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CONTENTS

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POLITICAL

Article Describes Township Cadres' Problems [XIANDAI LINGDAO 25 Nov]	1
Article Considers Ideological Problems [SHEHUI KEXUE 15 Nov]	3

ECONOMIC

GENERAL

QIUSHI on State Enterprise Reform System [16 Nov]	7
State Statistical Report on Economic Performance [ZHONGGUO TONGJI XINXI BAO 23 Jan]	10
QIUSHI Views State Enterprise Reform System [16 Nov]	11
Resolving Problem of Local Economic Blockades [CAIJING YANJIU 3 Nov]	14
Enterprises Exceed Goal To Reduce Stockpiles [XINHUA]	20
Measures To Invigorate Enterprises [JINGJI GONGZUO TONGXUN 15 Nov]	20
Operating Forces in State, Township Enterprises [GAIGE 20 Nov]	23
Enterprise Study Group Makes Reform Suggestions [GAIGE 20 Nov]	28
State Enterprises, Joint Ventures Compared [GAIGE 20 Nov]	33

PROVINCIAL

Improving Shanghai's Service Industries [CAIJING YANJIU 3 Nov]	39
Heilongjiang Reviews 1991 Economic Performance [HEILONGJIANG JINGJI BAO 2 Jan]	43

FINANCE, BANKING

Banks Assume Historic Mission of Housing Reform [JINRONG SHIBAO 1 Jan]	45
Converting Funds Into Income Discussed [GAIGE 20 Nov]	47
Shenzhen Enters 'Bull' Stock Market [CHING-CHI TAO-PAO 18 Nov]	53
Case Study in Relations Between Finance, Production [JINGJI YANJIU 20 Oct]	55
Shenzhen Official Discusses Shareholding System [Hong Kong CHING CHI TAO PAO 4 Nov]	61
Article Says Financial Condition Stable in 1991 [JINRONG SHIBAO 2 Jan]	64

INDUSTRY

Newest Motor Vehicle Plant Visited [Hong Kong CHING CHI TAO PAO 2 Dec]	65
Output of Raw Materials Jan-Dec 1991 [CEI Database]	66

CONSTRUCTION

World's Longest Diversion Tunnel Built in Gansu [XINHUA]	67
--	----

FOREIGN TRADE, INVESTMENT

New Foreign Trade System, Countermeasures Viewed [CAIMAO JINGJI 11 Nov]	67
---	----

LABOR

Labor Productivity, Salary Increase Examined [JINGJI YANJIU 20 Nov]	71
---	----

PRC MEDIA ON FOREIGN ECONOMIES

NIE's Give Lessons on High Technology Industry [FUDAN XUEBAO; SHEHUI KEXUE BAN 15 Nov]	74
--	----

AGRICULTURE

Prospects for Fishery Cooperation With Taiwan	[Hong Kong CHING-CHI TAO-PAO 18 Nov]	80
Utilization of Agricultural S&T Teams Examined	[ZHONGGUO RENCAI 1 Oct]	82
Feed Production Ranks 3d Worldwide	[NONGMIN RIBAO 6 Dec]	85
Ministry Promotes Agricultural Mechanization	[ZHONGGUO NONGJIHUA BAO 11 Dec]	86
Strategies To Deal With EC Anti-Dumping Measures	[GUOJI MAOYI WENTI 30 Nov]	86
Guanghan Grain, Oil Price Reforms Reap Benefits	[NONGCUN GONGZUO TONGXUN 5 Nov]	88

SOCIAL

Sex Education Popularized in 'Most Areas'	[Hong Kong ZHONGGUO TONXUN SHE 16 Jan]	90
CAS Names New Members	[XINHUA]	90
Survey on Peasants' Sociopolitical Perception	[ZHONGGUO SHEHUI BAO 3 Jan]	94

REGIONAL

NORTH REGION

Inner Mongolia Telecommunications Grows	[Hohhot Radio]	96
Erlain Oil Field Crude Oil Output Reported	[NEIMENGGU RIBAO 1 Jan]	96
Peasant Income Increases in Inner Mongolia	[Hohhot Radio]	96
Inner Mongolia Communications Conference Ends	[Hohhot Radio]	96

TAIWAN

Leadership Style of President Criticized	[HSIN HSIN WEN 3 Nov]	97
--	-----------------------	----

HONG KONG, MACAO

Article Discusses Problem of 'Brain Drain'	[MING PAO YUE-KAN Jan]	99
--	------------------------	----

Article Describes Township Cadres' Problems

92CM0144A Shanghai XIANDAI LINGDAO
[CONTEMPORARY LEADERSHIP] in Chinese No 6,
25 Nov 91 pp 30-31

[Article by Deng Jiamin (6772 0163 2404): "Thoughts on Township Cadres' Enthusiasm for Work"; the author is affiliated with the Taoyuan county party committee's policy study office]

[Text] Township cadres in the rural areas are the link and the bridge between the party and the peasants. Their enthusiasm for work directly affect the progress of the rural projects. To a very large extent, whether the rural areas' two civilizations can make new progress is depended on whether the township cadres are honestly implementing the party and the state's general and specific policies and whether they are full of sincere enthusiasm for their work. What is the work situation among the township cadres in the rural areas and how well are they giving play to their initiative today? Upon investigation, we have discovered the following situation which leaders at all levels should pay attention to:

One, the work is difficult and authority is limited at the township level. Today, there are many "tough" jobs in the rural areas: Going after grain delivery, going after fund sdelivery, and enforcing birth control policy are the "three old tough jobs." These are matters that directly concern the immediate welfare of the peasants which most often create "clashes" between the township cadres and the masses in everyday life. They tend to pit the cadres against the people, and if not careful, the township government officials can be accused of wrongdoings. The township cadres generally feel that their work is like singing in an opera holding a stone mortar on their heads—doing hard work for nothing. While the "three old tough jobs" remain unresolved, "three new tough jobs" have rudely been placed before them: One, the collective economy is weak, and there is no money to get things done. The peasants blame the township cadres for "taking without giving," calling them "impotent" cadres. Two, the vertical and horizontal relationships [between central and local governments] have not been smoothed out, making it difficult to get things done. The townships generally have 20 or so departments with several dozen workers. More than half of the departments are under the central government's direct jurisdiction or under joint central and local jurisdiction led by the central government. The townships have no personnel, financial, or material jurisdiction over these departments, but it is the townships' duty to complete the work and take the responsibilities. Some township (town) mayors say when the township (town) is allocating housing, goods, and food, scores of big wigs would show up; when serious work is being launched, only a dozen or so would come forward, and at the critical moment, no one is there. Three, state policies make things difficult for the township cadres. Take the readjustment of the responsibility farm for example. First they said there would be "no change for 15 years" and

later they said "big stability, small adjustments." What the higher authorities have decided, the townships have no power to change, which makes the township cadres' job very difficult. The "old three tough jobs and the new three tough jobs" boil down to one thing: Townships lack administrative and economic clout; they have inadequate legal grounds, and the townships (towns) have little political influence, and as a result, the cadres' hands are tied and cannot give play to their work initiative.

Second, the township cadres have heavy burdens and are of poor health. After the dissolution of the system of "ownership by the three levels of collectives in which the brigade is the primary unit," those who work in the rural areas must deal with thousands and tens of thousands of households directly, and the amount of work has clearly increased. The township government is responsible for more than 40 regular tasks and more than 30 short-term projects. Each township cadre is burdened with more than 10 regular and temporary projects, and things are even worse for the secretaries and the township (town) mayors. Take family planning for example. Each year, it is like "soldiers going to war," fighting one battle of annihilation after another. Collecting retained profit is another of the townships' (towns') job which has the "whole nation in arms." There is a crucial task every season, a focal point each month, and the cadres are on the frontline every day. They shoulder heavy burdens month after month, year after year. There is only tension and not a moment of relaxation, and their health is on the decline. Statistics show that in 1986, of the nearly 1,000 cadres in Taoyuan County, 8 percent were afflicted with various ailments and could no longer work; 55 percent were working while sick with various diseases. By 1990, 66 percent of the county's township administrative cadres who continued to work were sick. This figure is 11 percent higher than in 1986.

Three, the rural economy is weak, but the departments at all levels are increasingly demanding. In recent years, depart ments at all levels have been increasingly demanding of the townships. They want a more vigorous agricultural sector; they want them to meet water conservancy targets, educational standards, public health norms, and comprehensive public safety standards. Every department hands down one set of quotas after another to the townships through the party and government organs and signs management-by-objective contracts with the townships and make regular assessments. Every target must be met, but the rural economy is very limited, and it is difficult to satisfy all requirements overnight. Failing to complete the tasks means facing criticism and scorn. Sometimes, a township can face total repudiation because it has failed to complete just one project. The township cadres find themselves in a tight spot beating their brains out trying to find solutions, and often they are forced to ask the peasants for money, even though in their hearts they do not want to. At the end, the departments' tasks are done, but the township cadres are denounced by the peasants, and when the higher-level departments check on the peasants' burdens, the township cadres once again become

the target of criticism. The cadres lament that, "we are like Zhu Bajie in front of a mirror—we are not human inside or out."

Four, everybody is eating out of the same pot, but not all are treated the same. Since the organizational reform, a large group of fine professional and technical cadres have been assigned to the cadre contingents where there are personnel shortages. They are taking on leadership duties in the townships, but compared to the professional and technical cadres, the township cadres have much more work and much heavier burdens, but their wages are lower too. Upon evaluation, some professional and technical titles have been "reclassified," and these jobs now pay at least 10 yuan less a month than similar jobs in other trades. When it comes to living conditions and wages, there are many things the township cadres cannot "comprehend": When it comes to "housing," they cannot comprehend (why others have two rooms plus a sitting room and they have a combination office-and-dormitory); when it comes to "transportation," they cannot comprehend (why others drive cars and speed off leaving a puff of smoke and they walk and are covered with soot); when it comes to "fuel," they cannot "comprehend" (why others burn liquified gas and they burn negotiated-price coal). Even within the small circle of township organs, township administrative cadres are paid much less than other department cadres in the township. They have no uniform, no job-based allowances, and no bonuses.

How can we mobilize the township cadres' enthusiasm for work? I think we need to do the following:

1. Stabilize the policies. When party and government departments at all levels make policies, they must ensure the continuity and stability of policies regarding routine tasks that directly affect the people's immediate welfare. Meanwhile, they should make those policies easy to understand and manipulate. They should rectify the problem of having too many departments making policy-decisions. In order to reduce the "friction" between the township cadres and the masses during policy implementation, they should make timely adjustments and perfect policies proven to be inadequate during implementation, so as to provide the reliable guarantee in terms of policy which will fully mobilize the township cadres' work initiative.

2. Improve the township cadres' quality. Ideological and professional quality is the internal factor that can affect the township cadres' work enthusiasm. We must constantly educate them on being "the people's servant" and on the spirit of "sacrifice," so as to improve their political quality. We must teach the township cadres to work and live like Comrade Jiao Yulu [3542 5940 4389], so that they too will serve the people with all their hearts and minds, endure hardship now and live a good life later, and put their work first and their own lives second. So long as differences between urban and rural conditions exist, they must forget about personal gains or losses and feel duty-bound not to turn back but to lead

the people forward and struggle for the sake of accelerating the pace of local economic construction and let their personal deeds mitigate the differences between town and country. Furthermore, to a large extent, work efficiency is determined by the professional quality of the township cadres. We must focus on the fact that the township cadres have a lot to do and tough jobs to tackle. We should constantly rally the cadres to acquire professional knowledge so as to raise their professional standard. For example, we can offer some short-term training classes and sponsor various types of professional forums and print all sorts of pamphlets and send people to other localities to get practical training and so on. Through these methods, we will enable every township cadre to work independently and handle all sorts of new problems in a timely fashion, so that the township tasks can be accomplished with twice the result and half the effort.

3. Boost the cadres' status. First, in view of the fact that it is very difficult to coordinate township administrative tasks and departmental tasks, more power should be handed down from the county level to the townships. When the departments in stall branch organs in the townships, except for the handful that must be centralized at the county level, other organs can be handed down to be administered by the townships. Departmental cadres stationed in the townships should practise dual-leadership by the county and the townships, giving the townships and towns the main role and giving the townships and towns internal coordination authority, personnel management authority, and examination and evaluation authority. Second, we should smooth out the vertical and horizontal relationships, strengthen the township government's functions, so that the township government's administrative power will become "vigorous, authoritative, and highly efficient." In this way, the township cadres will be able to work comfortably in a relaxed environment. In addition, we should elevate the township cadres' status in the minds of the people. All levels should cite good examples and promote a group of "Jiao Yulu-like township cadres," so that the people will feel that the township cadres are indeed working for them. At the same time, the township leadership should regularly let the local people know how the cadres in the local units are doing, so that the public can better understand and support their township cadres.

4. Implement deliberately biased policies. Focusing on the township cadres' real problems in their everyday lives, we should adopt some biased policies. For example, help arrange jobs for the children of old township cadres; give the young and middle-aged mainstay cadres' families priority in "transferring out of the agricultural sector"; issue citations to honor old comrades who have worked for the townships for more than 20 years; raise the township cadres' variable wages by one grade; pay the full-time party and government workers who have worked in the townships for more than nine continuous years deputy bureau-level wages; ordinary party and government cadres who have worked in the townships

for more than nine uninterrupted years should receive section-level or deputy section-level wages; prior to the implementation of the civil service system, we should increase the township administrative cadres' job-based allowance or increase their subsidies.

Article Considers Ideological Problems

92CM0122A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES]
in Chinese No 11, 15 Nov 91 pp 55-58

[Article by Chen Feng (7115 1496) of the Organizational Department of the Yancheng City CPC Committee of Jiangsu Province: "A Brief Discussion of Downplaying Contradictions Within the Party and the Elimination of Its Influence"]

[Text] Recently the people have gained a new understanding of the immediate and far-reaching significance of carrying out vigorous ideological struggle within the party in the new period. But there is a fairly large gap between the extent of theoretical studies and the reality of carrying out vigorous ideological struggle within the party. There is still some difficulty in turning profound theoretical understanding into the voluntary activity of carrying out vigorous ideological struggle. The influence of the theory of downplaying contradictions, which was popular among some party organizations and members not long ago, has far from been eliminated and has become one of the major obstacles in carrying out vigorous ideological struggle within the party. Because of this if we want to speed up the party's ideological progress and give an impetus to the normal unfolding of vigorous ideological struggle within the party, we must conduct in-depth studies of the expressions, sources, and dangers of the theory of downplaying contradictions and find ways to eliminate its influence.

Expressions of the Theory of Downplaying Contradictions

The theory of downplaying contradictions relates to those who, instead of using correct methods and ways to resolve objective contradictions in accordance with the principle of "upholding truth and correcting mistakes," do not care to distinguish between black and white. They confuse right with wrong, try to "smooth things over" in an artificial manner, and advocate compromises.

The theory of downplaying contradictions has the following expressions:

1. The theory of tolerance, leniency, and generosity. Some people argue that since class struggle is no longer the main contradiction of the current society, party members should "live in peace with each other" and "be nice to each other" in "a harmonious and relaxed atmosphere." They think that carrying out ideological struggle within the party can make the relations tense among comrades and hinder unity. Because of this, they deliberately "downplay" inner-party contradictions and

struggle, blindly pursue a "tolerant, lenient, and generous" atmosphere, and shelve the weapon of inner-party ideological struggle.

2. The theory of "protecting initiative." Arousing the factor of initiative is originally a correct guiding principle of work for the party but some comrades use it as a "shield" against ideological struggle within the party. They think that carrying out inner-party struggle can "dampen" initiative, so they advocate "considerations for feelings" and "downplay" everything even if it poses problems. Especially when dealing with those so-called "able persons" who have serious problems in economic activities, they make greater efforts to accommodate them and dare not carry out struggle under the excuse of "protecting" their "initiative."

3. The theory of "reasonable individualism." Individualism is the root of all evil as well as the hotbed for the breeding and spreading of various negative and corrupt phenomena. Some comrades however think that individualism is "reasonable" in the initial period of socialism. "Communist party members are human too." They too have emotions and desires. Making excessively high demands on communist party members is "exceeding" the current stage. As a result, party members' standards are confused with those of ordinary people, individualism demonstrated by party members is appeased and tolerated. Some even seek to satisfy their individualistic demands.

4. The theory of "emotional investment." If the input of comradeship affection can yield good result, it is not necessarily bad to make some "emotional investment" within the party. But some comrades take the vulgar networking concept that is popular in society into the party. "If you give me a papaya, I will give you a precious jade in return." They mistake "emotional investment" for commodity exchange. Little do they know that such mutually-exploiting "emotional investment" is bound to bring severe harm to inner-party political life.

5. The theory of "avoiding the escalation of contradiction." Some comrades confuse carrying out vigorous inner-party ideological struggle with unprincipled disputes. They think that carrying out vigorous ideological struggle is not a fundamental way to solve inner-party contradiction. Instead, it can only booster antagonism and accelerate the sharpening of contradiction. Because of this, when faced with contradictions, they only talk about "downplaying," not struggle. They turn big problems into small problems and small problems into no problem at all. They do not seek to tell right from wrong. They only want to gloss things over to stay on good terms.

6. The theory of "ideological struggle hindering reform." Some comrades set carrying out vigorous ideological struggle against accelerating reform and opening up. They think that in the special age of reform and opening

up, as the reform deepens it becomes increasingly difficult to avoid problems and mistakes. Carrying out ideological struggle under such conditions would tie up reformers' hands and make it difficult to deepen the reform. Because of this, they dare not carry out ideological struggle for problems arising out of reform and caused many mistakes to multiply and spread openly.

The Root Cause of the Emergence of the Theory of Downplaying Contradiction

The emergence of the theory of downplaying contradiction and its popularity is not accidental. There is a profound political, ideological, and social cause.

1. The influence of democratic socialism. The conflict and struggle between the two social systems and ideologies of the world are acute and complex. While the hostile force of the West was accelerating the enforcement of the "peaceful change" strategy, international communist movement experienced complications. The "democratic socialism" deriving from the second international revisionism has resurfaced. It demands that the party be "a community formed by people of different beliefs and ideologies" and advocates using "compromise" methods of "legal system, talks, and dialogues" to solve various contradictions arising in the party. Influenced by this thinking, some leaders in our party weakened and reduced the party's leadership, winked at and supported the spreading of ideas and concepts of democratic socialism and bourgeois liberalization, and caused the temporary appearance of the tendency of negating the four basic principles. As a result, forgetting the concept of class and class struggle, some comrades notice only "economic cooperations," but not political struggle, with the capitalist world. They notice only the success of reform and opening up, but not sediments resurfaced from the reform and "flies" let in by the opening up. They have relaxed necessary vigilance against the reflection of class struggle which exists within a certain scope in the party and may even escalate locally. They lack necessary prevention and struggle against the "peaceful change" idea of foreign hostile force and the conspiracy of cultural infiltration. They naively believe that they can use the best of intentions to "fill the world with love." They thought that by adopting the "style of a gentleman" who has "universal love" and is "mild-tempered, kind, respectful, frugal, and conciliatory" and by downplaying, weakening, and softening contradictions, they could bring about "peace and quiet" in the party and "great order across the land." This obviously is political anaesthesia.

2. The evil influence of individual egoism. An important ideological cause of the emergence of the theory of downplaying contradictions is individual egoism. When treating inner-party contradictions and struggle, some people proceed from individual interests instead of the party's cause. Some fear that criticizing subordinates will cost them votes, criticizing superiors will be retaliated, and criticizing colleagues will make it difficult to get along with others. Some fear that carrying out ideological

struggle will "cause trouble" and "affect other relations." Some fear that ideological struggle will touch upon the invisible network of connections and condemn them to the abyss of contradictions. Some fear that carrying out ideological struggle will lead to the mistake of escalating contradictions. As a result these people are dispirited, trying to "play safe and be worldly wise." With the "downplay" attitude, they try to "gloss things over to keep on good terms with everybody" in dealing with inner-party contradictions.

3. The theoretical study of new problems and situations is behind. Many unprecedented new situations and problems have occurred in the reform and opening up. Successful explorations and detours on the road of advance are mixed with many man-made mistakes. Without a definite basis of theory, it is very difficult to tell apart which are creative ideas that need to be encouraged and which are erroneous tendencies that absolutely need to be corrected. Due to a mediocre understanding of Marxist theory and failure to conduct theoretical studies of new situations and problems arising under the new situation, some comrades do not have the ability to tell right from wrong in the face of complicated contradictions. They cannot master the nature of contradiction and the scale of struggle. They worry that ideological struggle will cause them to commit the mistake of "restricting the reform." In addition, complex relations and activities in the economic field have also obscured the line between the right and the wrong in ideology. Some things seem to be forbidden from the political principle but seem necessary or even imperative from the angle of economic activities. Because of this, some comrades fear that inner-party ideological struggle would "interfere economic activities." Since many theoretical rights and wrongs are unclear, they are forced to adopt the method of "downplaying," open one eye and close the other, let matters drift, and interfere as little as possible.

The Harmful Effect of the Theory of Downplaying Contradiction

The theory of downplaying contradiction appears to be able to alleviate contradictions, maintain unity, and accelerate the reform. But in reality it has brought about extremely serious influence and harm to the cause of the party.

1. Obscuring right and wrong. The occurrence of contradiction is often due to the existence of different ideological understandings. This also applies to inner-party contradictions. The only way to solve contradiction is to apply the principle of "upholding truth and correcting mistakes," have a clear understanding, and distinguish right from wrong. Only by so doing can we reach new unity. Downplaying contradiction can only temporarily delay the explosion of contradiction instead of resolving it once and for all. On the contrary, it can sharpen inner-party contradiction for failing to provide a timely solution. Inner-party contradiction exists objectively and cannot be avoided even if we try. When such

contradiction occurs, we should resolve it through vigorous ideological struggle so as to push forward the cause of the party. Comrade Mao Zedong once pointed out profoundly: "If the party does not have contradiction and ideological struggle to resolve the contradiction, the party's life will come to an end." The process of resolving inner-party contradictions is precisely the process in which the right defeats the wrong and the advanced defeats the backward. If we indiscriminately "downplay" all contradictions within the party, we are bound to confuse people's thinkings and cause them to lose their direction of advance.

2. Undermining unity. Downplaying contradiction can only bring about a temporary false appearance of unity but cannot eliminate various erroneous ideas in the party. On the contrary, the "peaceful co-existence" of correct and erroneous ideas in the party can help spreading erroneous ideas, thus fundamentally undermining the unity of the party. Ideological unity is the prerequisite for the unity in the party, and it can be achieved only through vigorous ideological struggle. If we do not criticize and denounce erroneous ideas and try to achieve unity through accommodation and compromises, we will inevitably cause such erroneous ideas to gain "legal" status within the party. Some time ago, the phenomenon of "the weak replacing the strong" occurred among some party organizations in regard to two correct and erroneous ideas. The unifying and fighting force and the appeal of party organizations declined markedly. How can there be any inner-party unity within such party organizations!

3. Undermining the will to fight. Downplaying contradiction can bring about temporary "peaceful" atmosphere in the party, but it can also relax and even disarm the party ideologically in the struggle between two ideologies and the fight against corruption and "peaceful change." The party is the strong core of leadership for socialist modernization. Hostile forces at home and abroad are bound to put the emphasis of "peaceful change" in the party. Because of this, the struggle between subversion and anti-subversion, infiltration and anti-infiltration, and "peaceful change" and opposition against "peaceful change" will be extremely acute. And because the party is in the ruling position, it is also possible for power to create some new elements of corruption. This requires that we build through inner-party ideological struggle a solid, corruption-resistant, and change-proof ideological wall. Under this circumstance, downplaying contradiction is the same as voluntarily giving up ideological weapons and opening the door wide for "peaceful change," thereby causing the party to collapse ideologically and organizationally amid the dense fog of "peace."

Ways To Eliminate the Influence of the Theory of Downplaying Contradictions

1. Optimizing the environment of public opinions. The theory of downplaying contradiction has a certain market mainly because comrades in the party do not

have a sufficient understanding of its detriment nor pay great attention to the importance of carrying out vigorous ideological struggle. In light of the realities of their own area, department, and unit, party organizations at all levels should use, through in-depth theoretical study and extensive propaganda, the weapons of criticism and self-criticism to boldly expose contradictions to enable comrades in the party to clearly see the objectivity and complexity of contradictions and the necessity and urgency of resolving contradictions. This can alert the public, make them pay attention to eliminating the influence of the theory of downplaying contradiction, and form a powerful environment of public opinions. The current situation shows that the ideological trend of bourgeois liberalization still has a certain influence in the party; that the conflicts between the advanced and the backward, right and wrong, and reformers and hard-liners still exist extensively; that the deepening of the reform and opening up will continue to give rise to new contradictions; and that the development of the commodity economy is inevitably accompanied by the rising of bourgeois ideas. Because of this, the struggle between proletarian and non-proletarian ideas exists every minute in every party organization. The more extensive, thorough, and complete the struggle between the two ideologies is exposed, the higher the awareness of carrying out inner-party ideological struggle and the less marketable the theory of downplaying contradiction would be.

2. Stressing leadership examples. Whether or not a party organization can carry out regular inner-party ideological struggle is an important criterion for judging whether its party spirit is pure, principle is strong, and practice is sound. Whether a party organization's party style is healthy has a lot to do with whether or not the leading body of this party organization is strong and powerful. Because of this it appears to be extremely important for the leadership of a party organization to first set an example in vigorously carrying out ideological struggle and for higher levels to set a good example for lower levels. Leading bodies of the party at all levels, especially main responsible comrades, should strive to set a good example in accordance with the formula of "unity, criticism and self-criticism, and unity" and take the lead in carrying out criticism and self-criticism. Through carrying out vigorous ideological struggle we should build party's leading bodies at all levels into leading nuclei and fighting collectives that are solid politically, progressive ideologically, and advanced at work. As the principle and fighting capacity of party's leading bodies increase, it will become easier to resolve various contradictions within the party, and downplaying contradiction will be out of the question.

3. Strengthening the restriction of system. It is necessary to establish a set of systems for carrying out vigorous internal ideological struggle in the party and form a restraining mechanism. 1) The system of democratic life meeting. Perfecting and adhering to the system of party's democratic life meeting is an effective method for

improving the party's ideological style and increasing the ability to solve our own problems and conflicts. Party organizations at all levels should pay great attention to this work, conscientiously place it in an important position, and ensure that the quality of democratic life meetings is improved. When holding democratic life meetings, we should make sure that the contradictions exposed are profound, ideological struggle is acute, and problems solved are real. We should seriously criticize those who go through the motion in holding democratic life meetings in order to cover up and downplay contradictions. We should issue orders to make them reopen such meetings. 2) The system of cadre evaluation. We should stress the evaluation of political and ideological qualities. Whether or not a party organization dares to adhere to party spirit and principle and carry out vigorous ideological struggle should be considered as an important content of the evaluation. During the evaluation, we should be appropriate in talking about achievements as well as problems. We should firmly overcome the abnormal phenomenon of "stressing achievements and ignoring weaknesses" in the current practice of cadre evaluation. 3) The system of democratic appraisal for party members and cadres. The appraisal should stress political and ideological contents. It should consider whether a party member or a cadre has a firm and clear-cut stand on major issues of principle; whether he dares to adhere to truth and correct mistakes; whether he has the courage to fight with all evildoers, evil deeds, and various unhealthy tendencies. The appraisal should adhere to the principle of seeking truth from facts and,

while affirming achievements, emphasize the discussion of shortcomings and problems of party members and cadres so that it can be integrated with education, management, and supervision and become an important measure for encouraging party members and cadres to remold themselves.

4. Strengthening political orientation. Party organizations at all levels should stress and intensify the study of issues concerning the tendency and pattern of ideological struggle in the party and pay attention to policy orientation. When treating the issues of ideological struggle in the party, we should guard against "left" and "right," "cold" and "hot," and "downplaying" and "sharpening." We should get a good grip of policies and be tactful. We should strengthen correct guidance over inner-party practice. Those people who worry about personal gains and losses, are scared to wage a struggle, and are being "too soft" should be seriously criticized and educated. Those who are easily swayed by whichever side has more power or influence and those who are politically dishonest and unreliable should not be placed in important positions. Those comrades who adhere to party spirit, stress principle, and are brave to fight to safeguard the party's interests should be publicized extensively, commended, and placed in important positions. Those who hold grudges, retaliate, and make false charges to achieve certain illegal personal purposes should be handled severely. We should attack unhealthy trends and evil practices to help gradually establish a good practice of carrying out vigorous ideological struggle in the party.

GENERAL

QIUSHI on State Enterprise Reform System

HK121023091 Beijing QIUSHI in Chinese No 22, 16
Nov 91 pp 21-23

[Article by Yuan Enzhen (5913 1869 2823) and Gu Guangqing (7357 0342 7230): "Two Questions Concerning Reform of Management System of Enterprises Under System of Ownership by Whole People"]

[Text] The Reform of the management system of enterprises owned by the whole people centering round the strengthening of vitality of large- and medium-sized state enterprises is a major event to which the entire society at present shows general concern. Large- and medium-sized state enterprises are major pillars of the national economy, a main source of the state's financial revenue, and the main body, core, and foundation of China's socialist economy. For various reasons, certain numbers of large- and medium-sized state enterprises are lacking vitality and low in efficiency. Therefore, managing large- and medium-sized state enterprises well by furthering reform will play a decisive role in stepping up China's economic strength, promoting economic prosperity and social progress, and raising the living standard of the masses of the people; will be of positive and far-reaching significance to consolidating the main body status of the economy of public ownership, strengthening the confidence of the broad masses of the people in taking the socialist road, and enabling China to remain forever invincible. Attention should be paid, we believe, to the following two aspects in the current reform of enterprises owned by the whole people.

1. Establish in real earnest the economic position of enterprises owned by the whole people.

Ever since the beginning of reform, we have introduced a number of reform measures for enterprises owned by the whole people, such as delegating power to lower levels and letting them retain a proportion of profits until 1988 when the "Enterprise Law" was promulgated. The approach of reform for enterprises owned by the whole people is to turn them into commodities producers and operators that enjoy decisionmaking power in operation, assume full responsibility for their profits and losses, and are capable of self-remodeling and self-development. The separation of duties and responsibilities between the government and enterprises is the major means for realizing such a goal. To this end, the party and the state have adopted a series of correct reform decisions and policy measures, and made marked achievements. However, some of the reform measures for establishing the economic position of enterprises owned by the whole people have not been implemented. There are reasons of understanding, as well as practical difficulties and contradictions.

In understanding, the major worries are as follows: If enterprises owned by the whole people enjoy decision-making power in operation and assume full responsibility for their profits and losses, whether or not they would run counter to the nature of enterprises under the system of ownership by the whole people. In fact, such a misgiving may well not be necessary. One should know that the properties of enterprises owned by the whole people, as grassroots level units under the system of ownership by the whole people, belong to the whole people or the state. The interests of enterprises owned by the whole people are entities of the interests of the state and those of the staff and workers, but enterprises owned by the whole people represent first of all the interests of the whole people or the state. One must not equate in a simple way the interests of enterprises owned by the whole people with those of enterprise factions. So long as we are clear in theory and in practice that the properties of enterprises owned by the whole people are properties of the whole people or the state, and that the interests of enterprises owned by the whole people represent first of all those of the whole people or the state, under such a premise, what is horrible in enterprises owned by the whole people enjoying decisionmaking power in operation and assuming full responsibility for their profits and losses? The higher the initiative of enterprises and the staff and workers, and the faster the accumulation and development of enterprises, the greater is the wealth under the system of ownership by the whole people and the stronger is socialism.

Under the circumstance of the socialist commodity economy, and especially in a large socialist country like China with a population of 1.1 billion, it is impossible for state plans to manage in a centralized way all the economic activities of the entire society, and especially difficult to control the production and management activities of large numbers of enterprises. Only when enterprises owned by the whole people rely mainly on their independent activities, take the initiative in their own hands, and make full use of the function of market mechanism will it be possible for them to be full of vitality, and to realize in a better way the goal of production to meet the need of the society. Historical lessons and the experiences of the reforms of Shoudu Iron and Steel Company, Shanghai No. 2 Textile Machinery Plant, and other advanced enterprises all prove that if enterprises owned by the whole people do not enjoy their own decisionmaking position as enterprises, nothing about the vitality and performance of enterprises can be discussed, and it will be all the more impossible for the superiority of socialist enterprises owned by the whole people to be brought into play.

Some comrades still worry: If enterprises owned by the whole people enjoy too much decisionmaking power, will it or will it not further aggravate the short-term behavior of already established enterprises? In fact, such short-term behavior occurring at present as the invasion of accumulation funds in pursuit of maximum welfare for the staff and workers, and piecing together equipment beyond designed capacity and lowering product

quality to acquire contracted interests are also related to the fact that the economic position of enterprises are not clear enough, and that their power, responsibilities, and benefits are not adequate. So long as enterprises owned by the whole people truly enjoy the decisionmaking power in operation, and assume full responsibility for their profits and losses will there generate intrinsic self-supervision and self-conditioning mechanism, thereby promoting the healthy development of the production and management activities of enterprises.

The practical difficulties and contradictions that crop up in the current reform of enterprises owned by the whole people are primarily the contradictions between enterprise reforms and social stability. If the policy of enjoying decisionmaking power in management and assuming full responsibility for profits and losses is truly carried out in enterprises owned by the whole people, it will definitely lead to closing down quite a number of loss enterprises or meager profit enterprises which are provided for by relying on "eating from the same big pot." Will closing down enterprises, and waiting for employment on the part of the staff and workers cause social turbulence and unrest? These are contradictions existing in realities, and often put us between two difficulties. We must therefore make a sober-minded analysis. Egalitarianism and the practice of "everybody eating from the same big pot" have become a chronic malady of China's society. They provide for the lazy and penalize the diligent, corrode people's will, and are some of the major reasons that result in the fact that the energies and superiority of the economy of public ownership can not be brought into play. The more one is afraid of pains and difficulties, and the more one dare not perform operations on the practice of "everybody eating from the same big pot," the deeper will inevitably be the contradictions brought about by the practice, which will eventually lead to even more serious social turbulence and unrest. The essential way to overcome the contradictions still lies in truly carrying out the policy for enterprises to decide for themselves in management, and assume full responsibility for their profits and losses.

How can the decisionmaking position of enterprises owned by the whole people be established? The key is to give enterprises not only the decisionmaking power of simple reproduction, but also the decisionmaking power of expanded reproduction for self-remodeling and self-development. For a long period of time, China's enterprises owned by the whole people submitted almost all the profits and the greater part of their depreciation funds to the state. The state centralized all the accumulations with which to build new projects, and it was very difficult for existing enterprises to get renovated, remodeled and developed. Thus, the following posture took shape in China's economic development: Centralize financial resources from all over China to build a batch of new factories, lose a batch of old factories, and build new factories continuously while losing old ones continuously. Such a train of thought of attaching more importance to an extensive form of expanded reproduction

than intensive form of expanded reproduction is exactly the abnormal situation that led to the high growth and low efficiency of China's economy and the major reason that China's enterprises lack vitality. Why is the development of Shoudu Iron and Steel Company so attractive? One very important reason is that it possesses the ability of self-development. The per-capita profit retention level of Shoudu Iron and Steel Company is much higher than other state industrial enterprises, and it uses 60 percent of the profits retained on expanded reproduction. Now, Shoudu Steel has become a comprehensive enterprise with steel as the key link and with simultaneous development of many industries. Both output value and profit and tax rates rank first in metallurgical industries. It can be seen that by giving enterprises the right to expanded reproduction, it will not negate the nature of ownership by the whole people. Shoudu Steel remains Shoudu Steel under the system of ownership by the whole people, and reform has added to the might of its ownership by the whole people.

To enable enterprises owned by the whole people to enjoy the right to expanded reproduction, the key is to take preferential measures toward enterprises in the distribution of profits. For the broad enterprises, what is most needed now is an amount of starting funds for expanded reproduction. If this comes under letting enterprises retain a proportion of profits, such profits should be retained. We would rather engage in fewer new projects in recent years, yet we must let enterprises retain a proportion of profits. Only by letting in water are we able to raise fish, and the experience of Shoudu Steel is the best explanation. Of course, specific operations require further study.

If enterprises owned by the whole people are to truly carry out the policy of deciding for themselves in management, assuming full responsibility for their profits and losses, for self-remodeling and self-development, they still require the coordination of other conditions, such as to reform the unreasonable price system, so that profits can truly reflect the results of management of enterprises, to build a social security system, and to avoid excessive shock caused by market competition.

2. Give full play to the advantage and superiority of enterprises owned by the whole people.

Another reason that enterprises owned by the whole people lack vitality is that in the past we often unduly stressed that enterprises were in direct proportion to market mechanism. We regarded the raising of enterprises' capacity to adapt to market changes as the sole objective and requirement for the reform of enterprises owned by the whole people and seriously overlooked giving play to the advantage of the mechanism of public ownership itself.

It is undeniable that by making use of the market mechanism, enterprises owned by the whole people can energetically strengthen their vitality and raise their

efficiency. However, simply by this point alone, enterprises may not necessarily be able to create a higher labor productivity and rate of growth. Markets are stages where capitalist enterprises can fully develop their energies. Properties of capitalist enterprises are privately owned by entrepreneurs; they have the motivation of profits from within, and the pressure of competition from without. Whenever there are signs of changes in the markets, they can make timely decisions and adapt to changes rapidly. Concerning the flexibility of adapting to market changes, it is a weak point and not a strong point for enterprises owned by the whole people, relative to capitalist enterprises. Properties of enterprises owned by the whole people are owned by the whole people. The decisionmaking by enterprises in the production and management activities not only should proceed from the partial interests within the scope of enterprises, but also take into consideration social interests, including considerations of the social interests reflected in state plans. This conditions to a certain degree the flexibility of enterprises owned by the whole people to adapt to market changes. Generally speaking, it is difficult for enterprises owned by the whole people to overtake capitalist enterprises on flexibility of adapting to market changes, but that does not mean that their development and efficiency are not as good as capitalist enterprises. One should know that enterprises owned by the whole people still possess the features and advantages of the mechanism of ownership by the whole people itself, which is impossible for capitalist enterprises to possess. For instance, state plans can enable enterprises to avoid as much as possible the influence by market blindness, so as to achieve the efficiency of production and management conducted according to social need; giving full play to the initiative of the laborers as masters of enterprises owned by the whole people is an immeasurable source for creating enterprise efficiency. If enterprises owned by the whole people can have considerable flexibility of adapting to market changes, and if the features of the mechanism of the system of public ownership can be brought into full play, along with the management of modernized enterprises, then enterprises owned by the whole people will surely overtake capitalist enterprises in growth and efficiency. Relative to the capitalist economy, where is the superiority of the socialist economy embodied? A major aspect is embodied in the mechanism of economic operation. How to give play to the functions and features of the mechanism of the system of public ownership itself, and in particular how to give full play to its functions and features in the commodity economy are important aspects of reform. Such an important aspect in the reform of enterprises owned by the whole people must never be forgotten, otherwise the energies of enterprises owned by the whole people cannot be fully released, and will lose the socialist direction of reform.

To improve and strengthen the mechanism of planning is an important aspect in developing the advantage of the mechanism of public ownership and deepening the reform of enterprises owned by the whole people. To

reform the traditional planning mechanism and introduce the market mechanism are not designed to negate the planning mechanism itself. The viewpoint is inaccurate that a planning mechanism is only the requirement of large socialized production, and has nothing to do with ownership. At present, some developed capitalist countries also work out plans for intermediate development. These plans are related to the development of monopoly of ownership, especially to the development of state monopoly. What are the positions of these plans in the economic operations in capitalist countries? Even scholars and statesmen of capitalist countries also acknowledge: The base of private ownership determines that the leading role in the economic activities is the "free market," and planning only plays a supplementary role. In socialist China, the nature of interests in common of public ownership and especially of ownership by the whole people determines that the socialist economy, taken as a whole, cannot help but be the economy of development according to plans. A planned economy can do away with the economic crisis caused by the anarchy of capitalist production, and accelerate the reasonable disposition of resources and the effective growth of the economy. The serious problems brought about by the all-inclusive, rigid planning system should never be the reason for negating the socialist plans. Scientific and reasonable planning is an important prerequisite for the healthy development of the entire national economy, including that of enterprises owned by the whole people. Planning should never be looked upon as barriers for decisionmaking power and the vitality of enterprises. Scientific and reasonable planning will only strengthen the decisionmaking power and vitality of enterprises.

That the initiative of the laborers, as masters of the society and enterprises, can be brought into full play is yet another important aspect that enterprises of public ownership are superior to enterprises of capitalist private ownership. The economic activities of enterprises, in the final analysis, are activities of the people. To bring into full play the initiative of the laborers is of essential importance to the production and management activities of enterprises. To give play to the initiative of the laborers as masters of their own affairs is an important aspect in developing the advantage of public ownership and deepening the reform of enterprises owned by the whole people. Now the practice of "everybody eating from the same big pot" and the egalitarian form of distribution remain an important reason for strangling the initiative of the laborers. It is therefore necessary to advance the reform of the distribution system, seriously implement the principle of to each according to his work, widen the gap, and reward the diligent and punish the lazy. Moreover, it is necessary to guard against the tendency of one-sided economic stimulation that excludes political motivation. Men should have vitality and the workers, as laborers of socialist enterprises, need it all the more. The socialist motivation mechanism is the unity of the dual mechanism of economic motivation

and political motivation, and any one-sidedness is unfavorable to strengthening the vitality of enterprises. So long as the decisionmaking power of enterprises owned by the whole people can be reasonably put in place, the mechanism of public ownership can be given full play, and the socialized management method is used effectively, then China's public ownership enterprises, especially large- and medium-sized state enterprises, will surely demonstrate their gigantic vitality and superiority.

State Statistical Report on Economic Performance

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BAO in Chinese 23 Jan 92 p 1

[Article by Zhong He (6988 4421): "State Statistical Bureau Issues First Report of Year. Performance of National Economy Returns to Normal"]

[Text] With the beginning of the new year, the State Statistical Bureau has issued its first statistical report in 1992. This report fully reviews the economic situation in 1991, deeply analyzes several problems that have appeared in the operation of the economy, and makes recommendations about macroeconomic policy orientation in 1992. In its review of the economic situation, the State Statistical Bureau acknowledges that 1991 was a year in which marked achievements were gained as a result of improving the economic environment and rectifying the economic order, and through the intensification of reform. During this year, China's economic situation took a marked turn for the better; progress was made in structural readjustments; the financial situation was relatively stable, and substantial advances were made in reform.

In the report, the State Statistical Bureau used some of the latest figures made public for the first time as a basis for its aforementioned assessments.

In 1991, social supply for the year totaled 2.2458 trillion yuan, and social demand totaled 2.3358 trillion yuan, demand exceeding supply by 4 percent. This percentage was within the normal range, demonstrating the maintenance of basic balance between total social supply and demand.

It is expected that gross domestic product for 1991 will reach 1.958 trillion yuan in an approximately 7 percent increase over 1990 calculated at comparable prices. This stands in marked contrast to the recessionary situation that occurred in the world economy during 1991.

In 1991, gross output of grain was 435.3 billion kilograms, and cotton output exceeded 5 million tons, making 1991 the second all-time high year for grain and cotton output. Gross output of oil-bearing crops totaled 15.93 million tons; output of sugar-bearing crops and flue-cured tobacco reached an all-time high; gross output of pork, beef, and mutton reached 26.39 million tons; and output of aquatic products reached 13.2 million

tons. The gross output value of agriculture for the year was more than 830 billion yuan, up approximately 3 percent from 1990.

Investment in fixed assets for society as a whole for 1991 is expected to total 520 billion yuan in a 16.9 percent increase over the previous year.

Social commodity retail sales for 1991 totaled 939.8 billion yuan, up 13.2 percent from the previous year. After deducting for price increases, the actual increase was 9.9 percent. Materials system sales amounted to 312.9 billion yuan, up 24.5 percent from 1990. These increases showed a complete upturn in domestic market sales in a trend toward substantial normalcy. This included a 16.1 percent increase over 1990 in urban market sales, and a 10.4 percent increase over 1990 in rural market sales.

Exports during 1991 totaled \$71.9 billion, up 15.8 percent from 1990. Imports totaled \$63.8 billion, up 19.5 percent from 1990.

During 1991, annual income available to city and town residents for living expenses amounted to 1,570 yuan per capita. After deducting for price rises, this represented an approximately 8 percent increase over 1990. Peasant net annual income was 710 yuan per capita. After deducting for price rises, this represented an approximately 2 percent increase over 1990.

During 1991, industries under ownership of the whole people, and large and medium size enterprises began to get out of the virtual standstill of the previous two years, their production increasing by 8.4 and 9.2 percent respectively over the previous year. The newly added output value of industries under ownership of the whole people accounted for 43.2 percent of the newly added output value of all industry in a 10.6 percentage rise over the previous year. By the end of 1991, state-owned industries within budget had obligated 113 billion yuan to the production of finished products, down 1.7 percent from the beginning of the year.

The percentage of funds used by agriculture, raw and processed materials industries, transportation, and posts and telecommunications increased to 35.2 percent in 1991 from the 33.1 percent of the previous year. Investment in renovation and technological transformation increased 17.3 percent over the previous year in a 12.1 percentage point increase. As part of the investment in renovation and technological transformation, the percentage of investment in improving product quality, increasing product varieties, conserving energy and reducing waste, as well as controlling the "three wastes" [waste gas, waste water, and industrial residues] increased from 27.1 to 29.6 percent. This showed continued improvement of the investment pattern.

During 1991, the gap between bank and credit cooperative savings and loans was further narrowed, the increase in savings exceeding the increase in loans by 34.1 billion yuan. (In 1990, loans exceeded savings by 6.3 billion

yuan). The increase in bank and credit cooperative loans included a decrease from 74 percent to 63.7 percent in the percentage of working capital loans and an increase from 14.4 to 24.4 percent in fixed assets loans.

During 1991, a fairly large number of important reform measures appeared one after another: Prices of crude oil, refined oil, processed steel, railroad freight transportation, and grain were readjusted; foreign trade enterprises became responsible for their own profits and losses; and steps began to be taken to reform housing, wages, the social security system, and medical treatment, and steps began to be taken to reform the running of securities market pilot projects as well as to improve the macroeconomic regulation and control system.

The State Statistical Bureau report noted the following prominent problems in economic life today: fairly slow progress in readjustment of the economic structure, low economic returns, and an increase in government financial difficulties. These problems are essentially problems in the economic system and the economic mechanism. Consequently, the report recommends the following: macroeconomic policy orientation must diligently implement the spirit of the Central Work Conference and the Eighth Plenary Session of the 13th Party Central Committee during the coming year, using the intensification of reform as a guide to manage the aggregate well, optimize the structure, and improve returns in order to maintain sustained, steady, and coordinated development of the national economy. The report made the following specific recommendations: Accelerate the pace of reform of financial channels used for investment, appropriately increase the extent of readjustment of the aggregate pattern [zengliang jiegou - 1073 6852 4814 2845] to maintain steady growth of overall demand; increase the extent of reform of the agricultural product flow system; make vigorous efforts to bring about changes in the enterprise management system to maintain suitable effective growth of industrial production; and make greater efforts to reform the distribution system in order to ease state financial difficulties. In addition, reform of the foreign trade system must be intensified, preferential policies that encourage exports must continue to be employed, foreign market demands for diversification must be met, multi-level commodity production organized in a planned way, the steady growth of exports maintained, and economic contacts with the outside world further expanded.

QIUSHI Views State Enterprise Reform System

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[Text] The reform of the management system of enterprises owned by the whole people centering round the

strengthening of vitality of large- and medium-sized state enterprises is a major event to which the entire society at present shows general concern. Large- and medium-sized state enterprises are major pillars of the national economy, a main source of the state's financial revenue, and the main body, core, and foundation of China's socialist economy. For various reasons, certain numbers of large- and medium-sized state enterprises are lacking vitality and low in efficiency. Therefore, managing large- and medium-sized state enterprises well by furthering reform will play a decisive role in stepping up China's economic strength, promoting economic prosperity and social progress, and raising the living standard of the masses of the people; will be of positive and far-reaching significance to consolidating the main body status of the economy of public ownership, strengthening the confidence of the broad masses of the people in taking the socialist road, and enabling China to remain forever invincible. Attention should be paid, we believe, to the following two aspects in the current reform of enterprises owned by the whole people.

1. Establish in Earnest the Economic Position of Enterprises Owned by the Whole People.

Ever since the beginning of reform, we have introduced a number of reform measures for enterprises owned by the whole people, such as delegating power to lower levels and letting them retain a proportion of profits until 1988 when the "Enterprise Law" was promulgated. The approach of reform for enterprises owned by the whole people is to turn them into commodities producers and operators that enjoy decision-making power in operation, assume full responsibility for their profits and losses, and are capable of self-remodeling and self-development. The separation of duties and responsibilities between the government and enterprises is the major means for realizing such a goal. To this end, the party and the state have adopted a series of correct reform decisions and policy measures, and made marked achievements. However, some of the reform measures for establishing the economic position of enterprises owned by the whole people have not been implemented. There are reasons of understanding, as well as practical difficulties and contradictions.

In understanding, the major worries are: If enterprises owned by the whole people enjoy decision-making power in operation and assume full responsibility for their profits and losses, whether or not they would run counter to the nature of enterprises under the system of ownership by the whole people. In fact, such a misgiving may well not be necessary. One should know that the properties of enterprises owned by the whole people, as grass-roots level units under the system of ownership by the whole people, belong to the whole people or the state. The interests of enterprises owned by the whole people are entities of the interests of the state and those of the staff and workers, but enterprises owned by the whole people represent first of all the interests of the whole people or the state. One must not equate in a simple way the interests of enterprises owned by the whole people

with those of enterprise factions. So long as we are clear in theory and in practice that the properties of enterprises owned by the whole people are properties of the whole people or the state, and that the interests of enterprises owned by the whole people represent first of all those of the whole people or the state, under such a premise, what is horrible in enterprises owned by the whole people enjoying decision-making power in operation and assuming full responsibility for their profits and losses? The higher the initiative of enterprises and the staff and workers, and the faster the accumulation and development of enterprises, the greater is the wealth under the system of ownership by the whole people and the stronger is socialism.

Under the circumstance of the socialist commodity economy, and especially in a large socialist country like China with a population of 1.1 billion, it is impossible for state plans to manage in a centralized way all the economic activities of the entire society, and especially difficult to control the production and management activities of large numbers of enterprises. Only when enterprises owned by the whole people rely mainly on their independent activities, take the initiative in their own hands, and make full use of the function of market mechanism will it be possible for them to be full of vitality, and to realize in a better way the goal of production to meet the need of the society. Historical lessons and the experiences of the reforms of Shoudu Iron and Steel Company, Shanghai No. 2 Textile Machinery Plant, and other advanced enterprises all prove that if enterprises owned by the whole people do not enjoy their own decision-making position as enterprises, nothing about the vitality and performance of enterprises can be talked about, and all the more impossible will it be for the superiority of socialist enterprises owned by the whole people to be brought into play.

Some comrades are still worried that if enterprises owned by the whole people enjoy too much decision-making power, will it or will it not further aggravate the short-term behavior of already established enterprises? In fact, such short-term behavior occurring at present as the invasion of accumulation funds in pursuit of maximum welfare for the staff and workers, and piecing together equipment beyond designed capacity and lowering product quality to acquire contracted interests are also related to the fact that the economic position of enterprises are not clear enough, and that their power, responsibilities, and benefits are not adequate. So long as enterprises owned by the whole people truly enjoy the decision-making power in operation, and assume full responsibility for their profits and losses will there generate intrinsic self-supervision and self-conditioning mechanism, thereby promoting the healthy development of the production and management activities of enterprises.

The practical difficulties and contradictions that crop up in the current reform of enterprises owned by the whole people are primarily the contradictions between enterprise reforms and social stability. If the policy of

enjoying decision-making power in management and assuming full responsibility for profits and losses is truly carried out in enterprises owned by the whole people, it will definitely lead to the closing down of quite a number of loss enterprises or meager profit enterprises which are provided for by relying on "eating from the same big pot." Will the closing down of enterprises, and waiting for employment on the part of the staff and workers cause social turbulence and unrest? These are contradictions existing in realities, and often put us between two difficulties. We must therefore make sober-minded analysis. Egalitarianism and the practice of "everybody eating from the same big pot" have become a chronic malady of China's society, and they provide for the lazy and penalize the diligent, corrode people's will, and is one of the major reasons that results in the fact that the energies and superiority of the economy of public ownership can not be brought into play. The more you are afraid of pains and difficulties, and the more you dare not perform operation on the practice of "everybody eating from the same big pot," the deeper will inevitably be the contradictions brought about by the practice, which will eventually lead to even more serious social turbulence and unrest. The essential way of overcoming the contradictions still lies in truly carrying out the policy for enterprises to decide for themselves in management, and assuming full responsibility for their profits and losses.

