable to the growth rate in the previous years (except 1988, when the growth rate was only 28.6 percent). According to the general consumption-saving theory, this phenomenon seems inexplicable. What caused this change in the propensity to save? Can this incremental saving be considered "surplus purchasing power"? What will its short-term and long-term effects be on China's economy? What measures should be taken to deal with this situation? Obviously there are important theoretical implications and urgent practical purposes for attempting to answer these questions. This article attempts to make a preliminary analysis of the causes of an important part of the savings growth trend in China in recent years—increased savings among residents in the cities and towns.

### **I. Basic Conclusion: Today's Incremental Saving Is No Longer Forced Saving**

When we study the relationship between income and saving in a publically owned economy, the first question we encounter is how to tell the difference between forced saving and voluntary saving. This is because in a publically owned system, we may have a permanent "fixed-plan pricing" system. Under this pricing mechanism, excess demand is not reflected in the increase in prices, or inflation; instead, people find that there is "nothing to buy even if you have money," and there is "surplus purchasing power" in the current period. Such surplus purchasing power in the current period first appeared as effective demand; people actually tried to "buy something" in the market, but because there was nothing to buy, this money was "sunk" and became "ex post" saving, and that is why it is called "forced saving." Voluntary saving is the money income which the consumers plan to save and do not intend to buy anything with in the current period. It is "ex ante" saving and is not surplus purchasing power.<sup>1</sup> These two types of savings are essentially different and play a very different role in the economy.

To some extent there is still a fixed price system in China's economy today, and so it is very difficult to say that if there is excess demand there will not be any forced saving. However, on the whole, because the price of most consumer goods are "negotiated" or has been completely "decontrolled," we can say that nowadays excess demand

no longer takes the form of forced saving, and today's saving is primarily voluntary. From the point of the trend of development, we have reason to believe that China has entered a phase of predominantly voluntary saving since 1985. This is because China's pricing system underwent a fairly dramatic change between 1984 and 1985. Some fixed prices were abolished, and more prices began to adopt the "dual-track" system. Relatively speaking, the consumers are facing many more choices than ever before. This change in system is also reflected in a change in the price level. Take the years between 1979-1989: Overall, the retail price indexes remained between 0-3 percent (the previous year = 100) in the years before 1984 (1980 was an exception because of the fairly large agricultural product price adjustment), but from 1985 on, the price indexes rose to between 6-18 percent. Assuming that the scopes of excess demand (percentages) were about the same, it is possible that before 1985, when fixed prices were predominant, excess demand primarily took the form of forced saving,<sup>2</sup> and a substantial portion of the total saving was forced saving (it is still hard to ascertain the exact amount, and it is something we should further look into). However, after 1985, because excess demand is transformed mostly into inflation, forced saving is no longer an important part of the total saving, and all of the citizens' savings can be looked at as voluntary saving (while the effects of excess demand on the people's saving behavior is felt through the effects of inflation).

The above conclusion is still a hypothesis, but so long as there is no solid proof to refute this hypothesis, we can assume that it is a valid hypothesis for now and make it the premise of our analysis. In this article we will treat all saving increase in recent years as increase in voluntary saving and use only those factors which determine voluntary saving to explain the increase in total saving.

### **II. The Basic Theoretical Issue: The Concept of the "Structure of Lifetime Income"**

Voluntary saving, or saving in its strict sense, refers to that part of the people's disposable personal income which is not being used for consumption in the current year but is set aside for future use. According to a widely accepted theory called the "lifetime income-consumption theory," also known as the "permanent income-consumption theory," people's current saving is determined not only by the amount of their current income and consumption preferences but by their life-long (present and future) income and consumption considerations. In other words, given people's consumption preferences (here we are referring mainly to the time preference of consumption), their current propensity to save is determined by the maximization of the total utility (satisfaction) of their anticipated lifetime income. Anticipated lifetime income refers to the sum of their current income and expected future income. Thus, the central proposition of this theory is that the people's current propensity to save is not only determined by their current income but also by what they expect their future real income will be; it is determined not only by their expected total income for life but also by the structure of their lifetime income. Thus, when we study the causes of

savings increases, we cannot just look at current income as the only factor (although this is one of the factors which determine the structure of people's lifetime income) but also look at other factors which affect the income level and the income structure over a lifetime.

Besides per capita current income, factors that determine the structure of people's expected income over their lifetime are:

One, their expected future money income. Generally speaking, the higher the expected future income, the less the current saving. This is because people need not worry about their future consumption if they expect to be prosperous, and so their current consumption level is naturally higher (if the future income is expected to be significantly higher than the present level, some people will even borrow money.) What determine the expected future income are: (a) the wage and employment system and workers' insurance system (whether the workers have unemployment insurance and pension, and the difference between their pension and their current income and so on); (b) how steady is the increase in income, or the people's expectation of the future economic situation.

Two, expectations about inflation. Given the expected future money income, the higher the expected rate of inflation, the less the future money income will be worth and the lower the real income. To balance consumption, people must save more money now so that their future standard of living will not slip.

Three, the interest rate on savings.

Four, from the macro perspective, another factor that determines the overall structure of personal income is the demographic pattern. This refers mainly to the ratio of working population to the retired population. Generally, given the other factors, the higher the proportion of working-age population, the greater the increase in savings.

The current income level plus the first three of the above four factors determine a consumer's personal "(expected) income structure over a lifetime." From the macro perspective, if we add the fourth factor, the demographic pattern, they will determine society's "income structure of a life cycle." Given the people's consumption preferences, their spending pattern (the ratio between consumption and saving) is determined by this income structure of a life cycle.<sup>3</sup>

In this article, we will assume that the demographic pattern is given and will not change, and we will concentrate on the other factors which pertain to the people's "income structure over a lifetime" and their impact on their propensity to save. We will see that in the most recent round of contraction, although the increase in current income has been slow or even negative (which should lead to less saving), because there has been a change in the other factors that determine the people's income structure over their lifetime in favor of their saving more now, total saving not only has not decreased but has actually

increased significantly. This phenomenon can be explained fully by economic theories.

### III. Specific Reasons for the Saving Increase Among the Urban Residents

#### III.1. *Changes in the Wage and Employment Systems and the Income Structure*

The structure of personal income is determined first by the economic system, especially the wage and employment systems. For instance, a person who is entitled to free, public medical care and receives a pension needs to save less money for the future, while an individual household that has no worker's insurance must save money to pay medical bills and for retirement. Thus, if there are more workers in the labor population who do not have workers' insurance, savings will increase. The same state employee who has worker's insurance but whose pension upon retirement is considerably less than his current income will save more, because if his pension will only equal 50 percent of his current income, he will need to save more money than if his pension should equal 70 percent of his current income.

Economic reform has changed the other related systems, which of course will caused the income structure to change. This is seen especially in the following two areas:

One, an increase in bonuses, on-the-job subsidies, and in-kind income and other "transitory income" as a percentage of a person's total income.

"Transitory income" and its counterpart, "permanent income," refer to two components in an individual's current income: permanent income refers to income which one expects (please note that there is an element of subjective judgment here) to receive continuously forever (or at least for some time to come—in other words, future income). Transitory income refers to income received currently under special circumstance (although the circumstance many last more than a year). For example, if a "one-step promotion" means 10 yuan more in basic wage, it can be considered an increase in "permanent income," but a temporary bonus of 10 yuan (in addition to the "fixed bonus") is an increase in transitory income. The significance of permanent income lies in that its increase means an increase in expected future income, and it will not lead to an increase in saving (since the person earns 10 yuan more today and will earn the same 10 yuan more tomorrow, there is no income difference between the two periods, and so he will not increase saving to balance consumption); instead, it will only lead to an increase in current consumption. Conversely, an increase in transitory income is a current event; it will not lead to an increase in expected future income but will increase the difference between current income and future income instead, and it will lead to an increase in saving or in the propensity to save.

In China, the workers' pension is calculated primarily based on their basic wages, and so basic wages are by nature permanent income, while bonuses, on-the-job subsidies and other payments may for an extended period of

time constitute a fairly steady part of a person's income (especially the "fixed bonuses") they nevertheless are transitory in terms of the person's lifetime income. This applies even more to such things as percentage profit retention, income from responsibility contracts, in-kind payment and other "gray income" and state-paid expenses and so on. In the last 10 years, basic wage as a percentage of the total income of workers in China's state-run enterprises and collective enterprises (large collectives or "secondary people-owned" enterprises) has been on the steady decline, and most income increase has been due to the increase in various forms of transitory income.<sup>4</sup> Such income has come to account for 40 percent of a worker's total income in the last few years. This obviously is an important reason for the saving increase.

Two, nonstate-run departments (including large collectives) now provide employment for a larger percentage of the total labor population.

One of the important aspects of reform and opening up is that the nonstate-run economic sector, such as individual households, privately owned enterprises, contractual joint ventures, and joint-ventures, is making up a larger share of the national economy and is providing more employment channels. This has changed the structure of per capita income in two ways:

1. Under the social security system we have so far, of the total labor population, only workers in the state-owned (including large collectives) departments enjoy free public medical care, pension, unemployment insurance<sup>5</sup> and other benefits. Workers in non-state-run departments (including large collectives) generally do not have these social protections, and they must pay their own way from birth to death, in health and sickness. Thus, the income of individual households and workers in privately owned enterprises to a very large extent are transitory income, or in other words, their current income may be high, but their expected future income ( $Y_e$ ) is fairly low, and the difference between the two can be significant, and therefore they must save more money in case their income should decline as they get old, or get sick, or die. These people naturally have a high propensity to save.

2. For various social reasons, currently, individual households and workers in privately owned or cooperative enterprises have little confidence in their job security and in the "permanence" of their income, nor do they have high expectations of their future income. Many even believe that they should "make a bundle now and quit while they are ahead," and at the slightest hint of trouble, they simply fold and get out of business. Thus, the income of this group of people is even more transitory in nature, and although because of their high current income, they may spend more, they also save more and have a higher propensity to save.

Survey showed that more and more, urban residents in China are driven to save in recent years by "the burdens of life"—in preparation for retirement and as a hedge against illness and unemployment.<sup>6</sup> This in fact is due largely to the changes in various systems as analyzed earlier.

### III.2 Increased Fluctuations in Income Growth

Another factor contributing to saving increase is economic growth and increased fluctuations in income growth.

Increased fluctuations in income growth can lead to an increase in saving because fluctuations in past and current income affect the people's expectation of their future income. Based on the hypothesis of rational expectations, we know that people's expectations are based on events that have already happened, that is, historical experiences, and at the same time they also take into consideration certain imminent changes, such as a change in government policies or a change in international or domestic situations. Barring any significant change in policy and other factors, people will predict the future mainly based on past experiences, and they will also continuously make corrections if events prove that their past predictions were wrong ("adjusted expectation"). At this time, the main factors the people base their expectations on are: (a) The rate of increase in past income. The higher the past rate of increase, the more likely that the expected future increase in income will not be too low. (b) Fluctuations in the rate of increase in past income. Severe fluctuations are an indication that the economy is unstable, and the people's confidence in the future will be shaken and their expected rate of increase in income will not be too high. A reasonable hypothesis is, the greater the fluctuations in income, the less the expected future income. If income should soar suddenly, people will doubt that that kind of increase can be sustained and will wonder if the incremental income should be treated as "permanent income," and if income should plunge, they will think that their income will not increase as fast as before and that there are risks in the economy and so on.

There were fluctuations in China's economy in the past, but in most cases, the macroeconomic fluctuations only affected the state's fiscal income and investment and other public spending but did not affect the urban residents' income. Since the economic reform, a much closer tie has developed between personal income and enterprise performance, which means personal income is closely tied to the macroeconomic situation. Take the income of workers in state-run enterprises and collective enterprises which relatively speaking is the most stable for example. The FANG CHA [as published] of the rate of wage increase has been increasing: If we take the 1978-1989 period as base, the FANG CHA of the rate of increase in workers' wage income between 1978 and 1987 was 21.2, but it increased to 26.7 for the period 1978-1989. Not only that, but if we look at their real income, instead of the earlier steady increase, it increased in some years and decreased in other years: The urban workers' average real income increase steadily between 1978 and 1987 at an average rate of 5.21 percent a year but fell 5.50 percent between 1987 and 1989.

Increased fluctuations in income growth are very important in explaining the high saving rate since the end of 1988, in a period of declining wages and economic contraction. The sustained increase in income before 1987

gave people the misconception that all income at that time (including bonuses and in-kind income) were "permanent income." When the economy began to contract, average real income fell, and for many people, even their money income also decreased, which led people to realize suddenly that economic growth is not stable, that the economy is still plagued by many problems, and these problems will surface sooner or later. This caused many people to lower their expectations of the rate of increase in their future income. It was this experience of income fluctuation that changed the people's expectation of their future income which caused the "strange" phenomenon of the high rate of increase in savings amid the declining rate of increase in wages and falling real income since 1989.

### *III.3 Expectations of a Fairly High Rate of Inflation in the Distant Future*

Ultimately, people's decision to save is based on their real income. Given the expected future money income, the higher the expected rate of inflation, the less the future money income will be worth and the lower the real income, which means the expected lifetime income will change and in turn people's propensity to save will change.

But we all know that any relative change in price has two side effects: a substitution effect and an income effect. The relationship between current price level and future price level is also a relative price relationship. Depending on whether inflation is expected to take place in the near future or distant future, it will determine which of the above two effects will be the determinant of the people's consumption-saving behavior. If people expect the inflation rate to rise in the near future, the substitution effect of price change and the tendency to "hoard goods to preserve value" will play the dominant role. On the one hand, people will try to beat the price increase by spending now or buying things they originally planned to buy later, and on the other hand, they will hoard as much goods as possible. Such behavior will increase current consumption and reduce current saving (a decline in the rate of saving,) and some may even dissave (use their savings to hoard goods.) In short, expectation of near-term inflation will lead to "panic buying" and less saving. If inflation is expected in the "distant future"<sup>7</sup> (if prices are expected to remain stable in the near-term and will rise only after a period of time), the income effect of price change will play the dominant role, and people will save more to offset the decrease in real income in the future. In other words, "long-term inflation" will lead to an increase in savings.

In an economy with sustained inflation, even though people still expect inflation in the distant future, near-term inflation continues to plague them, and "panic buying" and "hoarding goods to preserve value" still play the dominant role in their lives which do not encourage them to save. But if there is a "break" in inflation, the expectation of inflation in the distant future will have an effect, and savings will increase. When people have expectations about inflation in the future, they will reference their current situation and past experiences on the one hand, and on the other hand, they will take into consideration the

government's announced monetary policy and price policy. It is for these reasons that even if the current inflation rate is low, people's expectation of the future inflation rate may not be so low.

The situation since 1989 has been one dominated by expectations of fairly high rate of inflation in the distant future. In 1989, the inflation rate was fairly high (which did not encourage any increase in saving), but people expected prices to stay more or less at that level in the near-term, and meanwhile they expected that sooner or later many prices would rise even more and that the overall price level in the future would be even higher. For example, people knew that reform of the pricing system had not been thorough, that the price of many everyday necessities (such as grain, oil, and transportation fees) were lower than their cost, that petroleum, coal, and other means of production were priced too low, that whole industries were losing money, that the government was paying out more and more subsidies everyday, and that it could not sustain this kind of subsidy forever and sooner, and later prices would have to go up, and they knew too that the overall policy for housing reform had already been announced, and they knew that not only would they have to pay higher rent soon but that they would have to make a substantial, one-time "lease money," etc. All these meant that although the inflation rate was steady at that time, people knew that the cost of living would increase steadily in the future and that they should be prepared well in advance, and so they began to save more.

Another unique feature about the expectations of inflation in 1989 was, if in the past most inflation had been caused by the increase in price of everyday luxury goods, household electrical appliances, and other non-essentials, people expected the next round of inflation to be caused by the increase in the price of everyday necessities (including rent) and means of production. This rational expectation naturally reduced the demand for luxury goods at that time (which led to a "slump" in those markets) and increased saving to make sure that basic consumption would not be compromised in the future.

In short, expectation of a high rate of inflation in the distant future is another important factor which explains the higher rate of saving increase since the contraction of 1989.

### *III.4 Raising the Interest Rate on Savings*

Since the inflation rate has already been singled out for examination, the interest rate we speak of here refers to the nominal rate. A change in the interest rate produces two effects: Substitution effect and income effect. The former causes an increase in savings (the higher the interest rate, the more interest the savings earn today and the more money one will have to spend in the future). The latter causes a decrease in savings (the higher the interest rate, the higher the lifetime income, which leads to an increase in current consumption by the corresponding amount). However, barring a significant increase in the interest rate,

we can expect the substitution effect of a change in interest rate to play the dominant role, that is, if interest rate rises, savings will increase.

Higher interest rate on savings in recent years no doubt has contributed to the increase in savings. In particular, in the latter half of 1988, to counter the expectation of a fairly high rate of inflation in the near-term, "inflation-proof savings account" was introduced, which played a definite role in stamping "panic buying" and curbing the decrease in savings.

But one point worth noting is, we must avoid exaggerating the effect of the change in interest rates when we study the change in total saving. Compared to current income and the change in expected future income and other factors, interest rate plays a minor role in determining the amount of savings; its effect is only secondary. Moreover, the greater the difference between current and future income, the smaller the role interest rate plays, because in order to offset the real impact of a drop in future income and to balance consumption over a lifetime, people will save even if there is no interest and even at negative interest rates. If the expected lifetime income remains basically constant or is fairly stable, the effect of a change in the rate of interest of course is worth looking into, but if the income structure is changing fairly drastically, 1 or 2 percentage points' worth of interest will do very little to change the savings trend.

If we analyze it carefully, we will discover that among the more important reasons we were able to stop the "panic buying" and "dissaving" trends in the latter half of 1988 and resume a high rate of increase in saving was the government's announcement of its determination to curb inflation in the near-term. It changed the people's rational expectation and caused a change in the comparative relationship between near-term inflation and distant inflation. Lowering the interest rate twice in 1989 did not stamp the increase in savings, because people's expectations about the change in income structure and about inflation had changed in favor of more saving, and lowering the interest rate had no effect on their propensity to save.

#### IV. Several Policy Oriented Conclusions

The analysis in this article proves that economic theories can fully explain the saving increase in China in recent years.

Since the saving increase can be explained by various economic factors, it obviously is no longer, or basically is no longer, "surplus purchasing power" or deferred purchasing power but is bona fide saving aimed at balancing consumption over a lifetime. Of course, this is not saying that if people suddenly expect a high rate of inflation in the near future, these savings will turn into "caged tigers" overnight, or that in the absence of such expectation, they will always remain "caged sheep." The question is, on the one hand, how do we formulate and implement effectively a gradual price reform program which can prevent people from expecting a high rate of inflation in the near-term as they did in 1988? On the other hand, how do we deepen

the reform of the ownership system and the reform of the financial system and the investment system and utilize the people's savings even more effectively and turn them into productive social capital that lays golden eggs.

Our analysis here indicates that when promulgating economic policies, especially macroeconomic policies, we should not just look at a policy's immediate and direct effect but should look at its effect on the public's psychological expectations and economic choices and the indirect effects produced by those expectations and choices. At the same time, when adjusting certain policy variable (such as interest rate,) we must find out what the adjustment will do to the whole policy environment.

#### Footnotes

1. In recent years, economists have often argued whether "surplus purchasing power" should include total demand. But the real question is whether what people have been arguing about is really "surplus purchasing power." If it is really surplus purchasing power, it should be deemed a part of the current total demand, but if it is only "surplus" income, it is saving and should not constitute total demand, because it has never been used as "purchasing power" in the current period.

2. Intuitively, "deferred purchase," a phenomenon often encountered before 1985 when people had money but had nothing to buy, is still prevalent today.

3. Another factor which can lead to a change in saving is the change in the consumption-mix. For example, if durable goods make up a large share of the consumption-mix, and people have to save longer to make such purchases, it will lead to an increase in savings. Although such "saving in order to make a major purchase" is not saving in the strictest sense, it nevertheless becomes an inseparable part of the total saving. However, on the one hand, it is generally thought that this kind of saving has more impact on the short-term fluctuation in total savings but does not really explain long-term saving trend. On the other hand, because of the positive correlation between the change in consumption-mix and the current income level, we can assume in our analysis that the effect of such change is reflected in the change in income.

4. It should be pointed out that existing statistical norms and statistical methods cannot fully reflect the increase in various transitory income, especially state-paid expenditures (state-paid travel and entertainment and so on) and in-kind payments and various "gray income."

5. In principle, state-run departments do not provide unemployment insurance, but in fact, because workers hardly ever lose their jobs, and even if production is halted, the workers still get paid, which is equivalent to having unemployment insurance.

6. See "Analysis of the Motivation Behind People's Saving Behavior," by Liang Yu [2733 7183] et al., JINGJI CANKAO [ECONOMIC INFORMATION] 29 Oct 1990.

7. How to define "near-term" and "long-term" is of course a very tricky problem. Perhaps we should first use the following two standards to distinguish what is "long-term": (a) It is impossible or impractical to build up a stock of goods or hoard goods today to preserve value in order to offset the effects of expected inflation; (b) inflation is expected, but at the moment nobody knows when it will occur.

### **Shenzhen Stock Market Developing Rapidly**

91CE0603A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 20,  
20 May 91 p 28

[Article by correspondent Wu Feng-hsia (0702 7685 7209):  
"Shenzhen Stock Market on the Right Track to Sound  
Development"]

[Text] The Shenzhen City Government announced on 15 May the official promulgation, with the consent of the State Council and the approval of the People's Bank of China, of the "Provisional Measures for the Issue and Trading of Stocks in Shenzhen City," which are to be effective as of 16 June. Zhang Hongyi [1728 7703 5030], deputy mayor of Shenzhen, and several other leading cadres concerned, among them Xu Jingan [1776 2529 1344], Xiao Shaolian [5618 1421 5114], and Huang Xinhua [7806 2450 5478], attended the meeting where the promulgation was announced on the said day.

The promulgation and enforcement of the said provisional measures may be considered an important turning point in the administrative control of the Shenzhen stock market and an important milestone in the development of Shenzhen's stock market operations.

### **Securities Markets Must Have Comprehensive Rules and Regulations for Proper Administrative Control**

Shenzhen's stock market has very rapidly developed during the last few years. Since the first shares were issued in 1987 until now, there are altogether 5 share listing companies that have listed shares with a face value of 271 million yuan RMB and a market value of about 5 billion yuan. The present 12 securities trading organizations have altogether 16 trading places, and there is also a securities exchange and a securities registration company, for which preparations are nearly completed and which are being tried out, with a complement of about 300 employees. The volume of shares traded amounted to 4 million yuan in 1988, 23 million yuan in 1989, and reached 1.765 billion in 1990.

As Shenzhen has become a stock market testing area, it has in the past years not been altogether without rules and regulations to guide operations. For several years, the Shenzhen stock market has been managed and operated according to the relevant economic and monetary policies of China, also the regulations issued by Guangdong Province regarding foreign trade in the Special Economic Zone [SEZ], and the various relevant policies of the Shenzhen City government and People's Bank. However, in the course of time it had shown that it is by far not sufficiently

adequate to have merely policies to guide market operations. It was therefore necessary to have comprehensive rules and regulations for the securities market to normalize its administrative control, also the issuing of securities, the companies entering the market, the investors, the stock exchanges, the trading in securities, and all related services.

It was for this reason that the Shenzhen City government started in 1987, before the issue of the first stocks of the Development Bank, to tentatively formulate stock market control procedures and measures, and it produced two initial drafts in 1988 and 1989. Again in 1990, another draft was drawn up in line with the development of the Shenzhen stock market operations, and opinions were solicited on a wide scale. After discussions and amendments, the draft was submitted to the central authorities, and after seven further revisions, it finally became the new proposal: the Provisional Measures for Issuing and Trading of Stocks in Shenzhen City.

### **Cadres in Party and Government Organs Precluded From Buying and Selling Stocks**

The new "Provisional Measures" consist of eight chapters and 97 articles. Article 4 of Chapter 1 (General Principles) prescribes that the People's Bank shall be in administrative control of the Shenzhen securities market, and that the Shenzhen SEZ branch of the People's Bank shall be authorized to exercise the routine functions of controlling stock issues and trading, according to the "Provisional Measures."

Article 14 of Chapter 3 also prescribes that any company that applies for permission to publicly issue its shares in Shenzhen must fulfill the following eight requirements:

- 1) The formation of a stock company, or the reorganization as stock company, requires approval by the competent state authority.
- 2) Its production and business operations must conform to the industrial policies of Shenzhen.
- 3) It must be of good financial standing and have a good business record; its net assets must be at least 10 million yuan RMB.
- 4) During the year before submitting its application, the proportion of the net value of its tangible assets must not be below 25 percent of the gross value of its tangible assets.
- 5) Stock subscriptions of its promoters must not be for less than 5 million yuan RMB, and also not for below 35 percent of the total share capital.
- 6) Shares issued to the unspecified general public must not be less than 25 percent of the total number of shares; the competent authorities may, according to circumstances, raise the proportion of publicly issued shares.
- 7) The number of shareholders must not be less than 800.

8) The enterprise or the promoters that submit the application must not have a record of having committed any illegal action or action harmful to public interests within the last three years.

Article 29 of the same chapter furthermore prescribes: Chinese citizens over the age of 18 and of full legal capacity may subscribe to shares, but the total amount of the face value of shares of every kind held by one person must not exceed 50,000 yuan. Cadres in party or government organs, military personnel on active duty, personnel in establishments handling or trading shares, and staff of departments in charge of stock business affairs may not buy or sell shares. Detailed administrative regulations will be formulated by the relevant government department, to be submitted to the People's Bank and the city government for approval.

The penalty provisions of Chapter 7 further prescribe: Any dispute that may arise in connection with transactions at the stock exchange shall be mediated by the stock exchange. If the mediation decision is not acceptable, an appeal may be filed with the competent authority. The decision by the competent authority on the appeal must be executed by the parties concerned. Anyone who arbitrarily issues shares or subscribes to shares, or issues any kind of capital fund certificates without approval of the competent authority shall be subject to punishment.

Moreover, illegal trading outside of the stock exchange, and in addition, any corrupt practices, fraud, accepting kickbacks, and other illegal acts committed for gain during the processes of issuing or trading in stocks, or in connection with the inward or outward transfer of stocks, settlements, closing accounts, transfer, or registration of shares shall be subject to punishment.

#### **Foreign-Invested Companies May Apply for the Listing of Their Shares**

Shenzhen's deputy mayor Zhang Hongyi announced at the meeting when the said new measures were promulgated that presently foreign investment capital may not yet participate in share trading, but foreign capital will be allowed at a later date to enter the market. Relevant administrative measures have initially been drafted, but are still being checked before approval. As for fully foreign-financed brokerage houses or commercial banks opening up for business in Shenzhen, this matter will have to wait until the stock exchange officially begins operations and is in operation for a certain period of time.

Zhang believes that after promulgating Shenzhen's provisional measures governing the issue and trading of shares, the next step for Shenzhen will comprise: the centralized transfer of shares, the soonest possible promotion of new share listings, readjustment of the stamp tax, and the official start of operations of the stock exchange and the stock transfer office.

Zhang indicated that there are presently 10 cases of stock listings under consideration, and these include some foreign-invested enterprises. As decisions have not yet been made, information on these cases must not be disclosed at

this stage. He said that the provisional measures do not restrict listings to companies of particular ownership systems, so that any kind of company may apply for listing, as long as it is otherwise qualified for listing its shares for open trading, and this includes Sino-foreign joint ventures and foreign-invested enterprises.

