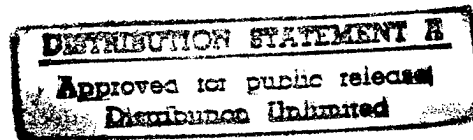


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14 AUGUST 1990



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GENERAL

Wan Runnan Addresses FDC Goals, Finances, Problems

90CM0258A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 6, Jun 90
pp 21-24

[Article by An Chi (1344 3825): "Interview With FDC Secretary General Wan Runnan"; date, place not given]

[Text] Preparations for the Federation for a Democratic China [FDC] began in July of last year, and since its establishment in September of the same year it has been the focus of attention in all quarters. Its central figure is the secretary general, Wan Runnan [5502 3387 0589], who is in charge of the FDC's daily work. This man, who is described as "calm, steady, unfazed by difficulties, and not subject to changing moods," from being the director general of China's Stone Group became the secretary general of the overseas FDC, and he is something of a legend.

There are now widespread rumors detrimental to the FDC of, for example, "factional struggle," "extravagance and waste," and so forth. What explanation does Wan Runnan have for these rumors?

Has Public Confidence in the FDC Fallen?

[An Chi] Some people say that, for a little over half a year's time, public confidence in the FDC has been constantly falling. Can you discuss the reasons for this?

Wan: I totally disagree that public confidence in the FDC has fallen. On what does public confidence in an organization depend? Not on what you say, but on what you do. In this little over half a year, the FDC has done many things, for example, developed its organization, promoted unity, expanded influence, ran MINZHU ZHONGGUO [DEMOCRATIC CHINA] and MIN ZHEN TONGXUN [FDC DISPATCH], set up various rules and regulations for internal operations, and so forth. I may say that no political organization has done so many things in the short span of half a year. Half a year ago, the FDC had done nothing, but it was said at that time that public confidence in it was the highest; now it has done these many things, but it is said that confidence in it has fallen. Isn't that ridiculous?

The problem is that people equate their expectation value (the so-called public confidence) with reality's value. When the FDC had just been established, people had high expectations for it. However, the things that an organization is able to do in half a year are limited—resources are limited, capability is limited, and time and space are limited. When the FDC did not meet people's unrealistic expectations, some people said that confidence in it had fallen.

What Things Can the FDC Do?

[An Chi] What things do you think the FDC can do?

Wan: Our work, roughly speaking, can be divided into three tasks.

1. Developing the organization: We have basically already organized the Chinese refugees, students, and compatriots who are abroad. In the United States, Europe, Japan, Australia, and the Asian-Pacific region—in all places where there are Chinese people—the organization has been vigorously developed, and very successfully too. From FDC headquarters to the subheadquarters in a country and the branch in a region, there is gradually being formed a highly organized force.

2. Promoting unity: After the FDC was established, it did a lot of work to promote unity. For example, in the United States it formed the unified China Human Rights and Democracy Foundation, which, after much effort, is basically ready to begin work. Cooperation is gradually being effected between the FDC and the United Committee of Democratic and Student Movements [UCDSM], and they intend to merge.

3. Expanding influence: This includes three aspects. First, there is the influence on Overseas Chinese and on Chinese societies abroad. Many political stars of the FDC have made speeches in many places, and their briefings on the 4 June incident play a very big propaganda role. Second, there is the influence on the governments and the nongovernmental organizations in the West and in the East European countries. We have done a lot of work in the United States, Europe, Australia, and Japan, with good results. Third, there is the influence on the mainland. By means of facsimiles, broadcasts, newspapers, and magazines, we constantly transmit information to China.

4. Maintaining pressure: This means pressure on the Communist Party. The various reactions by the Communist Party prove that it is feeling this pressure. The Communist Party constantly criticizes us and protests to the relevant foreign governments, which shows that we have done things.

The FDC and the UCDSM "Have a Liturgy That Is Difficult To Chant Together"

[An Chi] Some people object to the merging of the FDC and the UCDSM, thinking that disputes constantly occur within the FDC and that a hasty combination would cause a bad effect. What is your opinion?

Wan: The FDC and the UCDSM will not become united just by saying so, and for a period of time it is possible that they will not unite. Furthermore, every organization has within it its own contradictions and problems. The FDC and the UCDSM "have a liturgy that is difficult to chant together," but they must not, because of this, refuse to unite. It could be that unity is precisely the way to resolve some difficulties by combining the superiorities of each one. What is important is to have more than just nominal unity, and to truly solve problems and truly unite. I said long ago that to share the same bed but dream different dreams is not as good as to sleep in

different beds but dream the same dream. The way to unite is, first of all, to exchange concepts and personnel, as well as to cooperate in work. The process of uniting will be one of "where water flows, a channel is formed"—when conditions are ripe, success will come—and one of getting on the right track, and it will not be effected by chance.

Factional Strife Within the FDC

[An Chi] Is it possible not to make public the factional strife within the FDC? Can there be a compromise in the factional strife on some major issues?

Wan: Politics is compromise. Inside any political organization are different factions. The question is, first of all, to acknowledge the factions. If we do not acknowledge the factions and do not acknowledge that there must be cooperation between the factions, then how can we be called the "Federation for a Democratic China"? Therefore, the important tasks placed before us are: first, to acknowledge the factions; second, to make the factions public; third, to seek a common understanding on major issues and to establish principles; and fourth, to compromise and cooperate in line with these principles. This is an important step in political operations. That the factions cannot now be made public precisely shows that an organization does not yet have sound democratic principles and systems. In Article 6 of the FDC constitution it is written that factions are to be made public, but, it is much more complicated to do something that to write it down. Many Western statesmen feel that this is strange. They think that making factions public is extremely natural, so why is there a need to write it in the constitution as if it were so important. They do not understand that for Chinese many things that are written down often cannot be done; if they can be done there is no need to write them down.

"Stars" Will Also Dim

[An Chi] People on the outside have had a lot of veiled criticism for some dynamic figures in the FDC. For example, they say that some of these people have the consciousness of being stars and the consciousness of having power, and their selfish desires swell when faced with money. What is the view on this within the FDC?

Wan: These are problems that any political organization encounters, and they are also problems that can be solved. One of the reasons that a political organization has public confidence is that it has some outstanding leaders who are often called "stars." The main reason that many persons in the FDC have become dazzling stars is their behavior in the democracy movement on the mainland last year. Speaking of these "stars," the most important thing that they should now know is that their luster of the past will dim. They must, faced with new tests, prove that they are still as outstanding as they were in the past; this kind of "star" will continue to shine. In the course of its development, an organization will always have some "stars" who gradually dim, and

also some new people who originally did not shine, who become bright. A big wave washes the sand—this is an inevitable phenomenon.

Four Pieces of Work Worth Mentioning

[An Chi] Since taking charge of the work of the FDC secretary general, what important things have you done?

Wan: The things that the secretary general does are based on the work plan stipulated by the FDC Council and are based on the FDC's constitution. There are four things worth mentioning. First, information has been sent into China, for example, by means of the "facsimile war" and the "Goddess of Democracy" ship. Second, the "macro-climate" has been studied, for example, by preparing for the international discussion meeting on Eastern Europe. Third, there are the activities to commemorate the anniversary of the 4 June incident, and at the same time there is the summation of the experiences and lessons of China's democracy movement. Fourth, preparations are being made for the second FDC congress, to be held in September of this year.

These are four things that the council stipulated for the secretary general to pursue and implement. I did what the council stipulated, and I am not saying that I did anything on my own.

Where Did the Talk of "Extravagance and Waste" Come From?

[An Chi] Please discuss the FDC's principal economic sources.

Wan: The principal source is nongovernmental contributions without any political conditions attached. The FDC is now actively planning for its own first batch of enterprises to open up sources of revenue. On the one hand, it is broadening sources of income; on the other hand, it is reducing expenditure.

[An Chi] How much of the FDC's funds now come from Taiwan?

Wan: I don't think very much comes from Taiwan. The situation is now roughly like this: each source accounts for one-third, that is, Hong Kong accounts for one-third, Taiwan accounts for one-third, and Overseas Chinese account for one-third. These three sources account for all the funds, and also they are nongovernmental; we do not take contributions from any government official.

[An Chi] In financial affairs what is the "degree of transparency"?

Wan: We think it is very high. Recently, some people even thought it was too high. We have made known to the outside every circumstance.

[An Chi] In what aspects are these contributions mainly used?

Wan: In accordance with the budget drawn up by the council, the contributions are basically divided into

three parts: 1) daily operations, including the maintenance of office work, the transmission of information, and the making of contacts; 2) the running of magazines and radio stations, and the handling of internal communications; and 3) some other FDC activities, for example, the "facsimile war," the "Goddess of Democracy" ship, as well as the second congress.

[An Chi] Is there any extravagance and waste?

Wan: What is the standard for "extravagance"? This is a very difficult question to answer. It would be better to say: Can anything be saved? I feel that savings can be made in many places. But when we began we needed a suitable process. Some people criticized us, saying that when the FDC leaders went abroad they stayed in big hotels. Actually, the situation was not as they thought it. When we began there was no familiar person or place we could stay with or at. We are now gradually setting up a network of relationships and, basically, wherever we go we stay at the home of a person there and no longer go to big hotels. On the other hand, sometimes we take part in activities run by certain organizations, and the relevant organizations make centralized arrangements for our accommodations; often the arrangements are made for us to stay in very good hotels, for which the FDC does not spend a penny. Of course, we do not need to show the FDC's austerity and simplicity by not going anywhere. Actually, there are very few circumstances in which FDC members pay money to stay in high-class hotels. Only as a last resort have they done so once or twice.

The FDC Will Not Tilt Toward the Kuomintang

[An Chi] I have heard that the "Goddess of Democracy" ship got from the Taiwan side alone a contribution of \$720,000. Does this money pay expenses?

Wan: This fund is earmarked for its specific purpose only.

[An Chi] The FDC's economic dependence on Taiwan is excessive. Will it, because of this, become politically pro-Kuomintang?