How to establish the decision-making position of enterprises owned by the whole people? The key is to give enterprises not only the decision-making power of simple reproduction, but also the decision-making power of expanded reproduction for self-remodeling and self-development. For a long period of time, China's enterprises owned by the whole people submitted almost all the profits and the greater part of their depreciation funds to the state. And the state centralized all the accumulations with which to build new projects, and it was very difficult for existing enterprises to get renovated, remodeled and developed. Thus, the following posture took shape in China's economic development: centralize financial resources from all over China to build a batch of new factories, and lose a batch of old factories, and build new factories continuously while losing old ones continuously. Such a train of thought of attaching more importance to an extensive form of expanded reproduction than intensive form of expanded reproduction is exactly the abnormal situation that led to the high growth and low efficiency of China's economy and the major reason why China's enterprises lack vitality. Why is the development of Shoudu Iron and Steel Company so attractive? One very important reason is that it possesses the ability of self-development. The per capita profit retention level of Shoudu Iron and Steel Company is much higher than other state industrial enterprises, and it uses 60 percent of the profits retained on expanded reproduction. Now, Shoudu Steel has become a comprehensive enterprise with steel as the key link and with simultaneous development of many industries, and both output value and profit and tax rates rank

first in metallurgical industries. It can be seen that by giving enterprises the right to expanded reproduction, it will not negate the nature of ownership by the whole people. Shoudu Steel remains Shoudu Steel under the system of ownership by the whole people, and reform has added to the might of its ownership by the whole people.

To enable enterprises owned by the whole people to enjoy the right to expanded reproduction, the key is to take preferential measures toward enterprises in the distribution of profits. For the broad enterprises, what is most needed now is an amount of starting fund for expanded reproduction. If this comes under letting enterprises retain a proportion of profits, such profits should be retained. We would rather engage in fewer new projects in recent years, yet we must let enterprises retain a proportion of profits. Only by letting in water are we able to raise fish, and the experience of Shoudu Steel is the best explanation. Of course, specific operations require further study.

If enterprises owned by the whole people are to truly carry out the policy of deciding for themselves in management, assuming full responsibility for their profits and losses, for self-remodeling and self-development, they still require the coordination of other conditions, such as to reform the unreasonable price system, so that profits can truly reflect the results of management of enterprises; to build a social security system, and to avoid excessive shock caused by market competition, etc.

2. Give Full Play to the Advantages and Superiority of Enterprises Owned by the Whole People.

Another reason that enterprises owned by the whole people lack vitality is: In the past we often unduly stressed that enterprises were in direct proportion to market mechanisms and we regarded the raising of enterprises' capacity to adapt to market changes as the sole objective and requirement for the reform of enterprises owned by the whole people and seriously overlooked giving play to the advantage of the mechanism of public ownership itself.

It is undeniable that by making use of market mechanism, enterprises owned by the whole people can energetically strengthen their vitality and raise their efficiency. But simply by this point alone, enterprises may not necessarily be able to create a higher labor productivity and rate of growth. Markets are stages where capitalist enterprises can fully develop their energies. Properties of capitalist enterprises are privately owned by entrepreneurs, they have the motivation of profits from within, and the pressure of competition from without. Whenever there are signs of changes in the markets, they can make timely decisions and adapt to changes rapidly. On flexibility of adapting to market changes, it is a weak point and not a strong point for enterprises owned by the whole people, relative to capitalist enterprises. Properties of enterprises owned by the whole people are owned by the whole people. The

decisionmaking by enterprises in the production and management activities not only should proceed from the partial interests within the scope of enterprises, but also take into consideration social interests, including considerations of the social interests reflected in state plans. This conditions to a certain degree the flexibility of enterprises owned by the whole people to adapt to market changes.

Generally speaking, it is difficult for enterprises owned by the whole people to overtake capitalist enterprises on flexibility of adapting to market changes, but that does not mean that their development and efficiency are not as good as capitalist enterprises. One should know that enterprises owned by the whole people still possess the features and advantages of the mechanism of ownership by the whole people itself, which is impossible for capitalist enterprises to possess. For instance, state plans can enable enterprises to avoid as much as possible the influence by market blindness, so as to achieve the efficiency of production and management conducted according to social need; giving full play to the initiative of the laborers as masters of enterprises owned by the whole people is an immeasurable source for creating enterprise efficiency. If enterprises owned by the whole people can have considerable flexibility of adapting to market changes, and if the features of the mechanism of the system of public ownership can be brought into full play, along with the management of modernized enterprises, then enterprises owned by the whole people will surely overtake capitalist enterprises in growth and efficiency. Relative to the capitalist economy, where is the superiority of the socialist economy embodied? A major aspect is embodied in the mechanism of economic operation. How to give play to the functions and features of the mechanism of the system of public ownership itself, and in particular how to give full play to its functions and features in the commodity economy are important aspects of reform. Such an important aspect in the reform of enterprises owned by the whole people must never be forgotten, otherwise the energies of enterprises owned by the whole people cannot be fully released, and will lose the socialist direction of reform.

To improve and strengthen the mechanism of planning is an important aspect in developing the advantage of the mechanism of public ownership and deepening the reform of enterprises owned by the whole people. To reform the traditional planning mechanism and introduce the market mechanism are not designed to negate the planning mechanism itself. The viewpoint is inaccurate that a planning mechanism is only the requirement of large socialized production, and has nothing to do with ownership. At present, some developed capitalist countries also work out plans for intermediate development. These plans are related to the development of monopoly of ownership, especially to the development of state monopoly. What are the positions of these plans in the economic operations in capitalist countries? Even scholars and statesmen of capitalist countries also acknowledge: The base of private ownership determines

that the leading role in the economic activities is the "free market," and planning only plays a supplementary role. In socialist China, the nature of interests in common of public ownership and especially of ownership by the whole people determines that the socialist economy, taken as a whole, can not but be the economy of development according to plans. Planned economy can do away with the economic crisis caused by the anarchy of capitalist production, and accelerate the reasonable disposition of resources and the effective growth of the economy. The serious problems brought about by the all-inclusive, rigid planning system should never be the reason for negating the socialist plans. Scientific and reasonable planning is an important prerequisite for the healthy development of the entire national economy, including that of enterprises owned by the whole people. Planning should never be looked upon as barriers for decision-making power and vitality of enterprises. Scientific and reasonable planning will only strengthen the decision-making power and vitality of enterprises.

That the initiative of the laborers, as masters of the society and enterprises, can be brought into full play is yet another important aspect that enterprises of public ownership are superior to enterprises of capitalist private ownership. The economic activities of enterprises, in the final analysis, are activities of the people. To bring into full play the initiative of the laborers is of essential importance to the production and management activities of enterprises. To give play to the initiative of the laborers as masters of their own affairs is an important aspect in developing the advantage of public ownership and deepening the reform of enterprises owned by the whole people. Now the practice of "everybody eating from the same big pot" and the egalitarian form of distribution remain an important reason for strangling the initiative of the laborers. It is therefore necessary to advance the reform of the distribution system, seriously implement the principle of to each according to his work, widen the gap, and reward the diligent and punish the lazy. Moreover, it is necessary to guard against the tendency of one-sided economic stimulation that excludes political motivation. Men should have vitality and the workers, as laborers of socialist enterprises, need it all the more. The socialist motivation mechanism is the unity of the dual mechanism of economic motivation and political motivation, and any one-sidedness is unfavorable to strengthening the vitality of enterprises. So long as the decision-making power of enterprises owned by the whole people can be reasonably put in place, the mechanism of public ownership can be given full play, and socialized management method is used effectively, then China's public ownership enterprises, especially large- and medium-sized state enterprises, will surely demonstrate their gigantic vitality and superiority.

Resolving Problem of Local Economic Blockades

92CE0233A Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 11, 3 Nov 91 pp 3-8

[Article by Li Zhengyi (2621 2973 0001): "Pondering the Local Blockade Problem"]

[Text] During a decade of reform, China has laid a preliminary foundation for the founding of a unified, nationwide market. However, the trend toward administrative decentralization accompanying a "two-way division of powers" has produced abnormalities in the form of a strengthening of local authority, a splintering of markets, and local blockading. As a result, principal market components, commodity flow channels, and market organization methods are becoming increasingly complex, and commodity circulation procedures have become disorderly. Since 1990 in particular, in order to stimulate local markets, many jurisdictions have resorted to economic measures and administrative authority to implement various local, protectionist measures. This has increased local blockading and the splintering of markets, obstructed the lateral flow of production elements, and led to regional trade frictions and the steady escalation of conflicts of interest. Local trade barriers have rapidly spread throughout the country, to the serious impairment of China's macroeconomic coordination and orderly development. They have become a major obstacle to improvement and rectification, and to the invigoration of markets. This article presents a thorough and systematic examination of the formation mechanism and the damage that local blockading causes, as well as measures for remedying it.

I. Current Situation and Abuses: Level-by-Level Fences, Barriers, and Self-Protection That Artificially Break Up Local Markets

During the current market slump, one conspicuous feature of local blockading is the blockading of trade between regions, and the fight for scarce resources. In order to maximize its own interests, protect local markets, and prevent the outflow of profits, every local government employs all sorts of economic and administrative methods, and even resorts to legislation and the drafting of official documents, to shift their troubles to their neighbors by setting up non-tariff barriers under a multitude of names that artificially limit local commodity flow. They set up checkpoints that arbitrarily collect "passage money," and monopolize and blockade entry and exit of local resources, technology, human talent, and commodities. On the one hand they prohibit outflows of local resources, top-quality products, and products in very great demand, while on the other hand prohibiting the "invasion" of products from elsewhere—particularly products that are superior to local products in quality, price, color, style, and design. Additionally, some jurisdictions issue local currency to prevent the outflow of different sections of the population and purchasing power. Some of them expand their monopoly over commodities, handing down command-style quotas to commercial departments for procurement and sales of commodities. Some even issue letters of commendation to units and individuals that "perform meritorious service" in blockading and self-protectionism, etc.

The damage and negative role of local blockading and market barriers is obvious. First, it impedes progress in

reform, increasing difficulties in improvement and rectification and in furthering reform. One of the achievements of a decade of reform is a separation of government administration and enterprise management, and the expansion of enterprises' decision-making authority, which gradually enables enterprises to orient toward markets and conduct independent and autonomous economic activities. However, improper administrative meddling forces enterprises to regress to their position as administrative chattels, which is in effect a historical regression that runs contrary to the original intention of reform. Second, protection of the backward is detrimental to readjusting the industrial structure and the product mix. China has a planned commodity economy; therefore, economic activity must be conducted in accordance with the laws of value. However, local blockading uses improper economic and administrative methods to protect the backward, or to protect goods whose supply exceeds demand, as well as to protect the continued production of inferior goods. The result is that there is no survival of the fittest and no elimination of the unfit, which is detrimental to the conduct and implementation of national industrial policies. Also, this makes it difficult to increase effective supply and improve product quality. In addition, since local blockading seeks a complete system of "large but all inclusive," "small but all inclusive," duplication of construction, and duplication of imports, a serious convergence of the local industrial structure results. This leads to a loss of returns from comparative advantages and economies of scale. Not only do all jurisdictions intensify embargoes of raw and processed materials and products and local processing, but they artificially jack up prices of all raw and processed materials and products, thereby causing a leap in processing costs. As a result, enterprises' economic returns fall precipitously, which is extremely detrimental to improvement of their administration and management. Third, protectionism roils the economic order, leading to an artificial splintering of markets that impedes formation of a national, unified market. Local blockading and the splintering of markets means that merchandise can no longer flow smoothly, so things cannot be used to the fullest. If this continues for a long period, a splintering of the national market ultimately results. This is detrimental to the building of a normal commodity circulation order. As a result, the state finds it difficult to discharge its macroeconomic regulation and control functions, making formation of a unified, socialist market system difficult. Fourth, protectionism further intensifies market slumps. Facts show that, when a sales slump occurs, market fragmentation and impeded commodity flow inevitably make a bad situation even worse. Measures like the use of administrative actions to chop up markets, prohibiting or restricting the entry of superior quality goods from the outside, and even protecting local production of slow-selling and inferior products run contrary to our need to readjust the industrial structure and the product mix and to ease the market sales slump. Ultimately, they create a vicious

cycle that goes from "local blockading to market slump, to more blockading, to an intensification of the market slump."

II. Analysis of Causes: System of Dividing Revenues and Expenditures Between Central and Local Governments, Holding Each Responsible for Balancing Its Own Budget, Distorts Interregional Returns

The advent and spread of local blockading and market splintering is not accidental, but has both a profound and complex background, and political, economic, social, and systemic causes.

A. Shortcomings of the Administrative Separation of Powers, and Defects of the Revenue-Sharing System

In order to overcome numerous abuses in the traditionally highly centralized planning system, in 1978 the central government began a two-way separation of administrative and economic powers between local jurisdictions and enterprises. The central government's delegation of authority over distribution of funds and materials, and the establishment of a "two tier regulation and control" system for macroeconomic control of "separate level revenue sharing" begun in 1980, as well as the more recent "local contracting" of foreign trade and local economic contracting, greatly increased the economic benefits of local jurisdictions and promoted local economic growth. As a result, local governments play a dual role as managers of and principal investors in the national economy. At the same time, through the creation of a market mechanism and the improvement of market orientation methods, the central government delegated authority to enterprises, with the result that microeconomic, operational decision-making authority shifted from the government to enterprises. The result of this two-way simultaneous division of powers enabled a merger of local governments, enterprises, and the central government into a principal economic entity, with a trend toward pluralization of the principal entity thereby taking place. In the two-way division of powers process, shortcomings occurred in the administrative division of powers. First, there was a weakening of central authority and an excessive expansion of local authority. This resulted in a weakening of the central government's macroeconomic regulation and control functions. Second, there was no thorough separation of powers. In a situation where there was no fundamental separation of government and enterprise responsibilities in government departments at all levels, a substantial portion of the power that the central government returned to enterprises was retained by local governments. Once local governments got a substantial amount of authority to act on their own, they applied various administrative methods towards meddling in enterprises' day-to-day operations. This clearly showed that until the problem of separation of government administration and enterprise management is completely solved, excessive division of administrative authority in favor of local governments is bound to lead to local administrative splintering.

The revenue-sharing system is one of the main structural reasons for local blockading. Under the existing system of dividing revenues and expenditures between central and local governments and holding each responsible for balancing its own budget, the abuses of unified state control over receipts and expenditures, and "eating out of one big pot" have been eradicated; local governments' enthusiasm for managing their own financial affairs has also greatly increased. Nevertheless, the very great increase in local benefits cannot be overlooked. In particular, in situations in which provincial government financial norms are broken down and contracted, governments at every level have their own distinct responsibilities and interests. Since the financial situation of local governments and local economic development are closely bound to enterprise production and operations, this increases local government's motivation to increase government revenues and the thrust of investment. Local governments seek to make maximization of local government revenues the ultimate standard for government action. Furthermore, under current market and price conditions, the most effective way to increase local government revenues is to use administrative powers to control the outward flow of commodities in short supply and the elements of production, compete with the central government for investment and important projects, try vigorously to develop local processing industries, and protect enterprises under local government jurisdiction. In addition, too much emphasis is placed on a small number of economic indicators, such as output value, tax revenues, and profits, as gauges of government performance. This further increases local governments' motivation for these actions. Thus, the blockading and splintering of local markets is also difficult to avoid.

B. Economy of Scarcity Increases Local Blockading

Generally speaking, only when effective supply is ample can there be open markets and fair competition. However, China's long-standing economy of scarcity pattern has meant a serious shortage of effective supplies and lagging development of raw materials, processed materials, and energy. This has become the bottleneck in recent years that limits the economic development of all jurisdictions, and even development of the entire national economy. The extreme shortages of energy and of raw and processed materials made them become "hard currencies" for a time in exchanges of materials (deals involving goods in very great demand) between regions. In addition, China's year-after-year ultra-high-speed economic development, which resulted in serious inflation in 1985 and 1988, produced a widening of the gap between supply and demand for goods and capital, with market supply becoming critical in every way. Controlling and getting hold of resources in short supply became the key in gaining local economic benefit. Thus, the supply situation and the existing administrative system worked together to produce a climate that stifled market openness and increased local blockading and market splintering. Consequently, trade frictions in the form of "restrictions" and "counter restrictions" in

the flow of key production elements frequently broke out between regions, and particularly between areas that had resource economies and those that had processing economies, which brought about various kinds of "resource preclusive buying wars."

C. Serious Distortion of Interregional Interests

The distortion of China's markets today, the irrational price system, differences in the degree of reform and opening to the outside world, and regional differences in preferential policies, as well as the lack of standardization and unfairness of the central government's regional economic policies, is bound to bring about a distortion of regional economic benefits that results in an extremely unfair competitive environment that causes "splintering into princely realms" and local blockading.

First, examine market and price factors causing blockading. When market commodity flow is normal and prices rational, the splintering of markets is unnecessary. However, local governments, and enterprises that have an increased post-reform sense of their own benefits as main bodies, face a distorted market and a distorted price system. For a long time prices of China's agricultural products have been lower than prices of industrial goods, and prices of primary products, such as energy, raw materials, and processed materials, have been lower than the products of processing industries, particularly those of light industries. When differences in local industrial structures and a regional division of labor exist, distortions of the price system will produce a spatial shift in commodity prices, meaning it will produce a dual-profits shift mechanism: In the process of delivering energy, raw and processed materials, and primary products to processing areas, resource areas will transfer a large amount of value to processing areas every year, because prices are not rational (materials are shipped at low, state-allocated prices). When processing areas resell manufactured goods at high prices (the market price), a portion of the value that the resource area created will be conveyed to the processing area. When a dual-track pricing system exists, especially when the market price is far higher than the state-set price, distribution of profits among the trade, industrial, and agricultural sectors and among industrial sectors will be unfair. This will bring about a serious imbalance in the distribution of benefits among regions. Areas producing raw materials will make little profit, but processing areas and exporting ports will make a lot. Such an irrational price system, combined with the spatial industrial pattern in China of "industry in the east and agriculture in the west, light industry in the east and heavy industry in the west," distorts inter-regional comparative benefit relationships. Under these circumstances, the jurisdictions that possess substantial economic decision-making authority and whose motivation to increase local government revenues is strong are bound to think of all sorts of ways to increase local barriers restricting outflows of resources and value. This will mean that the possibility that local governments might use administrative authority to engage in local blockading will be translated into reality. Thus, driven

by market profits, readjustment of the local industrial structure will take the form of large-scale, local government investment in projects with "short start-up times, average technology levels, and quick economic results," and much emphasis on high-priced, high-profit processing industries. Moreover, resource-producing areas will make major efforts to develop resource-processing industries (local processing), and as their resource-developing industries develop, they will increase blockading to limit outflows of resources. The result is an intensification of shortages of raw materials for the processing industries, and insufficient work for them to do.

Second, look at blockading in terms of the central government's regional policies. The central government's present regional policies show a regional slant toward emphasizing eastern China and uneven but continuous development. When taken together with the long-standing historical slant in investment and economic foundation, an extreme imbalance occurs between the development of eastern and coastal regions and that of western regions. Implementation of the slanted policy gives precedence to reform and opening to the outside world in eastern and coastal economically developed provinces and regions. This is extremely necessary for the all-around promotion of reform, and it also gives redoubled might to the economic development of eastern and coastal regions, putting them far out in front of the western regions. At the same time, however, this policy also reveals inherent shortcomings, the most glaring of which is a dramatic widening of regional income differences, which intensifies frictions and conflicts between the coast and adjacent areas, as well as with backward western regions, artificially creating unfair competition in regional development. In the central and western parts of the country, where the foundation and conditions for development are poor to begin with, the uneven but continuous regional development pattern means a large-scale flow of money, talent, and materials to eastern and coastal regions. This further limits western opportunities and space for development. In order to develop and protect themselves, they have no choice but to use the "blockade" weapon. The "blockade" is at the price of the imbalanced development of the whole national economy. Clearly, in terms of long-range economic development requirements, such a regionally slanted policy goes against the rules for fair competition, intensifying imbalances and a lack of coordination in regional economic development.

Third, look at blockading in terms of differences in the degree of opening to the outside world, system reform, and preferential policies. A time-space differential exists in different parts of China in carrying out opening to the outside world and system reform. Furthermore, system reform generally accompanies a series of the central government's preferential policies; therefore, areas that are first to conduct pilot projects for opening to the outside world and reform are the first to enjoy a series of preferential policies, such as investment approval

authority, a foreign exchange retention percentage, foreign trade import-export authority, and price control authority. They are also able to obtain transferred advance policy benefits, reflected economically as marked economic advantages, and special economic powers. This is bound to produce a transfer of benefits from places that have not yet undergone reform and opening up to places that have completed reform and opening up, and from places that are last to carry out reform and opening up, to places that are first to carry out reform and opening up. However, in providing special preferences, or what are termed "reform-and-opening-up pilot project costs" to a small number of places, the central government sacrifices benefits to other areas. This is bound to lead to frictions and conflicts between areas, providing a cause for local governments to blockade markets to protect their own interests.

III. Remedies: Multiple Approach Treating Both Symptoms and Root Causes

Local blockading and market splintering are the common result of multiple factors. Therefore, analysis of the causes and the process involved is necessary for a multiple approach that comprehensively treats both the symptoms and root causes.

A. Reform of the Existing Government Financial System For Gradual Implementation of a Tax-Sharing System

A thorough and complete study and summarization of the advantages, disadvantages, merits, and demerits of the system for dividing revenues and expenditures between central and local governments and holding each responsible for balancing its own budget is now required, in order to carry out a profound reform of government finance for a gradual transition from revenue sharing to tax sharing. A tax-sharing system can clearly define the financial relationship between the central and local governments, for a substantial unification of responsibilities, powers, and benefits that helps unify market formation and links the central government's macroeconomic regulation and control. It is fundamental to the founding of a balanced relationship between the central and local governments, and between local governments. It can effectively change clashes between the central and local governments over the percentages of each party's revenue-sharing and base quota figures. Therefore, one might say that it is the orientation for government financial system reform. In designing a reform plan, and in the process of carrying it out, attention must be given to handling the relationship between the benefits of the central and local governments, and the relationship between governments at all levels and enterprises. We must establish a benefits-limiting mechanism that both stirs local governments' interest in increased revenues and keeps local governments from excessively relying on local enterprises for finances. Since China's domestic commodity economy is not yet well developed, regional economic development is not balanced, and both the tax-and-profits structure as well as the tax system are not

entirely rational, regularization of the tax-sharing system will be difficult within a short period. Thus, we may now consider trying out a tax-sharing contract system—using the “definition of different kinds of taxes, determining finances on the basis of taxes, level-by-level budgeting, self-balancing,” and the implementation of tax-sharing system principles as a basis for instituting a more flexible and varied contract system for jurisdictions in which conditions differ. This would both dovetail with the former revenue-sharing system and also move gradually in the direction of a tax-sharing system that might be deemed an ideal transitional method.

B. Readjusting the Local Policy System to Coordinate Interregional Benefit Relationships

The facts about regional economic development show that both “uneven but continuous development” and preferential policies slanted toward certain jurisdictions may have a detrimental affect on the nationwide allocation of resources, and they may lead to the “Matthew Effect” resulting in unbalanced regional economic development and a serious distortion of benefits between regions. Therefore, bilateral or multilateral economic benefit relationships within a region must be coordinated in accordance with the laws of value, to restructure the regional economic pattern in an effort to create the external environment and conditions for equal competition and shared development.

1. Moving ahead with price-system reform to rectify irrational comparative-advantage relationships among regions.

For a long time, the irrationality of China's price system, as well as the abnormal comparative price relationship between different industries, has resulted in a worsening situation in which basic industries account for a fairly large percentage of local trade. This has led, in turn, to an imbalance in benefits between regions. Furthermore, the current improvement and rectification has created a more liberal environment. Therefore, no time should be lost in moving ahead with price-system reform, in accordance with the set orientation of price-system reform. Prices of agricultural products, energy, and raw and processed materials should be increased in a planned way, to straighten out comparative prices between raw and processed materials and processed products, and between agricultural products and industrial manufactures. This will gradually eliminate the “dual-track” price system, change from the old system's way of sacrificing the interests of resource-producing provinces and regions in order to support development of processing-industry provinces and regions, and thereby avoid the two-way loss of benefits of resource-producing provinces and regions. This would enable each jurisdiction to respond to rational price signals and to act on the basis of comparative advantage to establish a rational regional division of labor within the work force area and a regional relationship of mutual benefit on the basis of fair competition.

2. Readjustment and perfection of existing regional policies.

While intensifying reform, the central government must employ economic and administrative methods to readjust and further perfect the existing regional benefits pattern and prevailing regional-development policies. First, eliminate the policy “slanted to the east” and preferential policies for individual areas; gradually narrow the policy gap in conjunction with readjusting the industrial structure and implementing industrial policies to change the regional slant to an industrial slant; and change preferential treatment based on region to preferential treatment based on sector. While considering the vigorous development of an externally oriented economy in eastern regions, and moving more in the direction of international markets, appropriate market space should be allowed for the development of local economic and processing industries in central and western regions. This will permit the country to change gradually from isomorphism in the layout of its economic structure between regions to a division of labor that truly makes the most of strengths while downplaying weaknesses, and to a mutual reinforcement of advantages. Second, reduce direct investment in developed coastal areas, using mostly economic levers, such as a strong market mechanism, government finance, and banking, to enable the realized potential for sustained, steady growth. Next, increase resource-producing provinces' and regions' control over the percentage of principal raw and processed materials in order to make up for their loss of benefits resulting from shipping at planned prices, as well as to compensate them for distorted regional benefits brought about by differential benefits and unevenness in reform and opening up. Finally, readjust the excessively decentralized pattern of national income distribution, properly increase the percentage of financial and material resources under central government control, increase central government macroeconomic regulation and control capabilities over local governments, and improve the way central government investment and government subsidies is used, in order to better use and supervise central government funds in supporting backward areas.

C. Improved Laws and Regulations For the Correct Guidance and Regulation of Local Government Actions

In addition to the institution of a government revenue-sharing system and central government delegation of authority, there is a lack of clear-cut regulation of local government authority, and a lack of clarity about central and local governments' responsibilities and powers, as well as local governments' lack of correct direction towards the goal and a lack of control for macroeconomic management. This is bound to create a situation of “soft restraint” or even “no restraint” on local government actions. This is also an important cause for the worsening of local blockading and market splintering. Therefore, scientific delineation of central and local governments' limits of authority, clarification of government responsibilities, and the use of laws to spell out

provisions are prerequisites for standardizing local government actions; and they are also ways to cure local blockading at its source. Admittedly, in today's world of developing a planned commodity economy and practicing a two-way division of authority and level-by-level economic control, negating or weakening local economic benefits is not desirable. However, the crux of the problem lies in correctly channeling and regularizing local government behavior. Rationally defining the limits of authority between central and local governments, and granting local governments certain powers and means for exercising these powers, will doubtlessly help make the most of local strengths and stir local governments' interest in managing their own finances and developing the economy. However, this alone cannot fully ensure the regularization and rationalization of local government actions, or that the relationship between the overall allocation of resources and maximization of local advantages is handled fairly well. Doing this will first require that central government economic policies and actions fully respect local interests while striving for the national interest. They must provide an environment of fair competition for the development of local economies, and not maintain the development of a small number of areas at the expense of losses in benefits for most areas; they must do so in order to avoid "obstructions" arising from policy implementation that causes warping, distortion, and loss of effectiveness of the role of central government policies. Second, they must change the one-sided use of output value and speed as the main criteria for evaluating local government performance. The central government should use different standards to assess the performances of local governments whose jurisdictions are in different stages of economic development and whose industrial structures are in the process of evolving. Assessment standards should include economic and social development, and how well local governments carry out central government directives. Output value and speed must not be the sole basis for assessing performances of the vast regions in central and western China, which are in the early stages of take-off and whose economies are not yet developed. More attention should be paid to assessing their market development and infrastructure building. At the same time, the position and functions of local governments as principal investors in industry must be gradually changed, to weaken their desire for "economic achievements" in the form of output value and speed during the period they are in power. Third, the normalization of the behavior of any main entity is limited by external forces. Therefore, in order to make local government behavior more normal and rational, the central government must establish a powerful limitation system, the most important part of which is the establishment of sound laws and regulations that spell out the responsibilities, powers, and macroeconomic regulation and control methods at the disposal of local governments at all levels. When local government actions "go off the rails," governments must be limited and punished according to the law. Fourth, we must draw up rules and regulations about industrial competition and market control, and

apply legal methods to encourage fair competition in order to limit all kinds of monopolistic and blockade behavior. Examples include the drawing up of a "Competition Code," an "Industrial Policy Implementation Code," an "Anti-Local Blockade and Monopolization Code," an "Anti-Windfall Profits Code," and a "Market Transactions and Control Code." Local government imposition of barriers, blockading of resources, limitations on product import and export, monopolization of technology and human talent, and anti-commodity economy behavior that splinters markets must be severely punished.

D. Organizing Regional Common Markets To Found a New Interregional Economic Order

As a result of a decade of reform, a pattern of pluralization of main economic beneficiaries has taken shape, and an overlapping has occurred at different levels. The gap between regions, provinces, and particularly between coastal and adjacent areas has gradually widened with the level of their economic development and the degree of their reform and opening to the outside world. This has led to increasingly sharp frictions and conflicts between regions. Despite the traditional trade contacts and economic and technical cooperation between many provinces and regions, and the steady expansion in scale and level of such activities in recent years, since both parties lack a common benefit foundation, and since the desires of the separate beneficiaries are not identical, this development and cooperation is not stable. In addition, coastal and inland systems and policies differ. This is bound to lead to a distortion of the economic benefit relationships between both parties, which leads in turn to market barriers and local protectionism. As a result, not only are normal economic links broken, but the stability of the markets of both sides and coordinated development of the economy are threatened. An effective way to solve this conflict is to increase the degree of market organization, establishing unified regional common markets.

Establishing unified regional common markets requires: using the market space provided by economic links and economic contacts between administrative areas, particularly between adjacent areas; and using interregional and interprovincial economic interdependence and division of labor as a basis for developing open regional markets. This thereby enables the formation of a fairly strong industrial change-over capability within regions to promote the rational flow of key production elements. The key to this lies in establishing interprovincial and interregional markets—based on the principles of exchange of equal value and the sharing of benefits—for agricultural products and important means of production. Contracts and agreements to maintain the legal benefits of all parties concerned should be used, and interregional and interprovincial contacts and cooperation should be relied upon to solve problems in transporting products in short supply between areas of shortage and areas of availability, providing mutual support for mutual benefit. In this way, different regions

and provinces can benefit each other. In addition, further development of commodity markets and markets for capital, technology, labor, and information must be developed, in order to gradually form an open, regional-market system possessing many different characteristics. This will ultimately destroy regional economic blockading, market splintering, and found a new interregional economic order.

Enterprises Exceed Goal To Reduce Stockpiles

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[Text] Beijing, 28 Jan (XINHUA)—The goal which the State Council set for state-operated industrial enterprises to reduce their stockpiles by 20 billion yuan in 1991 was exceeded. According to the Industrial and Commercial Bank of China, the amount of money tied up by finished goods manufactured by state industrial enterprises was 109.9 billion yuan by the end of December 1991, or 22.9 billion yuan lower than the figure six months ago. This means that these enterprises, which have established accounts in the bank, had exceeded the state target for stockpile reduction by 20 percent. The figure also shows that it was 25.4 billion yuan lower than the figure in August—the month in which the greatest amount of money was tied up by finished goods, and that it was 4.7 percent lower than the amount of money tied up by the end of 1990. Meanwhile, the amount of money tied up by three types of funds [san iang zi jin 0005 7309 6327 6855] was also 20.3 billion lower than that registered at the end of June last year, including a reduction of 1.9 billion yuan tied up by goods in transit and an increase of 3.6 billion yuan in receivable and advance loans.

Industrial enterprises have been engaged in curtailing production of unsold goods since last September in accordance with a plan drawn up by the State Council. Of the 43 provinces, autonomous regions, municipalities directly under the central government, and cities authorized to have independent plans—administrative areas committed to reducing stockpiles of unsold goods—the amounts of money tied up by finished goods manufactured by industrial enterprises in 36 provinces and cities were lower than the figures registered at the end of 1990, thanks to the efforts made by government departments, competent authorities under the State Council, banks, and enterprises themselves.

According to the notice issued by the Production Office of the State Council on 26 January about the progress achieved in reducing funds tied up by finished industrial goods and the three types of funds registered at the end of December 1991, some good experiences and measures gained and taken by various regions and departments in restricting production and reducing stockpiles should be disseminated. First of all, the leading authorities of these provinces and cities have attached great importance to acting on the State Council plan, and to supervising the implementation of all assignments. Second, they have divided the assignments so that they can be fulfilled by

various enterprises. Third, their people are clear about what to do and are determined to fulfil their assignments. By taking such decisive measures as tightening money supply and controlling supply of electricity and other energy resources, they have succeeded in curtailing the production of unmarketable goods. Fourth, they have intensified the management, tightened control and inspection, and publicized the progress each month. Fifth, with support from policies and acting in accordance with actual local needs, they have made constant efforts to improve all relevant measures so that manufacturers can take the initiative in curtailing production and reducing stockpiles of unsold goods. Sixth, the local authorities and various departments in these provinces and cities have worked in close coordination with one another in accomplishing the assignments. All people's banks and all financial, communications, and power departments have made great efforts to support the project. Administrative departments of various trades have also worked in coordination with local governments in providing enterprises with active guidance; and the close cooperation between all industrial and commercial banks, economic commissions, and competent authorities of enterprises have played a significant role in restricting production and reducing stockpiles of unsold goods.

According to the notice of the Production Office under the State Council, the decision of curtailing production of unsold goods to reduce stockpiles is a major one taken by the State Council to rejuvenate large and medium-sized state enterprises, improve their economic efficiency, and create a beneficial economic cycle. Although significant success has been achieved since last year, much work still has to be done before normal inventories can be maintained. To make this project a success, all localities and departments must continue to work hard in 1992 and act on the instructions prescribed in the Notice of the State Council Production Office on Further Curtailing Production and Reducing Stockpiles, which the State Council retransmitted. We should continue to unify our views, heighten our awareness, provide stronger leadership, perfect our policies, and maintain the intensity in curtailing production of unsold goods and reducing their stockpiles. Meanwhile, we must increase production and promote sales of popular goods. We must make continual efforts to consolidate and augment our success in curtailing production and reducing stockpiles of unsold goods so that normal inventories can be maintained at an early date.

Measures To Invigorate Enterprises

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[Article by Gu Shengchu (6253 2573 0443), Production Office of the State Council: "Thoroughly Implement '20 Measures' To Further Invigorate Large- and Medium-Sized State-Run Enterprises"]

[Text] Since undertaking reform and opening to the outside world, the economy of China gradually has thrown off its traditional single planned style of management and embarked upon the road of a planned commodity economy that has Chinese characteristics and is centered on industries owned by the whole people in which various economic elements coexist. The swift growth of urban collective and rural industries, and in particular enterprises with "three types of investment," have played an important role in providing employment to surplus labor, increasing the income of urban residents, and improving supplies to society. However, production has slipped, returns are down, and vitality is lacking in the state-run enterprises which are responsible for and the source of the state's fiscal income because of deep-level conflicts accumulated over many years in the system of macroeconomic management and mechanisms operating in the economy. This is largely seen in: 1) Gradually shrinking output value percentages and incremental shares. The proportion of output value of industries owned by the whole people among industries at the county level or above nationwide fell from 81 percent in 1979 to 60.3 percent in 1990, of which in 1990 industries owned by the whole people only grew 2.9 percent, or 30 percent of the incremental share in output value nationwide. 2) Gradually slipping profit taxes. Economic returns have been diverted many ways on top of enterprises' undertaking production of a high percentage of guided products along with irrational pricing. 3) There are many bills due on technological transformation without enough aftereffects produced at all. 4) Enterprises face heavy social burdens.

The Party Central Committee and State Council are keenly aware of the aforementioned situation. In April 1990 they made a trial run of "double guarantee" policies for some backbone large- and medium-sized state-run enterprises. In February 1991 the State Council convened a national enterprise meeting and proposed eight policy measures. Subsequently, at a meeting to reform the national economic system, Premier Li Peng proposed 11 policies to enliven large- and medium-sized enterprises. In May, the State Council made an official announcement regarding further enhancing the vitality of large- and medium-sized state-run enterprises, giving concrete stipulations on 11 policies for improving the external environment of large- and medium-sized state-run enterprises. From 23 to 27 September, the Party Central Committee held another meeting, the main topic of which was how to invigorate large- and medium-sized state-run enterprises and give priority to it in work nationwide and throughout the party. It proposed 20 measures—12 policies to further improve the external conditions surrounding enterprises and eight policy opinions to enliven enterprises from within.

1. Aims and Steps for Invigorating Large- and Medium-Sized State-Run Enterprises

Comrade Li Peng noted the aims of invigorating large- and medium-sized enterprises noted at the Central Committee meeting: 1) making competitive products; 2)

having technology with development potential, 3) Having assets which are able to proliferate; 4) being able to meet market emergencies, 5) Having leading groups which are enterprising and can unite; 6) having the masses of workers able to form into groups.

In order to enhance the vitality of enterprises and improve their returns, the state's 12 policy measures for improving the external conditions of enterprises can be summed up and divided into three general categories: The first category includes four measures to implement the "Enterprise Law" which grants authority to enterprises. Namely, this means gradually reducing mandatory planning of large- and medium-sized state-run enterprises and expanding their authority to sell products on their own; better implementing the autonomy of some enterprises over foreign trade; curbing the "three arbitrary practices" and truly reducing the burdens enterprises bear; and further creating trial large-scale enterprise blocs. The second category is of four policy measures to enhance the ability of enterprises to create aftereffects. Namely, it means increasing inputs for the technological transformation of enterprises; appropriately raising the depreciation rates of enterprises; increasing new product development funds; and reducing the income taxes of state-run industrial enterprises. The third category entails four measures to improve enterprises' production conditions, namely, continuing to implement the "two guarantees" for large- and medium-sized state-run enterprises; continuing to augment the independent operating funds of enterprises; continuing to clear "triangular debt"; and additionally appropriately readjusting interest rates.

To enhance the vitality of enterprises, as far as enterprises are concerned, in addition to the aforementioned 12 measures for improving the external conditions it is even more important to further deepen reform, transform business structures, improve management, and promote technological advance. At present eight measures are being stressed. 1) Steadfastly improving the contract responsibility system. 2) Continued implementation of the "Enterprise Law" and establishment of in-house leadership systems. 3) Positively promoting reform of the labor and wage systems. 4) Orienting large- and medium-sized state-run enterprises towards markets. 5) Further accelerating technical advances. 6) Steadfast reordering of factories in a strict manner and enhancing in-house management of enterprises. 7) Wholehearted reliance on the working class. 8) Really strengthening the leadership of large- and medium-sized state-run enterprises.

Running large- and medium-sized state-run enterprises well is a pressing strategic task. It is a systemic undertaking. At the second recent national meeting by telephone on "the year of quality, varieties of goods, and results," Comrade Zhu Rongji noted that enlivening large- and medium-sized enterprises is a first step in 1991. The second step is to be taken in 1992. Completion of the project will require about three years' time. The ultimate goal is to make enterprises gradually

embark on a fine, interlinked route of self-management, independent responsibility for profit and loss, independent development, and self-restraint.

2. Situation Regarding Implementing Improvements to External Business Environment of Enterprises

In line with the central government's spirit to enliven large- and medium-sized enterprises, since 1991, one policy after another has come up that is more concrete and systematic so as to be more operable. At present, some policies have come to fruition and shown preliminary results. They are mainly these:

1. Appropriately lowered interest rates on loans.

Based on two adjustments to lower interest rates on bank loans a total of 2.34 percentage points in March and August 1990, rates were again lowered an average 0.7 percentage points on 21 Apr 91, with differential interest rates in accordance with national industrial policy. Preferential interest rates are given for capital construction loans in agriculture, energy resources, and raw materials. This is a positive impetus for lowering enterprises' costs in raising operating funds, readjusting their industrial and product mix, and responding to social demands.

2. Results in stages obtained from clearing "triangular debt."

Based on the large-scale clearing of debt begun in 1990, since June 1991, the State Council chose as a test site 19 large- and medium-sized state-run enterprises in the three northeastern provinces where planning is significant, many enterprises engage in heavy industry, and production is rather difficult. Beginning with the three sources of "triangular debt" (i.e., lack of investment in capital construction and technological transformation projects, wanting funds, and overstocked finished industrial products), they undertook "clearing both ends" (clearing financial claims on the one hand and debts on the other) and "cleaning both hands" (clearing investment defaults on fixed assets and arrears on operating funds), rectifying the commodity exchange order, setting accounts in strict order, and returning principle borrowed in full. Some knowledge was gained after a two-month trial period, resulting in ways to clear debt. In early September the State Council convened a national "triangular debt" clearing conference in Beijing at which national debt clearing practice was clarified and drafted "Methods for Clearing Loans in Arrears on Fixed Asset Investment Projects on a National Scale" and "Methods for Reducing the Proportion of Finished Product Funds to Increase Technological Transformation Loans." Progress has been relatively smooth since work began on 20 September to clear arrears on fixed asset investment nationwide. By the end of September, 81 percent of the loans to be returned to banks was returned by 43 provinces, autonomous regions, central government controlled municipalities and planned cities. Approximately one-third of the national arrear-clearing goal for the year was reached.

3. Increase investment in technological transformation of enterprises.

Besides loans for technological transformation that the state already determined for 1991, the State Council decided as of April 1991 to lower prices on and sell some surplus commodities and materials. The majority of the funds recouped is to be used for technical transformation. Banks have already advanced five billion yuan, mainly to industrial bases and key backbone industries for projects to be completed in 1991 as well as for technical transformation projects that are beneficial to readjusting the product mix, augment the potential to earn foreign exchange from exports, or improve economic returns. Nationwide, in the first nine months of 1991, units owned by the whole people invested 42.76 billion yuan to renovate or transform technology, up 19.7 percent, which is much higher than the 2.3 percent growth during the same period in 1990. There was a clear increase in the proportion of investment used to improve product quality, increase product variety, save energy resources, or handle the "three wastes."

4. Continue implementing "double guarantee" policy and achieve substantial results.

Since April 1990 when the State Council approved the State Planning Commission and State Council's trial use of "double guarantee" methods in 234 key backbone enterprises, thorough implementation of this policy has strengthened both the two-way contract guarantee mechanism of production conditions in the state's key contract guarantee enterprises as well as in the profit taxes and state monopoly goods which enterprises submit to the state. From the end of 1990 to the beginning of 1991, the State Planning Commission and Production Commission together with energy resource, goods and materials, banks, and transport departments planned the necessary external conditions for the 234 enterprises. They approved implementation of contract guarantee conditions. With the great support of all levels of government, from January to August 1991, the 234 enterprises had output value growth 5.5 percent higher than the same period in 1990, lower than industry expectations by 4.9 percentage points. Sales income grew 18.5 percent, 1.9 percentage points higher than expected. Sales taxes on goods increased 17.4 percent, with profits up 5.8 percent. These figures are clearly higher than budgeted for industrial enterprise sales taxes and lower realized profits.

5. Curb "three disorders" and have society take heed of reducing burdens on enterprises.

All leaders have taken heed of the demands of the original 11 policies. Through self-examination and critical investigations in the previous stage, they have made initial corrections and gotten rid of projects which indiscriminately collect charges, impose fines, or make apportionments. According to statistics, there were approximately 50,000 projects nationwide that were belonged to the category of "three disorders." Of this number, 20,000

have been gotten rid of, lightening the burden on enterprises and the masses to the tune of 5 billion yuan. However, these are only preliminary successes. Continued great effort is necessary. To reduce burdens further, the State Council recently decided to provisionally halt the ranking and grading of enterprises by the Council and other departments so as to make enterprises concentrate effort on production. At the same time, it further clarified that organizational structures within enterprises should make their own decisions according to the peculiarities of their own production and the principle of "high training and high results." Neither overseeing departments nor any other unit shall compel enterprises to set up counterpart organizations. Enterprises deploy personnel themselves, deciding for themselves the types and methods of deployment under the premise of strictly controlling total wages.

6. Ministry of Finance calls for implementing proposal to increase new product development funds.

Once examined by fiscal departments at the same level, on the basis that fiscal responsibilities to higher levels are carried out, large- and medium-sized state-run enterprises and industries in railways, transportation, telecommunications, and civil aviation charged with technological development tasks and the ability to use it, can, based on the enterprise's relationships with subordinates, extract a maximum one percent of sales income as a technological development fee. Enterprises responsible for key new state products, and those which have a heavy load of new technology development, relatively good economic returns, and the ability to use new technology can extract another 0.5 percent from sales income as a technology development fee. These fees shall continue to be exempt from the key construction fund for energy resources and transportation. Likewise, as of 1 Jul 91, they are exempt from the state's budget regulatory fee. The development fee is listed as sales income. It is specially allocated and earmarked for use. A surplus at year's end can be rolled over into the next year.

7. State preliminarily lists in principle first 55 large-scale trial enterprise blocs.

The state has made a key selection of trial large-scale enterprise blocs. With the superiority of the masses and concerted effort, they will promote readjustment of the organizational structure of enterprises, the rational flow of production factors, and bring into full play the guiding role of large-scale enterprises. They will enhance the competitiveness of China's products on the world market, and further enhance the effectiveness of the state's macroeconomic controls. The state requires that the trial enterprise blocs be strong, have a certain amount of closeness and the capacity to be investment centers. The state shall give preferential policies to these blocs, including listing them under the state plan. They will be managed by industry, gradually establishing financial companies for the trial blocs. The state also will gradually grant to some trial enterprise blocs independent import-export authority, inspection and approval

authority for corresponding foreign affairs, and study and formulate specific management methods relevant to the enterprise blocs regarding authorization to manage state-owned assets, industrial and commercial management, the financial system, labor wages, finance, taxable income, and statistics.

Operating Forces in State, Township Enterprises

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[Article by Ye Zucheng (0673 4371 2052), Lu Xizong (7120 0823 1350), and Zhu Longming (2612 7893 6900): "A Comparison of the Operating Forces in Large- and Medium-Size State-Owned and Township Enterprises"]

[Text] There is now a figurative and popular saying that the industrial production growth in China depends on 1) "big brother foreign investment" (i.e., "the three kinds of foreign trade" enterprises) and 2) "little sister township enterprises" (i.e., township collective industrial enterprises). This is because "the three kinds of foreign trade" enterprises and township collective enterprises have both surpassed large- and medium-sized state-owned ones as far as China's industrial output value growth rate in recent years is concerned. Focused on this phenomenon, this article will compare the operating forces in large- and medium-sized state-owned enterprises with those in township collective industrial enterprises, with an emphasis on analyzing the operating forces in township collective industrial enterprises, in an attempt to draw on certain good operating forces there for help in invigorating large- and medium-sized state-owned ones.

I

Generally speaking, large- and medium-sized state-owned enterprises are the "older brother," while township collective enterprises are the "younger brother." While state-owned industrial enterprises far surpass township collective industrial enterprises in many areas, such as size, equipment, funding, technology, management, and personnel proficiency, so that their advantages are obvious, township collective enterprises have clearly surpassed state-owned ones in recent years as far as economic efficiency is concerned. For instance, a comparison of state-owned independently-accounted industrial enterprises with collectively-owned independently-accounted ones in Shanghai Municipality for 1989 shows that their realized industrial output values per 100 yuan original fixed assets investment value were 126.05 yuan and 258.46 yuan, respectively, while their realized profits per 100 yuan original fixed assets investment value were 31.99 yuan and 38.61 yuan, respectively. These statistics show that state-owned enterprise economic efficiency was poorer than that of collectively-owned ones.

Why is township collective industrial enterprise economic efficiency better than that of state-owned ones? As

state-owned enterprises should have good economic efficiency, why is it still not as good as that of collectively-owned ones? We think that a key cause of this is that the operating forces of state-owned enterprises are not as flexible as those of township collective industrial enterprises in their ability to adapt to either socialist planned commodity economy development scale or a combination of planned economy with market regulation.

II

Since the Third Plenary Session of the 11th CPC Central Committee in 1979, China's township enterprises have become a new force suddenly coming to the fore and growing at a swift pace. By the end of 1990, China had over 18 million township enterprises, with a combined GVIO of 700 billion yuan, or 30% of China's GVIO, export earnings of over 13 billion yuan, and tax revenue payments to the state of over 40 billion yuan, which made them a key part of our national economy. The development of township enterprises has greatly changed the industrial structure of our rural areas, speeded up our rural economic growth, and helped to transfer our surplus rural manpower, enable our peasants to cast off their poverty and get wealthy, and increase local revenues.

In addition to the external environment provided by the CPC Central Committee's correct guiding policy of reform and opening up to the outside world, the major reason why township enterprises have been able to develop so vigorously in socialist China in the last dozen years is that their operating forces conform to objective laws, those of commodity economy development in particular. Our recent survey of 10 township enterprises in the five Jiangsu and Shanghai counties (cities) of Wuxi, Taicang, Zhangjiagang, Shanghai, and Jiading proves this point. Township enterprises certainly now have more flexible operating forces than large- and medium-sized state-owned ones. These enterprise forces can be summed up as the ability to produce, market, set prices, accumulate, and develop all on one's own, and to assume the full responsibility for both one's profits and losses. These flexible operating forces can be seen in the following five areas:

1. Profit-Risk Forces: China's township enterprises are generally all collectively-owned ones that were funded and established by working peasants in local townships or villages. The true masters of these enterprises are their workers and managers, whose fates and profit relations are closely linked to those of their enterprises, in that the enterprises receive no state allocations or subsidies, and are independently accounted and solely responsible for both their profits and losses in the true sense of the words. While township enterprise staff members and workers are truly concerned about their enterprises, seeing them as the basis for their own subsistence and improved living standards, so are very enthusiastic workers, statistics for township enterprises in the Jiangsu and Shanghai areas show that even though they have doubled and redoubled in number since the 70s, about

40% of them have still been shut down or merged. This shows that township enterprises are truly responsible for both their profits and losses, and contain profit-risk forces for both their workers and managers;

2. Flexible Labor Management Forces: Township enterprise staff members and workers are mainly former peasants. The inherent profit-risk forces in township enterprises give them flexible labor management forces.

Township enterprises generally use the method of advertising for and signing work contracts with staff members and workers, with some enterprises making recruited workers temporary or probation workers at first, and then signing formal employment contracts with them later. Plant managers have the authority to recruit and hire staff members and workers based on need, and also to fire those few who refuse to mend their ways despite repeated admonitions, or show up for work but do not exert themselves. This labor management system that allows freedom of hiring and firing puts a certain amount of objective pressure on staff members and workers, which pressure translates into motivation. Plant managers have considerable decision-making power over the use of enterprise cadres, which can be summed up as the power to promote the most capable, accept those of average capability, and demote those with inferior capability, so that enterprise cadres do not sit in "iron (absolutely secure) chairs." Plant managers can appoint cadres within their factories, as well as reassigning them at any time based on their achievements;

3. Independent Management Decision-Making Forces: Independent management decision-making forces are the basis for the existence and growth of township enterprises. Township enterprises are established in response to market demand, and practice market-oriented economies in which markets are relied on for both raw materials and sales. This means that they must have independent decision-making forces, which are mainly as follows:

A. Fast Decisionmaking: As township enterprises have fewer "mother-in-laws" (connection dependencies) and less decision-making links, they can make decisions faster. For instance, the Qianzhou Printing and Dyeing Mill in Wuxi, Jiangsu usually takes only one or two days to make a decision after receiving information. This mill was built and put into operation in 1979 with 2.24 million yuan in funding, which assets have now increased in value to 7.35 million yuan. In addition, it also runs three small mills and supports seven units in three poverty-stricken villages, which gives it a combined output value of over 200 million yuan a year, or one-quarter of the whole town's gross output value. These are all the results of its independent decision-making power. Many township enterprise plant managers report that their actions are limited only by their imaginations.

B. High Quality: The major basis for township enterprise market stability is high product quality. All of the plant managers in our 10-enterprise survey have a strong

quality consciousness, regarding quality as their very lifeblood. They practice the responsibility system, use material means, and do all they can to improve product quality. The Deer River Western-Style Clothing Plant in Taicang, Jiangsu has gradually established TQC network points all the way from its plant headquarters to its work shops, teams, and groups, with 25 full-time quality control personnel throughout the plant, accounting for 7 percent of its staff members and workers, and has established quality control points throughout its working processes, all the way from raw materials, designing, cutting, sewing, buttonhole lockstitching, sorting, and ironing to packing. It conducts professional inspections all the way from semi-finished products and manufactured goods to storage, and practices piece-rate wages linked to production, and quality vetoes. It stipulates that all production process errors must be returned for repair, with pay deductions for those responsible. All returned clothing from the sales process guarantees return, exchange, or repair to consumers, and costs plant inspectors fines of four yuan, which gives the plant a semi-finished product return rate of less than 0.8 percent, an ex-factory return rate of less than 0.01 percent, and a specifications validity rate of 100 percent. During 1990's market slump, not one of its 550,000 products was overstocked, while it earned profits of 3.24 million yuan, and had labor productivity as high as 27,139 yuan per worker.

C. Diligent Development: The existence and growth of township enterprises depends not only on quality, but also on paying attention to new product development and timely readjustment of product mix. It is understood that in Zhangjiagang City, where textiles account for 45 percent of all output value, only six months were needed to completely readjust product mix in the midst of 1990's market slump. The Deer River Western-Style Clothing Plant in Taicang has acted in the spirit of "developing 100 different products to suit 100 different customers," and has practiced a new product development attitude of "when there are no customers, I can find some; when there are customers, I can provide quality; and when there are many customers, I can change to suit them." It has worked hard to develop new products, taking generally less than 25 days from new product R&D and design to production and marketing, so that it has developed an average of over 20 new products a years in recent years, and achieved a new product output value rate of 85 percent. Rapid new product development by township enterprises depends on 1, mastering information 2, arousing the initiative of scientists and technicians 3, diligent production and quick sale and 4, using profit incentives.