Zhang explained that since Shenzhen lacks experiences in the administrative control of shares, it is still necessary to consult with Beijing on questions of checking and approving listings of new companies, and the same procedure must be followed with regard to bonus and dividend plans. He said, after administrative control of share operations in Shenzhen will have run smoothly on the right track, he believes the procedure of going through Beijing can be dispensed with.

Zhang also indicated that Shenzhen is now studying the establishment of two funds, one to provide investment funds for medium or small local investors, similar in form to unit trust funds in foreign countries. The other fund is to provide investment funds for overseas investors to allow them through these funds to indirectly participate in the stock market, but specific operational procedures are still being studied, and the final decision has not yet been reached.

#### **Shanghai's Role as Stock Market Center**

91CE0679A Shanghai XINWEN BAO in Chinese  
6 Jul 91 p 1

[Article by He Wannan (6320 1354 3948): "How Did Shanghai Succeed in Becoming the Securities Exchange Center—An Interview With Guan Jinsheng (4619 6855 3932), General Manager of Wanguo Securities Company"]

[Text] Ever since a classical writer penned the expression, "like lambs being eaten up by the stock market wolves," securities exchanges and stock markets have long been looked at as instruments of capitalist greed and speculation, institutions grossly incompatible with socialism. But today securities markets are flourishing and making great strides in socialist China, and Shanghai, with its heavily product-oriented economy, has increasingly become the nation's stock exchange center. How do we explain this phenomenon? The general manager of Shanghai's Wanguo Securities Company, Guan Jinsheng, well-known as the "learned merchant" of China's securities industry, recently accepted an exclusive interview by XINWEN BAO reporter to talk about his personal views after his three years in the business.

**The people of China who knew nothing about stocks and bonds a few years ago are boldly and eagerly getting into the securities market, and people with all sorts of opinions at home and abroad are shocked and bewildered.**

Since it first issued its treasury bills in 1981, China's securities market has gone from an embryonic stage during the 1981-1987 period, with the introduction of the primary (issuance) market, to a fledgling stage, with the rapid

spread of secondary (exchange) markets between 1988-1990, and, marked by the opening of the Shanghai Securities Exchange in December 1990, it has now entered the developmental stage. By the end of 1990, nationwide, we have issued in excess of 200 billion yuan's worth of negotiable securities of all types, and the volume of exchange in 1990 alone was worth 13.6 billion yuan. We have opened securities exchanges, one in Shanghai and one in Shenzhen, 57 securities companies, more than 300 securities organizations run by the trust and investment companies, more than 700 stock brokerages, and a nationwide securities price quotation network made up of more than 30 securities companies in seven cities, including Shanghai, Beijing, Wuhan, and Chongqing. More than 50,000 people now work in the securities business. Shanghai, Shenzhen, Wuhan, Harbin, Chongqing and other cities have even promulgated local stock market management rules and regulations. It has already been decided that 10 billion yuan's worth of treasury bills and nearly 10 billion yuan's worth of financial bonds and enterprise bonds will be issued this year. Scores of enterprises have applied for permission to issue stock, and it is expected that foreign currency stocks, foreign currency bonds, equity investments, and various mutual funds will be available in a year or two. Nationwide, stock issuance and volume of exchange will increase geometrically within the next few years. There are already more than a million securities investors in Shanghai, and in Shenzhen, many fashionable ladies carry not cash but stock certificates in their purses. The Chinese people who knew nothing about securities a few years ago are boldly and eagerly getting into the securities market, and people with all sorts of opinions at home and abroad are shocked and bewildered.

**The securities market is a product of socialized big production, and China's socialized production has developed to the point where the securities market should make its entry.**

According to Guan Jinsheng, the securities market was born in the capitalist era, but it is not exclusive to capitalism—just like Lenin always emphasized that banks are the product of capitalism but can be of use to socialism. The securities market is a product of socialized production; it is the result of socialized production's increasing need for society's funds and of the highly developed credit system. In particular, a securities market which is founded on a shareholding economy will in turn give momentum to the intensification, optimization, and rapid development of production and will further give impetus to the in-depth development of the commodity economy.

Obviously China's securities market has appeared in essence because its socialized production has developed to the point which calls for the appearance of a securities market, and what directly brought it on, or we can say what hastened its birth, was because the 10 years of "Cultural Revolution" had brought the national economy to the brink of collapse and the state had issued bonds as a way to remedy its huge financial deficit, and in the 1980's, the government learned that there were three ways to remedy the deficit: One was to issue more currency and another

was to raise taxes, but these two approaches would either lead to inflation or kill the goose that laid the golden eggs, and so the only way left was to open up the treasury bonds market. Reform in turn changed the system in which the state controlled the revenue and expenditure of hundreds of thousands of enterprises into one which forced enterprises to raise some of their own funds, and as a result, enterprise bonds and internal stocks were born. Because of their heavy profit tax burden, the large and medium-sized state-run enterprises were in the greatest financial difficulty, but they also had the best prospects and were the best-known and had the best credit rating in society, and therefore they spearheaded the issuance of enterprise bonds. Shanghai's enterprise bond market was started this way with more than 3 billion yuan's worth of investments in petrochemical bonds. With its high concentration of large and medium-sized state-owned enterprises and relatively high degree of socialized production, Shanghai logically became the birthplace of China's securities market. On the other hand, overall, China's production, including Shanghai's, is not yet very socialized, which limits the scope of our securities market. This is an objective law, and nobody can or should do anything about it.

**The securities market has produced three major effects on our economic development.**

In Guan Jinsheng's opinion, the securities market has at least three important effects on socialist China's economic development:

(1) By gathering huge sums of society's idle funds, we quickly achieve economies of scale and reap scale benefits. (2) The way investors pick and choose the securities they buy in the market help optimize the industrial structure, the product mix, and the fund composition. As the funds raised in the securities market circulate continuously, we have gradually set up a group of landmark industries that embody both scale and efficiency in Shanghai. (3) The securities market can be an important means of macroeconomic regulation and control. If the state owns some negotiable securities, by buying and selling those securities in the market, it can tighten or loosen the money supply. This will be a "soft landing"-kind of macroeconomic regulation and control which will not unduly disturb society.

Of course China's securities market is still in its infancy. Internationally, the value of newly issued securities as a percentage of the GNP is often used to measure the maturity of the securities markets. Among the world's developing nations, this ratio averages around 20 percent. In comparison, Shanghai's stocks are worth only 80 million yuan, less than 1 percent of its GNP (which was 73.7 billion yuan in 1990,) and nationally, the percentage is even lower. Thus, so far Shanghai's securities market is able to only play a role in gathering funds and heightening the public's investment awareness but has little ability to regulate and control the national economy.

On the other hand, because relatively speaking our commodity economy is not very well developed and consequently not all people understand the market equally well,

and because there are flaws in management and in the rules and regulations, Shanghai's and the nation's securities markets still have many problems which must be addressed immediately.

It has been 10 years since the securities market came into being. The time has come for us to seriously look into and perfect a socialist securities market with Chinese characteristics.

**The foundation of China's securities market has been laid, and the framework has been set up. There may be some complications in its future development, but the prospects are still bright.**

In Guan Jinsheng's opinion, the general policy of reform and opening up has laid the policy foundation for China's securities market. The introduction of treasury bills into hundreds of millions of households was meant to be an administrative apportionment, but lucky for us (Guan laughed out loud as he said this) it has turned out to be the very thing that laid the mass foundation for the development of the securities market. The more than 200 billion yuan's worth of negotiable securities already issued form the material base. From the primary market to the secondary market, and from the secondary market's exchange market (the first market) and over-the-counter market (the second market) to the broker's quotation system (the third market,) it means we now have the functional base and are equipped with the essentials of an international securities market. The foundation has been laid, the road is wide open, and although there may still be complications in the future, the prospects are bright.

## INDUSTRY

### Accelerate Development of High-Tech Industrial Zone

91CE0687A Harbin HEILONGJIANG RIBAO  
in Chinese 28 Jun 91 p 1

["Accelerate the Development of the High-Tech Industrial Zone"]

[Text] "Regulations for the Harbin High-Tech Industrial Development Zone" were promulgated by the Harbin municipal people's government recently and took effect on 1 July.

Under the "regulations," the Harbin High-Tech Industrial Development Zone will concentrate on such new and high technology as microelectronics and electronic information technology, space science and space, photoelectronic science and integrated photoelectronic and electronic technology, life science and biotechnology, materials science and new materials technology, energy science and new energy and conservation, ecological science and environmental protection, earth science and marine technology, basic material science and radiation, medical science and biomedical technology, new processes and new technology applied on the basis of traditional industries, and other high technologies announced by the State Science and Technology Commission.

High-tech enterprises in the development zone are required to meet the following conditions. They must be involved in the research and development [R&D], production, and buying and selling of one or more area of high technology and its products. They must practice independent accounting, have decision-making authority in their operations, and assume responsibility for their own profits and losses. Enterprise leaders must be scientific and technical personnel familiar with the R&D, production, and buying and selling of the products in question and must be full-time enterprise employees. More than 30 percent of the employees of an enterprise must be S&T personnel at the college level or above and more than 10 percent of its employees must be S&T personnel engaged in the R&D of high-tech products. In the case of a labor-intensive high-tech enterprise involved in the production of high-tech products or in providing high-tech services, more than 20 percent of its employees must be S&T personnel at the college level or above. The enterprise must have a specified amount of funds as well as operating and business sites and facilities suitable for the scale of its operations. The enterprise must spend more than 3 percent of its total annual revenues on the R&D of new technology and products. More than 50 percent of its total annual revenues must be incomes of a technical nature or constitute the output value of its high-tech products. The enterprise must have a clearly written constitution and a strict technical and financial management system. The period of operations must exceed 10 years.

In addition to the various national policies that give preferential treatment to high-tech enterprises, the "regulations" include even more favorable terms based on the experience of special economic zones along the coast, economic and technical development zones, and high-tech industrial development zones in other provinces and municipalities.

In the area of taxation, state regulations already provide that enterprises be exempt from paying income tax in the second year. Under the "regulations," enterprises that experience genuine difficulties in paying taxes from the third year onward shall have 50 percent of the taxes already paid returned to them by the municipal finance department with permission and within a set period of time. If joint ventures in business for more than 10 years have real difficulties paying taxes after the tax exemption period is over, they may apply to have their taxes reduced or waived.

According to the "regulations," new products certified by a science and technology commission above the municipal level shall be exempt from paying the product tax or value-added tax [VAT] for two years with the permission of the tax department. Enterprises that develop high-tech products within the scope of the "Spark Plan" and that meet the requirements for product tax and VAT exemption shall be allowed to spend such money on technical development and are not required to pay income taxes.

High-tech enterprises shall be exempt from paying the investment direction regulating tax on buildings constructed with funds raised by the enterprises themselves

that are to be used for technical development and production purposes and are consistent with the national industrial policy. The local share of land use taxes paid by enterprises shall be returned to them within 10 years by the finance department. High-tech enterprises are not required to pay real estate taxes for eight years on houses built by the enterprises or newly-built houses purchased by them. They shall also be exempt from paying vehicle or boat license fees for eight years.

Under the "regulations," a product is normally designated a high-tech product for a period of five years. Where the technology in question has a longer turnover period, the designation may last seven years or longer upon approval.

When it comes to capital construction, the "regulations" lay down the following schedule of matching fees for urban infrastructural facilities: Where the zone is completed, taxes are waived; where the zone is not completed, 70 percent of the amount shall be paid. Enterprises are exempt from paying temporary facility road use fee and are required to pay 50 percent of the construction land use fee. Enterprises in the Nangang development zone shall pay land use fee at the reduced rate of 65 percent while those in the Pingfang development zone shall do so at 55 percent.

To encourage high-tech enterprises to export and earn foreign exchange, enterprises whose annual exports exceed \$1 million shall be allowed to engage in foreign trade with the permission of the foreign economic relations and trade department. The foreign exchange earnings that an enterprise makes from handling its own exports will be retained in full by the enterprise for three years. Beginning in the fourth year, it can keep 80 percent of such earnings. When exports account for more than 70 percent of an enterprise's total output value for the year concerned, the enterprise may, upon review and approval by the tax department, enjoy a 10 percent reduction in its income tax rate.

Enterprises outside the budget and owned by the whole people may be exempt from turning over profits pegged to the budget for five years, starting from the day they are certified as high-tech enterprises.

Concerning fund management, the "regulations" stipulate that money saved through tax exemptions and tax cuts for high-tech enterprises in the development zone be pooled as a state support fund to be administered separately by the finance office of the zone. It should be spent exclusively on the development of high-tech and high-tech products. High-tech enterprises may set aside 20 percent of their technical revenues before tax as a technical development fund. They may set aside 1 percent of their annual sales revenues to supplement their working capital.

High-tech enterprises in the development zone may take accelerated depreciation, within as little as five years, on equipment and apparatus used in the development of high-tech products. Depreciation fees shall be retained in full by the enterprises as a modernization and transformation fund.

In addition, high-tech enterprises in the development zone may adopt a variety of contracting practices for marketing costs. The percentage of marketing costs to be set aside may also be modified as appropriate depending on the actual circumstances of the enterprise in question.

Concerning workers' wages, the enterprise shall determine on its own the wages of its workers as well as their bonuses and subsidies depending on its profitability, the level of their skills, and the magnitude of their contributions.

Under the "regulations," scientific, technical, and managerial personnel who join a high-tech enterprise in the development zone but keep their old jobs without pay shall be allowed to keep their wage increments, job titles, and housing allocation after they pay a pay suspension and job retention fee. When scientific, technical, and managerial personnel resign from their original positions to take a job in a high-tech enterprise in the development zone, their seniority shall continue to accumulate upon paying the pay suspension job retention fee. When people are transferred to a high-tech enterprise in the development zone, the type of ownership of their original place of work shall be retained along with their files and wages.

The wages of college and university graduates who join a high-tech enterprise in the development zone shall be set directly. Upon completing one year of employment, they shall be promoted one grade.

When a high-tech enterprise increases its annual profits by over 500,000 yuan or earns \$100,000 more in foreign exchange annually, the professional personnel under whose leadership these gains were made shall be awarded 10,000 yuan each and allowed to fluctuate one grade on the wage scale. When gains are made in two consecutive years, they shall be promoted one grade on the wage scale. When an employee from outside the province or municipality guides an enterprise in increasing its annual profits by over 100,000 yuan, his spouse and one under-age child as well as the employee himself or shall be granted local residence.

The "regulations" also lay down rules regarding investment by investors from outside Harbin and incentives for people who attract out-of-towners to invest in Harbin.

Moreover, to encourage colleges, universities, and scientific research institutions to set up high-tech enterprises, the "regulations" provide that collectively owned scientific research units in the zone and scientific research units owned by the whole people that have cut administrative costs across the board in accordance with state regulations and are economically self-sufficient may convert themselves into high-tech enterprises with the approval of the management office of the development zone provided they meet the requirements of a high-tech enterprise.

High-tech enterprises that evolved from scientific research units and high-tech enterprises set up in the zone by colleges, universities, and scientific research units shall keep their original ownership system and staff and continue to enjoy their original preferential treatment.

Under the "regulations," the management office of the high-tech industrial development zone is an agency of the provincial and municipal people's governments and is responsible for the day-to-day management of the zone under the guidance of the provincial and municipal science and technology commissions.

## FOREIGN TRADE, INVESTMENT

### Expanding Trade With Soviet Union

91CE0648A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 5, 27 May 91 pp 33-35

[Article by Lu Suoquan (6424 6956 0356), affiliated with the Institute of Foreign Economic Relations and Trade at China People's University: "Issues Involved in Further Expanding Foreign Economic Relations and Trade Along the Sino-Soviet Border"]

[Text] Foreign economic relations and trade along the Sino-Soviet border have been expanding rapidly in recent years. Heilongjiang-Soviet border trade contracts alone amounted to 680 million Swiss francs in 1988, totalled 1.7 billion Swiss francs in 1989 and, according to incomplete statistics, had reached 1.2 billion Swiss francs for the first half of 1990. Heilongjiang Province and the Soviet Union have signed over 200 contracts for economic and technological cooperation projects, to which about 30,000 workers have been assigned.

But along with such satisfying conditions, certain issues that must not be ignored still exist. The following such issues are having a major impact on the expansion of foreign economic relations and trade along the Sino-Soviet border.

1. Soviet Siberia and the far eastern Soviet Union is a region of sharp competition. The Soviet Union's national policy and complete set of preferential policies to enhance development of its eastern region are very attractive and have aroused a great response in certain countries. Financial groups and enterprises from countries and regions such as Japan, South Korea, Singapore, Taiwan, and Hong Kong have expressed great interest in the Soviet market, are working hard to break into it with their money, technology, and competitive merchandise, and are competing to grab markets that China has opened up. Thus, expanding foreign economic relations and trade along the Sino-Soviet border will certainly not be an easy matter, but will be a struggle that is full of complexity and intensity.

2. In order to achieve their political and economic objectives, developed Western countries are likely to take advantage of the Soviet Union's changing political and economic conditions to gradually shift funds, technology, and production of relevant commodities to the Soviet Union in a planned way, while increasing exports to the Soviet Union of food and consumer goods for everyday use. This will have a certain impact on the expansion of large-scale Sino-Soviet border trade and economic and technological cooperation projects.

3. Since the Soviet Union has changed to cash trade with China and the East European countries, its trade targets have become increasingly diversified, and are focused on certain West European and Asian-Pacific countries. As Soviet barter trade has long suffered from inertia, it is usually in products that are hard to sell on Western markets or second-rate. Moreover, Soviet small-scale barter trade has been left to localities and border zones, which has limited its scope. Within such a framework, even though barter trade along the Sino-Soviet border will continue, it will remain at the same rate of growth and scope as in recent years, and will experience many difficulties.

4. The Soviet Union's current export merchandise licensing regulations are having a negative impact on Sino-Soviet border trade. Since the Soviet Union began to readjust its export commodity mix in 1989, it has been strictly limiting exports of resources, such as raw materials, and has been practicing an export merchandise licensing system for 70 percent of its export commodities. The inability of many Soviet enterprises to fulfill their delivery contracts, because they cannot get export licenses, is causing China huge book surpluses, resulting in great economic losses to many Chinese enterprises, and limiting the further expansion of Sino-Soviet border trade.

5. While the Soviet Union is now experiencing severe shortages of food and all types of consumer goods, it should be noted that this is merely a temporary phenomenon. The Soviet Union is now doing all it can to increase production of secondary products. Even while many of its key national economic indicators were showing negative growth, Soviet consumer goods production still increased somewhat in 1990. The Soviet potential to shift military enterprises to civilian production must not be overlooked. Civilian products accounted for 40 percent of the gross output value of Soviet military enterprises in 1988, which figure had reached 50 percent by 1990, and will be even higher by 1995. Stationery, articles of daily use, and groceries produced by military enterprises, accounted for one-fifth of Soviet gross output in 1989 but one-third by 1990. Most Soviet-made goods, such as TVs, sewing machines, VCR's, radios, tape recorders, refrigerators, cameras, vacuum cleaners, and motorcycles, are produced by military enterprises. In addition, the Soviet Union also imports large amounts of food and consumer goods for daily use from Western markets. As to future border trade, we must revise our concepts, adapt to new conditions, study market demand changes, and reach our own decisions.

In light of this, we should conscientiously study the following issues, in order to further contribute to the expansion of foreign economic relations and trade along the Sino-Soviet border:

1. Sino-Soviet foreign trade merchandise should be made more mutually complementary. While everyone approves of this, mutual complementarity will change along with developing Sino-Soviet economic conditions. As far as the Soviets are concerned, this will be affected by the following

factors: 1) The Soviet Union is intensively readjusting its industrial structure, enhancing its investment in industries that produce secondary products by increasing their development rate and proportion of the national economy, vigorously expanding its agriculture, light industry, and food industry, and working hard to shift military enterprises to production of civilian consumer goods. These steps may gradually ease Soviet food and consumer goods supply shortages. Of course, while they are not likely to be very effective in the short term, because the Soviet Union currently lacks a domestic political order of stability and unity, they are a basic factor that affects mutual complementarity. 2) The Soviet Union is readjusting its foreign trade commodity mix, by encouraging exports, such as electronics products, machinery, and means of transport, while restricting exports of resources, such as fuels and raw materials, and practicing an export licensing system for these commodities. This will clearly make Sino-Soviet foreign trade merchandise less mutually complementary. 3) Since the Soviet Union changed from accounts to cash trade, its trade targets have become more diversified. This will also have a certain impact on mutual complementarity.

It is thus obvious that the mutual complementarity of Sino-Soviet foreign trade commodity mix is not unalterable. Except for the second of these three factors that affect mutual complementarity, the others contain a "time factor." In other words, their impact and effects will not show up clearly all at once. This will give us the chance to take advantage of the time factor, by striving to do a good job of changing our backward export commodity mix, and working hard to develop fast-selling and high-tech products that are good in quality, have high added value, and are sharply competitive, so that we can keep a firm hold on the markets that we have opened up.

2. The scope of Sino-Soviet economic cooperation should be expanded. This is a key field in which to further expand foreign economic relations and trade along the Sino-Soviet border. Soviet Siberia and its far eastern zone is the Soviet Union's key region of opening up and developing, while being a near neighbor to China's northeastern provinces. Future economic relations and trade along the Sino-Soviet border should be changed from mostly barter trade to mainly economic cooperation. China has already launched certain cooperative projects with the Soviet Union in areas, such as construction project contracting, logging, vegetable cultivation, and color film enlargement. As far as international construction contracting and labor cooperation are concerned, these projects are still in an elementary form of development, and should be gradually expanded to more advanced forms. As to the state of natural resources in the far eastern Soviet Union and China's manpower and technological resources, China and the Soviet Union are fully capable of engaging in cooperative projects in areas, such as timber processing, furniture making, papermaking, and aquatic product processing. We are also fully capable of carrying out cooperative development of certain resources (such as coal).

Forms of cooperation could be more flexible and diversified, instead of being limited to one type. Based on a mutual exchange of resources, funds, technology, and manpower, as well as the principle of economic equality and mutual benefit, we could engage in "three imports and one supplementation" and "three exports and one supplementation." We could carry out joint management and cooperative production, and could also engage in compensation trade and leasing trade, or a combination of them. There is also much room for expansion of international construction contracting and labor cooperation. We could engage in more "three exports and one supplementation" and cooperative production with the Soviet Union. In order to upgrade the technology and equipment of our obsolete enterprises and build certain new production facilities, China could engage in more compensation and leasing trade. Based on the specific conditions of China's production sector, more reselling to the place of production, return purchasing, or mixed forms could be used to pay for such forms of cooperation.

3. A multilateral form of cooperation compensation should be utilized. While most current Sino-Soviet border trade is conducted in the form of barter, which does away with the problem of bilateral foreign exchange shortages, barter trade is subject to certain limitations, such as making it hard to conduct large transactions of diversified commodities. In barter transactions, commodity turnover is often subject to bilateral supply and demand limitations, and the phenomenon often arises in which "the Soviet Union has trouble supplying the commodities needed by Chinese parties, or the Chinese side does not want the commodities that the Soviets can supply." Thus, while barter is not suited to the expansion of border trade, current conditions mandate that it still be used.

There are many examples in international trade and economic cooperation of transactions being concluded through widespread cooperation among commercial middlemen (trading companies) in one's own or other countries. For instance, certain East European countries must pay for flatbed trucks that they import from the German Benz Corporation with jeeps, because they lack foreign exchange. While Germany naturally does not need these jeeps, such transactions are made possible with the help of middlemen. The middlemen trade the jeeps in Ecuador for bananas through the form of return purchasing (since Ecuador lacks foreign exchange), then ship and sell the bananas on European markets, and finally turn over the income so acquired to the Benz Corp to complete the transaction. As other countries and regions (such as South Korea, Japan, and Singapore) also trade with the Soviet Union, ways could be found to conclude transactions through third parties. For instance, China could supply commodities to the Soviet Union, the Soviet Union could then supply commodities to (for instance) Japan, and finally Japan could pay us in cash or supply commodities to us, in order to complete the transaction. While this method may be quite inconvenient, it usually enables transactions to be finally concluded. It is understood that foreign economic relations and trade departments in the city of Chongqing have experience in such practices. Joint

economic cooperation with the Soviet Union by several relevant domestic departments is often able to quite successfully solve the problem of Soviet-supplied return goods, and make it possible to conclude transactions. There are also real examples of this in China. The use of a multilateral form of cooperation compensation can bring the advantages of the participants into full play and, thus, enable each party to acquire its due economic benefits on the basis of equality and mutual benefit.

4. An RMB-ruble exchange rate should be set in order to promote further expansion of Sino-Soviet foreign economic relations and trade activities. As the RMB and the ruble are not freely convertible, Sino-Soviet trade has long used the Swiss franc as its currency of calculation. As foreign economic and trade relations along the Sino-Soviet border expand sharply, this lack of convertibility will no longer be suited to new conditions, and will be hard to use as a comparison of foreign trade economic efficiency. This makes an objective demand that a currency exchange rate be set. The exchange rate of the ruble to the U.S. dollar has been set too high. Although the Soviet Union has readjusted this rate, it is still too high, and very much so in relation to the actual purchasing power of the ruble. On 1 November 1990, the Soviet Union set the following three list prices for conversion of the ruble to major foreign currencies, such as the U.S. dollar: 1) the official exchange rate (used only for economic analysis, comparison, and loan repayment)—1 U.S. dollar = 55.4 gebi; 2) the special exchange rate (used for legal state foreign exchange transactions with individuals)—1 U.S. dollar = 5.54 rubles; 3) the commercial exchange rate (used for settling accounts in all foreign economic relations and trade activities)—1 U.S. dollar = 1.66 rubles; plus the auction exchange rate (the Soviet auction market price for domestic and foreign exchange)—1 U.S. dollar = 22.60 rubles. Based on the actual state of the Soviet ruble, we could use various factors to set a rational floating exchange rate between the ruble and the RMB. After an RMB-ruble exchange rate is set, accounts could naturally also be settled through cash or a third country's currency.

5. Enterprise groups that produce export commodities should be organized, and the production and export of fast-selling products should be intensified. Along with the expansion of foreign economic and trade relations and the sharpening of competition among the relevant Northeast Asian countries, foreign economic relations and trade along the Sino-Soviet border have actually gradually become a component part of Northeast Asian foreign economic relations and trade. Thus, along with developing and changing circumstances, we should no longer limit our understanding of foreign economic relations and trade along the Sino-Soviet border to its former significance, but should consider it within the context of Northeast Asian foreign economic relations and trade activities. As countries and regions such as South Korea, Japan, and Taiwan, are taking active steps to break into the Soviet market by engaging in barter, maritime, and border trade, it will be hard to bring the advantages of quality Chinese commodities into full play if we simply try to compete with their

commodities with those produced independently by various Chinese enterprises. In order to improve the quality and increase the quantity of our export commodities, hot-selling products in particular, enhance their competitive advantages as far as price and other factors are concerned, and open up, capture, and establish international markets, we should unite our various forms and levels of enterprises that produce major categories of commodities, and organize them into enterprise groups that produce export commodities in order to speed up the rationalization of our enterprise structures, spur enterprises to develop resources and use their funds and technology more rationally, and promote a more rational disposition of our productive forces and steady improvements in our product quality.

### Administrative Official Reports on Port Openings

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[Article by Ye Qing (0673 7230), chairman of the State Council Leading Group on Port Administration and vice minister of the State Planning Commission: "On Opening Up China's Ports to the Outside World"]

[Text]

#### I.

Since China began to reform and open up to the outside world, we have made intensified port construction one of our strategic steps to speed up the development of our national economy. We have invested a large amount of money in port construction to form a multilevel and multifunctional port network of passenger and freight transport that is suited to opening up all of China and has complete land, sea, and air communications. This has given us the following advantages for developing our national economy, expanding our foreign trade, and attracting technology and funds:

1. Our foreign trade transport and production has grown steadily, and foreign trade turnover through our ports has set a new record of over 200 million tons.