Wan: I don't think this will happen. For the FDC to be successful it must be an independent political force. The FDC understands this point, and so does the Kuomintang. Besides, Taiwan is a part of China. The successes it has obtained in the process of political, domestic, freedom, and economic construction are of very important significance for the mainland to draw lessons from. We are now getting in touch with Taiwan. Not only do we want to get nongovernment aid from Taiwan; what is more important is to get some experiences, so that in the future, when the mainland carries out democratic reforms and economic construction, it will avoid taking a lot of detours.

Can the FDC Be Independent?

[An Chi] How can the FDC not be restricted by other organizations and escape the influence of forces of all kinds and sorts?

Wan: To maintain its independence, the FDC must have its own fixed goals and tactics. It formulates its goals and tactics in line with the situation in developments on the Chinese mainland. This is to say that our direction must not shift and that we must know our own role and place. As a matter of fact, no one should worry whether a political force is independent or not. If it could only succeed if it were independent, then it would be bound to be independent; if it could not succeed if it were independent, then it would be bound not to be independent.

How Does the FDC Secretariat Operate?

[An Chi] The FDC secretariat is the FDC's main operational organization. When you go abroad, is its work adversely affected? There are some matters on which you need to decide; in whom do you vest authority when you are absent?

Wan: Through a gradual readjustment, the secretariat, I may say, has found the most outstanding work group that can now be found. Each member of the group is outstanding, and the members are perfectly able to do their work independently. Actually, I am a secretary general who is in charge of very few things. I believe that the secretary general who is in charge of the fewest things is the best secretary general. Therefore, I can, on a regular basis, do various kinds of propaganda and organizational work outside the headquarters and the secretariat will operate normally. An important task of the secretary general is to put suitable persons in suitable posts. Of course, this is, after all, a newly built contingent, and it has many specific difficulties and problems, but we are gradually forming a standard work style and are doing better.

Because I do a lot of work in foreign countries, sometimes the secretariat's work is adversely affected, but Chairman Yan Jiaqi [0917 1367 0366] has done a lot of work in this respect. In reality, Chairman Yan takes an interest in much of the Secretariat's work, and also has set up very good working relationships.

Willing To Help Refugees But Unable To Do So

[An Chi] Refugees from the mainland face many difficulties. Has the FDC considered helping them to solve the problem of their enjoying peace and stability both physically and spiritually and other problems?

Wan: This ought to be considered, but there is not much we can do. For example, right of residence, housing, work arrangements, social insurance, and other problems are problems we cannot solve. On these problems we are powerless and can only vigorously help to solve them. In this respect we do all we can, but it is not enough.

After Yan Jiaqi Steps Down, What Will Be Done?

[An Chi] I have heard that Chairman Yan Jiaqi intends to step down. What is your view of this? Is consideration being given to the selection of the next chairman?

Wan: Many people think that the reason that the FDC is the FDC is that a number of refugees from the mainland acted as "bannermen." Like Yan Jiaqi, they are of noble character and high prestige, and are able to get approval and support abroad. They worry that after Yan Jiaqi there will not be this kind of person. However, what is really important is to let nature take its course and, in line with democratic procedures, select a successor. We are certainly able to solve this problem. There is no need to worry about it too early.

[An Chi] What is your view on his intention to step down?

Wan: This is his own choice. If someone expresses a desire to go or stay, it could mean various things, and it could also be that he is expressing many kinds of ideas. To understand the idea that a man expresses, one must look at the final result, and one should not jump to a conclusion too soon.

[An Chi] Are you dodging this question?

Wan: No, didn't I speak to it? A democratic organization will not cease to exist because a certain person leaves it. Of course, the effect of a certain person could be great and good. This is inevitable, but it is not equivalent to being vital for the organization's existence.

On Chai Ling

[An Chi] In what way do you think Chai Ling [2693 3781] will join the democracy movement abroad? What hopes do you, as an individual, pin on her?

Wan: Chai Ling is an important symbol of the 1989 democracy movement. She now faces a new environment. How she adapts to it is, for her, a very big test. We have already seen the problems faced by other student leaders during the process of changing their environment. Chai Ling came out fairly late, and in this respect she did a little better than the previous students.

Chai Ling has indicated that, regardless of what kind of environment she is in, she will struggle for China's democracy. There are many ways to struggle for democracy. I think she will certainly choose the way she thinks most suitable. No matter what, I hope no one will put the burden of their wishes on one young person, putting on him or her unrealistic expectations; otherwise, everybody will feel disappointed with the FDC and with other people.

Is It Appropriate for Entrepreneurs To Take Part in Politics?

[An Chi] Please discuss your feelings with regard to entrepreneurs' taking part in politics.

Wan: There are many ways of verbally putting it overseas, with the idea that one who runs an enterprise cannot engage in politics. I totally disagree. In the operation of a political organization, particular attention is paid to efficiency; on this point, an enterprise is not different. Therefore, a political organization may be said to be in great need of the experiences of an enterprise's operation. Thinking that if you run an enterprise you certainly cannot engage in politics, that if you have engaged in politics you can certainly do well in politics—this is ridiculous. If this were the case, Sun Yat-sen should have just practiced medicine and Mao Zedong should have just taught school, because they had not engaged in politics. Five years ago, in the Chinese Academy of Sciences I planned to be a highly successful teacher. When I abandoned the academic world for commerce, many people felt sorry for me and predicted that this man can easily do technological work, but that does not necessarily mean that he can run an enterprise. Five years later I quit running an enterprise and became the FDC secretary general, and some people also said that this man can run an enterprise, but he won't do well in politics. These were preconceived ideas. In the end, whether I can do well or not, of course, it is too early to say, but facts will show whether I do well or not.

The Relationship Between the FDC and Stone

[An Chi] What kind of relationship is there between Stone and the FDC?

Wan: There is no relationship. Stone is Stone, the FDC is the FDC.

[An Chi] Do you still have a post in Stone?

Wan: My post in Stone is titular. If I want to do something I do it wholeheartedly. If it is thought that this titular post hinders my work, I can give it up, but I will only run the FDC well.

[An Chi] What is the present and future development of Stone abroad?

Wan: For the time being I will not answer this question.

[An Chi] Then can you talk about your development as an individual? Do you plan to continue your FDC work, or, as you said half a year ago, at the necessary time to give up politics and return to commerce?

Wan: If I do a thing I do it to the end, and do it well. I certainly don't abandon it halfway. It may be said that of all the work I've done what I've done at the FDC has been the smoothest and most successful. I have worked, taught school, engaged in scholarship, run an enterprise—in all of these things I have encountered many difficulties. Now, working in the FDC, the progress is the smoothest and the predicaments encountered the fewest. This could be of benefit to the political environment of the FDC abroad, and no longer would there be overall political interference.

Prospects for Future U.S.-Soviet Nuclear Testing
90WC0072A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 8, 23 Apr 90 pp 5-6

[Article by Zhang Wu (1728 2976): "Trends in U.S.-Soviet Nuclear Testing"]

[Text] Nuclear testing has been a necessary method for developing nuclear weapons, and it has always been adapted to the needs and pace of nuclear weapons development. More than 40 years of nuclear weapons testing has produced an enormous stockpile of nuclear weapons, and has spurred generational changes in nuclear weapons. Because of this close relationship, nuclear testing is regarded as a distinctive measure for judging the level and rate of nuclear weapons development.

Nuclear Testing Faces a New Turning Point

There have been two major turning points in the more than 40-year history of nuclear testing. The first was the creation of the 1963 Partial Test Ban Treaty, which forced all Soviet and U.S. testing to be conducted underground. The second [turning point] came in 1974, when the U.S. and Soviet governments tacitly consented to a treaty limiting the size of weapons for underground testing; the treaty limited the destructive power of U.S. and Soviet nuclear tests to less than 150 kilotons of TNT.

In the wake of the general increase in the nuclear weapons arms race between the United States and the Soviet Union, the maintenance and replacement of an every expanding arsenal of nuclear weapons has become a serious burden which both sides are finding difficult to shoulder. In 1983, the Reagan administration proposed the tremendously costly "Strategic Defense Initiative," which expanded the arms race into outer space, while repeatedly slashing the funds the government used for nuclear weapons and nuclear testing. Since taking office, Bush has spared no effort in promoting the strategy of "beyond containment," and using the policy of "peaceful evolution" in the struggle with the Soviet Union. Funding for nuclear testing has been reduced again. Since Gorbachev took office in 1985, the Soviet Union has greatly revised its domestic and foreign policies. The Soviet Union has turned from a one-sided pursuit of military power towards developing the domestic economy and strengthening comprehensive national strength, and shifted the guiding principle of national security from a vigorous offensive posture to one which emphasizes a rational, sufficient defense. It has also adopted a set of new initiatives and actions. Examples [include] a unilateral suspension of nuclear testing, the resumption of U.S.-Soviet test ban negotiations, and facilitating the signing of the INF treaty.

U.S. and Soviet revisions of the policies of the nuclear arms race have led to an atmosphere that is the most relaxed since the advent of nuclear weapons. This means that nuclear testing could be facing a new period of change, and the United States and the Soviet Union could

both further limit nuclear testing, such as reaching new agreements on lowering equivalent weight limits and reducing the frequency of testing. This would mean reducing the scale and slowing the pace of the nuclear arms race; nuclear testing would become increasingly difficult and complex, and theoretical calculations and test simulation technology would play an increasingly greater role.

Trends in the Development of U.S.-Soviet Nuclear Testing

[If one] differentiates the nuclear testing conducted by the United States by purpose, it includes primarily testing weapons development, the physics of weapons, weapons effects, and stockpile reliability. Of these, the primary mission is testing weapons development. In the last several years the United States has achieved remarkable success in the area of weapons development testing, and has fully completed nuclear tests of a 155-mm nuclear shell and the MX intercontinental missile nuclear warhead. The U.S. has also begun testing and verification of the nuclear device design for the submarine-launched Trident (D5-I) missile nuclear warhead, completed testing of the prototype warhead for a strategic, earth-penetrating shell, and conducted partial equivalent weight testing of model devices. Testing of weapons physics, which is presently receiving more and more attention, is done both in order to explore the requirements for third-generation nuclear weapons concepts, and in order to store up "logistics" for future nuclear weapons development. Testing of weapons effects, which has grown continuously in recent years, is concentrated primarily in three areas: First, testing the lethal power of new nuclear warheads and the ability of some important weapons systems to survive in a nuclear environment. Second, conducting research on new testing methods. Third, coordinating development of an earth-penetrating warhead and conducting shallow underground tunnel detonation testing. Under the pressure of spending restrictions (and the Soviet peace offensive), a sizable number of current U.S. nuclear testing safeguard measures and basic research projects have been cut back, and some major nuclear testing plans have also been repeatedly postponed.