D. Solid Technological Upgrading: As township enterprises generally use old, obsolete equipment of state-owned enterprises when they are first set up, they have a great potential for technological upgrading. In the 1980's, township enterprises focused on self-accumulation, by going all out to upgrade their technology and import advanced equipment and technology.

As all decisions on technological upgrading in township and village enterprises are generally made by enterprise leaders, with even large projects costing more than 1 million yuan simply having to be reported to township industry corporations, opportunities can be seized to make timely upgradings. For instance, as the monosodium glutamate factory in Zhangjiagang brought in and used all of the most advanced domestic technology and techniques, its equipment has basically reached an advanced level for the industry, and it is among the best in its industry as far as its two general assessment indexes, so that it has grown from a small factory to the third largest in China.

E. Brisk Sales: As many township enterprises practice suiting measures to individual personnel, dividing up and contracting the work, basing pay on sales, overall floating wages, and pay based on quality for their supply and marketing personnel, the incomes of their supply and marketing personnel are generally higher than those of their other staff members and workers, being twice as high or even more in some cases. Township enterprises also emphasize sales service, taking the initiative in customer service, by delivering goods to customer doorsteps, producing small-lot and diversified-specification orders on demand, and delivering goods on schedule. Plant managers have the authority to deal with all specific problems in the marketing process, in order to speed up commodity sales.

F. Strict Management: Township enterprises have now gradually changed their management of expanded reproduction from extensive to mostly intensive tapping of latent potentials. The 10 surveyed township enterprises have all paid particular attention to business management. All of the factories have stipulated strict quality and materials consumption targets, and have set up two-level accounting systems. For instance, the rolled steel manufacturing mill in Zhangjiagang has manufacturing costs that are more than 15 percent lower than those for the industry. The Qianzhou Printing and Dyeing Mill in Wuxi uses 8,000 tons of coal a year, strictly calculating its input-output rate. And the Guangming Electric Light Socket Factory in Jiading drew up 11 measures in 1990 to increase income and cut expenses, which cut expenses and reduced costs by over 1 million yuan.

G. Streamlined Administrative Structure: Township enterprises have internal administrative structures based on need, unlike state-owned ones that are geared to the needs of higher-level responsible departments. The 10 surveyed township enterprises generally had only six or seven administrative offices, with few personnel and streamlined administration. Managers in township and village enterprises now account for only about 8-10 percent of the staff members and workers in the whole plant, or about 8% less than in state-owned enterprises. Combined statistics for the 10 enterprises surveyed show a total of 8,722 staff members and workers, of which only 435, or 7.28 percent, are managers, such as office staff and cadres. Streamlined administrative structures

with skilled staffs reduces internal consumption and wrangling, by improving administrative efficiency while lowering costs to increase economic efficiency.

4. **Distribution-According-to-Work Forces:** Township enterprises generally practice piece rate wage systems, or floating or partially floating payrolls, in which wages, bonuses, and welfare benefits fluctuate with efficiency, so that their staff member and worker wages plus bonuses plus welfare benefits generally add up to less than that in state-owned enterprises. In the 10 surveyed township enterprises, the ordinary monthly wage was 70 or 80 to 100 yuan, with bonuses of about 150 yuan. For instance, the average annual income for workers in township industrial enterprises in Shanghai Municipality in 1988 was 1,480 yuan, or 18.7% lower than the 1,820 yuan for county-run state-owned industries, 21.1 percent lower than the 1,875 yuan for county-run collective industries, 25.9 percent lower than the 1,996 yuan for collective industries in the two light industrial systems in the city proper, and 34.2 percent lower than the 2,247 yuan for local state-owned industries throughout Shanghai.

The distribution-according-to-work forces in township enterprises also operate for scientists and technicians, making it easy to attract and keep them, in order to make up the shortages of S&T capabilities in township enterprises. The Qianzhou Printing and Dyeing Mill in Wuxi now has 80 scientists and technicians, or over 15 percent of its workforce. Its constant development of new products has given it a series of products with a 1990 output value of 15.77 million yuan and profits of 1.74 million yuan.

5. **Market-Oriented Pricing Forces:** As township enterprises use a basically market-oriented economy, and their major products are consumer goods for everyday use and some capital goods parts, but not key state means of production or subsistence, their prices are fairly deregulated and basically market-oriented, being able to fluctuate as long as they do not exceed maximums, with a fairly lenient policy as far as certain slow-selling products are concerned. For instance, while the electric light sockets and bulbs sold by the Jiabao Lighting Equipment Corporation in Jiading County are better in quality than others in the field (having won ministerial level quality awards for eight consecutive years), their lower selling prices have increased their sales. When product sales were slow for the Zhonglian Rug Factory in Taicang County, it reduced its prices to increase sales, by selling at preferential prices in remote border regions, and making concessions for customers who ordered large volumes and for fixed-quota markets. Using pricing forces to stimulate sales, this factory raised its output, output value, and profit indexes 26.2 percent, 43.8 percent, and 12.5 percent, respectively, over the previous year.

III

Township collectively owned industrial enterprises certainly have considerable advantages over large- and

medium-sized state-owned industrial enterprises as far as operating forces are concerned. We recommend that township industrial enterprise operating forces be introduced to large- and medium-sized state-owned industrial enterprises as follows:

1. **By Establishing Free-Hiring-and-Firing Labor Management Forces:** Enterprises should have independent decision-making power over hiring and firing, including quantities and qualifications. The worker recruitment process could be first temporary employment, then contract employment, and finally basic employment, which would enable enterprises to adjust their hiring to production demand, while arousing worker initiative. In order to keep from losing state macroeconomic control, higher-level planning departments could assign annual worker recruitment targets to enterprises, within which plans enterprises would not have to go through any examination and approval procedures by higher-level or responsible departments. Surplus personnel or discipline violators within enterprises could either go into the waiting-to-be-employed system within enterprises or be fired.

2. **By Establishing Distribution Forces That Are Linked to Enterprise Efficiency:** As a major defect of large- and medium-sized state-owned enterprises is "everyone eating out of one big pot," township enterprise forces should be introduced, in order to definitely link enterprise staff member and worker distribution to enterprise economic efficiency. Staff member and worker wages and bonuses should be higher for enterprises with better efficiency, and lower for those with poorer efficiency, with income disparities being widened among regions and enterprises, as well as among staff members and workers within enterprises. From now on, the state should only strengthen its control and management of enterprise consumer funds according to law, and should no longer have to make national wage adjustment plans for enterprise staff members and workers.

Wage and welfare fund structures should be appropriately readjusted. Enterprises should not overguarantee the welfare of their staff members and workers, in order to keep from having too heavy burdens, so that enterprise welfare funds can be appropriately reduced in both volume and scope of application. On the other hand, wage funds (including all types of bonuses) could be appropriately increased, in order to encourage staff members and workers to buy old-age insurance and housing.

3. **By Establishing Operating Forces With More Independent Decision-making Power:** Except for those state-owned enterprises that produce the key means of production and subsistence, most others can operate just like township enterprises in having independent production, marketing, and pricing decision-making power, being solely responsible for both their profits and losses, and accumulating and developing on their own.

Except for having to pay taxes and turn over profits at the legal rates, enterprises should have the authority to budget and use all of their fixed and circulating funds. Moreover, based on market demand, they should have the authority to make timely adjustments in their product mixes and prices, and to take appropriate sales measures in the interests of their continued existence and growth.

4. By Establishing Market-Oriented Decision-Making Forces: As state-owned enterprises are owned by the state, and responsible government departments must be able to intervene in many areas of enterprise management decisionmaking, we propose that ownership be separated from management for state-owned enterprises. The administration of enterprise ownership, i.e. state property, should be the responsibility of special state-installed organs, while operating authority, i.e. planning,

production direction, finances, product price-setting, product marketing, cadre appointment and dismissal, and worker firing within enterprises, should be completely under enterprise control. Moreover, enterprises should be given independent decision-making power in line with current government laws and regulations. In order to achieve this separation of enterprise management from government administration, the microeconomic control functions of the current state administrative responsible departments, which are installed in industries and trades, should be gradually weakened, without which it will be very hard for enterprises to acquire independent management decision-making power.

Attachment: Tables of Data Collected in Survey of 10 Rural Collective Industrial Enterprises in Shanghai and Jiangsu

Table 1: Conditions in 10 Rural Collective Enterprises in Shanghai and Jiangsu for 1990; Unit: 10,000 Yuan

County	Enterprise Name	Basic Conditions						Operating Conditions			
		Number of Staff Members and Workers	Number of Managers	Fixed Assets	Investment Funds	Wages and Bonuses		Output Value	Sales	Taxes	Profits
						Total	Yuan Per Worker				
Jiading	The Joint Light Bulb Factory	2,503	168	3,252	2,140	612.0	2,445	5,601	7,205	372	1,252
	The Three-Division Rubber Plant	1,082	62	571	406	207.5	1,918	2,785	2,436	72	215
Shanghai	The Velveteen Headquarters Plant	824	75	1,329	1,122	288.04	3,496	7,671	7,534	249	632
	The Automatic Control Equipment Factory	200	17	313	98	90.5	4,525	1,670	1,670	74	221.7
Wuxi	The Qianzhou Printing and Dyeing Mill	768	64	735	617	160.00	2,083	1,577	1,491	78	174
	The Ganlu Valve Factory	924	82	641	516	147.18	1,593	1,944	1,862	85	155
Zhangjiagang	The Acrylics Textile Mill	450	40	425	540	106.98	2,377	1,499	1,851	195	108
	The Monosodium Glutamate Headquarters Plant	1,258	82	2,735	973	294.0	2,337	8,176	7,712	576	200
Taichang	The Western-Style Clothing Plant	537	30	392	136	129.35	2,409	2,045	2,082	76	153.8
	The Zhonglian Rug Factory	176	15	1,526	789	25.5	1,449	2,298	2,173	103	54.4

Table 2: Conditions in 10 Rural Collective Industrial Enterprises in Shanghai and Jiangsu for 1990; Unit: 10,000 Yuan

County	Enterprise Name	Profit Distribution Conditions						Remarks
		All Funds	Income Tax Payments	Enterprise Accumulation	Profits Paid to the State	Bonus Funds	Welfare Funds	
Jiading	The Joint Light Bulb Factory	135.5	434.7	70.1	123.4	16.7	48.8	
	The Three-Division Rubber Plant	77.7	67	2.5	15	53.1		
Shanghai	The Velveteen Headquarters Plant	53.1	270.7		43.5	70.6		
	The Automatic Control Equipment Factory	27.5	105.3	73.9	65	6.7	2.2	
Wuxi	The Qianzhou Printing and Dyeing Mill	50.1	32	42				
	The Ganlu Valve Factory	51	28	25	10			
Zhangjiagang	The Acrylics Textile Mill	11.1	48.3	18.9	15	5.4	2.7	
	The Monosodium Glutamate Headquarters Plant	32	11	6.1	3	1	0.5	
Taicang	The Western-Style Clothing Plant	40.6	73.2	44.2	11.1			
	The Zhonglian Rug Factory	23.9			5			

Enterprise Study Group Makes Reform Suggestions

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[Article by the Chinese Enterprise Reform and Development Research Society's Study Group: "Thirty Suggestions on Perfecting the Socialist Enterprise System (Manuscript Soliciting Comments)"]

[Text] **Editorial Note:** Enterprises are the national economy's cells. They are the origin of productive strength and are the ones to give expression to the socialist system. Enterprises' energy is the basis of the national economy's energy. Since reform, measures have been taken to expand enterprises' right to make decisions and so on, so that they now have much more vitality than before the reform, but it is still far from meeting the objective needs of economic development. Today, there is an abnormal phenomenon as reflected in the state-run enterprises' lack of vitality compared to the township enterprises and the foreign-funded enterprises [FIEs]. The crux of the problem is, in the transition from the old to the new system, the state-run enterprises' operating mechanisms are under a lot of constraints, so that they cannot give play to their socialist superiority. Thus, increasing enterprise vitality is not just an important economic issue but also a major political issue.

Many issues are involved in increasing enterprise vitality. It is a systematic project. We need to tackle the existing problems and adopt measures to deal with the symptoms, but more importantly, we have to take measures to deal with the enterprise system itself in order to effect permanent cure. In the 1960's, the Party Central Committee and

the State Council promulgated "Seventy Articles for Industries," and they were very effective. On that basis, the Chinese Enterprise Reform and Development Research Society has gathered a group of experts and scholars to make a broad study of different types of enterprises, and aiming to effect permanent cure of enterprises' woes, they have drafted this "Thirty Suggestions on Perfecting the Socialist Enterprise System" (Manuscript Soliciting Comments.)

We hope that theoreticians and entrepreneurs will discuss the issue and come up with ideas or essays to help revise or supplement this article. Please send responses to GAIGE's editorial department or the Chinese Enterprise Reform and Development Research Society (Address: 22, Bajiao Road A, Shijingshan District, Beijing; postal code: 100043.) After consolidation and further improvements, the suggestions will be sent to relevant leaders of the Party Central Committee and State Councils for consideration.

I. Smooth Out the Property Rights Relations; Establish Enterprises' Profit and Risk Mechanisms

Article one: Separate government and enterprises and separate government from assets—that is, separate the government's administrative and management functions from its duty to manage the state-owned assets.

We should set up different types of investment entities at each level under the state-owned asset management commission (or administration.) These should include investment companies, large enterprise groups, investment banks and so on. These investment institutions are enterprises in the investment business and are responsible for improving investment efficiency. Each year, they must complete a profit-making quota based on

different profit to investment ratios. They will be in charge of investing in the state-run, production-type enterprises and will exercise ownership rights over the assets.

Article two: Put the principle of separation of profits and taxes into practice.

Taxes are enterprises' obligation to the government. In principle, all types of enterprises should be treated equally before the state's tax laws; the tax categories and tax rates should be relatively stable. Profit is the benefit due enterprise investors. In order to protect the investors' interests, taxation should not replace profit, nor should taxation squeeze out profit. Taxation and profit are in different economic categories; each belongs in its own channel. Only in this way can we meet the objective requirements of the planned commodity economy.

Article three: Put the principle of separation of investments and loans into effect.

Separating investments and loans means making a distinction between investment behavior and borrowing behavior. Only if state-owned investment companies or other investment entities invest in the state-run enterprises can they have ownership rights in state-run enterprises. Loans have to do with lending and borrowing and should not be mixed up with investments. Loans which are used for investment should be borrowed and repaid by people who are doing the investing, and after the investment transforms the loans into enterprise assets the investors are entitled to those assets. After government is separated from assets, in principle, we should implement the system of after-tax debt payment. Interest payment on investment-oriented loans and funds used to repay debts can only be offset by the investors' share of profit. To delineate the relationship between investments and loans, it is best to let the investment companies take out loans on their own before they invest in enterprises.

Article four: Implement on a trial basis the shareholding system that is based primarily on the public-ownership system.

As the socialist commodity economy develops, enterprises should operate more like corporations by turning themselves into limited liability companies or shareholding limited companies. When companies practice the shareholding system, they will facilitate the delineation of property rights, facilitate fund gathering for enterprise development, help forge enterprise lateral ties, and also help to standardize the enterprise system. The state can retain controlling interest in important enterprises that concern the national economy and the people's livelihood through the investment companies and thus control the direction of enterprise development.

Article five: Implement the "Bankruptcy Law" and install a risk mechanism in enterprises.

We should step up the development of the unemployment insurance system, and upon completing that, we should put the "Bankruptcy Law" into effect, thereby installing a risk mechanism in enterprises and at the same time make it possible for enterprises to lay off surplus workers.

II. Perfect Enterprise Management Mechanisms and Truly Let Them Make Their Own Management Decisions and Take Responsibilities For Their Own Profits and Losses

Article six: We should make sure that enterprises have the right to make management decisions within the scope of simple reproduction. This includes the right to make production plans, the right to set prices, the right to make sales decisions, the right to make purchase decisions, and on the condition that enterprises' total asset value will not be jeopardized, the right to dispose of equipment and facilities.

Article seven: Change the state's mandatory plans into direct order for goods.

In accordance with state plans, the commodities department, the commerce department, and the foreign trade department should order goods from the production enterprises directly. Contracts should be signed to stipulate the rights, responsibilities, and privileges of both sides. The production enterprises are obligated to complete the state's purchase orders first.

Article eight: Guarantee enterprises' right to make their own management decisions within the scope of expanded reproduction.

A certain percentage of enterprises' profit distribution should be designated by law as accumulation fund or self-accumulation fund. Enterprises should have the right to determine different rates of depreciation for different types of assets and have the right to obtain a science and technology development fund based on the amount of total sales. The above money becomes their development fund which will give them the ability to make improvements and to develop on their own.

Enterprises should have complete right to determine the use of their own development fund. They can decide to spend the money on their own technological improvement or on their own capital construction projects, or they can invest the money elsewhere.

Article nine: Expand enterprises' right to deal with foreign countries in trade and economic and technological cooperations.

We should expand the scope of enterprises' foreign contacts. To unite against the outside and prevent enterprises from competing against each other and cut prices and so on, we should adopt the guiding principle of forming a united front against the outside on a voluntary basis. First, existing foreign trade companies should adopt the shareholding system and invite relevant enterprises to buy shares to create joint commercial and

industrial entities. Second, we should develop voluntary, democratically managed trade associations which will play a role in coordinating actions to unite against the outside.

Article ten: With respect to organ installation and personnel arrangement, enterprises should have complete right to make their own decisions. Government departments should not interfere.

III. Reform the Labor System and Cadre System To Firmly Establish Enterprises' Autonomous Rights in Internal Labor Organization

Article eleven: We should firmly establish the socialist principle that enterprises are "joint bodies of free and equal producers" and eliminate the workers' hired-hand mentality. When a worker enters an enterprise, it is the result of the free choice of both the enterprise labor group and the individual laborer. Once he joins, and after a certain period of mutual observation, he becomes a regular worker of that enterprise and a equal member of its labor group and is entitled to the rights and obligations as master, and the entire staff of workers shares the fate of the enterprise.

Article twelve: Enterprise workers include those who perform mental work and those who perform physical work. The line between workers and cadres should be removed. From factory directors to managers, technicians, and first-line workers, all are "enterprise workers." There should be one set of wage standards. Workers can be promoted or demoted and may come and go.

Article thirteen: Enterprises' staff assignment and recruiting procedure should be determined by enterprises alone, without government interference. The recruiting process should not be subject to regional or time limits, nor should there be rigid government assignment. As much as possible, enterprises should diversify operations to accommodate the surplus workers. If it is not possible to make other arrangements, the surplus workers can look for other work or be temporarily laid off and receive unemployment insurance.

Article fourteen: Enterprises should adopt a system that consists of three classes of workers—regular workers, contractual workers, and temporary workers. Regular workers should sign a democratically drafted "labor contract" and agree to abide by the contract terms. Those who violate the terms and refuse to make amendments despite repeated education may be dismissed and their contracts canceled. All newly recruited workers will be put under the contract system, but they can become regular workers if they are deemed qualified after the contract term expires. Those who violate the contract and refuse to heed warnings will have their contracts canceled and be dismissed. Regular workers are the official members of the enterprise's labor group. They have full rights and obligations in the enterprise's management. They are eligible for election as official representative at the Workers' Congress and exercise the rights

and privileges of masters. Contractual work is probationary in nature. Contractual workers are eligible for election as nonvoting delegates at the Workers' Congress. They have the right to speak, criticize, and make suggestions, but they do not have voting right. Temporary workers have to sign a "temporary work agreement." They have no management rights or responsibilities.

Article fifteen: We should democratize labor management and set up a "Labor Committee" under the Workers' Congress. Members of the Committee should be elected by the Congress. Those in charge of enterprise party committee's organizational department and enterprise's personnel and labor department are natural members of the Labor Committee and may assume leadership positions. The Labor Committee's functions and duties have to do with worker recruitment, appointment, contract cancellation, and signing of labor contracts and so on. It is also responsible for arbitrating labor disputes, but it should not interfere with the existing workers' appointment and dismissal, promotion or demotion, job assignment and other administrative affairs.

IV. Perfect the Encouragement Mechanisms and Give Full Play to the Workers' Role as Enterprises' Masters

Article sixteen: Encourage the workers to buy stocks.

When we turn enterprises into corporations and delineate the property rights, we should also encourage workers' stock participation. Because they are enterprises' main body, the regular workers must own shares. Stock participation is a privilege as well as an obligation. By sharing in the profit as well as the risks, the entire staff of workers will share in the fate of the enterprise.

The workers' share are registered shares. There should be a quota on minimal shares and maximum shares per person, and the difference should not be too big. The shares can neither be transferred nor inherited, and those who leave the enterprise must give up their shares.

The workers may own only a limited number of their own company's stock. They own shares and do the work, which in essence turns the enterprise into a cooperative. When dividends are distributed according to shares owned, it represents the fruit of collective labor. Nobody is taking the surplus value created by someone else. Thus, this kind of shareholders' equity should be called "workers' cooperative equity" and is a form of public-ownership. Through stock participation, the workers are directly linked to some other factors of production, linking the stock to the workers' hearts. This will give the workers a stronger sense of responsibility as masters.

Article seventeen: Implement a whole-staff management responsibility system.

The current factory director's or manager's personal contract does not actively bring into play the masses of workers' sense of responsibility as masters. It should be changed into a whole-staff contract system. Enterprises

that are not contractors should also give play to the enthusiasm of the whole staff. Specifically, we should increase the Workers' Congress' power to make decisions. All major enterprise management decisions (such as annual plans and important technological transformation program) should be examined and decided by the Workers' Congress. Enterprises that have adopted the management responsibility system under the leadership of the board of directors may give the role of board of supervisors to the Workers' Congress and let the Congress nominate workers to the board of directors.

Article eighteen: Implement a two-tier distribution according to work system.

Two-tier distribution according to work: The first tier is distribution according to work by society of the fruits of labor produced by enterprises collectively. This means taking enterprises' gross sales, net output value, or gross profit tax as base to obtain a total enterprise consumption fund based on a fixed percentage which may differ for different trades and industries, although there will be no ceiling or floor to the actual amount. The second tier of distribution according to work is the distribution within an enterprise of the total amount of consumption fund it has obtained. How much will be spent on collective welfare, how much each individual will get, and specifically how the money will be distributed to individual workers according to work will be determined democratically by enterprises collectively without government intervention.

Article nineteen: Establish a comprehensive personnel and labor management system and vigorously train all workers to improve their quality.

Enterprises should integrate the recruitment, training, evaluation, promotion, and transfer of workers to create a comprehensive personnel and labor management system to encourage the workers to improve themselves. Workers who make a good effort to learn and who perform well not only should be rewarded but should be promoted on the fast-track to encourage the workers to try harder.

Article twenty: Make the welfare institutions enterprise-oriented and society-oriented.

To eliminate the appearance that "enterprises are running society," we should create the conditions to enable the welfare institutions to become more enterprise-oriented and society-oriented. The transitional method may be to set up "service companies" inside enterprises to provide benefits and services through separate, enterprise-like operations. When conditions ripen, we can then become more society-oriented and provide society-wide welfare such as medical care, retirement, and unemployment insurance.

V. Perfect the Enterprise Leadership System and Foster Proper Relationships Among the Party, Government, Workers, and the Masses

Article twenty-one: In accordance with the principle of separating the party from the government as established by the Third Plenary Session of the 11th Party Central Committee, enterprise leaders should not be appointed or dismissed the same way as government officials. To run an enterprise properly, we need leaders who have ability and integrity, but we also need stability. Thus, the terms of enterprises' important leaders need not be fixed, nor should there be a mandatory retirement age like that for government officials. Instead, there should be an annual evaluation of their work. People who fulfill their duties may keep their jobs, and the higher-up departments in charge cannot transfer workers arbitrarily, and those who do not fulfill their duties can be dismissed.

There are several ways to choose a factory director (manager): One, the department in charge can make a suggestion, and if ratified by the Workers' Congress, the person can be appointed or dismissed. Two, the Workers' Congress can nominate or recruit someone; its choice will be submitted to the department in charge for approval. Three, the board of directors or the Workers' Congress makes the appointment.

Article twenty-two: Implement a highly-centralized factory director (manager) responsibility system which is based on democratic decision-making.

The factory director (manager) should be a modern socialist entrepreneur who has integrity as well as ability. He is the leader whom the entire staff of workers supports and he is the head of enterprise production management and administration. He occupies the central position in the enterprise. When it comes to an enterprise's production and management decisions, the factory director (manager) should formulate a program, and after discussed, revised, and ratified by the Workers' Congress (or board of directors,) he is responsible for putting that program into effect. In everyday production and management activities, the factory director (manager) is the supreme commander, and the entire staff of workers must observe discipline and obey his orders and command.

Article twenty-three: Give full play to the Workers' Congress' democratic decision-making and supervisory roles.

The Workers' Congress is an effective form of workers' democratic management in a socialist enterprise. When it comes to enterprises' important production and management decisions, it is not enough that the Workers' Congress has the right to "examine and discuss" but no right to "examine and decide." Only if the Workers' Congress has the right to make decisions on important matters can we give expression to the characteristic of socialist enterprises where workers are their own masters. Moreover, only if there is input of "mass wisdom" can there be input of "mass effort." After the factory

director (manager) comes up with a program, if it is ratified by the Workers' Congress, it becomes the wish and the responsibility of the entire staff of workers, and this will provide strong backing for the factory director (manager) when he puts the program to work.

Article twenty-four: All socialist undertakings should be placed under the leadership of the party, and socialist enterprises no doubt should also insist on the party's leadership. But the party is a political organization while enterprises are economic organizations, and when it comes to organizational system, the two should never be mixed together. Enterprises' party organization should be the core of political and ideological leadership and should play a role in guaranteeing and supervising enterprises' production and administration. To put this principle into practice, we can adopt the following method: Assuming that the Workers' Congress has decision-making rights on important issues, if the party committee secretary is supported by the workers, he can be elected chairman, and the union president can be elected standing vice chairman, of the Workers' Congress. The party committee should make the unions its assistant in leading and educating the masses of workers in correctly exercising their democratic rights and privileges as masters and let the unions help in making important enterprise decisions. The party committee's assurance and supervisory functions are also exercised through the Workers' Congress. If the party committee secretary is not elected chairman of the Workers' Congress, it only shows that party work still has the tendency to alienate the masses. The enterprise party committee should diligently review and draw lessons from its experiences, and if necessary, the higher-up party committee can reorganize the enterprise party committee.

Article twenty-five: Enterprise trade union is a mass organization representing the workers. It is a grassroots unit of the All-China Federation of Trade Unions and is the bridge and the link between the party and the masses. The principal tasks of the union during the period of socialist development is to organize and educate, under the party's leadership, the masses of workers in exercising their rights and privileges as their own masters and emerging themselves in socialist undertakings as masters. On the other hand, the union should also be concerned about and should protect the workers' legal rights and privileges and should strengthen the workers' ideological and political education and help develop enterprises' cultural and spiritual civilization.

VI. Create Conditions To Facilitate Fair Competition Among Enterprises and Improve Enterprise Quality By Allowing the Superior To Eliminate the Inferior

Article twenty-six: We need to take further steps to apply the principle separating government from enterprises and make sure enterprises have independent management rights. State-run enterprises should be given the same independent management mechanisms found in township enterprises and FIEs. Government departments, especially those in charge of enterprises, should

make enlivening enterprises their norm and turn interference into support and overhaul their enterprise management methods. While reducing its direct interference in enterprises, the government should vigorously streamline administration, reduce the scale and the scope of some comprehensive management departments and business administration departments and transfer the better cadres to work in enterprises.

Twenty-seven: We should restructure the tax system and separate taxation from profit. State-run enterprises, township enterprises, and the FIEs should have the same tax burdens so as to reduce the state-run enterprises' tax burden and enhance their ability to accumulate and make improvement on their own.

In order to stabilize the tax burden, the installation of relevant tax categories and the adjustment of tax rates should be examined and approved by the National People's Congress or its standing committee.

Article twenty-eight: It is essential that the state extends the "two-exemption and three-reduction" preferential policy toward township enterprises and FIEs. But some favorable terms and policies of assistance should also be formulated to help accelerate the development of those state-run enterprises that urgently need to be developed and which have possibilities of getting into the international markets.

Article twenty-nine: We should promulgate a "Fee Collection Law" and "Law on Fines" prohibiting the arbitrary collection of fees from enterprises and arbitrary apportionment. There should be strict regulations on the collection of fees and fines to prevent possible acts of corruption. Enterprises should be encouraged to support civic undertakings, but a limit should be set. For example, they can contribute a certain percentage of their after-tax profit but must not overspend.

Article thirty: We should abolish all contests or promotions or similar activities sponsored or support by government departments. It is necessary for the government to supervise and check on enterprises, but the central authorities, local governments, and departments should take unified action to avoid redundancy. Certain types of supervision and examination, such as audits, are already conducted routinely, and it is not necessary to organize major check-ups of a similar nature, so as to lighten the burden on enterprises that have to deal with these procedures.

Increasing enterprise vitality is the central link in the whole process of restructuring the economic system. Since it is the central link, all other reforms must proceed around this link. In other words, they must make increasing enterprise vitality their foothold and their starting point. The above thirty suggestions are the crux of enterprise reform, but they involve many macrostructural issues. Thus, their implementation will require

corresponding reforms in the planning, financial, taxation, banking, labor, personnel, commercial, economic and trade, asset management and other macro management systems.

State Enterprises, Joint Ventures Compared

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[Article by Hao Jinhuan (6787 6027 2719), Luo Yongtai (5012 3057 3141), and Sun Gengjie (1327 2577 2638): "A Comparison of the Operating Forces in Large- and Medium-Sized State-Owned Enterprises and the Three Kinds of Foreign Trade Enterprises"]

[Text] As large- and medium-sized state-owned enterprises have lacked vigor and had poor economic efficiency in recent years, how to revamp them has become a crucial matter of general concern to the whole party and the whole people. We think that the key to revamping these large- and medium-sized enterprises will be to change their operating forces.

As the vigorous growth of the three kinds of foreign trade enterprises (joint ventures) in recent years has focused attention on the superiority of their distinctive operating forces, we have found it necessary to make a comparison of the operating forces in large- and medium-sized state-owned and joint-venture enterprises, in order to explore ways to change the operating forces and enhance the vitality of large- and medium-sized state-owned enterprises.

I. Comparison of Economic Efficiency

Survey data shows that efficiency indicators are all higher on the average for joint-venture enterprises than for state-owned ones. For Tianjin in 1989, per-worker output value was 70,900 yuan for joint ventures, 26,500 yuan for state-owned enterprises, and 30,000 yuan for large- and medium-sized enterprises, and per-worker profits and taxes were 6,600 yuan for joint ventures, 4,700 yuan for state-owned enterprises, and 5,000 yuan for large- and medium-sized enterprises, including 27,900 yuan for joint ventures in the No. 1 Light Industry Bureau, or 7.6 times that of the bureau's average for all enterprises. The disparity was even greater in 1990, when per-worker output value was 75,400 yuan for joint ventures, 26,400 yuan for state-owned enterprises, and 29,700 yuan for large- and medium-sized enterprises, and per-worker profits and taxes were 7,400 yuan for joint ventures, 3,800 yuan for state-owned enterprises, or one-half as much as for joint ventures, and 4,600 yuan for large- and medium-sized enterprises, or 60 percent of that for joint ventures (See attached Table 1 for details).

Table 1: Comparison of Key Economic Indicators for Tianjin in 1990

Indicator	Unit	Joint Ventures	State-Owned Enterprises	Large- and Medium-sized Enterprises
Overall Labor Productivity	10,000 Yuan	7.54	2.64	2.97
Per-Worker Profits and Taxes	10,000 Yuan	0.74	0.38	0.46
Average Wages	Yuan	4,073	2,099	2,201
Fund-Profit Margin	%	14.0	12.0	13.0
Output Value-Profit Margin	%	5.2	3.7	3.8
Sales Income-Profit Margin	%	5.5	4.0	4.3
Ratio of Marketing Costs to Sales Income	%	6.0	0.5	0.54
Ratio of Enterprise Retained Profits to Profits and Taxes	%	66.0	19.8	15.0

Notes: 1) This table is based on data from the Tianjin Municipal Statistics Bureau. 2) Joint-venture enterprise retained profits refers to aftertax profits. As deductions from aftertax profits for the three funds and distributable profits can both be used for enterprise development and staff member and worker welfare, this rate is comparable here to state-owned enterprise retained profits.

Operating efficiency was even more outstanding for a few of the surveyed joint ventures in comparison to that for state-owned enterprises. For instance, the Tianmei (fruit delicacies) Food Company Ltd., a Sino-foreign joint venture in Tianjin, has achieved astonishing growth in just a few short years, with its sales turnover having jumped from 300 tons in 1987 to over 4,000 tons by 1990, for aftertax profits of 16 million yuan, and its 130 enterprise staff members and workers creating taxes and profits of 200,000 yuan per worker, while the over 1,000 staff members and workers in its shareholding factory, the state-owned Great Wall Food Products Factory, earned only a little over 1 million yuan in profits. The Smith-Kline Pharmaceuticals Company, another joint venture in Tianjin, with 261 staff members and workers, or only 10 percent of those in Tianjin's pharmaceutical industry, had 10 times the profits and 30 times the output value of other pharmaceutical companies in Tianjin for 1990, with a per-worker output value of 700,000 yuan and per-worker profits and taxes of 250,000 yuan. While this huge disparity is admittedly caused by many factors, the key one is that joint ventures are completely market-oriented, in that they have acquired full management decisionmaking power, used foreign scientific management methods, and evolved exceptionally distinctive enterprise operating forces.

II. Comparison of Operating Forces

1. Comparison of Production, Supply, and Marketing Systems

Enterprise operations must be commodity economy-based and market-oriented, with a spirit of pioneering initiative in adapting to market demand, being competitive, developing potential markets, and pushing forward with enterprise production developments. In order to achieve this, enterprises must have the basic qualifications of being economic entities with 1) independent interests and 2) independent decisionmaking power. Only when equipped with these two basic qualifications can they take an active part in market competition, make corresponding responses to market fluctuations, and make independent production, supply, and marketing planning decisions that are based on economic principles.

As joint ventures are equipped with these two qualifications, they have evolved a market-oriented, competitive production, supply, and marketing system, which can be summed up as follows:

1. Its driving forces are aimed at a single-purpose striving for the maximum profits in its own interests, and it has the pressure of being responsible for its own risks, as well as the restraint of using its own resources;
2. It has market competition powers and capabilities, such as market options, development authority, sales authority, price-setting authority, sales channel options, production authority, purchasing authority, investment and fundraising authority, and product, technology, and personnel development authority. In short, it has the independent decisionmaking power necessary for competitive production operations;
3. It has flexible sales measures suited to market competition, with unrestricted marketing costs. For instance, while the ratio of marketing costs to sales income was 6 percent for Tianjin's joint ventures in 1990, it was only 0.54 percent for large- and medium-sized state-owned enterprises, or less than one-tenth that for joint ventures;
4. It is in full accord with the laws of competition, in that it is subject to the rule of elimination through competition, in which the best succeed and the worst are eliminated.

All of the joint ventures with high economic efficiency have emphasized market orientation, sharp competition, and a close integration of production with sales promotion. For instance, the rapid growth of enterprises, such as Tianmei and Smith-Kline, was due completely to the rational production and marketing plans based on market information feedback that were made by its highly-organized sales promotion staff. Market sales personnel, who make up over one-half of the managers in both of these enterprises, have had to open up several new markets a year according to plan, establish stable wholesale sales networks, and use diversified sales

methods, which have basically left their enterprises with no product inventories and speeded up fund turnover.

As large- and medium-sized state-owned enterprises have a poor sense of market-oriented competition, and a production, supply, and marketing system that is still in a stage in which administrative and market systems coexist, they do not have true decisionmaking power, and are subject to too much administrative interference, which can be seen mostly in the following areas:

1. The owners, managers, and workers in state-owned enterprises have inconsistent profit objectives, irrational profit distribution, and inconsistent driving forces, with neither market or risk pressures, dependency on administrative backing, and responsible departments that can take from the most efficient to prop up the least efficient;
2. State-owned enterprises do not have independent decisionmaking power, or the necessary rights and capabilities, such as price-setting authority, to take part in market competition. For instance, the Tianjin Fujin Co. Ltd., formerly the Tianjin Plywood Mill, found that its products were in short supply and great demand for a time, so applied to the higher authorities for a price increase, which was granted six months later, by which time the market had slumped, causing slow sales. Since it was turned into a joint venture, it has been able to adjust its prices at will, doing so twice in the first half of 1990 alone;
3. State-owned enterprises are subject to restrictions and a lack of leeway in sales channels and marketing techniques, so are unable to compete with joint ventures;
4. State-owned enterprises are not subject to the laws of competition, or to elimination through competition.

Therefore, in order to change the operating forces of large- and medium-sized enterprises, we should draw on the experience of joint ventures, by giving them full decisionmaking power, and supporting and pushing them toward markets, instead of doing all we can to interfere in them in all areas. Moreover, the enterprises themselves should change their concepts, and stop "waiting, depending, and demanding," and being dependent on administrative organs. State-owned enterprises must become market-oriented, in order to improve their production, supply, and marketing system.

The key to independent management decisionmaking power is separating government administration from enterprise management, which has been difficult to accomplish in the last dozen years for the following reasons: 1) In our system of administration, the function of government organs is still the traditional one of

managing enterprises, which has not been cut back through complete reforms; 2) Administrative organs and leaders in all areas invariably meddle in enterprises out of either a reluctance to devolve authority or habit. They still employ various forms of tricks every year, such as checking before acceptance, deciding on awards through discussions and contests, and choosing outstanding workers for promotions, in order to lure enterprises into striving to remain administrative appendages; 3) National laws, regulations, policies, and institutions conflict with independent enterprise decisionmaking power; 4) Our still imperfect market forces make it impossible for enterprises to act in a market-oriented way. Conflicts of interests in areas, such as our dual-track pricing system and planned goods allocation, procurement, subsidization, and loan allocation, leave certain enterprises still drawing on support from administrative forces for the benefits they cannot get from markets, which makes them subject to administrative interference.

2. Comparison of Enterprise Organizational Leadership Systems

As organizational leadership in joint ventures is not subject to any restraints, so that leadership systems, decisionmaking forms, and organizational bodies can be chosen on one's own initiative, the leadership system in joint ventures is usually the plant manager responsibility system under the leadership of a board of directors with independent decisionmaking power. Installation of administrative staff is completely based on market and production operation needs, and personnel deployment is based on job needs, with conspicuous emphasis on the principles of capability and efficiency, which suits organizational system operations to the demands of effective decisionmaking, rational division of labor, and efficiency. For instance, the Tianjin Jinrong Company Ltd. has 440 staff members and workers, with almost 40 management cadres divided among six production operation technical departments, so that the work assigned to only five administrative personnel is equal to that done by a number of departments in state-owned enterprises, such as labor-capital, administration, security, technology installation, and labor unions. But its shareholding factory, the Jinhua Radio Factory, has 1,390 staff members and workers, 86 cadres above the section chief level, almost 300 second-level managers, and over 20 party, government, worker, and CYL administrative offices. As the installation of many of these administrative offices is geared simply to the needs of the higher authorities, there is a severe problem of overstaffing, which leaves the principles of results and efficiency out in the cold.

Having analyzed the organizational systems in surveyed joint ventures, we can sum up their common features as follows:

1. Their leadership systems have been perfected, with decisions and commands being put into effect quickly, and rights and duties being distinguished clearly.

2. Their organizational structures are streamlined and flexible, with clearly distinguished administrative levels and vertical and horizontal relations.

3. Their leaders and subordinates at all levels are appointed level by level, with each level having the right to hire, fire, reward, and penalize, and functionaries being skilled enough to hold several posts simultaneously.

4. Personnel in leading posts at all levels are deployed singly, with no deputies.

5. Market and sales departments hold especially important positions. For instance, the Smith-Kline Co. Ltd. in Tianjin regards its market, sales, and medical departments as a coordinated process. Its market department studies strategic problems, its sales and medical departments deal with strategic problems, while its medical department is also directly involved with consumers, by explaining pathologies, providing advice, and speeding up sales.

The organizational leadership system in large- and medium-sized state-owned enterprises has the following major imperfections:

1. In addition to having no real leadership decision-making power, the leadership system itself—the plant manager responsibility system—has still not been truly put into effect, and there has still been no clear rationalization of the interrelations among party, government, and workers, or among their respective functions;

2. Leading cadres are appointed by higher authorities, with subordinate leaders having no decisionmaking power over the hiring and firing of their personnel, which makes it hard to achieve selection and elimination through competition;

3. The leadership at all levels has too many deputies, so that authority is decentralized and the command structure is in chaos;

4. Administrative organs are rigidly overstaffed, with complex interrelations and poor efficiency;

5. Market, marketing, and service departments have unsound organization, with too few personnel and too little proficiency, so that it is hard to carry out market, marketing, and service functions.

Such an enterprise organizational leadership system makes it impossible for enterprise management mechanisms to operate effectively;

3. Comparison of Personnel and Internal Distribution Systems

We have made a comparison of the personnel and distribution systems in effect for joint ventures and large- and medium-sized state-owned enterprises for Tianjin in 1990 (See Table 2).

Table 2: Comparison of the Operating Forces in Large- and medium-sized State-Owned and Joint Venture Enterprises

Indicators	Average Monthly Wage (Yuan)	Per-Worker Profits and Taxes (10,000 Yuan)	Dismissal Rate (%) Per 100 Staff Members and Workers	Average Wage Differential (Yuan)
Type of Enterprise				
Large- and medium-sized State-Owned Enterprises	130	0.46	0.1	12
Joint Ventures	320	0.74	1.8	56

This table shows the huge differences between these two types of enterprises, with joint ventures having 1.5 times higher average monthly wages, 0.6 times higher per-worker profits and taxes, 17 times higher dismissal rates, and 3.6 times higher average wage differentials, than large- and medium-sized state-owned enterprises.

Joint ventures have the following personnel and distribution system features:

1. **Higher Pay:** Joint ventures pay higher wages and bonuses, have more welfare benefits, and even provide perks, such as "red packages" (gifts of money) and profit-sharing, in some cases

2. **More Pressure:** They practice a quality recruiting system, in which qualified personnel are hired and promoted and unqualified ones are rejected or demoted, those with merit are rewarded and those who make mistakes are penalized even to the point of being dismissed, and discipline is strict and impartial, with violations having to be investigated and everyone being treated equally without discrimination, so that everyone feels a sense of crisis.

3. **Less Personnel:** Both cadre and worker staffs are streamlined and jobs are commensurate with capabilities, so that everyone works at full load.

4. **More Drive:** The first three features make everyone work conscientiously, responsibly, and with focused effort. Moreover, the greater wage differentials are even more motivating.

5. **Higher Efficiency:** The average labor productivity and profit-tax rates both illustrate this. The personnel and distribution systems of large- and medium-sized state-owned enterprises are exactly the opposite of those in joint ventures, being characterized by lower pay, less pressure, more personnel, less drive, and lower efficiency.

For instance, the Tianjin Plywood Factory was one of China's earliest medium-sized enterprises to make plywood. Before it was turned into a joint venture, it had 1,025 staff members and workers, 29 departments and shops, 136 managers, average staff member and worker incomes of 131 yuan a month, and a plywood production capability of 300,000 cubic meters. It sustained losses of 4.359 million yuan in 1989 and 3 million yuan in the first half of 1990, with outstanding loans of 12 million yuan, so that it was heavily in debt and facing bankruptcy. It became a joint venture in July 1990, by

converting part of its assets into an investment of \$2.4 million, attracting \$1.6 million in investment from the U.S. TAT Corp., and establishing the Tianjin Fujin Co., which used new personnel and distribution systems. This company has observed the principles of "fewer but better, being rigorous, meticulous, and pragmatic" and "fewer links, more functions, and higher efficiency." It has clarified its division of labor and rights and duties, reducing its former 29 departments and shops to four departments and four branch factories, cutting back its managers to 49, and starting out with only 522 personnel. It has practiced "structured wages," with average wages of 335 yuan, up to a maximum of 687 yuan, provided free lunches daily, presented holiday and birthday gifts, and provided its surplus staff members and workers and idle workers separation pay equal to 100 percent of their former wages. It has practiced strict and impartial discipline for its employees, such as making them line up and sign their names on attendance cards when changing shifts, setting proficiency assessment targets, keeping man-hours, and firing both parties to fights. After successfully importing key equipment and technology, this enterprise, which used to lose 500,000 yuan a month, became a profitmaker in one leap. In the first quarter of 1991, it earned 2.16 million yuan in profits, and made 1.5 million cubic meters of plywood a day, or more than five times its previous output.

4. Comparison of Self-Accumulation and -Development Forces

While enterprise self-accumulation of retained profits is admittedly related to enterprise management quality, the heavy burden on enterprises of taxes and fees, and the irrational percentage of retained profits, are also key factors in enterprise self-accumulation. We will first make a comparison of the taxes and fees paid by state-owned and joint-venture enterprises.

The burden of taxes and fees on state-owned enterprises is as follows:

1. **Pre-realized profits (included in costs) tax categories:** real estate, vehicle and ship, land, stamp, and resource taxes.

2. **Realized sales tax categories:** business, added-value, and urban construction taxes, and education fee surcharges.

3. Special fund tax categories: energy, transportation, construction, and budget balance fund taxes.

4. Realized profit tax categories: income and regulatory taxes.

5. Realized bonus tax categories: bonus taxes

6. Other: fees for things, such as greening, neighborhood support, general sanitation, and academic support, and charges by departments, such as local police stations, the Armed Forces, traffic police, power departments, and communications departments.

But joint ventures pay only a business tax of 3.21 percent of their sales turnover, while enjoying the after-profit preferential tax policy of "two exemptions and three reductions by half." Moreover, joint ventures pay less charges. For instance, the Tianjin EDZ Management Commission has excluded them from almost all social charges. A comparison of retained profits by state-owned and joint-venture enterprises shows that the general ratio of retained profits to all profits and taxes is 15 percent for large- and medium-sized state-owned enterprises, but 66 percent for joint ventures (See Table 1). Moreover, all joint venture retained profits can be considered self-accumulation to be used for increased investment with the consent of investors.

From the perspective of compensation accumulation for simple reproduction, the general depreciation rate for state-owned enterprises is about 5 percent, part of which must be turned over to the state, while being about 10

percent for joint ventures, or at least twice as high as for state-owned enterprises. Moreover, large- and medium-sized state-owned enterprises have outdated equipment that is in its final stage of use, lower productivity, heavier burdens for overhaul and upgrading, and severely inadequate compensation accumulation, while their overspending on medical costs and welfare funds squeezes out their development funds. Joint ventures have newer and more advanced equipment that is in its early stage of use, higher productivity, and lighter burdens for overhaul and upgrading, which enables them to use funds, such as depreciation, for circulating funds, and reduces their loan interest burdens. In addition, joint ventures have younger staff members and workers, which means no overspending for medical costs and welfare funds, while state-owned enterprises are extremely short of circulating funds, have no depreciation funds with which to supplement this shortage, rely on loans that increase their interest burdens, and overspend on medical costs and welfare funds, which squeezes out their development funds. Therefore, state-owned enterprises have a very limited capability to rely on deducted funds and enterprise retained profits for self-development.

For instance, the Tianjin Aluminum Alloy Plant is a medium-sized state-owned enterprise that makes aluminum alloy molds and door and window products, and has earned profits and paid taxes of 140 million yuan since 1982. Its collections and expenditures of its own funds according to state stipulations from 1982 to 1990 can be seen in the following table:

Table 3: Collections and Expenditures of Own Funds by Tianjin Aluminum Alloy Plant from 1982 to 1990; Unit: 10,000 Yuan

Self-Owned Funds	Replacement and Upgrading	Overhaul	Development Funds	New Products Development	Reserves	Welfare	Bonuses	Other	Totals
Collections	1,352	819	230	170	14	323	504	361	3,773
Expenditures	1,288	384	335	182	12	836	502	98	3,637
Surpluses	64	435	-105	-12	2	-513	2	236	186

This table shows that this plant collected 37.77 million yuan of its own funds from 1982 to 1990, or only one-quarter of its profits and taxes. This includes welfare fund overspending of 5.13 million yuan, or 158.8 percent more than collected. In 1990, it collected 360,000 yuan in welfare funds, while actually paying out 1.41 million yuan, with the overspending coming out of replacement and upgrading, overhaul, and reserve funds. Since it imported its equipment in 1982, it has never replaced or upgraded it, so that by 1990, the net value of its fixed assets was only 20 million yuan. As such an efficient enterprise became a mere "empty shell" in just a few short years, conditions are even more severe for those that are losing propositions. Statistics show that over 45 percent of Tianjin's medium-sized state-owned enterprises are in such shape.

As to fundraising channels, since large- and medium-sized state-owned enterprises have only one channel for

raising replacement and upgrading funds, i.e., bank loans, and some new products require long investment periods, it is very hard for them to repay such loans with interest. While some state-owned enterprises with good replacement and upgrading efficiency are able to repay these loans, their responsible departments, in order to hit their profit and tax targets by taking from the most efficient to supplement the least, do not allow them to repay on schedule, which leaves these state-owned enterprises operating in debt, with heavy interest burdens. Joint ventures do not suffer from so much interference by responsible departments, and also can raise funds through diversified channels (including overseas ones).

In addition, state-owned enterprises are loaded with long and overly elaborate application procedures for replacement and upgrading projects, while joint ventures can make decisions on replacement and upgrading projects

as long as their boards of directors have studied them, undergo simpler and shorter procedures, and can start up faster. For instance, before the Tianjin Fujin Co. became a joint venture, it had to get the approval of its responsible bureau and report to the city planning commission in order to buy more than 100,000 yuan worth of equipment, which procedures dragged on for one or two years. But after it became a joint venture, it imported 9 million yuan worth of equipment in only one month, and put it into operation in only two months.

III. Suggestions

The crux of our enterprise reforms in the 90s will be to change our enterprise operating forces, i.e., to convert the administrative operating forces of a product economy first to the independent decisionmaking forces of a market economy, and then further to intensive operating forces. Having compared the operating forces of large- and medium-sized state-owned and joint-venture enterprises, we are making the following suggestions on ways to accomplish this operating forces changeover:

1. We Should Separate Government Administration from Enterprise Management, So That Enterprises Will Have Genuine Rights. Our comparisons further clarify that the formation of independent management decisionmaking forces in enterprises depends on giving them independent management decisionmaking power. This will mean analyzing the types of improper administrative interference in enterprise independent management decisionmaking power, and where it comes from. We must track it down in all sectors, from the center to localities, and then take complete reform steps to reduce the administrative structures, functions, and jurisdictions of these administrative departments. Moreover, we should consider giving enterprises two veto powers, i.e., over interference and charges, in order to give them legal and political guarantees of independent management decisionmaking;

2. We Should Perfect Our Market System and Intermediate Regulation and Control Methods. Our market imperfections make it impossible for enterprises to exercise the independent management decisionmaking power that they have. We should take the following steps to perfect a socialist uniform market: 1) We should strengthen our market system on one hand, by establishing markets for things, such as commodities, materials, labor, money, technology, and information, and on the other, by breaking down the separatism and regional blockades in our market system, opening up marketing channels, making corresponding reforms in our local guaranteed revenue payments system, and practicing tax-profit separation, in order to establish a socialist uniform market system; 2) We should perfect our market forces, by using the law of value correctly, readjusting our price relations, gradually deregulating prices, developing fair competition, eliminating preferential, protectionist, and special policies, and opposing improper sales methods and unfair competition; 3) We should perfect

all of our intermediate state macroeconomic regulation and control levers and measures, and guide our enterprises to become market-oriented, in order to give them fully independent management decisionmaking rights;

3. We Should Rationalize Enterprise Property Rights Relations, By Establishing Enterprise Motivation and Restraint Forces. While our state-owned enterprise property rights relations have been irrational for years, containing both theoretical and ideological issues as well as actual operation feasibility problems, they involve unavoidably basic questions about whether government administration can truly be separated from enterprise management and whether enterprises can acquire motivation and restraint forces. We are in favor of a shareholding system, which can basically resolve the problem of enterprise motivation and restraint forces. The bureaus (departments) and companies in the State Administration of State Property exercise state property ownership rights, truly speaking for and safeguarding the rights and interests of property owners. We should establish a national State Administration of State Property Commission, to be led and appointed by the NPC, with its relations with the State Council being equality and coordination, which would carry out the national economic and social development plans passed by the NPC, and pay into state revenue each year a certain amount of assets management profits. Property management bureaus at all levels would be under the vertical leadership of the State Administration of State Property Commission;

4. We Should Adjust Our Organizational Leadership Organs, Product Mix, Production Technology Structure, and Personnel Composition To Make Them More Market-Oriented. The first thing that we will have to do to change the operating forces of our large- and medium-sized state-owned enterprises will be to change their concepts, by making them more market-oriented, enhancing their market and competition mentalities, and establishing market aims. This will mean adjusting their enterprise organizational leadership organs, enhancing their market and marketing organs, and strengthening their decisionmaking organs. They should rely on market aims to adjust their product mixes, develop new products, and eliminate old ones, and then go on to adjust their product organizational and technological structures, tap latent internal potential, and carry out replacement and upgrading, in order to adapt to product variety development, improve quality, and lower costs. They must take conscientious steps to adjust their personnel composition, bring the role of talented personnel into full play, and raise the technological and production management and administration levels of their staff members and workers, in order to enhance their enterprise stamina;

5. We Should Reform Our Personnel, Labor, and Wage Systems. Our comparisons show that personnel systems for both workers and cadres should be based on the principles of recruiting and hiring the most qualified, optimum disposition, choice by both employers and

employees, the ability to promote the most proficient and demote the least, and the legal right to fire or dismiss staff members and workers. Regarding surplus personnel, it would be better to make other arrangements or provisions for them, through social placement or relief, and establishing a social labor insurance system, than to continue overstaffing. Personnel proficiency must be strictly assessed (in areas such as hiring, appointments, promotions, and work achievements), with strict discipline, management, and rewards and penalties. Wages must be structured with larger differentials and links to efficiency, in order to make distribution more rational and provide incentives.