Departments throughout China, such as transportation, railways, foreign economic relations and trade, and port administration, helped to bring about a great change in our foreign trade commodity mix in 1990. They took concerted action and worked hard to overfulfill their foreign trade duties. Our foreign trade turnover through sea, land, and air ports reached 201 million tons in 1990, or 5.9 percent more than in 1989, and maintained a steady growth momentum. This included 173.82 million tons of water transport, 10.17 million tons of railway transport, 14.66 million tons of highway transport, and 104,000 tons of air transport. Moreover, our export turnover exceeded our import turnover for the first time. The major reasons for this are as follows:

1) We enhanced our coordination and cooperation, which ensured that key import goods would be received, unloaded, dispersed, and transported. All port departments overcame many difficulties in order to do a good job

of receiving and unloading key import goods. They organized timely reception, unloading, dispersal, and transportation, speeded up their inspection and release procedures, did a better job of receiving and transporting key import goods, and did not create shipping or port backups.

2) We did a good job of collecting in port and shipping out export goods, which ensured completion of our export earnings duties. All transport, examination, and inspection departments focused on and gave priority to making arrangements for foreign trade exports. While great changes occurred in export commodity mix and transport difficulties increased in 1990, we still ensured foreign trade growth needs. As increasing amounts of seasonal and expensive foreign trade export goods, such as fresh foods that are susceptible to spoilage, textiles, and clothing, have been being shipped by air in recent years, timeliness has become a matter of urgency and deliveries must be punctual. Thus, the State Council Port Administration Office called the concerned departments to a special joint meeting, at which it proposed ways to solve existing problems, in order to create the conditions for further expansion of air transport.

3) We enhanced our overall transport capacity, and improved our transport conditions. We put 33 new deep-water berths along the coast and on the Yangtze River into operation in 1990, which gave us 17 million tons of added berth capability. We added to and replaced a number of loading and unloading mechanical facilities, and expanded our warehouse space, while continuing to maintain plenty of room for port production. Our railway, highway, and air transport capacity all increased somewhat, and we basically experienced no station, train, or goods backups in 1990.

2. Our examination and inspection departments conducted strict checkups and provided active service, which ensured that ports were safe and open.

In 1990, we inspected port entries and exits of 185,000 ships, 34,000 aircraft, 31,000 trains, and 6.15 million motor vehicles. We inspected entries and exits of 65.91 million people, including 6.238 million by sea, 54.937 million by land, and 4.735 million by air. All of these figures were considerably higher than in 1989.

In order to ensure that ports were kept open, border inspection departments intensified their exit inspections, and promptly dealt with all types of procedural inconsistencies and problems.

In 1990, customs departments collected 16.04 billion yuan in tariffs and 12.24 billion yuan in commissioned duties, tracked down over 12,000 cases of smuggling, and seized over 600 million yuan worth of contraband.

In 1990, health and quarantine departments conducted over 410,000 entry and exit inspections and physical examinations, and discovered over 18,000 cases of all types of disease. They quarantined 570,000 entering ships, aircraft, and vehicles. Health and quarantine departments also completed their organization and establishment of

inspection and classified control of imported food in 1990, and conducted uniform health examinations and food inspections of all entries.

Plant and animal quarantine departments quarantined 338,400 batches of plant and animal imports and exports and their products in 1990, discovered over 30 prohibited species, and dealt with them all effectively. Moreover, they inspected and quarantined over 2 million passenger-carried plant and animal products. They also cooperated successfully with foreign trade departments to open up export markets in areas, such as soil-containing potted landscapes, meat cattle, and breeding hogs, rabbits, and poultry, which increased China's export-earning commodities.

Commodity inspection departments inspected 1.09 million batches of foreign trade commodities in 1990, 5,960 ships for water gauge, capacity, and weight, 27.8 million tons by weight, over 110,000 containers, 2,140 batches for damage, and 7,818 other registered steamboats. In line with the "International Regulations on Marine Shipping of Dangerous Goods" stipulated by the UN International Maritime Affairs Agency, we have strengthened our inspection and control over the packaging of dangerous exports. We inspected over 10,000 batches of dangerous goods packaging in 1990, which ensured the safety and quality of our foreign trade export goods.

Harbor superintendency administration departments organized and conducted joint inspections of 39,000 foreign ships in 1990, and discovered and dealt with 340 ships that had violated international navigation regulations on waste discharge, which ensured normal harbor operation and the safety of ships entering and leaving harbors, and preserved our national sovereignty over our territorial waters. Moreover, in order to put a stop to the arbitrary collection of fees and imposition of fines, we published regulations, such as "Regulations on the Supervision, Control, and Punishment of Violations for Sea Traffic" and "Regulations on Safety Control and Punishment of Violations for Inland River Traffic," which have enhanced our harbor superintendency administration legal institutions.

Chinese ship inspection departments have signed mutual commissioning cooperative agreements with representative shipping and ship inspection agencies in 15 countries, and the governments of seven countries have also authorized Chinese ship inspections on their behalf, which has improved the prestige of Chinese ship inspection departments. In 1990, we inspected more than 23 million tons of goods on over 1,700 foreign ships. We also inspected 34 million tons of goods on 5,050 Chinese oceangoing vessels, and imposed technical tests and control over more than 90,000 containers, which ensured the navigation safety of our foreign trade shipping.

Chinese branches of the International Seamen's Club entertained over 200,000 sailors from more than 150 countries and regions in 1990, organized many forms of goodwill propaganda, and brought their role in foreign propaganda into full play.

3. We have opened up 11 new ports to meet the needs of reform and opening up to the outside world.

In 1990, China opened up 11 first-class ports, including six harbors at Mawan, Yantian, Qinglan, Yangpu, Da'an, and Ma'anshan, four airfields at Changsha, Hefei, Nanchang, and Jinan, and a railway station at Alataw Shankou. Among these new ports, the opening up of the railway port at Alataw Shankou opened up a second great Eurasian land bridge from Lianyungang in the East to Rotterdam, Holland in the West. China and the Soviet Union have joined up their railways, are emphasizing the construction of accessory facilities, and have scheduled the official opening of Sino-Soviet railway service for 1992. The harbor at Yangpu will be Hainan Province's biggest port, and will play a key role in the development of China's biggest SEZ once it is opened up. Since the airfields at Changsha, Hefei, and Nanchang went into service, they have handled a steady flow of passengers, fulfilled about 75 percent of their passenger capacity, speeded up the development of our inland economy and tourism, facilitated foreign contacts, and achieved striking economic and social results.

## II.

1991 is the first year of the realization of China's second strategic modernization objective and of the Eighth Five-Year Plan, and is also a year in which we are continuing with improvement and rectification and making steady advances in promoting reform and opening up to the outside world. Our major tasks for 1991 are as follows:

1. We will do a good job of cooperation and coordination, in order to ensure fulfillment of our foreign trade shipping duties. Increasing exports and earning more foreign exchange are the basis for further expansion of foreign economic and technical interchanges and cooperation. Ensuring a steady increase in foreign trade exports is not only a duty of our foreign trade sector, but is also a joint duty of all port departments. The major reason why our foreign trade export situation has improved in 1991 is that we have had a bigger supply of foreign trade export goods. Our port duties are to ensure the qualitative and quantitative fulfillment of our foreign trade export shipping duties. We must ensure quality in all links, such as goods supply, collection of goods for shipping, loading and unloading, storage, inspection, and examination. As the reception, unloading, dispersal, and transport of imported staple commodities are very difficult tasks, they will remain the focus of our 1991 foreign trade transport work.

2. In order to promote reform and opening up to the outside world, we will do a good job of litigation in our newly opened ports.

3. We will enhance our overall port administration, and rationalize port work relations. We will further improve all rules and regulations pertaining to overall port administration, practice goal management, clarify the scope of responsibility of all port units, steadily accelerate the institutionalization and standardization of port administration, and ensure that our ports are safe and open.

4. We will do a good job of coordinating the extension of existing ports with the construction of infrastructures for newly opened ones, in order to bring our port efficiency into full play. Inspection and examination units will conduct sound checkups and offer good service.

5. We will strengthen centralized control over foreign trade storage. While our foreign trade warehouse industry has grown rapidly in recent years, and has played a positive role in ensuring the collection, dispersal, and transport of foreign trade goods that pass through our ports, and in speeding up the development of our externally oriented economy, certain problems still exist, particularly diversified management and decentralized control. All port offices will cooperate with the departments concerned to strengthen centralized control over foreign trade storage, in order to achieve a more rational setup. Moreover, the management sector will allocate the necessary equipment to ensure the quality and safety of foreign trade goods.

### Current Problems With U.S. Export Control Policies

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[Article by Zhang Hanlin (1728 3352 2651) and Cai Chunlin (5591 2504 2651): "Cursory Discussion of United States Export Control Policies Toward China and Prospects"; AMERICAN STUDIES, a quarterly, is published jointly by the Chinese Academy of Social Sciences' Institute of American Studies and the Chinese Association for American Studies]

[Excerpts] From the time of the founding of New China until the present day, the United States' export control policy toward China, particularly control over the export of technology, has been a large problem and one that can easily lead to controversy in Sino-U.S. trade and bilateral relations. This article will analyze and discuss the basic policy, legislative history, evolution and current status, and existing problems in U.S. control of exports to China, as well as the counteractions that China has taken. It will also look at future prospects for this export control policy. [passage omitted]

### Problems Existing in the United States Export Control Policy Toward China, Countermeasures

As said above, despite the United States' great relaxation of export controls on China, not only is there the current problem of control policy being at a standstill, but, furthermore, there are the following problems:

(1) Excessive restraints on too broad a scale. Even though China is in the [United States Department of Commerce] V group of nations [for which there is to be a gradual relaxation of policies], it does not truly enjoy the treatment accorded V-group nations. It is the only V-group nation subject to the "Paris Committee" inspection. All green zone products require a valid permit for exports to China; a general permit has virtually no applicability to China. China is also the sole country to which a retail sale permit does not apply. Alan T. Crane of the United States

Technology Evaluation Bureau said: "America's export controls are much more complex than those of European nations and Japan, and they are broader."<sup>9</sup> In addition to the "Paris Committee" control items, the United States has unilateral controls, thereby creating a situation of strict controls on a broad scale.

(2) Export permit issuance procedures are complex and time-consuming. Since many items exported to China require inter-departmental and "Paris Committee" examination, examination and approval procedures are more complex and more time-consuming than in other countries.

(3) When the technological level of a certain category products or technologies was liberalized, there was no simultaneous relaxation for export of accessory items. This greatly hampered the use or the effectiveness of imported technology or products. In drawing up and readjusting its export control policies, the United States was limited by global strategy and national security considerations. It was particularly careful about relaxing export controls on high quality, precision, and sophisticated products and technology. In 1988, for example, the United States liberalized the export of computers, increasing the permissible data processing base from 285 million times per second to 550 million times per second, but it strictly restricted the export of attendant information communications networks, and large capacity magnetic cartridge storage card resolution devices. The reason given was that they could be used for military purposes. Thus, the use of imported advanced technology and equipment was limited.

The problems existing in U.S. control of exports to China hamper bilateral trade relations, and even the development of bilateral relations. They generate certain side effects for both parties. For the United States, first of all, they do not help improve the passive situation in U.S. exports, particularly high technology exports. Second, they do not help U.S. corporations in China conduct technology transfers and build three kinds of partially or wholly foreign-owned enterprises for the development of markets. Most of the technology and spare parts for joint venture enterprises such as China IBM, McDonnell Douglas, and the Shanghai Aircraft Corporation are imported from the United States. Export controls limit further transfers and cooperation. Many U.S. corporations do not want to invest in China for fear of not being able to obtain permits or of losing opportunities. This puts these corporations in a disadvantageous, competitive position. In addition, it does not help them make the most of their technological superiority to promote the steady upgrading of technology. For China, the damage is even greater and shows up in the following ways: (1) It obstructs our technology imports and the optimization of industry. The technology and equipment that we need cannot be imported; thus blocking the acceleration of technological transformation, upgrading of the industrial structure, and development in a more rational direction. (2) It hurts the export of China's mechanical and electrical products. Since the United States exercises jurisdiction outside its own territory, it

exercises control over the products, spare parts, and technology of U.S. corporations or subsidiaries. Thus, the export of Chinese mechanical and electrical products that employ U.S. technology in their production is limited. The computer field is a most conspicuous example. (3) It hurts China's importation of technology and equipment from U.S. Western allies. U.S. enforcement of reexport restrictions prevents "Paris Committee" member nations or other developed countries from exporting U.S. technology or products. It also prevents China from developing trade relations and cooperation with other countries.

In view of the foregoing problems, we believe that it is bilateral relations and strategy, as well as foreign policy, that play a decisive role in the United States' policy of limiting exports to China. Therefore, we must strive to formulate a fairly flexible foreign policy on a realistic basis in order to move bilateral relations in a good direction. We must seek normal development of the economy and trade on the basis of the Sino-U.S. joint communique and peaceful coexistence, and on the basis of mutual respect and understanding. Only through an improvement in the overall environment will it be possible to obtain greater policy relaxation. However, personnel engaged in policy study and practical work must seek to do the following:

(1) Fully realize the long-term nature and complexity of export control policy limitations. In May 1989, John Kanfola, the director of the United States Department of Defense Strategic Trade Control Office, said: "The United States must maintain a 30 year lead in key fields of strategic significance, and it must generally decide exports to China on this basis." It is for this reason that United States export restrictions on China will last a long time because the United States still regards China as a potential adversary. Therefore, we must actively strive for the export of high technology. For technologies and products having both military and civilian applications, in particular, we must direct efforts toward policy makers and executors in the Department of Commerce, the Department of Defense, and the President's Export Office in order to reduce the other party's concern. We must selectively arrange visits to some Chinese factories, enterprises, and research institutions to provide an objective understanding of our technical level. These efforts are helpful in getting them to relax restrictions further and to hasten examination and approval.

(2) Use the favorable competitive climate of the international market for the step-by-step, focused importation of technology and products. In recent years, Japan has become increasingly skilled in the high technology field, and the Soviet Union is ahead of us in certain fields. Therefore, we must realistically examine the difference between advanced technology and applied technology in the international market in terms of the needs of China's industry for technology and products, and on the basis of China's industrial policy. Acting under the centralized leadership of the Ministry of Foreign Economic Relations and Trade and the State Planning Commission, separate industries should draw up in a focused way a systematic strategy for importing technology from different countries

and territories. They must resolutely overcome disorganized, unsystematic, and ill-considered imports. They should make full use of internal conflicts in the "Paris Committee" to expand imports from Germany, the United Kingdom, France, and Japan to avoid hanging themselves from a single tree.

(3) Do a truly good job in managing the importation of technology and products, abiding by promises. This is the only way of gaining the other party's long-term confidence for the winning of more preferential and relaxed policies. As one American pointed out: "The essence of export controls is to block the flow of strategic goods to the Soviet Bloc, but it does not prevent U.S. trade in other than strategic goods from seeking maximum benefit."<sup>10</sup> Therefore, a relaxation of export controls against China, particularly goods and technology having both military and civilian applications, is for America's own economic and political good. Thus, China should proceed on the basis of its own interests and strategy, keep promises, not transfer imported technology to a third country, and state the ultimate user.

(4) Use of large U.S. corporations involved in trade that have close relations with us, Chinese mass organizations, and trade associations to importune and bring pressures to bear on American parties concerned. Work on congressmen and, insofar as the law allows, simultaneous lobbying to acquaint congressmen further with China's resolve in carrying out political and economic reforms, and its policy of opening to the outside world. We must strive to get Congress to be practical and realistic when formulating limitations on exports to China, and to formulate in an objective way policies that benefit both parties.

(5) When importing restricted technology and products, flexible and varied policies should be used. If the main component of a piece of equipment or technology is not restricted, this main component should be imported first, supplementary components being imported through other channels. Advanced equipment for which no permit can be obtained at once should be leased first, and the other party's supervision and inspection should be accepted. Leasing instead of purchasing for flexible handling can not only save time, it can also save a large amount of foreign exchange as well.

#### **Evaluation of and Outlook for the U.S. China Export Limitation Policy**

The United States export limitation policy is an outgrowth of the East-West conflict. In order to prevent the Soviet Bloc from narrowing the gap with the west in military technology, the United States does not hesitate to make every sacrifice and to enforce restrictions in partnership with its allies. However, more than 50 years of history shows that although this policy has checked the rapid development of Soviet military technology to a certain extent, and has put the Soviet Union in a position of relative inferiority in numerous high technology fields, particularly in the strategic electronics industry, which lags far, far behind the United States, the United States has also paid an enormous price manifested in the following:

1. Technology exports and transfers. Not only does the United States enforce the "Paris Committee" control policy, but it also unilaterally controls certain technology, and it exerts supervision and control over the reexport by Western nations of technology they have purchased. The Toshiba affair was a conspicuous case in point. One American economist estimates that this affair alone reduced exports by approximately \$9 billion annually.<sup>11</sup>

2. Petroleum exports. On the pretext of protecting natural resources, the United States restricted the direct export to Japan of Alaskan petroleum, forcing its shipment through the Panama Canal to Gulf of Mexico ports. This increased the cost of petroleum by \$3.70 per barrel over the direct export cost. A Johns Hopkins University professor estimates that this single requirement increases the U.S. foreign trade deficit by between approximately \$10 and \$15 billion each year.<sup>12</sup>

3. Timber exports. The United States has plentiful resources, but it prohibits the export of timber from federal land, thereby forcing Japan and South Korea to buy more expensive processed lumber. Some state governments are also now planning to prohibit the export of timber from state-owned land. However, this aspiration has not been realized because Japan and Korea have shifted to the purchase of timber from the Philippines, thereby reducing U.S. exports by an annual \$1 billion.

4. Embargo damage to U.S. exports. The U.S. embargo against Vietnam and other countries for political reasons has reduced its exports, with the result that the United States' adverse trade balance increases by approximately \$2 billion a year. The loss resulting from the Reagan administration's limitation on the export of natural gas to the Soviet Union on 30 December 1981 alone amounted to \$100 million. United States prohibitions on grain shipments to the Soviet Union forced the Soviet Union to turn to Canada and Australia for imports, thereby costing the United States \$11.4 billion.<sup>13</sup>

To summarize the above, the United States' export control policy has not been successful in its goals of advancing national security and foreign policy, and promoting economic prosperity. Although it has limited the flow to the Soviet Union, East Europe, and China of much advanced technology, the overly large size, the broad scope, and the occasional malfunctioning of U.S. export control system have blocked U.S. exports, causing huge losses for the U.S. economy. At the same time, the United States has played a poor leading role in inducing other developed countries to institute protectionist policies and measures. Overall, this has not benefitted either the United States or anyone else.

From an overview of the evolution of the U.S. policy limiting exports to China, we can discern that, despite the tortuous development, this policy is currently at a standstill. However, objectively speaking, since the establishment of relations between China and the United States, because of its own political, economic, and global strategic interests, the United States has steadily tried to relax restrictions on exports to China. As a result, within a brief time, China's position in the U.S. export limitation policy

moved up from the Y group to the V group, i.e., it went from "enemy nation" to "nonenemy nation," and even to the present "friendly nonallied nation." Such speed of development is extremely rare in their control policy toward another country. This first resulted from the U.S. realization that maintenance and development of friendly relations with China was consistent with its long-range national interests. A June 1981 Reagan administration internal document declared that "America supports a secure, friendly, and modern China." It also instructed a rise in the level of exports of technology to China in the implementation of a "double threshold standard" [permitting the export to China of products and technology at twice the level to the Soviet Union]. As Baldridge said: "This new policy toward China is extremely consistent with America's national security and foreign policy interest." Second, the United States realized that providing China with technology and developing economic and trade relations with it helped both the development of China's economy and the maintenance of world peace. China is a force in the Asia and Pacific region that cannot be ignored. In addition, China is a huge market that holds powerful attraction for the United States. In order to develop its economy, China must import large quantities of advanced technology and equipment, thus providing developed countries a vast market. In order to make sure that it does not lose out in the intense competition, the United States had to relax export restrictions on China to improve the competitiveness of its exports.

Nevertheless, we must realize that in the formulation and adjustment of policies limiting exports to China, the United States has always been controlled by two factors: economic interests and national security. The United States government continues to regard China as a potentially threatening communist country. In Congress, a number of people even maintain that to relax export restrictions on China is to "court calamity." They propose a change in the degree of control on the basis of bilateral relations and economic needs. Thus, the U.S. limitation on exports to China has become one of the main stumbling blocks to trade relations between the two countries. This battle of restrictions and counter-restrictions will continue for a long time, and will become more complex, thus requiring our unflagging efforts and hard work.

As for the future outlook, the writers believe that with the further development of the science and technology revolution and the steady rise in the level of technology, technology will also spread faster and on an ever greater scale. The development of international technology and trade will expand rapidly with the steady increase in transnational corporations and the increase in the degree of internationalization of production. At the same time, as a result of the more intense competition in world technology markets, U.S. domination will be substantially broken, multi-polar sources of world technology gradually coming into being with the rapid rise of Japan, West Germany, the United Kingdom, and France. As a result, the U.S. export control policy will have to be readjusted as the world economic and technological climate changes. In addition, the decline in competitiveness of U.S. exports, and its huge

adverse trade balance shows that the existing export restrictions are creating serious damage to the economy of the United States. This is forcing the United States to reform and readjust its export restrictions. In particular, with the easing of relations between the United States and the Soviet Union, the changes in East Europe, as well as the splitting up and regrouping of various world powers as they encounter complex conflicts of interest, forces the United States to carry out a complete analysis of the international political and economic situation. Thus, there is reason to believe that U.S. export restriction policies may develop and change in several directions as follows: (1) lifting or reducing unilateral controls, placing some unilateral control items within the purview of the "Paris Committee" controls, or cancelling them in order to maintain unanimity and harmony among members of the "Paris Committee" and relations with them; (2) urging a further reduction in "Paris Committee" export control items, and jointly limiting reexports; (3) actions to simplify procedures that will improve control efficiency; (4) relaxation of export controls on the Soviet Union and East Europe.

The writers believe that Sino-U.S. relations and the substance of export limitations are prime factors when considering the outlook for U.S. policies limiting exports to China. Since China and the United States have antithetical political systems and ideologies, a small number of people in the United States regard China as a potential adversary. They also believe that we lack strict protection of intellectual property rights. Both attitudes hurt the improvement of bilateral trade relations. Nevertheless, China is a force that cannot be ignored in the maintenance of world peace. We believe that for some time to come, there will be two possibilities for United States policy limiting exports to China: First could be the general maintenance of the present policy. Until such time as there is a general revival of relations between China and the United States, there will be neither a rise or fall in the level of U.S. trade with China, and a halt will be called to the adoption of new measures relaxing policies on exports to China. For a certain period of time, the United States will prohibit the export of technology and goods to China that have clear military purposes; it also will strictly examine exports to China of products and technology that have both military and civilian applications. Should a complete revival of bilateral relations occur, then the export control policy will be re-examined on the basis of current standards and further relaxed. However, exports that "threaten" U.S. national security will be rigorously controlled. Second could be the reformulation of a new, all-round stricter policy limiting exports to China, placing China on a "list of countries to which the sale of American ordnance is prohibited" in a revision of the existing laws limiting exports. This would lower the level of products and technology that can be exported to China, as well as deny exports to China of products and technology having both military and civilian applications.

The writers believe that given the current development of bilateral relations, the second scheme is not very likely, but the likelihood for the first is greater. Over the long range,

the United States will proceed with its own interests toward active harmonization of bilateral relations. At the same time, we must also proceed from our own national and peoples' interests in drawing up more flexible foreign policies in an effort to improve relations with the United States. We believe that limitations on exports to China will get through the present standstill and ultimately head in the direction of relaxation.

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10. EB-1315, 14 December 1987.

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[Footnotes 12 and 13 not published]

#### Position on Uruguay Round Issues

91P30186A

[Editorial Report] The 30 June 1991 issue of Beijing's GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL], the Chinese-language journal of the Ministry of Foreign Economic Relations and Trade-affiliated University of Foreign Economic Relations and Trade, carried on pages 31-34 an article titled, "The Uruguay Round Multilateral Trade Negotiations and China's Basic Stand." Author Wang Yi [3769 3015] discussed the Uruguay Round's agenda, progress to date, and existing issues. He further outlined China's fundamental position on the following key issues—tariff reduction pledges, textile and clothing trade, potential rescission of developing countries' GATT stipulated right to reduce imports as a means of stabilizing their balance of payments, the three "new categories"—services trade, trade-related investment measures [rules for overseas expansion of multinational businesses], and the protection of intellectual property rights—and agricultural trade.

Wang began by noting that according to a provision set forth in the "Ministerial Declaration" that launched the Uruguay Round, China has been one of the full participants during this round participating in negotiations on all 15 topics and putting forward proposals on all topics having some bearing on China. He also noted that the Chinese Government, along with many other developing countries, is paying particular attention to the issue of market entry.

China's position on tariff reduction pledges and nontariff measures, according to Wang, is that the implementation of all agreements reached must be guaranteed. China also expects all parties, especially the developed countries, to abide by agreements anticipated to come out of the current round of negotiations such as agreements on country-of-origin regulations, pre-shipping inspections, and a revised version of the "Tokyo Round" agreement.

China's position on textile and clothing trade, according to Wang, is that the process whereby this category of trade gradually falls under the auspices of the GATT must be a process of liberalization. Specifically, after a certain transition period all discriminatory restrictions placed on the textile and clothing exports of developing countries must be removed. Additionally, China hopes that all member nations of the Multifiber Agreement will be allowed to participate in and derive benefits from this process and that their exporting interests will be protected.

China's position, should an attempt be made to rescind developing countries rights to restrict imports as a means of stabilizing their balance of payments—as provided for in the B clause of the 18th article of the GATT—is that such action would be "totally unacceptable" particularly in view of the ever-widening disparity between the developed and the developing countries. Equally unacceptable would be any attempt to allow the concept of "selectivity" to enter into the GATT article on restrictions to safeguard the balance of payments.

Prefacing China's positions on the three "new categories"—services trade, trade-related investment measures, and the protection of intellectual property rights, Wang underscored China's concern that Uruguay Round participants respect each country's sovereignty, laws, and development targets and that they also take into account the differing levels of economic development among countries. China's positions on these three new categories, according to Wang, are as follows:

1. Services Trade: Each country must, of its own accord, determine the opening up or partial opening up of its services trade. Doubting that agreements will be reached on services trade issues during this round of negotiations, Wang anticipated that an outline for an agreement might be reached and that remaining issues would be resolved over time.

2. Trade-related Investment Measures: All measures that not only fail to resolve problems but also lead to a decline in the total amount of investment capital in circulation must be prohibited since they will have a detrimental effect on the development of the world economy and trade.

3. Protection of Intellectual Property Rights: Since there is a large disparity between the different countries' levels of technical development, it would be unrealistic to attempt to force intellectual property standards on the majority of developing countries who have no way of meeting them. Such an attempt would be incompatible with the goals and related provisions of the GATT.

China's position on agricultural trade, according to Wang, is that while it will be necessary to make concerted efforts to reduce subsidies and promote agricultural trade liberalization, it will also be necessary to fully examine the interests of developing export nations and import nations, being careful not to harm their agricultural development policies' goals.

Observing that the Uruguay Round negotiations broke down in December 1990 when the United States and

Europe reached a deadlock in Brussels over agricultural trade subsidies, Wang expressed China's sentiment that the two sides reach an agreement that will both keep in check the tendency towards trade protectionism and regional trade blocs and be acceptable to the developed and developing countries, including China.