All nuclear testing done by the Soviet Union can be classified as either "military purpose nuclear detonation" or "peaceful nuclear detonation." The former has two purposes: "testing and verifying results of nuclear blast physics" and "improving military technology." The first of these is similar to U.S. weapons effects testing, while the second is similar to weapons development and effects testing. In recent years, because Gorbachev has repeatedly given ground on the question of nuclear testing, the use of "military purpose nuclear detonations" has clearly decreased, and the proportion of "peaceful nuclear detonations" has steadily increased. According to a report issued in December 1987 by the Soviet Atomic Energy Commission, Soviet "peaceful nuclear detonations" are often used for petroleum and natural gas deep seismic prospecting, or for stimulating

oil wells to increase output. The Soviet Union has resolved to slow the pace of its own nuclear testing, an approach which is well-suited to its new national security strategy. In addition to seeking political and foreign policy benefits, [the Soviet Union] can reduce the economic burden of nuclear testing, and can use "peaceful nuclear detonations" to serve the economy. At the same time, this policy will help bring about a U.S.-Soviet nuclear test ban treaty, which would compel the U.S. to limit and slow the pace of its nuclear testing, thereby preserving the present U.S.-Soviet nuclear balance.

Prospects for the Development of Nuclear Testing

Up to now, no new weapon has been found that can realistically replace nuclear weapons as the mainstay of the U.S.-Soviet deterrence strategy. Complete destruction of nuclear weapons is not possible in the nuclear era. [By] using mature, nuclear weapons manufacturing scientific knowledge and technology, both the United States and the Soviet Union could produce a new stockpile of nuclear weapons within a few days. For this reason, both countries proceed from their own interests, and have no choice but to develop nuclear weapons. As long as nuclear weapons are produced, they must be tested. The facts indicate that there is an enormous latitude for developing current nuclear weapons, and each step in their development cannot be divorced from testing. For this reason, nuclear weapons testing cannot be completely halted for a very long time to come.

However, due to the tremendous difficulties facing the Soviet domestic economy, it is already very hard for the Soviet Union to match the United States in the nuclear arms race. Thus the Soviets wish to do everything possible to limit U.S. development of third-generation nuclear weapons. Having weighed the pros and cons, the Soviet Union has adopted an offensive initiative of striding forward in banning nuclear testing. In addition to the proposed steps described above, at the UN General Assembly in October 1987 the Soviet deputy foreign minister also proposed the first tentative target plan for gradually limiting nuclear testing; [he] proposed that each side have no more than four tests per year, with the equivalent weight of each test not to exceed 1,000 tons. The United States has not been willing to limit nuclear testing; however, in the face of the aggressive Soviet foreign policy offensive, and under international and domestic pressure, it has had to slow the pace of testing. In reality, in recent years the U.S. government has already begun researching the possibility of limiting nuclear testing. The U.S. government has already directed relevant departments to study how reducing nuclear testing equivalent weights to less than 1,000 tons or less than 10,000 tons will affect the U.S. nuclear weapons stockpile. [They are also directed] to finish scheduling such things as the required target timetables. Also, because of the continuous rise in technological levels, the number of tests required [when] developing a new warhead has decreased greatly compared with the past. This makes it possible to progressively limit the equivalent weights and testing frequencies of nuclear

tests. In June of this year the United States and Soviet Union will hold a summit conference and could reach an agreement on reducing strategic weapons. This would surely help the two countries to reach further agreements on limiting nuclear testing.

The next several years will be a preparatory period for producing new agreements on limiting nuclear testing. Both the Soviet Union and the United States can bargain at the negotiating table while launching intense publicity campaigns on the testing grounds. It is highly likely that the pace of nuclear testing could accelerate. The frequency of nuclear testing could not clearly decrease, the scale of large equivalent weight tests could increase, and nuclear weapon simulation and monitoring methods could develop more rapidly.

SOVIET UNION

Soviets Pull 80 Percent of Troops From Mongolia

OW2607165490 Beijing XINHUA in English
1502 GMT 26 Jul 90

[Text] Ulaanbaatar, July 26 (XINHUA)—The Soviet Union has already pulled out 80 percent of its troops stationed in Mongolia.

This was announced at a news conference here today by Colonel D. Dorgodorj, first deputy chief of the Mongolian Army General Staff.

He said the Soviet Union has already fulfilled its withdrawal target for 1990 by accelerating its withdrawal speed.

He said, "Some of the Soviet military units due to leave in 1991 are also leaving this year," adding that includes a motorized infantry unit.

However, he did not give figures of the Soviet troops in Mongolia which, diplomats here estimate, could be 75,000 before the withdrawal began last year.

In the past two years, the Soviet Union pulled out about 50,000 troops from the Asian country, they hold.

Under an agreement signed earlier this year between the two countries, all Soviet forces are to leave Mongolia by 1992, with base units going next year and support units the following year.

At the news conference, Dorgodorj also said Mongolia has demobilized in the last two years more than 20,000 troops, but declined to comment on the Army's current strength.

NORTHEAST ASIA

Analysis of Japan's South Asia Strategy

90CM0283A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 10, 23 May 90 pp 6-9

[Article by Chen Jiehua (7115 3381 5478): "Japan's 'Cross'-Shaped Strategic Blueprint for Asia"]

[Text] The "Golden Diplomacy" of May

During late April and early May Japan had its "golden week" (meaning a whole week of rest). During this period, the Japanese Government launched a series of major diplomatic activities on the Asian stage.

From 29 April to 6 May, Japanese Prime Minister Toshiki Kaifu visited Thailand, India, Bangladesh, Pakistan, Sri Lanka, Nepal, and Indonesia. Basically he traveled along a horizontal axis paralleling the equator. On the day after Kaifu set out on his travels, Yoza Ishikawa, director general of the Japanese Defense Agency visited Australia, Malaysia, and Thailand. At the same time, Michi Watanabe, the new Liberal Democratic Party leader, who had just succeeded Yasuhiro Nakasone, visited Shanghai, Beijing, Hong Kong, and Hanoi. Former Prime Minister Souseki Uno accompanied him on the trip to Beijing. On 29 April, State Minister and Foreign Minister Taro Nakayama visited South Korea. Liberal Democratic Party Policy Research Council chairman Kato also visited South Korea from 19 April to 1 May. If the routes traveled by Ishikawa, Watanabe, Nakayama, Uno, and Kato are connected, they present a horizontal axis extending from Australia to the Far East and virtually paralleling the earth's meridian lines. If this vertical axis is connected to the horizontal axis along which Kaifu traveled, a striking cross-like strategic configuration appears vividly on the map of Asia.

In an administrative address to the Diet in early 1990, Prime Minister Kaifu formally set forth a strategic foreign policy goal of "Japan actively building a new international order." However, he was referring largely to Europe, and Asia was a blank. The "cross" strategy may be regarded as filling in this blank.

Building a "Horizontal Axis" New Order

Only four lines in Japan's diplomatic blue book for 1989 were devoted to Japan's relations with the countries of South Asia. The Japanese prime minister's visit to South Asia was the first in six years to India and Pakistan, the first reception of a Japanese prime minister in Bangladesh since its founding in 1971, and the first visit of a Japanese prime minister in 33 years to Sri Lanka. This clearly showed the distant geographical and psychological relations between Japan and South Asia.

The entire international order is undergoing readjustment, and the center of the readjustment is Europe. Japan's undue interest in East Europe during 1990 has

aroused reaction and vigilance on the part of the countries of West Europe. Japan's desire to exert political influence in this key region that corresponds to its position as the second-largest economic power in the world, and its expectation of playing a leading role in the new order in Europe is impossible in fact. On the other hand, "North-South relations," which serve as another major part of the readjustment of the international order have become a "forgotten corner" for Europe and the United States. However, Japan has discovered contacts and opportunities, as well as forces that can of help with its strategy of "rebuilding an international new order" in this "forgotten corner." On 30 April, Prime Minister Kaifu delivered a policy speech to the Indian Lok Sabha titled, "Seeking Dialogue and Cooperation for Peace and Prosperity in Japan and South Asia." In this speech, he reiterated the principle that he first set forth at the beginning of 1990 of building a "new international order" as follows: peace and security guarantees, respect for freedom and democracy, prosperity under a democratic economic system, and ensuring a fine global environment.

Japan "will do all possible to build a new international order. The transcending of the cold war era, using dialogue and coordination to find ways of building a new international order need not be limited to eastern Europe, but should involve the Asian region as well." But how to involve it? Japan has proposed specific policies in three areas regarding South Asia.

First is promotion of political and economic dialogues. This is a quest for a political role for Japan. Kaifu said, "I must make clear to you at this time how hopeful we are of being able to make a positive contribution to the easing of tensions and the peaceful resolution of conflicts in Asia."

Kaifu's choice of a "horizontal axis" running from South to Southeast Asia as a "proving ground" for his exploration of the rebuilding of a new international order was made after careful consideration.

1. Japan seeks to build a new global order, but the center of current readjustments to the international order is Europe. Japan would like to, but finds it very difficult to make inroads there. Some place else would be preferable.

U.S.-Soviet relations have eased, and Sino-Soviet relations have normalized; the changes in Eastern Europe rivet the gaze of all countries on Europe; and a power vacuum has occurred in South Asia and Southeast Asia. The Soviet Union's economic support for and political influence in India, Afghanistan, and the Indochina peninsula have deteriorated to an unprecedented extent. Changes in the global power structure have led to slackening and disintegration of the opposing power structure along the horizontal axis. This provides an unprecedentedly favorable political opportunity for Japan to become involved there.