PROVINCIAL

Improving Shanghai's Service Industries

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[Article by You Zhenghua (1429 2973 5478): "A Thorough Analysis of the Economic Performance of Shanghai's Service Industries"]

[Text] As tertiary (service) industries are a key part of our national economy whose development affects our overall situation, this article will explore ways that are suited to Shanghai's conditions to improve the economic efficiency (performance) of Shanghai's service industries, based on an analysis of the performance status quo of Shanghai's service industries, existing problems, and the various limiting factors in service industry performance.

I. The Performance Status Quo of Shanghai's Service Industries

1. The Social Benefits From the Development of Shanghai's Service Industries

Shanghai's service industries have developed very rapidly since 1978, with their added value to our GNP reaching 22.939 billion yuan by 1990. Calculated according to constant prices, this was a 230 percent increase over 1978, for an average growth rate of 10.4 percent a year, which was much higher than the average growth rates for Shanghai's primary and secondary industries of 2.2 percent and 6.7 percent, respectively.

This higher growth rate for service industries has brought us at least the following four socioeconomic benefits:

1. It has laid the groundwork for a faster development of Shanghai's externally-oriented economy. In the 12 years from 1979 to 1990, the port of Shanghai accomplished things, such as increasing our port handling capacity by 75.5 percent, raising our goods freight volume by 36.3 percent, building 57 new hotels and eight new office buildings for foreign firms, setting up the Shanghai Stock Exchange, and putting into effect a wholesale land rental

system, all of which improved Shanghai's investment climate to a certain extent, and expedited either directly or indirectly Shanghai's transition to an externally oriented economy.

2. It has enhanced our production growth stamina and improved our people's living standards. In these 12 years, Shanghai raised its number per 10,000 population of commercial, catering, and service industry enterprises from 20 to 99 and hospital beds from 50 to 54, increased its number of TV channels from 2 to 5, and experienced great banking, insurance, S&T, and educational developments. This service industry growth has played an enormous promotional role not only in our current social production growth and Shanghai's economic prosperity, but also in speeding up Shanghai's future development;

3. Service industry growth has had a certain production-inducement or multiplication effect on other industries. In these 12 years, Shanghai invested 27.784 billion yuan in service industry capital construction, or 36.1 percent of our capital construction investment. This service industry growth has provided vast markets for our primary and secondary industries.

4. Service industry growth has had a higher employment-inducement effect, by absorbing much of the public workforce. In these 12 years, Shanghai's service industry workers increased from 1.492 million to 2.1813, or 46.2 percent. Service industries have accommodated much of our public workforce, which has contributed to our social stability.

2. The Economic Performance of Shanghai's Service Industries

Along with the increase in their social benefits, service industries have also improved their economic performance. Per-worker added value (GNP) in service industries increased from 3,402 yuan in 1978 to 10,569 yuan by 1990, for an average increase of 9.9 percent a year, which far exceeded the 3.6 percent growth rate for secondary industries. While per-worker added value in service industries was only 49.5 percent that of secondary industries in 1978, it had been raised to 96.6 percent by 1990.

But economic performance is very uneven among service industries. Except for being relatively outstanding in the banking and insurance sectors, economic performance prospects are certainly not optimistic in other sectors.

The relevant statistical data shows that the overall improvement in economic performance in Shanghai's service industries was propped up mainly by the banking and insurance sectors. Excluding the added value in these two sectors, the per-worker added value in service industries for the six years from 1985 to 1990 was only 5,323 yuan, 5,590 yuan, 6,180 yuan, 6,960 yuan, 6,442 yuan, and 7,415 yuan, respectively. Beginning in 1986, this prop-up rate by the banking and insurance sectors

was more than 20 percent, reaching 44 percent and 42.5 percent, respectively, for 1989 and 1990.

We should be able to see from a further analysis that this service industry economic performance by structure is a very complex matter. As most of the growth in service industries, such as education, literature and art, television broadcasting, sports, health, and social welfare, indirectly promotes social advances and brings overall improvements in socioeconomic benefits, while all of these sectors require state revenue support, we cannot base our judgements of them simply on their direct economic performance alone. Moreover, the added value in these sectors accounts for a very small percentage of our GNP. Their added value in 1990 was only 1.874 billion yuan, or 2.5 percent of Shanghai's GNP. The crucial point is that economic performance has improved slowly in recent years, and even declined in some cases, in sectors that should be producing direct economic benefits, such as commerce, catering services, communications and transportation, and post and telecommunications, while these sectors' added value accounts for about 15 percent of Shanghai's GNP. We will analyze below in detail the performance decline in certain key sectors.

—Commerce: Commerce has the most staff members and workers in Shanghai's service industries. While commerce had 432,900 staff members and workers in 1990, or 22.6 percent of the staff members and workers in Shanghai's service industries, commercial sector profits have experienced a sharp decline since 1985. Using a base of 100 for 1985, commercial sector profits were 73 for 1986, 50 for 1987, 32 for 1988, and beginning to dip into negative territory in 1989. The commodity management profit margins for these 6 years were 6.5 percent in 1985, 4.6 percent in 1986, 3.4 percent in 1987, 1.8 percent in 1988, -1.7 percent in 1989, and -2.3 percent in 1990.

—Catering services: While things were a little better here, the profit decline began in 1988. Catering service profits in the most recent three years for which statistics are available were 147 million yuan for 1988, 146 million yuan for 1989, and 142 million yuan for 1990, with the ratio of profits to business turnover being 12.2 percent for 1988, 10.5 percent for 1989, and dropping to 8.9 percent for 1990.

—Hotels: In the hotel industry, the occupancy rate is one of the key indicators of hotel management performance. Since 1985, the occupancy rate for Shanghai's major hotels has been declining year after year, having already dipped below the internationally recognized warning level of 60 percent by 1989.

—Communications and transportation: While the several transport price increases in recent years in the communications and transportation industry, the large increases in railway and water transport prices in 1989 in particular, have improved book-value performance in this industry, its actual performance is not so

ideal. An assessment of the 12 key economic and technical indicators for the communications and transportation industry since 1978 shows that performance was in a basically fluctuating trend from 1978 to 1986, reaching its low point in 1981 and its high in 1986, dropping again after 1986, and recovering somewhat by 1989, but overall remaining lower than in 1986.

—An overall evaluation of the economic performance of Shanghai's service industries: Summing up the statistical indicators of service industry economic performance and its fluctuations, we have reached the following overall evaluation of the economic performance of Shanghai's service industries:

1. In the 12 years from 1978 to 1990, while the overall economic performance of Shanghai's service industries improved somewhat, this overall performance improvement was propped up mainly by the banking and insurance sectors.

2. Excluding the banking and insurance sectors and certain years for the communications and transportation industry, the structural distribution of the economic performance decline in service industries was widespread and unusual. Judged by profit margins, the basic indicator of performance, performance declined in all sectors, the biggest decline being in commerce, and the next in the catering service categories of tourism and hotels.

3. Excluding the banking and insurance sectors, economic performance was far lower in service than secondary industries. While, as stated above, the per-worker added value in service industries was 96.6 percent of that in secondary industries by 1990, it was only 63.6 percent if the banking and insurance sectors were excluded.

II. The Causes of the Economic Performance Decline in Shanghai's Service Industries

The causes of the economic performance fluctuation and decline (excluding the banking and insurance sectors) in Shanghai's service industries since 1978, and the sharp consecutive years of decline in commerce and catering services in recent years in particular, are complex, many-sided, and multi-layered. While this decline has apparently been caused by various direct financial factors, such as increased consumption and costs and decreased profits and efficiency, its deeper causes are mostly a lack of competitive forces and imbalanced investment results within service industries.

1. Apparent Causes: The Financial Factors in Increased Consumption and Decreased Profits

The apparent causes of the decline in service industry performance are the direct financial factors that can be seen everywhere in economic actions. These factors have increased steadily in recent years, far exceeding the capacity of enterprises to bear or digest them, and

resulting in the decline in economic performance. The major factors in increased consumption and decreased profits are as follows:

1. Enterprise earnings have been shifted to the banking sector in the form of interest payments. Just as in industry, the amounts of fixed assets and circulating funds tied up in the development of all lines of service industries, commerce in particular, have increased rapidly. In 1989, the ratio of circulating funds to bank loans in the commercial sector was 1:6.47, with circulating fund loans by banks to the commercial sector being 26.53 billion yuan, or 4.5 percent more than to industry. Statistics show that interest payments accounted for 33.8 percent of commercial circulation costs in 1989, or 9.1 percent more than in 1988.

2. The wage raises for staff members and workers in recent years have increased enterprise costs. The nominal wages of staff members and workers in Shanghai's service industries have increased sharply in recent years. While staff member and worker payrolls in service industries were 2.327 billion yuan in 1985, they had increased to 5.574 billion yuan by 1990, for an increase of 140 percent in 5 years, and an average increase of 19.1 percent a year, or 5.6 percent more than the 13.5 percent average annual increase (calculated according to current prices) in added value for service industries during the same period of time. If payrolls had increased in synchronization with GNP, 1990 payrolls would have been 4.39 billion yuan, so that they were actually 1.184 billion yuan higher than they should have been (temporarily not considering here the external climate factor of consumer goods price rises).

3. The product price rises in primary and secondary industries have caused decreased profits for service industries. As to the commodity price index for replenishing commercial stocks, taking a base of 100 in 1988, the 1989 ex-factory price index for Shanghai's major manufactured goods was 121.53, with the procurement price index for agricultural sideline products being 124.7 while, as to the price index for commercial sales, the 1989 consumer price index was only 116.7, including 123.8 for foodstuffs, 108.3 for daily necessities, 115.8 for medicines and articles for medical use, and 100.2 for fuels. It is thus obvious that the commercial price index was higher for replenishing stocks than for sales. This resulted in lower gross profit margins for the commercial sector. The gross profit margins for Shanghai's state-owned commercial enterprises and supply and marketing cooperatives were 11.05 percent in 1980, 6.3 percent in 1989, and down to 4.5 percent by 1990, for a 6.6 percent drop in 10 years.

4. Business management expenses have increased sharply. In particular, unusual management expenses for group purchasing of consumer goods and payments for entertainment, commissions, and rebates have increased steadily. While nonbusiness-related expenditures for things such as pensions, have doubled and redoubled, certain other new increased expenses for things, such as

fixed- negotiated-price grain funds, and food subsidies for those without mess halls, have also been included in business expense accounts, which has held back enterprise performance.

5. Leasing and depreciation charges have increased.

6 The large overstocking of slow-selling, unprofitable, damaged, and substandard commodities have severely tied up funds and caused circulation stagnation.

2. Deeper Causes: The Causes of the Abovementioned Financial Factors in Increased Consumption and Decreased Profits

These deeper causes include microeconomic (enterprise) and macroeconomic (social) control, and are also complex, many-sided, and multi-layered. They can be seen mainly in the following two deficiencies in Shanghai's service industries: 1) a lack of rational fund use; 2) a lack of competitive capability in enterprises.

1. The major fund use problems are as follows:

A) While the overall investment in service industries has increased, the investment structure within service industries is irrational. The mutual conflict that is now surfacing in Shanghai's service industries is bipolar. One pole is the increased scope of investment (for instance, as to the investment in office buildings and hotels, Shanghai's 1989 vacancy rates were 12.4 percent for business-type office buildings and 47.1 percent for hotel rooms). The other corresponding pole is the severe shortage of investment (for instance, investment in urban infrastructures and communications and transportation). As the increased scope of investment makes it hard to bring investment performance into full play, while the severe shortage of investment prevents further improvement of economic performance, they have a joint impact of reducing the overall performance of service industries. At this point, we must consider the following problem: While Shanghai had a severe shortage of office buildings and hotels in the early 1980's, this shortage has been transformed into high vacancy rates after a decade of hard work. Meanwhile, we are still experiencing difficulties in areas such as urban infrastructures as well as communications and transportation, due to investment source problems. The statistical data on investment in office buildings and hotels shows that the percentages of self-raised funds, and of foreign investment in particular, are increasing steadily, with Sino-foreign joint or contractual joint ventures and wholly foreign-owned enterprises accounting for 72.7 percent of the business-type office building projects that were completed from 1980 to 1990 or those that are under construction, and for 78.3 percent of all such available rental space. While foreign investment in hotels began later, it has developed faster. While Shanghai had no hotels in the category of "the three kinds of foreign trade" enterprises (joint ventures) before 1985, it acquired two in 1986, six more in 1987 and 1988, and four more in 1989. The 11 joint-venture hotels that were or will be completed in 1990 and 1991 account for 68.8 percent of the major

hotels completed in these two years. It is thus self-evident that foreign investment has been a major factor in Shanghai's elimination of its shortage of office buildings and hotels in recent years. But sectors such as communications and transportation, and urban infrastructures, have long relied mostly on state investment. Although we have begun in recent years to make valuable explorations in using foreign investment to improve our urban infrastructures, with projects, such as the Nanpu Bridge and our subways, these have not yet produced results because they were started later.

B) Some funds have been "invested in name only." Much of our fixed-assets investment has been cancelled out by price factors, which has made investment added value contradictory to generated use value, and created a "nominally high" investment. As to the materials used in construction projects in recent years, such as cement, rolled steel, lumber, and sand, while state-plan supplies have decreased, enterprise purchases at high negotiated prices have increased, which has raised investment costs. For example, as to housing construction costs, Shanghai's average 1989 commercial housing construction costs (for renovating multi-storied dwellings in the old city proper) were 23.4 percent higher than in 1988 and 51.8 percent higher than in 1987.

2. As to competitiveness, the lack of competitive capability in Shanghai's service industries is another one of the deeper causes of their fluctuating and declining economic performance. Enterprises do not have strong structures and forces that motivate them to strive for better economic performance, which can be seen in the following two areas of their economic operations:

A) Shanghai's service industries still lack distinctive Shanghai qualities. As our commerce and catering services lack distinctive shops, projects, and services, and our cultural entertainment lacks distinctive, in-depth, and innovative cultural entertainment programs and contents, there are great consumer limitations on our residents and foreign tourists, which leaves us short on consumption. An analysis of the tourism expenditures of foreign tourists in Shanghai in recent years shows that there has been a sharp decrease in the average per-day, per-person tourist expenditures in the areas of food and entertainment, which decreased 18.8 percent and 90.4 percent, respectively, from 1987 to 1990. We need to pay attention to this decreasing consumer outlay.

B) Shanghai's service industries lack a creative management mentality, which can be seen in their imitative and stereotyped management. This leads on one hand to certain categories of commodities being in greater supply than demand, so that commercial earnings decrease or even turn into losses and, on the other, to difficulties in being able to find popular refreshments to buy, so that business is lost.

III. Ways To Improve the Performance of Shanghai's Service Industries

Based on this analysis, I am proposing immediate countermeasures to improve the economic performance of Shanghai's service industries, the major ones being making a more active use of foreign investment to build better urban infrastructures, enhancing service industry vitality to become more competitive, and speeding up reform of service industries to spur direct performance improvements in service industry sectors, such as S&T, health, and education.

1. Making More Active Use of Foreign Investment To Speed Up Urban Infrastructure Construction

Shanghai's outdated urban infrastructures are an old problem, which not only holds back the development of Shanghai's service industries, but even severely obstructs Shanghai's economic growth, about which no further details are necessary. The crux of the problem is how to raise funds to resolve it.

I think that the best way to solve this problem would be to open up broader funding channels, paying particular attention to making a more active use of more diversified forms of foreign investment. As to the major forms of foreign investment, in addition to borrowing from foreign governments and financial groups, we should take active steps to develop wholesale land rental business with foreign nationals. The facts have proved that utilizing land resources, introducing foreign investment to develop operations, and developing an externally oriented economy, are normal methods used by contemporary developing countries in the initial stage of their economic beginnings. While Shanghai has begun to practice wholesale land rental since 1988, its small volume and slow development have left it far from being suited to our urban development needs. Thus, in the 1990's, Shanghai should speed up its training of a group of well-experienced and quick-reacting wholesale land rental agents, speed up its pace of wholesale land rentals, attract foreign investment with massive land development, and gradually evolve more rational real estate prices through market competition. We should establish and improve land subleasing markets, with the banking sector expanding its real estate mortgage business, in an attempt to speed up the successful development of Shanghai's wholesale land rental and real estate markets.

2. On Enhancing Service Industry Vitality To Become More Competitive

1. Making service industries more competitive means paying particular attention to fully tapping existing competitive advantages and potentials. Shanghai's service industries actually have a large reserve of competitive capability. For instance, catering services have a great many traditional famous refreshments and dishes that are in urgent need of development. We must encourage catering services to develop popular refreshments and dishes, while exploring and developing distinctive refreshments, dishes, and services, and then developing a

number of distinctive, well-known, and quality shops. The state should aid this in the following ways: 1) by giving such shops preferential tax policies to support their development; 2) by providing support to areas such as the expansion of well-known, quality shops, and the establishment of chain stores, coordinating it with real estate reform, giving building- and other property-use preferences to well-known, quality shops with outstanding performance, and taking active steps to aid the development of such shops.

2. We should bring Shanghai's existing facilities and qualifications, such as neighborhoods and public squares, into full play, and organize certain night markets in fields, such as catering, clothing, small articles of daily use, repair, and flea markets, in order to enrich our people's lives, add to Shanghai's metropolitan distinction, increase business turnover, and improve service industry economic performance.

3. The quality of Shanghai's cultural entertainment must be improved, in order to being the role of Shanghai as a cultural center into full play.

3. Speeding Up Reform of Service Industries To Spur Direct Economic Performance Improvements in Service Industry Sectors, Such as S&T, Health, and Education

Having long been subject to state macroeconomic policy, many service industry sectors, such as health, education, and certain public utilities, have provided welfare-type public services, operating and developing on the basis of large state financial subsidies. Along with the gradual transition of China's socialist economy to a development model that combines planned economy with market regulation, as this form of operation no longer suits our current economic development needs, and has even become an obstruction to our economic growth, a task of top priority for the 1990's will be to change it as quickly as possible.

—As to health services, we should further reform our current labor insurance and free medical care systems, by rationalizing the relations between cost and value, expanding our medical insurance and medical cost contracting systems in breadth and depth, and appropriately increasing the cost to individuals, in order to improve our health care economic performance.

—As to education, we must encourage and develop the form of self-pay education, and gradually increase the ratio of self-pay students to all students.

—As to scientific research, we must strive to speed up our development of mental labor professions, such as S&T development and advisory services. Shanghai's current scientific research institutions create only 2-3 percent of our service industry GNP, which is very out of line with their existing S&T capabilities. It must be noted that even though our current scientific research institutions create such a small percentage of our GNP, they have great vitality and development strength. In 1990, Shanghai's state-owned sector had

861,600 specialized scientists and technicians of all types, and there were 765 independent R&D organizations throughout Shanghai. With such a huge amount of S&T capabilities, as long as the government provides support, emphasizes the application of S&T achievements to production, and expands Shanghai's technology, advisory, and personnel markets, it will be entirely possible to improve Shanghai's S&T development and advisory capabilities.

Heilongjiang Reviews 1991 Economic Performance

92CE0300A Harbin HEILONGJIANG JINGJI BAO
in Chinese 2 Jan 92 p 2

[Editorial by Zhang Junyong (1728 6511 0516) and Mou Weimin (3664 3634 3046): "Heilongjiang Province's 1991 Economic Performance Reviewed"]

[Text] Under leadership of the provincial CPC Committee and government, the entire province diligently implemented the spirit of the Seventh Plenary Session of the 13th CPC Committee, conducting out a thoroughgoing "quality, variety, and benefits year" campaign. Consequently, economic performance gradually moved beyond the revival of the fourth quarter of 1990 to the stage of steady development in 1991.

The province's GNP is likely to reach 70.1 billion yuan in a 4 percent increase over the same period in 1990 (figured at comparable prices, and the same applies hereinafter), national income amounting to 63 billion yuan in a 3 percent rise. This shows that the serious economic slide of 1990 has begun to ease, and that economic performance has entered a period of normal growth, thereby creating a fine beginning for implementation of the Eighth Five-Year Plan.

Rise in Overall Production Capacity of Agriculture With No Decrease in Output Despite Flooding and Waterlogging Disasters

Agricultural production in 1991 was built on the exceptionally large bumper agricultural harvest of 1990. The high starting point, large investments, early spring plowing and summer weeding, fast action, and good quality of agricultural work greatly enhanced ability to withstand natural disasters. In addition, the effectiveness of all measures produced a rise in overall production capacity that resulted in a fairly good harvest during a year of major natural disasters. Preliminary statistics show the gross output value of agriculture for the year will probably reach 23.94 billion yuan, down 2.4 percent from the same period in 1990; and that the gross output value of rural society will reach 39.76 billion yuan, up 3.1 percent from the same period in 1990.

A gross output of 216.45 billion tons of grain makes 1991 the second all-time high output year. Livestock industry production developed steadily. Preliminary estimates call for 3,678,000 head of large livestock animals in inventory throughout the province at year's end in a 5.6 percent rise over the same period in 1990. This includes

606,000 milk cows in inventory, up 12.2 percent from 1990 for an all-time high. For the first time since 1980, the number of hogs in inventory broke the 7 million mark. Outputs of principal livestock products such as wool, milk, meat, eggs, and poultry generally increased to play a major role in spurring the development of light industry and in steadying market prices. Township and town enterprises developed at a fairly rapid pace, a gross output value of 18.3 billion yuan being forecast for township and town enterprises for the year in a 13 percent increase over the same period in 1990, and accounting for 68 percent of the gross output value of agriculture. Gross income is forecast at 16.59 billion yuan, up 14.3 percent; and net profit is forecast at 1.12 billion yuan, up 10.9 percent.

Steady Upturn in Industrial Production; Slowing the Slide in Economic Returns

The province's industrial production showed balanced increase throughout the year, increasing 6.2 percent during the first quarter, 5.4 percent during the second quarter, 5.3 percent during the third quarter, and 5.1 percent from January through November over the same periods in 1990.

Accompanying the upturn in investment demand was an increase in output of most products associated with investment. Output of industrial boilers increased 10.7 percent; metal cutting machine tool output increased 71.3 percent; and internal combustion engine output increased 295.4 percent. Output of light and textile products rose and fell; output of some products used to support agriculture gradually increased; and output of television sets increased 16.4 percent. Bicycle output increased 15.3 percent; chemical fiber output increased 13.5 percent; dairy product output increased 25.7 percent; electric refrigerator output decreased 22.6 percent; cigarette output declined 5.2 percent; and output of chemical fertilizer, pesticides, and small tractors increased 3.9, 59.8, and 120.6 percent respectively.

With the upturn in production, industrial economic returns improved. In April, a month-by-month decline began in the degree of cumulative decline in profits and taxes of industrial enterprises within local budget throughout the province. By September, profits and taxes realized amounted to 1.197 billion yuan, up 0.4 percent increase for a reversal of the 20 month-long negative growth that began in January 1990.

Total Social Supply and Total Social Demand Substantially Equal in Overall Economic Terms

Three years of improving the economic environment and rectifying the economic order effectively controlled the overly rapid growth of total social demand for an improvement in the relation between supply and demand. Preliminary estimates in terms of current prices show a total social supply of 107.1 billion yuan in 1991, up 7.2 percent over the same period in 1990, and a total social demand of 113.1 billion yuan, up 5.9

percent from 1990, total supply and demand counterbalancing each other. The 5.6 percent greater demand than supply is substantially within the normal range.

In the realm of investment demand, preliminary estimates show a likely investment of 18.89 billion yuan in fixed assets for society as a whole in 1991, up 16 percent from the same period in 1990, and markedly higher than the 3.9 percent increase of 1990. The overall upturn in investment generally corresponded with the economic upturn, and the pattern of investment also tended to be rational.

In the realm of consumer demand, following the overheating of the economy in 1987 and 1988, the consumer market rapidly cooled in 1989 and tumbled into a trough during the first quarter of 1990. Thanks to the economic upturn in 1991 and the increase in urban and rural residents' income, consumer demand gradually increased. During the period January through November, the total wage bill for staff members and workers throughout the province was 14.37 billion yuan, up 13.4 percent; bank disbursements for wages totaled 23.11 billion yuan, up 17.89 percent; and urban and rural residents' savings deposits amounted to 38.52 billion yuan in a 24.7 percent increase since the beginning of the year.

Prices and Financial Situation Stable; Economic Climate Relatively Relaxed

New strides were made in price reform. The exceptional bumper agricultural harvest of 1990, and the ample supplies of commodities in 1991 made for a fairly stable consumption psychology among the citizenry. Readjustment of the prices of basic products such as processed steel, pig iron, and crude oil, and of the market prices of grain and edible oil did not result in market fluctuations. The overall retail price index for the province during the period January through November rose 6.5 percent over the same period in 1990, receding 10.3 and 6.5 percentage points respectively from the 1988 and 1989 levels.

Reform of the foreign trade system produced preliminary results. Heilongjiang Province Local Products Fairs were held first in Guangzhou and then in Hong Kong. As a result of the "Economic and Trade Talks With the USSR and Eastern European Countries," which were held in June, in particular, Heilongjiang Province concluded deals totaling \$1.3 billion, which was 48.5 percent of the total amount of transactions concluded. As of the end of October, foreign trade enterprises' total losses decreased to 50 million yuan from the 240 million yuan of the same period in 1990 for a 79.2 percent loss reduction. Estimates call for imports and exports totaling \$1.8 billion for the whole year, up 21.1 percent from the same period in 1990.

Credit exerted a greater pull in economic growth. As of the end of November 1991, bank savings deposits for the province as a whole totaled 55.94 billion yuan, and loans outstanding totaled 77.97 billion yuan in a respective

11.42 billion and 11.85 billion yuan increase over 1990. The increase in credit was 420 million yuan greater than the increase in savings for a further narrowing of the difference between savings and credit.

Earnings of urban and rural residents continued to increase. With the upturn in the economy and the increase in grain and edible oil price subsidies, staff member and worker income increased. Estimates call for a total staff member and worker wage bill of 17.35 billion yuan for the whole year, up 13 percent from the same period in 1990. Monthly per capita cash income used specifically for living expenses of city and town residents will reach 104 yuan per capita, up 14.5 percent from the same period in 1990. In rural villages, peasant net income for the whole year is expected to reach 720 yuan per capita, up 5.3 percent from the same period in 1990.

The foregoing performance of the various links in the national economy shows the following: 1) substantial realization of all economic plan norms for the whole year under prevailing macroeconomic policies; 2) substantive changes in the economic climate as a result of 3 years of improving the economic environment and rectifying the economic order, with substantial fulfillment of tasks in improving the economic environment and rectifying the economic order; and 3) the province's national economy has now departed from the low speed idling stage of 1989-1990 to enter a stage of steady development.

FINANCE, BANKING

Banks Assume Historic Mission of Housing Reform

92CE0266B Beijing JINRONG SHIBAO in Chinese
1 Jan 92 p 2

[Article by Sun Lingyan (1327 0407 3601): "My View of the Historic Mission That Banks Are Assuming in Providing Necessary Services for Housing Reform"]

[Text] Editor's note: *China's economic reforms are going to be speeded up in 1992. As instruments of economic regulation and control, banks are going to have an increasing impact on this faster pace of reform. Banking feelers will be extended to broader fields of service, through which expansion people will have to sound out and grasp the economic pulse and direction. In light of this, we are starting a column at the beginning of 1992 entitled "An Overview of Banking," which will offer our readers a comprehensive analytical report on current banking services.*

On a recent news-gathering visit to Shantou City, Guangdong Province, I was highly impressed by its housing reform successes, with row upon row of new apartment buildings in the city proper, and one small residential district after another adding radiance and beauty to each other. The idea that housing is a commodity has been accepted by Shantou residents, with individual purchases accounting for more than 70% of commercial

housing sales. When Premier Li Peng came to Shantou on an inspection tour of the Feixia and Dongxia residential districts in October 1991, he said that "you have done a very good job of housing reform, which is consistent with the spirit of the conference that we held in Beijing" (referring to the Second National Working Conference on Housing Reform). When housing reform is brought up, the people of Shantou invariably attribute their success to the following:

That Housing Reform Is Inseparable From Banking

Having been a port city for 150 years, Shantou has a densely populated urban district, with the old city proper having a population density of 116,000 residents per sq km, so that housing is in extremely short supply. By the end of 1983, over 47% of its residents were either homeless or living in straitened circumstances with less than 2 sq m of living space per person, which left Shantou third from the bottom of the housing availability list of China's 324 cities. In such circumstances, Shantou began in 1984 to try out a "3:3:4" subsidization method for housing sales, i.e., the state and work units subsidizing 30% each, and individuals paying 40%, of housing construction costs (not counting profits), with individuals whose work units were unable to pay subsidies paying 70%. (This method was later changed to a "2:2:6" ratio.) In this way, the state used the money that it recovered from the sale of housing that it had built to build new housing. In the last seven years, Shantou has built 5.123 million sq m of new housing, of which subsidized sales accounted for 900,000 sq m.

It is naturally difficult for a work unit or an individual to come up all at once with enough money to build or buy housing. The Shantou branch of the Industrial and Commercial Bank of China (ICBC) took the lead among financial institutions in providing housing reform banking services, by raising and financing public housing funds, in order to enable the unpooled family income that was accrued by stages to meet the needs of pooled, one-time payments for housing purchases. In these few years, it has provided over 20 million yuan in housing loans and pooled work unit housing construction loans, which has helped to build 125,000 sq m of housing and enabled over 2,300 families living in straitened circumstances to move into new housing. The 11-member family of Wu Weize (who was the first to apply to the ICBC for a housing loan), which used to be crowded into one small 8-sq-m room, moved into a two-room, one-foyer apartment after receiving the loan, so now praises the bank for being a true friend in need.

According to the Five-Year Plan for National Economic and Social Development, urban residential living space will reach 7.5 sq m per person during the "Eighth Five-Year Plan," and 8 sq m per person by the end of the century. This will mean building 1.65 billion sq m of new housing in the next decade which, calculated according to 1990 fixed prices of 300 yuan per sq m, will require an investment of 450-540 billion yuan. Such a huge investment must be undertaken jointly by the state, collectives,

and individuals. As China has such low wages, this will require the following action by banks:

Bringing Banking Advantages Into Full Play in Providing Services for Housing Reform

Housing reform involves thousands upon thousands of families, whose direct credit relations are with banks. For instance, the variety of services provided to all areas by the ICBOC, such as urban residential housing savings and loans, business and institutional housing savings and loans, commercial housing development loans, business turnover loans to building materials enterprises, housing reform and real estate information and advisory services, and acting as agents in issuing housing bonds, are very well received by local governments, work units, and the public.

The Henan Province branch of the ICBOC focuses its funding on adhering to the priorities of coordinating housing reform and supporting housing production and consumption, provides preferential support to help large and medium-size enterprises make breakthroughs in raising housing construction funds, and uses its funding capabilities to support technological upgrading, local construction projects, accessory services, and the development of urban real estate and related sectors. Its real estate loan department has provided over 260 million yuan in loans to over 450 work units, over 30 development companies, and over 720 residents in the last three years.

In order for housing reform to begin, funds must first be made available. Attracting savings with loans is a widespread practice among all banks. While the Xian Haiyan TV Factory was a large enterprise that made lots of profits and paid many taxes, its staff members and workers lived in very straitened housing circumstances. The Xian branch of the ICBOC publicized to this enterprise the State Council's relevant provisions on housing reform on one hand, while helping to clear up its longstanding housing depreciation, general renovation, and welfare fund accounts on the other, which enabled the factory to deposit 1.1 million yuan in housing funds in the bank. Moreover, the ICBOC provided the enterprise with 2.7 million yuan in housing construction loans, which enabled the factory to pay for the building of 6,000 sq m of housing, to the great satisfaction of its workers. Since the last half of 1988, the Xian branch of the ICBOC has attracted 37.33 million yuan in separate housing funds, raised 600 million yuan for large and medium-size enterprises, helped to pay for the building of 240,000 sq m of commercial housing, and established Xian's first "Xian TV Factory Housing Savings Agency."

In providing this new service of housing loans, many savings receivers and loan providers have spared no pains, going straight to enterprises and residential households to publicize state housing reform policy and the ICBOC's real estate loan services, which has gained understanding and earned trust. By the end of September

1991, the over 900 branches that provide real estate loan services had attracted 8.22 billion yuan in savings, and provided 8 billion in commercial housing construction loans. This shows the following:

That Banks Have Bright Prospects

The Taiyuan branch of the ICBOC was one of the members of the Chinese delegation to the Fifth International Conference on Housing and Housing Guarantees that was held in Northern Ireland in October 1990. It presented at this conference a special "three-in-one" (i.e., staff members and workers raise one part, work units pay the second, and banks loan the third) scientific report on raising housing construction funds, which aroused much interest among the delegations from countries, such as the United States, Britain, Canada, and Japan, who noted that this was a good way for developing countries to solve their housing problems.

China's longstanding welfare-type urban housing system of low rents and high subsidies has become increasingly out of line with our national economic development, with many defects, such as neither economic forces to restrain irrationally increasing housing demand, nor ones to promote a good input-output cycle of housing funds. While the state has spent as much as 30 billion yuan a year since 1985 on urban residential housing construction and maintenance, there are still over 8 million families throughout China who are homeless or living in straitened circumstances, 5,000 sq m of dangerous housing and 600 million sq m of simply-built housing in critical need of upgrading, and 2 million newly married young couples a year who need housing. Such glaring problems cannot be solved without basically reforming our current housing system.

As housing reform commercializes housing, faster housing reform progress will be bound to speed up the development of a real estate economy and put increasing demands on the banking sector. Such demands will be focused in the following specific fundraising, financing, and management services: 1) Rationalizing and converting housing funds, by changing from uncompensated investment to compensated use, in order to gradually achieve a good input-output cycle and speed up housing construction and fund turnover; 2) Widespread fundraising and financing, in order to provide more public housing sources; 3) Providing good accounts settlement services for housing reform and the real estate industry. It is thus obvious that the banking sector will have to assume a heavy responsibility in promoting housing reform and developing the real estate industry. As relying on any one bank alone would not do, all qualified banking sectors will have to take part, by making a united effort to vigorously expand real estate banking, and assuming joint responsibility for the historic mission of housing reform.

Converting Funds Into Income Discussed

92CE0205A Chongqing GAIGE [REFORM] in Chinese
No 6, 20 Nov 91 pp 103-109

[Article by Zhou Shuxin (719 2885 2450): "An Examination of the Problem of Conversion of Funds Into Income—Discussion of the Multi-level, Multi-direction Tax Regulation of the Distribution of Returns on Assets"]

[Text] 1. **Income Inflation and Funds Shortage: Deep Thinking That the Issuance of Too Much Currency Occasions.**

Expansion of the money supply, which has directly caused sustained inflation in recent years, has become an unavoidable fact that has aroused extremely great concern among economic theoreticians. During the period 1980-1989, national revenue and GNP increased 3.56 and 3.53 fold respectively in current price for a respective 15.15 and 15.05 percent increase. During the same period M_0 (cash in commodity circulation), M_1 (M_0 + enterprise savings) and M_2 (M_1 + other savings) rose 6.77, 5.91, and 5.66 fold respectively in a respective 23.68, 21.81, and 21.24 percent annual increase. The currency supply as expressed by M_0 , M_1 , and M_2 grew much faster than the economy. Since currency may exist in the form of funds and revenue in the production process, an excess supply of currency is bound to have a major effect on revenue distribution and funds supply and demand.

Impelled by the desire for too quick results and high speed growth of the national economy, expansionist macroeconomic policies and relaxation in the wage, price, and commodity circulation systems, as well as an orientation of reform of giving greater authority and concessions to enterprises were all bound to lead to a severe overdistribution of national income. In 1989, China's national disposable income (at current prices) totaled 1.4785 trillion yuan versus 447 billion yuan in 1980 for a 3.31 fold increase, or 14.22 percent annually. This included a civilian cash income and an enterprise ultimate income of 994.7 billion yuan and 116.4 billion yuan respectively in 1989 in a 4.35 and a 4.77 fold respective increase over 1980, or a 17.75 percent and an 18.96 percent respective annual increase. This was much higher than the 15.15 percent increase in national income (figured at current prices), and the 11.78 percent annual increase in the social labor productivity rate for the same period. As a result of changes in the national revenue distribution pattern, national revenue excess distribution in 1989 amounted to 166 billion yuan in a 2.12 fold increase over the 78.2 billion yuan of 1980 for an average 8.72 percent annual increase.

The excess distribution of national revenue accompanying the relaxation in the wage, price, and commodity circulation systems, and the reforms that granted enterprises greater authority and concessions were the result of serious expansion of the money supply. Bank loans outstanding at the end of 1989 totaled

1,240,930,000,000 yuan versus 241.43 billion in 1980 in a 5.14 fold increase, or an average 19.95 percent annual increase. This was 4.8 and 4.9 percentage points higher respectively than the growth rate of national revenue and GNP. At the same time, all other funds supply channels also expanded sharply, except for government funds for which the speed of growth was somewhat low. In 1989, extrabudgetary funds (estimated value) and actually used foreign funds amounted to 227 billion yuan and 13.86 billion yuan respectively for a respective 4.56 and 3.12 fold increase over 1980, or an average 18.35 and 13.48 percent annual increase. Even so, the shortage of funds troubled and restricted China's economic development throughout, particularly during the three retrenchment periods of 1981, 1985, and 1988 when an even more serious situation of complete disarray in supply and demand for funds appeared. The steady expansion of the supply of funds and the continuing urgent demand for funds made us suspect the existence in the funds turnover process of a "funnel" causing a large scale leakage of funds. (Footnote: See Guo Wanqing [6753 8001 3237]: "On the Conversion of Funds to Income," CAIMAO JINGJI [ECONOMICS OF FINANCE AND TRADE], Issue 11, 1990).

Here we learned the answer to the seemingly unrelated questions of the source of the excess distribution of revenue brought about by the oversupply of currency, and where the seriously expanded funds went; however, a careful analysis using currency as a common link made it easy to find the following process for the conversion of funds into income: Revenue inflation—shortage of funds—excess money supply—expansion of funds—revenue inflation. The excess distribution of national revenue was closely related to money growth and price rises, and the excess distribution of national revenue came first with money growth and price rises coming later in a gradual process.

2. The Erosion of Distribution and the Leaking Away of Capital: A Realistic Examination of the Conversion of Funds to Income.

Following implementation of the enterprise fund system in 1978, and particularly following the institution of funding by loan rather than by allocation in 1983, which provided greater leeway in making independent choices for both suppliers of funds and users of capital, there was a greater overall awareness of the process going from enterprise use of loans to the development of production and to the quest for returns. This provided effective channels for easing the funds shortage, which helped the development of the correlation between commodities and currency in China. Nevertheless, the problem is that the gradual erosion of accumulations as a result of inflation in recent years, which has brought about a readjustment of the revenue distribution structure, is a trend that steadily erodes loan funds. This is manifested in the following specific ways:

1. **Credit Interest Inversion: Conversion of Funds to Revenue in the Loan Recapture Process.** The reason that

the interest mechanism has been unable to function properly in recent years is that inflation further distorts into negative interest rates the low interest rates that already do not truly reflect the cost of capital. Bank credit, no less than government subsidies, has become a form of "financial subsidy" for industrial and commercial enterprises. Since credit interest rates lack sufficient elasticity because of certain conditions, credit interest rates are markedly lower than enterprises' average interest rates. Furthermore, the degree of change in the price index approaches or exceeds interest rates; consequently, interest on annualized bank credit simply cannot make up for the depreciation of loans that are recaptured. Actual interest produces an inversion and an overly low payback. This situation greatly stimulates enterprises' supraeconomic demand for credit funds, thereby lowering returns from the use of funds. When credit interest rates are lower than the rate of price rises, enterprise use of credit is manifested in their possession of more material goods from which they gain fairly high partial benefits. These partial benefits include both profit from production, and reduction in the amounts owing thanks to discounted bank credit and less interest. This entices enterprises to scramble and vie for credit and to hoard goods in order to get the "subsidies" that come from waiting for the profits that price rises and negative interest payments produce. Ultimately, it leads to an inflation of the demand for funds. Meanwhile, squeezed by the twin pressures of price rises and revenue inflation, banks have to bear both responsibility for maintaining value and paying high interest on the savings accounts from which the loans derive in the first place. They must bear both the depreciation of loans at the time of recapture, plus after-tax repayment of loans to savings accounts. As a result, even before they have been repaid, some loans are paid away in taxes to the government, thereby increasing the degree to which capital is converted into revenue.

2. Insufficient Assets Compensation: Conversion of Revenue Through Fictitious Reporting That Increases Value of Capital. Because of the independent external appearance of "self-valorization" that exists for both funds and capital, compensation funds that are not properly profit at all can be easily eaten up. In 1989, for example, when state-owned assets totaled 1.6 trillion yuan and accounted for more than two-thirds of total social assets, consecutive years of serious inflation resulted in the amount of funds that enterprises withheld for depreciation being far less than the amount sufficient to ensure the replacement or renovation of fixed assets. Such a relatively high inflation rate and an all-time low fixed assets depreciation rate resulted in enterprises large scale fictitious reporting of profits. The authorities concerned estimate that more than 70 billion yuan of fixed assets were thus eaten up annually. (Footnote: See Diao Rende [0431 0088 1795]: "Cursory Discussion of the Correlation Between the Compensation of Fixed Assets Value and Inflation," CAIZHENG YANJIU [RESEARCH ON FINANCE AND ECONOMICS], Issue 7, 1990). In addition, in order to retain more money for themselves,

enterprises even went so far as not to deduct for depreciation or to deduct less than they should have, thereby increasing their profits for the contacting period through surreptitious means. Except for a nominal portion that became central government receipts, an overwhelming majority of returns, i.e., about 80 percent, remained with the enterprises, and a substantial portion of this was used as a staff member and worker welfare and bonus fund. In the funds circulation field, the problems are clearer. When inflation occurs, enterprises must automatically increase the value of receipts from raw and processed materials in inventory, as well as a certain percentage of the increase in income realized from a rise in product prices for use in making up their working capital. However, for their own benefit, enterprises frequently divide up this portion of compensation for working capital, regarding it as a profit surplus. In addition, some enterprises do not convert costs that should be converted, nor do they expense items that should be expensed. Some conceal their losses, charging items to costs they should not properly charge. Some fraudulently report sales and declare fictitious profits, thereby falsely increasing their profits and falsely reporting a profit when they have actually incurred losses. Actually, they use bank credit to pay their income taxes and for enterprise withholdings, a portion of their credit thereby being eroded.

3. Cost-Listing Losses: Conversion of Capital to Income in the Fakery [fangkong-2397 4500] Cycle. As a result of all quarters of society asking enterprises for handouts in recent years, enterprises' social burdens have increased further, a very great expansion occurring in the range and amount of enterprises' expenses of a non-productive nature. This has resulted in a substantial amount of production capital being converted to money income for the non-production sector. In addition, banks weakening of control and supervision of credit and cash has enabled enterprises to issue their staff members and workers more wages, bonuses, and material goods, and to make unjustified additions to production costs under various pretexts. This has provided opportunities for an expansion of cost expenditures. The monetary funds that enterprises list under the name of management expenses and marketing expenses are actually regarded as "income" advance payments, and the funds gap in production is then paid for by a bank advance of money. This advance of money is actually a kind of advance distribution that results in large amount of currency not secured by material goods entering the circulation realm to become a false addition to national income.

4. Personal Consumption Funnel: The Conversion of Capital to Income in the Transfer Process. Since the reform of distribution relationships in recent years has not touched the realms of social welfare and the distribution of material goods, the welfare and in-kind distribution mechanism shaped under the old system continues to operate in the new system. This intensifies expansion of the trend toward more welfare and in-kind distribution, making this a ready-made channel for the inflation of non-wage consumption income. In addition,

state control over money income remains in effect; thus, various kinds of in-kind income and welfare income become an effective way in which to augment income. Moreover, because of the non-monetary income character of these funds, they do not have to go through marketing links, so naturally no problem of compensation exists. Obviously this is a most direct and most complete erosion of capital.

5. Commodity Capital Depletion: Conversion of Capital to Income Through Ineffective Use. When government does not subsidize enterprise losses, the result is large advances of bank credit to enterprises. The money so advanced becomes enterprise investment that cannot feedback sufficiently, thus leading to erosion. When enterprises have few funds of their own yet have to maintain production, the banks must make up through loans the funds shortfalls resulting from enterprises posting losses. Ultimately, these loans become unsecured funds or money lacking any material backing. In addition, when enterprises are losing money and halt or semi-halt production, they still must continue to pay wages, bonuses, and welfare payments to both employed and retired staff members and workers, the source of funds for which is administrative orders to banks to issue "stability and unity loans." Since these loans are converted directly into staff member and worker consumption without the creation of any value whatsoever, they become out-and-out capital converted to income without material backing.

On the basis of the foregoing analysis, we can see clearly that income is not necessarily newly created value; it may be value converted from capital. Even though this conversion is irrational, we cannot deny that it is income. Its currency form may be used as a means of payment, and its material form can be fully used for consumption. (Footnote: See Guo Wanqing [6753 8001 3237], "On the Conversion of Capital to Income," CAIMAO JINGJI, Issue 11, 1990).

3. Ownership Rights on Hold and High Speed Growth: The Transformation Mechanism That Converts Capital to Income.

The main reasons that capital can be directly transformed into income today lie in ownership rights being on hold and high speed growth.

1. When ownership rights are not clear and responsibilities are uncertain, it becomes possible for income to erode capital. The decentralization orientation of reform in recent years, particularly reform of the enterprise system of profit retention and the apportioning of revenues and expenditures to local governments, which are then held responsible for balancing their own budgets, as well as the use of bonds of various kinds have enabled local governments, enterprises, and individuals to obtain some benefits from attendant assets. This has enhanced the independent interests of all main economic entities resulting in a real dividing up of ownership rights among

the state, local government, enterprises, and staff members and workers. However, since this division of ownership rights has not been recognized in law, there has been no corresponding clear-cut demarcation between the division of ownership rights and the distribution of returns. This has resulted in increased friction between the unitary ownership system and plural benefit relationships. Consequently, the conversion of capital to income is completely possible. When the market is abnormal and imbalance exists in the responsibility, rights, and interests structure, in particular, ownership rights entities in the framework of the traditional income distribution mechanism are deficient for a consequent weakening of limitations on enterprise conduct, in their pursuit of short-term benefits, enterprises may frequently regard consumption as actually being in their personal interest, and thus regard accumulations as being mostly in the interest of the state. Even though government may enact attendant policy regulations regarding enterprises' use of retained profits, enterprises' investment in projects of a productive nature will be expressed largely in the pursuit of short-term returns; rarely will enterprises take into consideration the effective employment of assets, long-term accumulations, and steady accretion of value. In addition, with the initiation of the revenue-sharing mechanism for dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, simultaneous with ever stronger local interests, there is no correspondingly clear-cut delineation of ownership rights. It is against this background that rights infringements such as central government "borrowing and transfer of funds" and local governments' "open compliance but secret obstruction" frequently occur. In a certain sense, this results in a further intensification of the conversion of capital to income. In particular, enterprise actions in violation of finance and economic discipline such as failure to expense items that should be expensed, failure to withhold funds that should be withheld, and posting items to accounts that should not be posted not only will not affect the amount of tax revenues, but will falsely increase taxes and profits. This further intensifies the tacit understanding between government interests and enterprise interests. It further accentuates efforts to obtain investment and equipment from the state, and a tendency to "hoard assets" and to increase the intensivity of assets use to be able to increase their retained profits and income, thereby creating an inflation of both consumption and investment.

2. High speed growth obtained from the high investment of funds provides a ready-made channel for converting capital into income. The intense sense of achievement of local governments and the strong desire of enterprises to pursue their own interests frequently causes local government departments and enterprises to relish the investment of a large amount of money to gain high-speed growth. Such growth is realized largely through the "inverse pressure mechanism" [daobi jizhi 0227 6656 2623 0455] of the money supply: As a result of the murky definition of property ownership relationships, the

repayment of loan principle and interest can only have a slightly limiting effect on local governments' and industrial and commercial enterprises' borrowing behavior. In order to satisfy their desire to expand investment, local governments and industrial and commercial enterprises often exhibit a rigid expansionary tendency in their demand for credit. Furthermore, since specialized banks are responsible only for profits but not for losses, and since they are not yet independent and autonomous operating mechanisms, in addition to which they are directly subordinate to governments at various levels, banks accede, to a certain extent, to the currency requirements of local government and industrial and commercial enterprises. The result is that rigid credit demand pressures banks so that they become a foundation for credit in fact. At the same time, in order to increase their own benefit, local governments and industrial and commercial enterprises employ various slapdash costing methods to pressure the central government treasury to reduce taxes and grant concessions. The central government's revenue's are thus somewhat reduced, while its expenditures continue to increase, the central bank being required to fill the gap between receipts and expenditures. Faced with dual pressure from specialized banks and the central government treasury, the central bank is forced to issue more money to satisfy the excessive credit demand, thereby creating inflation. Such an expansionary credit policy resulting from the "coordination effect" of the treasury and banks, and the inflation that it engenders make the transformation of capital into income a bottomless pit.

The conversion of capital into income is bound to impede the normal operation of the economy with the following consequences: 1) It forces the excess issuance of currency, leading to inflation. Once capital is converted into income, although credit can continue to lead a fictitious super increase in savings deposits through credit, the source of this fictitious capital can be put into circulation in the form of credit. However, since the conversion of capital to income can gobble up a large amount of credit funds, a severe loss of credit funds and an intensification of the capital shortage may ensue. Moreover, the steady expansion of demand for capital will force the central bank to issue too much currency, thereby propelling a tremendous rise in prices that produces sustained inflation. 2) Serious damage to the overall balance of government credit. As a result of the fictitious government revenues resulting from the fictitious reporting of losses as profits, the government falsely distributes this revenue in turn. The result is bound to be a false balance of government credit. Because profits and taxes that enterprises pay on fictitious income are actually paid for with loans, it appears that profit and tax obligations to the government have been met when actually bank loans have been used to pay falsely owed government revenues. This produces a seeming balance but an actual imbalance in government credit. As a result, some credit funds have no material backing. This is bound to increase the non-economic

issuance of currency to the detriment of stable development of the economy. 3) Promotes lopsided development of the industrial structure. The conversion of capital to income means an excess distribution of national income. In fact, this excess distribution shows up in an extreme expansion of demand for consumer goods, particularly high quality consumer goods. This expansion both propels a tremendous rise in prices of products from the consumer goods sector, and further propels a rise in prices of basic raw and processed material products, thereby leading to a rise in the general price level. At the same time, the expansion of demand causes high speed growth of consumer goods industries. This growth can spur the growth of agriculture, and of energy, and raw and processed materials industries; however, because of the poor elasticity of supply and demand, the speed of growth of these sectors is far slower than that of consumer goods industries, and this slow growth becomes a bottleneck that seriously limits economic development. (Footnote: See Guo Wanqing: "On the Conversion of Capital to Income," CAIMAO JINGJI, Issue 11, 1990). 4) Seriously hurts the ability of enterprises to accumulate their own capital and to develop. Since enterprises' falsely reported profits are not value that they themselves created but taking funds by reducing the elements of production, although they pay the profits and taxes required, and although staff member and workers wages are paid and bonuses issued, the enterprises go deeper into debt with each passing year. Therefore, the conversion of capital to income not only causes serious losses of bank loan funds, but means that the enterprises have an ever heavier burden to bear, which directly impairs enterprises reserve strength to develop production and to improve economic returns.

4. Rational Delineation and Dual Regulation: Some Ideas For Further Increasing Reform.

The conversion of capital to income and its bad effect on the economy fully expose the major shortcomings of reform thinking that calls for the delegation of authority and the granting of concessions: Such thinking fails to take into consideration that key production elements must be subordinate to the goal of increasing value, and that the ownership of each of the elements of production must serve to realize this principle economically in distribution relationships. Thus, ideas about reform must be in accordance with the distribution principle of a matching of investment and returns (risks). They must begin with a definition of functions and of rights and interests, be defined by rational distribution, and regulated by dual tax revenues, and then proceed to a separation and a preliminary distribution of revenues commensurate with ownership rights and further distribution of revenues commensurate with tax receipts, thereby realizing a combination of an equity system and a tax revenues system as the correct avenue for the rational distribution of national income. (Footnote 2: See Zhou Shuxin [0719 2885 2450]: "Thoughts About and Choices of Distribution Relationships in State-Owned Enterprises," CAIZHENG JINGJI, Issue 11, 1990).