Wang concluded that since the impetus for the Chinese Government's reform and opening up policies is the desire to create beneficial conditions for China's participation in the world's multilateral trading system, and since during the past few years over 85 percent of China's growing volume of trade has been with contracting parties to the GATT, it is hoped a more open, stable, and farsighted international trading system will come out of this round.

### **Impact of Foreign Investment on Development**

91CE0615A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 5, 30 May 91 pp 58-60, 57

[Article by Yu Jianxun (0060 1696 8113): "A Brief Discussion of China's Absorption of Direct Foreign Investment"]

#### **[Excerpts] 1. The History of Direct Foreign Investment**

China's "Law on Joint Ventures Using Chinese and Foreign Investment" was promulgated in June 1979 at the Second Session of the Fifth National People's Congress. It has since played a very important role in facilitating the implementation of the policy of opening up, in foreign fund utilization, and in protecting the legal rights and privileges of all parties to the Sino-foreign joint ventures, and it has promoted steady progress in our effort to attract foreign investments. In the early days, China began by setting up "the three kinds of wholly or partially foreign-owned" enterprises in the SEZ's, and later pilot projects were set up in some of the coastal cities. Because the investment environment was less than perfect then, economic laws and regulations were lacking, and foreign investors were hesitant about putting their money in China, we could only set up some processing and assembly operations in the "three forms of import processing and compensatory trade," which gradually developed into some kind of experimental small investments. Not too many foreign businessmen came to China to talk business back then, and few projects were successfully negotiated. Between 1979 and 1982, a total of 922 foreign-invested projects were approved. They were worth \$6 billion in agreed investment, and actual investment came to \$1.168 billion. In 1983, more foreigners began to come in, and 470 projects were approved, with agreed foreign investment worth \$1.731 billion and actual investment of \$635 million. In 1984, China opened 14 coastal port cities, summed up its earlier experience in absorbing foreign investments, further improved the infrastructure, transportations and communications, and energy and water supply systems, implemented various preferential policies to reduce taxes and yield profit, and simplified the project examination and approval procedure. Thereupon, it began to attract more and more foreign businessmen to come to China to

discuss investment, and the investment scope also grew much bigger. That year alone, 1,856 foreign-invested enterprise projects were approved, with agreed foreign investment value of \$2.65 billion and actual investment of \$1.257 billion. Such success was followed by another upsurge in direct foreign investment in 1985, when 3,073 foreign-invested enterprise projects were approved. They were worth \$5.931 billion in agreed investment, and actual investment came to \$1.658 billion. In October 1986 the Chinese Government promulgated a set of "Regulations To Encourage Foreign Investment" (or Article 22.) One after another, the localities and departments began to draw up measures to put those regulations into effect and extend even more preferential treatment to encourage foreign businesses to invest in export-oriented and technologically advanced projects. In that year, China approved 1,498 foreign-invested enterprise projects, with agreed foreign investment of \$2.834 billion and actual investment worth \$1.875 billion. Even more foreign businessmen came to China to invest in enterprise projects in 1987 than the year before. In April 1988, China promulgated the "Law on Sino-Foreign Contractual Joint Venture" and formulated an economic development strategy for the coastal areas. The localities competed to promulgate their own provisions to extend preferential treatment to foreign investors, thus began another huge wave of foreign investments. That year, China approved 5,945 foreign-invested enterprise projects (2,233 projects in 1987,) with agreed foreign investment of \$5.297 billion (\$3.71 billion in 1987) and actual investment worth \$3.194 billion (\$2.314 billion in 1987.)

In this way, China approved a total of 15,997 foreign-invested enterprise projects between 1979 and the end of 1988. Of those, 8,539 were Sino-foreign joint ventures, 6,815 were cooperative joint ventures, 594 were wholly foreign-owned enterprises, and 49 were joint development projects. The total agreed foreign investment was worth \$28.165 billion (including \$9.884 billion in joint ventures, \$13.831 billion in contractual joint ventures, \$1.524 billion in wholly foreign-owned enterprises, and \$2.926 billion in joint development projects); actual investment came to \$12.301 billion yuan (including \$5.373 billion in joint ventures, \$4.103 billion in cooperative joint ventures, \$378 million in wholly foreign-owned enterprises, and \$2.447 billion in joint development projects).

Despite a decrease in the number of foreign investment projects approved in 1989 because of the "4 June" storm in Beijing, actual fund input continued to increase. That year, 5,784 foreign-invested projects were approved (166 fewer than in 1988, a 2.8 percent decline), with agreed foreign investment of \$5.6 billion (\$302 million more than in 1988, a 5.6 percent increase) and actual investment of \$3.352 billion (nearly \$300 million more than a year earlier).

In April 1990, China amended its Joint Venture Law. Upon reviewing the actual experiences in bringing in foreign investments over the previous 10 years and referencing some of the usual international practices, certain amendments and supplements were deemed necessary. As

a result, we have created an even better investment environment for the foreign businessmen and boosted their confidence and sense of security in investing in China. The revised Joint Venture Law has explicit regulation against nationalization of Sino-foreign joint ventures and provisions for tax reduction and exemption, the appointment of the chairman of the board, and the length of contract in a contractual joint venture. In May 1990, China promulgated the "Temporary Regulation on the Sale and Transfer of Land-Use Rights on State-Owned Land in Cities and Towns," which provides the legal basis for foreign investors who wish to develop and operate whole parcels of land. In August 1990, China promulgated the "Regulation on Encouraging Investments by Overseas Chinese and Hong Kong and Macao Compatriots," and in September, the State Council also approved the "Regulation on the Reduction and Exemption of Enterprise Income Tax and Industrial and Commercial Unified Tax To Encourage Foreign Investors To Invest In Shanghai's Pudong New Zone," which was followed in October by MOFERT's [Ministry of Foreign Economic Relations and Trade] "Detailed Rules and Regulations of the Law on Ventures Using Foreign Investment." All these administrative measures fully demonstrate China's determination to open up to the outside world and to further protect the legal rights and privileges of the foreign investors. Thus, despite the economic sanctions imposed by some Western nations, there was no decrease in direct investment by foreign businessmen and overseas Chinese businessmen in 1990. That year, 7,276 new foreign-invested enterprises were approved, with agreed foreign investment worth \$6.57 billion (17.3 percent more than in the previous year) and actual fund input of \$3.41 billion (0.6 percent more than in the previous year). More than 90 percent of these were production-oriented projects. The number of export-oriented and technologically advanced enterprises soared, the investment scope continued to expand, and the term of cooperation grew longer. Statistics compiled by the relevant department show that at the end of 1990, there were 25,450 registered and licensed "three kinds of wholly or partially foreign owned enterprises" (15,082 joint ventures, 7,158 cooperative joint ventures, and 3,210 wholly foreign-owned enterprises). More than 10,000 were in operation, and more than 85 percent of them were doing well, most were making a profit and had balanced foreign exchange income and expenditure.

## 2. The Distribution of Foreign Businessmen by Nationality and Region

China is attracting direct foreign investments from 47 countries and regions. By the end of 1990, 68 percent of the investors were from Hong Kong, Macao, and Taiwan, 9 percent from the United States, around 7 percent from Japan, another 7 percent or so from the European countries, and a little more than 6 percent from other nations. Guangdong Province was among the first to attract direct foreign investment and is the province with the most foreign-invested projects and the highest agreed foreign investment value, accounting for approximately 50 percent of the nations' foreign investments. Between 1979 and

1989, Guangdong approved 11,213 foreign-invested enterprises, 9,508 of which have registered and are licensed for business, and \$5.188 billion yuan in foreign fund have been put to use. This equals approximately 35 percent of the nation's total foreign fund utilization for the period. There are 5,291 "three kinds of wholly or partially foreign-owned enterprises" already in operation, and they make up more than 60 percent of such enterprises nationwide. Guangdong is followed by Shanghai, Beijing, Fujian, Tianjin, Liaoning, Jiangsu, Shandong, Guangxi, Henan, Zhejiang, Hainan, Henan, Sichuan and other provinces, municipalities, and autonomous regions. The inland provinces and autonomous regions attract fewer direct foreign investments than the coastal region in the southeast.

Nearly 80 percent of the foreign-invested enterprises are production-oriented enterprises (there are more than 1,000 advanced technology-type and export-oriented enterprises.) They can be found in every industry and sector including petroleum, coal, transportation, electric power, metallurgy, communications, automobile, electronics, chemical, machinery, light industry, textile, construction, pharmaceutical, agriculture, forestry, animal husbandry, and fishery, housing and real estate, tourism and hotel, service trade, public health, culture, and education, banking, and insurance. The investment mix is getting better and better. But we should also see that among the foreign-invested projects approved in recent years, there are more small- and medium-sized projects than large projects and more ordinary processing projects than technology-intensive projects.

More and more products manufactured by the foreign-invested enterprises are being exported each year. Statistics compiled by the relevant departments show that foreign-invested enterprises exported \$320 million's worth of goods in 1985, \$480 million in 1986, and \$1 billion in 1987, which more than doubled the previous year's value, and in 1988, the export value increased to \$1.75 billion, and surged to \$3.63 billion in 1989 (it made up 8.3 percent of China's total export value for that year.) In 1990, their export value topped \$5.923 billion (11.5 percent of China's total export value for that year.) Export-oriented enterprises are making up an increasingly larger share of the foreign-invested enterprises. Some of the products manufactured by the "three kinds of wholly or partially foreign-owned" enterprises have reached international standards and can serve as import-substitutes.

## 3. Profitability and Role of the "Three Kinds of Wholly or Partially Foreign-Owned" Enterprises

The absorption of direct foreign investment has strengthened China's productive capability, promoted the development of industrial and agricultural productions, and has brought economic prosperity. The SEZ's and the coastal provinces and cities in particular owe their economic development to the "three kinds of wholly or partially foreign-owned" enterprises. For example, Guangdong Province has attracted foreign investments in trades and industries to every sector of its economy. In 1989, Guangdong's "three kinds of wholly or partially foreign-owned"

enterprises generated 13.5 billion yuan in GVIO [Gross Value of Industrial Output], 8.4 percent of the province's total GVIO. Shenzhen City's "three kinds of wholly or partially foreign-owned" enterprises generated as much as 6.861 billion yuan in GVIO, 59 percent of the city's GVIO. Survey in some other cities in the province shows that every \$1 of foreign capital can increase the output value by 10 yuan and generate 1 to 2 yuan in tax revenue.

Bringing in advanced technologies and equipment and management experience has accelerated the technological transformation and development of China's industrial enterprises. Reportedly, about 40 percent of the older enterprises in China's 14 coastal open cities have undergone some degree of technological transformation. This has in turn facilitated the introduction of a new generation of products, and the products of some key-point industries have now reached early-1980 international standards. Many new technologies and new products have filled the gaps in China's industrial production. For example, Guangdong Province originally had more than 9,000 old enterprises, but two-thirds of them have undergone some degree of technological transformation. Among them, textile, chemical fiber, electronics, foodstuff, plastic, and construction have undergone industry-wide technological transformation and have developed rapidly. The province's textile and chemical fiber industries have reached the nation's highest standards. The output value of its electronics industry and the export of electronic goods now rank top in the nation.

The accelerated development of the energy, transportation, communications, and tourist industries has played a positive role in improving the investment environment. For example, Guangdong Province has approved 30 joint ventures, cooperative joint ventures, and wholly foreign-owned enterprises in the power-supply business, and 15 of them are already in operation. They have 1.476 million kilowatts of installed capacity, which account for 21 percent of the province's total installed capacity in 1989. They have greatly eased the province's power shortage problem. Guangdong has also approved 25 joint ventures and cooperative joint ventures to work on highway, bridge, and port and harbor repair and construction. The total investment is worth \$1.037 billion plus 660 million yuan RMB. For example, the Guangzhou-Foshan Highway and the Guangzhou-Zhuhai Highway (under construction) are 317.7 kilometers long. It has built six bridges, with total length of 6,661 meters, and all of them have been completed and are open to traffic. The province also has built 22 new docks, all of which have been completed and are in service. These are important improvements to the transportation and communication systems which facilitate foreign trade and export. The province has also built some new hotels, restaurants, and amusement parks, creating a tourist network with Guangzhou at the hub and solving many of the businessmen's "room and board" problems.

Direct foreign investments help make China's export goods more competitive and increase its export's foreign exchange earning capacity. Guangdong's "three kinds of import processing and compensatory trade" and its "three

kinds of wholly or partially foreign-owned" enterprises alone earned \$115 million, \$257 million, \$750 million, \$910 million, \$1.547 billion, and \$2.871 billion in foreign exchange each year between 1984 and 1989. They play a very positive role in increasing total export.

Direct foreign investments also increase employment opportunities and produce a group of well-trained personnel. More than 2 million workers are employed in the "three kinds of import processing and compensatory trade" and "three kinds of wholly or partially foreign-owned enterprises" in Guangdong Province. This has played an important role in raising the province's living standard. Currently, more than 3.2 million workers are employed in foreign-invested enterprises nationwide.

#### 4. Several Ways To Attract Direct Foreign Investment

[passage omitted] In recent years, the number of wholly foreign-owned enterprises has been increasing fairly rapidly. Between 1979 and 1987, China approved a total of 183 wholly foreign-owned enterprises, and in 1988 it approved another 410, and 932 more in 1989. In 1990, it approved more than 400 such enterprises in the first six months. The wholly foreign-owned enterprises are managed by internationally recognized advanced management methods, and most of them are fairly profitable. However, the parent companies of these wholly foreign-owned enterprises control the finance, production, and marketing of their subsidiaries and can shift their enterprise profits around to avoid paying taxes. The relevant departments should supervise and monitor them closely.

In the last 10 years, China has engaged in joint exploration and development of offshore oil wells with nearly a hundred companies from 25 nations and regions. This type of cooperation allows us to utilize foreign investment and technologies and also lets others share some of the exploration and development risks. Joint exploration and development makes each partner bear its own investment risks, and if oil is discovered, it can be used to pay off the investors. In the last 10 years, using this joint development method, China has absorbed more than \$2 billion in foreign investments and has been quite successful.

#### Expanding Sino-Soviet Trade Prospects Viewed

91CE0617A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 19, 13 May 91 p 43

[Article by Hu Chusheng (5170 2806 3932): "Sino-Soviet Trade Prospects Expand"]

[Text] Since China and the Soviet Union have traditional friendly trade relations, Sino-Soviet trade occupies a very important position in China's trade. The first trade agreement signed with a foreign country after New China was established was the trade agreement signed between the Government of China and the Government of the Soviet Union. In the fifties, Sino-Soviet trade occupied the most important position in China's foreign trade at the time. In 1959, Sino-Soviet trade was worth \$2.1 billion, one-half China's total trade for that year. Since China had not yet

developed her foreign economy in all areas, the establishment and growth of Sino-Soviet trade relations and the loans and sets of equipment with which the Soviet Union supplied China had great significance and played a positive role for China's restoration and development of her national economy and improving national defense. Through clearing accounts *jizhang* [6068 6348] trade, China paid the Soviet Union for the equipment and loans they provided in goods and materials of equal value. The goods that China provided included some important goods and materials transshipped to the Soviet Union and that similarly provided the Soviet Union with important assistance. Through economic cooperation and trade, the two countries helped supply each others' needs and supported each other; this played an important role in promoting their construction and advancing the friendship between the two peoples.

Although Sino-Soviet trade has been through twists and turns over the past forty years, whether in years of friendly relations or periods of low tide, Sino-Soviet trade channels have always been stable. This is a link that has helped maintain friendship between the Chinese and Soviet people and opened a channel for economic exchanges between the two countries.

Since the eighties, especially since the thorough implementation of the "open up to the outside world, invigorate the economy domestically" policy stipulated by the Third Plenary Session of the 11th Party Central Committee, with the constant improvement of Sino-Soviet relations, Sino-Soviet trade has entered the stage of re-development. In December 1984, Mr. Osipov [1422 1585 3134 1133], then First Deputy Chairman of the Council of Ministers of the Soviet Union, visited China. Both sides signed a Sino-Soviet economic technical cooperation agreement, a science and technology cooperation agreement and agreements to establish for Sino-Soviet economic, trade, and technical cooperation committees. In July, 1985, a Vice Premier of China's State Council paid a reciprocal visit to the Soviet Union and signed a Sino-Soviet Five Year (1986-1990) trade agreement and economic and technical cooperation agreements on projects to build and transform industry in China. The signing of the above agreements not only laid a legal foundation for further developing economic trade and scientific and technical cooperation between the two countries, but also made it possible for Sino-Soviet trade to grow in a planned and steady manner and created favorable conditions for constantly expanding the areas of Sino-Soviet economic cooperation. The volume of trade between the two countries grew rapidly year by year, increasing from \$220 million in 1981 to \$3.6 billion in 1989, the highest level of trade between the two countries in recent years. Sino-Soviet trade volume in 1990 was \$3.2 billion. The Soviet Union has become China's primary trading partner after Hong Kong, the Macau region, Japan, the United States, and Germany.

As trade between the two countries constantly grew, the area of bilateral trade cooperation expanded, trading methods became more flexible and diverse, and the goods exchanged increased. It expanded from the traditional

unitary government accord on clearing accounts trade to indirect and direct trade between local areas in the two countries, multilayered border trade, and multiple channels of cooperative methods. In 1990 local trade and border trade between the two countries was about \$1 billion. This not only became an important complement to Sino-Soviet trade dealings, but also played an important role in spurring on economic cooperation between enterprises in the two countries, expanding contacts between the people, and stabilizing the situation in the border areas.

To adapt to the development of trade relations between the two countries, in December 1984 the two countries also established a Sino-Soviet economic, trade, science and technology cooperation committee at the vice premier level and has held a series of meetings each year alternating between Beijing and Moscow. This has further promoted exchange of views on bilateral trade relations and explored specific measures to develop bilateral trade. In addition, this year the sixth Sino-Soviet Joint Committee met in Moscow to continue developing trade between the two countries, and put forth new effort to open more multi-channel, multi-layered cooperative paths.

China and the Soviet Union are neighbors and have excellent geographical conditions for developing bilateral trade relations. China and the Soviet Union have traditional trade relations, the channels are open, and they are familiar with each others' export goods. China and the Soviet Union are vast and have an abundance of natural resources and export goods. What needs to be pointed out is that the goods of the two countries are complementary: the Soviet Union's timber, chemical fertilizers, steel, chemical industry products, power machinery, and transportation machinery and China's mineral products, foods, light industrial and textile goods, electronics products, machine products are popular with customers in both countries.

The peoples of China and the Soviet Union cherish their traditional friendship. In the fifties, the Soviet Union helped China restore and develop the national economy. Now, the Soviet Union's economy is encountering difficulties. In 1990 China supplied the Soviet Union with 500 million Swiss francs in consumer goods loans. This year China has again supplied the Soviet Union with 1 billion Swiss francs in consumer goods loans, indicating the Chinese people's goodwill towards the people of the Soviet Union.

In the past forty years, Sino-Soviet trade has been conducted through government accord clearing accounts trade, centralized through agreement in limited foreign trade specialized companies and contract commitments. This sort of trade that does not use spot exchange payment, barter, honoring commitments made by the government and centralized management methods was suited to the economic systems of China and the Soviet Union at the time and played a positive role in developing the economic relations and the economies of the two countries. As the two countries' economic systems were reformed, the

autonomy of foreign trade enterprises expanded, product structure changed, and forms and channels of cooperation increased, these traditional centralized management methods became less and less suited to the needs of bilateral trade development. Through Sino-Soviet consultation, in October 1990 the two sides signed a new trade agreement. Based on the stipulations of the new trade accord, beginning in 1991 trade between the two countries will change from clearing accounts trade to spot exchange payment. Both sides will use such flexible trade methods as international methods of conducting trade: spot exchange trade, compensatory trade, barter trade, contra trade, joint ventures, and commercial credit. All enterprises and companies that have foreign trade rights in the two countries will operate according to relevant government stipulations, and will autonomously develop professional direct relations based on the principles of equality and mutual benefit and helping to supply each others' needs. In the long view, the diversification and flexibility of trade methods and increase in the objects of trade has opened a broader prospect for further development of Sino-Soviet trade.

### **Fujian Plays Key Role in Growing Trade With Taiwan**

91CE0617B Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 21, 27 May 91  
pp 23-24

[Article by Wang Lian-cai (3769 6647 2088): "The Direction of Fujian-Taiwan Economic Cooperation in the Nineties"]

[Text] With the gradual relaxation of relations on both sides of the Taiwan Straits, Fujian, with its natural geographical, historical and population advantages, and its abundant labor force, has attracted a number of Taiwan businessmen to invest in Fujian. By the end of last year, Fujian had 877 Taiwan-financed enterprises with a contracted capital of \$1.182 billion. Trade with Taiwan has been very lively: last year the volume of exchanges between the two sides reached \$200 million, an increase of 42.8 percent over the same period in 1989.

People here think that the mutual exchanges and linkages of the eighties have laid a foundation for further expanding cooperation on both sides of the Straits in the future. One can foresee that economic cooperation between Fujian and Taiwan in the nineties will change from Fujian simply importing Taiwanese capital and develop in the direction of complementarity and mutual benefit. Deputy Provincial Governor You Desheng [3266 1795 5116], who is in charge of Fujian's foreign trade, describes this situation as, "We are in you and you are in us. We cannot be separated."

### **Expanding Prospects for Agricultural Cooperation**

Some informed people say that in the past forty years, Taiwan's agricultural development has made evident achievements in many technological areas and occupies a definite place in the international market for agricultural goods. However, due to such elements as small production

scale, the gap between industrial and agricultural income, shortage of agricultural labor force, and limited arable land, Taiwan's agriculture is currently in a sagging state and there are contradictions with the consumer demand for agricultural goods on the island. Taiwan urgently needs to establish a production base off the island. Fujian has geographical conditions very similar to Taiwan's and an abundance of agricultural resources. It provides favorable conditions for importing Taiwan's superior varieties, farming and processing technology, and managerial experience. At the same time, Fujian also has some advanced agricultural technologies and superior varieties which can be spread to Taiwan.

Han Yulin [7281 3768 3829], Mayor of Zhangzhou City says there is serious interest among some on Taiwan concerning pursuing agricultural development in Zhangzhou and other areas. Zhangzhou has abundant land resources, labor costs are low, there is no pollution, and the two places are close together so that they can be reached by boat in a few hours. Thus, vegetables picked in the evening can reach Taiwan by the next morning. Hence for Taiwan to engage in agricultural development in Fujian and develop Fujian-Taiwan agricultural cooperation not only can spur on comprehensive development of Fujian's mountains, seas and fields and promote the growth of an export-oriented agriculture, but also can provide high quality, low-cost agricultural sideline products for the Taiwan market and enrich it.

### **The Potential for Scientific and Technological Cooperation Is Enormous**

Many economists in Fujian believe that although Fujian is behind Taiwan in the level of economic development, in science and technology Fujian has established a group of basic research and applied research organizations which involve scientific and technological talent in many areas. The scientific and technological development capacity and the technological achievements in some areas and industries can be used by many medium- and small-sized enterprises in Taiwan for technological upgrading and product development. In addition, related to level of economic development, the cost of key science and technology elements is lower in Fujian than in the developed countries. As for Taiwan, in addition to the intrinsic motive of obtaining advanced technology from abroad, Taiwan has the advantages of up-to-date information, strong application capacity, and abundant capital that can create a favorable complementary relationship. In particular, combining the advantages of Fujian's resources and labor force and jointly with Fujian developing new technology and new products and opening up the international market will create a powerful competitive ability.

There are others who believe that fully utilizing the relatively concentrated scientific and technological advantages and industrial foundation of Fuzhou, Xiamen, Zhangzhou, and Quanzhou in combination with scientific research units and production enterprises with scientific and technological cooperation with Taiwan businesses may achieve the aim of utilizing science and technology to attract

Taiwan capital to transform old enterprises and developing the international market.

#### Cooperation in Tourism Can Be Enhanced

Zheng Yizheng [6774 5030 2973], Secretary of the Putian City Party Committee believes that the fact that Fujian's abundant tourist resources are fairly numerous is related to the traditional culture and local religions of the province's people. And Taiwan's culture, including language, has its direct roots in the local culture of southern Fujian. For this reason, Fujian's tourist economy plays a special role in promoting cultural exchanges between Fujian and Taiwan together with developing Fujian's unique tourist resources. It is also beneficial to developing cultural intercourse and economic cooperation on both sides of the Straits to promote peaceful and unified development. In particular, opportunities for cooperation in the tourist economy can be used by having organizations of Taiwan's tourist circles introduce Taiwan to the investment environment and opportunities for cooperation in Fujian, hence supplying investment guidance from Taiwan and increase Taiwan's investment attraction to Fujian's

#### Fujian May Become an Important Thoroughfare for Interaction on Both Sides of the Straits

Many people in Fujian believe that in the nineties Fujian's human and geographical elements may continue to play a positive role in linking up the feelings of people on both sides of the Straits and promoting mutual understanding, increasing constantly attracted Taiwan investment. And Taiwan businessmen may use regionally connected economic elements, especially the level of economic development and relationship of the industrial system as the primary elements in evaluating the Mainland's investment environment and selecting investment regions. Under the guidance of these integrated economic elements, the tendency of Taiwan to move towards the provinces and cities in the northern and interior parts of the mainland may become stronger. In this way, in the spatial linkage of interaction and cooperation between the two shores, Fujian will become an important thoroughfare for the exchange of people and for the transfer and distribution of goods and materials. Using this thoroughfare, Fujian not only can attract more investment from Taiwan and abroad to spread along the two sides towards Fujian's mountainous region and spur on the growth and the comprehensive development of the natural resources in the mountainous regions, thus creating an economic link that connects the mountain and the seas, but it will also be favorable for strengthening Fujian's economic links with other provinces, gradually forming a distribution pattern of development for resources in the inner provinces with processing and exporting enterprises in Fujian with

Taiwan investment. At the same time, it may also encourage the growth of Fujian's tourism and other social services.