2. Japan has consistently sought to strengthen its own international political influence. Several of the world's

hot spots are concentrated in Asia, but so far Japan's role in resolving regional conflicts has been miniscule. Kaifu's travels were for the purpose of seeking a plan whereby Japan can peacefully resolve the Afghanistan issue, the India-Pakistan conflict, and the Cambodia problem in order to take part in international affairs as a representative of Asia.

3. All the countries in the region have great expectations of Japan in financial, technological, and economic matters. As an official in the Indian Ministry of Foreign Affairs said, "While the eyes of the world are riveted on Eastern Europe, just the visit of the Japanese prime minister merits appreciation. By showing that it has not forgotten this region, Japan sets our minds at ease." Japan can easily win points in this diplomatic activity.

During his visit, Kaifu "called strongly for the governments of India and Pakistan to ease their tense relations through the exercise of self-restraint." As the only country to have suffered from atomic bombs, he prevailed upon India and Pakistan to join the nuclear nonproliferation treaty and to reduce their chemical weapons. He also said that if the seven-country South Asian alliance "desires to cooperate with countries outside the region, we will consider providing appropriate assistance."

Second was giving impetus to development assistance. This was Kaifu's richest flourish on the strategic horizontal axis. Using it as a means of realizing Japan's rebuilding of the international order, Kaifu said explicitly, "Japan can and must play a positive role through the effective use of economic and technological strength."

Following the dramatic turn of events in Europe, these Asian countries worry that "Japan's assistance may turn toward Eastern Europe and its economic assistance to Asia may diminish." Consequently, one of Prime Minister Kaifu's important goals during this trip was to reassure these countries that "Japan's attention to Asia has not changed; it will satisfy to the maximum degree each country's desire to rid itself of poverty." He said that in the future Japan will regard South Asia as a "key region" for development support by the Japanese Government. One might say that Kaifu's "golden diplomacy" of May was paved with gold in reality as well as in word. He agreed to provide India a loan of 100 billion yen (the equivalent of \$625 million) in 1990. In 1989, Japan provided India a loan of 910 billion yen (\$568 million).

The 26th yen loan to Pakistan will be increased to 60 billion yen (approximately \$370 million; the 25th loan was for 50 billion yen). An additional loan of 53 million yen (\$340,000) was provided for the protection of cultural relics. Guarantees of assistance were also given for the 3.3 million Afghan refugees in Pakistan. Funds were also promised for construction of Pakistan's Jiamuna [6328 8281 4780] Bridge scheme. This bridge is to become a major part of Pakistan's main economic artery.

In Bangladesh, Kaifu formally cut the ribbon on Bangladesh's longest bridge, the 930-meter-long Bangladesh-Japan Friendship Bridge built with Japanese aid. So far, Japan has provided Bangladesh \$5.5 billion, \$1.5 billion of which was a grant. Japan is Bangladesh's largest provider of grants and assistance. Kaifu guaranteed to provide 31.2 billion yen (equivalent to \$210 million) in loans to Bangladesh during 1990 and 1991.

He provided Sri Lanka with \$230,000 yuan for use in protecting ancient cultural sites.

He provided a loan of \$1.7 billion to Indonesia.

The foregoing totals 407.4 billion yen (approximately \$3 billion).

In a speech, Kaifu declared that one-fifth of Japan's foreign development assistance is for South Asia because South Asia's population is one-fifth of the world's total. During the five-year period beginning in 1988, the Japanese Government is to provide the region with \$50 billion.

A Ministry of Foreign Affairs official said, "Japan's strategy is to make Asian nations realize that Japan wants to make a contribution to Asia's economic development, and to get their support in establishing Japan's position as a representative of Asia."

Third was the promotion of cultural exchange and cooperation. Specifically, proposals were made for the protection of cultural relics and for expansion of the scope of visits to Japan by South Asian youths. A proposal was made to invite 500 South Asian youths to visit Japan during the next five years.

The foregoing actions intensified in depth and in breadth Japan's relations with the countries of South Asia. Kaifu's visit was rather well received.

Southeast Asia—Heart of the "Cross" Strategy

The two lines of Japan's strategic "cross" blueprint happen to intersect in Southeast Asia, showing where the key to Japan's foreign policy toward Asia lies. In this area, it was on ASEAN that Kaifu relied, and the difficult problem he wanted to solve was Cambodia.

Kaifu believes that in order to realize peace and prosperity for his own country in Asia, as a "responsible power" Japan should bear responsibilities commensurate with its international position. At the same time, he also believes that Japan is powerless to influence issues such as those on the Korean peninsula. Today, Japan can take an active part only on the Cambodia issue.

Japan's basic estimate on Indochina is as follows: The changes taking place in the USSR and Eastern Europe will affect this region sooner or later. The countries of Indochina can no longer hold very great hope for assistance from the USSR; and Vietnam, which has influence over the Phnom Penh regime, is now expressing unprecedented interest in technology and funds from the West.

The Soviet Union's influence in the region will weaken greatly. These events will provide Japan a favorable opportunity in the region.

For this reason, Prime Minister Kaifu has taken a series of diplomatic initiatives in 1990. In February, he sent Kawano, the head of the Southeast Asia Section, which is responsible for Cambodian matters in the Ministry of Foreign Affairs to Cambodia for a weeklong visit during which he made the first contact with the Phnom Penh regime. The Ministry of Foreign Affairs believes that "taking part politically in the peace promotion process requires working with the Heng Samrin regime."

At virtually the same time, Ministry of Foreign Affairs Asian Bureau Director Yano revisited Vietnam at the end of February on behalf of the Ministry of Foreign Affairs after a 14-month absence. There he held discussions with high-level leaders, including Foreign Minister Nguyen Co Thach, and he invited Nguyen Co Thach to visit Japan. His real objective was to ensure that Japan would be able to occupy an irreplaceable position among the four parties concerned in Cambodia as well as among all protagonists in Indochina.

When Thai Premier Chatichai Choonhavan visited Japan in early April, he proposed that Japan act as intermediary in a peace conference among all factions in Cambodia. In this connection, on 17 April Prime Minister Kaifu sent Ikeda (State Minister rank), the head of Japan's diplomatic mission, to the democratic coalition government of Cambodia, to northern Cambodia to transmit his letter to Prince Norodom Sihanouk, and to propose that Japan be the host country for a meeting of all parties to the conflict.

The Japanese Ministry of Foreign Affairs disclosed that Kaifu had not originally intended to include Thailand and Indonesia in plans for his current trip. However, in order to seize this fine opportunity to play a political role in Southeast Asia, Prime Minister Kaifu "unofficially" spent a night in Thailand on 28 April, and held talks on specific matters on the Cambodia issue with the Thai prime minister on the following day. Five days later, Japanese Defense Agency director general Ishikawa arrived in Thailand where he entered into full discussions with the Thai prime minister about holding a bilateral conference between the Phnom Penh regime and Prince Sihanouk in Tokyo during June 1990. When the time arrived, the Thai prime minister planned to send his defense minister to Tokyo to assist in the bilateral talks.

Likewise, in view of Indonesia's influence in ASEAN and in Indochina, Kaifu not only added Indonesia to his travel plans, but also gave Indonesia the most aid (\$1.7 billion yuan). In January 1990, the informal conference on the Cambodia issue held in Jakarta ended in failure. As the host country for that conference and the largest country in Southeast Asia, Indonesia played a political role in helping Japan solve the Cambodia problem.

When Kaifu met with President Suharto on 5 May, he proposed preparations for the holding of preparatory talks between delegates of Sihanouk and the Phnom Penh regime in Bangkok at the end of May, and for the holding of formal talks in Tokyo in June. He also particularly noted that, once peace is attained, Japan will play an active role in renewal and assistance.

Accomplishments of the "Golden Diplomacy"

As a result of the "golden diplomacy" of May, Kaifu achieved to a substantial degree the goals of his original plan, namely:

1. The strengthening of the previously fairly distant relations with the countries of South Asia, reiteration of Japan's posture of concern for South Asia, and "easing" these countries' concerns about Japan switching economic assistance to East Europe. In addition was improvement of Japan's position in Asia. Pakistan's prime minister even said that she wished Japan would fill the power vacuum left following the withdrawal of U.S. and Soviet power.

2. An important goal of Japan's diplomatic activity in Asia is to win a position as spokesman for Asia in order to increase its political power during meetings of the seven Western heads of state, and in GATT talks. As the prime minister of Bangladesh said, since the world's gaze has turned to East Europe, he hoped even more that Japan will help Asia. He hoped that Japan would become the spokesman among the seven Western heads of state for the poorest countries. President Suharto of Indonesia asked Japan to convince Western countries during the seven Western heads of state conference to help Indonesia build a large meteorological radar on the equator. Japan said that, as an Asian country, it would be a mediator between East and West; and, as a developed country, it would serve as a "bridge" between North and South.

At the same time, however, Japan did not extend itself on the strategic idea that it had espoused of rebuilding a new international order. The plan still lacked substance. For example, during the talks with Benazir Bhutto, Bhutto expressed the hope that Japan would be able to play a role in resolving the India-Pakistan conflict peacefully and exert influence for a political solution to the Afghanistan and Kashmir problems. But Kaifu said only a few very abstract words: "If Japan can play a role, it will make active efforts." During this trip, Kaifu did not propose any concrete and workable measures regarding the India-Pakistan conflict, the India-Sri Lanka conflict, or the Afghan problem.

To a very large extent, this reflects the limited role of Japan in modern international politics. Although Japan is the country that provides most aid to India and is India's third-largest trading partner after the United States and the USSR, Japan has far less influence on India than either the United States or the USSR. Kaifu's major goal during this trip was to serve as mediator of the India-Pakistan conflict. Ironically, however, on the

same day that Kaifu delivered a speech about "rebuilding a new order in Asia" to the members of India's Lok Sabha, Prime Minister Singh openly declared that "India will completely increase the military budget." In the first round of talks with the Indian prime minister, Kaifu expressed the hope that India will join the nuclear nonproliferation treaty, but, in a rejection of Kaifu's request, Singh said this problem should be "examined from a more overall point of view and not be limited to regional boundaries". While Kaifu was visiting India and Pakistan, Indian and Pakistani border forces went on alert status.