By the so-called definition of rational distribution is meant a differentiation of the functions and different interest orientations of investors maximization of returns on assets, operators maximization of returns on operations, and workers maximization of wage income in order to obtain a balance among the interests of the three for ultimate realization of the economic performance goal of a maximization of enterprise profits. (Footnote: See Zhou Shuxin: "Get Out of the Erroneous Zone of Income Distribution Imbalance As Quickly As Possible," ZHEJIANG XUEKAN, Issue 4, 1991). This may be used as a basis for further delineating the assets of central government departments, local governments at all levels, social groups (including enterprises and entrepreneurial blocs), and individuals that correspond to their separate independent rights and interests. Enterprise profits are to be shared and losses are to be borne by central government departments, local governments at all levels, social groups, and individuals according to the percentage of their investment for a fundamental solution to the problem of who is responsible for profits and losses in the system of "self responsibility for profits and losses." The breaking down and rational delineation of property ownership relationships enables investors to be responsible for preserving capital and increasing the value of their own assets, and to exercise their assets ownership rights function at any time as returns on assets permit, repositioning assets or operators. Operators are responsible to investors for results obtained from the operation of assets. They are spurred by their own interests and limited by investors to do all possible to optimize the means of production and the work force in combination to do a good job in substituting key elements so that returns from enterprise assets are maximized under the existing assets structure. Laborers are responsible for the results of their own labor. They are also driven by their interest in maximizing wage income and they are limited by the operators. They can also consciously improve their labor skills or change labor methods, and they can convert to the best of their ability some consumption funds into production funds. Government in its role as manager will be detached from market operations and above all economic entities, acting as an impartial and authoritative "arbitrator" of problems and conflicts among economic entities in the operation of the economy. In this set up there can be no dual or multiple status as manager, investor, operator, and worker, nor can there be counterlimiting relationships. Under this system of mutually restricted and balanced multiple interest entities, the conversion of capital to income can be avoided.

While re-instituting the above distribution orientation, a turnover tax single category, consisting primarily of a product added value tax; and an income tax, consisting mostly of a tax on returns from assets for multi-level, multi-direction tax regulation may also be instituted. By this is meant a single added value tax on the added value of enterprises' products, and a category regulation tax (the levying of a resources and product regulation tax on

special consumer goods). It means institution of a multi-level profits tax on the profits from assets that all property owning entities receive (levying a tax on the returns from assets of central government departments, local governments at all levels, social groups, and individuals), and regulation through a multi-direction fund tax (levying a fund tax on accumulation, consumption, and reserve funds). A transaction tax comprised mostly of a product added value tax would be collected from all dealers, and it would serve as state regulation of enterprise profits in advance. An income tax consisting mostly of a tax on profits from assets would be collected from investors, and it would serve as state regulation of enterprise profits after the fact. This would completely break down regional economic blockading and separatism, providing a real foundation for promoting the rational movement of assets. Single category regulation and control exercised through the turnover tax, and multi-level and multi-direction control exercised through the income tax controls the direction of flow and the volume of flow of enterprise profits, thereby controlling the pattern of distribution among multiple interest entities of all profits. The single category regulation and control of the transaction tax controls the added value of enterprises' products to promote a rational readjustment of product prices on the basis of enterprises' product production costs and market demand for the automatic regulation of the use of resources, and inequitable returns from special consumption. The multi-level, multi-direction regulation and control of the income tax controls the profits from assets of all economic entities, spurring all economic entities to weigh the advantages and disadvantages of the percentages of accumulation, consumption, and reserve funds, automatically readjusting individual distribution preferences. Such dual tax revenue regulation and control not only can control the direction of flow of capital, eradicating the conversion routes for changing capital into income, stimulating more equitable compensation for the use of funds, but it can also permit each beneficiary to get its due without vying with each other in the normal cycle of assets accretion and flow of profits for a rational allocation of resources.

Therefore, on the basis of the foregoing conception, further reforms must be made to eliminate completely the conversion of capital into income. Specific reforms are as follows:

1. Control of assets at each level. A complete assessment of enterprises' existing assets should be used as a basis for a clear division of the unitary state ownership of assets into plural ownership of different assets, and a corresponding assets control agency established. This agency, together with reform of the assets control system, should be used for the founding of a commercial assets administration mechanism based on the commodity economy, using bonds and shares as a means of moving step-by-step toward the sale of some enterprises making small profits, and the state-owned assets of medium and small enterprises to non state-owned social groups and

individuals, thereby promoting the transfer and the buying and selling of assets across regional, sector, and industry lines. Not only would this clarify the limits of returns on individual assets, but would also check, to a certain extent, the degree to which capital is converted to income.

2. Exercise of jurisdiction at separate levels. Designate individual spheres of investment in terms of the economic jurisdiction of central government departments, local governments at all levels, social groups, and individuals, making this designated economic jurisdiction and investment sphere the basis for future reform of the government financial system and the bank credit system, all possible done to make the funds distributed to each generally commensurate with the investment tasks they perform for a tough limitation mechanism in which economic authority and the supply of funds are properly matched. Generally speaking, central government departments are only in charge of the construction of and investment in large basic facilities and key projects nationwide in which local governments at all levels may purchase shares. Local governments at all levels are in charge of the construction of and investment in regional basic facilities, public utilities, and key projects in which central government departments may purchase shares. Social groups and individuals mostly invest in building construction for business purposes and in renovation or expansion projects in which central government departments and local governments at all levels may buy shares. The complete separation of economic authority stops local governments at all levels, social groups, and individuals from ultimately relying on the state for investment funds.

3. Multiple level bank credit. Multiple level control of assets and the exercise of authority at separate levels can form the basis for establishing attendant central banks and local banks to meet needs for level-by-level control of assets, and level-by-level exercise of authority. In accordance with the rule that "assets determine responsibility," the central bank constantly creates basic currency, using reloan plans to lend the basic currency to central government specialized banks and local banks. Then, as their own credit plans permit, the local banks re-lend the currency to local specialized banks after which both the central government and local government specialized banks issue loans to central government departments and to local governments at all levels, social bodies, and individuals in accordance with the rule that "savings determine loans and constant conversion of loans into savings," applying basic currency and the currency multiplier effect for steady creation of savings money. Level-by-level bank lending and re-lending plans increase the central bank's ability to regulate and control all specialized banks and local banks, while simultaneously reinforcing the credit relationship between banks and central government departments, local governments at all levels, social groups, and individuals.

4. Multi-level fiscal budgets. Basic depreciation funds that should be subject to enterprise control in accordance with the requirement that local governments practice fiscal autonomy and that enterprises manage their own financial affairs, as well as profits that should be subject to enterprise control in accordance with the principle of independent administration are to revert entirely to enterprises; and all revenues that should be under the jurisdiction of financial authorities at all levels should revert entirely to the jurisdiction of financial authorities at all levels. In this way, a gradual transition could be made from the great unified budget under which all participants, from the central government to local governments, and from local governments to enterprises vie with each other, to separate, and individually balance budgets at each separate level. This should form the basis for building a budget system analogous to the central government tax bureau and local government tax bureaus and the attendant decentralized tax system. Under this system, enterprise product added value taxes as well as category regulation taxes, and taxes on returns from assets of social groups and individuals, as well as multi-directional basic taxes would be collected by local tax bureaus, and they would serve as local revenues on which income taxes are to be paid to the central government tax bureau. The central government tax bureau would collect taxes on returns from assets of central government departments and local governments at all levels, as well as multidirectional base taxes, thereby truly achieving "single level political authority, single level administrative authority, single level financing, and single level budgeting."

5. Economic Checks and Balances, and Mechanism Change: Several Problems Currently in Urgent Need of Solution.

The appearance of multiple entities for the distribution of national income since the advent of reform has resulted, to a very large extent, in the consumption and ultimate formation of national income accumulations not being controlled through government distributions. Although policy restriction can play a certain guiding role in the government financial distributions in local economies and in the financial distributions of micro-economies, the role of such external restriction is much less stronger than that of the local benefit mechanism and the internal benefit mechanism. Therefore, the road of reform starts with change in that the mechanism for building an economic checks and balances mechanism in which benefits, capital, and costs are components, and that is internally and externally integrated for the elimination root and branch of the conversion of capital to income.

1. Beginning to build a benefits restriction mechanism that combines responsibilities, rights, and interests. It is necessary to begin with transformation of the enterprise system and change of the mechanism, using perfection of the contract system, the leasing system, and the share system to truly sever enterprises' dependence on the state for the creation of an environment permeated with

risk and competition, moving away from the "large common pot" product economy toward a commodity economy in which enterprises bear responsibility for their own profits and losses.

2. Beginning to build a capital limitation mechanism of two-way coordination between government finance and finance and banking. The boundary line between government funds and credit funds must be clearly delimited as a basis for building a two-way coordinated capital limitation mechanism in order to guard against jockeying between government finance and finance and banking that leaves an area in which income can nibble away at capital. Specifically, it is necessary to eradicate the adverse effect of expansionary government fiscal policy on currency issuance, and credit control to put and end to fiscal deficits being turned into bank credit and automatic overdrafts. At the same time, it is necessary to solve the problem of the tremendous pressures that credit inflation and soft credit restrictions have on government finance, as well as their encroaching on and nibbling away at government revenue and government funds. This requires a general balance between government receipts and expenditures, and setting rational payment limits and payment priorities. It requires matching credit funds with savings funds, and setting a rational money supply that corresponds to the national income growth rate. Government issuance of currency and putting currency into circulation must be controlled, a peak excess currency issuance tax collected that serves as a long-term reserve fund. The central bank must also be separate from the national government. It must place currency restrictions on government receipts and expenditures, and change uncompensated government overdrafts into loans for which compensation is paid, thereby truly demolishing the sequential system that runs from "government finance to credit to the issuance of currency in which credit makes up for government financial shortfalls, and currency issuance makes up for credit shortages.

3. Beginning to build a cost limiting mechanism founded on an active cost accounting system. The nascent cost accounting system must be changed as quickly as possible into an active cost accounting system that enables enterprise profits to be maintained intact without losses, after which the actual profits to which enterprises are entitled should be figured. Such an accounting system will impel enterprises to readjust their assets depreciation and produce price rise income on the bases of the price rise index, thus assuring that their fixed assets and working capital will be compensated in full as a means of offsetting the conversion of capital to income that results from inflation.

Shenzhen Enters 'Bull' Stock Market

92CE0230A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 46,
18 Nov 91 pp 22, 23

[Article by Du Zhijun (2629 1807 6511): "Before and After Shenzhen Stock Market Entered 'Bull Market'"]

[Text] Since the beginning of November, Shenzhen's stock market has been inundated with good news. On the afternoon of 4 November, after the TV screens of major securities exchanges in Shenzhen showed that Shenzhen's index rose to 100 points, cheers followed immediately. On 9 and 12 November, the stock market continued to rise, creating new climaxes, and marking a new high of 128.3874 points. On 10 and 11 November, Shenzhen openly issued 3 million applications of subscription for new shares, attracting tens of thousands of people from Shenzhen and other areas. There were long lines and the streets were bubbling with excitement as if on a holiday.

A Large Amount of Funds Enters the Market

In early October 1991, Shenzhen's stock market ended the 10-month long "bear" market and began to step into a "bull" market. Ever since then stock prices have continued to climb. It took only a little over a month for the stock price index to jump from the lowest 45 points to over 100 points. Why?

Shenzhen's stock price index was introduced on 3 April 1991 when the "bear" was fairly strong. Since the day of the announcement, the stock price index has begun to slide at the rate of 0.5 percent (Beginning 2 January 1991, the rise and fall limit of Shenzhen's stock prices have been set at 0.5 percent). As of September 1991 the lowest quotation of stock price index was 45.6585 points. The stock prices of five senior listed companies all fell over 70 percent. Some stocks fell as much as over 90 percent.

A securities authority who declined to be identified analyzed the current situation to reporters: "Shenzhen's stock prices were too low. They could not reflect how listed companies were really doing. For instance, the Development Bank's after-tax profits were over 40 million yuan in 1989, its net profits were over 70 million yuan in 1990, and its estimated after-tax profit for 1991 is over 100 million yuan. The annual profit increase rate of the Development Bank is 40 percent. According to Western stock market theories, when a company's profit increase rate is 10 percent, its corresponding price earning ratio should be 15-fold as much. When the increase rate is 20 percent, its corresponding price earning ratio should be 25-fold. When the profit increase rate of the Development Bank was 40 percent, its corresponding price earning ratio was only 11-fold, which was very irrational. The previous 'bear market' caused grave losses to shareholders, and their psychological wound cannot be healed immediately. It will take some time for Shenzhen's stock prices to return to the rational price level." In mid-September, the lowest stock price quotation of the Development bank was 13.4 yuan and its price earning ratio was 10.9-fold.

Shenzhen's economic environment was good in 1991. Banks relaxed credit funds and enterprises had the ability to expand. The estimated profits of companies

which listed stocks in 1991 were sizable. Both "macro-economic and microeconomic environments" were very favorable to Shenzhen's stock market. But stock prices fell continuously. This was because shareholders could not overcome their psychological shadow and had lost interest in the stock market.

In order to save the confidence of investors, Shenzhen's authorities vigorously mobilized large institutions to contribute capital to support the market. As a result, several million and tens of million of funds poured into the stock market. They also pledged to keep a certain stock at a certain price level.

Compared with Shanghai's stock market whose average price earning ratio is 100-fold and whose daily rise and fall limit is 1 percent, Shenzhen's stock market is more attractive. Information from Shanghai shows that except for the Feiyue Sound, seven of Shanghai's eight listed companies had lower after-tax profits in 1990 as compared to those of the previous 2 years. But all eight stocks rose continuously in 1991. Shanghai's index was quoted as high as 170 points, and its average price earning ratio reached 100-fold. The price earning ratio of some stocks was as high as 380-fold. Due to the wide gap between the stock prices of the two places, a large amount of Shanghai's capital was sucked into Shenzhen's stock market. Since Shanghai's Wanguo Securities Company began buying and selling Shenzhen's stocks on behalf of customers in May 1991, Shanghai's shareholders have queued up every day to purchase. In August and September, Shenzhen's stock market entered into a stabilized period. The amount of subscription funds from Shanghai's brokers alone exceeded 1 million daily. As a chain reaction caused by the activity of Shanghai's investors, the capital of Wenzhou, Hangzhou, Wuhan, Guangzhou, Hainan, and Beijing poured south and filled up the "bottom" of Shenzhen's stock market.

Stock Prices Easily Climb Out of the Bottom

During the three months of stabilized period, over one half of secured stock market counters were digested by the contribution of new capital. The entry of large numbers of institutions into the market was the main cause of the accelerated digestion of the counters. Bank statistics show that recently bank deposits increased over 50 million yuan daily, and most of which was south-bound capital to be used to purchase Shenzhen's stocks. Shenzhen's stock market has pooled a large amount of hot money and accumulated enormous buying power. In October, Shenzhen's stock market began to climb out of the bottom. On 3 October large shareholders forestalled others by a show of strength, causing stock prices to pick up slightly. The high quotations of large shareholders aroused shareholders' enthusiasm for investment, turning investors' attitude toward the stock market by 180 degrees and eliminating the previous pessimistic attitude once and for all. Shareholders were extremely excited. Buying quotations continued to pour in. The trend of sharp rise in stock prices became irresistible. Excessively low stock prices were adjusted rationally.

The stock price index easily jumped from 46 points on 2 October to 50 points on 3 October. Stock prices easily climbed out of the bottom.

Between 3 to 9 October, the stock price of the Development Bank rose from 14.60 to 25.95 yuan; Jintian from 6.45 to 15.30 yuan; Wanke from 4.70 to 8.50 yuan; Anda from 3.95 to 6.50 yuan; and Baoan from 3.55 to 6 yuan. Except for Yuanye's stocks, the average increase rate of the five companies was over 85 percent. In the first 10 days of October the stock price index rose 24 points or over 50 percent. Shortly after the opening quotation on the morning of 10 October, institutional investors took the lead in selling back the stocks which earned them profits, causing the number of selling quotations to increase sharply and stock prices to fall back. Later the stock price index stabilized between 70 and 75 points.

The Issue of New Stocks Causes Stock Prices To Rise

The period between 11 and 29 October was a rest and reorganization period following the first round of increase of the "bull market." During this period, stock prices fluctuated within a small margin. On 30 October newspapers and periodicals revealed that the Wuye Development Group Ltd. (abbreviated as "Wuye" hereafter) and the China Southern Glass Ltd. (abbreviated as "Nanbo" hereafter) will issue their stocks in the near future. As revealed in the companies' subscribers' information, the Wuye and Nanbo are planning to issue respectively 30 million and 16 million shares of special Renminbi stocks (B type) to foreign countries in addition to 35 million and 17 million shares to the general public in China. The mark-up issue price of Wuye stocks is 3.6 yuan (the original is 3.38 yuan). Calculated on the basis of after-tax profits between August and December 1991, the price earning ratio of the new issue is 40.3-fold (22.99-fold). If calculated on the basis of estimated after-tax profits of 1992, its price earning ratio also reaches 14.99-fold (11.65-fold), similar to that of currently existing stocks.

According to a well-informed internal source, the procedure of issuing these new shares is that first subscribers will obtain a subscription form upon the presentation of identification, then there will be an open drawing, and then those whose names are drawn will pay the whole amount of their purchase according to the quota. Each subscriber can only purchase 2,000 shares. The chance of getting the quota of the new issue is estimated at less than 5 percent. The supply will be outstripped by the demand. It is estimated that there will be a serious imbalance between supply and demand. Stimulated by the information that the new issue is highly profitable, stock prices immediately started the second round of sharp increase.

In the second round of increase, the performance of Baoan and Anda stocks was especially prominent. Their stock prices jumped nearly 1-fold in one week. The increase rate of Jintian, Development, and Wanke was

also around 30 percent. Yuanye still maintained 0.5 percent increase rate which is the rising limit.

Joy Mixed With Worry in the Future Market

Shenzhen's stock market sharply increased over one-fold in the past month or so. Although it was an adjustment of past stock prices, it cannot but cause concerns. Shenzhen's stock market is still young. Shareholders' investment concept is still immature, so it is very easy to form a follow-the-crowd type of tendency. This tendency is very blind and not subject to the restriction of normal rules. Due to this, it often gives the authorities great headaches. Well-intended macroeconomic regulation and control are often misinterpreted by shareholders, thereby causing negative influence.

On 8 November, the Shenzhen SEZ newspaper published affairs concerning the subscription of the new stocks. The officials of the Shenzhen City People's Bank pointed out that the issue of 11 new stocks is called for by the development situation of the market as well as a sign of Shenzhen's stock market advancing toward maturity. The 11 newly listed companies will issue a total of 200 million yuan (face value) worth of shares to the general public. In order to fully implement the principle of "open, fair, and just," the issuing organ printed 3 million application forms which citizens can obtain by presenting a domestic identification of residence. After all new stock subscription forms are turned in, there will be a central drawing, and those whose names are drawn will be allowed to go through the process of subscription and payment after the listed companies are officially approved to issue stocks. It is estimated that only 3.6 percent of applicants whose names will be drawn.

The stock market skyrocketed recently, and a large number of new stocks were put on the market. What is the future trend of the stock market? There have been much discussion, and opinions vary. Some people think that the sudden jump of Shenzhen's stock market in such a short period of time caused the puberty of the "bull market" to end prematurely. The excessive increase of stock prices is inevitably followed by negative influence. Shenzhen's stockholders have consistently shown the tendency to buy when prices are high and sell when prices are low. We cannot guarantee that the one-sided market is not going to reverse itself. Taking advantage of the opportunity of a skyrocketing stock market to introduce 11 new companies to the market, the authorities cannot avoid the suspicion of practicing administrative intervention. They introduced 11 companies today. They can introduce another 11 tomorrow. Since Shenzhen's capital is limited, the demand and supply relation can reverse anytime. Because of this, we should not be optimistic about the future market. Stock prices can be expected to fall at least by one-third.

However some people are very confident in the future market. Their rationale is that in the past, only tens of thousands of stockholders participated in stock investment. But things are completely different now. Now

there are nearly 4,000 prospective shareholders coming to securities registration companies each day to apply for "shareholder's number." When the new stocks are issued this time, shareholders can participate in the drawing with identification of any province in China. This is bound to attract many nonresidents to participate in this investment activity. Foreign capital will be funneled into Shenzhen, and the supply and demand problem will become even worse. They predict that in the future the stock market will continue to go forward in waves.

I think that we should not pay too much attention to the rise and fall of Shenzhen's stock prices. Rising is good, of course. But, we should not be afraid when they fall. New stocks are being put on the market continuously, and the scale of the stock market is being expanded continuously. This is an unavoidable pattern of the development of stock market. We are very glad to see that Shenzhen's security transactions are being conducted in a fair and orderly manner and that market operation is changing from the basis of administrative regulation and control to the direction of legalization and standardization. We believe that in the near future Shenzhen's stock market will become more prosperous. This is what the public has been waiting for for a long time.

Case Study in Relations Between Finance, Production

92CE0152A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 10, 20 Oct 91 pp 65-71

[Article by Feng Baoxing (7458 1405 5281): "Capital Steel: A Case Study in the Relations Between Finance and Production"]

[Excerpts]

I

[passage omitted] To revitalize large- and medium-sized state enterprises and to enable them to develop and transform themselves, thus turning themselves into a lasting and fertile source of revenues for the state, we must change the monopolistic finance system. In October 1984, tax payment was substituted for profits. This was the first step. Because of the need to maintain the scale of incomes and expenditures of a rigid nature, the change was not a fundamental break with the monopoly on collecting revenues and expenses. Unlike the days before taxes were substituted for profits, industrial enterprises were now able to dispose of 15 percent of their net incomes (only 12 percent in the case of central enterprises) as they saw it. To a certain extent, this was progress—but it was far less than what was needed to turn enterprises from mere appendages of the state into commodity producers capable of self-development and self-transformation. This is why: Under the current system, collective welfare for employees and bonuses must come out of the profits retained by the enterprise and constitute about 10 percent of its net income. After putting aside all these funds, the enterprise had hardly anything left and little capacity for self-accumulation and self-development. Moreover,

along with the substitution of taxes for profits, the government no longer handed down targets for the amount of profits to be turned over to the authorities, which was a difficult restraint. Instead, the enterprise was required to pay taxes based on a tax rate, which was a soft restraint, not enough to motivate the enterprise to pursue profits. The result: Enterprise profits fell for 20 months in a row. The State Council decided to introduce the contract system rapidly among all industrial enterprises in the nation beginning in May 1985. In effect this was another piece of financial reform. This time around, not only did it quickly stem the slide in profits but it also gradually changed the pattern of distribution created by the "substitution of taxes for profits." The principle of the contract system—"fixing the base figure and keeping whatever excess"—is an incentive for enterprises to maximize earnings. The more they earn, the more they can keep. Because profits in excess of the base figure are retained by the enterprise, the effective income tax rate on the total amount of profits realized has dropped to about 28 to 30 percent on the average. Working with these numbers, we figure that taxes at the time accounted for about 50 percent of an enterprise's total net income; its contract profits, 14 to 15 percent; and its nominal retained profits, approximately 35 percent. After setting aside about 10 percent to finance collective welfare undertakings or as bonuses and to pay taxes, the enterprise still had approximately 20 percent or so of its net income to be spent on its own technological transformation to increase output. This way the enterprise acquired a preliminary capacity for self-development. Moreover, the "paying-off-loans-before-paying-taxes" policy in effect at the time essentially returned to the enterprise that portion of the depreciation funds that has been turned over to the government as profits because of a very low depreciation rate. Coupled with the principle of the contract system—under which the enterprise keeps all profits above the base figure—"paying off loans before paying taxes" gave the enterprise a capacity for both expanded and simple reproduction. This is the underlying reason why large- and medium-sized state enterprises were able to grow by varying degrees during the Seventh Five-Year Plan. As enterprises grew, the government had a robust source of revenue. Statistically, profits and taxes increased 35 billion yuan in 1987 and 1988, equivalent to the sum of all new profits and taxes between 1980 and June 1986. Fueled by the fruitful source of revenues, government incomes also increased correspondingly.

During this same period, however, there were regulations intended to counter the above trends. To offset the decline in effective income tax rates, the treasury decided to introduce new kinds of taxes and raise tax rates. By 1989, turnover taxes had already risen to about 63 percent of net incomes (profits and taxes realized.) After paying turnover taxes, an enterprise is required to pay income tax on contract profits at an effective rate of 30 percent, which accounts for about 11 percent of net income. These two taxes alone already take up 74 percent of net income. The remaining 26 percent is

known as the nominal retained profit. One quarter of the nominal retained profit goes into the "two funds." In addition, when an enterprise wants to purchase bonds to develop expanded reproduction, or to pay construction taxes, it also has to dip into the nominal retained profit. As a result of all these miscellaneous payments, the overall tax rate for the enterprise has returned to the 1985 level. By 1989, the distribution of the enterprise's net income between the state and the enterprise had also reverted to the 1985 pattern, when taxes replaced profits. According to a survey by the comprehensive bureau of the office of the State Council on 118 large- and medium-sized enterprises, total payments to the state by an enterprise amounted to 88.6 percent of its net income. Another study by the production committee of the State Council and the Chinese Association of Industrial Economics on how the net income of 193 large- and medium-sized enterprises was distributed comes up with these ratios: 81.6 percent were turned over to the government, 10.2 percent went to pay off bank loans, and 8.2 percent were retained by the enterprises. By 1990 turnover taxes had again risen relative to the enterprise's net income, this time to 80 percent. In terms of the distribution of net income between the state and the enterprise, the stimulus the enterprise has received from the contract system is being neutralized by a tax policy that squeezes out profits.

II

At a time when most large- and medium-sized enterprises lack vitality, a host of enterprises capable of self-development has emerged from the structural reform approved by the State Council. One of those enterprises is Capital Iron and Steel Complex. In the 12 years between 1979 and 1990, Capital invested a total of 4.27 billion yuan in technological transformation and construction, completed 4,036 technological transformation and construction projects, and increased steel output from 1.17 million tons in 1978 to 3.8 million tons in 1990—a 3.2-fold increase, or 2.63 million tons net, equivalent to building a brand new large iron and steel plant. At the same time, the level of technology also leap-frogged from that of the 1940's to the most advanced in the world. The total investment of 4.27 billion yuan included 250 million in state investment between 1979 and 1982. The remaining 4.02 billion yuan all came from profits the enterprise has retained since 1981, when it began contracting.

Why is Capital capable of self-development and self-transformation? The reason is that, as a State Council-approved test site for contracting, Capital has been contracting steadily for 10 years. By increasing and regulating volume, not only has it put an end to the monopoly in collecting revenues and spending, but it has also ended the taxes-instead-of-profits distribution system, steadily boosting its actual retained profits relative to its net income. This, in turn, has increased its financial capability for self-development and self-transformation. In 1978, before reform began, the enterprise's actual retained profit was 4.92 million yuan, a

mere 1.3 percent of its net income (total profits and taxes realized), and the enterprise was completely dependent on state investment. Of the profits and taxes turned over by the enterprise to the state in 1978, the government plowed back 182.34 million yuan in investment. Between them, state investment and retained profit accounted for 49.7 percent of net income that year. In 1979, the enterprise retained 29.72 million yuan in real profit, 6.5 percent of net income, and received 98.09 million yuan in state investment, or 28 percent of net income. Profit retention continued in 1980. That year the enterprise actually retained 54.67 million yuan in profit, 10.1 percent of net income, and received 70.09 million yuan in state investment, 23 percent of net income. In 1981 Capital began contracting, under which it got to keep all profit in excess of the base figure. That year it retained 57.49 million yuan in actual profit, or 10.7 percent of its net income, and received 46.81 million yuan in state investment, or 19 percent of its net income. In 1982 the enterprise retained 115.14 million yuan in real profit, 17.8 percent of net income, and received 34.04 million yuan in state investment, 23 percent of its net income. The state stopped investing in Capital beginning in 1983. That year the enterprise retained 152.10 million yuan in real profit, 19.9 percent of net income. In 1984 it retained 241.83 million yuan in actual profit, 26 percent of its net income. The corresponding figures for 1985 were 332.74 million yuan and 29.8 percent respectively. With this kind of financial prowess, Capital imported second-hand plants using retained profits that very year. In 1986, actual retained profit increased to 454.83 million yuan, or 33.9 percent of net income. Coupled with the enterprise depreciation fund, this kind of profit enabled the enterprise to embark on a 600 million yuan project and took the first big step toward self-development. In 1987, the enterprise retained 611.26 million yuan in real profit, or 38.3 percent of its net income. The corresponding figures were 801.23 million yuan and 42.2 percent for 1988; 984.63 million yuan and 43.6 percent for 1989; and 1,139,810,000 yuan and 43.3 percent for 1990. The "production development fund" portion of retained profit and the enterprise depreciation fund together boosted the enterprise's self-development capability that year to 1 billion yuan. With that kind of economic muscle, Capital plans to use enterprise funds to increase steel output from 4.31 million tons in 1990 to 7 million tons during the Eighth Five-Year Plan. We can see from these numbers that, once Capital was able to keep 30 percent of its net income as retained profit after paying all sorts of taxes and charges to the government, it showed a budding capacity for self-development and self-transformation. When the proportion reached 40 percent, it became fully capable of self-development and self-transformation.

If we increase the proportion of an enterprise's net income to be retained as profit and cut the proportion of taxes and other levies, would that mean a reduced flow of revenue into government coffers? From a static viewpoint, this certainly would be the case. But, if we take a

developmental point of view, it is not so. Suppose the enterprise's net income is constant. In that case, when the proportion of retained profit increases, government revenues would necessarily decline. If net enterprise income is a constantly increasing quantity, on the other hand, a rising proportion of retained profit and a declining proportion of government levies does not necessarily mean less revenues for the government. If the enterprise's net income increases at a faster pace than the increase in the proportion of retained profit, then the amount going into the government coffers may increase in absolute terms, even though it accounts for a smaller share of net income. This has been precisely Capital's experience.

Capital's net income was 376.92 million yuan in 1978, and that figure had grown 6.96-fold to 2,625,840,000 yuan by 1990. In 1978, the enterprise spent 371.42 million yuan of its net income, or 98.5 percent, to pay taxes and other charges to the government. In 1990, taxes and other charges claimed a smaller share of the enterprise's net income, 57 percent, but amounted to 1,499,120,000 yuan in absolute terms; four times what the government collected from Capital in 1978. Let us look at the results of the contract system. In 1981, Capital's first year under the contract system, the government collected 472.38 million yuan from Capital in the form of taxes and profits, or 89.3 percent of its net income. In 1990 the government netted 1,499,120,000 yuan from Capital in the form of taxes and profits, 57 percent of its net income. What Capital paid to the government in 1990 was 3.17-fold what it did in 1981. If we compare the first year of contracting with the 10th year, there was a drop of almost 33 percentage points in the share of net income that went to the treasury. In absolute terms, however, the amount of taxes and other charges paid to the government increased 2.17-fold, with revenues rising 31.40 million yuan for every percentage point drop on the average. This is why. When proportionally less net income ends up in the treasury, the enterprise gets to keep more money as profit, which makes it more financially capable of developing production. And when the enterprise increases its net income as a result of expanded output, it means more revenues for the government in absolute terms. In this dialectical process, proportionally less income goes to the government, leading to a more revitalized enterprise, which means more revenues for the government. The key here is increasing the enterprise's total net income, that is, enlarging the "pie." Capital has been able to do this because its contract system has a mechanism that makes it possible for the enterprise to increase net income considerably on a lasting basis. This mechanism can be summarized as follows:

First, "setting fixed targets at one end and leaving the other end open." "Setting fixed targets at one end" means determining the amount of profit to be paid to the state and the rate of increase as well as the kinds of taxes payable and the tax rates and keeping them unchanged during the contract period. Judging from experience, the

latter is even more important. Only by fixing the amount of payment to the state can we give enterprise flexibility at the other end and maximize the enthusiasm of enterprise workers to increase earnings. After paying the state in full, everything else that remains belongs to the enterprise. This is an incentive for the enterprise to do its best. The higher its earnings, the greater the amount of profit it gets to retain to be spent on technological transformation and self-development. This creates the material conditions for raising productivity and expanding the scale of production, thereby increasing total net income considerably.

Second, "pegging total wages to the amount of profits realized," thereby linking the increase in total net income to the vital interests of enterprise workers. This way the enterprise creates the human conditions for increasing net income. To get a pay raise, the enterprise worker must first help the enterprise realize more profits. Because turnover taxes are collected before profits are formed, increasing profits also means increasing taxes and net income. The result is a benign cycle: To increase his own wages, the employee works to increase net income. Since the pegging coefficient between total wages and profits realized is less than 1 (0.8:1), and since the amount of profits realized was far larger than the total wages when pegging started, the steady increase in total wages has been accompanied by a steady drop in the ratio between total wages, on the one hand, and profits and taxes realized, on the other. In 1981, when the contract system was introduced, the average monthly wage of a Capital worker was 71.16 yuan. By 1990, it has increased 2.9 times to 280 yuan. Yet the ratio between total wages and profits and taxes realized fell from 0.152:1 in 1981 to 0.124:1 in 1990. This way a mechanism for continuously increasing the enterprise's surplus labor rate was formed, making possible a sustained increase in its net income. Between 1981, the first year of contracting, and 1990, per capita profit and taxes at Capital rose 3.4-fold from 6,111 yuan to 26,861 yuan.

Third, within the enterprise a contract system centered on personal economic responsibility was put into effect. The overall goals of the enterprise were broken down, and all employees at all levels were given specific tasks in accordance with the principle of division of labor in socialized mass production and the principle of combining responsibilities with rights and interests. The result is a responsibility system that embraces all employees. The goal of this internal responsibility system is to improve the enterprise's overall profit. At the heart of the system is advanced scientific management. Its restraint is the principle of distribution according to labor. It unleashes the enthusiasm of every single worker to the maximum and forms the mass basis for fulfilling the enterprise's contract system to the state.

Fourth, all-staff contracting. Contracting at Capital is not individual contracting or contracting by the leading group, but all-staff contracting. In other words, all its workers are on contract to the state. The economic

expression of all-staff contracting is the above-mentioned system of pegging total wages to the amount of profits and taxes realized. Its political expression is the elevation of the workers' representative assembly as the highest power organ in the enterprise. The workers' representative assembly elects the enterprise's leading group (for submission to the government for approval and appointment), makes decisions on major issues in enterprise operations, and supervises leading groups at all levels in the entire process of running and operating the enterprise. Workers' welfare is under self-management. Party leadership is effected through the central role played by party members on the workers' representative assembly and through party members acting as models. All-staff contracting is a full expression of socialist democracy in the enterprise. It is a solid guarantee in organizational terms of the role of all workers as master. By fully mobilizing the workers' initiative and enthusiasm, it keeps the flow of net income growing ever more strongly on a sustained basis.

We can thus see that Capital's contracting experience embodies Mao Zedong's philosophy that finance must be based on economics and that the main energy must be used to increase output and therefore surplus goods so as to create the material conditions for increasing government revenues. It embodies the idea that to increase government revenues, we must rely on the masses and combine the increase of such revenues with the improvement of the people's material life.

III

Does Capital's contracting experience have universal significance? Can it be duplicated extensively? [passage omitted]

To this historic question Capital has both a theoretical and a practical answer: Expanded reproduction should be an intrinsic function of large- and medium-sized enterprises owned by the whole people. Enterprises should be and, as proven in the case of Capital, can be the principal player in the investment game. To be the principal player in the investment game, the actual retained profit of an enterprise must amount to at least 30 percent of its net income in the first stage and exceed 40 percent in the second stage. This proportionate increase does not occur at a time when the enterprise's total net income remains constant; it does not come about at the expense of the state. Instead, what has made it possible is a mechanism that enables the enterprise to increase its net income substantially in a sustained manner while ensuring a steady prolonged growth in government revenues. Contracting at Capital has universal significance precisely because it has developed such a mechanism.

A diametrically opposite response is this: The only function of large- and medium-sized enterprises owned by the whole people is to maintain simple reproduction. It is not their business to expand reproduction. The state is the only principal player in the investment game. The

scale of expanded reproduction at an enterprise must be determined by the state. Between 85 and 90 percent of an enterprise's net income should go to the government. Epitomizing this response is the second step in the plan to substitute taxes for profits and a pilot project introduced in recent years by finance departments under which "profits are separated from taxes and loan repayment and contracting occur after taxes are paid." Whatever its superficial arguments, the taxes-lieu-of-profits plan in essence will bring back and perpetuate the situation in which the enterprise has to turn over 85 percent of its net income to the government. Under the pilot project, after paying turnover taxes, the enterprise is to pay income rate at the rate of 35 percent (or, as proposed in 1990, at 33 percent,) down from 55 percent in 1985. After all the taxes are paid, the enterprise is to pay contract profits. What it is left with then will be its profit. Yet turnover taxes have been gobbling up a steadily growing share of net income in recent years, rising from 47.4 percent in 1985 to 63 percent in 1989. After paying turnover taxes, the enterprise must in addition pay income tax at the rate of 33 percent, which works out to be 12.2 percent of its net income. Between them, therefore, the turnover tax and the income rate already take up over 75 percent of net income. Out of the remaining 25 percent the enterprise has to set aside some money as contract profit to be paid to the government. One quarter of the remaining funds goes to the "two funds." The balance is used to purchase bonds and pay construction taxes which the enterprise is required to do when it builds houses to increase output or to provide housing for its workers. What the enterprise is left with after all this is taken care of is its "retained profit," a mere 10 to 15 percent of its net income, probably barely enough to cover collective welfare expenses and hand out bonuses. The way the financial pie is sliced determines that the enterprise limit itself to maintaining the scale of simple reproduction. If pre-tax loan repayment is abolished in favor of after-tax loan repayment without raising the depreciation rate correspondingly, the enterprise would have difficulties just maintaining simple reproduction. When that comes to pass, the enterprise will be incapable of self-transformation and self-development, that is, self-accumulation, which means its ability to carry out expanded reproduction using its own funds. To empower the enterprise in this sense, we must put an end to the practice in which the treasury swallows up 85 percent of the enterprise's net income and allow the enterprise to keep a reasonable portion of its net income as profit that is actually at its disposal. The central goal of structural reform is to transform large- and medium-sized enterprises from government appendages into commodity producers capable of expanded reproduction. Accordingly, raising the share of an enterprise's net income that it can keep as profit to make it capable of reproduction is a central issue in structural reform that we cannot sidestep. Herein lies the heart of the debate that has been going on among enterprises and finance departments in recent years.

According to the fundamental tenets of Mao Zedong's financial thought and judging from the enterprises' actual experience, an enterprise armed with the financial wherewithal for expanded reproduction is a lasting source of growing revenues for the government. Say a hen lays 10 eggs. If you remove 90 percent of the eggs, that is, nine eggs, then only one chick will be hatched. In other words, only simple reproduction is maintained. So even if you keep the egg removal rate at 90 percent, you can at most keep removing nine eggs. On the other hand, if you decrease the egg removal rate from 90 percent to 50 percent, then five chicks will be hatched by the five remaining eggs. In other words, expanded reproduction is allowed to take place. By reducing the egg removal rate 40 percent, you can remove just five eggs in the first year. In the second year, however, you can walk away with 25 eggs and even more in years to come. In the case of Capital, since the growth in the share of retained profit is achieved by increasing the volume, the amount of revenues collected did not decrease in the first year before increasing in the second year, as in the analogy above. Instead, revenues have been growing each year at a dozen percent or so. Revenues collected by the state in the form of profits and taxes made up 57 percent of net income in 1990, down from 98.7 percent in 1978. Despite this decline, what the state collected from Capital quadrupled, absolutely speaking, between 1978 and 1990. Suppose we reckon as revenues the increase in fixed assets that results from investment using retained profit but that comes under state ownership. Between 1979 and 1990, then, Capital paid to the government a total of 9,832,270,000 yuan in the form of profits and taxes and another 2.4 billion yuan in the form of new fixed assets. (Between 1979 and 1990, the enterprise's new fixed assets amounted to 3,707,760,000 yuan in all. Of this amount, 1.3 billion yuan was estimated to have resulted from depreciation funds and state investment while 2.4 billion yuan was derived from technological transformation financed by retained profit.) Add the two and you have 12,232,270,000 yuan. During the same period, the enterprise realized a total of 14,685,090,000 yuan in profits and taxes, which means that it contributed a total of 83 percent of its net income to the state in the form of profits, and taxes, and new fixed assets.

As we study the issue of revenues and retained profits relative to the net income of an enterprise, we may do a comparison between Capital Iron and Steel Complex and Anshan Iron and Steel Complex. During the Seventh Five-Year Plan, Capital realized a total of 9,709,900,000 yuan in profits and taxes, of which 59 percent were paid to the state in the form of profits and taxes. So the enterprise actually retained 41 percent of its total realized profits and taxes. Through self-accumulation and expanded reproduction financed with retained profit, it was able to increase its total net income, boosting the amount of realized profits and taxes to 2,625,000,000 yuan by 1990. This is more than two times the total profits and taxes realized by Anshan, which has a larger scale of production, thus catapulting Capital into the ranks of leading enterprises in the nation. Despite the

enormous difficulties it encountered in 1990, Capital still managed to increase its realized profits and taxes by 16 percent and its revenues to the state in the form of taxes and profits by 14 percent, or 184.48 million yuan, compared to 1989, because of its formidable capacity for self-reproduction. During the Seventh Five-Year Plan, Anshan realized 11.18 billion yuan in profits and taxes. Of this amount, it should turn over 83.7 percent, or 9.35 billion yuan, to the state in the form of taxes and profits. It has turned over 71.5 percent, or 8 billion yuan. With an excessively low rate of profit retention and a limited capacity for self-reproduction, it realized 28.2 percent less in profits and taxes in 1990 compared to 1989 and paid 120 million yuan less in revenues to the government. Before 1990, Anshan had consistently realized more profits and taxes than Capital and was the nation's top enterprise. In 1990, however, profits and taxes realized by Anshan were equivalent to just 68.4 percent of Capital's, or 800 million yuan less. At the same time, Anshan's total liabilities reached 4.17 billion yuan, including 1.35 billion yuan in unpaid taxes and profits. Anshan is in dire straits. Similar problems can be found at Wuhan Iron and Steel Complex and other large enterprises. To extricate Anshan from its plight, the government had no choice but to cut taxes and reduce the amount of steel it was required to sell to the state at low prices under the plan in order to increase the amount that the enterprise is free to sell on its own. The state's bail-out of Anshan is consistent with its preferential policy toward Capital under the contract system. This fact clearly demonstrates the universal significance of Capital's experience. Had the government applied the contract system to Anshan during the Seventh Five-Year Plan in the same way it applied it to Capital, instead of waiting until the enterprise found itself in a beleaguered position before bailing it out, the situation would have been much better.

To illustrate the superiority of the Capital contract system as demonstrated in practice, we may also compare Capital with the situation at the Shanghai Metallurgical Bureau. Profits realized: In 1978 Capital and Shanghai realized 299 million yuan and 900 million yuan in profit, respectively. The ratio between the ratio was about 1:3. In 1990, Capital realized 2,126,000,000 yuan in profit, about 12.5-fold that of Shanghai, which was 170 million yuan. Profits and taxes paid to the government: In 1978, Capital paid 370 million yuan in profits; Shanghai, 1.15 billion yuan. Capital's payments were 32 percent those of Capital. In 1990, Capital paid 1,499,000,000 yuan in profits, Shanghai paid 1 billion yuan, 1.5-fold that of Capital. Shanghai retained 4.92 million yuan and 10 million in profit, respectively. The former retained half as much as the latter. In 1990, Capital and Shanghai retained 1.14 billion yuan and 100 million yuan in profit, respectively. Capital's retention was 11.4-fold that of Shanghai. Steel output: In 1978 Capital's steel output was 1.75 million tons; Shanghai's, 4.5 million tons. The former's steel output was 38.9 percent that of the latter. In 1990, Capital's output was

4.31 million tons; Shanghai's, 5.07 million tons. Capital's output was 85 percent that of Shanghai. Rolled steel output: In 1978 Capital's and Shanghai's rolled steel output was 1.17 million tons and 3.6 million tons, respectively. Capital's output was 32.5 percent that of Shanghai. In 1990, their output was 3.8 million tons and 4.45 million tons, respectively. Capital's output was 85 percent that of Shanghai. Judging from these data, Capital has taken a big stride forward compared to Shanghai. The latter, on the other hand, has lost ground badly. In terms of the actual material being produced, Shanghai's steel output grew only 12 percent and its rolled steel output increased just 23 percent in those 12 years between 1979 and 1990. We can say that, basically, it maintained simple reproduction. During the same period, Capital's steel output and rolled steel output increased 1.46-fold and 2.24-fold respectively, carrying out expanded reproduction by doubling output. If we look at the value indicators, Capital realized 1,827,000,000 yuan more in profit in 1990 compared to 1978 while profit dropped 730 million yuan at Shanghai in the same period. Profits and taxes paid to the government: Capital paid 1,129,000,000 yuan more in profits and taxes in 1990 compared to 1978 while Shanghai paid 150 million yuan less. Enterprise-retained profit: Capital retained 1,135,000,000 yuan more in profit in 1990 compared to 1978, Shanghai retained 90 million yuan more. In terms of value, Shanghai is clearly on the wane. What are the reasons for the great setback? Haven't the workers at Shanghai been working hard? No. The workers of Shanghai, including those at Shanghai Metallurgical Bureau, are at the forefront of the nation in terms of both quality and fighting spirit. What has caused the setback is the failure to carry out a Capital-style contract system at Shanghai. Hence its declining capacity for self-transformation and self-development. In the end, this has not done the state or the enterprise any good. By carrying out the contract system, in contrast, Capital has made itself capable of self-transformation and self-development. By enlarging the "pie," the enterprise has grown, the workers' standard of living has gone up, and the revenues paid to the government have also doubled. Facts speak louder than words. Is there still any doubt about the universal applicability of the Capital contract system to similar enterprises? Not to me. Of course, when it comes to actually duplicating Capital's experience, we must move cautiously depending on the specific circumstances.

In short, judging from Capital's experience, when it comes to dividing up the net income between the state and a large- or medium-sized enterprise, we should continue to concentrate on ways of increasing the total net income, that is, on making the pie larger, in accordance with Mao Zedong's financial thought. The policy on distributing the net income between the state and the enterprise should be one that can increase the net income rapidly. In fiscal matters, our only basic hope is to handle the distribution relations between the state and the enterprise in accordance with this line of thinking.

Shenzhen Official Discusses Shareholding System

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[Article by Liang Liansen (2733 1670 2773) and Wu Wen (0702 7186): "Practice Proves that the Shareholding System Reform Is a Good Thing—Part One of a Special Interview of Hsu Jingan (1776 2529 1344), Chairman of Shenzhen City's Restructuring of the Economic System Commission"; first two paragraphs in italics is a source-supplied introduction]

[Text] *Hsu Jingan, chairman of Shenzhen City's Restructuring of the Economic System Commission, has been to Hong Kong several times on inspection tours, and the reporters have had long conversations with him about everything under the sun.*

Everybody in Shenzhen knows that Shenzhen owed its rapid rise in the 1980's to reform and opening up, and if it hopes to continue to grow in the 1990's, it must still rely on reform and opening up. In recent years, clamors for expanding reform and further opening up have grown increasingly loud, and as the vanguard paving a socialist path with Chinese characteristics, how should Shenzhen pave a new path for China's reform and give play to its role as the experimental ground? For answers, we conducted a series of special interviews of Chairman Hsu Jingan of Shenzhen's Restructuring of the Economic System Commission, who is also a Shenzhen University professor and deputy director of the Shenzhen Stock Exchange. The first interview is about Shenzhen's reform in favor of the shareholding system and about the securities market.

[Hsu] Let us first talk about the basic situation. Since Shenzhen first implemented the shareholding system reform in 1986, 108 shareholding enterprises have appeared; 17 of those are restructured state-run old enterprises, the rest are newly-formed shareholding companies, and six of those are listed companies. Statistics gathered from 84 of the shareholding enterprises indicate that the average profit to investment ratio in 1989 was 16.77 percent, compared to the city's industrial enterprises' average of 13.73 percent. Five of the listed companies' profits rose an average of 97 percent in 1988, 1989, and 1990; their net assets grew 1.3 fold in three years time. But the state-run enterprises under the city's jurisdiction saw their profit plummet in those same years. Practice proves that the shareholding enterprises have more vitality and are superior to the original state-run enterprises.

Pressure From Shareholders

Why are the shareholding enterprises even better than the state-run enterprises? It is very simple: The shareholding enterprises have more pressure. If the state-run enterprise factory directors fail to complete their contracted responsibilities, all they have to do is write a report to their superiors complaining about the weak

market and higher raw material prices and so on and then ask for a readjustment of the contract quota. But for the shareholding companies, besides having the state as shareholder, there are the enterprises' own staff and workers and the average citizens who bought shares. The management is responsible mainly to the many shareholders and must generate even more profit and dividend. If they are not profitable, they cannot simply send a report to the shareholders. The shareholding enterprises' vitality comes from issuing stocks and attracting capital and other activities. They can transform an enterprise and even create new industries. For example, Jintian Company used to be a subsidiary of a textile goods company. Since it became a listed company in 1988, its profit and assets have exceeded that of its parent company, because it has diversified its operations. If the sale of textile goods is slow, it can start a real estate development business or a small car leasing company and so on. Thus, from this point alone, the shareholding system is preferable to "eating out of the big pot," and it should become the direction of all state-run enterprises' reform.

[Reporter] So far you have talked about the necessity and possibility of the shareholding system, but is there something unique in Shenzhen's case?

[Hsu] For uniqueness, we will have to count Shenzhen SEZ's [special economic zones] early start with the shareholding system. In accordance with the Central Party Committee's guiding principle in setting up SEZs, the development of Shenzhen SEZ did not rely on the state's investment; instead, it relied broadly on absorbing domestic and overseas capital. In 10 years, Shenzhen's capital construction investment came to 22.3 billion yuan (RMB, same below,) and except for 350 billion yuan in direct state investment, the rest were domestic and overseas investments, bank loans, and funds allocated by the Shenzhen government. The diverse investment entities make Shenzhen's enterprise organizational structure different from that of the interior provinces—more often it will adopt the format of a shareholding limited liability company formed by the investing concerns. Shenzhen has 3,862 industrial enterprises, close to 2,000 of them are limited liability companies, making them the majority in the SEZ.

It Was Not Because of the Factory Directors' or the Managers' Short-Sighted Behavior

Over the last 10 years, Shenzhen has also implemented reform in the state-run enterprises. On the premise that the state retains the ownership right to enterprises' assets, some of the rights to govern and utilize the profits have been handed down to enterprises. They are responsible for establishing development, benefit, and bonus funds. This reform smashed the old setup where state-run enterprises controlled all income and expenditure centrally. We have begun to link the workers' gains to enterprises' profit. It is a good reform, but it has also brought some problems, the most important of which is that in fund utilization, enterprises generally tend to

skew toward consumption. Enterprises are willing to spend more on benefit and bonuses but less on development.

In the past, we blamed it on the factory directors and the managers' short-sighted behavior, but in fact, it is a phenomenon found not only in Shenzhen but is widespread in all state-run enterprises nationwide. This demonstrates that such a phenomenon has nothing to do with the factory directors' or the managers' behavior. It only proves that the state-run enterprise system still has many defects, namely, enterprises have no motivation to accumulate and have no means to accumulate. Since all accumulations eventually go to the state and to all the people and only the consumption funds belong to the workers, who would bother to increase accumulation? Thus, many problems have emerged in enterprises. The original intention of our reform was to link distribution to enterprise performance: Those that performed well would get a bigger bonus; those that did not do so well would get a smaller bonus; and those that did not perform would get no bonus. But it has not turned out that way. Everybody hands out bonuses regardless of performance. In fact, how much bonus one hands out has nothing to do with enterprise performance; rather it depends on sheer audacity. The daring ones hand out more and the less daring hand out less. Everybody goes all out and competes to hand out more bonuses. If all enterprises want to hand out money, their consumption funds will necessarily exceed their development funds. The state cannot check on everybody. It is like using 10 fingers to keep down 10 fleas. It simply will not work. We must have an internal restraining mechanism. Thus, if we only reform enterprises' distribution method but do not make corresponding reforms to the traditional public ownership system or establish an enterprise self-accumulation mechanism, we will inevitably lose control over the consumption funds. Socialist countries have all experienced serious inflation in the midst of reforms, and this is the reason why.

What is the state-run enterprises' solution? They can go back to the old way of controlling all income and expenditure centrally and retain the traditional public-ownership system. But obviously this is not going to work. Or they can turn to the private-ownership system. Of course the small enterprises can do so, but it is against socialist principles for the large- and medium-sized state-run enterprises to follow suit. Today, the only option is to adopt the shareholding system. We can let the state and the staff and workers own the property rights to enterprises. The state can be separated into central and local governments, and the staff and workers can be separated into those that work for the enterprise and those that do not. The shareholding company's surplus profit will go to the workers as dividends, and the accumulations will go to the shareholders. The essence of letting the workers own stock is not just to let them share in the enterprises' income but also to let them share in the benefits generated by enterprises' growing assets and increased accumulations. If enterprises have more assets,

their stock prices will rise, which will mean even more profit for the shareholders. This changes the existing enterprise system where accumulations belong to the state and consumption belongs to individuals, and in turn we will be able to establish an enterprise self-accumulation mechanism.

[Reporter] Please tell us about the Shenzhen stock market.