### TRANSPORTATION

#### Transport, Posts, Telecommunications in July, Jan-July

HK2008135791 Beijing CEI Database in English  
20 Aug 91

[Text] Beijing (CEI)—Following is a list of volume of transportation and posts and telecommunications service in July 1991, released by the State Statistical Bureau:

|                                      | Unit       | 7/91    | 7/90    |
|--------------------------------------|------------|---------|---------|
| Cargo handled                        | 100 m t    | 2.16    | 2.20    |
| By: Railway                          | 100 m t    | 1.23    | 1.23    |
| Auto                                 | 100 m t    | 0.48    | 0.47    |
| Ships                                | 100 m t    | 0.45    | 0.50    |
| CAAC                                 | 10,000 t   | 3.63    | 2.25    |
| Circulating cargo                    |            |         |         |
| Total                                | 100 m t/km | 1986.34 | 1893.32 |
| By: Railway                          | 100 m t/km | 883.30  | 881.20  |
| Auto                                 | 28.34      | 38.60   |         |
| Ships                                |            | 1073.83 | 983.03  |
| CAAC                                 |            | 0.87    | 0.49    |
| Passengers                           |            |         |         |
| Total                                | 100 m      | 4.42    | 4.32    |
| By: Railways                         | 100 m      | 0.79    | 0.81    |
| Auto                                 | 100 m      | 3.46    | 3.34    |
| Ships                                |            | 0.15    | 0.16    |
| CAAC                                 | 10,000     | 171     | 104.50  |
| Circulating passengers               |            |         |         |
| Total                                | 100 m/km   | 423.59  | 392.10  |
| By: Railways                         | 223.50     | 291.68  |         |
| Auto                                 |            | 163.24  | 146.64  |
| Ships                                |            | 13.12   | 12.37   |
| CAAC                                 |            | 23.73   | 13.41   |
| Cargo handled by major ports         | 100 m t    | 0.43    | 0.40    |
| Circulating volume of CAAC           | 100 m t/km | 2.60    | 1.47    |
| Volume of post and telecommunication | 100 m y    | 17.10   | 7.10    |

Note: m t—million ton, m t/km—million ton/kilometer, m—million, m y—million yuan

Following is a list of volume of transportation and posts and telecommunications service in January-July 1991, released by the State Statistical Bureau:

|                                      | Unit       | 1-7/91   | 1-7/90   |
|--------------------------------------|------------|----------|----------|
| Cargo handled                        | 100 m t    | 15.06    | 15.05    |
| By: Railway                          | 100 m t    | 8.54     | 8.61     |
| Auto                                 | 100 m t    | 3.36     | 3.28     |
| Ships                                | 100 m t    | 3.16     | 3.16     |
| CAAC                                 | 10,000 t   | 23.28    | 17.96    |
| Circulating cargo                    |            |          |          |
| Total                                | 100 m t/km | 13871.57 | 13048.27 |
| By: Railway                          | 100 m t/km | 6294.94  | 6153.86  |
| Auto                                 |            | 204.40   | 204.08   |
| Ships                                |            | 7366.85  | 6686.41  |
| CAAC                                 |            | 5.38     | 3.92     |
| Passengers                           |            |          |          |
| Total                                | 100 m      | 31.94    | 30.84    |
| By: Railways                         | 100 m      | 5.49     | 5.55     |
| Auto                                 | 100 m      | 25.27    | 24.10    |
| Ships                                |            | 1.07     | 1.11     |
| CAAC                                 | 10,000     | 1051     | 753.70   |
| Circulating passengers               |            |          |          |
| Total                                | 100 m/km   | 3035.63  | 2767.14  |
| By: Railways                         |            | 1611.62  | 1509.35  |
| Auto                                 |            | 1183.31  | 1063.56  |
| Ships                                |            | 93.34    | 86.84    |
| CAAC                                 |            | 147.36   | 107.39   |
| Cargo handled by major ports         | 100 m t    | 2.83     | 2.65     |
| Circulating volume of CAAC           | 100 m t/km | 16.14    | 11.76    |
| Volume of post and telecommunication | 100 m y    | 110.92   | 44.30    |

Note: m t—million ton, m t/km—million ton/kilometer, m—million, m y—million yuan

## AGRICULTURE

### Choosing Self-Sufficiency or Increased Grain Imports

91CE0587A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 5, 20 May 91 pp 18-23

[Article by Yang Qirong (2799 0796 2837): "China's Choice of Future Grain Policies: Insist on Self-Sufficiency or Increase Import?" This article is a part of a report furnished by China in a recently completed joint Chinese-World Bank paper entitled "A Study of China's Grain

Policy"; the author is affiliated with the Agricultural Ministry's Department of Law and Regulation on Policy and Structural Reform]

[Text] The next 10 years or even 30 to 50 years will be a crucial period that marks China's economic maturity. It will also be a period of mounting pressure on the grain supply. There is a need for us to conduct an indepth study of the choice of grain policies for this period.

### I. An Assessment of the Changing Trend of Grain Supply and Demand

Experts in China and abroad have conducted numerous studies on China's future grain demand. The most recent study in China is entitled "A Study of China's Mid- To Long-term Food Development Strategy" sponsored by the Academy of Agricultural Sciences. The result of this study suggests that total demand for grain will top 470 million tons in 1995, 510 million tons by the year 2000, and 680 million tons in 2020. These figures are 35 million tons, 75 million tons, and 245 million tons higher than the output figures for those respective years announced in 1990. They are slightly higher than those forecasted in the government economic development plan but are slightly lower than other projections. For example, the report entitled "Survival and Development" published earlier by the Chinese Academy of Sciences' State of the Nation Analysis Study Group forecasted that grain demand would reach 679 million tons by the year 2000, 169 million tons more than predicted here.

A study recently completed by the World Bank suggests that "the 500 million ton goal set by China itself is technically feasible but very difficult. Moreover, looking at the demand trend, there seems no need for such high output volume under any circumstance." "It is likely that output will reach 460-465 million tons by the end of the century."<sup>1</sup> This estimate is 35-40 million tons below China's official plan. Based on this projection, per capita grain consumption will be around 360 kilo, which is consistent with the assessment of some of China's own scholars, but it clearly falls short of the 400 kilo which most people insist is the proper figure.

In our opinion, if we consider the population and the nutritional standard and also consider the market's role and the demand mix, it will be impossible for demand to increase by leaps and bounds in the next 10 years, nor can it possibly stay put at the current level. If we look at the historic correlation between income and consumption, it is our opinion that in the next 10 years, the real rate of increase in grain demand will be around 25 percent. Between 1981 and 1988, civilian consumption in China increased 99.4 percent; correspondingly, grain consumption increased 24.2 percent. If in the next 10 years the real rate of increase in national income should reach an average of 7 percent a year, if the accumulation rate remains at 34 percent, and if the consumption fund is made up of a 85:15 ratio between civilian consumption and public consumption, by the year 2000, total civilian consumption will top 1,535 billion yuan (at 1989 prices,) a 98.8 percent increase compared to 1989. Based on the correlation between the

increase in civilian consumption and grain consumption between 1981 and 1988, it means grain consumption will increase at least 24.1 percent in the next 10 years, that is, from 430 million tons in 1989 to 534 million tons. If the population should top 1.3 billion by that time, per capita grain consumption will reach 410 kilo. Of course, if the national economy fails to develop as fast as projected, the rate of increase in civilian consumption and grain demand will also be lower, but no matter what, the low grain consumption rate predicted by the World Bank is quite impossible.

Compared to the demand for grain, the future grain supply situation is much grimmer, because the increase in supply is determined by the availability of resources, the level of input, and the agricultural structure and other factors, and we have no reason to be optimistic about the future of these factors. (A) Even if we can temporarily curb the decrease in cultivated area, the per capita area will continue to decrease year after year. In the next 10 years, if we can reclaim wasteland and increase the cultivated area by 10 million mu a year, we can hope to have 1.47 billion mu of farmland by the year 2000, slightly more than 30 million mu more than in 1989, but the per capita area will only be 1.13 mu, 0.16 mu less than in 1989. Not only that but China has only a little more than 200 million mu of wasteland suitable for cultivation, and even if all can be reclaimed, it will provide only 150 million mu of farmland. If we open up 100 million mu in this century, only 50 million mu will be left that can be tapped after the year 2000. By then no matter how wealthy and technologically advanced we may be, there will be no more available land. (B) Two-thirds of the existing cultivated land is moderate- and low-yield farmland. If we do not make substantial improvement to these moderate- and low-yield land, it will be difficult to significantly increase the average output. But improvement will take huge investments. In addition, to increase output we must guarantee substantial material and technological inputs, which is also very difficult. (C) Grain is the cultivation industry's most important product, but it is not the only product. The demand mix for agricultural products will change as living conditions and industrial production change, and together with the change in opportunity cost in international trade, the cultivation mix may change in a certain way. For example, at present we have an acute shortage of cotton, but rather than importing cotton, we should be importing grain. Cotton is competing with grain for land. We should gradually increase the cotton planting area from the current 82 million mu to 100 million mu and similarly reduce the grain planting area by more than 10 million mu.

Of course, it is not entirely impossible to deal with these adverse factors. If we increase investment, guarantee input, and preserve the various policies which promote agricultural development, it is possible to sustain the increase in the production of grain and other agricultural products on top of the bumper crops we have had in the last two years. We estimate that if we increase the cultivated area to 1.47 billion mu, complete the transformation of 500 million mu of moderate- and low-yield farms, increase irrigation area to 800 million mu, increase the use of chemical fertilizers to 40

million tons, even if the seeding area of grain as a percentage of the total crop seeding area declines slightly but remains at 75-76 percent, we will still be able to keep the total grain seeding area at 1.72-1.74 billion mu, and if we can increase the per-mu yield by 4.2-6.6 kilo a year, total grain output will reach 500-540 million tons. Moreover, if an increase of one ton of chemical fertilizers can increase grain output by 6.29 tons, grain output can reach 510 million tons. Overall, by the year 2000, it is very likely that China's total grain output will top 510-520 million tons.

This is more or less consistent with the results of other recently completed studies. The result of the Academy of Agricultural Sciences' study indicates that by the end of this century, total output will reach 500-530 million tons.<sup>2</sup> The Chinese Academy of Sciences' State of the Nation Analysis Study Group projects 477.5-524.5 million tons.<sup>3</sup> The goal of the Ministry of Agriculture's 10 year plan is 500 million tons. The median value of the results of these studies falls between 500 and 515 million tons, which means all the studies are fairly consistent.

If we combine the grain supply and demand forecasts, it is clear that in the next 10 years the increase in grain production basically will keep up with the increase in demand, which will enable us to achieve our two main goals of being able to satisfy demand and being self-sufficient. In the next century, however, the situation may change. On the one hand, as the population continues to grow and as the living standard rises, grain demand will increase substantially. On the other hand, domestic grain output is already nearing the limit of what our resources can support, given the existing technological condition. The prospect of this unbalanced growth may force China to increase its grain import substantially in the next century, which will end our self-sufficiency in grain. Because of this, we must make early preparations, formulate proper policies, and integrate the past, the present, and the future organically.

## II. The Choice of Future Grain Policies: Insist on Self-Sufficiency or Increase Import?

### A. Choosing a New Grain Policy

With regard to the grain policy, especially the policy for the next 10 years or so, there are two diametrically opposite opinions. It is the opinion of most experts in this country that we should be self-sufficient, and the central government too has announced that as its choice. This choice is supported by the above resource analysis. But we cannot deny that such policy will be costly in economic terms. For this reason, some experts at home and abroad are advocating the opposite.

It is the latter group's opinion that increasing grain import is a better policy choice. It not only is an economic way to solve the grain supply problem, but it will also mean greater economic benefit to us and to our trading partners.<sup>4</sup> This conclusion is based on the fact that grain prices in the international market are lower than those in this country. But it is very hard to tell whose prices are higher or lower, because China's official exchange rate does not reflect the real value of exchange.

Self-sufficiency or import, which is a better policy choice? This depends on the overall economic cost to us. Take the self-sufficiency issue. The economic costs at least include the following: (1) Because of diminishing return due to

resource constraints, the production cost and the price of grain will inevitably rise steadily. Whether subsidized by the state or born by the consumers, food expenditure will increase as the price of grain increases. If domestic grain price is higher than the international price level, the excess portion becomes a direct economic cost. (2) Land is one of agriculture's scarce resources. To guarantee self-sufficiency in grain, we must make more land available. However, the relative return of grain production is fairly low. This means we must pay a price in the form of opportunity cost. (3) As the share of investment in agriculture increases, nonagricultural investment will have to decrease. The opportunity cost of changing the investment structure will be tremendous. As for importing, there are economic costs too: (1) If domestic prices are lower than international prices, importing grain will mean incurring a loss due to the price differential. Within the foreseeable future, China will continue to be a country with little international payment ability. If we spend a lot of foreign exchange on importing grain, it will affect the import of industrial goods. This means not only paying an opportunity cost in foreign exchange utilization but paying a price for slowing industrial progress. (3) Massive grain imports will necessarily slow the development of domestic grain production. This will have an adverse effect on rural employment and on the increase in agricultural output value and even the national income.

In choosing a grain policy, we must make comprehensive estimates and forecasts of the above economic costs. Unfortunately, we still have not come up with a way to make accurate calculations and can only make rough estimates of the important items.

#### **B. The Trend of Changing Grain Production Cost and Price**

Studies show that based on real value, the price of grain in the international market is falling. But the situation is just the opposite in China. In the last 40 years, the procurement price of grain in China has increased eight fold, and even if we take into consideration the price increase factor, the grain price has still increased by 2.26 times, averaging 3.1 percent a year. It should be pointed out that over the last 40 years, the purchase and sale prices of grain to various degrees have been controlled by the state, and in most years, prices have been kept low. If not for the control, grain prices would have increased even faster.

China's rising grain price no doubt is related to the supply-demand conditions, but more importantly it is caused by rising production cost. Study shows that between 1965 and 1978 when prices were fairly stable, nationwide, the average production cost per mu of grain rose 67.8 percent, which raised the cost per 100-jin of main product by 10.8 percent. After 1978, the cost of producing grain rose even faster. By 1989, production cost per mu of wheat has risen 127.2 percent, raising the cost per 100-jin of main product by 54.1 percent; the cost per mu of rice has risen 190 percent, raising the per jin cost by 99.2 percent; the cost per mu of maize has risen 119.6 percent, raising the per jin cost by 52.1 percent. The reasons for the rising production cost during that period were, first, the price of agricultural means of production went up by a whopping 84.6 percent during the period.

Soaring price of means of production in turn doubled the material cost. Compared to 1978, material cost was 141 percent higher per mu of wheat, 194 percent higher per mu of rice, and 115 percent higher per mu of maize in 1989. Second, the dramatic increase in the use of chemical fertilizer and the increase in rural industrial output value also played an important role in raising production cost. In 1978, nationwide, the average rate of application of chemical fertilizer was only 3.93 kilo (net weight) per mu of crop. It soared to 10.7 kilo in 1989, increasing 2.73 times in 10 years. In 1985, for the nation as a whole, the average rural industrial output value was only 1.92 yuan. By 1989, it has risen to four yuan, more than double.

Currently, the nation's average per mu grain output is 242 kilo, which is comparable to the world's average output level. We have the technology to increase the per unit area yield in the future, but we will have to increase marginal input, and the marginal cost will definitely be higher. (1) With respect to material cost, between 1984 and 1989, nationwide, the per mu output increased only one kilo, and the per mu yield in 1985, 1986, and 1988 was actually below that of 1984. During the same period, total fertilizer use increased each year, from 17.398 million tons in 1984 to 23.571 million tons in 1989, and the average per mu application also increased from 8.04 kilo to 10.72 kilo. In other words, it took 3.7 kilo of chemical fertilizer to increase grain output by one kilo. This demonstrates how sharp the increase in marginal input is to increase grain output. (2) With respect to labor cost, data gathered in recent years show that labor input per mu of grain output has remained very stable. There has been no increase due to the increase in per mu yield, nor has there been any decrease due to technical improvement. This situation is not expected to change within the foreseeable future. However, the peasant's expected income will continue to rise, and labor cost will increase as wages go up. It is estimated that by the year 2000, the peasant's per capita income will reach 1,100 yuan, 82.9 percent higher than in 1989. If so, rural labor cost will increase 66 percent, which will raise labor cost per kilo of grain by 35 percent.

Data gathered in recent years show that fertilizer cost as a percentage of total material cost and the ratio between material cost and labor cost in the cost of producing grain have remained basically unchanged. This situation is not expected to change much in the next 10 years. Therefore, we can more or less forecast the change in total production cost by looking at fertilizer expenditure and labor cost as the two main indicators. It is our estimate that by the year 2000, comparable production cost per kilo of grain will be approximately 30 percent higher than in 1989.

Higher production cost will lead to higher grain price, or at least the grain procurement price will be higher. If grain procurement price rises 30-40 percent, the average composite price of grain (commercial grain) will increase from its 1989 price of 750 yuan a ton to 975-1,050 yuan. Specifically, wheat price will increase from 740 a ton to 960-1,036 yuan; rice, from 700 yuan to 910-980 yuan; and maize, from 656 yuan to 730-791 yuan.

At the marginal exchange rate of 6.5:1, by the year 2000, domestic grain price will be at par with the current international market level (husked rice, \$284/ton; wheat, \$166/ton; maize, \$118/ton.)<sup>5</sup> and domestically produced grain will lose all of its price advantage. This will be a severe test for the domestic grain producers.

### C. The Opportunity Cost of Investing in Agriculture and Using Foreign Exchange To Import Grain

Cost-price analysis explains the comparative advantages of agriculture and sets the standard for optimizing the use of land and other resources. But a change in the agricultural structure will necessarily lead to a change in the mix of use of funds and foreign exchange, and in turn it will pose an opportunity cost for investment and for the use of foreign exchange.

#### 1. The opportunity cost of agricultural investment:

Cost-price analysis shows that prior to the year 2000, China will be better off producing its own than importing grain. But to increase grain output, we must increase investment. We have made a rough estimate of our agricultural investment needs based on our past experiences. Between 1958 and 1984, China's grain production capacity and actual output increased by 200 million tons. During this period, the state, collectives, and peasants invested a total of 282.833 billion yuan, of which, the state was responsible for 90.833 billion yuan and the rural collectives and individual peasant households accounted for 192 billion yuan. On average, it took 141.417 billion yuan to increase grain production by 100 million tons.<sup>6</sup> Because a number of mistakes were made at that time, some of the investments generated no productive capacity, and only about 247.5 billion yuan of the total investment was effective investment.<sup>7</sup> This means on average, it takes 123.75 billion yuan of effective investment to increase grain production by 100 million tons. If from now until the end of the century, grain demand should increase by 100 million tons, without even giving any thought to the incremental investment, we must come up with 123.75 billion yuan's worth of additional investment, and at 1989 prices, this comes to 259.875 billion yuan. Averaging over a 10 year period, we have to invest 26 billion yuan a year, 4.8 billion yuan more than what we are investing today. Of this sum, the state's share will come to 8.67 billion yuan, 3.5 billion yuan more than its current investment, and the rural collectives and peasant households will have to invest 17.33 billion yuan, 1.3 billion yuan more than what they are investing today.

If we increase agricultural investment, we must reduce investment in other sectors by the corresponding amount if we want to avoid inflation. This no doubt will have an impact on the other sectors. Let us assume that an increase in agricultural investment means a reduction in industrial investment. Judging by the industrial sector's level of return in the last three years, the fixed asset formation rate is about 75 percent. Each 100 yuan of original value of fixed asset investment in the state-run industry generates 120 yuan in output value per year and 20 yuan in profit tax, while each 100 yuan of original value of fixed asset investment in township enterprises generates 250 yuan in output value

and 30 yuan in profit tax. If the cumulative fixed asset investment in agriculture over the next 10 years should surpass the current level by 48 billion yuan—if the state increases its investment by 35 billion yuan and the rural collectives and peasant households increase their investment by 13 billion yuan—then the one time opportunity cost will be 74.5 billion yuan in industrial output value plus 10.9 billion yuan in industrial profit tax.

#### 2. The opportunity cost of foreign exchange utilization:

Industrial technology and equipment have always made up the bulk of China's import mix. Each year, more than 85 percent of China's foreign exchange is spent on importing industrial equipment and raw and processed materials. Of course a country's foreign trade mix will not remain the same forever. As the country's industries develop, manufactured goods will make up a large share of its total export, the need to bring in industrial technology will decrease, and the import-export mix will gradually change. Eventually it will be exporting manufactured goods and importing primary products. This is the only way to evolve from a backward country into an advanced country. Failing to follow these steps, a country will remain backward forever. Therefore, this should be the first criterion when we try to decide whether it will be to our advantage to import grain.

In the last 40 years, China's foreign trade has made great strides. Total import-export value has increased from \$1.02 billion in 1953 to \$111.68 billion in 1989. Meanwhile, the export mix has changed dramatically. The export of primary goods as a percentage of total export has fallen from 79.4 percent to 28.7 percent while the percentage of manufactured industrial goods has risen from 20.6 percent to 71.3 percent. These figures clearly show that manufactured goods have taken the lead. But we should also realize that the manufactured goods China exports are primarily low-grade, high-cost goods which earn little foreign exchange. They are in fact nonprimary "primary products." Today's import-export mix is still made up of "cheap" exports and "expensive" imports. It is a "disadvantaged" import-export mix. Statistics show that agricultural and sideline products and other processed goods still make up about 50 percent of China's total export value, and as much as 80 percent of its imported commodities are manufactured industrial goods, among them, machinery and vehicle account for 30 percent. Thus, it is our opinion that China is still a long way away from becoming an exporter of manufactured goods and importer of primary goods. If we give up our self-sufficiency in grain now and increase grain import, it will have a very adverse effect on the entire national economy:

(1) It will ruin the import-export mix. At present, judged by its technology and facilities, China's industry is still very backward. To modernize our industry, industrial imports must continue to make up the bulk of our imports. If we cannot increase exports quickly, an increase in grain import will affect our industrial import. Between 1978 and 1983, massive grain import led to a 10 percent decrease in the import of capital goods. The impact of reduced import of industrial goods and raw and processed materials on economic progress and industrial profit is inestimable.

(2) It will increase the state's financial burden. If the state continues to monopolize the import of grain, and if the gap between domestic and international prices remains, increasing grain import will necessarily increase the state's financial subsidy burden. Take the import of wheat for instance. Even at the United State's 1990 preferential export price of \$140 per ton, if we increase import to 30 million tons, the price difference between the domestic and foreign markets will reach 10.26 billion yuan. This price difference can only be made up by the state's subsidy.

(3) It will trigger a general price increase. On the one hand, if imported grain is put on the domestic market without a price subsidy, it will cause a general increase in grain price. On the other hand, if we have to increase exports in order to import more grain, we will be forced to flood the international market with products which have a low foreign exchange earning rate and a high foreign exchange earning cost, resulting in depreciation of our currency and higher prices.

(4) It will impede agricultural development at home. If we increase grain imports, it will directly reduce the demand for domestic grain and slow the development of grain production. Today, producing grain is still the main occupation and the main source of income for most peasants. Curtailing production will undermine the peasants' immediate interest.

#### D. The Best Choice

About the year 2000 will be the turning point where China's grain price will rise to above the international price level. It will also be the turning point where grain demand will exceed our resource potential. Constrained by natural and economic conditions, it may force China into making a new grain policy choice. But before we arrive at that point, it is still best if we hold on to our goal of remaining basically self-sufficient. The economic cost of this may exceed 10 million yuan, but it is still less expensive than the alternative of importing grain.

After the year 2000, self-sufficiency in grain will no longer be an economically viable choice. But whether we can successfully switch to a new grain policy will depend on the economy, especially on whether our industry has matured to the point of being able to compete in the international market. This means we not only will have to export manufactured goods, but we will have to export them economically, and our industry not only will have to earn enough foreign exchange to satisfy its own import needs but enough to support the needs of grain import. The next 10 years will be the last chance for our industry to transform itself.

#### Footnotes

1. World Bank: "China: Managing an Agricultural Transformation—I"

2. See NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] No 7, 1990, p 5.

3. "Survival and Development" p 46, published by KEXUE CHUBANSHE.

4. For example, the Sino-U.S. joint study entitled "The Effect of China's Agricultural Policy Reform on Its Domestic Economy and International Trade" supports this viewpoint.

5. United Nation's Food and Agricultural Organization's FOOD OUTLOOK, No 6, 1990.

6. Ministry of Agriculture's Agricultural Development Strategic Research Center's "A Study of China's Agricultural Investment Share and Structure" pp 39-40.

7. See Ministry of Agriculture's Department of Law and Regulation on Policy and Structural Reform's "Future Agricultural Input: It Takes 1.3 Yuan of Investment To Increase Grain Output One Jin."

#### Henan Rice Cultivation Increases

91P30185A Zhengzhou HENAN RIBAO in Chinese  
7 Jul 91 p 2

[Exerpt] According to statistics, the area of rice cultivation in Henan Province has increased this year by about 800,000 mu, totalling more that 7.5 million mu. The area of hybrid rice cultivation has increased from 3.5 million mu last year to 4.5 million mu this year. By mid-June, in southern Henan, over 6 million mu of mid-season rice and long-grained rice seedlings had been transplanted. In northern Henan, during a delay in the wheat harvest, over 1 million mu of high quality short-grained rice had been hurriedly transplanted by the end of June. There is great hope that a plentiful autumn rice harvest can be accomplished to supplement the summer harvest. [passage omitted]

#### Customs Release July Cereal, Oil Import Figures

HK3008133291 Beijing CEI Database in English  
30 Aug 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in July 1991, released by the General Administration of Customs:

| Item                 | Unit | July 1991 | July 1990 |
|----------------------|------|-----------|-----------|
| Cereals              | ton  | 896,840   | 992,859   |
| Wheat                | ton  | 846,388   | 935,761   |
| Soybean              | ton  | 53        | 74        |
| Sugar                | ton  | 61,954    | 75,633    |
| Animal oils and fats | ton  | 7,103     | 11,707    |
| Edible oil           | ton  | 71,321    | 116,502   |
| Other oils           | ton  | 121,438   | 79,555    |

### College Students Feel Perplexed

91CM0508A Shanghai MINZHU YU FAZHI  
[DEMOCRACY AND THE LEGAL SYSTEM]  
in Chinese No 6, 12 Jun 91 pp 36-40

[Article by Jin Weihua (7246 0251 5478): "Confusion and Hope: A Report From Campuses"]

[Excerpts] [passage omitted] I have visited some universities and colleges, conducted some surveys, and found that some campuses show the signs of excitement and strain. While college students, who are called "unusually lucky persons" and "a generation of hope," are preparing to take over heavy tasks in the future, there are also some phenomena which made us worry and require deep thought.

Even today, people still recall with deep emotion the great enthusiasm among the people after the cultural revolution to engage in education under the slogan that "once you learn mathematics, physics and chemistry well, you will have nothing to worry about." People also recall with deep emotion how diligently students studied under the influence of "diploma heat" for a period of time. But, at some unknown moment, few students went to school libraries, and bookshelves in dormitories were covered with dust. Some college students were impatient about the trip between classrooms and reading-rooms, and impatient about taking notes class by class. Like the flu, this fearful mood has spread among campuses.

As early as May, 1988, a Shanghai university surveyed student study habits. During the golden time between 6:00 and 10:00 in the evenings, only 40 percent of the students were studying their textbooks or studying foreign languages, 60 percent were dancing, playing cards, dating or chatting. This was really a bad sign for a university in which students used to study very hard.

At the beginning of 1990, another university conducted a random survey on how students of four grades in a department used their self-study time in the mornings, at noons, and in the evenings. Only 44 percent of freshmen used the study time. The rates were 42 percent, 29 percent and 18 percent for other grades respectively. The higher the grade, the lower enthusiasm students have for study.

Meanwhile, quite a few students are indifferent toward shameful behavior such as absence from classes and cheating on examinations.

In a Shanghai comprehensive university, I saw only about 10 students sitting in a classroom which should have around 50 students. It was a required course for the class of 1988, and the lecturer was a well-known professor.

Why is this? "If you cheat, it doesn't matter how well you study; high scores do not matter, passing is sufficient." Some students replied with jocosity.

During the visit, a teacher from the Chinese language department of the university said to me worriedly: "At present, the number of students who study hard and

diligently is becoming smaller and smaller, and we really worry that there will be another fault among intelligentsia in China."

After Mr Li failed the college entrance examination several times, he finally entered college with his unremitting efforts. At the beginning of his college study, he studied very hard and was one of the best students. Later he started dating. He dated three girls in a row, but he failed. He felt depressed and disappointed, he began to drink, went dancing and hung around with bad women. When he was about to graduate, he was dismissed by the school because he was repeatedly absent from class.

Why is there an atmosphere of "being sick of school" on campuses when society has a higher and more urgent need for knowledge and for qualified persons? Why do some college students engage in "self-exile" when the reform has provided college students with more opportunities to display their talents. Is it due to the assault of the so-called "1 billion people, 900 million engage in business?" Or have some college students weakened their social responsibilities? Or is it because of the bias of their psychological superiority?

We cannot ignore some weaknesses of present college students which are revealed in the atmosphere of "sick of school": lack of down-to-earth style, eager for quick success and instant benefits, biting off more than they can chew, and pleasure-seeking.