In Southeast Asia, Kaifu said that Japan intended to run for a non-permanent member seat on the United Nations Security Council, and he asked Indonesia to "look out for" Japan's interests. But President Suharto acted as though deaf and dumb, expressing no opinion.

In addition, Kaifu said that "it is necessary for the principal developed countries to discuss North-South problems." However, just how Japan will come up with specific plans for a North-South summit conference remains unclear. Furthermore, as the wealthiest country, to what extent can Japan understand the poorest countries, and to what extent can it speak for the poorest countries? This is a question about which the poverty-stricken countries of Asia are concerned.

Japan To Increase Defense Spending in 1991

OW2607180390 Beijing XINHUA in English
1515 GMT 26 Jul 90

[Text] Tokyo, July 26 (XINHUA)—The Japanese Government today agreed to increase its defense spending for fiscal year 1991 by 5.84 percent. The decision was reached following talks between Finance Minister Ryutaro Hashimoto and Director General of the Defense Agency Yozo Ishikawa, according to government sources.

The Defense Agency had been pressing for a 6.3 percent increase for fiscal year 1991, citing the weakening of yen against the U.S. dollars which it said has raised the cost of purchasing defense equipment.

But the Finance Ministry, backed by Prime Minister Toshiki Kaifu, turned down the request in view of the easing of East-West tensions, the sources said.

At present, Japan's annual defense spending was at 30 billion U.S. dollars, only after the United States and the Soviet Union.

The increase of defense spending for fiscal year 1991 will be officially approved by the cabinet Thursday.

Kaifu Says Japan Wants More Dialogue With NATO

OW2007044290 Beijing XINHUA in English
0156 GMT 20 Jul 90

[Text] Paris, July 19 (XINHUA)—The Japanese Prime Minister Toshiki Kaifu said Thursday that Japan wants more dialogue with the North Atlantic Treaty Organization (NATO) to determine the role Japan can play in a transforming Western security system.

In an interview in Tokyo with the French newspaper LE FIGARO published today, Kaifu said that while Europe is having a fundamental change of East-West relations, Japan and some other Asia-Pacific countries should also benefit from this new wave of entente.

Kaifu said that Japan will continue sending high officials to the NATO seminars on security, so that Tokyo could be kept informed about latest development in Europe.

Japan hopes to solve as soon as possible its territorial disputes with the Soviet Union, he said, adding that the Soviet Union should change its position as a great military power in the far east.

Only after reaching a solution to the disputes can Japan offer financial aid to Moscow, he added.

State Council Spokesman on Contacts With ROK

SK0308082290 Beijing International Service in Korean
1100 GMT 1 Aug 90

[Text] Yuan Mu, spokesman for the State Council of China, accepted the request for an interview by (Mitsumori Kazuhiko), head of the Beijing branch of NIHON KEIZAI SHIMBUN, in Beijing on 28 July.

To his question whether China will invite South Korean President No Tae-u to attend the opening ceremony of the Asian Games in Beijing, Yuan Mu said that he had not heard of such a plan. Yuan Mu said that nongovernmental relations exist between China and South Korea, including some exchanges in the fields of economics and trade, but that there are no official government-to-government relations yet.

When (Mitsumori) asked him whether China will have official contacts with South Korea in the future, Yuan Mu replied that in considering and dealing with the relations between the North and South of Korea, China has maintained its consistent position of serving in the interest of realizing peaceful reunification through negotiations between the North and South. Yuan Mu said that he personally thinks that with the development of nongovernmental economic and trade relations between China and South Korea, the two sides can establish mutual commercial offices. However, he said that these offices will remain nongovernmental.

WEST EUROPE

Global Impact of German Unification

90CM0284A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 10, 23 May 90 pp 3-6

[Article by Xia Liping (7114 4539 1627) and Wang Dongming (3769 2639 2494): "Prospects for and Impact of German Unification"]

[Excerpt] [passage omitted] **Impact of German Unification on Europe and on the World**

A. The strategic situation in Europe will change from a U.S.-USSR confrontation to a struggle between the United States, the Soviet Union, and Germany for supremacy in Europe.

For a time after German unification, West Germany will need to assist Democratic Germany in its economic development, while there are also many uncertain elements in the domestic affairs of the Soviet Union, a situation which will still make it necessary during this period for West Germany to rely on the West and to maintain the Western alliance with the United States and the other Western countries. But in the long run, with the growing strength of Germany and a corresponding decline in U.S. and USSR influence in Europe, contradictions within the Western alliance will steadily increase, and the various strategic forces in Europe will again split and reform, and a new strategic situation will possibly arise in which the United States, the Soviet Union, and Germany will vie for supremacy in Europe.

After German unification, the United States, the Soviet Union, and Germany will be the three strong countries that will exercise dominant influence in Europe; the triangular relation between them will determine the fundamental course of Europe's future strategic situation. The smaller triangular relation of Britain, France, and Germany will have an important influence on the future strategic situation in Europe. All other medium-sized and small countries of Europe will have to deal with the complex situation by somehow aligning themselves with the five large countries and will form new organizations.

Since the Soviet Union has abundant resources and constitutes a huge market, and Germany has the financial resources and technology, the two countries have a mutual need for each other. Germany will also need Soviet influence to rid itself completely of U.S. control and of the restraints of NATO. Although both Germany and the Soviet Union may have their particular intentions, they speak the same language when it comes to establishing a new European security structure with a weakened U.S. role. In the long run, therefore, Soviet-German relations will possibly grow closer. The United States and Britain will be striving energetically to establish a new European security organization with NATO as its core, to reduce Soviet influence in Europe and to tie up Germany. France will strive to establish a new

European security organization with the EEC as its core, to weaken U.S. and Soviet influence in Europe and to tie up Germany. However, since a united Germany will completely shed its status of a defeated country and be by far much stronger than France, there will be only two alternatives left for France, namely, either to maintain the "Franco-German axis" and play a secondary role in it, or to part company with Germany, stand as a force of its own, and join hands with the United States and Britain in tying down Germany.

Before the final outcome in the test of strength between the large powers in newly restructuring the strategic situation in Europe, it is possible that national, religious, territorial, political, and social contradictions, which had been dormant during the period of the "cold war," will reemerge, and that various strategic forces will engage in a complex and fierce struggle for the establishment of a new European security order.

B. German unification will induce the two European military blocs to effect important adjustments.

1. It will have a certain promotional effect on the disarmament by the Warsaw Pact and NATO. After German unification, even if Soviet troops were still stationed in Democratic Germany during the transitional period, their numbers would be greatly reduced, and quite possibly all of them would be withdrawn from Democratic Germany within the next five to 10 years. Under these circumstances, the United States and the other NATO countries would also gradually reduce their military forces stationed in West Germany, and would quite possibly, under demand from a united Germany, withdraw all military forces from West Germany before the end of this century. Because united Germany will need large sums of money to restore Democratic Germany's economy, it will for a considerable period of time follow a policy of low-level military preparedness. The other countries of Europe may possibly have some apprehensions about a possible resurgence of a "Fourth Reich" in Germany, and may also demand a large reduction in the armed forces of a united Germany and prohibit Germany from acquiring nuclear, biological, and chemical weapons. This would certainly help the disarmament process in Europe.

2. It will induce a readjustment of NATO and a change in its military strategy. [Because of] the large reduction, after German unification, of Soviet forces temporarily stationed in Democratic Germany, these forces will in future no longer constitute a military threat to the West, and NATO's deployment in West Germany of nuclear weapons aimed at Democratic Germany will lose its *raison d'être*. NATO will therefore adjust and change its present strategy of "forward defense" and "flexible response," and will quite possibly withdraw its short-range nuclear weapons from West Germany, while replacing them with sea-based or air-based cruise missiles deployed in the rear.

3. The two large military blocs, the Warsaw Pact and NATO, will turn into political-military blocs, and possibly be dissolved ultimately. The changes in Democratic Germany, one of the primary constituent countries of the Warsaw Pact, will have a great effect on the military strength of the Warsaw Pact. It will reduce its military significance and thereby induce a change in the Warsaw Pact from a military bloc into a political-military bloc. Under the impact of these developments, NATO may accordingly enhance its political role and reduce its military role. German unification will have the effect of bringing the Warsaw Pact—already a rather loose union—to the brink of dissolution, and even if it would be maintained, it would probably be dissolved in the next five or 10 years. With the dissolution of the Warsaw Pact, NATO will also gradually lose its *raison d'être*, while West Germany, furthermore, is proposing that NATO be dissolved after a certain period of time, so that in the end NATO will indeed be dissolved.

C. After unification Germany will become “number one” in the EEC and will exercise a twofold influence on the economic integration of the European Community.

After unification Germany will occupy top position in the EEC with respect to economic power, population, and territory, and will become *de facto* leader of the EEC.

In the near future, German unification may slow down the process of integration within the EEC, mainly because West Germany will concentrate all its financial resources and its main energy on the restoration of the Democratic German economy, and that will, furthermore, add considerably to the economic burden of the EEC. At the same time, Britain, fearing that the EEC will be controlled by Germany, will have increased misgivings about the process of integration within the EEC. The struggle between Germany and France for a leadership position in the EEC will perhaps also have a negative effect on European integration. The plan for the EEC's unified large market by the end of 1992 will then experience even greater difficulties.

In the long-range view, German unification will be helpful for the EEC's future development. The dual trend toward worldwide economic collectivization and global economic integration is becoming increasingly clear. In the struggle for leadership in Europe, the role of the military factor is declining, and the role of the economic factor is becoming increasingly important. Under these conditions, Germany will find it necessary to continue its support of the further development of the EEC, in order to increase its power in the competition with the United States, the Soviet Union, and Japan. Entry into the EEC of Democratic Germany, the world's 10th largest industrial country, will also strengthen the powers of the EEC.

D. Unification of Germany will destroy the confrontational “Yalta situation” between Eastern and Western Europe and will thus accelerate development from polarization to pluralism in the world.

The United States and the Soviet Union will still be military superpowers and will possess tremendous military power and huge stores of nuclear arms, as well as the ability to deploy armed forces in every corner of the world, in a way that no other country can compare with. They will therefore still have a decisive influence throughout the world.