[Hsu] Today, there are two types of shareholding companies in Shenzhen. One is internally-held shareholding companies where only legal entities or the staff and workers can own shares. The other is listed companies that issue stock to the public. The former is the majority. Since 1987, six listed companies have been approved. In 1988, Shenzhen only offered one stock and one securities company. Its monthly volume of transaction came to a little more than 100,000 yuan. In 1989, three stocks were issued, and there were three securities companies, with monthly volume of more than 2.6 million yuan. In May 1990, there was a "stock market craze," with volume of transaction topping 110 million yuan, and by June, it reached 2.6 billion—the market value of five stocks reached 2.8 billion yuan, 13.3 times their face value of 210 million yuan at issuance.

Ups and Downs—The Agonizing Problem

[Reporter] Many Hong Kong people pay close attention to the development of the Shenzhen stock market, because it provides a possible place of investment. The Hong Kong people want to know what kind of problems is the Shenzhen stock market facing, and what are the government and the average citizens' attitude toward the market?

[Hsu] When stocks are traded in the market, there will be ups and downs. A year or two ago, the market soared, and the investors made a lot of money. Someone wrote me a letter saying that if someone bought 10,000 yuan worth of stock, a few days later it turned into 100,000 yuan and more, with profit like that, who would want to labor for socialism? That is a good question. The stock market encourages people to invest. Will this create a polarized wealth-versus-poverty situation? Does it violate the principle of distribution according to work? Last October stock prices began to drop. Some people lost money. They cried. Of course, nobody has jumped off tall buildings yet, but if someone had, would the incident be denounced as a capitalist phenomenon in a socialist society? Thus it seems that the stock market is no good whether it is up or down, and the government indeed finds this to be an agonizing problem. There have been heated debates among people from all walks of life in Shenzhen and even in Beijing. In my opinion, we should first clarify one important question, and that is, under socialist conditions, should we have a stock market?

Capitalist stock markets have been around for more than 300 years, and they are still being developed and perfected today. Worldwide, as a new way to organize property rights and circulate funds, the shareholding

system plays a positive role which is indispensable. The shareholding system goes beyond the bounds of private capital to achieve socialization of capital. Its effects are manifested in its ability to raise huge sums of capital in society quickly to achieve the scope of management needed by socialized great production. It lets capital circulate freely in society and moves funds from the sunset industries and the low-efficiency enterprises to the burgeoning and high-efficiency industries and enterprises. It puts enterprise management under society's supervision, and instead of being responsible to individuals, the managers are held responsible to the public. Thus, the shareholding system greatly increases the degree of socialization of factors of production. Past socialist practices already proved that although the traditional public ownership system has abandoned the system of private ownership of factors of production, it itself has become a closed, ossified system. Socialism should consciously utilize the shareholding system which is a product of modern civilization and remove the shackles of the traditional public ownership system in order to develop and perfect itself.

The stock market's role in helping to develop and perfect the socialist economy is increasingly clear. First, if enterprises are to develop, they must solve the problem of securing a source of funds. Before, there was only one way, and that was to borrow money from banks. Now, enterprises can make use of the stock market to raise capital. Second, the stock market is a good way to turn consumption funds into production funds. Today, the country's urban and rural areas have 800 billion yuan in savings, and if we add the 200 billion yuan cash in the hands of the citizens, we have 1 trillion yuan. According to the thinkings of the planned economy, this would mean producing 1 trillion yuan worth of goods. That was the old equilibrium concept. In this country, on the one hand, the banks have huge sums of deposits, and these deposits can be withdrawn at any time. They can be considered consumption funds. On the other hand, enterprises are short of production funds. If the bank deposits can be used to buy stocks, the money will be turned into production funds. To enterprises, borrowing means debt which must be repaid, but stocks can be direct investment. To the citizens, since distribution was tilted toward individuals, their savings have grown. What should they do with the money? Should they be encouraged to eat, drink, whore, and gamble? That would go against the socialist spiritual civilization. Should they be encouraged to become capitalists? That would be against socialist principles. Encouraging them to invest in stocks would be a better solution. To the country, it would also be a better way to attract idle domestic and foreign funds. Furthermore, developing the stock market is an inevitable consequence of the development of the commodity economy.

The stock market will always have some problems. For example, there will always be ups and downs, and there will be under-the-table transactions, bribery, and corruption, and in the last 70 years, we have had two global

stock disasters. But despite all these, not a single stock market has closed, and the world's stock markets are still growing and being perfected. Shenzhen's stock market is no exception. We are in the midst of tightening the legal system and adopting a series of measures to improve management.

Speculation, Suicide, and Privatization

[Reporter] What other concerns are there with regard to the shareholding system reform and the stock market? What should be done?

[Hsu] Today there are still people who are concerned that the shareholding system and stock issuance will change the essence of the public ownership system and lead to privatization. In my opinion, such concern is unfounded. Overall, the public ownership system will still be the main system; that will not change. China has 1.6 trillion yuan worth of state-owned assets, and after the revaluation, they should be worth about 2 trillion yuan. The urban and rural citizens together have 1 trillion yuan in savings and cash, and even if they took out half of that, or 500 billion yuan, to buy stocks, it would only come to one-quarter of what the state-owned assets are worth. The Chinese citizens cannot possibly buy up all the state-owned enterprises. Thus the socialist foundation is solid. In fact, the 500 billion yuan used to buy stocks can be used to make other investments, and that in turn will become state-owned assets. How can privatization take place? This is the first point.

Second, all monopolized industries and trades and all enterprises with monopolized profits will not adopt the shareholding system. The state will have controlling interest in all large state-owned enterprises relevant to the national economy and the people's livelihood, and the percentages of control stock the state holds will vary depending on circumstances.

The kinds of speculations and social risks stock issuances may bring are also hot topics in Shenzhen. What do we think of these speculations? Since stocks are non-refundable and can only be bought or sold, when buying and selling stocks, one should look at how good or bad the enterprises are. In fact, only through buying and selling stocks can we prompt enterprises to improve performance and facilitate fund circulation. As for the price differences, they are what the stock market is about.

In the traditional Chinese mind, speculation is a derogatory term. But in economics, the word implies seizing an opportunity to reap an anticipated profit by assuming risks. In fact, investing in a factory or a business is also taking responsibilities and risks. Speculation should be looked at as seizing an opportunity to make money. In this sense, there should be nothing objectionable about it.

We must prevent excessive speculation. Sharp increases and sharp falls in the market can lead to social instability. The soaring Shenzhen stock market last year was

a sign of the market's immaturity, or we should say, the government was to blame, because too few stocks were being offered. If there are no new stocks being offered, people can only keep on buying and selling the same old stocks, and their price will keep on rising. This year, stock prices tumbled, and people lost money. To me, when people take out money to buy stock, and if prices drop, of course they will lose money, but this is not as bad as if they borrowed money to speculate in stocks, especially if they borrowed from loan sharks to speculate in stocks. If they lost money and the creditors demanded payment, it could drive some to commit suicide. For this reason, Shenzhen has strict regulations prohibiting state-owned enterprises from using bank loans to speculate in stocks. Meanwhile, it also warns the citizens not to borrow money to speculate in stocks. If someone refuses to heed the warning and is eventually driven to suicide, I do not think anybody should get upset. I once joked that there are auto accidents everyday, and there are traffic fatalities, and so if someone should jump off a tall building because he was bankrupt by the stock market, we should not blame the stock market. Reform in favor of the shareholding system is a magnificent undertaking, and in truth, some of its negative effects are unavoidable.

A Very Significant Reform of the 1990's

[Reporter] What will Shenzhen do next to promote the shareholding system?

[Hsu] Like the rural contract responsibility system in the 1980's, the shareholding system will be a significant reform project of the 1990's. Shenzhen will go all out to promote this reform. We envision reorganizing all state-owned enterprises, internally-linked enterprises, and foreign funded enterprises that are efficient, that have a good foreign exchange-earning record, and that have potential into publicly-held shareholding companies. They can issue stocks publicly and list their stocks in the market or trade them over the counter. We will allow the interior provinces' shareholding companies to list their stocks in the Shenzhen stock market if they meet the requirements. By the year 2000, we hope to have 100 listed companies. Those that are not qualified to become listed companies but are relatively well-managed and have net assets of more than 5 million yuan can set up or reorganize themselves into internally-held shareholding companies with shares owned by legal entities or their own staff and workers. By the year 2000, we hope to have 1,000 internally-held shareholding companies. They will be the main form of shareholding company, because they play a role irreplaceable by any other type of company. The objective of the shareholding system reform is to reform enterprises' internal management mechanisms, but it is impossible to create a large number of publicly-held companies; most will have to be internally-held companies. So, to achieve the goal of shareholding system reform and achieve the transformation of enterprises' management mechanisms, we should reorganize some of the state-run enterprises into internally-held shareholding companies.

We should say that Shenzhen's shareholding system is a new creation. It is a reform under the condition of the public-ownership system. It has to resolve some unique problems not found in the capitalist markets. For example, we are in the midst of establishing a stock market regulation fund, that is, we will be using economic means to regulate and stabilize the stock market. This is something not found in Hong Kong's stock market. Shenzhen's shareholding companies have shown and will show even more vitality, which proves that this reform is indeed a very good thing.

Article Says Financial Condition Stable in 1991

92CE0266A Beijing JINRONG SHIBAO in Chinese
2 Jan 92 p 1

[Unattributed article: "China's Financial Condition Remained Stable in 1991"]

[Text] The financial statistics through the third quarter of 1991, which JINRONG SHIBAO has been authorized to release by the headquarters of the People's Bank of China, shows that China's economic and financial conditions continued to develop steadily in the first three quarters of 1991.

A normal amount of money was put into circulation. The 8.57 billion yuan that was put into circulation in the first three quarters of 1991, which was 12.92 billion yuan more than was put into circulation in the first three quarters of 1990, was the most money put into circulation in a first-three-quarters period in recent years. By the end of September 1991, the market money supply was 273 billion yuan, an increase of 18.7 percent. Cash revenues and expenditures for the first three quarters of 1991 could be characterized mainly as follows: 1. With regard to the net increase in the rural money supply, the total net supply was 197.87 billion yuan, or 15.9 percent more than in the first three quarters of 1990, and 14.9 percent more than in the first three quarters of 1990; expenditures for procuring agricultural sideline products accounted for most of the increase. While some provinces and cities suffered from the worst flooding and waterlogging disasters in 100 years, we reaped the second biggest bumper harvest in history, which increased the amount of money put into circulation in rural areas, with our expenditures for procuring agricultural sideline products reaching 105.75 billion yuan in the first three quarters of 1991, or 5 percent more than in the first three quarters of 1990. The second biggest net increase was to rural credit agencies, with the increased expenditure going mainly to disaster relief and production self-assistance; the net expenditure to rural credit agencies for the first three quarters of 1991 was 64.16 billion yuan, 16.13 billion yuan more than in the first three quarters of 1990, or an increase of 33.6 percent. 2. Consumer expenditures increased steadily. Banks paid out 348.87 billion yuan in wages and other individual expenditures in the first three quarters of 1991, 49.28 billion yuan more than in the first three quarters of 1990,

or an increase of 16.5 percent. 3. Withdrawals of commodity pledges from circulation was strong. Commodity-sales income for the first three quarters of 1991 was 66.58 billion yuan more than for the first three quarters of 1990, an increase of 16.1 percent. The steady increase in withdrawals of commodity pledges from circulation ensured a steady increase in the amount of money put into circulation in the first three quarters of 1991.

There was a steady growth in all types of savings, and a readjustment of the lending structure. By the end of September 1991, all types of bank and credit agency savings had increased 294.35 billion yuan over the beginning of 1991, or 62.17 billion yuan more than in the first three quarters of 1990; enterprise savings had increased 105.52 billion yuan over the beginning of 1991, or 34.86 billion yuan more than in the first three quarters of 1990, for an increase of 7.4 percent. This shows that enterprises' ability to pay has increased steadily along with steady production improvements and further market activities. By the end of September 1991, savings deposits of urban and rural residents throughout China had increased 162 billion yuan over the end of 1990, or 11.47 billion yuan more than in the first three quarters of 1990, which shows that current consumer mentalities and expectations are quite stable and tend toward the long-term.

All bank and credit agency loans increased 192.82 billion yuan over the beginning of 1991. This includes bank loans, which increased by 146.87 billion yuan over the beginning of 1991, or 3.91 billion yuan more than in the first three quarters of 1990. The increases went mostly to industrial-production enterprises, agriculture, and fixed assets, where loans increased 49.95 billion yuan, 47 billion yuan, and 17.95 billion yuan, respectively, over the beginning of 1991. Fixed-assets loans increased 29.26 billion yuan over the first three quarters of 1990, for an increase of 164.9 percent; this was higher than any first-three-quarters increase in recent years. Agricultural loans increased 5.28 billion yuan over the first three quarters of 1990, for an increase of 19.2 percent, while loans to industrial-production enterprises fell 9.46 billion yuan compared to the first three quarters of 1990. These new increased lending changes were basically in line with the state's industrial structure policy and demands to clear up "triangular debts."

There was a continuous increase in foreign exchange reserves. By the end of September 1991, our national foreign exchange reserves had reached \$39.96 billion, or \$11.37 billion yuan more than at the beginning of 1991, for an increase of 39.8 percent; this was the biggest first-three-quarters increase since 1985. Our national foreign exchange balance and the Bank of China's foreign exchange reserves increased \$8.81 billion and \$2.56 billion, respectively, over the beginning of 1991, which shows the further growth of China's foreign economic contacts and foreign trade.

Concerned specialists at the People's Bank of China point out that, while the growth rate of our industrial

production was quite high in 1991, the problems of overstocked finished goods and poor economic performance have certainly not been solved completely. Although public funding was eased and all savings increased considerably in 1991, the lending structure is still imbalanced. Thus, banks at all levels must continue to adhere to the policy of "quantitative control and structural adjustment" and rationally adjust structures, emphasize priorities, opt for good loans and restrict bad ones, act strictly in accordance with loan approval dimensions, make overall plans for all loan orientations and schedules, and give priority to ensuring key funding needs, such as agricultural sideline product procurement. Moreover, they should pay attention to taking effective steps to strengthen control over lending by non-bank financial institutions.

INDUSTRY

Newest Motor Vehicle Plant Visited

92CE0247C Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 48,
2 Dec 91 p 25

[Article by Ho Chieh-hsia (0149 3381 7209): "Erqi: China's New Motor Vehicle Industry Base—A Second Hubei Firm"]

[Text] Shiyan City, located in northwestern Hubei Province, is a new motor vehicle industry city that came into being, prospered, and developed because of the Number 2 Automobile Factory (abbreviated to Second Auto). I had an opportunity to visit this huge enterprise and to interview the plant manager, Chen Qingtai [7115 3237 3141], to gain an understanding of how Second Auto developed.

Extremely Huge Scale

According to Chen Qingtai, Second Auto is China's largest new motor vehicle industry base. Its construction began back in 1969. After energetic development over 22 years, Second Auto has become a huge group, and this group has radiated into 24 provinces, municipalities, and autonomous regions throughout the country. It has founded 294 enterprises, eight trading corporations, and 262 technical service stations; employs 300,000 staff; and has an annual output value of more than 9 billion yuan.

At the nucleus of the Second Auto group is the Number 2 Automobile Factory, which presently has 35 branch plants, more than 80,000 staff, 24,000 pieces of equipment, and covers an area of 1.53 million square meters. For the most part it produces the East Wind series of trucks and cross-country vehicles, turning out 140,000 vehicles annually.

Four Centers

Plant manager Chen said that motor vehicle production is a high technology industry. Second Auto has gathered

together the best of the domestic and foreign machinery industry, making broad use of new technologies, skills, materials, and equipment.

He also said that four large centers have been set up to coordinate production. These four centers are the assembly, technical, equipment, and training centers.

The assembly center has more than 600 motor vehicle assembly lines, 117 of which are automated. The production lines include cold and hot processing, and special technologies. The assembly center's equipment is advanced and technologically reliable, ensuring the quality of the motor vehicle component manufacturing and complete vehicle assembly.

The technical center employs 1,900 staff, 1,100 of whom are engineers and technicians. The technical center has 61 specially-equipped scientific research offices for motor vehicle product development, technology and materials research, basic technology, and computer and microelectronics technology. In addition it has the largest motor vehicle test site in China, a complete road simulation system, an electronic hydraulic fatigue testing machine, a complete vehicle-testing turntable, an engine-testing table, an environmental testing room, an electronic scanning microscope, an IBM Model 4381 and Model 4331 computer system, and large, modern designing, testing, and inspection equipment. This forms a complete system for comprehensively developing motor vehicle products, materials, and technology.

The outfitting center consists of six motor vehicle outfitting production plants employing more than 10,000 workers and containing more than 5,500 pieces of equipment. The outfitting center has special machine tools, automated production lines, and painting and heat processing equipment, as well as jigs, accessories, cutting tools, and measuring tools for manufacturing and maintenance. It is able to provide full technological equipment for producing, altering, and designing motor vehicles.

The training center consists of eight large and medium-size institutions of higher education, including the Hubei Motor Vehicle Engineering Academy, whose facilities are advanced and complete in every way. The center is able to train 50,000 workers annually; it also trains more than 200 college graduates and 500 polytechnic and technical school graduates for Second Auto.

Efforts To Gain Markets

Speaking about future development, plant manager Chen said that the Second Auto Group adhered to the principles of "voluntarism, equality, and mutual benefit. It has developed lateral economic links in accordance with a specialized production orientation for more rational use of resources. It has improved the group's strength in parts and components, expanded the range of vehicle alterations and differently equipped vehicles,

increased after-sale services, and improved its information and fine services, thereby winning more customers and making better economic returns for new superiority in market competition.

In addition, the plant has worked hard to develop cooperation with others. According to plant manager Chen, Second Auto has established trade relations with 200 plants in more than 40 countries and territories of the world, and has set up trade agencies in Hong Kong, New York, and Hamburg. Since reform and opening to the outside world, it has also imported 33 software items and 739 pieces of testing and production equipment. At the same time, the number and kinds of complete vehicles and components exported has increased yearly. In the field of foreign cooperation, Second Auto established a joint venture with the U.S. Standard Thompson Corporation, founding the East Wind-Thompson Corporation to produce 500,000 thermostats annually. In a joint venture with the Xiamen Motor Car Industry Corporation and corporations in Taiwan and Hong Kong, it also founded the Jinlong Motor Vehicle Corporation, to cooperatively produce high-quality passenger cars. Newest plans call for the founding, in cooperation with the French firm Citroen, of a motor vehicle plant having a capacity of 300,000 vehicles per year.

Plant manager Chen said that the goal of Second Auto and the Second Auto Group is to spread both wings in sales and the development of products, using production's economies of scale to develop a line of products for sale mostly within China, but with an orientation toward the world.

This visit to Second Auto's production lines, assembly plant, schools, and old people's center, as well as the meeting with plant manager Chen, made the correspondent appreciate Second Auto's strong enterprising spirit. It is hoped that Second Auto will work ceaselessly and unrelentingly, and exert every effort to make a contribution to the flourishing of China's motor vehicle industry.

Output of Raw Materials Jan-Dec 1991

HK0702095092 Beijing CEI Database in English
7 Feb 92

[Text] Beijing (CEI)—Following is a list of the output of raw materials in January-December period of 1991, released by the State Statistical Bureau:

Item	Unit	1991	1990
Iron ore	10,000t	17607.3	16831.7
Pig iron	10,000t	6720.3	6186.6
Steel	10,000t	7057.3	6603.8
Rolled steel	10,000t	5547.39	5120.87
Ferro alloys	10,000t	229.56	223.87
Coking coal	10,000t	5366.95	5145.77

Item	Unit	1991	1990
Ten nonferrous metals	10,000t	252.38	229.37
of: copper	10,000t	55.87	55.77
aluminium	10,000t	94.52	84.47
Copper products	10,000t	47.42	41.47
Aluminium products	10,000t	44.55	40.02
Alumina	10,000t	152.22	146.58
Sulphuric-iron ore	10,000t	1335.53	1251.64
Phosphorus ore	10,000t	2034.94	2054.67
Timber	10,000cu m	3906	3959
Artificial board	10,000cu m	270.45	219.67
Cement	10,000t	24355.6	20293.8
Plate glass	10,000c	8596.26	8015.93

Notes: T - ton, cu m - cubic meter, c - case

CONSTRUCTION

World's Longest Diversion Tunnel Built in Gansu

OW1301093492 Beijing XINHUA in English
0902 GMT 13 Jan 92

[Text] Lanzhou, January 13 (XINHUA)—Pandaoling diversion tunnel, believed to be the world's longest, was completed Sunday in northwestern China's Gansu Province after more than five years' construction, XINHUA learned today.

The tunnel has a total length of 15.723 km and is part of the province's project of channeling water from Datong River to Qinwangchuan wasteland in the same province. The total length of all the main canals of the project will be 86.94 km.

The giant project will consist of 33 separate tunnels with a total length of 75.14 km, said local officials.

According to the officials, the tunnel was jointly built by Chinese and Japanese technicians and workers.

The Japan Kumagai Gumi Co., Ltd won a bidding for the project in 1985.

FOREIGN TRADE, INVESTMENT

New Foreign Trade System, Countermeasures Viewed

92CE0203A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 11, 11 Nov 91
pp 57-60

[By Tang Haiyan of the Economics Department of Shanghai's East China Normal University: "Problems in the New Foreign Trade System and Measures To Deal With Them"]

[Text] Using as a point of departure the adoption by foreign trade enterprises of sole responsibility for profit and loss, the new foreign trade system that began in 1991 has, with the help of readjustments in the renminbi exchange rate, gradually made it possible for foreign trade enterprises to take the right course of developing unified policies, equal competition, independent management, sole responsibility for profit and loss, integration of industry and trade, and implementation of an agency system. The orientation of reform is correct. In looking at the new system after having been in effect more than six months, we see striking results. From January to June 1991, imports and exports nationwide increased 7.4 percent and 17.5 percent, respectively, compared with the same period in 1990. Export product mix was also further optimized, foreign trade operations obviously became more orderly, and economic efficiency rose somewhat. However, the system still has a number of problems and contradictions. The purpose of this article is to discuss views concerning these problems and measures to deal with them.

I. Problems in the New Foreign Trade System

The problems can be summarized in the following three ways:

(1) The new foreign trade system is hindered by the old economic system. For the past 12 years, the reform of China's economic system has achieved great success. However, a number of factors hindering economic development still exist from the old economic system. Owing to deepening reform still not having completely developed throughout the economic system and because it started off first in the foreign trade system, it was inevitable that the old economic system would impede the new foreign trade system and make unavoidable the following contradictions.

1. Contradiction between equal competition and the financial responsibility system. The financial responsibility system instituted nationwide in 1988 made clear what were the main interests of local governments and aroused their enthusiasm. However, at the same time, it caused regional separatism, market blockades, chaos in economic order, distortions in the actions of local governments and producing enterprises, less efficient resource distribution, weakened macroeconomic government regulation and control, strengthened local governments, and unequal competition between enterprises. The new foreign trade system, guided by the principles of unified policies and equal competition, strived to change the unequal competition of the past by eliminating subsidies for export losses and centralizing retention of foreign exchange. However, the old financial responsibility system, which has yet to be thoroughly reformed, still hampers the actions of local governments and enterprises. The widespread climate of unequal competition it has engendered has caused the climate of equal competition created by the new foreign trade system to be limited and partial. Genuine equal competition has been very difficult to institute.

2. Contradiction between readjusting the trade mix and the old pricing system. The distorted economic parameters and confused economic signals caused by an irrational pricing system has hampered efforts of the new foreign trade system to optimize product mix of imports and exports. The irrationality of the pricing system shows up mainly in prices for resource-type products, which are too low, and in prices for manufactured products, which tend to be high. This seriously constrains optimization of China's foreign trade mix. Because domestic fixed prices for raw and semifinished materials, energy products and oil, and coal are excessively low, it is far more advantageous to try to export them than to sell them domestically. The strong inclination to sell them abroad further exacerbates domestic shortages of raw and semifinished materials and energy. At the same time, excessively high domestic fixed prices for manufactured goods, plus an irrational tax system, make it more advantageous to try to sell them domestically. This results in a clear inclination to sell domestically. In looking at imports, we see, on the one hand, that excessively high prices of domestic durable goods for consumers have caused the import of these goods to exceed the country's capacity. On the other hand, methods used to distribute imported goods and materials according to domestically allocated prices with financial subsidies have led to disastrous results, with demand for imports ever increasing, their unbridled introduction, and their poor utilization. Giving full play to the new foreign trade system against the huge backdrop of an irrational pricing system has brought chaos. This is because elimination of export subsidies has first of all meant large reductions in the export of high-loss goods, which essentially are goods which are highly processed. This, in fact, departs from the goal of the new system to optimize product mix of China's exports and to improve their quality.

(2) Frictions in shifting from the old foreign trade system to the new and effect of exchange rate changes. Generally speaking, the foreign trade contract management responsibility system has been a success. It has promoted the development of China's foreign trade by arousing the enthusiasm of various regions and sectors for foreign trade and by substantially unifying the "responsibilities, authorities, and benefits" within enterprises. However, just as it was foreseen when the system was drawn up and its program put into effect, the climate created by reform of the whole economic structure has made it impossible for it to solve a number of problems in the development of foreign trade. In certain aspects, even implementing the system has hindered the realization of the new foreign trade system.

1. The foreign trade contract management responsibility system has been implemented on the basis of acknowledging and guaranteeing differences in costs, foreign exchange retention, and export planning that have historically taken shape in the various regions, sectors, and enterprises. These differences in themselves constitute sources of unequal competition, and the contract system

has further strengthened a climate of unequal competition. The effect has been to exacerbate blind competition between regions, sectors, and enterprises. This has led to short-sighted actions and interests and a macroeconomic weakening of the export product mix. Implementation of the contract system and the effects it has produced have significantly increased resistance under the new system to promote unified policies and equal competition. This is why the system of foreign exchange retention based on broad categories of different products that the new foreign trade system put into effect and the policies it implemented based on the export values which required contract approval each year did, in effect, constitute a competitive policy established on the basis of the previous three years of unequal competition and the unequal benefits that had been obtained. The legacy of unequal competition created under the old system will substantially weaken equal competition between localities and between enterprises in the new situation. In the short run, this will make normal operations of the mechanisms of equal competition quite difficult.

2. One of the aims of the foreign trade contract management responsibility system is to enable regions, sectors, and enterprises to institute responsibility for their own profit and loss for certain costs and compensations in order to open the way for foreign trade enterprises ultimately to become totally responsible for their own profit and loss. However, the principle method under the contract system of helping localities and enterprises institute responsibility for their own profit and loss is to develop foreign exchange markets and implement compensatory use of foreign exchange. As a practical matter, the state has not and should not permit localities and enterprises to use gains from profitable goods imported into the domestic market, such as high-quality durable consumer goods, to compensate the costs of exports. This would make it difficult for them to institute responsibility for their own profit and loss and also involve increases in export volume. The result would be a long-term contradiction between the state demanding foreign exchange or demanding renminbi and then a new cycle reappearing. Without the vicious cycle having yet been broken, local governments and enterprises together implementing contracts with the state and eliminating export subsidies to institute responsibility for profit and loss could again get caught in the old vicious cycle. It could very possibly result in local governments, under guidance pressure and inducements of benefits to the main body of the regional economy, deciding to demand foreign exchange to extract themselves from difficulties, thereby making it hard operate a new system with responsibility for profit normally.

Frequent adjustments of the renminbi exchange rate also make it more difficult to implement the new foreign trade system. Adjusting the renminbi rate of exchange to a high valuation, in the long run, provides a positive stimulus to the development of China's export trade. However, the frequent downward adjustments of the

renminbi present serious problems to implementation of the new foreign trade system. These mainly show up as follows:

1. Export costs in terms of foreign exchange are increased, undermining foreign trade enterprises being responsible for their own profit and loss. In light of the new foreign trade system, the present critical point for various categories of foreign trade companies with respect to export costs in terms of foreign exchange is about 5.4 yuan/dollar (the state foreign exchange price of 5.20 yuan/dollar plus the 40 percent net retained foreign exchange ratio times the 0.5 yuan/dollar adjusted foreign exchange price difference). However, in looking at the actual situation, we see that a good part of costs in terms of foreign exchange for export goods now tops six yuan, bringing disaster to export purchasing plans. These foreign trade enterprises still have not obtained the benefits of increased export profits from the downward adjustment of exchange rates. They are first experiencing the full painful effects of increased losses from elimination of subsidies. Given these circumstances, it is very difficult for many enterprises to institute responsibility for their own profit and loss.

2. It is difficult to transform deficit operations in a short time. In varying degrees, every exchange rate adjustment increases export costs in terms of foreign exchange. Under the old foreign trade system, the state permitted foreign trade enterprises to put their losses on account. Banks neither canceled loans, raised interest, nor imposed penalties, a policy known as the "three no's." This made it possible for foreign trade enterprises to maintain deficit operations. However, the new foreign trade system being promoted this year does not permit it. According to reports, countless foreign trade enterprises in various localities still had a high volume of losses on account during the first quarter in 1991. It is estimated that this situation will continue for a period of time, thus making it difficult to implement the new system according to plan.

3. Increased costs in terms of foreign exchange will, in the near future, affect the general level of export increases. Although the rate of increase during the first half of 1991 was still being sustained at a relatively high level, it involved other factors. For example, a relatively large portion of exports was the result of transactions carried over from 1990 and implemented in 1991 and every locality that held an export trade fair was extensively promoting its export goods. According to calculations by relevant departments based on the 1990 export product mix, it will, with implementation of responsibility for profit and loss, be impossible to sell overseas one-quarter to one-third of exports because of exchange rates being adjusted downward. Products with extra high costs are the main reason.

(3) Imperfections in the new foreign trade system itself. Imperfections in the new foreign trade system itself are why problems and contradictions exist in its operation. They manifest themselves mainly as follows.

1. Instituting centralized retention of foreign exchange based on broad categories of goods has created new contradictions. The old foreign trade system instituted policies of regional preferences which created and strengthened unequal competition between regions, thereby dampening the enthusiasm of some local governments and enterprises. This is why it had to be reformed. However, the new method of foreign exchange retention likewise created contradictions: 1) Broad categories of goods cannot fully reflect intensity of funds and technology and implementing centralized retention of foreign exchange cannot give full expression to an optimized product mix of China's exports—which are necessary if we are to give preference to technology and to a higher degree of processing. 2) It is an objective phenomenon that the same category of goods has different natural advantages in different regions. Instituting centralized retention of foreign exchange is tantamount to totally denying the existence of regional advantages. 3) At present, foreign exchange earned from export products encouraged by some countries, in particular where there is intense international market competition, and foreign exchange from high-technology goods whose domestic production costs are also high often do not compare with that earned from regular export goods. There are even losses. Implementation of centralized foreign exchange retention also creates new unequal competition.

2. Contract methods and contract quotas have not thoroughly broken away from the old system. The new system has prolonged the utilization of quotas for total export volumes, export earnings, and turning over foreign exchange (including purchasing) to the central authorities. In addition, the demands of the Eighth Five-Year Plan for foreign trade development and the methods to be used each year to appraise the actual situation with respect to foreign trade development are bound to affect the normal functioning of the new system. 1) In looking at the past situation, we see that contract foreign exchange of foreign trade enterprises turned over to higher authorities and their responsibility for profit and loss in renminbi can be separated. Foreign trade companies which have renminbi losses can do an outstanding job of earning foreign exchange from their exports. Consequently, with local governments continuing to intervene in the foreign trade activities of enterprises in order to complete contract quotas, these enterprises are bound to be resubjected to local government control, thereby undermining their independence and making responsibility for profit and loss difficult to implement. 2) The lack of relatively firm standards for checking contract quotas is bound to affect fairness and accuracy, making it difficult to change the country's tradition of haggling.

3. Differences in benefits accruing to industry and trade and the resulting differences in their actions impede the smooth integration of the two sectors. Contradictions in the benefits of the two are quite prominent under the new foreign trade system. Aside from trying to sell on

world markets for the best prices and aside from reducing administrative and managerial costs as much as possible, the most important way for the trade sector to strictly observe a break-even point is, through independent management, to either accept fewer goods whose costs in terms of foreign exchange exceed the break-even point, not accept any of them, or force down their purchasing prices. However, it is difficult for the industrial sector to tolerate lower prices on its export goods which were not very profitable in the first place. Inevitably, some of the goods meant for sale abroad are circulated on the domestic market, and integrating industry and trade becomes more difficult. Ultimately, this affects the interests of export trade and those of the whole country.

II. Measures To Guarantee Normal Operation of the New Foreign Trade System

Analysis of problems and production factors associated with the new foreign trade system shows that, if we are to channel its operations onto a normal course and fully develop China's foreign trade in a positive manner, we have to adopt the following measures.

1. We must quicken the overall pace of economic structural reform to enable the new foreign trade system to be built on an even firmer foundation. The deepening of overall economic structural reform and its success are external conditions needed for the new system's normal operations. Although economic structural reform is now steadily deepening, owing to problems and contradictions with macroeconomic structural reform and operating mechanisms, the external coordination needed for normal operations, mainly with respect to prices, financial administration, and tax collection, still does not exist. This has substantially impeded the new system's operations and has also affected its functioning. We must gradually expand reform to eliminate these external obstacles. First, we should speed up the pace of price reform. We must establish a better balance in the price relationships between goods, especially between resource goods and technical goods and, at the same time, abolish dual-track pricing. If we are to cope with international competition, we should gradually introduce pricing mechanisms of the international market. This will enable foreign trade production enterprises to institute independent management and fair competition on the basis of accurate price signals and will advance integration of import and export goods and optimization of macroeconomic resource deployment. Second, we should gradually reform the financial responsibility system. We could consider gradually using a tax sharing system to supersede the local financial responsibility systems. With financial revenue being divided between the central government and local governments according to tax categories and with companies functioning on the basis of clearly defined authority from the central and local government, government administrative interference in enterprises would be reduced, thereby enabling them to truly institute independent management and responsibility for profit and loss. Third, we should

strengthen the competitiveness of our export products internationally by continuing to deepen reform of the tax collection system, effecting broad regulation of enterprise actions with respect to tax collection, and simultaneously furthering the development of the drawback system for exports.

2. We should do a good job of maintaining continuity during the changeover from the old to the new system so that we avoid serious dislocations. I think that, during the changeover, we should consider instituting certain essential transitional policy measures. For example, based on the need for adjusting the macroeconomic industrial structure, we could for the short term make appropriate increases in certain funds, such as foreign exchange retention for technology-intensive export products. In light of the overall goal of optimizing the export mix, we could grant specific transitional export subsidies to certain high-loss products that the state has encouraged for export. Judging from the contradictions that have emerged from trying out the foreign trade agency system, we could consider making the transition from a foreign trade purchasing system to the agency system by means of foreign trade marketing enterprises taking part in the operational decisions of foreign trade production enterprises. And in consideration of the actual regional differences in the cost of exports, the foreign exchange retention system could gradually make the transition from a retention system based primarily on product differences and secondarily on regional differences to one which is centralized according to products.

3. If the new system of responsibility for profit and loss is to provide a relatively stable and relaxed economic climate, we should be cautious in adjusting renminbi exchange rates. Exchange rates are bound to be adjusted downward when the development of China's foreign trade has been restricted by overvalued renminbi. However, if the renminbi exchange rate is lowered too often, that, too, is detrimental to the development of the country's foreign trade. The last few times it was lowered show that foreign trade purchase prices frequently increased along with the lowered rates, an example of prices pursuing exchange rates. The advantage that devaluation of the renminbi abroad gives to export enterprises is almost canceled out by a corresponding rise in the purchase price of foreign goods domestically. Furthermore, if we make a detailed analysis of export costs, we will discover that the high costs of export products are often due to export prices being substantially lower than they should be. Consequently, if resolving export problems by the frequent use of downward adjustments in exchange rates merely constitutes pressure on suppliers and customers and at the same time spurs an increase in exports, it is also foreshadows repeated exchange rate adjustments, ultimately becoming a vicious cycle of frequent downward adjustments and forcing foreign trade enterprises into the dilemma of either having to be responsible for their own profit and loss or having to fulfill contract quotas. In the short term, we should preserve a stable foreign exchange

rate for the renminbi to reduce exchange rate pressures on foreign trade enterprises with respect to responsibility for profit and loss, thereby guaranteeing the normal operation of the new system.

4. To further perfect the new system, we should formulate and institute measures which will link up the parts to form a whole. 1) The State Council should establish a control department which would oversee implementation of the new foreign trade system and provide coordination between relevant sectors so that overlapping authorities would be prevented and frictions that might be created would be contained. 2) Contract quotas could be implemented with flexibility. It is not necessary to be overly rigid. Awards could be instituted for localities and enterprises which do well with respect to foreign exchange retention, credit, and tax collection. The "responsibilities, authorities, and benefits" contained in joint contracts between local governments and foreign trade enterprises should be more clearly defined, giving enterprises greater independence and room to maneuver. 3) We should rapidly resolve problems concerning authorized export drawbacks above the plan and their prompt reimbursement, simplify procedures for tracking and converting foreign exchange, and speed up allocation of funds to enterprises with foreign exchange retention quotas and allocation of funds to those who repaid the central authorities for foreign exchange subsidies. This would resolve for foreign trade enterprises the artificially created difficulties they are having with funds circulation. 4) We should continue to correct unhealthy tendencies in the industry, carefully investigate cheating on drawbacks and problems relating to panic buying at high prices and underselling, and make further improvements in the orderly functioning of foreign trade. The climate thus created will guarantee the system's normal internal operations. 5) We should promote integration of industry and trade by adopting practical measures which ensure that benefits are properly shared between foreign trade enterprises and production enterprises. 6) We should rapidly institute a system in which the state underwrites export credit to make it possible for foreign trade enterprises to assume political and economic risks that occur abroad in the course of foreign trade operations. 7) We should consider establishing a special trade compensation fund to compensate foreign trade enterprises for possible losses incurred while engaged in import and export transactions related to foreign policy needs of the state.

LABOR

Labor Productivity, Salary Increase Examined

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[Article by Hu Changnuan (5170 2490 2541) of the People's University of China: "New Consideration Concerning Relations Between Improvement of Labor Productivity and Salary Increase"—written in September 1991; edited by Song Mingzi (1345 2494 1311)]

[Text] That the rate of improvement of labor productivity must exceed the rate of salary increase, a principle which we were and are supposed to follow, is an unalterable, eternal objective law. If this principle is violated, the economy will not grow. In fact, this refers to the national economy as a whole. Judged from individual sectors and industries, the situation is different. For some sectors and industries, the rate of improvement of labor productivity should be lower than the rate of salary increase, while for other sectors and industries, the rate of improvement of labor productivity should be higher than the rate of salary increase. Viewed from individual sectors and industries, the principle that the rate of improvement of labor productivity must be higher than the rate of salary increase does not exist. If we obstinately insist that everything should be conditioned by such a principle without exception, it will not only be detrimental to the development of certain sectors and industries, but also obstruct the growth of the economy as a whole.

I. Rate of Salary Increase for Agriculture, Forestry, Mining Industries and Some Materials Industries Should Be Higher Than Growth Rate of Labor Productivity

Given a certain level of scientific and technological development at a given period of time, due to the extremely different effects of natural and technical conditions on different sectors and industries, a country's development level and labor productivity growth rate are also extremely different. Today, the level of scientific and technical development in China is low, and her industries are not yet highly developed. Moreover, China has a large agricultural population, and her agriculture accounts for a large proportion of the national economy; it is impossible for China to equip and supply her agricultural departments with adequate agricultural machinery and highly efficient chemical fertilizers within a short period of time, or even for quite a long period of time; an extremely great part of China's agriculture relies on manual labor, and uses backward tools; the influence of natural conditions is very great, and its ability to overcome natural calamities is very low. Agricultural labor productivity remains at a very low level. Although China's agriculture was somewhat developed and its level of labor productivity was somewhat heightened in recent decades, especially in the last 10 years or so, the extent of its development and growth is far below that of the average level of social products. The situation of forestry approximates to that of agriculture.

China's mining industries, including coal, petroleum, natural gas, ferrous-metal mining, nonferrous-metal mining, chemical mining, and building materials mining industries, are greatly affected by natural conditions. They all concern nonrenewable resources, and mining changes from rich deposits to poor deposits, from shallow to deep mining, and develops from areas of good natural conditions to areas of bad natural conditions. The rate of improvement of labor productivity is not heightened, but lowered, and labor productivity of a

number of mining industries even registers an absolute decline. To increase the output of mining industries, to meet the need of the growth of the national economy for various kinds of minerals, and to reduce the workers' labor intensity and for the sake of safe production, modernized machinery and equipment have been introduced in a number of mining industries. As the prices of imported machines and equipment are high, and the production costs and prices of the machines and equipment made by China herself are high, although the consumption of mine workers' human labor has been reduced, the share of previous labor (machines and other equipment) has increased, which results in an increase in total labor volume included in the minerals. Thus, the increased previous labor is larger than the reduced human labor. Factors in this respect will also lower and not raise labor productivity. Some materials industries, mainly traditional materials industries such as timber, and various kinds of metallic materials (such as pig iron, steel products, nonferrous cast metal ingots, building materials and industrial chemicals) initially processed from iron ore and fuel, are greatly subject to direct and indirect impact from natural conditions (using lots of means of production and most of them minerals of low labor productivity). Relatively speaking, they are less affected by technical conditions (using traditional materials and simple processing.) Although the level of labor productivity of these sectors and industries is unlikely to drop under ordinary conditions, the growth rate of their labor productivity is very slow, lower than that of average labor productivity in society.

In the sectors and industries where the rate of growth of labor productivity is lower the rate of growth of society's average labor productivity, and there is even no increase or some decrease in labor productivity, should we or should we not insist that the rate of growth of labor productivity must exceed the rate of salary increase? It is impossible, neither should we insist. If we adhere to such a principle in these sectors and industries, the rate of increase in the income of the staff and workers of these sectors and industries will in general be lower than that of the staff and workers of other sectors and industries. The income of the staff and workers of some of those sectors and industries could not go up for a long period of time, and may even possibly go down. Obviously, it is unfair, because the slow rate of growth of labor productivity of these sectors and industries (lower than the rate of growth of average labor productivity of social products) does not result from a lack of work skill and low labor intensity on the part of their staff and workers, but from the serious influence of natural conditions. Moreover, China's science and technology has not developed to such a high level, and is limited by the extent to which it overcomes the influence of natural conditions. This is the natural outcome for a developing country in such a historical stage. It should also be seen that if such a principle is implemented in these sectors and industries, in the course of time the distinctions between industry and agriculture and between town and country will be widened, and the difference between the incomes of the

staff and workers of mining industries and those of processing industries will be widened. This is not in conformity with the principle that the three major distinctions between town and country, industry and agriculture, and physical and mental labor should gradually be narrowed in a socialist society, the primary stage of a communist society, and is unfavorable to the development of agriculture, the foundation of the national economy, and of energy and raw and semifinished materials industries.

The principle of to each according to his work is practiced in socialist countries. In accordance with this principle, staff and workers of equal labor skill and labor intensity, working in any sectors and industries, should receive more or less the same wage income. Therefore, there is no reason why the wage income of the staff and workers of these sectors and industries should be lower than that of those of other sectors. Hence, before us lies the following situation: On the one hand, the growth rate of labor productivity in these sectors and industries is lower than that of society's average labor productivity, or the labor productivity even goes down, that is, the growth rate is lower than the rate of increase of the national income. On the other hand, the rate of wage increase in these sectors and industries must be more or less the same as the growth rate in other sectors and industries. In other words, the average rate of wage increase in various production departments of social products is more or less the same as the growth rate of national income. This results in the fact that the rate of wage increase in these sectors and industries inevitably exceeds that of labor productivity. That is to say, in agriculture, forestry, mining industries, and some raw and semi-finished materials industries, that the rate of wage increase exceeds the growth rate of labor productivity is the law of China's economic development at the present stage, and is of objective inevitability independent of human will. If this law is abided by, it is possible for the national economy to achieve steady and coordinated development. Violation of this law will be punished, and will obstruct and even damage the steady and coordinated development of the national economy. This has been fully proved by the historical experience over several decades in China. During the "Cultural Revolution" and the two years that followed, China did not raise the purchasing prices for agricultural products, prices for agricultural products were too low, there was no proper increase in the peasants' income, the initiative of the peasants for production was seriously frustrated, agricultural production went down, the peasants were unwilling to sell their farm products to the state, and there was serious tension in the supply of grain, cotton, edible oil, vegetables, meat, poultry and eggs, milk and other nonstaple foods in cities. It was necessary for China to use her quite limited reserves of foreign currency to purchase grain, cotton, oil and other foods and agricultural raw materials from abroad to supply the urgent need in cities, so as to maintain the stability of the state. Based on such a situation, the CPC Central Committee resolutely adopted forceful measures to raise by a

big margin the purchasing prices of agricultural products and increase the proper income of the peasants. Thus the rate of increase in the peasants' income exceeded the rate of growth of labor productivity, and greatly enhanced the initiative for production of the peasants, who enthusiastically supplied cities with grain, edible oil, cotton, vegetables, and nonstaple foods. Hardly one year had elapsed before the problem of strained supply of farm products in cities was basically solved, and large amounts of precious foreign currency were saved for use on other urgent needs. Moreover, we also adopted measures similar to those for agricultural products to raise the prices of coal, raw iron, timber, and a number of raw and processed materials so as to increase the wage income of the staff and workers of these sectors and industries, which heightened their initiative for production and increased the supply of goods and materials in great shortage and eased the tension of market supply. The above analysis shows: That the rate of growth of labor productivity must exceed the rate of salary increase does not apply to agriculture, forestry, mining industries and some materials industrial departments and industries of the national economy where the rate of growth of labor productivity is lower than the rate of growth of social average labor productivity. It is neither wise nor feasible and even harmful to insist on the implementation of such a principle in these sectors and industries. However, various enterprises of these sectors and industries should also strive to improve their labor productivity, increase the income of their staff and workers, and make greater contributions to the state.

II. It Is Only in Ordinary Processing Industries That We Encourage a Rate of Salary Increase Lower Than the Growth Rate of Labor Productivity

Ordinary processing industries refers to traditional processing industries, such as metallurgical processed products, machinery and electrical products, general chemical industrial products, general machinery and equipment, general trucks, passenger cars, tractors, locomotives, vehicles, and steamships. The direct and indirect influence on the production of these sectors and industries of natural conditions is rather small, and influence by technical conditions is rather great. In these sectors and industries there is ample scope for scientific and technical development and their technological applications. In the introduction of advanced technical equipment and technology, there is a fundamental difference between these sectors and agriculture, forestry, and mining industries. Although the shares of previous labor increase, those of living labor greatly decrease, which results in a tremendous reduction of total labor volume included in the commodities. Thus the living labor decrease is much higher than the previous labor increase, and the rate of growth of labor productivity is rather fast. Its rate of growth should in general exceed the rate of growth of social average labor productivity. It should be pointed out that the fact that the rate of improvement of labor productivity in these sectors and industries exceeds the rate of growth of social average labor productivity mainly results not from the stepping up of labor skill and

labor intensity on the part of the staff and workers of these sectors, but from the utilization of advanced techniques and technology. And advanced techniques and technology are acquired due to investment and transformation of existing equipment or the import of advanced techniques and equipment, and not mainly due to the heightening of labor skill and labor intensity on the part of the staff and workers. Obviously, based on the principle of to each according to his work, wages of the staff and workers of these sectors and industries should also be paid according to their labor performance in terms of quality and quantity. Generally speaking, the rate of their wage increase should be more or less the same as that of other sectors and industries. Thus, the following situation appears: On the one hand, the rate of growth of labor productivity of these sectors and industries is faster than the rate of growth of social average labor productivity, that is, faster than the rate of growth of the national income; on the other hand, based on the principle of to each according to his work, the rate of wage increase should be more or less the same as that of other sectors and industries. As the average rate of wage increase of various production departments is more or less the same as the rate of growth of the national income, the rate of wage increase of these sectors and industries should also be about the same as the rate of growth of the national income. The result is that the rate of growth of labor productivity in these sectors and industries exceeds the rate of wage increase.

It can be seen that in ordinary processing industrial departments and industries, the principle of the rate of growth of labor productivity being faster than the rate of wage increase should be recommended. The increase in basic wage and welfare benefits and payment of bonuses and allowances should all be conditioned by the rate of growth of labor productivity.

It should also be seen that even when the principle that the rate of growth of labor productivity exceeds the rate of wage increase is carried out in ordinary processing industrial departments and industries, each case should be dealt with in a different way. As the degree of direct and indirect influence on these sectors and industries of natural conditions varies, the depth of processing varies, and the extent of advanced techniques and technology introduced varies (referring to objective reasons), there is quite a big difference in the rate of growth of labor productivity. In some departments, the rate of wage increase is exceeded slightly by the rate of growth of social average labor productivity, while in others the rate of wage increase is exceeded by quite a big margin. Therefore, one should be more flexible in controlling this principle, and must not deal with different departments in exactly the same way. It is necessary to make concrete analysis and study of different departments and industries based on their respective specific conditions, and to put forward respective limits on the rate of growth of labor productivity exceeding the rate of wage increase for different departments. The rate of wage increase should be exceeded by a smaller margin for some departments, and by a bigger margin for others.

It can thus be seen that even in departments and industries which should carry out the principle that the rate of growth of labor productivity must exceed the rate of wage increase, one should not simply put forward general calls. It is of no significance to simply put forward general calls.

III. It Is Necessary for Newly Emerging Industrial Departments To Put Forward a Requirement That the Growth Rate of Labor Productivity Should Be Much Faster Than the Rate of Wage Increase

Newly emerging industrial departments mainly refers to departments developed after World War II. They include the electronics industry, the plastics industry, the chemical fiber industry, the aviation and aeronautics industry, and new type materials industries related to them. Newly emerging industries have several marked characteristics: 1) When they first appear in the world with small output, both cost of production and price are high, and when their technology develops with increased output, cost of production and price go down rapidly. 2) Minimum direct and indirect influence of natural conditions, and maximum influence of technical conditions. 3) The fastest rate of growth among various sectors of the national economy. The above three characteristics of newly emerging industries, in a nutshell, mean that the rate of growth of labor productivity is the fastest of all sectors of the national economy.

If the principle that the rate of growth of labor productivity is faster than the rate of wage increase is also carried out in general in newly emerging industries, then the rate of wage increase for the staff and workers of newly emerging industries will be the highest in the whole national economy. In some newly emerging industrial departments, the rate of growth of labor productivity is much higher than the rate of growth in other departments, and their rate of wage increase is also much higher than that of other departments. Obviously, this is extremely unreasonable, and is also unfavorable to the sustained, steady and coordinated development of the national economy. If this should continue, it will be unfavorable to the rapid development of these departments, because wages which are too high are unfavorable to the reduction of the cost of production and prices. Under the circumstances that the control of prices of some electronic devices and units is relaxed, various departments strive to reduce prices in order to compete for sales. And to reduce prices, they have to keep the wage level more or less the same as that of other departments and industries. With improved techniques and in the situation that the reduction of shares of living labor consumed greatly exceeds the increase of shares of previous labor consumed, a normal wage level will accelerate the reduction of production cost and prices by a big margin, expand the sales of products, and promote the high-speed development of the electronics industry. Therefore, for newly emerging industrial departments and industries, whether control of production and prices is relaxed or they are controlled by the state, their rate of growth of labor productivity must exceed by far the rate

of wage increase, otherwise the cost of production for newly emerging industries cannot be reduced rapidly, prices will not drop speedily, commodities cannot find ready markets, and production cannot quickly develop.

It can be seen that the rate of growth of labor productivity of newly emerging industries should not just exceed the rate of wage increase, but should exceed by far the rate of wage increase. This is also an objective law independent of human will. The practice that labor productivity of newly emerging industrial departments is high and that wages should also be high not only undermines the principle of to each according to his work, but also, because the production cost and prices are high, means that their products lack competitive power on the world market and it is also difficult for them to expand sales in domestic markets. Consequently, it is unfavorable to the high-speed development of the newly emerging industries, and they will forever be left far behind in the world.

PRC MEDIA ON FOREIGN ECONOMIES

NIE's Give Lessons on High Technology Industry

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[Article by Huang Xianrong (7806 0341 2837): "Shared Experiences of the Four Asian Newly Industrializing Economies in the Development of New Technology Industries"]

[Text] The economic development process of the four Asian Newly Industrializing Economies [NIE's] was closely associated with changes in the world industrial structure from inception to take-off. During the 1960's, the four Asian NIE's capitalized on the advantage they enjoyed in abundant labor, actively developing labor-intensive export processing industries. This started up their economies. During the 1970's, the four Asian NIE's availed themselves of the opportunity that a worldwide industrial shift provided, vigorously developing capital- and technology-intensive heavy chemicals industries. This spurred their economic take-off. With the advent of the 1980's, the developed countries initiated an upsurge in the development of high technology industries. Keeping up with the pace of contemporary development, the four Asian NIE's then set about developing knowledge-intensive new technology industries, which brought about the steady upgrading of their technological and industrial structure. Through their development of new technology industries, the four Asian NIE's not only ensured the fairly high speed continuing development of their national economies, but the level of their economic development also rose further, making them the finest newly industrializing countries and territories in modern economic development.

In the fairly thorough survey that follows, emphasis is on how the four Asian NIE's developed new technology industries. The strategies and methods they adopted are looked at, and comparisons and conclusions are made that capsule some of their shared experiences.