Some Shanghai college assistants told me that the most sensitive part in present college students' thinking was the constant increase in the sense of individuality and equality, and the recognition of self-values. They believe in the principle of exchange at equal value in the commodity economy. But in face of "the devaluation of knowledge" and "reciprocal phenomenon of mental and physical labor," they feel quite confused. "Why are those high schoolmates so rich, who used to consider education as the biggest burden and failed the college entrance examination before? Is learning really useful?" Undoubtedly, "sick of school" is a contempt for knowledge.

A person in charge from a municipal bureau of higher education said that the slogan of "teaching reform" had been raised for years. Although achievements had been made, teaching materials in students' hands remain the same without any big changes. The evaluation and promotion of teachers were not based on the quality of "class-teaching" but on research and on the number of publications. Instructors can not concentrate on teaching. As a result, teaching methods are quite rigid and were in vicious cycles. Students do not have enthusiasm for their studies.

Reform is imperative! But the trial in graduation assignments in the form of two-way selection not only brought about a lack of macro-control by society, but also made some students suspicious about whether it was useful to study well.

"In the fifties, the popular slogan among college students was that 'I am a piece of brick of the building and free to move anywhere by the party.' But current college students

maintain that 'I am the building ridgepole and refuse to accept the job assignment if I am not properly placed.' This is a big difference. However, we cannot simply criticize or praise them because the social conditions are quite different." A person in charge of a municipal research institute of higher education commented on the phenomenon of "sick of school" that "from a certain angle, it is deviate behavior under the environmental influence when college students reevaluate and readjust themselves. How to establish their own goals in the process of social development and put themselves in the right place on time are the urgent problems that present college students face!" [passage omitted]

**"The outside world is exciting. The outside world is also beyond our control. We want so much to look at the outside world like an eagle with heroic posture flying in the sky...But we are only nestling eagles and do not have fledged wings. We cannot but live in the nest looking at the outside world."**—an excerpt from college student's diary.

This is the depression of some college students.

In the melancholy due to this depression, "dating" among some students have become unprecedentedly popular.

According to incomplete statistics from some colleges in one city, 80 percent of present students have dating experiences and 60 percent of them are still in the middle of romance.

A record made by a janitor in a female dormitory shows that within a month several hundred people returned to the building after lights-out, the latest was around five o'clock in the morning.

One day in April, I visited several universities and saw student lovers intimately with each other on campus lawns and in woods. Entering classrooms, dormitories and cafeterias, those young lovers looked like real husbands and wives.

No wonder some people say that "love corners" or "path of lovers," full of emotions, are spread all over some campuses.

"This is an unavoidable reality," said a young instructor from a teacher college. He expressed his own opinion on love affairs among college students. He said, "biological maturity and dull study life as well as the peculiar melancholy and loneliness among students facilitate such a reality."

In some press reports, we have noticed that most college students feel lonely during the weekends. Dating and romance are, no doubt, good ways to get rid of loneliness.

However, it is worth noting that the success rate in dating is only 10 percent according to statistics made by several universities and colleges in Shanghai. There is an increase of sexual behavior and cohabitation year by year.

Although in recent years, many schools have been strict about students' behavior and norms to rectify schools'

regular practice. Once such cases are found, school authorities will give severe and merciless punishment. But the number of cohabits is still expanding.

Obviously these phenomena are associated with the recent general social mood of opening to the outside world.

A female student of 1988 from the Chinese department of a teachers college, happened to meet a male staff member in the spring 1990. Although the male was just released from the reform through labor camp, she was quite attracted by his "unique and mature male charm." To express her "love" to him, she repeatedly skipped class and lived with him. Finally, she was dismissed from the school...

In November 1990, to prevent serious female-male intimate relationships, a college adopted measures to designate a "concentrated living area for female students." Anyone who entered the area had to register at the reception desk.

Almost at the same time, many colleges in a city adopted measures to separate male and female students into different living areas to prevent and stop unhealthy phenomena.

"We have no other choice but to do so. Some people criticize such measures as feudal retrogression. But after all, school is a place for education!" During an interview with me, a comrade of college student department said that now a few college students do seek pleasures. Some students have casual life styles under the influence of western ways such as "sexual freedom" and "sexual openness." Of course, this also shows that some college students have little concept of laws.

Why are some college students delayed by their "youth" when they are just in the right time to study?

A university student in North China commented that since there was no way out in learning, it is better to have a fun in romance. [passage omitted]

Although some present college students grow up in a traditional environment, they are quite attracted to the western world. In confusion, they step out. Because of the loss of a center, they feel shaky and even fall down. The wind of romance on campus indicates that college students attempt to go against the traditional way of life. But does this rebelling mean progress? [passage omitted]

What are college students seeking?

**Association Craze** Under the impact of students' association craze, there are numerous playbills, balls, serial seminars, cafe, and saloons on campuses. According to statistics, at present, student associations in universities and colleges are quite big in scale and numerous in types. There might be as many as several dozens or at least a dozen of associations ranging from art groups, recreational centers, work-study centers, to body building clubs, philatelist clubs, chess and bridge clubs, and sport associations on campuses.

Under the leadership of the student union, student associations have become the important component of students' spare-time on campus. They have become one of the big hot spots in school. Naturally they are closely related to students' desire and participation. "Give me a space which belongs to me. Here I can develop my own enthusiasms, talents, happiness or sadness. Here I can learn more knowledge, further expand my views, and cultivate my ability." One student union leader from the Shanghai University of Communications said, "student associations in general play positive roles and enrich campus cultural life. They also provide quite a few students the opportunity to display their talents."

Of course, some student associations are loose in organization and have no definite aim in their activities. Those associations need more administration and correct guidance. From the single purpose of academic and recreational association, to the multi-purpose comprehensive activity centers, and to the entity which combines commercial and cultural elements, the development of student associations enlightens us: associations might be an attempt for "independence" and "participation" that college students are demanding.

**Domestic Science Heat** Just like the red skirts which are in fashion, it is said that in some schools, most female college students show great interest in "domestic science." The craze of domestic science is quietly rising...

Listening to magic songs by "the king of rock and roll," three to four female college students sat or lay reading or knitting. This is what I saw on the first afternoon of a new semester in a female student dormitory.

"When I am knitting a sweater, I particularly feel feminine, gentle and soft." When she tried on the sweater she made, she felt proud and sweet.

"Live in an artistic way." Current female college students consider that it is retarded if they do not know how to dress up and take care of their own lives.

Many female students say that they do not want to be "bookworms" or "strong ladies."

"Self-respect, self-struggle, and self-reliance." Facts prove that a fairly large number of female students have displayed their talents in studies and social activities. But they are not satisfied with them. Some even feel vexed. They feel quite chilly when they stand high. To change such a single image and seek the glamour of "new women," they look for the point of tangency. Domestic science reflects the refined female manner.

It is pleasing that female college students are looking to reconcile life and career. But will they attend to trifles and neglect the essentials unconsciously and waste their golden time? This is what many educators worry about.

**The heat of TOEFL** In March 1990, the State Education Commission made a new regulation on self-sponsored overseas studies.

But six months later, the heat of TOEFL did not cool down. The number of people registering for after-class "TOEFL Preparation Programs" or other "TOEFL Courses" increased.

One questionnaire found that 85 percent of undergraduate students and graduate students who are confined by the new regulation are reluctant to give up their efforts for self-sponsored study abroad. They have an "look and wait-for-change attitude."

In the TOEFL tests held in Shanghai at the beginning of January 1991, from Fudan University alone, thousands of students participated in the test.

Why did the heat of TOEFL, which was introduced since 1985, remain high even after several poundings of the wind of "sick of school" and regulations on overseas studies?

An outstanding student from the library science department said, "I am not related to any six types of persons. But I still want to continue to take the test. Anyway it is good to have a TOEFL score. As long as the policy is relaxed, I will have a chance to go abroad."

A respondent said, "at present some foreign-funded enterprises use TOEFL scores to test applicants' English efficiency."

How many dreams does the "heat of TOEFL" carry for today's young people?

Is TOEFL the only way to display a person's ability and to look for even bigger markets?

The present college students have strong self-consciousness. They wish to display their existence and values in society and to the masses. But in the end, they are still very "isolated" because they fail to walk out of self-consciousness. All the fervors indicate that college students are looking for breakthroughs in difficulty. In this process, they have shown both self-confidence and disappointment, and both positive and negative attitudes. There is even a feeling of "anaesthetize" to cover emptiness and depression, such as the rise of "majiang craze" and "fortune-telling."

All kinds of fervors indicate that college students have a variety of "interests." Are they the asphalt roads under the sun, rugged paths, or grey areas in the dark? [passage omitted]

Youth is always moving upward. Puzzles or even perplexity is only a small part of the cloud in the process when ardent young people are seeking and recognize the truth. This cloud cannot shut out the light of hope.

Entering the last decade of this century, people have found that Mao Zedong, a great leader in Chinese history who was forgotten for more than 10 years, was recognized again. Mao has become a heated topic among many college students.

*Selected Works of Mao Zedong, On Practice, On Contradiction*, and other theoretical works were sold out in

bookstores I visited. *Mao Zedong's Family, A Biography of Mao Zedong, Mao Zedong, Who Walked down the Sacred Shrine*, and other biographies and memoirs on Mao were quite popular among college students. Many self-initiated study groups on "Marx, Lenin and Mao Zedong" appeared in universities. They talked about Mao's personality, reviewed his historical position, studied Mao Zedong thought and went further into the ups and downs of Mao's life...

In recent years, the social image of college students has sharply dropped from the "unusually lucky persons" to "the lost generation." After the disturbances in the spring and summer of 1989, college students bitterly reevaluated what they did. "Why did our actions go contrary to our patriotism and dedication to serve the country?" [passage omitted]

Comrade Feng Xiancheng (7458 7359 6134), secretary of the Shanghai Association of Mao Zedong Thought and Practice Studies, said that in the process of "looking for Mao," some students admire the charisma of the great man, other students adore Mao as a strong man, others turn to Mao because they are dissatisfied with corruption and cherish the memory of Mao and his time. Many students are more interested in Mao's anecdotes than they are in studying Mao. [passage omitted]

It is said that many colleges and universities have established "spare-time party schools" and students have organized "Marxism and Leninism Study Groups" and "Party Constitution Study Groups" themselves. [passage omitted]

It is said that recently more than 60 colleges and universities in Beijing have established their own spare-time party schools; nearly 50 colleges and universities have set up their own Communist Youth League Schools. Tens of thousands of college students have attended the study sessions. [passage omitted]

It is a satire to consider themselves "spiritual aristocrats" after some college students questioned themselves. In recent years, some college students were busy with self-designs in their own "ivory towers." What they talked about most was self-transcendence, perfection, and grey areas. They complained about everything. They talked too much and aimed high without doing anything. They considered themselves an excellent generation with keen insights, and they bore the responsibility to transform society. However, they did not know that they had become more separated from society, from reality and had turned into the "cloud" floating high in the sky.

Social participation means that they must understand society first.

The "political participation" of college students in the spring and summer of 1989 has shown the fact that actions divorced from national conditions and from society will inevitably lead to contrary results from their original wishes, and will inevitably become barriers to their social "participation."

Step out of the ivory tower, and take a "deep breath" in society.

Aware of the causes, many colleges and universities, one after another, organized students to participate in social activities and practices in factories, the countryside, and military barracks to enable students to understand national conditions and society by engaging in manual labor with peasants and workers. [passage omitted]

### Commission Raises Living Allowances for Students

OW0507163391 Beijing XINHUA Domestic Service  
in Chinese 2004 GMT 4 Jul 91

[Text] Beijing, 4 July (XINHUA)—The State Education Commission and the Ministry of Finance recently decided to increase at institutions of higher learning the living allowances for students and teachers' colleges that receive special scholarships.

As approved by the State Council, the decision stipulates that, effective 1 June this year, students on special scholarships taking specialized courses such as teacher training, agriculture, forestry, ethnic education, physical education, and marine science will each receive a living allowance of 136 yuan annually in addition to the special scholarships they currently receive.

A circular regarding this decision, jointly issued by the State Education Commission and the Ministry of Finance, asks leaders of all institutions of higher learning to attach great importance to the work of supplying meals to students. They should adopt practical measures to run school canteens effectively and should not seek profits or undue income from the work. Education on the spirit of waging arduous struggles and practicing thrift must be strengthened among students. Students should be guided to use their scholarships and living allowances rationally to avoid extravagance and waste.

The circular states that newly introduced grain and edible oil subsidies for this year will be handled separately according to relevant state stipulations.

### Shanghai Students To Use New Textbooks

OW2708020291 Beijing XINHUA in English  
0102 GMT 27 Aug 91

[Text] Beijing, August 27 (XINHUA)—More than 150,000 primary and middle school students in China's leading industrial city of Shanghai will use newly-written textbooks this autumn, GUANGMING DAILY reported.

By September 1, the new textbooks, covering 19 subjects taught in primary and middle schools, will be off the press and trial-used by pupils in the first grade at elementary and junior high schools.

This is one of the steps adopted by Shanghai educational departments to reform the course-design and the content of basic subjects, said the newspaper.

The textbooks that have been replaced were compiled by the State Education Commission several years ago and used in all schools across the country.

Shanghai was picked by the commission for a trial-project using new textbooks and course design.

The act is aimed at reversing the present practice of gearing basic education to the sole purpose of passing competitive admission tests at various levels, according to the newspaper.

China's pupils have to pass a series of selective tests for entrance to elementary and middle schools and finally the national entrance exams for entering colleges.

The reform of textbooks and teaching in Shanghai is meant to ease the burden on students while stressing the teaching of the basics. And the new textbooks have added some further information that could help pupils cultivate their talents and interests and develop their capabilities.

The new teaching materials have a greater content of China's modern history and national conditions—in a bid to increase patriotism among school pupils. The new textbooks include 52 volumes of compulsory courses and 31 volumes for optional courses.

An extra 10 volumes dealing with extra-curricular activities will soon be published.

## CENTRAL-SOUTH REGION

### Hunan Signs Agreement With French

HK0907044791 Changsha Hunan People's Radio  
Network in Mandarin 2200 GMT 6 Jul 91

[Text] The signing ceremony for the agreement of friendly cooperation between Hunan and the Department of Center of France was held in the (Fulong) Hotel at midday yesterday. Hunan provincial vice governor Chen Binfan and Mr. (Evecodi), respectively representing Hunan Governor Chen Bangzhu and Chairman (Dusse) of the Department of Center, attended the signing ceremony.

From 4 to 5 June, an economic observation group of the Department of Center headed by Mr. (Evecodi) discussed with the comrades in charge of the relevant departments in Hunan the cooperation in economic technology and cultural undertakings between the two regions. Afterwards, the visitors were divided into smaller teams and started their visits in company with the comrades of relevant enterprises, cultural and educational institutions, and competent departments. On the basis of this, the two sides signed cooperation agreements in seven areas, including machine-building, production of electrical appliances, textile industry, wine-making, leather-tanning, and college education. Mr. (Evecodi), on behalf of Chairman (Dusse), formally invited Hunan Governor Chen Bangzhu to visit the Department of Center of France with his delegation, including an economic observation group, this October. They are to sign an agreement of Hunan-Center friendship.

### Hunan Continues To Fight Floods

HK1007075791 Changsha Hunan People's Radio  
Network in Mandarin 2200 GMT 9 Jul 91

[Excerpt] Yesterday, Jinshi City and Linly, Lixian, Anxiang, Cili, and Shimen Counties, which are situated in northern Hunan, once again registered heavy rainfalls. The water level of the Lishui He, which had once gone down, climbed up again an average 0.7 meter. Most of the dikes were in danger of being submerged by floods.

Displaying the spirit of continuous fighting, cadres and people [words indistinct] are fully prepared to fight the coming third flood peak.

Provincial party and government leaders continued to stay here to provide guidance for the struggle against floods and for relief work. Sun Wensheng, provincial party committee deputy secretary; and Liu Fusheng, chairman of the provincial People's Congress Standing Committee, after inspecting the state of disaster in Linli County on 8 July, rushed to Lixian County the very same night to listen to reports on the struggle against floods and relief work.

On 9 July, Sun Wensheng and Liu Fusheng went together to (Linanyan) to see how the Lishui He swelled to a dangerous level and to provide guidance for the relief work. They also went to makeshift sheds at the big dike at (Mozhixing), (Daohe) Village, built by the masses to encourage everybody there to overcome difficulties and provide for and help themselves by engaging in production. [passage omitted]

**Strategy of Trade With Soviet Union, East Europe**

91CE0612A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 22,  
3 Jun 91 p 31

[Article by Dong Wen (2639 5113): "Preliminary Analysis of Taiwan's Strategy of Trade With the Soviet Union and East Europe"]

[Text] Chiang Ping-kun, deputy director of the Administrative Department of "the Ministry of Economy" of Taiwan recently led a large official economic and trade delegation in a 19-day tour of five East European countries of the Soviet Union, Poland, Czechoslovakia, Bulgaria, and Hungary. The delegation is composed of the Ministry of Foreign Affairs of Taiwan, the "Ministry of Economy" and its subordinate units—the Bureau of National Trade, the Department of Investment, the Department of Medium and Small Businesses, and the Foundation of Overseas Cooperation and Development—the subordinate units of the "Ministry of Finance"—the Department of Banking, the China Export and Import Bank, and the Central Trust Bureau—and the Foreign Trade Association which is a civilian organization.

According to a report on 31 May, the Soviet Union revoked the entrance visa it issued to Chiang Ping-kun but allowed the entrance of other members of the economic and trade delegation.

**Strengthening Actual Relations With the Soviet Union and East European Nations**

Taiwan has multiple monetary, trade, and investment motives in sending an economic and trade delegation of such a scale.

1. Because the five countries of East Europe lack foreign exchange, it is better for both sides to adopt the "barter" trade system to import and export commodities in the future. To establish such a system, the "Taiwan Central Trust Bureau" intends to act as a medium to help establish a "mutual fund" between Taiwan and the other side (mainly the Soviet Union). In the future bilateral trade may be conducted on credit to cancel out creditor's rights and debts, enabling the two sides to buy and sell goods to each other without having to use foreign exchange.
2. Since the "Central Trust Bureau" briefed the five countries of East Europe on the "procedure of purchasing," Taiwan will send official purchasing delegations to East European countries.
3. Taiwan will negotiate and sign a bilateral "agreement on avoidance of double taxation" and an "agreement on mutual exemption of sea and air transport income tax" with the five East European countries.
4. Taiwan will negotiate and establish a bilateral remittance relation with the five East European countries and is planning to make direct remittance possible for trade activities conducted between Taiwan and each of the five East European countries.

5. The five East European countries have proposed one after another the intentions of joint venture and investment to Taiwan. Taiwan will consult with them to find solutions in this regard.

According to the parties concerned in Taiwan, in addition to negotiating with the five East European countries on opening communications and remittance relations and paving the road for manufacturers in Taiwan island to explore the East European market, this delegation will lead the government-run enterprises of the Chinese Petroleum, Taiwan Power, the Chinese Shipping, and the Taiwan Machine-building companies in a trip to East Europe to negotiate about purchasing issues. The officials concerned stated that the "Ministry of Economy" of Taiwan decided to strengthen through the purchasing activities of many large government-run enterprises and institutions the actual relations with the Soviet Union and East European countries.

**Many Difficulties in Enforcement**

Although many people call this trip of the Taiwan Government to the Soviet Union and East Europe a "new milestone in exploring the Soviet and East European markets," judged from its actual effect, not only are there many difficulties in enforcement but to a great sense it only has political motives.

First of all, under today's conditions barter trade is really "not that easy." The Soviet Union indeed has what Taiwan needs like petroleum, timber, cotton, and certain heavy-duty machinery, but these raw materials cannot be "obtained with one trade." Petroleum recovering and transporting have always been a major problem that urgently needs to be solved in the Soviet Union. Vladivostok, Soviet port in the East, does not have oil transport facilities, but Soviet ports in Europe are too far away from Taiwan and transport expenses are too high. As a result, no matter how much oil the Soviets have, it is impossible for Taiwan to purchase it in large amounts. The Soviet Union has abundant timber reserves, but lumbering and transporting facilities are fairly outdated and the timber producing area is 1,500 miles away from Vladivostok, so land transportation fees are shocking figures. The situation with cotton is basically the same. Soviet heavy-duty machinery has problems of specifications and maintenance in Taiwan, so it is unlikely for most enterprises in Taiwan to show any interest in it. In addition, since the production of other East European countries has not recovered, their markets are still unstable, and many problems have remained unresolved in regard to the quantity and quality of barter trade between Taiwan and these countries.

Second, the method of barter trade still remain "unresolved." Taiwan designated the "Central Trust Bureau" to be the medium, but neither can the Central Trust Bureau unilaterally buy and sell goods, nor can it decide on the content of purchase and sale. As a matter of fact, it only has the name of a "medium." If Taiwan is concerned about

problems in establishing such accounts before bank remittance is possible, trade is still out of the question because none of the paper work can be exchanged before bank remittance is allowed.

#### Characteristics of the Policy

I think that Taiwan's economic and trade policy on the Soviet Union and East Europe has the following two salient features: 1) Noneconomic quality is very rich. In order to disperse trade markets and lower the degree of dependence on the United States, Taiwan years ago made up a concrete plan for exploring the West and East European markets. After the political situation of East Europe witnessed drastic changes and the situation of Soviet Union went through changes, Taiwan implemented the practical steps of "fighting for international survival space" in the bilateral trade with East European countries. The markets of these countries are not perfect and their product mix does not quite meet the demands of manufacturers in Taiwan, but currently as long as it is possible for Taiwan to do some business with East European countries, it will be possible for Taiwan to "open up and occupy the East European market." This is what the Taiwan Government considers to be the most important. 2) It is more than flexible but not efficient enough. Barter trade is in fact a very primitive method of exchange. It deals with goods which cannot be sold on the market according to the law of value or which cannot be exchanged by making effective use of prices. Judged from Taiwan's current status in international trade, barter trade can only be considered as a temporary method, a last resort for Taiwan. Although such a method is flexible and practical, but due to problems regarding the specifications of products, demand levels, cost factors, and supporting facilities, it can only achieve the result of a medium. It cannot bring about the effect of mutual understanding and mutual development.

Taiwan's economic and trade policy on the Soviet Union and East European countries is in fact an important component of Taiwan's overall economic and trade policy. Recently Taiwan hopes to achieve a "broader trade balance." The central content of this is to quickly open up more trade markets outside the United States to enable Taiwan's export and import trade structure to undergo a change that is favorable to Taiwan's industrial development. Adopting the current trade policy on the Soviet Union and East European countries will eventually lead Taiwan to a "dilemma" where external market is hard to open and domestic market is hard to control. This actually is against the original expectation of the Taiwan Government.

#### MOFERT Proposes 5 Principles for Trade With Taiwan

OW0207134391 Beijing XINHUA in English  
1332 GMT 2 Jul 91

[Text] Beijing, July 2 (XINHUA)—The spokesman for the Ministry of Foreign Economic Relations and Trade (MOFERT) today proposed five principles for promoting bilateral economic and trade relations between China's mainland and Taiwan.

In an interview with XINHUA, the spokesman said that the indirect trade volume between both sides of the Taiwan Straits totaled 15.74 billion U.S. dollars in the 1979-1990 period, with an annual growth rate of 43.3 percent.

Meanwhile, more than 2,000 enterprises have been built on the mainland with funds from Taiwan investors.

Facts prove that the expansion of economic and trade contacts between the mainland and Taiwan benefits the economic development of both sides and thus will facilitate the peaceful reunification of the motherland, the spokesman said.

However, the spokesman noted, the Taiwan authorities cling to the policy of "no contact, no compromise and no negotiations for reunification with the mainland," thus setting an artificially imposed obstacle and keeping economic and trade contacts between both sides of the Taiwan Straits in an indirect and one-way state.

The spokesman proposed five principles that could promote bilateral economic and trade exchanges.

- Economic and trade exchanges should be direct and bilateral.
- The exchanges should be in line with the principle of mutual benefit and equality.
- The exchanges should not be confined to the fields of trade and investment, but be expanded to the fields of technology, scientific research, labor cooperation, advertisement, transportation and consulting.
- The bilateral exchanges are by no means an expedient measure. they should be maintained and promoted for a long period.
- Both sides should respect contracts and try to protect the legitimate rights and interests of the business people from the other side of the Straits.

The spokesman said that the five principles were based on the experiences drawn over the past few years, adding that the mainland would like to hear the opinions of the industrial and commercial circles in Taiwan.

**Analysis of Entrepot Trade With PRC**

91CE0602A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 19,  
13 May 91 p 32

[Article by Chen Fu-min (7115 4395 2404): "An Analysis of the Entrepot Trade Between the Two Shores of the Taiwan Strait"]

[Text] As indicated in the most recent statistical data of the Hong Kong Government's Customs Service, the total value of Taiwan-PRC entrepot trade through Hong Kong during 1990 was \$4.044 billion, an increase of 16.08 percent over the preceding year. In this trade, Taiwan exported \$3.278 billion to the mainland through Hong Kong, a 13.18 percent increase over the preceding year, and Taiwan imported \$765 million from the mainland through Hong Kong, a 30.4 percent increase over the preceding year. This is since 1987 the fourth consecutive year of large-scale increases in these two figures (see table below).

The large-scale increases in Taiwan-PRC entrepot trade is due to the mainland's reform and opening to the outside world, and due to Taiwan's strenuous efforts to disperse its export markets. In 1987 Taiwan started to appreciate the value of its new Taiwan dollar [NT\$] as against the U.S. dollar, and under the impact of the price mechanism, Taiwan's exports to the United States declined. Add to this that Taiwan, to lighten its excessive reliance on the U.S. market, formulated its "Five-Year Plan for the dispersal of export markets," turning to Europe and Southeast Asia to make them into two large and important markets for the export of its commodities. For these reasons, Taiwan exported to the United States at continuously declining rates of increase, which were -1 percent in 1988, -2.4 percent in 1989, and -9.4 percent in 1990.

The astonishing thing is that following the continuous decline of exports to the United States, the results of Taiwan's efforts to "open up" the European market are not very impressive. Exports to Japan and South Korea are even more hopelessly unsuccessful. The center of Taiwan's export markets is obviously shifting to the markets of Hong Kong, the mainland, and Southeast Asia, and most conspicuous in this move is the increasing entrepot trade with the mainland through Hong Kong.

This analysis shows that in 1990 the total amount of Taiwan-PRC entrepot trade through Hong Kong accounted for 3.32 percent of the \$121.933 billion of Taiwan's total foreign trade of that year. In that figure, Taiwan's entrepot exports accounted for 4.88 percent of all of Taiwan's exports, and Taiwan's entrepot imports accounted for 1.4 percent of Taiwan's total imports. The above three indices are increases of 1 to 3 percent compared with the preceding year.

By commodity categories, Taiwan's entrepot exports to the mainland were mainly industrial raw and semifinished materials and spare or component parts. They were mainly concentrated in the four large categories of synthetic fiber yarn and cloth (40.96 percent of the total value of entrepot

exports), electrical, mechanical, and electronic parts and components, plastics raw materials, and mechanical equipment, accounting for 69.34 percent of all of Taiwan's entrepot exports to the mainland. Main categories of mainland entrepot exports to Taiwan were items for people's consumption, products of the light and textile industries, as well as electrical home appliances. Among these items, the four large categories that accounted for 78.77 percent of the total value of entrepot exports to Taiwan were Chinese native and herbal medicines, fresh and frozen fish, tobacco, and electrostatic current converters and rectifiers.