Together, the United States, Japan, and Germany will be the three future economic superpowers, and may possibly form regional blocs in the areas in which they constitute the core entities: There will be the North American bloc, the Asian-Pacific bloc dominated by the U.S.-Canadian free trade zone, and the European bloc dominated by the unified large market of the EEC. After Germany's unification its increased economic strength will further raise the position of the mark, and in the world currency system the dominant position of the U.S. dollar will be taken over by a “tripod” formed by the U.S. dollar, the mark, and the Japanese yen. On a worldwide scope, we may say that the trend toward world pluralism will be further strengthened.

EAST EUROPE

GDR Minister Announces More Worker Layoffs

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0624 GMT 23 Jul 90

[Text] Bonn, July 22 (XINHUA)—About 1.5 million Democratic German workers will lose their jobs in 1990, Democratic German Labor and Social Affairs Minister Regine Hildebrandt said today in her interview with Radio Luxemburg.

About one million factory workers, 25,000 farm workers and thousands of administration clerks will be involved in future unemployment, she said.

Democratic Germany has already had 220,000 people out of work while there are now only 30,000 vacancies.

Due to high prices and Democratic Germans' poor purchasing power following Deutsche marks entering the country, some handicraft plants went into bankruptcy and working posts will be reduced in tourism and construction industries as well.

Hildebrandt said that Democratic Germans are “disappointed indeed.”

However, Federal Minister of Economics Helmut Haussmann called on Democratic German workers to tide over the difficulty by doing more but earning less. He believed that jobs lost in large enterprises will be made up by new jobs created by small and medium-sized enterprises.

Military Reportage Depicts New Image of Lin Biao

90CM0191A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 293, May 90
pp 92-94

[Article by Ling-hu Yi-fei (0109 3698 0001 7378): "Has Lin Biao Been Resurrected? Reflections on a Piece of Military Reportage"]

[Text] This writer returned to Guangzhou this past Lunar New Year to visit relatives and friends. While strolling along Miaoqian Street, I bought a book entitled *Xue Bai Xue Hong* [White Snow, Red Blood] at a bookstall along the street. It was written in the genre of "Chinese revolutionary struggle reportage." This book, published by the People's Liberation Army Publishing House in August 1989, describes the actual situation during the civil war between the Kuomintang [KMT] and the Communists in the Liaoning-Shenyang Campaign in the Northeast. The author is now a lieutenant colonel in a group army in the Shenyang Military Region. The work is large, running to 500,000 or 600,000 characters. It is a blood-stained, tear-filled portrait of war. This writer was profoundly sad for a long time after reading it.

Why Use a Literary Genre To Write History?

This book was written as reportage, but there was a heavy emphasis on history. All you have to do is look at the great quantities of historical data arrayed at the end of each chapter to realize that fact. Since so much information is provided (including war telegrams, secret documents, and recollections of survivors), why not simply go ahead and write an honest-to-goodness historical study? This has something to do with the author himself, of course. Maybe he is good at writing reportage literature, or maybe he is not qualified to write a standard historical work. However, this writer firmly believes that even if the author had a strong desire to write history and had been a highly accomplished historian, this still would not have been written as history. Why literature rather than history? Because our ancestors long ago established a precedent regarding the study of history—one must praise or condemn historical personages in the manner of the *Spring and Autumn Annals*. This has made the study of history inseparable from political currents. History has become a field that most scholars dare not explore. A relative of this writer who is studying diplomatic history in the university once complained that articles on foreign relations often cannot be published until they have been approved by the Ministry of Foreign Affairs. When studying the history of the Communist Party of China, forbidden zones and perils are all the more numerous. If you do a lousy job, you condemn yourself to ignorance and incompetence (but you will get a steady professorship and publish a lot of things); if you do well with your studies (that is, write the truth and reveal objective reality), you will incur criticism and attacks, and your rice bowl will be broken to

bits. This is why it was said that it was easier to ascend into heaven than to write the history of the Qing dynasty. The chief protagonist of the Liaoning-Shenyang Campaign was named Lin Biao. His exploits were undeniable, but Lin Biao has become a traitor in party history. How are historians of the CPC to write, given this situation?

Literature has neither the imposing solemnity of history, nor its finality; literature is just something to chat about after a meal. Although the Chinese Communists have maintained strict control over literature for the past several decades, it is always literature which first stirs to life and becomes a bit bold whenever circumstances relax a little. Thus, when this author used the victuals of history to cook up a literary work, he was really carving out a niche for survival in a very narrow fissure between literature and history. Furthermore, literature has more readers than history. There was more to gain than lose by using literature to write about history. A single *White Snow, Red Blood* is sufficient to turn various shades of purple the faces of many university professors who teach the history of the party and the war, for how can teaching materials written with ink compare with facts written in blood?

Lin Biao—God? Demon? Man?

The author said in his preface that this book was not easy to write, "primarily because it deals with a man named Lin Biao."

No one over 30 years old in the mainland can forget the image of Lin Biao: a Little Red Book in his hand, dressed in green military garb, thick eyebrows, pointed chin, standing next to "the great leader, the great guide, the great marshal, the great helmsman" Mao Zedong. He was then the number-two god in China. "Close comrade-in-arms" was his exclusive appellation, and "forever healthy" was the slogan used by the masses to flatter him. There was an extremely popular book at that time in the mainland—*Comrade Lin Biao's Glorious Feats in Combat*—which trumpeted his accomplishments, from the Long March to Pingxing Gate to the Liaoning-Shenyang Campaign. The boldness and ingenuity of Chinese Communist propaganda organs in creating gods are probably unsurpassed in the world. A huge oil painting in the Museum of the Revolution which had originally been called "Zhu and Mao Combine Forces in Jinggangshan" came to be called "Mao and Lin Combine Forces." Chinese Communist leaders, who had always referred to Mao and Zhu as equals, now referred instead to Mao and Lin. Even the story about "Commander Zhu De's shoulder pole" was eliminated from elementary school textbooks.

However, after the Lin Biao incident (13 September 1971), the Chinese Communists engaged in an equally audacious movement to change him from a god into a demon. No longer was anyone willing to mention the great triumph at Pingxing Gate on the Liaoning-Shenyang Campaign. Lin Biao's name was crossed off

the chart in Beijing's Museum of History which showed the 4th Field Army's order of battle. When speaking of the 10 marshals, no one mentioned Marshal Lin Biao anymore, though he was the third to receive that rank. Not only this, but they racked their brains to find ways to criticize Lin Biao's earlier feats. For example, they came up with a book called *Victory in the War of Liberation in the Northeast Was the Great Triumph of Mao Zedong's Revolutionary Line—Materials Revealing and Criticizing Lin Biao's Criminal Opposition to Mao Zedong's Revolutionary Line* (see p. 325 of *White Snow, Red Blood*). This book stated that Lin Biao was a "big warlord who didn't know how to work, plant fields, or fight in battle."

According to Chinese Communist propaganda over the years, Lin Biao was either a god or a demon. *White Snow, Red Blood*, however, has restored Lin Biao his status as a human being. This is probably the main reason it has been so well received by readers.

Lin Biao, 34 years old at the time, had a thin, boyish, clean face, and wore a yellow army coat. Leading only a platoon of guards, he plunged outside the Great Wall and became the "general commander of the People's Autonomous Army." Three years later he led his forces back inside the Great Wall, by which time they numbered 1 million highly skilled troops. In his wake he left a trail of accomplishments, including several hundred thousand enemy dead and a Northeast wiped completely clean of opposition. This person was smart, subtle, given to deep contemplation, and inclined to pace the floor. He liked to eat fried soy beans, never smoked or drank, did not like to dress in fancy clothes or play around a lot, and had no fondness for complicated and trifling formalities. He did not philander, use cuss words, or seek riches. He was not inclined to give outward expression to his emotions. He liked a clean and quiet environment, and he liked children. He spent practically all his waking hours in thought, and the thing he hated most was to be disturbed while thinking about something. He kept his wife on a short rein. The author of *White Snow, Red Blood* also relates how a young woman from the 8th Route Army in a grey army uniform once came to see division commander Lin (Lin Biao had once been the commander of the 115th Division). "The two engaged in a very intimate discussion. While Lin Biao talked, the woman listened intently. While the woman talked, Lin Biao listened intently. Lin Biao's face became ever so expressive; he even blushed a bit. When she left, Lin Biao saw her to the main gate and gazed in her direction until she disappeared, and even then continued standing there for a long time." (See p. 282.) This personal anecdote lingers in the reader's mind. "That woman never came again, nor did Lin Biao ever mention her again. Had they been lovers? What had brought them together? And separated them? Only they know." (See p. 283.) Where is one to find a Lin Biao like this, neither god nor demon? Anyone who respects human nature and history cannot refuse to return Lin Biao his status as a human being.

Communist Soldiers Are Also Human

Since the commander is human, the foot soldiers could hardly have been gods.

However, in the history and art of the Chinese Communists, the "revolutionary warriors" were forever and without exception the very image of gods. Some have said that the CPC troops up until the time of the 4 June incident enjoyed an image of perfection in the eyes of common people in the mainland. In reality, soldiers are human, too. Humans are not perfect. *White Snow, Red Blood* tells us that the Communist Army was also plagued by thousands and thousands of desertions during the war. The soldiers also pressed people into service, stole things, and even chased women (including high-level commanders such as Gao Gang [7559 1511] and Huang Yongsheng [7806 3057 0524]). The book also tells us that the Communist Army has also been plagued by serious corruption at times. After the Army entered the cities in the Northeast, some officers began to take over homes and steal furniture. It was even stipulated that cadres at the regimental level or above would drink milk, and those at battalion or above would drink soybean milk.

All of this must seem as foreign as *1,001 Arabian Nights* to young people who were "born under the Red flag." All Communist soldiers on the silver screen in the mainland have always been models of heroism and nobility. Wherever they go, the women give them shoes, old ladies stuff eggs in their pockets, and children bring them tea. In this book, however, many scenes such as the following one appear: After victory in the War Against Japanese Aggression, the Communist troops "ate up everything wherever they went, and then burnt the place down when they left. It was as if a plague of locusts had hit. The people complained bitterly..., but the troops had no choice if they were to survive. However, people longed more and more for the central government. They waved flags and greeted the arrival of Kuomintang troops with enthusiasm." (See p. 181.) Which of these images is more accurate? Undoubtedly the latter, because Communist troops are human.