1. High Degree of Attention Paid Strategically to the Development of New Technology Industries

With the steady application of results of the new technological revolution in developed countries, their production equipment and production capabilities became stronger for a vast increase in their productivity. At the same time, the advantage of abundant labor that developing countries enjoyed steadily weakened, and their production methods seemed even more backward. This further widened the inherent gap between developed countries and developing countries. Thus, it was out of a profound sense of imminent danger that the four Asian NIE's repeatedly emphasized the urgency to develop science and technology. They gave important strategic position to the development of new technology industries in an effort to use the new technological revolution as a turning point for drawing close to the advanced countries of the world. To this end, one after another, the four Asian NIE's drew up grand development plans.

During the early 1980's South Korea raised the slogan of "Founding the nation on technology," resolving to vault into the ranks of the 10 top high technology powers in the world by the year 2000 to become "the second Japan" in Asia. Beginning in 1982, South Korea held an enlarged technology promotion conference every quarter over which the president presided. These conferences drew up and redirected policies and measures for the development of science and technology. The enlarged technology promotion conference held in March 1985 proposed the development of new technology, increased investment, and increased output of sophisticated products as the three main tasks in the development of technology for that year. During the same year, it additionally drew up a science and technology development strategy running to 2000. This strategy held paramount place in South Korea's future new technology realm, and active planning was done to carry it out.

In 1979, the Singapore Government made a major decision to carry out "the second industrial revolution," actively promoting the widespread application of new technology to all economic fields to bring about the complete mechanization, automation, and computerization of the national economy. Singapore's near-term goal was to become Asia's computer software center by 1990, creating a pattern of "Japanese hardware, and Singaporean software."

In 1979, Taiwan started to hold several conferences on science and technology, as well as science and technology advisory conferences, which actively planned the development of science and technology, and raised the need to "upgrade science and technology." In this connection,

Taiwan set up a three-in-one "overall promotion" mechanism made up of government, research units, and business enterprises, which drew up a "Science and Technology Development Plan," as well as an eight part tactical medium-term and short-term scientific and technical development plan.

Although the Hong Kong authorities meddled very little in the economy, they also had a positive reaction to this epochal trend toward the development of high science and technology. The 1987 Hong Kong "Governor's Administrative Report," added a section on "overall planning of science and technology," and in April 1988, the Science and Technology Commission was founded.

2. Founding of Research Organizations To Promote Science and Technology

In order to manage the development of high technology in a planned, organized way for effective concentration of funds and manpower, each of the four Asian NIE's set up, in turn, various resource and management agencies.

With the advent of the 1980's, South Korea first readjusted its scientific and technical organization. South Korean research organizations had formerly been under various ministries, coordination among which was rather poor. In order to enhance cooperation and exchanges among official research agencies, in 1980 16 national scientific research organizations were merged into six under the central control and coordination of the Ministry of Science and Technology. By way of improving direction for the development of science and technology, South Korea periodically held enlarged science and technology promotion conferences and technical discussion meetings, which assembled forces from all quarters to plan science and technology, and to solve major problems in the research and development fields.

The government of Singapore vested the Economic Development Board with responsibility for all research and development awards. In order to give impetus to the development of electronic computers and industrial robots, in 1981 Singapore established specialized organizations, including the National Electronic Computerization Committee. This was followed shortly by the Computer Bureau, and the Singapore Industrial Robot Association. In 1982, the Computer Bureau allocated funds for establishment of the Computer Software Science and Technology Center to perform computer research and software development. In 1983, the Computer Bureau next set up a National Computer-Assisted Design and Computer-Assisted Manufacturing Training Committee to study the training of various kinds of specialized talent. The Computer Bureau has since drawn up personnel training plans to 1995.

The Taiwan authorities set up an Information Promotion Group in the "Executive Yuan." Working together with more than 100 scientific research units and six international organizations, this group established an information network for the purpose of improving contacts between domestic and international scientific

research organizations. Taiwan also established several research centers. In 1983, for example, it established the "Synchrotron Radiation Research Center," and in 1984, it established the "Biotechnology Development Center," and the "Materials Science Center," which emphasized research and development.

Hong Kong also planned to build the first science and technology center in Hong Kong as a hub for government encouragement of industrial technology innovation, and to strengthen cooperation between industry and academia.

3. Determination of Key Areas of Scientific and Technical Development

The information revolution is the main feature of the new technological revolution, and microelectronic technology is the heart of the information industry. For this reason, everyone of the fourth Asian NIE's make the information industry the focus of development, semiconductors, telecommunications equipment, and computers being their main fields of development. In addition, they concurrently developed other fields of high technology as their individual capabilities permitted.

The year 2000 long-range technical development plan that South Korea drew up in 1984 designated five key areas of technology for development. They were: (1) microelectronics, information, and telecommunications technology; (2) fine chemicals and pharmaceuticals, new materials, and biological and genetic engineering technology, (3) energy and materials substitution technology, (4) designing, engineering, and automation industry technology, and (5) public welfare technology, including environmental protection, medical treatment and health. During the 1980's, South Korea emphasized the development of three technologies, namely microelectronics, information, and fine chemicals and pharmaceuticals in which it scored marked achievements. Take the electronics industry, for example, in which South Korea successfully developed 256 kilobytes and one megabyte dynamic random access memory (DRAM). It is currently working on the research and development of a second generation five megabyte DRAM to take a position in the forefront of the world in that field. In 1986, South Korea accounted for more than 1.2 percent of the world's semiconductor production for fifth place in the world. In 1989, South Korea ranked sixth in the world in the value of its electronics products. In addition, its computer industry has become South Korea's second largest export industry after semiconductors. Most of the computer terminals sold in the United States today are provided by South Korea.

Acting on the basis of its own circumstances, Singapore designated 11 priority development production sectors including automobile parts, lathes and mechanical equipment, medical instruments and apparatus, special

chemicals and pharmaceuticals, computers and software, electronics apparatus, optical devices and equipment, precision engineering products, electronics components, and hydraulic and pneumatic control systems. It also emphasized use of new technology to equip these sectors. Singapore made great achievements in the development of an information industry. Today, Singapore has become a world acknowledged computer software city and southeast Asian computer center. It also ranks sixteenth in the world in volume of international satellite communications.

Taiwan also drew up 10 key scientific research projects as follows: energy science and technology, materials science and technology, information science and technology, production automation science and technology, biotechnology, photoelectric science and technology, hepatitis prevention, food technology, synchrotron radiation technology, and marine science and technology. In the electronics industry field, Taiwan is second to South Korea in the successful testing and production of 256 kilobyte DRAMs, and its foreign sales of microcomputers cannot keep up with demand. In 1982, Taiwan's information products held 18 percent of the world market.

Hong Kong is a free trade port city whose own development and production capabilities are weak, but whose high technology trade holds a relatively important position nevertheless. Recently Hong Kong has also improved its scientific and technical research and development. During the 1980's, its main field of development was microcomputers, micro-circuit electronics equipment for medical treatment, and precision electronic measuring devices in which it made very rapid advances in some regards. For example, all of the products of Hong Kong's largest camera manufacturing firm are automatically designed, and the quality of its medium and high grade cameras is as good as Japan's.

4. Increased Government Financial Support for Scientific Research and Development

Government financial support includes both direct investment in science and technology, and indirect preferential economic policies. Formerly Asia's four NIE's imported their technology, themselves investing very little in research and development. During the 1970's, developed countries such as the United States and Japan invested more than 2 percent of GNP in science and technology, but during this same period the four Asian NIE's invested less than 1 percent of GNP for the same purpose. With the advent of the 1980's, the investment in science and technology of the four NIE's increased substantially, and at the same time they formulated various preferential policies to encourage the development of new technology industries.

South Korea's research and development outlays as a percentage of GNP were 0.48 percent in 1970 and 1 percent in 1983, rapidly escalating to 1.4 percent in 1984 and 1.81 percent in 1986, and reaching 2.4 percent in

1988. Plans call for an increase to 3 percent by 2000. By way of fostering the development of new technology production, South Korea also promulgated a series of preferential policies, including tax reductions and exemptions, special depreciation, credit preference, and the provision of seed money. Specifically, these measures included: exemption of items used in research and development from special consumption taxes, and the exemption from import duties of equipment and materials need in new technology industries; accelerated depreciation of research and development equipment; reduction from 14 percent to 8 or 9 percent of interest rates on credit invested in the development of technology; establishment of technology finance corporations to provide risk capital; and establishment of joint research funds, technology development funds, and new technology commercialization funds.

Singapore's research and development outlays as a percentage of GNP amounted to only 0.3 percent in 1981 and nearly 1 percent in 1988. To accelerate development of its electronics industry, 44 percent of Singapore's new investment in 1982 went to the industrial electronics industry, mostly for the production of computers and telecommunications equipment. In order to popularize the use of computers, Singapore provided a 20 percent tax reduction over five years for all enterprises engaged in software work, and beginning in 1980, they could reduce to three years the depreciation period for computers and auxiliary equipment. The tax holiday for high technology industries could be a maximum of 10 years.

In 1978, Taiwan's expenditures on research and development as a percentage of GNP totaled 0.48 percent, but with the advent of the 1980's, not only was investment increased, but the rate of increase in research and development outlays rose suddenly from 9 percent in 1981 to 62 percent in 1982. In 1984, research and development expenditures accounted for 1 percent of GNP, and plans called for them to total 2 percent of GNP in 1989. Taiwan's preferential measures for the development of high technology industries includes: remission of import tariffs on equipment needed for high technology enterprises; a five year income tax holiday once an enterprise goes into production; an income tax rate 13 percent lower than for other enterprises; a 20 percent reduction in the capital tax on enterprises' research and development expenses; and bank loan interest possibly 20 percent less than for commercial loans.

In 1980, Hong Kong's expenditures on scientific research totaled HK\$3.446 billion, or 2.5 percent of GNP, rising to HK\$5.99 million, or 2.8 percent of GNP in 1984. Hong Kong continues to make use of its free port status to attract the investment of foreign capital in the development of the electronics industry sector.

5. Construction of Comprehensive Scientific Research Bases

Science industrial parks are classic comprehensive scientific research bases, which organically bring together

forces from government, scientific research organization, and the entrepreneurial world. This is a convenience not only in concentrating strength for better research and development, but it also permits the rapid translation of research results into production. Following the appearance in the United States of the first such scientific industrial parks in the world, this way of doing things was very quickly imitated in many countries of the world, and the four Asian NIE's were naturally no exception.

In 1974, South Korean began the building of Taetok Science and Technology City, which was forecast for completion in 1990. This science and technology city is designed to accommodate 12 official research institutes, 35 civilian research institutes, and three universities. Currently 21 research institutes and universities have moved into it. In 1984, South Korea also decided that six industrial bases surrounding Taetok Science and Technology City would be developed into technology cities for the development of sophisticated technology industries. This would permit the science and technology city to function as a technology hub, thereby directly linking the research and development in the city with sophisticated industries to hasten the transfer to the industrial world of research and development results.

Singapore built scientific industrial parks fairly swiftly. In 1979, the government drew up plans for Science Park at Kent Ridge on which construction began in 1980. By 1983, 12 research laboratories had been built, which were formally opened in January 1984. Six corporations have leased land and plant buildings in the park for the production of microcomputers, robots, electronics equipment, and other scientific and technical products. Now two major research centers have been built in the park, namely the marine science and technology center, and the software science and technology center, which play a major role in the development of new technology.

In 1976, Taiwan began to build a science and technology park in Hsinchu centering around Ch'inghua and Chiao-t'ung universities, which are famous for science and engineering. The park also has numerous chemistry, electronics, energy, and materials industry research institute laboratories. In December 1980, the first phase of the park's construction was completed, and a *Hsinchu Science Park* 10 year development plan was drawn up. In 1984, the park realized \$232 million from the export of its products.

Hong Kong set up two industrial villages in Taipu and Yuenlong, both of which are science and technology industrial zones emphasizing the importation of high level computer technology. Hong Kong is now considering building a third industrial village.

6. More Importation of Advanced Technology and Foreign Investment

As developing countries or regions, the four Asian NIE's are not very strong in terms of economic strength and manpower. By comparison with developed countries,

their scientific and technical research capabilities, and particularly their sophisticated scientific and technical research capabilities, are rather weak. Therefore, the importation of advanced foreign technology remains an important avenue. They use various importation means, including direct purchases of advanced technology and equipment, the hiring of foreign experts, the attracting foreign firms to invest directly, investment in the establishment of plants abroad, cooperative research with research organizations in developed countries, etc.

Prior to 1985, developed countries adopted an assistance policy for South Korea's technical development, South Korea benefitting very greatly thereby. By using the technical assistance funds of developed countries, South Korea was able to train 13,700 scientific and technical personnel, hire 3,101 foreign experts and scholars, and import equipment and material worth the equivalent of \$175 million. South Korea itself also made full use of the fine external international environment for the vigorous importation of technology. Five times during the period April 1978 through July 1984, South Korea freely imported technology, changing its "permit system" for importing technology to a request system to accommodate enterprises' importation of technology. During the first half of 1984 alone, it signed 225 permits for the importation of technology. While importing technology, South Korea also made sure to digest and assimilate technology and to make innovations. After 1985, the developed countries halted technical assistance to South Korea, so the importation of technology was no longer as smooth as formerly. Consequently, South Korea resorted to a strategy of joint development of sophisticated technology with developed countries. By 1986, South Korea had 49 science and technology research and development agreements with the United States and Japan. In addition, the South Korean Hyundai, Samsung, and Taewoo corporations had invested in factories in California's "Silicon Valley" to get direct control over sophisticated foreign technology.

In order to encourage the importation of technology, Singapore subsidized registered corporations importing new technology as much as 90 percent of their import costs. In order to encourage foreign-owned enterprises to invest in the sophisticated technology sector, Singapore ruled in 1981 that any foreign-owned enterprise that invested in a newly developing industrial sector could have its status as a newly developing industry extended one, or even two, years to enjoy preferential treatment under the rules and regulations. All foreign-owned enterprises that invested in research and development in the Kent Ridge Science Park could request various preferences such as financial assistance for research and development, financial assistance for training, and preferential tax treatment. Because of its slight bureaucracy and high work efficiency, as well as government's preferential treatment of high technology industries, Singapore's Jurong Industrial Park attracted numerous foreign enterprises that had originally intended to invest in other countries to operate factories there instead.

In order to attract foreign capital, Taiwan formulated *Conditions For Technical Cooperation*, which provided various preferential conditions to attract the direct investment of foreign enterprises. In order to build the Hsinchu Industrial Park, the Taiwan authorities exempted from customs duties all high technology machinery and equipment, raw materials, and semi-manufactures imported into the park; simplified approval procedures for the importation of investment, and provided overseas Chinese and foreign businessman investors special preferences such as the unlimited repatriation of profits; placed no limitations on the proportion of investment in an enterprise; and upon satisfaction of investment plan, 15 percent of capital investment could be repatriated annually. Investors could also pledge technology at a conversion price for shares; and once taxes were paid within the park, products could be offered for sale in Taiwan. Taiwan also showed marked achievements in the introduction of technology. As of 1983, it had imported more than 1,800 pieces of foreign technology, an overwhelming majority of which, or more than 1,200 items, came from Japan. Taiwan's Sanyang and Tatung corporations also established branch plants in the United States in order to get direct and speedy access to advanced American technology.

Hong Kong possesses advantages in the form of low taxes and low prices, and it is also a free trade port. This holds very great attraction for foreign businessmen. Using the advantages it possesses, Hong Kong actively developed cooperative production with foreign corporations, using foreign technology in the assembly of products, then selling them everywhere in the world.

7. Emphasis on Scientific Education and the Training of Human Talent

The emphasis that the four Asian NIE's give to education, particularly to general education, provided powerful support for their rapid economic take-off. The quality of the work force in these four countries or territories is generally fairly high. However, the key to development of the high technology field lies in having highly technically qualified human talent, and the four Asian NIE's were lacking in this regard. In order to solve the problem of a shortage of people qualified in high technology, the four Asian NIE's took two actions. One was vigorous intensification of the domestic training of scientific and technical talent; and the other was to hire back at high salaries talent living abroad in the active promotion of a reverse flow of scientific and technical talent.

In October 1984, South Korea proposed medium and long-range plans for the training of talent that provided for the training of 15,000 key research personnel, the founding of a new science and technology university, increased professional training in enterprises, reform of the educational system, and the selection of outstanding personnel for study abroad. During the 10 year period 1975-1985, South Korea's expenditures for education increased 16 fold, increasing from 2.2 percent to 4.9

percent of national income, 40 percent of South Korea's high school graduates entering university. By way of improving training in enterprises, the government inaugurated a strict on-the-job technical training system in 1981, requiring that every enterprises having 200 or more personnel must set up on-the-job technical training classes. The Ministry of Labor also established five fairly complete technical training institutes in various places, and also requested foreign experts to operate technical training centers. It also made active efforts to attract South Koreans studying abroad to return to their homeland, its plans called for the hiring from abroad of 1,500 high level scientific and technical personnel between 1984 and 1991.

Singapore organized forces throughout society to hasten the training of human talent. First of all, government increased its investment in education. Expenditures for education, which amounted to more than 10 percent of government expenditures, increased to 17 percent during 1984-1985, which was 3.2 percent of national income. Computer software was the focus of development that Singapore had decided on; thus, Singapore vigorously trained specialists in this field. Beginning in 1981, the Singapore government established computer networks in every school throughout the country. Every middle and primary school was equipped with microcomputers, and middle school students began computer courses from the very first grade of junior middle school. Courses in computer design and manufacture were even more important in institutions of higher education. Singapore also used foreign assistance projects to establish computer software academies and training centers. In 1981, it established a software technology academy in cooperation with Japan, and it established a systems science academy in cooperation with the American International Business Machine Corporation [IBM]. It also cooperated with IBM, Nippon Electric Corporation [NEC], and British International Computers Limited [ICL] in the setting up of three separate training centers capable of training 700 high level computer specialists annually. At the same time, Singapore used offered preferential pay and benefits to attract foreign scientific and technical talent and managerial talent to serve in Singapore. In the training of technical talent, Singapore practiced the *technical ability development fund system*, "which provided that private enterprises must pay a certain amount per staff member and worker for the technical training of staff members and workers. Government collected additional taxes from enterprises that hired non-technically qualified personnel."

In order to train high level talent, Taiwan increased the number of openings for students seeking masters and doctors degrees, training 2,200 graduate students during 1984 and 1985. Today, institutions of higher education can turn out 25,000 technicians annually. The Taiwan authorities adopted a free and open policy toward personnel on the island going abroad for study. The authorities sent a steady stream of key professors abroad for advanced studies, selected scientific research personnel

for study abroad, and even selected 12 senior middle school students annually to go abroad to study computers. At the same time, they worked actively to attract students who had completed their studies abroad to return to Taiwan to work. For this purpose, they even organized "talent visiting groups" to lobby them to return. In 1983 alone, Taiwan hired as many as 320 high level personnel at the associate doctor level or higher to return to Taiwan from abroad.

Hong Kong's expenditures for education have gradually risen in recent years. In 1986, outlays for education increased 10.7 percent over 1985. In 1981, Hong Kong set up the Professional Training Bureau in the founding of a comprehensive system including industry, education, and training to help satisfy the needs of industrial development. Under the Professional Training Bureau, an Electronic Data Processing Training Committee was established with responsibility for training specialists on electronic matters. Currently, Hong Kong is beginning to promote a plan for helping engineers get overseas scientific and technical training in new electronics.

To summarize the foregoing, it is apparent that each of the four Asian NIE's possess a body of policy measures for the development of their own new technology industries. In macro decision making, they are able, first to all, to realize clearly the importance for their future economic development of the development of new technology industries. They give the development of new technology industries an important strategic position, after which they formulate a series of corresponding measures, and use economic, administrative, and legislative means to provide support, assistance, and a suitable environment in the form of funds, skilled talent, and technology for enterprises to develop new technology industries. The policy measures they have taken have provided powerful support for the four Asian NIE's present fine economic growth, and they also provide a broad background for the continued development of the four Asian NIE's. At the same time, they also provide valuable experience for the development of other developing countries. Likewise, as a developing country, these experiences have a certain amount of reference value for China in bringing about an economic takeoff.

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AGRICULTURE

Prospects for Fishery Cooperation With Taiwan

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[Article by Wang Ch'iang-hua (3769 1730 5478): "An Exploration of Economic and Technical Fishery Cooperation Between the PRC and Taiwan"]

[Text] Certain significant changes have occurred in the relations between the PRC and Taiwan in recent years, such as from tense confrontation to a gradual easing of tension, and from longstanding isolation to mutual contacts, so that the "three exchanges" (exchange of air and shipping services, exchange through trade, and exchange of mail) are bound to become a developing trend. In the interests of seizing the time to bring the respective ocean fishery advantages of mainland China and Taiwan into full play, this article is presenting certain tentative ideas on economic and technical fishery cooperation between the PRC and Taiwan.

The Basis and Favorable Conditions for Cooperation

As ocean fishing is an equally well-developed traditional industry on both sides of the Taiwan Strait, the key to promoting economic and technical fishery cooperation between the PRC and Taiwan will be cooperation between people from both sides. There is an old Chinese saying that "weather ranks in importance behind geographic advantages, which in turn are secondary to cooperation between people." Cooperation between people from both sides in this case has a natural identity in that all we descendants of the yellow dragon from the big family of our native land speak the same language and have similar customs. Most Taiwanese fishermen feel an attachment to their native land on Mainland China, and are willing to exert themselves to help build it up. The tacit agreement on and similarity of bilateral interests, demand mentality, and traditional culture, provide a potential force for success in bilateral cooperation.

While Taiwanese fishery has a developed banking system, abundant funding sources, vast international markets, an information system with sensitive feedback, and a stronger capability to share in high seas resources, it has been hard pressed in recent years by a shortage of sailors, rising wages and oil prices, and the sinking of the ocean floor in its aquatics breeding grounds, so that it is facing a period of adjustment of its industrial structure. On the other hand, Mainland Chinese fishery is short on funding, and has been slow in developing deep-sea fishing, while its major comparative advantages are abundant fishery manpower and shallow-sea and beach-head resources. It is thus obvious that the comparative bilateral interests and advantages are quite mutually complementary, so that now is an ideal moment for cooperation.

With the approval of the PRC State Council at the beginning of the 1980's, Mainland China's major coastal ports were opened up to the outside world as economic development zones. In recent years, their infrastructures in areas such as transportation, communications, power, and water supply, have improved greatly, their agencies involving foreign affairs and foreign nationals, such as customs, have been improved, and their ocean fishing has taken on a new look in areas, such as fishing boat motorization, cold storage, fishing ports, and docks. Their good investment climate will satisfy both the immediate and long-range interests of profit-seeking Taiwanese businessmen, so that there is a broad basis for cooperation.

Moreover, Mainland China's policy of continued reform and opening up to the outside world, as well as the great enthusiasm for peaceful Chinese reunification among the Taiwanese masses and fishermen, have also created extremely favorable conditions for peaceful, friendly, and successful bilateral economic and technical fishery cooperation.

Possible Fields of Cooperation and Development Prospects

Labor Cooperation: Taiwan now has 15,706 fishing motor boats with a crew of 327,928 fishermen. Along with Taiwan's economic development and increased on-land job opportunities, the new generation of youth does not want to go to sea as fishermen, so that Taiwanese fishermen are aging, with 83 percent being between the ages of 45 and 59. This labor shortage, along with technical faults and rising oil prices, have become the two major difficulties facing Taiwanese fishery. The famous fishing port of Chilung has over 500 idle fishing boats due to the crew shortage. Although Taiwanese fishery recruited and hired over 5,000 fishermen a few years ago from countries such as Singapore, the Philippines, and Thailand, high wages and language difficulties have made such cooperative operations very difficult. Along with the easing of PRC-Taiwan relations, Taiwanese fishery began in 1988 to set its recruitment sights on Mainland China's Fujian and Zhejiang provinces. By the end of October 1990, fishermen from these two provinces had made about 22,884 man-trips on Taiwanese fishing boats, earning \$8.24 million. As Mainland Chinese fishermen are hardworking and technically proficient, speak the same language, and work for low wages (\$270-\$360 a month per worker), they are very well-liked by owners of Taiwanese fishing boats. In 1991, Pingtan County, Fujian signed labor contracts worth \$10 million with Taiwan for 6,000 man-trips. While the Taiwanese authorities have changed their policy to allow an increase in the proportion of foreign and mainland Chinese fishermen on Taiwanese fishing boats from one-quarter to one-third, it is estimated that there is still an urgent need for 20-30,000 workers. In Mainland China's coastal zone, as inshore resources have declined, costs have risen, and bank credit is tight, some fishing villages have low incomes, and there are over 50,000 surplus workers. As these fishermen are very happy to

take part in labor cooperation on Taiwanese fishing boats, they sign on to it eagerly. These labor cooperation contacts have increased in recent years to 40,000 man-trips which, during the Eighth Five-Year Plan, may reach as high as 60-80,000 man-trips, and earn \$30-\$40 million.

But a problem that needs attention is that mainland workers on Taiwanese boats are still left fishing in Mainland China's inshore fishing grounds, which can only sharpen the resource conflicts. This needs to be controlled by requiring licenses and catch quotas for Taiwanese fishing boats, just as for Mainland Chinese ones. Attention should be paid to expanding labor cooperation in fields such as offshore and ocean fishery, and post-"three exchanges" Taiwan coastal fishery, aquatic products processing, marine aquatics breeding, and fishing port construction projects.

Aquatic Products Trade Cooperation: As Taiwan has a population of over 18 million people, 94 percent of whom like edible aquatic products, their rising incomes have brought their average aquatic products consumption to 149.4 kg a year. Although Taiwan has an aquatic products output of 1.45 million tons a year, most of the 52 percent that are deep-sea products are directly exported, so that Taiwan still needs to import some of certain varieties. While Taiwan used to import some Mainland Chinese aquatic products through Hong Kong, direct small-scale trade with Taiwan by the two provinces of Fujian and Zhejiang has been approved since 1988, so that a good growth momentum has been achieved in recent years. It is estimated that this trade topped 1,000 tons for earnings of over \$3 million, from January to August 1991 from the two mainland ports of Xiamen and Zhoushan alone. Mainland Chinese aquatic products, such as butterfish, swimming crab, and small shrimps are very popular on Taiwanese markets. The Taipei Hoshan Industrial Shareholding Company has set up in the city of Zhoushan a wholly Taiwanese-owned enterprise, the "Haishan Aquatic Products Processing Corporation, Ltd," which specializes in processing small shrimps and shrimp shells. Taiwanese businessmen have been coming more often recently to Mainland China to discuss aquatic products trade, which is expected to increase to 5,000 tons in 1991, for earnings of \$150 million. Taiwan also has an extensive established sales network throughout the world. Once the "three exchanges" go into effect, direct sales to Taiwan or exports through Taiwan of mainland aquatic products are expected to increase to 10-20,000 tons, for earnings topping \$300-\$500 million.

Offshore and Ocean Fishery Cooperation: Taiwan has devoted its efforts since the 50s to developing offshore and ocean fishery. It now has a fleet of over 700 deep-sea fishing boats and signed fishery agreements with over 20 countries and regions. It has developed over 40 ocean fishery bases with an output of 760,000 tons, or 52 percent of its overall output, with operating methods being mostly tackle and purse net fishing for tuna and

squid. As Mainland China's ocean fishery is in a developing stage, we should make use of Taiwan's successful experience, by cooperating with Taiwan in various forms, such as go-betweens and bridge-builders, operational assistance, or joint-venture partnerships, in order to expand our ocean fishery faster.

Along with the expansion of fishing grounds, some mainland Chinese deep-sea fishing boats are already operating in the sea area northwest of Taiwan. Once the "three exchanges" go into effect, we Mainland Chinese will also be able to establish in Taiwan supply, wind haven, and turnaround bases, in order to reduce our fishing boat round trip time and risk, and improve our production efficiency.

Marine Aquatics Breeding Cooperation: As Taiwan has comparatively advanced aquatics breeding, for straw shrimp (speckled and jointed prawns) and eels in particular, it can be called a "shrimp and eel preserve." While it exports 30,000 tons of speckled and jointed prawns alone, earning \$313 million, and uses synthetic compound bait for all of its shrimp breeding, with a bait rate of only 1.84-2.1, it is now faced with obstacles such as ocean floor sinkage and water contamination, so that it is urgently seeking other suitable breeding grounds. Meanwhile, Mainland China has natural advantages, with a large number of uncultivated shallow coastal waters and beachheads, and an undeveloped area of over 1.3 million hectares. Some areas, such as Zhejiang, which use mostly fresh bait for shrimp breeding, have a bait rate of 14-20, which has resulted in runaway expansion of coastal netting and inflicted a severe toll on resources. Some years ago, the Zhizhong Aquatic Products Industrial Corporation in Yantai City, Shandong, worked with Taiwanese businessmen to import compound bait for shrimp breeding, achieving clear successes of an output of 200-300 kg per mu and a bait rate of only 3. Thus, we should attract Taiwanese development, and import and assimilate synthetic compound bait production lines, in order to bring out the best in each other, turn Mainland China's potential resource advantage into a practical commercial advantage as quickly as possible, and achieve the aim of doubling Mainland China's aquatics breeding output during the Eighth Five-Year Plan.

Aquatic Products Processing Cooperation: Statistics show that Taiwanese normally buy mostly processed aquatic products, such as fish balls (eels and butterfish), accounting for as much as 86.7 percent of purchases, kelp next at 69.9 percent, and dried, shelled shrimp next at 61 percent. But while Taiwan is densely populated but small in area, so that over 500 aquatic products processing plants are facing bottlenecks of expansion obstacles and rising wages, mainland coastal area cold storage capacity is underutilized, with relative surpluses of raw materials needed by Taiwanese consumers, such as fish balls and kelp. Thus, Mainland China should import processing equipment and technology, or allow Taiwanese firms to come to develop and operate joint or

contractual joint ventures, in order to change its aquatic products processing situation, and speed up its aquatics breeding development.

S&T and Educational Cooperation: Taiwan has achieved in recent decades many successes in areas, such as development of northwest Pacific and New Zealand squid fishery, a survey of South Pole bioresources, breeding of varieties, such as eels, speckled and jointed prawns, hooded-eye fish, groupers, and variegated abalone, along with artificial propagation. Moreover, it has popularized their application to production, which has promoted high-speed fishery growth. As much as 60 percent of its annual scientific research costs of over NT\$200 million goes to ocean resource development. While Mainland China also has a number of aquatic products specialists who have also made certain breakthroughs in recent years in areas such as artificial propagation of fish and shrimp, it has done less due to limited funding in areas, such as ocean resources, and fishing technology development research. In order to help Mainland China overcome as quickly as possible its slow development of ocean fishery, it is suggested that aquatic products scientists and technicians from both sides of the Taiwan Strait take the lead in carrying out technical cooperation and academic exchange. We should do all possible to cooperate with Taiwan in surveying ocean resources, developing fishery technology, and popularizing the application of artificial propagation technology for varieties, such as speckled and jointed prawns.

Suggestions

Thus, as Mainland China should take steps to enhance PRC-Taiwan economic and technical fishery cooperation, I am making the following suggestions: 1) The PRC should select one or two of its coastal ports as testing grounds for economic and technical fishery cooperation with Taiwan. Moreover, it should conscientiously study Taiwan's fishery models, and further ease its policies. Taiwan's deep-sea fishery output in the early 1950's was only 16,000 tons, or 7 percent of its overall fishery output, but has now reached 760,000 tons, or 52 percent. We should thoroughly study its growth and operating forces, in order to find models that we can use; 2) The PRC should allow state-owned, collective, and joint-venture enterprises as well as individuals to form joint-venture or wholly Taiwanese-owned enterprises for development on Mainland China of ocean fishery companies, aquatics breeding grounds, processing plants, and fish markets, as well as providing preferences in areas, such as land requisitions, tax burdens, and power and water supplies. It should provide psychological and material incentives for individuals and units that take active steps to introduce Taiwanese investment and technology and provide information in order to fully arouse the fishery initiative of all parties. Moreover, it should establish a new resource outlook, by allowing export enterprises to gain a foothold in their local areas with all of China in mind, go abroad to organize sales of

aquatic products needed by Taiwanese firms, and export from coastal ports, in order to bring all of its port advantages into full play.

Although Mainland China has begun to engage in labor cooperation and trade with Taiwan, there is still much potential. The keys to further development are: 1) putting policies into effect and, 2) spreading the word to all. Thus, we suggest that the PRC authorities set aside some funds for the immediate organization of concerned specialists to compile mainland fishery and investment climate data, and to spread it through Chinese, English, and video tapes over the broadcast media and diversified connections to Hong Kong, Taiwan, and Guangzhou in an effort to better publicize mainland fishery.

With the coming of the three exchanges, PRC-Taiwan economic and technical fishery cooperation is bound to prosper increasingly. Thus, we suggest the establishment of a special agency for the continued joint maritime inspection of fresh commodity exports, in order to adapt to Taiwan trade development needs.

Moreover, Mainland China should further improve the transportation and communications facilities, and increase the passenger and freight handling capacities of its coastal fishing ports. The PRC should improve its laws and regulations concerning Taiwan, increase labor cooperation in a planned and organized way, and send certain key technicians out on Taiwanese deep-sea fishing boats to learn the technology, become familiar with fishery, acquire sales management experience, and train talented personnel for the further development of mainland deep-sea fishery.

Utilization of Agricultural S&T Teams Examined 92CE0260A Beijing ZHONGGUO RENCAI [CHINA'S PERSONNEL] in Chinese No 10, Oct 91 pp 10-12

[Article by Zhang Yourun (1728 0645 3387) under the rubric "New Reflections": "The Essential Path to Stabilizing and Expanding Agricultural S&T Teams in the 1990's—The Way To Focus and Utilize Our Agricultural S&T Talent Most Effectively Is To Test, Discuss, Organize, and Construct Agricultural Enterprise Groups"]

[Excerpt] [passage omitted] II. Causes and Effects of the Upsurge in Agricultural Enterprise Groups and Their Developmental Trend in the 1990's

1. The Definition of Agricultural Enterprise Groups and the Reason for Their Emergence

Enterprise groups are a new form of enterprise organization. As far as the nature of activities, range of influence, composition of membership, and links that hold them together are concerned, a number of different types can be distinguished. Among these, the type called an "agricultural enterprise group" refers particularly to a composite group of enterprises whose business is centered primarily on the production and processing of agricultural products—enterprises encompassing diverse

functions in production, scientific research, development, coordination, and marketing, and involving agriculture, industry, commerce, trade, scientific research, and finance.

"When luck runs out and there is nothing you can do, whispering willows and beautiful flowers will sustain you." With the growth of the rural commodity economy, the traditional S&T extension system has gradually disintegrated, but new agricultural service organizations practicing the principles of commercialization and doing business based on the law of value have already emerged to replace it, and are growing rapidly. Among these, the type which has captured the most attention in recent years is the agricultural enterprise group, which takes the form of a high-level social service system.

Agricultural enterprise groups have not emerged by chance: It has been necessary to commercialize, specialize, and socialize agricultural production in order to achieve agricultural modernization, and this naturally has led to the emergence of various agricultural economic organizations as needed. In the course of the shift from extensive to intensive farming, various jobs previously undertaken by individual farmers, such as breeding improved varieties, tractor plowing, fertilizer application, pesticide use, processing of farm produce, storage, and so forth, have been progressively drawn away from the producers and established as the province of specialty enterprises. These enterprises, under the effects of the market mechanism, both competed and allied, the good ones succeeding and the poor ones failing. They have continued to expand in scale and climb in level, gradually coalescing into economic organizations—agricultural enterprise groups—which encompasses comprehensive pre-production, production, and post-production services and involve intimate coordination among the production, supply, and marketing spheres. One could say that the growth of large-scale socialized production and commodity economics essentially have caused the emergence of agricultural enterprise groups.

2. Agricultural Enterprise Groups Play a Crucial Role in Developing the Rural Economy

Agricultural enterprise groups play an extremely important role in economic construction. Particularly in developing countries, agricultural production is a major component of the economy, the degree of economic specialization and commercialization is rather low, regional division of labor is poorly developed, the quality of peasant education and technology is inferior, and there is little capacity for self-organization. In this situation it is urgently necessary to transform agriculture by socializing the major production sectors, and it is even more critical to organize, construct, and foster agricultural enterprise groups in order to accelerate the process of agricultural modernization. Thailand's Zhengda [2973 1129] Group is a classic agricultural enterprise group that applies a modern business operations and management system to the countryside and

organizes dispersed small farmers. It has now grown to become Thailand's largest transnational corporation, as well as one of the world's best agricultural enterprise groups. Today one of Thailand's major experiences in developing foreign exchange-producing agriculture has been in widely establishing economic associations encompassing agriculture, industry, and trade, and focussing on processing links. The Zhengda Group's success has undoubtedly played an exemplary role in this process. In China, some areas are changing traditional production patterns and promoting intensive farming, and thus embryonic forms of agricultural enterprise groups are appearing, already demonstrating tremendous potential. For example, Fujian's Edible Fungus Development Group, Guangxi's Sesame Development Group, and Jilin's Ginseng and Pilose Antler Development Group all operate on a significant scale. Zhucheng Shandong is implementing unified, cooperative operations among agriculture, industry, and trade on a city-wide scale, and Dongwan Guangdong, led by the international market, is developing foreign exchange-producing agriculture by allying trade, industry, and agriculture as required. Both of these efforts have produced noticeable economic results. State Councilor and Minister in Charge of the State Science and Technology Commission Song Jian [1345 0256] has completely affirmed these programs, and has said that "only the growth of enterprise groups can stimulate prosperity in the rural economy."

3. The Major Agricultural Development Trend in China During the 1990's Will Lie in Grouping Agricultural Service Organizations

In nationwide perspective, the major problem with the existing bi-level operating system—which focuses on contract farming among dispersed households, but integrates this with centralized farming—is that farming at the centralized level has not been worked out well. Consequently, the 7th Plenary Session of the 13th CPC Central Committee clearly stated that the emphasis in intensifying reform must be on actively developing a socialized service system and strengthening and perfecting the integrated bi-level operating system. Socialized services are multi-level and multi-form. Right now development generally emerges in five ways: 1) Service organizations develop from undiversified people's and collective enterprises toward diversification; 2) Service elements develop from single services to comprehensive services; 3) Pure services and pure operations move toward integration of the two; 4) The separation between production and circulation spheres is eliminated to form a comprehensive agricultural, industrial, and commercial operations and service system; and 5) Each service mechanism expands from vertical linkage to lateral or criss-crossed linkage. These changes are necessary for developing the rural commodity economy and organizing and constructing agricultural enterprise groups. We can foresee that in the 1990's the division of labor in China will expand, the rural industrial mix will grow steadily more rational, and as we intensify reform and make progressively more use of bioengineering,

computers, nuclear energy, lasers, artificial satellites, and so forth, the degree of commercialization and specialization in agricultural production will increase tremendously. To meet the needs of large-scale socialized production, the amalgamation of agricultural service organizations into enterprises and groups will become the main direction of development.

III. Agricultural Enterprise Groups Are a Highly Effective Way To Assemble and Make Use of Agricultural S&T Talent

One of the main reasons that enterprise groups play such a major role in stimulating the rural economy is that they attract many scientists and technicians, ensuring that their capabilities are more effectively utilized.

1. Compared with institutions, enterprises are more flexible, more capable of meeting emergencies, and have more capacity for assimilating scientists and technicians. And one of the main characteristics of enterprise groups is that, because they cut across regional, professional, economic sector, and ownership lines, they amalgamate dispersed units and enterprises to create economic associations. Therefore, these groups not only can concentrate and make use of financial and material resources, they can also breach the "unit and sector ownership system" that controls talented personnel, and to a certain extent change the unequal distribution and uneven mix of agricultural scientists and technicians. Consequently they can assemble a large number of scientists and technicians and produce benefits of scale in the use of talented personnel. For example, when Zhucheng Shandong managed to unify trade, industry, and agriculture, it was able to consolidate a backbone scientific and technical contingent of nearly 1,000 individuals from the ranks of the various enterprises. This contingent plays a key role in promoting the extension of science and technology into the countryside.

2. Under commercial economic conditions talented personnel generally gravitate to high-return areas: So long as there are market benefits, the talent can be applied intensively. Beijiao Township in Shunde County Guangdong relied upon a "spark" project to advance intensive farming, and formed a coordinated agricultural, industrial, and trading community producing agricultural products largely for export. The annual output value has reached 1.45 billion yuan, and the community has attracted a series of S&T personnel, including a good number of high-level agricultural scientists and technicians. From this it is evident that we can attract significant new farming technology and a large number of agricultural scientists and technicians to the countryside only if we apply the industrial enterprise operations and management mechanism to agriculture. Because enterprise groups concentrate personnel, finances, and material resources, they are rich both economically and in terms of S&T resources, and can provide relatively good working and living conditions—thus making them naturally more attractive to scientists and technicians.

3. Enterprise groups are composed of socialist commodity producers and businessmen that have relatively independent economic profits. Moreover, a group's economic profits are closely linked to its actual market gains, as are the incomes of group workers and staff. It is this that creates the main mechanism of vitality in the group. On the one hand, in order to maximize profits, the group must use and allocate talent prudently, paying sufficient attention to labor and capital inputs and making the best use of the initiative, enthusiasm, and creativity of S&T personnel, workers, and staff. On the other hand, the group's workers and staff cannot continue to boost their own incomes unless take care of group business, pay close attention to group profits, and work hard. Under the effects of these two factors, the S&T potential can to some extent be better utilized.

IV. A Few Suggestions for Promoting Enterprise and Group Formation Among Agricultural Service Organizations

The socialization of agricultural production and the grouping of socialist service organizations represents an inevitable, progressive historic trend. I feel that in order to conform to this trend and, from a human affairs standpoint, to support the development of agricultural enterprise groups so that we can achieve high efficiency, intensive utilization of talented agricultural scientists and technicians, we must first resolve the following issues:

1. We must renew our vision of the situation, make clear distinctions, and understand the new changes that are confronting the ranks of agricultural scientists and technicians.

In recent years local areas around the country have answered the government's call to emphasize, support, and develop agriculture, and to formulate local policies for stabilizing and enhancing the ranks of agricultural scientists and technicians. These policies have undoubtedly been very important in smoothing the way and promoting science and technology in agriculture. However, personnel who leave government-run agricultural science research and extension organizations to work for commercial enterprises are treated in some provincial and municipal policies as fugitives from the agricultural fold, to be thwarted through administrative measures. This kind of response smacks of absolutism. In the traditional vision, grass-roots agricultural S&T personnel were generally stationed at agricultural science institutes or stations at the county level or below, which relied on state facilities or local coffers for funding and personnel. But as discussed above, under the effects of rural commercial economic development and restructuring, rural service organizations are now breaking down this undiversified traditional pattern and developing to conform to the multi-level, multi-component, multi-function, multi-form planned commodity economy. If these organizations revolve around commercial enterprises that develop agricultural resources, they should not be opposed; they should be encouraged

and supported. We cannot adopt the correct regulatory and control measures and promote rational development in the organization and structure of rural industry unless we understand this point, establish a new vision of modern large-scale agriculture, and clearly distinguish practical definitions of right and wrong for commercial enterprises.

2. Proceeding based on the national situation, we must surmount regional and hierarchical divisions and increase government intervention.

Under the effects of the law of competition, enterprise groups in Western nations are generally formed via a predatory pattern of acquisitions and mergers—the large corporations engulfing the smaller ones. In China enterprises are constrained by the existing structure and level of productive forces. Currently, possibilities for forming groups through the “asset expansion” pattern of property-rights transferral are still few and far between. In the countryside, where we must rely on households to form groups spontaneously, or depend solely on the market mechanism to spur the formation of such groups, the likelihood is even smaller. Organizing an enterprise group first of all involves reallocating and realigning labor resources. In our hierarchically and regionally divided nation, the ranks of agricultural S&T researchers alone are divided into regional contingents, university contingents, Chinese Academy of Sciences contingents, and contingents associated, respectively, with the Ministries of Water Resources, Energy Resources, Forestry, Commerce, Light Industry, and Foreign Economic Relations and Trade. In some areas several duplicate scientific research institutes exist within a 20-km radius. If we are to change the situation to conform to this new form of industrial organization—the enterprise group—we have no choice but to call for government action. Actually, our experience in organizing the “Wanbao” and “Saige” industrial enterprise groups and our probe of the alliance among agricultural, industrial, commercial, and trading ventures in Zhucheng and Dongwan verify that it is necessary—in terms of opportunity, capability, and results, and also in terms of overall development strategy—to increase government involvement in this process and establish a macroeconomic regulatory system centered in government functions.

3. We need to clarify policy goals and methods, give free rein to market mechanisms, and promote the aggregation and utilization of agricultural S&T personnel.

In the past ten-plus years of reform and deregulation, an embryonic market system suited to Chinese economic development has emerged and is just now coming into its own. Compared to the growth of markets for various production elements, it has been relatively difficult, for many practical reasons related to history and rural/urban disparities, to establish a market for agricultural scientists and technicians. As described above, since its inception the PRC has made substantial investments to develop agricultural labor resources, but because of personnel “brain drain” and division among so many

units and economic sectors, the returns on this investment are declining and there is now a serious imbalance between supply and demand. On the one hand, if we allow the market mechanism to determine the allocation of talented researchers it will be difficult to correct this imbalance in the long term; on the other hand, if continue to use traditional methods and over-do direct administrative intervention to obstruct and block the allocation process, we may create a new cycle of overmanagement and bureaucratic nightmares.

Consequently, for the relatively long period during which the two systems will coexist, policy planning will be a rather difficult task. For one thing, we must support market-based selection and reform the traditional personnel management structure, which was characterized primarily by centralized hiring and allocation of labor; we must give freer rein to the market mechanism and allow it to guide the circulation of agricultural S&T personnel. In addition, we must do all we can to reduce friction between the two systems, simulate the market mechanism in various policy measures, establish normal market procedures, and promote a more aggregate approach to utilizing the talent of agricultural scientists and technicians.

Feed Production Ranks 3d Worldwide

92CE0286B Beijing NONGMIN RIBAO in Chinese
6 Dec 91 p 1

[Article by Liu Hongbo (0491 3163 3134) and Zhao Xiaohua (6392 1420 5478): “China Has Become the Third Largest Feed Producer in the World”]

[Text] We learned from the National Feed Industry Conference To Exchange Experience in Technical Progress that the nation's annual feed processing capacity has reached 60 million tons, and compound feed output was 31 million tons, doubling that of 1985. Following the Soviet Union and the United States, China has become the third largest feed producer in the world.

In the last 10 years, China has tapped a new path in the feed industry with little investment yet great efficiency. Especially during the Seventh Five-Year Plan, the state invested 32 million yuan in scientific and technical research. With the joint efforts of over 1,700 scientists and technicians in more than 400 units, 229 achievements were made; and 35 reached advanced international standards or were new inventions for the nation. Most of the achievements in science and technology were applied in production. Cotton and vegetable seed resources have been developed; selective residues have been used to varying degrees; ammonia acid, antibiotic, and vitamin additives have replaced imports. Herbal medical feed additive with Chinese characteristics has been widely used in more than 20 provinces, autonomous regions, and cities. Such additives stimulate poultry appetite, and promote growth, increasing the egg production rate by 1.74 percent, weight of chicken by

21.14 percent, hog weight by 13 percent, and fish production by more than 7 percent.

Currently, we are able to produce a series and a variety of feed for different phases of production of hogs, chicken, ducks, fish, shrimp, cow and so on with scientific prescriptions. The proportion of the national animal husbandry output value in the total output value of agriculture increased from 19.1 percent in 1984 to 24.7 percent in 1990. City residents no longer have to buy meat, eggs, fish and milk with ration coupons. In 1990, per capita consumption of meat was 25.3 kilograms, eggs seven kilograms, milk 412 kilograms, and sea food 10.9 kilograms.

Ministry Promotes Agricultural Mechanization

92CE0286A Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 11 Dec 91 p 1

[Article by Li Peisen (2621 1014 2773): "Ministry of Machinery and Electronics Taking Measures To Promote Agricultural Mechanization"]

[Text] On the morning of 2 December, the Party Committee of the Ministry of Machinery and Electronics held an enlarged meeting. Party Secretary and Minister He Guangyuan [0149 0342 6678] relayed to cadres above the level of bureau in the ministry the "Resolution of the CPC Central Committee on Further Strengthening Agriculture and Rural Work" passed at the Eighth Plenary Session of the 13th CPC Central Committee, and the session's major ideas. To earnestly implement the spirit of the "Resolution," the ministry further clarified the guidelines and policies for the development of the farm machinery industry during the Eighth Five-Year Plan, and will adopt three measures to guarantee the healthy development of the industry.

The three measures are: first, continue to improve macro-adjustment and control, make overall coordination and plans for major farm machinery products, have rational industrial distribution, produce at prescribed locations, give priority to transforming large and medium backbone enterprises, form a group of "national teams" with large scale and high levels, and have high-quality products that can compete in domestic and international markets, which will promote the whole industry. Second, depend on the advancement of science and technology, speed up generational transformation of products, actively adopt international standards, improve industrial management, raise product quality, and succeed in importing technology and then develop products in China. Third, intensify enterprise reform and strive to raise enterprise efficiency.

The vice secretary of the ministry party committee, and vice minister Zeng Peiyan [2582 1014 3508] presided over the meeting. Party committee members, vice ministers Hu Qili [5170 0796 4539], Lu Yansun [7120 3601 5549], Zhang Delin [1128 1795 6775], Bao Xuding [0545 0650 1353], and other former ministry leaders attended the meeting.

Comrades at the meeting generally expressed the idea that the "Resolution" of the Eighth Plenary Session of the 13th CPC Central Committee showed its clear understanding of, and true attention to, the issue of agriculture, taking hold of the fundamental question of building socialism with Chinese characteristics, and expressing the common will of the people of the nation, which will surely be a motive force to develop agriculture and rural work.

Comrades attending the meeting were greatly encouraged by the explicit idea of the "Resolution" that "try hard to develop farming related industry and promote agricultural mechanization." They recognize that the farm machinery industry is the equipment industry for agriculture, and plays an important function in agricultural modernization. The machinery and electronics industry must work for the farm machinery industry, and contribute to the opening up of a new situation in agriculture and rural work.

The ministry party committee demanded that all units under the ministry organize programs for employees to study the communique of the Eighth Plenary Session of the 13th CPC Central Committee, integrate the reality of the machinery and electronics industry, and further study and implement the spirit of the session by carrying out concrete measure so as to better serve agricultural development in the nation.

Strategies To Deal With EC Anti-Dumping Measures

92CE0215A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 11, 30 Nov 91 pp 26-32

[Article by Yao Sufeng (1202 5685 3536), of the Import and Export Department, Ministry of Foreign Economic Relations and Trade: "Specifics of EC Anti-Dumping Measures and Chinese Strategies for Dealing With Them"]

[Excerpt] [passage omitted] IV. The EC Investigation of Chinese Commodities Dumping, and Recommended Chinese Countermeasures

Since 1979, when the PRC adopted its policy of opening up to the outside world, the volume of Chinese export commodities has expanded continuously, and we have met with repeated European Community accusations of dumping. Among Western developed nations, the EC was the first to conduct an official investigation of Chinese commodities dumping. As early as August 1979, when China had just instituted its policy of opening up to the outside world and export trade was just resuming, certain EC firms accused us of dumping soluble saccharine and alarm clocks at a low price. This was Mainland China's earliest overseas confrontation over dumping. As of now the EC has conducted 41 official investigations of 31 different Chinese commodities, including two investigations each of soluble saccharine, paracetamol, chongshao mei [6850 3599 9485], barium chloride,

bicycle chains, man-made emery-grinding materials, potassium permanganate, and paintbrushes, as well as three investigations of oxalic acid. The EC has investigated Chinese export products for dumping violations more often than those of any other nation. Of the 41 dumping cases against Chinese commodities, 33 have been resolved: Anti-dumping duties have been levied in 10 cases, the Import and Export Department has made minimum price pledges in 15 cases, volume has been restricted in one case, and seven cases have been closed with no penalty attached. Eight cases await final disposition, including three in which temporary anti-dumping duties have been imposed and one in which minimum price pledges have been made.

The following points are characteristic of the anti-dumping suits filed against Chinese commodities: First, since 1988 the number of cases has increased dramatically—21 commodities were investigated for EC dumping violations between 1988 and 1990, amounting to over half of the total cases to date and involving more than 300 million dollars worth of export volume. Second, the three kinds of enterprises partly or wholly funded by foreign capital produce and export commodities have been repeatedly subject to anti-dumping suits; for example, it is primarily the three kinds of enterprises partly or wholly funded by foreign capital that export small-screen color televisions, VHS video tapes, and disposable butane lighters. Third, some EC member nations still file suit and levy anti-dumping duties against products to which they have already applied volume restrictions. For example, the bilateral textile agreement between China and the EC lists woven plastic bags in Article 33. The Netherlands, Belgium, Luxembourg, England, France, and Ireland have set allocated quotas on this product, but the EC's position is that allocated quotas are insufficient to protect the European Common Market. When quota-restricted commodities are dumped at a low price or harm EC interests, they are also subject to the EC Anti-Dumping Regulations. For example an existing bilateral management agreement between China and France restricts the quantity of hemp-soled shoes that may be exported to France, but in order to protect their sales throughout the European Common Market, French shoe manufacturers nevertheless filed suit with the EC concerning alleged Chinese dumping of this product. A similar situation exists with respect to polyester yarn. Fourth, in some dumping cases concerning Chinese commodities, the EC has simultaneously accused other nations of dumping. This was true for instance in four 1990 cases involving Chinese products: In addition to China, the EC accused South Korea, India, Indonesia, Turkey, and Taiwan of dumping polyester yarn; South Korea and Thailand of dumping lighters; and Japan of dumping streptomycin. In the case of videotapes, after the EC had already adopted anti-dumping actions against South Korea and Hong Kong, it initiated an investigation of China. Fifth, the anti-dumping trend is continuing. The activities of certain EC lawyers indicate that the Commission of the European Communities [CEC] is about to investigate Chinese

exports of bicycles and computer floppy disks. In addition, EC firms are currently deliberating complaints about Chinese exports of footwear, silk clothing, pork sausage casings, photograph albums, and coal.