To show declines and increases in main categories of the entrepot trade: Among Taiwan commodities exported to the mainland, the decline by 71.61 percent of the export of TV picture tubes is noteworthy, next, motorcycles (bicycles) (a 53.89 percent rate of decline), machinery and tools for the rubber and plastics industry (-39.42 percent), unspecified single-purpose machinery and machine tools (-39.11 percent), shoe-making machinery and parts (-19.26 percent), and telecommunications equipment, parts, and components (-13.22 percent). Only exports of polystyrene and its polymer raw materials turned from a decline of 32.47 percent at the beginning of last year into a straight increase of 8.47 percent. Exports of parts for unspecified electrical equipment and machinery also turned from a 60.84 decline at the beginning of the year into a straight increase of 7.85 percent. Among the commodities exported by the mainland to Taiwan, the 44.23 percent decline of shipments of cotton and blended fabrics is conspicuous, next, the decline in exports of feathers and feather products (-30.75 percent), clay (-6.22 percent), and umbrellas and sunshades (-1.86 percent). Among items having shown the most rapid increase, first is tobacco (733.67 percent), others in that order: galvanometers (389.06 percent), unforged zinc and zinc alloys (265.79 percent), unspecified hides (248.39 percent), and cotton yarn (234.82 percent).

The trend of large-scale increases in Taiwan-PRC entrepot trade has not only shown no decline this year, but became even brisker. According to statistics of the Ministry of Economic Affairs on Taiwan, the total value of exports to Hong Kong during the January-February period of this year amounted to \$1.485 billion, the increase rate having reached as high as 53.2 percent, which is higher than the \$1.385 billion value of exports to Japan, and constituted the largest increase in all export markets. Hong Kong has already replaced Japan as Taiwan's second largest export market. Moreover, during the January-February period of this year, Taiwan's surplus in its trade with Hong Kong reached \$1.15 billion, which is higher than the \$950 million surplus with the United States and the \$530 million surplus with Europe. Hong Kong has become Taiwan's primary area of trade surplus. Since entrepot trade accounts for 70 percent of Taiwan's trade with Hong Kong, it is safe to say that Taiwan's exports completely rely on the support of the entrepot trade with Hong Kong.

The above analysis of the speed and structure of the entrepot trade development between Taiwan and the mainland allows us to draw the following conclusions:

1. The steep increase in Taiwan-PRC entrepot trade has occurred due to both sides of the Taiwan Strait supplementing their mutual needs, and particularly also due to the large increase in indirect investments on the mainland by Taiwan businessmen in recent years. We see here a gradual process, in which trade stimulates investments and investments spur on trade, thus gradually forming a benign mutually stimulating relationship of economic relations and trade between the two shores of the Taiwan Strait.

2. Mutual entreport trade between the two shores is on a solid foundation, and its prospects give reason for optimism. Looking at the declines and increases in imports and exports which have been filling the needs of the two sides, we see that there has been a shift in the primary items of the entrepot trade from the single line of past years, which consisted of agricultural and sideline products and raw materials, to a variety of fully finished consumer goods and industrial products. Especially Taiwan's exports to the mainland are now mainly mechanical equipment and items of mass consumption. These commodities can be increased by as much as there is available. Following the restructuring of the mainland economy, the heightening of the country's economic level, and the expansion of its economic requirements, it can be foreseen that Taiwan's surplus in its trade with Hong Kong will continue to grow, and that Taiwan will command a rapidly growing share in the mainland market.

3. The Taiwan-PRC entrepot trade has already broken the original limits, be it in respect of speed or in respect of its structure. Entrepot trade is in the process of gradually developing into a direct trade.

**Table of Statistical Data on the Taiwan-PRC Entrepot Trade Through Hong Kong**

|       |                              |                  | Units: \$10,000 (percent)  |                   |
|-------|------------------------------|------------------|----------------------------|-------------------|
| Years | Total Volume                 | Rate of Increase | Taiwan Exports to Mainland | Rate of Increase  |
| 1978  | 4,673                        |                  | 5                          |                   |
| 1981  | 45,671                       | 42.51            | 39,040                     | 61.29             |
| 1982  | 29,819                       | -34.71           | 20,823                     | -46.66            |
| 1984  | 55,463                       | 109.48           | 42,660                     | 152.86            |
| 1985  | 110,274                      | 98.82            | 98,684                     | 131.33            |
| 1986  | 95,764                       | -13.16           | 81,342                     | -17.57            |
| 1987  | 151,815                      | 58.53            | 121,725                    | 49.65             |
| 1989  | 348,339                      | 28.02            | 289,649                    | 29.18             |
| 1990  | 404,361                      | 16.08            | 327,826                    | 13.18             |
| Total | 1,584,506                    | 72.831           | 289,182                    | 47.26             |
| Years | Taiwan Imports from Mainland | Rate of Increase | Taiwan Surplus/Deficit     | Rate of Increases |
| 1978  | 4,668                        |                  | -4,663                     |                   |
| 1981  | 7,631                        | -2.69            | +31,409                    | 91.95             |
| 1982  | 8,996                        | 17.89            | +11,827                    | -62.35            |

|       |         |        |          |        |
|-------|---------|--------|----------|--------|
| 1984  | 12,803  | 33.28  | +29,857  | 310.97 |
| 1985  | 11,590  | -9.47  | +87,094  | 191.70 |
| 1986  | 14,422  | 24.43  | +66,920  | -23.16 |
| 1987  | 30,090  | 108.64 | +91,635  | 36.93  |
| 1989  | 58,690  | 22.60  | +230,959 | 30.96  |
| 1990  | 76,536  | 30.41  | +251,290 | 8.8    |
| Total | 295,324 | 30.47  | +993,858 | 70.37  |

Source of data: "Statistics of the Hong Kong Government Customs Service" (December 1990) and Taiwan's MAO-I KUAI-HSUN [TRADE EXPRESS] of 22 February 1991.

### Editorial Views Economic Prospects, Problems

91CE0666A Taipei LIEN-HO PAO in Chinese 3 Jul 91  
p 2

[Editorial: "Is It Still Up to the Government To Dispel the Three Anxieties and Six Matters of Concern in the Country's Economy"]

[Text] The Advisory Committee of the Council of Economic Development of the Executive Yuan recently coined the phrase of the three anxieties and six matters of concern. The three anxieties are Taiwan's economic position in the world, its interaction with the mainland, and the problem of internal circumstances concerned. The six matters of concern are rising unemployment, real estate prices, lagging laws and regulations, democratic education, foreign labor, and the detrimental effect of politics and of the economy on prospective investors. These fears and anxieties have people somewhat concerned about Taiwan's economic prospects. However, all problems in connection with the present economic situation are not at all too complex, and, simply expressed, the key points of the present economic problems can well be brought under control, if we would only engage in an externally oriented critical review and an internally applied introspection.

The externally oriented critical review comprises attention in two respects: One is that since Taiwan's economy has by now become involved in the global economic system, how to respond to the problem of uncertainty in international economics. The other is the problem of what international obligations to assume, and in exchange for what kind of benefits.

As to the uncertainty of international economics, there has been a gradual decline since the 1970's in the proportion of U.S. gross national product in the world's gross national product. The United States is confronted by the aggregate gross national product of the European Common Market, while Japan's gross national product is already about two-thirds of that of the United States. The era of firmly established U.S. economic hegemony is indeed changing. Before the new rules of the game have been established, uncertainty of exchange rates and the adjustment of relative interest rates between the industrial countries will in future have significant effects on Taiwan's economy. Ways of coping with this uncertainty and initiation of new opportunities for Taiwan's economy are now the most important topics of the day.

As to the assumption of international obligations, there is the very obvious fact of Taiwan's perennial favorable balances of trade since the start of the 1980's and its inordinately high proportion of surpluses from foreign trade, which make the question of how to coordinate action with the needs of international economic readjustments, and how to rationally adjust trade balances, a most important topic. Equally important is the surplus, year after year, of savings deposits, and how to utilize this resource of savings deposits for investments and assistance abroad has become a problem that must not be overlooked. These phenomena indicate that Taiwan is gradually taking its position among the industrial countries, and must, of course, assume international obligations. But while fulfilling all its obligations, Taiwan must not lose sight of the need to gain in exchange certain political or economic benefits. With its unavoidable involvement in the international economic system, it has become necessary for Taiwan to make certain arrangements in good time to gain as far as possible the largest possible political and economic benefits.

As to internally applied introspection, this too comprises attention in two respects: One is the problem of how to reconcile a giant of international economics with the dwarf of international politics. The other is that Taiwan's economy has already passed its period of maturation, future targets must be selected, and, furthermore, after rational selection, required policies and institutional adjustments must be outlined.

As to the political and economic reconciliation: Among the various countries of the world, Taiwan merely ranks twentieth in regard to the scope of its economy, but among the developing countries, no one can deny that Taiwan is one of the economic giants. However, during all these 40 years, there has never been a place for Taiwan's participation in the various organizations of developing countries. If there is any question about Taiwan's position in the world economy, the first thing to strive for is to gain a voice among the developing countries. To gain this right to speak, it is necessary to reconcile the various divergent views within the country, to achieve agreement by means of initiating brand-new institutions, so as to allow Taiwan to play a role on the international political and economic stage commensurate with the country's gross national product.

As to the selection of its future objective, there are only three roads open, according to what we learn from the precedents in the development of industrial countries: First, expansion of the national defense system; second, large-scale consumption; third, the welfare state. The first two are problematic because of their wasted resources. During the last 30 years, economic failures in the United States and in the various countries of East Europe, we could say, are examples close at hand. As to the welfare state, there have been some distinct successes in Western Europe. Furthermore, various domestic social movements in recent years in some way point toward that developmental road, so that we can say this is indeed the road on

which Taiwan will unavoidably have to advance. However, the institutional setup and Taiwan's laws and regulations may not necessarily be such that would be adequate for a welfare state. This is particularly evident in the state budgets of the last few years. There have been large increases in investments in infrastructure and social welfare expenditure, but far below the standards required in a welfare state. If the internal social and economic problems are to be overcome, and a foundation also to be laid for externally oriented developments, the government must, within a short time, overcome all difficulties, adjust the distribution of budgeted resources, and, furthermore, devise institutions and legal provisions that would meet the needs of a modern state.

In short, although some economic successes, achieved during 40 years of economic development and energetic effort, have gained recognition in the international community, further advances to the said goal are necessary. The so-called three anxieties and six matters of concern are major bottlenecks of critical significance. The above analysis will have made it clear that it is completely up to the government to overcome the above-mentioned bottlenecks. It is not enough for the government to merely point out problems, without introspection as to where the problem really is. If those who are ready to raise the alarm will also set about the task of lifting the reasons for alarm, Taiwan's economy could immediately speed on toward a new milestone of success.

### Editorial Evaluates Mid-year Economic Situation

91CE0689A Taipei CHING-CHI JIH-PAO in Chinese  
5 Jul 91 p 2

[Editorial: "Mid-year Assessment and Forecast for Economic Situation"]

[Text] According to the statistics of May, the performance of the domestic economy was better than expected in all sectors. Exports reached \$6.8 billion, the highest monthly record in history, an increase of 21 percent over the same month of 1990. Imports reached \$5.1 billion, an increase of 16.6 percent over the corresponding period of 1990. The favorable balance of trade reached a staggering \$1.7 billion, an increase of 36.5 percent over the corresponding period of 1990. Between January and May exports totalled \$29.27 billion, an increase of 10.1 percent; imports totalled \$25.64 billion, an increase of 12.7 percent; and the favorable balance of trade totalled \$3.63 billion, a decline of 5.7 percent over the corresponding period of 1990. Due to the brisk situation of exports, industrial production in May also increased 8.6 percent as compared to the corresponding period of 1990. Of which, heavy industry in particular, registered a 10.4 percent increase. Between January and May the industrial production recorded showed an increase of 5.6 percent increase over the corresponding period of 1990. In May the economic strategic signal still flashed yellow and blue lights, but the comprehensive score already reached 22 points, only one point away from green light. It is very possible that a green light will appear in June. The main planning department of the Executive Yuan has already announced that the economic

growth rate of our country is 6.4 percent in the first quarter and predicted that it will be 5.83 percent in the second quarter. However, based on the brisk situation of trade, the increase of industrial production, and the rising trend of domestic investment in the first five months of 1991, we estimate that the economic growth rate of the first half of 1991 may reach 7 percent. Obviously the economy has picked up.

The reason that the economy can increase during the first half of 1991 obviously includes both internal and external factors. As far as external factors are concerned, the overall international climate has improved this year, and the U.S. economy has come out of the recession and begun to head for the stage of recovery. In the first quarter of 1991, calculated on the basis of annual growth rate, the Japanese economy registered a growth rate of 11.2 percent, the highest in 18 years. Germany's growth rate also exceeded 10 percent during the first quarter. One important factor is that after the Gulf war ended, oil prices dropped, letting enterprises and consumers regain confidence. Due to the urgent need for economic reconstruction, the external demand for countries involved in the Persian Gulf area has increased, which is conducive to the steady growth of the world economy. Under this situation, Taiwan's economy has also been pushed toward prosperity.

Another important factor is domestic. A few years ago, domestic investment desire was weak, and business owners hesitated to make investment. This was caused by a deteriorating domestic investment environment due mostly to noneconomic factors such as deteriorating public security, the protests of environmental protectionists, labor movements, and political protests frequently taking to the streets. Moreover, domestic monetary games and speculation practices have all weakened investment desires. After Li Teng-hui became president and assigned Hao Po-tun as the President of the Executive Yuan in 1990, he made great efforts to reorganize. Since then, these phenomena have shown obvious improvements. With regard to public security, most kidnapping and blackmailing cases have been solved and suspects have been arrested and are being processed according to law. A few suspects have absconded to avoid punishment and fled overseas. The government is trying to search out and arrest them. No new major kidnapping and blackmailing cases have occurred in the past year or so. Great achievements have been made in substantially reducing shooting incidents after public security departments took strict measures to prevent the flood of illegal, smuggled guns, and searching out their sources. The protests of environmental protectionists, through the mediation of the government, have eased up substantially. Moreover, the Fifth Light Industrial Company has started operation, the Changpin Industrial Zone has resumed operation, the problem of the construction of the Sixth Light Industrial Company is expected to be resolved smoothly within a short period of time, the construction of the Fourth Nuclear Plant is being vigorously appraised, and the voices of opposition are expected to die down gradually. Labor movements are gradually becoming rationalized. There have been very few incidents of slow-downs and disguised strikes. As for the

phenomenon of political dissidents taking to the street, there seems to be a lack of successors. These factors all show that efforts made by the government in all fields, especially political reform, have achieved marked results. Consequently, the government's image has improved, its governing power has gradually resumed, and the peoples' faith in the government has increased. This means that the domestic investment environment has improved and business owners' confidence has been restored. As a result, investment has increased, production and exports expanded, and great achievements were made. This cannot but serve as an impetus to economic growth.

However, another important factor may be the finalization and enforcement of the Six-year National Construction Plan. In spite of the unavoidable mistakes made during the formulation of the plan, this plan demonstrates the daring and resolution of the government. It shows that the government is determined to make a breakthrough in national construction and ascend to yet another level in economic construction. This is bound to stimulate business owners, increase their confidence, and give them a free hand in investment. This can be proved by the following statistics: In the first five months of 1991, the number of newly established companies increased 2.12 percent, as compared to the corresponding period of 1990, while the number of dissolved companies dropped substantially by 24.1 percent.

Based on the performance of the first five months of 1991, what is the prospect for the economy in the second half of 1991? Generally speaking, we are still fully confident. We even think that it will be better than the first half. This point is derived from the domestic and international economic situation and possible changes in other factors. With regard to the international situation, both the Middle East and East Europe, after experiencing political disturbances last year, should, in the future, be concentrating on economic reconstruction and transformation; this should have a favorable effect on the world economy. Since Yeltsin won by a landslide in the general election of Russia and became its president, he should be able to become reconciled with the Soviet Union and to seek ways to carry out economic transformation. This could be a favorable factor for the Soviet Union and Western countries. Germany has decided to return its capitol to Berlin. Although this is a long-term task and there will be many preparations first, it should have a stimulating effect on German and European economies. Besides, West Europe will become a unified market next year. According to the meeting of finance ministers of seven major industrial nations, the U.S. economy will continue to head toward recovery. These factors give us optimistic prospects for the world economy.

Domestically, judged from the current trend, the market will continue to prosper and market strategy signals will change to a green light. Along with the disappearance of underground investment companies as well as monetary games and activities, economic activities have returned to normal. Stimulated by the the Six-Year National Construction Plan, a public investment program of domestic

investment, activities will increase substantially. Exports will continue to maintain growth. Trade with Mainland China, in particular, may exceed \$7 billion this year, and trade with East European countries may also encounter a breakthrough.

Another important factor is that the second national assembly election will be held at the end of 1991. This is a major event followed by everyone. The election activity is bound to increase the effective demand at home, thus stimulating domestic economic activities. Facing these favorable conditions, we hope that business owners will seize the opportunity to expand investment while greeting the promising second half of 1991.

### Central Bank's View on Economic Recovery Disputed

91CE0689C Taipei CHING-CHI JIH-PAO in Chinese  
6 Jul 91 p 2

[Editorial: "Discussion With the Central Bank on the Issue of Current Economic Recovery"]

[Text] Chiu Cheng-Hsiung [6726 2973 7160], vice president of the Central Bank, said on 4 July that Japan recently announced lowering the rediscount rate by 0.5 percentage points from the previous 6 percent to 5.5 percent. In response to this new measure of Japan and the latest developments of the world, the Central Bank of Taiwan is now making comprehensive considerations and will decide in the next few days whether or not to readjust the discount rate. Chiu Cheng-hsiung further pointed out: Preliminary analyses show that the Central Bank of Japan decided to lower the discount rate on the basis of four main reasons: 1) Japan's price indexes have dropped and inflationary pressures declined substantially. 2) Economic growth has slowed down and the economy has stopped expanding rapidly. 3) The Japanese yen is on an upward trend. 4) The amount of money supply continues to decline markedly. The current situation of Taiwan is not exactly the same as that of Japan. Although our inflationary pressure is not great, our economic growth remains in a stage of slow recovery and the annual increase rate of our money supply, M2, is two digits. So our situation is not exactly the same as Japan's. Because of this, the Central Bank must think deeply about whether or not to readjust the rediscount rate. But Hsieh Sen-chung [6200 2773 0022], president of the Central Bank, stated yesterday in a different tone that the domestic economy began to recover in May and June, that Taiwan's situation is different from Japan's for Japan has to lower the rediscount rate to save its economy, and that the Central Bank of Taiwan will not be forced to do the same just because Japan readjusted the rediscount rate. Although President Hsieh sounded more certain than Vice President Chiu did, their views on the current economic situations of Taiwan and Japan are identical. If there is any deviation between this view and the fact, it will cause the Central Bank to make a wrong policy decision, thus causing grave damage. Unfortunately, our understanding of the current economic situations of Taiwan and Japan is very different from that of the Central Bank. It is worth further discussion.

First, we need to point out that in the past 10 years (1980-1989) the average annual economic growth rate of Japan was 4.2 percent, equivalent to only a half of Taiwan's 8.2 percent growth rate. But in last year (1990) Japan's economic growth rate increased to 5.6 percent while ours declined to 5.3 percent. Japan's growth rate was higher than ours. In the first quarter of this year, Japan's economic growth rate was as high as 11.2 percent, almost double that of Taiwan's 6.4 percent. Japan predicts that its economic growth will slow down in the second quarter of this year, so do we. The Main Planning Department of the Executive Yuan recently estimated that our economic growth rate will decline from 6.4 percent in the first quarter to 5.8 percent in the second quarter. In the past two years, Taiwan's economic growth trend has been only worse, not better, than Japan's. Vice President Chiu of the Central Bank of Taiwan pointed out that currently the domestic economy is slowly recovering, President Hsieh affirmed that the economy began to recover in May and June, and yesterday's editorial of our paper also made similar analysis. But the economic recovery of the past two months in Taiwan was triggered by the large increase in exports. However, in the first five months of this year the increase rate of our exports, which was 10.1 percent, was still lower than Japan's 13.4 percent, Korea's 15 percent, and Singapore's 21.6 percent. Although in June our exports registered an even greater increase, which was contributed mainly by the 73 percent increase in exports to Hong Kong (mostly transferred to mainland China). In the first half of this year our total exports increased 13.5 percent, lower than those of Japan, Korea, and Singapore. If we deduct the factor of Hong Kong, the increase rate of our exports was only 8.5 percent, much too far behind Japan, Korea, and Singapore. As for industrial production growth, in the first five months of this year, our industrial production increased 5.6 percent as compared to that of the corresponding period of last year, but it is because industrial production declined last year and had to rise from the bottom. If compared to 1989, the increase rate in the past year was only 0.7 percent. The momentum of recovery is very weak. Take the rising of the economic strategic signal for another instance, although the comprehensive score rose from 18 points in March to 22 points in May, it still fell in the range of yellow and blue lights which signal recession. Because of this, the slow recovery of current economy should not be subjected to any further attack. To speed up the tempo of recovery, we need to make greater efforts.

Second, we need to point out the issue of exchange rate. Vice President Chiu said that the Japanese yen is on the upward trend, but the fact is that it depreciated first and then appreciated in the past two weeks. Compared to the end of last year or April, the present (3 July) exchange rate of the Japanese yen has depreciated in relation to the U.S. dollar whereas the new Taiwan dollar appreciated during the corresponding period. If we calculate the changes of exchange rates of different countries in the past six months, we will find that the currencies of Japan, Korea, and Singapore and major currencies of Europe have all depreciated in relation to the U.S. dollar, and only the new

Taiwan dollar has appreciated and become super-strong. In the past six months the new Taiwan dollar has appreciated 20 to 23 percent against particularly the West German mark, the British pound sterling, the French franc, and the Italian lira. This has had a very bad effect on the expansion of exports to Europe in the second half of 1990. If the Central Bank of Taiwan insists on the high-interest policy and draws in a large amount of hot money, forcing the new Taiwan dollar to rise further, not only the economic recovery will be hindered but the detrimental effect of the influx of a large amount of money will cause even more serious consequences.

Third, we need to point out the issue of money supply. Vice President Chiu pointed out that the amount of Japanese money supply continues to decline substantially while Taiwan's M2 increases by two digits. However, according to the information of monthly journal of economic statistics of the Bank of Japan, in 1991 the amount of monthly money supply in Japan did not decline, but continued to increase only at a slower rate, compared to the corresponding months in 1990. As far as the narrow sense of M1B is concerned, the amount of money supply in Taiwan began to decline in March 1990. The trend continued and did not reverse until February and March 1991. The increase rate was around 5 percent, still lower than the economic growth rate. As Vice President Chiu pointed out, in reality there is no direct relation between the reduction of the rediscount rate and the increase in existing amounts of currency. Because of this, if the Central Bank of Taiwan lowers the rediscount rate and properly increases the amount of money supply, it should not cause any unfavorable effects.

In sum, the current economic situation of Taiwan is much worse than that of Japan. Although our economic recovery has begun, it is not only slow but weak. It cannot withstand more attacks. We urge the Central Bank to think thrice!

### **Editorial on U.S. Role in Redressing Trade Imbalance**

*91CE0689B Taipei CHING-CHI JIH-PAO in Chinese  
8 Jul 91 p 2*

[Editorial: "Balancing Taiwan-U.S. Trade Depends on the Further Efforts of the United States"]

[Text] On the invitation of the Chamber of Commerce of American Chinese in Taiwan and the Association of Students Studying in the United States, President Li Teng-hui delivered a speech, entitled "Taiwan Experience and Future" at a rally held to commemorate the 215th anniversary of the founding of the United States. He mentioned economic and trade relations between Taiwan and the United States, stating that Taiwan's dependence on the U.S. market has declined year after year. He said: The percentage of U.S. exports in Taiwan's total exports has declined from 48.8 percent in 1984 to 28 percent in the first five months of 1991. This shows that compared to the United States, other countries and areas have a more active attitude in seeking out the Taiwan market and strengthening economic and trade relations with Taiwan.

This phenomenon deserves the attention of both sides. As the president of a state, President Li's speech was naturally measured. It implied a call to the government and the people of the United States, urging them to vigorously increase their efforts to open up the Taiwan market so as to reduce their trade deficits. This remark can be considered the unanimous opinion of our whole nation. It really deserves the attention of the United States.

A review of the development in the economic and trade relation between Taiwan and the United States since 1949 shows that the nature of this relation has changed drastically. It indicates the process of smooth growth of a developing country. It also demonstrates the fact that if a developed country fails to ascend to a higher level after economic maturity, it will inevitably face the crisis of stagnation and decline. In the 1950's and 1960's, due to the low level of economic development, Taiwan was highly dependent on the United States for economic and trade relations. This is shown by the fact that the volume of trade to the United States was very low and that trade balance was always unfavorable to us, forcing us to fill up the gap with early U.S. aid. However after the 1970's, things changed drastically. Since our economic development sped up, the industrial foundation was firmly established, and foreign trade was expanded substantially, the unfavorable balance of trade we had suffered for many years suddenly changed to a long-term favorable balance. And the amount of trade surplus, especially with the United States, has increased year after year. Not only has the percentage of U.S. export in our total export increased, to a staggering 48.8 percent in 1984 as mentioned by President Li, but the volume of bilateral trade, especially our export to the United States, also increased substantially. For instance, in 1987 Taiwan's exports to the United States reached \$23.6 billion, whereas Taiwan's import from the United States was only \$7.6 billion. This is one of the factors contributing to the U.S. unfavorable balance of trade with Taiwan. In 1987 the imbalance of trade was as high as \$16 billion.

Another factor is that since 1975 the foreign trade situation of the United States has deteriorated year after year, changing from long-time favorable to unfavorable trade balance. Its trade deficits continued to increase every year and once reached a staggering \$180 billion a year. This applies not only to trade with Taiwan but to trade with Japan and West Germany where huge deficits also occurred.

In view of its deteriorating trade situation, in the past 10 years the United States constantly urged its trade partners to adopt measures to change the trade situation. It did not make an exception for Taiwan. To reach this objective, the United States put the following demands on Taiwan: appreciation of the new Taiwan dollar against the U.S. dollar, reduction of import tariff, opening up of domestic market, and permitting U.S. financial and transportation industries to invest in Taiwan. In concrete moves, it forced Taiwan to allow the import of foreign cigarettes and wine and to expand the import of U.S. agricultural products. At the same time, it constantly threatened us to retaliate

citing the 301st article of the comprehensive trade regulations. In order to maintain the friendship between the peoples of the two nations and further strengthen the economic and trade relation between the two countries, we have yielded as much as we can regarding the U.S. demands. The new Taiwan dollar has appreciated from the past exchange rate of 40 to around 27 against 1 U.S. dollar. Import tariff has been reduced substantially. The domestic market is wide open. More importantly, we have vigorously dispersed export markets and encouraged business owners to expand exports to areas other than the United States. At the same time, we have particularly strengthened buying in the United States. After several years of effort, we have made great achievements in this regard. For instance, our imports from the United States once increased to \$13 billion, a growth rate of 70.42 percent. Our exports to the United States have stopped increasing and begun to decline year after year. Our U.S. exports maintained at \$23.4 billion in 1988, slightly increased to \$24 billion in 1989, and declined again to \$21.7 in 1990. Due to the changes in our U.S. imports and exports, the percentage of our exports to the United States has declined year after year. In spite of this, the favorable balance of our trade with the United States was still as high as \$9.1 billion in 1990.

Why can't the unfavorable balance of U.S. trade with Taiwan be improved quickly? According to reason, Taiwan has done all it can do and seen some results. Why is the trade imbalance of the United States so big? It seems that the United States should pay more attention to discussing this question. We always think that in order to solve this problem, the United States has adopted too many political means and not enough economic ones. The United States continues trying to use political means to pressures other countries, forcing them to give in. But it fails to use economic means to vigorously open up markets for U.S. commodities. U.S. business owners have never seriously put foreign markets in first place, or considered how to produce goods that are suitable for foreign consumers, provide moderately priced high-quality goods and good service, and then send business representatives abroad to promote sales. Instead, they keep on trying to lobby the U.S. Congress, asking the congress to put pressure on the government and have the government put pressure on foreign trade partners. This arrogant and bossy style might bring some temporary effects, but they cannot last long. Business, is, after all, business. It must be conducted with business methods. Political means cannot replace them. This is the basic reason why the U.S. foreign trade and economic relation has failed to improve. The United States should make conscientious efforts to examine this point.