War Isn't Cruel?

The Chinese Communists have a very unique view of war. For example, when speaking of war, it is not permitted to "play up" the horror, so literature about the war can only praise "revolutionary heroism" and "revolutionary optimism." This book, however, accurately reflects the horror of war and the paths traveled by both the KMT and the Communists since 1949.

The author of *White Snow, Red Blood* points out that when the Communist troops had surrounded Changchun, the KMT troops eventually threw down their arms. The principle upon which the victory of the Communist troops was based was "not to let the starving people out, and to force those back who had made it out." (See p. 496.) The result was that over 100,000 peaceful common citizens starved to death in the city,

yet no one has ever taken a serious look at this brutal page in history. In the pitched battle for Siping, both sides cast their bets with foot soldiers as the currency, and blood and flesh as the chips. They nearly lost all sanity. The author chose such phrases as "Bloody City," "Red Snow," and "A Bloody Incident" as chapter titles. This accusatory attitude toward war is rarely seen in military literature in the mainland.

The KMT-Communist civil war ended with a total victory for the Communist troops. There is not a single textbook or piece of art in the mainland that does not sing the praises of this victory in which Chinese killed other Chinese. The author of this book never ceases reminding his readers that everyone killed was one of China's sons. He hopes that "China will be filled with love," and that "Chinese people will never again kill each other." Unfortunately, "The largest group of people in all of humanity with a common history continued to roll across the East Asian mainland locked in mortal combat for much of the 20th century. These people were poor and backward to begin with, then a nation which had been beaten to a pulp in the eight-year War of Resistance Against Japanese Aggression set about beating itself into indescribable misery." After that, it had to carry out "class struggle" "every year, every month, every day." (p. 615) The author also compares the situation of the mainland and Taiwan in the years since 1949: "When they were still remembering the bitterness and thinking of the source of current well-being in the mainland, per capita income in Taiwan was reaching \$700 per year. In Asia, only Japan, Hong Kong, and Singapore had higher per capita income." (p. 530) The last page of the book clearly states that for the Chinese people now, "the most important thing is to win a prize for maintaining stability and surviving, not to show off weapons or economic success."

Where Is the 4th Field Army?

How is it that a book like *White Snow, Red Blood*, so out of sync with official cant in the mainland, has been published under official auspices? This writer feels there

are two reasons. One is that this book was written in 1988 and the first half of 1989, which was when thinkers and artists were at their most active. If the manuscript had not been delivered to the Liberation Army Publishing House until the last half of 1989, the author would probably have been sent to the firing squad. The other reason is the complex background to the appearance of this book, that is, the mood of Lin Biao's subordinates in the 4th Field Army. Everyone is familiar with a certain ironclad fact of Chinese history: "Today it's the emperor, tomorrow the little man." After the Lin Biao incident, anyone who had the slightest relationship with Lin Biao suffered dire consequences, particularly cadres from the 4th Field Army system, even drivers and guards. In the Deng Xiaoping era, the 2d Field Army system has naturally lived high on the hog, but during the war it was the 4th Field Army which contributed the most as the Communist forces fought their way from the Northeast to down to Hainan Island. All the old veterans interviewed by this author were officers and men from the 4th Field Army, and every one of them expressed resentment at the treatment the 4th Field Army has received. The fact that the Shenyang Military Region has come out with a book like this now is surely meant to soothe ruffled feathers. This book has even been listed as recommended reading by the PLA General Political Department.

Where is the 4th Field Army today? "If only people could live forever" so they could give witness to history.

Conclusion

Because *White Snow, Red Blood* is not official propaganda, it is of great value to the study of history and is selling very well in the mainland. It has not been seen for sale in Xinhua Shudian [New China Bookstore] though; you can only buy it on the black market. Apart from Lin Biao, we should also hope that all the other Chinese Communist leaders who have been exalted as gods or vilified as demons come back to life in the history books as humans, but that is probably unlikely for now.

NATIONAL AFFAIRS, POLICY

Property Rights Seen Key to Enterprise Reform

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29 Jun 90 p 3

[Article by Zheng Hongqing (6774 3163 1987): "Go Beyond the Delegation of Authority To Strengthen Property Rights"]

[Text] *Summary: During the past decade of enterprise reform, we have basically followed one approach—sidestepping property rights relations, delegating authority, and allowing enterprises to keep their profits. This approach has its own historical inevitability and represents an improvement upon the excessive centralization that has controlled enterprises to death. It has indeed been highly instrumental in weakening the old system, which was irrational, and energizing enterprises. In essence, however, it remains a superficial adjustment of rights within the framework of the traditional system and cannot achieve the purpose of rationalizing enterprise behavior. As the next step in enterprise reform, we should switch from the delegation of power and the retention of profits by enterprises to solving the problem of nominal property rights within state-owned enterprises and strengthening property rights restraints in earnest, thereby restoring to state properties the competitiveness and mobility that is due them and again enabling them to increase in value. That way state ownership (ownership by the whole people) can be fully realized. Within the state-owned enterprise, we should create an economic relationship and legal responsibility relationship of interdependence and interaction between the owner, manager, and worker. Without a breakthrough on this front, neither the delegation of authority nor centralization will work very well.*

Ours is a socialist nation based on public ownership. Properties owned by the whole people (state properties) account for over two-thirds of all social properties. (In late 1989, state properties were worth 1,600 billion yuan. Together with the labor of the workers of state-owned enterprises, they constitute the primary source of social wealth as well as the cornerstone of the entire existence and development of the state. Thus it stands to reason that economic structural reform must make the most profitable use of state properties and ensure that their value increase continuously.

After a decade of reform, state-owned enterprises have become notably more vitalized, but the increase in profits has not been satisfactory. After deducting miscellaneous inputs and discounting price increases, these enterprises provide society with little net surplus output and give the state limited returns on properties. Particularly worrisome is that many state-owned enterprises are more and more afflicted with "prostration." So-called "prostration" can be defined as a decline in the ability of an enterprise to increase the value of its properties and a net loss in their actual value because of

insufficient compensation or losses. Specifically, "prostration" manifests itself in these five ways:

Fixed Assets Depreciation Grossly Inadequate; Assets Being Eroded Steadily

Historically the rate of depreciation of fixed assets in China has been low. Despite successive increases, the period of overall depreciation of industrial enterprises still exceeds 20 years, much longer than the normal economic life of properties. This problem has been worsened during the last several years by soaring inflation. Since the early 1980's, the prices of capital goods have risen about 80 percent on the average, which means that the current replacement value of fixed assets generally exceeds their original value more than one-fold. According to international practice, properties are reappraised promptly and depreciation accelerated in times of inflation. This is not the case in China, however, where we still withdraw funds based on the original value. According to calculations by the department involved, every state-owned enterprise owes no less than 50 billion yuan in assets value maintenance.

To boost false profits, complete contract tasks, and retain more profits, some enterprises often ignore the rules and collect depreciation funds in full, 30 to 40 percent of which are taken away by the finance department and the department in charge at the higher level. The resultant compensation funds fall far short of meeting the need to replace or modernize machinery and equipment. Machinery is not well maintained on a daily basis, and when it breaks down, the enterprise cannot afford to replace it. With its dilapidated machinery, the enterprise cannot ensure the quality or profitability of its products. To pursue short-term profits, some enterprises which have adopted the leasing or contract system do not hesitate to let their equipment run down, thus hastening the deterioration of state properties.

Enterprises, Strapped for Cash, Are Forced To Resort To Borrowing To Survive; Meanwhile, Some Funds Are Sitting Idle

To keep up production, the enterprise must continuously replenish fixed assets investment and working funds. But since the enterprise spends little of its own funds on production and cannot look to government for appropriations, it can only resort to borrowing from banks. Under the current policy, the enterprise pays off its loans before it pays taxes. This policy effectively makes the state assume much of the risk and encourages the enterprise to compete for loans, the more the merrier. According to data supplied by the State Administration of State Property, enterprise capital construction loans and special investment loans increased 400 percent between 1984 and 1988, with debt repayments growing 30 percent on the average each year. During the same period, profits realized by enterprises increased a mere 3.4 percent each year on the average. Thus it is clear that most of the loan repayments come from returns on original properties. Even if enterprises henceforth do not

take out a single new loan and use most of their profits to pay off old debts, it will still take them seven or eight years to pay off the remainder of their loans.

In the past few years, enterprises' own funds have been accounting for a sharply declining share of their total working funds, down to 15 percent in 1989. These days enterprises rely mainly on loans to meet cash flow needs. Note that in times of inflation, the enterprise should use the extra income derived from the automatic increase in value of in-stock raw materials and a specified percentage of the additional incomes derived from higher prices for its products to supplement working funds. Otherwise, there is bound to be a deficit in working funds when the next production cycle comes around. In fact, however, the enterprise often spends this nominal increase in incomes as if it were a real profit and distributes it away, resorting to even more loans to close the resultant deficit. This is another version of living off one's past profits.

"Soft restraints" by both enterprises and banks have resulted in excessive borrowing by state-owned enterprises. In some cases, the liabilities of an enterprise exceed its assets, reducing the enterprise to an empty shell. Soft restraints have also led to duplicated and thoughtless purchasing by enterprises. The result is a lot of idle equipment. According to rough estimates, 25.8 billion yuan worth of equipment went unused in all state-owned enterprises within the budget in 1988. If we add idle and semi-idle equipment in enterprises outside the budget, the figure would be even more shocking. It is tremendously wasteful to remove these precious state properties from the production process and reduce them to junk.