The EC is China's third largest export market, and its importance will grow even greater following the formation of the Greater European Common Market in 1992. In the face of EC anti-dumping suits, our foreign trade departments and export companies cannot adopt a *laissez-faire* attitude and lightly give up our right to a defense. We must especially take a strong stance and have the courage to respond, within the relevant guidelines, in order to win the best possible outcome for large-volume exports and commodities with significant development potential. To this end, we recommend the following countermeasures:

1. Improve recognition of the importance of responding to dumping complaints. Right now, after the EC files an anti-dumping suit against China, many export firms fear the problems they may face. It is crucial to understand the European Common Market clearly. When export products are slapped with anti-dumping duties it is very difficult to continue exporting, yet our companies are still unwilling to take the initiative to respond to and counterclaims of Chinese dumping. If we look closely, there are generally three major reasons for this: First, a lawsuit on foreign soil is subject to foreign laws and regulations and tried by a foreign administration. Thus, it is difficult to win, and so it seems best to accept the ruling. Second, it is expensive and time-consuming to defend against an anti-dumping suit, and so it seems best to switch export markets or export other commodities. Third, if many Chinese firms are engaged in exporting the product subject to litigation, and one firm makes the effort and spends the money to defend its export, even if it wins, other companies will continue to dump the goods at a low price, and this seems less desirable than preventing everyone from exporting it. We must deal with this way of thinking with intensive persuasion and education to motivate firms to participate actively in defending against lawsuits. We must also enhance organizational cooperation and, as needed, adopt administrative measures to ensure that whichever firm defends against an allegation will reap the benefits of success.

2. We must engage foreign lawyers to appeal and plead on our behalf. The effort to defend against an anti-dumping lawsuit involves a great deal of specialized knowledge; we must engage experienced foreign lawyers to do this for us. Foreign lawyers are familiar with EC laws and regulations, highly experienced in handling cases, have easy access to reference material and quick access to news and information, and have close links to EC officials. They can mediate between the individuals handling the case. If we are to obtain an outcome that is relatively beneficial to us, we must engage foreign lawyers in the cause. Even though this will require us to spend money for attorneys' fees, but in terms of long-term enterprise interests, it is essential.

3. We must act to develop our responses based on foreign laws and procedures. After an anti-dumping suit is filed some companies involved in the litigation expect the Ministry of Foreign Economic Relations and Trade to act in their behalf, resolving the case by negotiation through government channels. In reality, if an anti-dumping suit is to be resolved in our favor, it can be addressed only through legal procedures. Consequently, the Import and Export Department can only challenge the suit and plead the case under foreign laws. The following points are crucial information to any firm involved in anti-dumping litigation:

First, firms must respond to questions raised by EC officials within the time limits stipulated in EC Anti-Dumping Regulations. Simultaneously, they must identify any false allegations on the part of the plaintiff and make corresponding counter-accusations. They must present convincing data to show that the Chinese side is not dumping goods or causing harm. Right now, in many anti-dumping cases, Chinese firms are unable to respond in a timely manner based on the EC's investigation schedule, nor to promptly supply data central to the lawsuit. They may fail to participate in the EC's hearing, and often lose their opportunity to defend themselves and argue strongly on just grounds.

Second, it is essential to investigate the successes or failures that comparable third-world countries have experienced in anti-dumping suits. According to the EC Anti-Dumping Regulations, the only standard for evaluating the normal value of Chinese commodities is the normal value of comparable goods marketed by third-world market economies. Of course, this is inequitable in some respects, primarily because of the unpredictability, capriciousness, and partiality involved, and it is extremely disadvantageous to us in litigation. However, in the face of anti-dumping regulations, we can only seek out representative nations that compare relatively more favorably with China and demonstrate that no dumping is going on, or perhaps reduce the scale of dumping. Otherwise, we can say in general that the anti-dumping actions constitute trade protectionism. We can complain that the choice of third-world market economies for comparison with China is discriminatory, and we do not agree that the plaintiffs' selection of countries is representative (although we cannot suggest other, more representative nations). All this is fruitless as far as winning any advantage is concerned.

Third, we must seek the support and cooperation of importers. In truth, importers are crucial to our interests in any anti-dumping litigation. Many importers facing accusations actively appeal and argue in their own defense to protect their interests. Some also suggest strategies and supply us with information, particularly on the business relations between EC importers and firms in other exporting countries. This makes it easier for us to search for substitute representative nations and gather data. Therefore, importers are a critical force of support in our efforts to deal with anti-dumping litigation.

4. There are inherent advantages and disadvantages in price pledges. Article 10 of the EC Anti-Dumping Regulations stipulates that in the future if exporters pledge to adopt minimum export prices, the CEC may terminate anti-dumping procedures. Of course, the scale of price increases that the EC requires will offset the scale of dumping or the degree of damage to the Common Market. Currently, a considerable number of anti-dumping lawsuits against China are being resolved through the adoption of price pledges. Experience verifies that suitable export price pledges not only permit us to avoid anti-dumping levies, they also raise the unit export price and increase foreign exchange earnings. Naturally, if we pledge minimum prices that are too high, our products are not competitive, and in some cases they have even been driven from the market. Suitable price pledges can only be established based on previous anti-dumping lawsuits. Since the foreign trade system was restructured in 1988 we have been unable to attain continued, effective enforcement of the original prices set by foreign trade head offices. Consequently, some commodities have been re-subjected to anti-dumping levies. From now on we must strive to follow the rule that "whoever exports the goods must respond to any lawsuits and adopt the necessary price pledges." This way some companies may adopt price pledges and avoid anti-dumping levies, while other companies may continue to export goods at a low price and be subjected to anti-dumping levies.

In the face of the widespread anti-dumping measures adopted by foreign firms and their resistance to Chinese expansion in commodity exports, we must change our competitive strategy from a focus on "succeeding through low pricing" to one of "succeeding through high quality"—we must rapidly upgrade our products and improve their quality, style, packaging, and decoration. At the same time, we must enhance coordination among exports, put a stop to the error of mutual competitive price cutting, and work hard to reduce the incidence of anti-dumping litigation. Once an anti-dumping lawsuit appears we must respond actively, take the initiative in counterclaims, and reduce the disadvantageous results that accrue from anti-dumping lawsuits against the PRC.

Guanghan Grain, Oil Price Reforms Reap Benefits

92CE0251A Beijing NONGCUN GONGZUO
TONGXUN [RURAL WORK NEWSLETTER]
in Chinese No 11, 5 Nov 91 p 32

[Article by Sichuan Economic Information Center's Du Shubing (2629 2885 3521); Feng Tianwei (7458 1131 0251), editor: "Guanghan City: Freeing of Grain, Oil Buying and Selling Prices Reaps Significant Results"]

[Text] To intensify reform, the Sichuan provincial party committee and provincial government, starting on 1 April this year, has experimented with simultaneously freeing grain and oil buying and selling prices in Guanghan. After a few months it appears that the enthusiasm of

all those engaged in the production of grain and oil and their products is rather high and their efficiency is rather good. As of 25 June, rapeseed purchases were essentially complete and wheat purchases were drawing to a close. Everyone believes that freeing grain and oil buying and selling prices accomplished the following results:

1. Eliminated peasants' looking over their shoulders. After grain and oil buying and selling prices were freed, it permitted multi-channel purchases and operations. Because of this peasants could select their own markets. If a market could not pay up and settle accounts expeditiously or forced down the grade and the price, the peasants could choose another market and thereby do a rather effective job of resolving such issues as forcing down the grade and the price and not expeditiously rendering payment in agricultural and agricultural byproduct purchases and the peasants' enthusiasm for sowing grain and oil crops was safeguarded.

2. Promoted an improved service attitude and business style in the grain department. The municipal grain bureau has indicated that since the buying and selling prices of grains and oils were freed, exclusive grain station operations have been thoroughly broken up and collective and individual rice businesses have risen to the occasion. The grain department, to get a firm foothold in the intense market competition, has adopted a series of measures one after the other focused on improving business style: 1) To augment refining equipment for grain processing and their byproducts and improve the variety and quality provided to the market; 2) To set up a telephone service for collective grain using units and initiate free delivery of goods to the door; 3) To implement small bag packaging for families using grain and initiate free delivery of goods to the families; 4) To set up an agency to store grain and oil for the broad masses of peasants to spare the peasants from the vexation of the grain and oil going bad or being eaten by rodents while it is in storage. The Guanghan municipal grain bureau has indicated that the local grain department has presently started this service at seven grain stations, six flour mills, and two oil extracting factories throughout the city. As of the middle of June, several thousand peasant households had more than 1.3 million kilograms of surplus grain stored. Stored grain and oil can be completely stored and completely withdrawn and it can be completely stored and partially withdrawn. That is, it can be exchanged for flour, noodles, and other byproducts or varieties can be traded in series. If grain or oil is stored for six months or less and the original grain is withdrawn, there is no service charge. If it is more than six months, depending on the circumstances, a certain amount may be charged for pesticides. Urban and rural residents have reported that never in the history of Guanghan have state-run grain departments and grain enterprises provided such convenient and high quality service.

3. Resolved the difficulty of food enterprises and rural enterprises in purchasing raw materials. For example, in the past because Guanghan City's township-run oil extracting factory could not take part in market purchases of rapeseed, their supply of raw materials was not assured. This year after the trial reform, because they could purchase directly from the market, they had a source for the raw materials that they needed for production. Trends indicate that the freeing of grain and oil buying and selling prices undoubtedly was helpful in promoting the development of the grain related industry, grain and oil product enterprises, and rural enterprises.

4. Helped rationalize grain market prices. Since freeing grain and oil buying and selling prices, price levels have steadily declined, reflecting the relationship of supply and demand in grains and oils. Trading food coupons and using food coupons as a "second currency" to be redeemed for agricultural byproducts that could not be stopped despite repeated local prohibitions, disappeared on its own without being forbidden. And country market prices were slightly lower than the grain station price tag. For example, this April the state-run grain station ticket price for (husked) rice was 0.485 yuan for 0.5 kilograms and the country market price was approximately 0.47 yuan. In May the grain station price tag slipped to 0.475 yuan. And the country market price correspondingly fell to about 0.46 yuan. In June the grain station price tag changed to 0.47 yuan and the country market price fell to approximately 0.45 yuan.

5. Reduced the burden on the treasury department. A few years ago, the municipal treasury on average had to pay 10 million yuan a year in grain and oil price supports and more than 2 million in subsidized losses. This year after freeing prices, because the state did not issue a grain and oil purchasing plan and did not set up a grain and oil supply adjustment plan, grain and oil price support subsidies and policy loss subsidies were eliminated. Calculated on the basis of the actual 1990 situation, this one change alone saved the treasury approximately 13 million yuan.

6. Somewhat eased the contradiction of tight funds for the purchase of agricultural byproducts. According to the traditional way of calculating, to complete 1991 purchases would require approximately 62.4 million yuan in purchasing funds, of which approximately 38 million yuan would have to be borrowed from the bank. But as a result of its implementation, because of multi-channel purchases, the bank only had to raise 25 million yuan to complete purchases, 34 percent less than it would have to raise in the plan, and it put an end to "blank tickets" in agricultural byproduct purchases. At the same time, for the first time in a peak period of grain and oil purchases, the bank had a major recall of surplus cash. According to municipal People's Bank issuing section statistics, from 1 to 25 June, the total local cash recall was 21.37 million yuan. After the 9.68 million yuan of cash put into circulation is subtracted, the net cash recall was 11.69 million yuan, an increase of 9.93 million yuan in net recall over the same period in the previous year.

Sex Education Popularized in 'Most Areas'

*HK1601130192 Hong Kong ZHONGGUO TONGXUN
SHE in English 1111 GMT 16 Jan 92*

[Text] Shanghai, January 16 (HKCNA)—Experts and scholars in the Mainland broke the taboo of sex education five years ago and since then they have acquired certain achievements.

According to information revealed at the second national seminar on sex education held here yesterday, the indications are that the popularization of sex education has so far been carried out to various degrees in most areas of China except for a handful of ethnic minority regions. Such kind of work has received the support and guidance of local governments. The achievements gained were remarkable especially in some economically and culturally developed major cities where people found it easy to obtain books and journals on sexual matters in bookstores or post offices. Some exhibitions on sex education have been held on a long-term basis and have been touring various parts of the country. Services related to sexual treatment are available such as consultations on sexual psychology, outpatient treatment for people with sexual problems, a hotline for psychological problems related to sex and the establishment of schools specially for newly-weds and the divorced.

Quite a number of secondary schools and universities have opened courses on "Education for Puberty," while the State Education Commission has entrusted the Shanghai newspaper, the WEN HUI BAO to open a correspondence school for such education with the aim of training qualified teachers. Shanghai is scheduled to have all secondary school teachers given specialized training in this field. International academic exchanges and cooperation on relevant sectors have tended to be frequent.

The spread of venereal diseases and AIDS in recent year along with an increasing number of pre-marital pregnancies have convinced experts that sex education had to be further popularized and strengthened. The dilemma might well lie in the prevention of "side effects" with an official in charge saying that the passing on of sex knowledge should be integrated with the fostering of sexual morale in conformity with the state's situation and taking the social effects into consideration. The conference collected over 100 essays from various provinces and cities, most of which were written after broad surveys, statistics and analyses on vast numbers of people had been conducted. The meeting will discuss the spread of sex knowledge and the "healthy development" of sex education in the coming years.

CAS Names New Members

*OW0401213992 Beijing XINHUA in English
1914 GMT 4 Jan 92*

[Text] Beijing, January 4 (XINHUA)—The Chinese Academy of Sciences (CAS) released the names of the Academy's 210 newly-elected members yesterday:

Division of Mathematics and Physics (38):

Ding Dazhao, male, 56, nuclear physicist and high-energy physicist, from China Atomic Energy Research Institute;
Ding Xiaqi, male, 63, mathematician, from the Institute of Systems Science, CAS, Wuhan Institute of Mathematical Physics;
Wan Zhexian, male, 63, mathematician, from the Institute of Systems Science, CAS;
Wang Yening, female, 65, physicist, from Nanjing University;
Wang Zikun, male, 62, mathematician, from Beijing Normal University;
Fang Shouxian, male, 59, high-energy physicist, from the Institute of High-Energy Physics, CAS;
Gan Zizhao, male, 53, solid-state physicist, from Beijing University;
Shi Zhongci, male, 57, mathematician, from the Computing Center, CAS;
Bai Yilong, male, 50, physicist, from the Institute of Mechanics, CAS;
Lu Min, male, 60, nuclear physicist, from the Institute of Systems Engineering of the Commission of Science, Technology and Industry for National Defense;
Tang Dingyuan, male, 71, physicist, from the Shanghai Institute of Technical Physics, CAS;
Su Dingqiang, male, 55, astronomer, from the Nanjing Astronomical Instrument Research Center, CAS;
Su Zhaobing, male, 54, theoretical physicist, from the Institute of Theoretical Physics, CAS;
Yang Liming, 72, theoretical physicist, from Beijing University;
Yang Fujia, male, 55, nuclear physicist, from Fudan University and the Shanghai Institute of Nuclear Physics, CAS;
Li Jiaming, 45, atomic and molecular physicist, from the Institute of Physics, CAS;
Li Deping, male, 64, nuclear physicist, from the China National Nuclear Corporation;
Min Naiben, male, 56, crystal physicist, from Nanjing University;
Zhang Renhe, male, 54, acoustics physicist, from the Institute of Acoustics, CAS;
Zhang Gongqing, male, 55, mathematician, from Beijing University;
Zhang Shuyi, female, 55, acoustics physicist, from Nanjing University;
Zhang Hanxin, male, 55, physicist, from the China Aerodynamics Research and Development Center;
Chen Jiansheng, 53, male, astrophysicist, from Beijing Observatory, CAS;
Fan Haifu, 58, male, physicist, Institute of Physics, CAS;
Zhou Yulin, male, 68, mathematician, from the Beijing Institute of Applied Physics and Numerical Mathematics;
Xian Dingchang, male, 56, theoretical and high-energy physicist, from the Institute of High Energy Physics, CAS;
Jin Fuqian, male, 62, physicist, from the Chinese Institute of Engineering Physics;

Zhao Zhongxian, male, 50, physicist, from the Institute of Physics, CAS;
Hu Renyu, male, 60, nuclear physicist, from the Chinese Institute of Engineering Physics;
Hu Hesheng, female, 63, mathematician, from Fudan University;
Xu Zhizhan, male, 52, physicist, from the Shanghai Institute of Optical Precision Tools, CAS;
Guo Zhongheng, male, 58, mathematician, from Beijing University;
Xi Zezong, male, 64, astronomer, from the Institute of the History of Natural Sciences, CAS;
Huang Shengnian, male, 59, experimental nuclear physicist, from the Chinese Institute of Atomic Energy, CAS;
Pu Fuke, male, 61, magnetic and theoretical physicist, from the Institute of Physics, CAS;
Liao Shantao, male, 71, mathematician, from Beijing University;
Xiong Darun, male, 53, astrophysicist, from the Zijinshan Observatory, CAS;
Pan Chengdong, male, 57, mathematician, from Shandong University.

Division of Chemistry (35):

Wang Kui, male, 63, inorganic chemist, from Beijing Medical University;
Wang Fangding, male, 62, radiochemist, from the Chinese Institute of Atomic Energy;
Wang Fosong, male, 58, chemist, CAS;
Zhu Qingshi, male, 45, physical chemist, from the Dalian Institute of Chemical Physics, CAS;
Liu Yuanfang, male, 60, radiochemist, from Beijing University;
Jiang Yuansheng, male, 60, physical chemist, from Jilin University;
Sun Jiazhong, male, 61, physical chemist, from Jilin University;
He Guozhong, male, 58, physical chemist, from the Dalian Institute of Chemical Physics, CAS;
Yu Guocong, male, 68, chemist, from Tianjin University;
Wang Erkang, male, 57, analytical chemist, from the Changchun Institute of Applied Chemistry, CAS;
Shen Jiacong, male, 60, high polymer chemist, from Jilin University;
Zhang Pang, male, 74, organic chemist, from Beijing University;
Zhang Qianer, male, 63, physical chemist, from Xiamen University, Fujian Institute of the Structure of Matter, CAS;
Lu Wanzhen, female, 67, petrochemist, from the Petrochemical Research Institute under the General Petrochemical Corporation;
Lu Xiyan, male, 63, organic chemist, from the Shanghai Institute of Organic Chemistry, CAS;
Chen Junwu, male, 64, petrochemist, from the Luoyang Petrochemical Engineering Company;
Chen Minhen, male, 58, chemist, from the East China Chemical Engineering University;

Chen Yaozu, male, 64, analytical chemist, from Lanzhou University;
Zhou Tonghui, male, 66, analytical chemist, from the Chinese Academy of Medical Sciences;
Zhou Weishang, male, 68, organic scientist, from the Shanghai Institute of Organic Chemistry, CAS;
Zhao Yufen, 42, organic chemist, from Qinghua University;
Yu Ruqin, male, 55 chemist, from Hunan University;
Jiang Shengjie, male, 75, radiochemist, from the China National Nuclear Corporation;
Yuan Quan, male, 56, chemical engineer, from the Dalian Institute of Chemical Physics, CAS;
Xu Xi, male, 70, high-polymer chemist, from Chengdu University of Science and Technology;
Xu Ruren, male, 59, inorganic chemist, from Jilin University;
Guo Jinkun, male, 57, materials scientist, from Shanghai Institute of Silicatry and Technology, CAS;
Huang Zhitang, male, 63, organic chemist, from the Institute of Chemistry, CAS;
Huang Baotong, male, 70, high-polymer chemist, from Changchun Institute of Applied Chemistry, CAS;
You Xiaozeng, male, 57, inorganic chemist, from Nanjing University;
Jiang Xikui, male, 65, organic chemist, from Shanghai Institute of Organic Chemistry, CAS;
Cheng Rongshi, male, 64, high-polymer physicist, from Nanjing University;
Xie Yuyuan, male, 67, pharmaceutical chemist, from Shanghai Institute of Materia Medica, CAS;
Lou Nanquan, male, 68, physical chemist, from Dalian Institute of Chemical Physics, CAS; and
Li Lemin, male, 55, inorganic chemist, from Beijing University.

Division of Biology (34):

Mao Jiangsen, male, 57, virologist, from the Zhejiang Provincial Academy of Medical Sciences;
Yin Wenyong, female, 68, entomologist, from the Shanghai Institute of Entomology, CAS;
Shi Yuanchun, male, 60, pedologist, from Beijing Agricultural University;
Tian Bo, male, 59, plant virologist, from the Institute of Microbiology, CAS;
Zhuang Qiaosheng, male, 75, botanist, from the Institute of Crop Breeding and Cultivation, Chinese Academy of Agricultural Sciences;
Liu Xinyuan, male, 63, biochemist, from the Shanghai Institute of Biochemistry, CAS;
Xu Genjun, male, 55, biochemist, from the Shanghai Institute of Biochemistry, CAS;
Sun Manji, male, 60, biochemist pharmacologist, from the Institute of Pharmacology and Toxicology under the Academy of Military Medical Sciences;
Yang Hanxi, male, 73, ecologist, from the Committee for Comprehensive Survey of Natural Resources under CAS and the State Planning Commission;
Yang Hongyun, male, 58, botanist, from Wuhan University;

Yang Xiongli, male, 50, neurophysiologist, from the Shanghai Institute of Physiology, CAS;
 Yang Fuyu, male, 64, biochemist, from the Institute of Biophysics, CAS;
 Li Zhensheng, male, 60, geneticist, from CAS;
 Wu Jianping, male, 57, neurophysiologist, from the Shanghai Institute of Cerebrology, CAS;
 Wu Mengchao, male, 69, medical scientist, from the No. 2 Medical College of the People's Liberation Army;
 Zhang Guangxue, male, 70, entomologist, from the Institute of Zoology, CAS;
 Zhang Shuzheng, female, 69, biochemist, from the Institute of Microbiology, CAS;
 Zhang Xinshi, male, 57, ecologist, from the Institute of Botany, CAS;
 Chen Ziyuan, male, 67, nucleo-agricultural scientist, from the Zhejiang University of Agriculture;
 Chen Keji, male, 61, traditional Chinese medicine scientist, from the Institute of Gerontology under the Chinese Academy of Traditional Chinese Medicine;
 Chen Yiyu, male, 47, hydrobiologist, from the Institute of Hydrobiology, CAS;
 Yao Kaitai, male, 60, pathological physiologist, from Hunan University of Medical Sciences;
 Qin Junde, male, 75, entomologist, from the Institute of Zoology, CAS;
 Shi Liming, male, 51, biologist, from the Kunming Institute of Zoology, CAS;
 Shi Jiaonai, male, 70, biologist, from the Shanghai Institute of Plant Physiology, CAS;
 Hong Mengmin, male, 60, geneticist, from the Shanghai Institute of Plant Physiology, CAS;
 Hong Deyuan, male, 54, biologist, from the Institute of Botany, CAS;
 Tang Congti, female, 61, parasitologist, from Xiamen University;
 Yan Longfei, male, 69, biologist, from the Institute of Biology, Beijing Agricultural University;
 Xie Lianhui, male, 56, plant pathologist, from Fujian Agricultural College;
 Qiang Boqin, male, 52, molecular biologist, from the Institute of Basic Medical Sciences under the Chinese Academy of Medical Sciences;
 Zhai Zhonghe, male, 61, cytological biologist, from Beijing University;
 Xue Shepu, male, 74, biologist, from the Chinese Academy of Medical Sciences; and
 Ju Gong, male, 61, neuroanatomist, from the No. 4 Medical College of the People's Liberation Army.

Division of Geosciences (35)

Ma Zaitian, male, 60, geophysicist, from Tongji University;
 Ma Zongjin, male, 58, geologist, from the Institute of Geology, State Seismological Bureau;
 Ye Dalian, male, 54, mineral scientist, from the Institute of Geology, CAS;
 Zhu Xianmo, male, 76, geographer, from CAS;

Liu Baojun, male, 59, geologist, from the Chengdu Institute of Geology and Mineral Resources, Ministry of Geology and Mineral Resources;
 An Zhisheng, male, 50, geologist, from the Xian Research Institute of Loess and Quaternary Geology, CAS;
 Xu Houze, male, 57, geophysicist, from the Institute of Geodesy and Geophysics, CAS;
 Sun Dazhong, male, 59, geologist, from the Tianjin Institute of Geology, Ministry of Geology and Mineral Resources;
 Sun Honglie, male, 59, geographer, from the State Planning Commission;
 Yang Qi, male, 72, geologist, from the China University of Geology;
 Li Jun, male, 61, atmospheric physicist, from the Wuhan Institute of Physics, CAS;
 Li Jijun, male, 57, geographer, from Lanzhou University;
 Li Deren, male, 51, geographer, from Wuhan University of Geodesy, Photogrammetry and Cartography;
 Li Desheng, male, 69, geologist, from the China Oil and Gas Corporation;
 Su Jilan, male, 55, geologist, from the Second Institute of Oceanography under the National Bureau of Oceanography;
 Xiao Xuchang, male, 62, geologist, from the Institute of Geology, Ministry of Geology and Mineral Resources;
 Wu Chuanjun, male, 73, geographer, from the Institute of Geography, CAS;
 Wang Pinxian, male, 54, geologist, from Tongji University;
 Shen Qihan, male, 69, geologist, from the Chinese Academy of Geological Sciences;
 Zhang Miman, female, 55, palaeontologist, from the Institute of Vertebrate Paleontology and Paleo-Anthropology, CAS;
 Chen Qingxuan, male, 75, geologist, from the Institute of Geomechanics, Ministry of Geology and Mineral Resources;
 Chen Yuntai, male, 51, geophysicist, from the Institute of Geophysics under the National Seismological Bureau;
 Chen Junyong, male, 58, geographer, from the State Bureau of Geodesy, Photogrammetry and Cartography;
 Chen Mengxiong, male, 73, geologist, from the Advanced Consultancy Center for Science and Technology, Ministry of Geology and Mineral Resources;
 Ouyang Ziyuan, male, 55, geochemist, from the Institute of Geochemistry, CAS;
 Zhou Xiujie, male, 59, atmospheric physicist, from the Academy of Meteorological Science under the National Meteorological Bureau;
 Zhao Qiguo, male, 60, pedologist, from the Nanjing Institute of Pedology, CAS;
 Zhao Bolin, male, 62, atmospheric scientist, from Beijing University;
 Yuan Daoxian, male, 58, geologist, from the Karst Geology Research Institute under the Ministry of Geology and Mineral Resources;
 Xu Guanhua, male, 49, forestry scientist, from the Chinese Institute of Forestry Science;

Sheng Jinzhang, male, 70, paleontologist, from the Nanjing Institute of Paleontology, CAS;
Huang Ronghui, male, 49, meteorologist, from the Institute of Atmospheric Physics, CAS;
Chang Yinbo, male, 60, geologist, from the Anhui Provincial Bureau of Geology and Mineral Resources; and
Fu Jiamo, male, 57, geochemist, from the Guangzhou branch of the Institute of Geochemistry, CAS.

Division of Technological Sciences (68):

Wang Xuan, male, 53, computer scientist, from Beijing University;
Wang Yue, male, 58, communication scientist, from the No. 206 Research Institute for the Ordnance Industry;
Wang Zhijiang, male, 60, optics scientist, from the Shanghai Institute of Optics and Fine Mechanics;
Wang Qiming, male, 57, photo-electronics scientist, from the Institute of Semiconductors, CAS;
Wang Dianzuo, male, 57, mineral engineering scientist, from the Central-South China Polytechnical University;
Wang Jingtang, male, 62, materials scientist, from the Institute of Metals, CAS;
Lu Qiang, male, 54, electricity scientist, from Qinghua University;
Lu Zhaojun, male, 73, engineering scientist, from the Academy of Railway Sciences, Ministry of Railways;
Ye Henqiang, male, 50, materials scientist, from the Institute of Metals, CAS;
Mu Guoguang, male, 60, optics scientist, from Nankai University;
Kuang Dingbo, male, 61, technical physicist, from the Shanghai Institute of Technical Physics, CAS;
Liu Guangjun, male, 62, atomic scientist, from the Chinese Research Institute of Physical and Chemical Engineering;
Liu Yongtan, male, 55, radar communication scientist, from Harbin Polytechnical University;
Sun Jun, male, 64, engineering scientist, from Tongji University;
Sun Zhongxiu, male, 55, computer scientist, from Nanjing University;
Sun Jiatong, male, 62, satellite designer, from the Committee of Science and Technology under the Ministry of Aerospace Industry;
Yan Luguang, male, 55, electrical engineering scientist, from the Institute of Electrical Engineering, CAS;
Yang Fuqing, female, 59, computer scientist, from Beijing University;
Yang Shuzi, male, 58, machinery engineering scientist, from the Central China University of Science and Engineering;
Li Zhijian, male, 62, semiconductor and micro-electronics scientist, from Qinghua University;
Li Yanda, male, 55, information scientist, from Qinghua University;
Wu Quande, male, 68, electronics physicist, from Beijing University;
Wu Chengkang, male, 62, physicist, from the Institute of Mechanics, CAS;

Wu Dexin, female, 54, micro-electronics scientist, from the Micro-Electronics Center, CAS;
Qiu Dahong, male, 60, engineering scientist, from the Dalian University of Science and Engineering;
Zou Shichang, male, 60, materials scientist, from the Shanghai Institute of Metallurgy, CAS;
Min Guirong, male, 57, space scientist, from the No. 5 Research Institute under the Ministry of Aerospace Industry;
Wang Geng, male, 64, electrical machinery designer, from the Shanghai Electrical Machinery Plant;
Shen Zhiyun, male, 62, rolling stock scientist, from the Northwest Jiaotong University;
Song Jian, male, 59, cybernetics and engineering scientist, from the State Commission of Science and Technology and Qinghua University;
Song Zhenqi, male, 56, mining engineering scientist, from the Institute of Rock Pressure, Shandong Institute of Mining;
Zhang Xingqian, male, 70, physicist, from the China National Nuclear Corporation;
Zhang Xiaoxiang, 73, computer scientist, from the No. 58 Institute under the Headquarters of the General Staff of the Chinese People's Liberation Army;
Chen Junliang, male, 57, communications scientist, from the Beijing Institute of Posts and Telecommunications;
Lin Binnan, male, 71, water conservancy scientist, from the Water Conservancy and Hydroelectric Power Research Institute;
Ouyang Yu, male, 64, nuclear reactor specialist, from the Shanghai Nuclear Engineering Research and Design Institute;
Miao Yongrui, male, 60, astronomer, from the Shanghai Observatory, CAS;
Zhou Ganzhi, male, 61, architect, from the Ministry of Construction;
Zhou Yaohe, male, 64, machinery specialist, from the Northwest Engineering University;
Zhou Bingkun, male, 55, laser scientist, from Qinghua University;
Zhao Renkai, male, 68, nuclear power specialist, from the China National Nuclear Corporation;
Hu Yuxian, male, 68, earthquake researcher, from the Institute of Geophysics, State Seismological Bureau;
Yao Xi, male, 55, electronics scientist, from Xian Jiaotong University;
Zhong Xiangchong, male, 69, materials scientist, from the Luoyang Refractory Institute, Ministry of the Metallurgy Industry;
Bao Zheng, male, 63, communications scientist, from the Xian University of Electronic Technology;
Hou Xun, male, 55, optics scientist, from the Xian Institute of Optics and Fine Mechanics, CAS;
Yu Hongru, male, 63, physicist, from the Institute of Mechanics, CAS;
Wen Bangchun, male, 61, engineering scientist, from the Northeast China Engineering Institute;
Xia Peisu, female, 68, computer scientist, from the Institute of Computing Technology, CAS;

Gu Songfen, male, 61, aircraft designer, from the Ministry of Aerospace Industry;
 Gao Weibing, male, 68, automation scientist, from Beijing Aerospace University;
 Gao Zhentong, male, 63, machinery designer, from Beijing Aerospace University;
 Tang Jiu Hua, male, 61, optics engineering designer, from the Changchun Institute of Optics and Fine Mechanics, CAS;
 Tang Zhisong, male, 65, computer scientist, from the Institute of Computer Software, CAS;
 Huang Kezhi, male, 63, physicist, from Qinghua University;
 Huang Weilu, male, 74, aerospace scientist, from the Second Research Institute of the Ministry of Aerospace Industry;
 Cao Cunan, male, 62, metallic corrosion scientist, from the Institute of Metallic Corrosion and Protection, CAS;
 Tu Shou'e, male, 74, missile designer, from the Ministry of Aerospace Industry;
 Jiang Minhua, male, 56, materials scientist, from Shandong University;
 Tong Xianzhang, male, 73, petroleum scientist, from the Beijing Scientific Research Institute of Petroleum Exploration and Development;
 Xie Guangxuan, male, 69, carrier-rocket designer, from the Ministry of Aerospace Industry;
 Lu Yongxiang, male, 49, machinery specialist, from Zhejiang University;
 Que Duanlin, male, 63, materials scientist, from Zhejiang University;
 Dou Guoren, male, 58, hydraulic specialist, from the Nanjing Institute of Water Conservancy Sciences under the Ministry of Water Resources and the Ministry of Communications;
 Cai Ruixian, male, 57, engineering physicist, from the Institute of Engineering Thermal Physics, CAS;
 Yan Minggao, male, 71, materials scientist, from the No. 621 Institute under the Ministry of Aerospace Industry;
 Dai Ruwei, male, 58, artificial intelligence specialist, from the Institute of Automation, CAS; and
 Dai Nianci (deceased), male, 71, architect, from the Ministry of Construction.

Survey on Peasants' Sociopolitical Perception

92CM0173A Beijing ZHONGGUO SHEHUI BAO
 in Chinese 3 Jan 92 p 3

[Article by Li Shiren (2621 0013 0088) and Liu Xian-dong (0491 7359 2639): "What is on the Peasants' Mind Today?"]

[Text] What is on the peasants' mind today? Recently, we conducted a questionnaire survey by sampling peasants in 40 villages of Pingdu City, Shandong Province. A total of 1,200 questionnaires were distributed, and 1,194 questionnaires were returned. The following summary is based on survey results.

Foremost on the peasants' mind today were resolute trust in party leadership, firm belief in socialism, and

complete faith in building new rural villages under socialism with special Chinese characteristics.

In response to the question "how do you evaluate implementation of socialist ideological education today," 1,117 respondents, 93.5 percent of the sample, said "very necessary; should be implemented from the start." In the last few years, because of inadequate ideological political work and the influence of bourgeois liberalization currents, a conflicting phenomenon of "being firm on the one hand, but compromising on the other" exists in rural areas. Some peasants had doubts about socialism, or lost faith in following the socialist road. But in this survey, peasants came to better understand that "only socialism can save China and develop the country." When asked how they viewed the future of socialism in China, 86.6 percent replied that "only socialism can save China," while 13.2 percent said "though the future of socialism is bright, the road ahead is winding." On the question "what is your understanding of giving firm support to party leadership," 94.2 percent of the respondents said "giving firm support to party leadership is the basic guarantee to building new rural villages under socialism." When asked "do you have faith in building new rural villages under socialism with special Chinese characteristics," 95.4 percent replied they had "complete faith." But 3.7 percent of respondents said "we can take any road if it leads to economic development," and a few respondents even felt that China could take the capitalist road. On the question of giving firm support to party leadership, 5 percent said "it doesn't matter who the leaders are, if we are led to wealth quickly." The findings show we must not be lax in carrying out socialist ideological education, and that we must further improve the coordination of ideologically targeted education with the regular education program.

Stabilize current policies and provide diversified and useful services are the urgent needs of the majority of peasants.

In response to the question "how do you evaluate the policy carried out in rural areas since the Third Plenum of the 11th CPC Congress," 850 respondents felt that "the policy fully conformed to rural reality and reflected the needs of peasant masses." Since the Third Plenum, the party's guiding policy has brought great benefits to the peasant masses. This is a point that all with eyes could see, and were grateful. In the sample, 25.5 percent of the respondents wrote in replies that "the rural policy should be stable, and not changed constantly." The peasants sampled, therefore, were concerned about policy changes. As a result of deepening reforms in rural areas, a "two fields system" has been broadly adopted in many places. When peasants encounter problems in production which cannot be solved by individual households, they rely on collective strength to solve problems. Therefore, when asked about what kind of rural reforms were needed, 47.6 percent of the sample replied they wanted "to develop a stronger collective economy, and to provide peasants with diversified and useful services."

Therefore, to stabilize a responsibility system centered on contract production carried out jointly by individual households, to improve management of a two-tier production system, to expand a system of socialized services, to gradually build up collective economic strength, to further develop the commercial economy of rural areas, and to help various rural enterprises to grow and thereby bring about collective prosperity, these are the issues we should conscientiously address and resolve.

A majority of peasants surveyed called for cleaning up political corruption, correcting unhealthy tendencies in the party, and lessening peasant burdens.

Replying to the question "what is the most salient problem in rural areas today," 385 respondents or 32.2 percent of the sample said "corruption and unhealthy tendencies in the party"; 207 respondents or 17.3 percent replied "cadres using their power to profit themselves," and 390 respondents or 32.7 percent said "monopolizing capital, excessive demands and retention, and excessive peasants burdens." Other problems mentioned by 17.7 percent of respondents concerned family planning, feudal superstitions, and outmoded customs and corrupt practices. From these responses, we can see that a majority of peasants reacted most strongly to problems of unhealthy tendencies, corruption and excessive burdens. When asked about the party's current efforts to rectify unhealthy tendencies and clean up corruption, 48.3 percent of the respondents agreed there have been "obvious improvements and marked results," while 46.5 percent felt that "despite improvements, the problems are still salient." This indicates that despite the marked improvements in cleaning up the government and correcting the unhealthy tendencies, the peasants still expect us to exert greater effort and adopt realistic and effective measures. To establish prestige and credibility of the party and government among the masses, we need to improve the relationships between the party and the masses, and between the cadres and the masses, to strengthen the party's ability to concentrate efforts to deal with problems, to strive toward establishing honest government and cleaning out unhealthy tendencies. These are the demands of a majority of peasants, and they are also the basic preconditions to reforming the climate in society.

A majority of peasants demanded that ideological political work be based on rural reality and on their current thinking, and that it be multifaceted in format, and lively in presentation.

When asked about the important contents in peasants' education today, 56 percent of respondents said the three types of education, ideological and moral, technical and cultural, legal and administrative, should be integrated. As to the question "what educational formats are most welcome," from 14 to 22 percent of respondents chose one or more of the following formats or activities: radio lectures, mass meetings, radio broadcasts, television, field days for peasants' ideological political work, and making studies interesting. The responses show that peasants welcome education that is lively and multifaceted. But regardless of formats and varieties, the peasants also demand that ideological political education be based on reality, aimed at actual results and implemented by combining the bestowing of knowledge and removing of obstructions, and by uniting the teaching of theories and putting them into practice. In answering the question "what kind of improvements should be made in today's educational methods and approaches," 42.6 percent of the sample replied that "talking about big theories is not enough, without getting to the crux of rural reality"; and 25.2 percent said "talking without doing will not do, what is most important today is grasping reality." Peasants were most concerned about reality and most opposed to education in the abstract. This means we must probe, investigate and analyze the peasant masses, grasp and understand their state of mind in a timely manner, and carry out educational programs targeted to their needs.

The various propaganda settings and tools which have been used effectively in developing peasants' education in rural areas have some problems in themselves. The respondents frankly focused our attention on these problems. For example, the current situation of expanding organized propaganda activities to the "household and room" level; 55.4 percent of the respondents considered the settings important and that such activities benefited spiritual and cultural development in rural areas. But there were others who felt that the organized activities were too limited, "having only form but lacking substance." Thus, how to fully utilize such propaganda settings, and to regularly carry out propaganda activities which interest and attract the peasant audiences are questions that we need to address and study conscientiously.

NORTH REGION

Inner Mongolia Telecommunications Grows

SK2701045292 Hohhot Inner Mongolia People's Radio Network in Mandarin 1100 GMT 26 Jan 92

[Summary] In 1991, Inner Mongolia invested 130 million yuan in the fixed assets of post and telecommunications departments. The Hohhot-Baotou and Baotou-Dongsheng optical fiber telecommunications lines were completed and put into operation ahead of schedule. The mobile phone system in Hohhot was completed in a little more than four months. Large amounts of preparations were carried out for the Hohhot City's project to expand the long-distance telephone exchange by 2,000 lines, the Ulanhot-Baicheng and Chifeng-Chaoyang microwave projects, and the project to renovate the Hailar earth station. Post and telecommunications departments made 18 million yuan of profits in 1991, up 51.8 percent from the preceding year.

Erlain Oil Field Crude Oil Output Reported

SK1002085992 Hohhot NEIMENGGU RIBAO in Chinese 1 Jan 92 p 1

[Summary] As of 31 December 1991, Erlain oil field had successfully fulfilled the annual production task of 1 million tons of crude oil. The 361 kilometer-long pipeline of the oil field safely transported 880,000 tons of crude oil, of which 860,000 tons were exported to foreign countries.

Peasant Income Increases in Inner Mongolia

SK2701060092 Hohhot Inner Mongolia People's Radio Network in Mandarin 1100 GMT 26 Jan 92

[Summary] Inner Mongolia peasants' per capita net income totaled 618 yuan in 1991, up 11 yuan from 1990, which saw an all-time record. Their income from family-based production and secondary and tertiary industries totaled 62.7 yuan per capita, up 25 percent from the preceding year. Thanks to the expansion of the rural collective economy, peasants' income from the unified operation of the collective also increased, reaching 14.9 yuan in 1991, up 4.6 yuan from the preceding year. Peasants' cash income also increased by 117.8 yuan over the preceding year. Households whose per capita net

income ranged from 800 to 1,000 yuan rose from 11.5 percent of the total peasant households to 12.2 percent.

Inner Mongolia Communications Conference Ends

SK2701045092 Hohhot Inner Mongolia People's Radio Network in Mandarin 1100 GMT 24 Jan 92

[Text] The regional communications work conference ended today. In building communications infrastructure facilities and in transportation production in 1992, we should shift the emphasis to readjusting the structure and raising efficiency.

The conference participants maintained that in 1991, the whole region's communications were further developed, and the building of infrastructure facilities progressed smoothly. During the year, more than 115 million yuan were concentrated on paving more than 1,000 km of road surface and more than 1,200 km of roadbed. The transportation production and communications industry were developed, reflecting a good trend. The whole region's road freight transport volume reached more than 95 million tons, the passenger volume reached more than 69 million people, and transport enterprises made more than 9.17 million yuan in profits—all showing an increase over the previous year.

The conference pointed out: In 1992 the main tasks for the whole region's transportation production and the building of infrastructure facilities are to realize a road freight transport volume of 89.2 million tons and a road passenger transport volume of 65 million people; to realize a total industrial output value of 75 million yuan according to plan; to build the 301 state highway between Yakeshi and Manzhouli, the 110 highway between Jining and Laoyemiao, and the 111 highway between Tongliao and Ulanhot; to fulfill the task of repairing and maintaining the highway running from Ulanhua to Saihantal; to complete 15 bus stations, continue the construction of eight bus stations, and start two bus stations; to pinpoint priorities, accelerate the construction of county and township highways, and develop some transport vehicles to directly serve economic development in the rural and pastoral areas.

More than 100 comrades from the communications and transport fronts attended the conference. During the conference, regional leaders Liu Zuohui, Zhou Rongchang, and Zhou Junqiu attended and addressed the conference.

Leadership Style of President Criticized

92CM0098A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 243, 3 Nov 91 p 37

[Article by Chiao Wei-erh (0829 1218 1422): "The President of the Executive Yuan Has Made Himself Into a Steamroller"]

[Text] Hao Po-tsun has been a military man all his life, and the logic of all his thinking, as well as his acting, has long ago become "militarized." It is therefore no wonder that he runs Taiwan as if it were a large military camp. His fear-inspiring ferocity and his domineering airs would frighten no one if they only remained parts of his physiognomy and spirit. However, if his domineering airs and his fear-inspiring ferocity are merely a synonym for hateful and reckless actions, then the people of Taiwan better stand in fear and trepidation every day. Rivers and mountains may change, but never a man's character; no one will know when that Executive Yuan president will again come up with an even more ruthless act than roundly swearing at the president of Taiwan University.

A president of a university is not perfect and can also make mistakes, and he also does not enjoy immunity from committing errors. Under the present system, university presidents are definitely subordinates of the president of the Executive Yuan, and are duty-bound to submit to cabinet supervision. However, the position and character of a university president as a highly respected symbol of society is completely different from that of a state minister, deputy minister, or department head. If the president of the Executive Yuan regards a university president as merely another administrative official, and even goes so far as to make him out as a kind of second-class soldier and give him a dressing-down at every turn—furthermore, does so openly, in the halls of the national assembly—then this is no longer a trifling, internal matter of a superior official reprimanding a subordinate.

Any mistake that Sun Chen [1327 7201] may have committed in handling the "Taiwan University base building" affair was not a mistake of conducting himself in an overbearing way or making himself personally available, but rather of not standing on the side of the government, or more precisely, not standing on the side of Hao Po-tsun. This attitude was, in the eyes of military-trained Hao Po-tsun, nothing less than "collaboration with the enemy" and "traitorous behavior"; hitting at the enemy and swearing at a traitor is, as far as Hao Po-tsun is concerned, nothing more and nothing less than a righteous act.

According to the logic of military men, there are only two kinds of people, comrades and enemies. If you are not comrade, you must certainly be an enemy. The result of this kind of dichotomy will undoubtedly be that:

A legally constituted opposition party will be taken as a party of renegades, and its members will be regarded as hateful people, even as enemies.

The political challenges of the opposition party, and more so its peaceful endeavors to attain power, are made out to be subversive activities aimed at toppling the present regime.

If dissenting opinions arise internally in one's own camp, or if there are men who do some thinking as if in place of the opposition party, they will certainly be regarded as traitors and will be persecuted and denounced.

In more concrete terms, if there is a tiny party with only 20,000 party members, even though it has no armed power at its disposal and commits no acts of terrorism, but rather differs in its political propositions, such a party will immediately be saddled with the monstrous crime of "inflicting calamities on country and people," and the state will be described as being on the "brink of a life-or-death situation."

As if one man's condemnations and bitter attacks might appear insufficient, the masses too were mobilized for a comprehensive punitive drive, and a farce of people's opinion was repeatedly put on, in the style of old, feudal China. Thus, when the water was heated and there were only a few bubbles, fuel was added and the fire fanned so that the water came to a quick and lasting boil. An arena in which originally only two political parties confronted each other with their political strengths was changed in character to one of a confrontation of social power among the Taiwanese people. Those who sparked the fire were of course wrong, but how much worse were those who added fuel and fanned the fire!

However, due to manipulations and due to the controls that were exercised, the collective conception had become such that "unification" was the only sound of truth and "independence" became a heresy. That the Democratic Progressive Party [DPP] was condemned and its members arrested, and that Sun Chen was reprimanded and vilified became a matter of course not only according to the prevailing circumstances, but also according to reason. It is interesting, though, that Hao Po-tsun denounced Sun Chen for having been "overbearing" and for not having made himself personally available in the "Taiwan University base building" affair, while when the DPP demanded a face-to-face talk with Hao Po-tsun on the question of Taiwan independence, Hao Po-tsun demonstrated precisely this "overbearing" attitude and would not make himself available. Is this not like when children call out, "Swear at someone and you swear at yourself."

In a slightly taunting manner of speaking, the man who is master of Taiwan at the present time is not Lee Teng-hui at all, but rather—as we can well imagine—Hao Po-tsun. The whole string of recent political disturbances appear outwardly to be acts resulting from the collective idea of the Kuomintang, but deep inside they were really implementations of Hao Po-tsun's personal ideas. Lee Teng-hui had once been assistant to Chiang

Ching-kuo, and he will certainly have a good understanding for the frame of mind that brought about the major decisions toward democratization taken during Chiang Ching-kuo's later years. These were such decisions as allowing the DPP to organize as a political party, lifting martial law, and releasing the political prisoners in the "Formosa" case. The fear-inspiring ferocity and domineering airs recently displayed by Hao Po-tsun are poles apart in character, as well as in practice, from Chiang Ching-kuo's frame of mind in his later years and from the pragmatic policies proposed by Lee Teng-hui. Lee Teng-hui, we may say, is a man who "hides much bitterness in his heart, but keeps his mouth shut."

The DPP may perhaps indeed be a political party that is thinking out all kinds of schemes to gain power, and Sun Chen is a party member and university president who may perhaps occasionally sing out of tune, but, frankly speaking, it is really not necessary to deal with this kind of opposition party or university president by means of total annihilation. Politics should not be handled like street work, where a steamroller can flatten unseemly mounds of stone or earth. If a person in the position of Executive Yuan president makes himself into a steamroller, and as such mercilessly flattens the road, what landscape will his kind of political road present?

Article Discusses Problem of 'Brain Drain'

92CM0175A Hong Kong MING PAO YUE-KAN
[MING PAO MONTHLY] in Chinese No 313, Jan 92
pp 44-46

[Article by Wang Rui-tian (3769 6904 3240): "The Latent Brain Drain Crisis"]

[Excerpt] [passage omitted] The Hong Kong government's information and planning office estimated that in 1990 more than 62,000 Hong Kong people emigrated to foreign countries. This is not only higher than the original estimate of 55,000, but is a historical record for the number of Hong Kong emigrants. The trend in emigration forecast by the Hong Kong government also reveals that approximately 58,000 people emigrated in 1991, and after this each year an average of 60,000 people will emigrate. As of early November 1991, more than 70,000 Hong Kong citizens had obtained foreign signed emigration certificates, which is higher than the original Hong Kong government estimate of 60,000.

As for any worsening of the brain drain, Hong Kong Governor Sir David Wilson has stated that the brain drain will lead to the loss of talented people, and these circumstances undoubtedly have made people worry. But the situation has not yet reached a crisis point. Naturally there are different opinions as to whether or not this constitutes a "crisis." But I believe that the brain drain has already resulted in a serious crisis of human resources for Hong Kong. Although the potential crisis may not definitely produce serious and disastrous consequences, it must be faced and guarded against, otherwise the consequences will be dangerous. Looking at last year's statistical estimates up to 1986, the number of emigrants from Hong Kong was consistently below average, but starting in 1987, the number rose, reaching a peak of 62,000 in 1990. How can this not make people worried! The statistical material also shows that the primary places the emigres choose to live are Canada, Australia and the United States. Recently, many people are choosing to live in New Zealand and Singapore. The material shows that many of these emigres are middle class managers, professionals and technical people with a comparatively high level of education, and rich and varied experience. When they resign this has a bad effect on the normal functioning and long-term development of the company, and an adverse effect on human resources in the society. This may be looked at from the three levels given below:

1) The organizational level. From the view of the individual organization, the brain drain has exacerbated the rate of loss of personnel. The loss of personnel generally means an increase in the cost of human resources. For example, company supplied training becomes wasteful, experience is lost, and there is the cost of having personnel retrained. No matter whether the loss of personnel is due to emigration or people changing jobs, for the organization it is still a loss of human resources. If employees are being engaged by competitors in the same business, this represents a definite threat to the organization.

2) The industry level. At present, the brain drain has been primarily focused on certain businesses and specialties, for example, computer specialists, accountants, bankers, doctors and nurses. This could lead to shortages in these fields, with supply not meeting demand. In addition, Hong Kong will gradually become a channel for exporting talented people in these fields.

3) The societal level. If we look at the situation from the viewpoint of the overall Hong Kong society, this problem becomes even more serious. This is because it is not only a problem of the loss of personnel or lack of talented people, but also question of a social brain drain. It may be said that the brain drain is a loss of the human resources of a society, and the disappearance of talented persons abroad is the loss of education, training and experience previously supplied by society.

If we use government released figures as an estimate, this shows the seriousness of Hong Kong's "brain drain." For example, beginning in 1990, about 60,000 people emigrate from Hong Kong each year. If we take the average and stable situation for calculation, this means that from 1987 to 1997, Hong Kong will see 500,000 people emigrate, a large proportion of the population of 6 million people. If we assume that Hong Kong undergoes no major political and economic changes, this is a very conservative estimate.

Statistical material also indicates that the proportion of emigres is the highest among those between the ages of 25 to 40 years old. In terms of educational level, there was an especially large number of emigres with high educational level, accounting for 18.7 percent of the total number. In 1988 this figure was 15 percent. In terms of vocation, those emigres in the "professional, technical, administrative and managerial" categories, in the two year period of 1987-88, made up 25 percent of the overall number. A comprehensive analysis of these aspects makes it even more clear that the brain drain is having a serious effect on Hong Kong and constitutes a latent crisis. [passage omitted]

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