Since East European socialist countries and the Soviet Union began economic reforms, in order to strengthen economic and trade relations with Western countries, the governments of these countries have continued to send business representatives to conduct inspections and negotiations in different countries. Even those countries which have no diplomatic relationship with us such as Czechoslovakia, Poland, and the Soviet Union have sent official

representatives to make contacts with Taiwan in an effort to expand bilateral trade and economic relations. The work style of these countries is worth studying by the United States.

We urge that the departments concerned in the United States think about President Li's proposal, which consists of sincere words and earnest wishes, his intention, which is to seek long-term friendly relationship between Taiwan and the United States, and his expectation, which is to improve economic and trade relation between Taiwan and the United States.

### Editorial Draws Attention to 'Alarming' Trade Situation

91CE0700A Taipei CHING-CHI JIH-PAO in Chinese  
13 Jul 91 p 2

[Editorial entitled: "The Warning Signs in the First Six Months' Trade Statistics"]

[Text] A few days ago, the Ministry of Finance issued a bulletin on this country's foreign trade statistics for the first six months of this year. The figures show significant improvement both in the dispersion of export markets and in the adjustment of the mix of export goods. For example, the share of exports to the United States has continued to plummet while the share of exports to Southeast Asia and Europe has continued to soar; the export of technology-intensive goods as a percentage of total exports has continued to rise, and the trade surplus against the United States has decreased substantially. These results should be reaffirmed and are most gratifying. However, if we further analyze these figures, we will discover some alarming news which we should be concerned about. We are offering our analysis below. Perhaps the units in charge may find it useful as reference:

1. Exports in the first six months of this year increased 13.5 percent over the same period last year, but because of the weak export market in the first six months of last year, we have a low base to compare with, which makes the rate of increase appear higher. Even so, we pale in comparison to Korea's 14.7 percent increase, Singapore's 20.3 percent increase between January and May, and Hong Kong's 26.5 percent increase in January and February alone. Moreover, although our exports resumed its double-digit increase in the first six months of this year, it was due mainly to the 50.9 percent increase in exports to Hong Kong. Discounting that, our exports to other regions only increased 8.5 percent, lagging far behind the other three small dragons.

2. Reducing the trade surplus against the United States has become a set government policy, but our aim was to increase U.S. imports and not to decrease our exports, and we were also hoping to expand trade relations with the United States while reducing the trade surplus. But in fact, in the last three and one-half years, except for 1989, our exports to the United States have decreased in the other two and one-half years, and the trade volume with the United States has been shrinking every year for the last

three and one-half years. This runs counter to the government's policy of expanding trade relations with the United States and should be carefully reviewed.

3. We have become increasingly dependent on Hong Kong. In the first six months of last year, exports to Hong Kong increased by 11.7 percent, and in the first six months of this year grew another 15.6 percent. The increase in exports to Hong Kong in recent years is due mainly to the re-export of goods to mainland China. Hong Kong statistics show a sharp increase in the percentage of goods being imported from Taiwan and re-exported to the mainland in recent years, and as much as 44 percent of the goods were re-exported last year. But this is only part of the story. In the past, the value of import from Taiwan based on Hong Kong's statistics was higher than the value of exports to Hong Kong by our own calculation. This is because the former was based on CIF and the latter on FOB, so the discrepancy is quite normal. However, things have changed since the year before last. The value of import from Taiwan, by Hong Kong's calculation, has remained lower than our value of exports to Hong Kong, and the gap is widening—last year, the difference was more than 15 percent. If the value of Taiwan's exports to Hong Kong is greater than the value of Hong Kong's import from Taiwan, how do we account for the missing goods and materials? Perhaps this can be explained by the fact that some of the imports are never unloaded in Hong Kong and are never recorded by the Hong Kong Customs but are re-shipped immediately to the mainland. If we include that, then as much as 50 percent or more of the value of our exports to Hong Kong is made up of goods re-exported to the mainland. Thus, indirect exports to the mainland in the first six months of this year was not under 6 percent of our total exports as estimated by the Ministry of Economic Affairs [MOEA] but was more than 8 percent, close to the 10 percent upper limit set by MOEA. To avoid the adverse effects of our increasing dependence on the mainland market, the departments in charge should take prompt precautionary measures.

4. A few days ago, the value of the NT dollar suddenly soared, which means the market is affected by the news of the favorable trade balance. On the surface, we had a \$5.3 billion trade surplus in the first six months of this year, an increase of 7.8 percent compared to the same period last year. This includes a \$4.7 billion trade surplus against Hong Kong, which accounts for nearly 90 percent of the total surplus, and it has been growing rapidly. The increased trade surplus against Hong Kong is due to the Taiwanese people's indirect investment in the mainland and does not mean that our products have become more competitive. Discounting the trade surplus against Hong Kong, the surplus against the other regions only came to \$620 million. Compared to the \$1.9 billion during the same period last year, it represents a substantial two-thirds reduction. Obviously, this is due to the substantial increase in wages in recent years, to the significant appreciation of the NT dollar against most currencies, and to our products' loss of competitiveness. The increase in trade surplus has led to an excess supply of foreign exchange in the foreign exchange market, which seems to indicate that we are

highly competitive, but if we only look at the surface and let the value of the NT dollar soar freely, we will be making a serious mistake.

5. In the last few years, MOEA indeed has been working hard in different areas to reduce our trade deficit against Japan. But we have not been very successful. In the first six months of this year, the trade deficit with Japan has increased, and by an ever-growing amount: Last year, the trade deficit grew by 9.8 percent, totaling as much as \$7.66 billion for the year as a whole. In the first six months of this year, we have run up another \$4.36 billion in trade deficits, a 17.6 percent increase compared to the same period last year. On this basis, it is estimated that our trade deficit against Japan may exceed the \$9 billion mark this year, which is no small matter. Although the increased trade deficit against Japan is a result of this country's economic structure, nevertheless, the time has come to thoroughly review the various measures MOEA has taken to reduce it.

Based on the above analysis, we should realize that our foreign trade has its successful side, but there are also many hidden problems. If they are discovered early, if we learn of the causes early, and if we take prompt and effective measures, we not only can minimize their adverse effects. If we make good use of intelligence, attach importance to the information gathered, and take precautionary measures early on, we can even reduce large problems to small, making the small problems vanish; then our foreign trade will develop even more smoothly.

#### **Editorial on Pros, Cons of Importing Foreign Workers**

*91CE0700C Taipei CHING-CHI JIH-PAO in Chinese  
16 Jul 91 p 2*

[Editorial entitled "Three Main Issues in Bringing in Foreign Workers"]

[Text] The Executive Yuan has approved the bringing in of a limited number of foreign workers in 15 professions and 6 lines of business. This is a temporary solution to a problem which has been argued over for many years. We will learn of the consequences of this decision in the days to come. Today, we can only look at the experiences of other advanced industrialized nations for our own reference.

The main sources of economic development are increased input of factors of production and improved productive technology. Given the level of productive technology, the factors of production will be combined in fixed proportions, and if the level of technology is raised, the key factors of production will be combined in different proportions. However, the immediate change will not be dramatic. In Taiwan, economic development in the last 30 years has changed the relative supply and demand of key factors of production dramatically. In recent years, the problem has been a relative shortage of labor. In essence, the greatest difference between capital and labor, two key factors of production, is that capital is highly mobile; capital need not take part in the productive process directly, but labor has a serious mobility problem, and the

workers must be present to do the work. Thus, at a time when there is a shortage of capital, besides taking the proper steps to attract more capital, there is not much else one can do. However, during a period of relative labor shortage, besides attracting foreign workers to take part in the productive activities, we have the option of investing overseas. Consequently, there is the debate over whether we should bring in foreign labor. Today, the government has decided to permit the limited introduction of foreign labor. We can analyze the pros and cons of this decision here.

On the positive side, bringing in foreign labor can curb the steady increase in wages in this country and help lower the production cost, which in turn will act on and slow the out-flow of capital and sustain the increase in investment in this country and ensure our economic growth. This kind of short-term lowering of the production cost will be offset by higher indirect, external cost in the long-run, because the foreign workers' daily necessities, including transportation, medical care, entertainment and so on, constitute a social cost which is not borne by the manufacturers but by all citizens in this country. In the event the foreign workers refuse to leave, the need to educate and house their children and grandchildren and so on will become a heavy social burden.

On the negative side, lowering the wage cost will certainly benefit the entrepreneurs, but it will have a negative effect on the workers. People should earn more as society grows at a normal pace. To curb the wage increase by bringing in foreign workers will have an adverse effect on society's allocation. In particular, most of the foreign workers will be working in the sunset industries to prolong the lives of those industries. The immediate effect will be to prevent any improvement in the industrial structure, and the long-term effect will be to dampen investment interests. Everybody knows that investments have two major effects: In the short-run, they stimulate economic growth by increasing effective demand, and in the long run, they promote economic growth by increasing the productive capacity. So, if the interest in investment is dampened, we cannot be optimistic about the country's long-term economic development.

Thus, bringing in foreign labor perhaps will generate some benefits in the short-run, but in the long-run there are only be negative effects. Today, in view of the immediate objective situation, the government has no choice but to open the doors and allow some foreign workers to work in this country, but it should not just let a few in and forget them. Instead, it should take appropriate measures to supplement this move. In our opinion, the following three steps should be taken:

1. The government should not continue to widen the scope of introduction of foreign labor. The entrepreneurs generally do business with their own profit in mind. Bringing in foreign workers will help increase their profit, and entrepreneurs in various trades and industries inevitably will try to win this privilege, and this will easily put pressure on the administrative departments to continue to expand the

scope of introduction of foreign labor. From the point of society as a whole, this will be very disastrous in the long-run. As the saying goes, a small hole unpatched will turn into a big hole. We may suffer the consequences later.

2. A foreign labor external cost tax should be imposed on the entrepreneurs. Foreign workers, after all, are not citizens. They should bear some of the costs of the basic facilities provided by our government. That is only fair to the native workers. Thus, the government should immediately find out the amount of external cost and design the proper way to levy that tax. This measure should be put into effect the moment foreign labor is being brought in. Only then can we reduce the adverse socio-economic effects of foreign labor.

3. The foreign workers must leave after a specific period of time. The government must keep a detailed record of those workers, especially the number and the types of workers brought in by the entrepreneurs. It should require the entrepreneurs to return those workers to their homeland after a specific period of time so as to ensure Taiwan's own social-economic stability. If necessary, it should ask those entrepreneurs who bring in foreign workers to pay a per capita deposit as a deterrence against illegal practices by some unworthy entrepreneurs.

#### **Editorial on Halting Economic Dependence on Japan**

91CE0700B Taipei CHING-CHI JIH-PAO in Chinese  
18 Jul 91 p 2

[Editorial entitled "Orient Ourselves Toward Ending Our Economic Dependence Upon Japan"]

[Text] Premier Hau Po-t'sun himself brought up the issue of Sino-Japanese trade deficit and had an in-depth discussion with heads of the relevant departments at an Executive Yuan breakfast meeting the other day. He instructed members of the Ministry of Economic Affairs [MOEA] and the National Science Council to look into various key products and study the question of technological autonomy and so on and come up with ways to end our economic dependence upon Japan and to further improve Sino-Japanese relations.

The setback in Sino-Japanese diplomatic relations, since arrangements for President Li Teng-hui's visit to Japan fell through, has caught the nation's attention. Premier Hau was prompted to express serious concern over the current Sino-Japanese trade relations and the increasingly negative Sino-Japanese trade balance. He has asked the relevant government ministries and commissions to work together to boost our independent, autonomous industrial capability, eliminate the huge trade deficit against Japan, and end our dependence on Japan. In instructing MOEA and the National Science Council to look into what products and technologies this country can develop and produce on its own, Premier Hau said, "The government and the entrepreneurs must have the aspiration to end our dependence on Japan. Only then can we boost our independent and autonomous industrial capability. In particular, we must do a better job with quality control and enhance the

international image of our products. We must instill the sense of professional ethics in industries and businesses. The unions especially must boost the entrepreneurs' team spirit and encourage them to develop their own products and brands." He also pointed out that "scientific and technological development must keep abreast of economic development. Today's worsening Sino-Japanese trade deficit is attributable to the wide gap in science and technology."

Our economic dependence upon Japan and the negative Sino-Japanese trade balance have been long-term problems. The more we tried to improve the situation, the worse the problems became. Take the bilateral Sino-Japanese trade in the last five years: From 1986 to 1990, Taiwan's exports to Japan each year were worth \$4.56 billion, \$6.98 billion, \$8.76 billion, \$9.05 billion, and \$8.34 billion, respectively; the imports were worth \$8.25 billion, \$11.84 billion, \$14.82 billion, \$16.03 billion, and \$16.03 billion, respectively. The trade deficit for each year came to \$3.69 billion, \$4.86 billion, \$6.06 billion, \$6.98 billion, and \$7.69 billion, respectively. In the first six months of this year, our exports were worth \$4.64 billion and imports were worth \$9.00 billion, running up a trade deficit of \$4.36 billion. Our trade deficit is not only huge in absolute value, but the deficit as a percentage of the GNP is edging close to 5 percent. Its serious impact on the national economy can be imagined. "Eliminating the trade deficit against Japan and reducing our economic dependence upon Japan" have long been the wishes of the people, and Premier Hau is but reiterating that determination.

For many years we have made eliminating our trade deficit against Japan and reducing our economic dependence upon the Japanese our goal, but the result has been just the opposite. Our trade deficit not only has not been eliminated but has been growing, and our economic dependence on the Japanese not only has not decreased but has increased. In an effort to find a way to end our dependence on Japan, we weighed the international situation and considered our national condition and came up with the following suggestions for the government and non-government sectors' consideration:

1. We must implement the economic and trade program strictly. It is estimated that our trade deficit against Japan will exceed \$9 billion this year, far more than the \$6 billion trade surplus against the United States. Looking at the import-mix from Japan last year, of the \$16 billion's worth of goods, 45 percent are parts and components; 25 percent are raw materials; 21 percent are machinery; the rest is made up of assort consumer goods. This import mix indicates that most of the parts and components used in our export goods actually came from Japan, which also means that our import from Japan is the basis of our export to the United States, and therefore it will be impossible for us to stop importing from Japan. We can only try to integrate the science and technology, industrial policy, trade, and investment departments, step up the implementation of the "Program on Economic and Trade Relations With Japan," and raise our level of technology.

We must ask the Japanese to keep their promise to our entrepreneurs regarding their investments here and resell a certain percentage of the goods produced here to Japan and open up the Japanese market as the designated market of this country's products.

2. We should be more selective about our imports. Of course many export materials and parts and components must be imported, but many non-essential Japanese products can also be found in our consumers market. For instance, the purchase of Japanese foodstuff [?], condiment, garment, and stationery can be reduced. Or as another example, for many years, the interest groups have been arguing over the issue of garbage incinerator. Now is the time to review whether we should install them and whether we have to buy them from the Japanese if we want to avoid expanding our Japanese import.

3. We should promote the development of key components and parts. According to the National Science Council's analysis, the key components and parts which are responsible for our trade deficit against Japan include compressors for refrigerator agents used in air conditioners, large color cathode-ray tubes, CNC control equipment, integrated circuit for main-frame computers, liquid crystal display systems, motor for laser printers, floppy disk drives, and automobile engines and so on. The scores of financial groups and legal entities under the National Science Council's and MOEA's jurisdictions must concentrate their effort on setting priorities and actively develop these products, striving for technological self-reliance.

4. We must strive to increase export to Japan. Japan's MITI recently asked 57 *keiretsus*, department stores, automakers, and electronic parts and other large enterprises to increase import by 10 percent to improve Japan's economic structure. Last year, Japan imported \$242.2 billion's worth of goods. Taiwan's entrepreneurs should make improving product quality and services and so on the means to win a larger market share. Reportedly, the Foreign Trade Association is in the process of forging three Sino-Japanese enterprise alliances, including the creation of a Sino-Japanese joint venture to produce electronic products for sale in Japan; a joint venture to grow orchids and expand the sale of orchids in Japan; the creation a "Joint After-Sales Service Center" between Toyota Corporation and Taichung Precision Machinery [?] and other manufacturers and will target the Japanese market. All these are actively being pursued.

5. We should look for more trading partners and expand the scope of cooperation. In the past we have concentrated too much on Japan when forging economic cooperations abroad. Because of the changes in the world situation, we should expand the scope of cooperation. Not only should we strengthen our relationship with the United States and the Western European nations, but we should explore the possibilities of cooperating with the former communist countries in East Europe. In addition, because in many ways Mainland China and Taiwan can supplement each other's needs, we should seek further economic cooperation between the two sides of the strait.

Severing the Japanese umbilical cord and making it on our own of course will not be easy. But it is all a matter of human effort. There is no reason why we cannot accomplish what the Japanese can.

### **Former DPP Member Plans To Form Political Party**

*HK2707054491 Hong Kong HONGKONG STANDARD in English 27 Jul 91 p 8*

[By S.L. Law]

[Text] A former prominent member of Taiwan's opposition Democratic Progressive Party (DPP) plans to form a new party comprising members from all major Chinese communities throughout the world.

Lin Cheng-chieh, a maverick opposition figure in favour of Taiwan's reunification with Mainland China, said the time had come for political parties in Taiwan to "reorganise."

Mr Lin deserted the DPP last month because of its dominance by advocates for Taiwan independence.

He said he wanted a party for the Chinese people.

Criticising the ruling Kuomintang (KMT) and the opposition DPP as pro-America, pro-Japan but anti-China, he said policies adopted in Taiwan were unfavorable to the island's development.

He is convinced national reunification under a federal system is the best system for the Chinese nation.

"Chinese from all over the world, especially those from Taiwan, Hong Kong, the mainland and Singapore are welcome to join the party," Mr Lin said.

When asked how feasible such an ensemble would be in the current political climate, he said he did not plan to form the party immediately.

"I hope to have it furnished [as published] in five years," Mr Lin said.

"Actually, what I am thinking of is a party for the Chinese in the 21st century."

Mr Lin said about 20 friends frequently met to discuss the rationale of the new party.

He refused to say when a constitution could be worked out, but stressed that what they had in mind was a grand ideal built on Chinese nationalism.

"What we have to do right now is to increase exchanges between the different Chinese communities," he said.

"Our understanding of each other is too shallow, more exchanges can remove prejudices which will jeopardise the formation of a Chinese federation."

Mr Lin often travels to Hong Kong. He said his contacts were mostly in cultural circles.

"So far I have not talked to any of the major political figures in Hong Kong. I will make arrangements to see them soon," Mr Lin said.

### **Taipei Names New Ambassador to Paraguay**

*OW2208102991 Taipei CNA in English 0806 GMT 22 Aug 91*

[Text] Taipei, Aug. 22 (CNA)—The Executive Yuan today appointed Kuo Chung-ching as the Republic of China's ambassador to the Republic of Paraguay.

Kuo, 64, will replace Wang Sheng, who will be given a new assignment.

Kuo, of Taipei, has served as vice defense minister and strategic advisor to the president.

### Problems of Pre-1997 Political Planning Discussed

91CM0523A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 4, 15 Jul 91  
pp 15-16

[Article by Wu Guo-bang (0702 0948 6721) entitled: "Hong Kong Government Political Planning for the Post-Transition Period"]

[Text] At the end of July the local political temperature took a sharp rise as those preparing for the 1991 direct elections for the Legislative Council [Legco] made their final plans for candidate nominations. It may well be said that with this direct election Hong Kong is stepping into a new political era. The election is also the first large-scale election with mass participation under the 150 years of British rule. As for the Chinese government, it cannot lower its guard, because there are still six years before Hong Kong officially returns to Chinese sovereignty, and it may also be said that whether or not at the appointed time the government of the Special Administrative Region [SAR] takes over smoothly and there is a stable transition is very much related to this 1991 direct election for the Legco.

However, for this Hong Kong government, with the sun setting on its rule, one important and difficult question is whether under a variety of constraints any political planning can emerge for the post-transition Hong Kong government. What the Hong Kong government is focusing on is not the "opposition," "confusion," or the "continuous opposition voices" that the group of popularly elected legislators produced by the 1991 direct elections will bring, but rather how to harmonize work of the Executive Council [Exco] and a future Legco featuring "large numbers of new faces," to avoid generating a constitutional crisis. Post-transition political planning for the Hong Kong government entails how to increase transparency, how to seek out appointed candidates, and how to preserve a certain degree of loyalty in the Hong Kong bureaucracy under this heavy political pressure. Under the current harsh climate in Sino-British relations, the desire to have a set of perfect political plans is basically impossible to satisfy. Looking at the triangular power-exerting relationships between China, Britain and Hong Kong, political planning by the Hong Kong government in a strategic sense must consider the following three-way variables:

First, changes on the British political stage cause the upper levels of the Hong Kong government to change horses as the occasion demands. The popularity of the current British Conservative Party is sinking daily, and before long the Labor Party could be in power. In the event that in July of 1992 or before a general election brings the Labor Party to power, a majority of Labor members would like to adopt a firmer stance when it comes to Sino-British relations. When it comes to current new airport initiators Wilson or Huo Te [5681 1795], will it be possible to choose one from among these two, or will they be forced to abandon both? How will some of their followers in the Legco and Exco or other of the top elements of society once again orient themselves?

Second, a large portion of the current Hong Kong government bureaucracy has adopted a watchful attitude, and is simply divided. It could split into hawk and dove factions. The hawk faction candidates include the Municipal Administration head Hou Te, Economic Department head Chen-Fang An-Sheng [7115 2455 1344 3932], Public Affairs Department head Qu Heng [1448 3801], Exco Chairman Deng Lian-ju [6772 5571 1172] and member Pu Wei-shih [5543 0251 1102]. At the next level down we have Trade Office Deputy Chief Ceng Yin-quan [2582 5593 2938], and Maritime Affairs Deputy Chief Shi Zu-xiang [2457 4371 4382]. As for the dove faction, this includes Hong Kong Governor General Wilson, Education and Personnel Planning Department head Chen Zu-Ze [7115 4371 3419], and Constitutional System Affairs Department head Sun Ming-Yang [1327 2494 2254] (particularly noteworthy are his two deputies, Li Qing-ning [7812 1987 1337] and Liang Zhan-wen [2733 1455 2429], who both strongly support the approach of the dove faction). The hawk and dove factions definitely have different approaches, ideas and points of stress with regard to political planning after the transition.

Third, last year after China convened a Hong Kong-Macao work conference in Beijing, it came up with a new plan for post-transition Hong Kong policies. Of course, the Chinese side is taking the approach it has taken all along, and their united front objectives have also not changed. At present, Xu Jiatun's former followers have basically been eliminated, which reflects the fact that next time the Chinese side will be better prepared. We can describe this as the calm before a hurricane.

For this reason, the British political scene described above, the division within levels of the Hong Kong government bureaucracy and the political planning of the Chinese side have quite an influence on the political planning of the Hong Kong government. As for the actual situation, political planning by the Hong Kong government must include the following aspects:

First, discovering and fostering politically talented people. According to the stipulations of the Basic Law related to the Hong Kong SAR's first government and Legislative Council, in 1996, the SAR Preparatory Committee and the first government 400 member Electoral Committee will be established, and among the 60 people of the first SAR Legco, 10 will emerge from the Electoral Committee. When it comes to this aspect, the current Hong Kong government is clearly hoping as far as possible to obtain a solid team (namely a rescue squad or cheerleading squad) of support for the Hong Kong government in the Legco in the period from 1991 to 1994 and 1994 to 1996. Under current political conditions, Exco members could be compelled by the onset of 1997 to completely switch teams. Seeking out and fostering and politically accelerating successors is the most important political plan of the Hong Kong government in the transition period. Taking current Exco members as an example, Tam Wang-gewu [6223 3769 5514 0839] has already announced her retirement, while those who at any time could follow her into retirement or refuse to serve again include Hsu Li-tai [1776

7787 3141] and Hsieh Zhi-wei [6200 1807 0251]. Shih Wei-hsian [2547 1807 6343], because he formerly served as the deputy chairman of the Legco, under the principle of the separation of the Exco and Legco also announced that in September he would step down from membership in the Exco. For this reason, seeking out new Exco members who as far as possible are able to sufficiently reflect the interests of business circles is the most important political plan of the Hong Kong government. Of course another aspect is that some people who in the past served actively on the Drafting Committee or Advisory Committee, such as Liang Zhen-ying [2733 2182 5391], Luo Kang-jui [5012 1660 3843], Shao Shan-po [6730 0810 3134] and Guo Zhi-quan [6753 1807 2938] similarly hope to obtain the favor of both the British and Chinese at the same time. In the present political situation, we can clearly see that the Hong Kong Association of Tradesmen, Businessmen and Professionals established by Luo Kang-jui, Liang Zhen-ying's "One Country Two Systems" Economic Research Center, and the Hong Kong Alliance set up by the democratic groups and the Liberal Democratic Union set up by conservative groups, will all in the following six years emerge as potential bases for politically talented people. According to the planning of the Hong Kong government, when it comes to the appointment of future Exco and Legco members, it will as far as possible avoid appointing the figures described above, to avoid conflicts of interest. Hence the pool of political candidates who could be appointed by the Hong Kong government in reality will be very limited. In terms of this difficulty, the current Hong Kong government, in addition to the very limited number of candidates, also must consider which of the following appointment criteria are important: is he/she a British native, a Hong Kong native, independent, does he/she have professional experience and an international outlook? How will it be possible to ensure that these new Legco yearly appointed members at minimum have made up half the SAR government to be able to smooth the transition to 1997 and beyond? Looking at the current candidates, we can estimate that former Hong Kong government Central Policy Department Guo Tai's [0948 3141] Deputy Director for Commercial Affairs Zhang Yong-lin [1728 3057 7207], Hong Kong and Shanghai

Group Research Department Senior Director Zheng Hai-quan [6774 3189 3123], and their part-time consultants form a group of potential candidates for appointment to the Legco. Moreover, this group is the top of society and because their interests are relatively small, comparatively speaking, it will be easy for them to obtain the confidence of the Chinese government. However, this list of appointees is only at a preliminary stage, and remains to be further increased or reduced.

Of course, another path would be for the Hong Kong government to enthusiastically work closely with and ally itself to some more moderate political groups, such as the Association of Industry and Commerce, to be able to use the resources this would bring at times of need.

Second, there are time limitations. As there are only six years remaining in the transition period, the ruling power of the Hong Kong government will gradually be weakened, and with competition in an extremely limited time period, political planning must be started immediately, otherwise disaster will ensue. The current situation for the Hong Kong government is just as if it were necessary within an extremely short time to complete the final phase of a chess game, and the onlookers see the game better than the players.

Third, political planning must establish a clear division between the infrastructure (system) and power in a mature political culture. Under the rule of local authorities of the hawk faction, one would believe that they would spare no effort in struggling to achieve the clear division of power of the "one country two systems" structure in the Basic Law; but if the dove faction should hold sway, then it would as far as possible stress linkage and dialogue with China, and political planning would change to focus on the responsibilities of both sides, while at the same time, it could officially launch a joint management phase.

In sum, there will be many difficulties facing Hong Kong government efforts to achieve effective political planning goals in this period before the transition, but if there is also a lack of a spirit of risk taking, the leading role in the future political situation will certainly be China and not Hong Kong or its political agents.

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