State Properties Are Badly Mismanaged, Resulting in Extensive Losses

For many years the management of state properties has been very weak. Quite a few enterprises have no up-to-date and accurate statistics on the total amount and value of state properties or increases or decreases in the actual amount. Some have even failed to put together a statement of assets and liabilities. It is commonplace to find enterprises which do not take stock for years or where the books and the reality are not consistent with each other. Newly acquired properties are not entered in the books while others which have been lost or scrapped are not removed. The result is numerous loopholes, leading to the loss of state properties through multiple channels. For instance, many enterprises owned by the whole people have established collectives to create jobs for their children and develop lateral economic linkages. In the process, however, they have also gotten rid of state properties without charge or sold them off at low prices, while putting some of the incomes derived therefrom into their own "little treasuries." To induce the foreign investor to establish a Sino-foreign joint venture, some localities undervalue certain state properties (land, factories, trademarks, etc.) The result is an outflow of profits. As for certain off-shore state properties, they are

a mess, totally beyond the reach of management. Nobody even knows how much has been lost.

Within Enterprises, the Problem is "Over-Distribution"; Not Only Do Wages Erode Profits, But They Also Erode State Properties

Wages at state-owned enterprises are extremely rigid. Wages for employees in the past few years have generally risen faster than gains in productivity. According to statistics, wages accounted for 49.5 percent of all enterprise profits and wages in 1988, up from 34 percent in 1979. In 1989, the proportion rose again, to over 50 percent. This was the case not only in a period of fast growth when profits expanded significantly, but also when production slipped and profits fell sharply, not only for well-managed and highly profitable enterprises, but also for mismanaged enterprises which were marginally profitable or were actually losing money. In many cases, the enterprise is in effect eating away at the returns on state properties, even the stock of properties. Many localities and sectors say that large amounts of depreciation charges, technical transformation funds, and production development funds have been diverted to finance collective welfare for employees or given out as bonuses. According to a survey on 378 municipal enterprises in one large city, 237 enterprises overspent welfare funds and 47 overspent bonuses by a total of 150 million yuan in 1988. To close the deficit, most enterprises had to dip into their production funds. By undervaluing state properties, putting some state properties on credit, paying low dividends on state-owned shares and high dividends on privately-owned shares, and repaying principal with guaranteed interest, some enterprises which have been experimenting with the shareholding system are living off the state openly and covertly. The loopholes here are simply too numerous to be investigated and plugged one by one.

The Profitability of State Properties Has Been Declining Year After Year and the Ability To Increase Value Has Diminished Sharply

According to data furnished by the State Statistics Bureau, industrial enterprises that practice independent accounting created 24 yuan in profits and taxes for every 100 yuan in capital in 1985 and have been reporting lower profits for each subsequent year: 20.4 yuan, 19.9 yuan, and 20.5 yuan for 1986, 1987, and 1988, respectively. In 1986, state-owned commerce realized 7.5 yuan in profits and taxes for every 100 yuan in merchandise sold. By 1988, that figure had dropped to 5.8 yuan. Since 1989, the profit margin of state-owned enterprises has further shrunk as a result of a sluggish market and fund shortages. In the first quarter of this year, profits and taxes realized by the nation's industrial enterprises within the budget dropped 20.6 percent compared to the same period last year while as high a proportion as 35 percent of the enterprises were losing money, something rarely seen for decades.

Compared to the decline in production, the "prostration" of state-owned enterprises may be a "chronic" disease, but it is a real "hidden" problem. If it continues, it will pose a grave danger. These days we can already see that some enterprises are still acting pompously on the surface on the strength of state ownership. Inside, however, they are getting weaker and weaker. We must pay sufficient attention to this problem and take fundamental reform measures to turn the situation around. That is necessary to safeguard state properties, protect the interests of the whole people, and maintain the dominant position of socialist public ownership.

During the past decade of enterprise reform, we have basically followed one approach—sidestepping property right relations, delegating authority, and allowing enterprises to keep their profits. This approach has its own historical inevitability and represents an improvement upon the excessive centralization that has controlled enterprises to death. It has indeed been highly instrumental in weakening the old system, which was irrational, and energizing enterprises. In essence, however, it remains a superficial adjustment of rights within the framework of the traditional system and cannot achieve the purpose of rationalizing enterprise behavior. Engels said, "Accumulation is the most important function of social progress." In the past, this function has almost entirely been the responsibility of the state. The bulk of the earnings of state-owned enterprises was turned over to the state. The continuous increase in the value of state properties was effected through the creation of new enterprises. Today we must change this monotonous method of accumulation by turning enterprises themselves into major players in the accumulation process. This requires that enterprises proceed from long-term interests, strictly control wages, and spend profits they retain on investment as a top priority. Practice proves that this kind of behavioral mechanism will not come about just because authority is delegated and enterprises are allowed to keep their profits. (In recent years, enterprises spent a mere 15 to 20 percent of retained profits on accumulation.) What is needed are hard restraints by ownership or property rights.

The main reason why some state-owned enterprises are suffering from "prostration" boils down to the fact that property rights exist in name only. Formally speaking, state properties belong to the whole people—from officials in government departments in charge to factory managers, directors, workers, everybody. Yet nobody is really responsible for ensuring and increasing the value of its properties. On the contrary, everybody wants to take a "cut." In this sense, we have not truly achieved ownership by the whole people. There are always people who blame the erosion of state properties on the absence of a sound management system. This is because they do not understand the nature of things. Institutions are certainly essential. But without hard restraints created by property rights, enterprises would not feel any urgency about establishing a management system. And

even if a set of institutions do exist, they will not be strictly and consistently followed because of the absence of a rigorous "enforcer."

We often say that state-owned enterprises must be responsible for their own profits and losses. Given nominal property rights, this is hard to do. Under whatever system, property losses ultimately only hurt the property owner. When a state-owned enterprise goes bankrupt, only the state loses. We also say frequently that state-owned enterprises should become independent operators and producers. Nevertheless, only the enterprise that behaves as a legal person and actually assumes the risk of market competition using its own properties will truly behave in accordance with the laws of the commodity economy. And only this kind of enterprise can react sensitively to fiscal and financial policies aimed at regulating interest relationships, which, in turn, makes it possible for government to regulate and control indirectly. It can thus be seen that the key to enterprise reform and even economic structural reform as a whole is to solve the problem of nominal property rights within state-owned enterprises and practically strengthen the restraints on property rights, thereby restoring to state properties the competitiveness and mobility that is due them and again enabling them to increase in value. Without a breakthrough on this front, neither the delegation of authority nor centralization will work very well.

To straighten out the property rights relations of state-owned enterprises, we need to lay down principles, take stock of properties, delimit property rights, and establish a sound state property management network and system. This is an extremely arduous piece of pioneering work. Since we do not have any successful model to emulate, we can only grope our way forward. The most important thing right now is to clarify our underlying philosophy. To do so, we must accomplish two major things:

First, distinguish clearly between the government's three roles and three-fold functions. As the principal administrative manager and economic regulator and controller, the government is responsible for standardizing and guiding the behavior of all major economic players and for creating a good environment so that the economic players can engage in fair and equal market competition. These functions are society-wide and usually do not target particular enterprises or entail government intervention in an enterprise. The government is also the general representative of state property ownership, responsible for ensuring and increasing the value of such properties. This function must be discharged down to every single state-owned enterprise and institution and includes such details as the protection, operation, and management of the stock of properties, the distribution of returns on properties, and reinvestment, etc. This function must go hand in hand with vigorous financial management to ensure a steady increase in the profitability of state properties.

Second, within the state-owned enterprise, the economic relationship and relationship of legal responsibility between the owner, manager, and worker must be one of interdependence and interaction. They are the cornerstone for the healthy functioning of any modern large-scale enterprise. We should realistically consider the state-owned enterprise as an economic community made up of three parties with divergent interests as well as shared basic interests. Within an enterprise, what links together the three parties and restrains them is ownership. In a state-owned enterprise today, ownership is not enforced, so it is impossible to restrain the behavior of the manager. And since the interests of the manager coincide completely with those of the worker, they are far more motivated to maximize personal distribution than to maximize accumulation. This determines that state ownership (ownership by the whole people) is not fully realized in fact.

After determining our direction and clarifying our philosophy, we can begin tackling state property management in the following ways and proceed steadily.

Gradually put together a state property management and operation system. This system should consist of two parts: state property management agencies at all levels of government (since there are few state owned enterprises below the county level, we may simply set up a special office or section within the finance bureau) and property management organizations (including investment companies for a particular industry or covering all industries and holding companies) that are commercialized and are assigned tasks and supervised by the above-mentioned agencies. The former should be responsible for considering and formulating the principles, policies, laws, and regulations of state property management and evaluating the performance of property management organizations. The latter should be responsible for sending property rights representatives to an enterprise, selecting and hiring managers, and taking part in major production and operational decisionmaking. It will also be its responsibility to use the earnings on properties according to the principle of profit-making to ensure that the value of properties increase steadily. State property management organizations will not be staffed by administrative cadres but by selected entrepreneurs and assorted experts. As they assume heavy responsibilities, their wages should be notably higher than those of government cadres. But if they are incompetent or neglect their duties, resulting in a loss of state properties, they should be fired and will not be casually rehired. Accordingly, state property management departments should keep a performance file on each manager and evaluate his performance fairly at regular intervals.

Take stock and establish a host of sound basic systems. There should be a planned and orderly study of the distribution of state properties both inside and outside China, both within the budget and without, as well as of their present management status and returns on investment. Preparations should be made for a nationwide general survey and appraisal of state properties to be

conducted as soon as possible. A mighty effort should be made to set up a string of basic systems, including a property rights registration system, an examination-and-approval for changes in property rights relationships, and a system to verify changes in the magnitude of value of state properties. To reflect enterprise performance truthfully and eliminate sham profits, we also need to revise accounting procedures and the enterprise cost accounting system, improve the caliber of financial and accounting personnel, and plug any loopholes through which state properties are lost.

In most state-owned enterprises, replace the contract system with the separation of profits and taxes and the giving out of after-tax dividends. Right now the contract system is being extensively used. Because of its inherent limitations, the system can only serve as a transitional measure. Confronted with a changing economic climate since last year, many enterprise that practice contracting have found themselves in a bind. They should take advantage of the present situation and, in tandem with price and tax adjustments and reform, promptly switch to the separation of profits and taxes and the distribution of after-tax dividends, which are more regular, thereby separating the returns on properties due the government as the owner of the properties from the taxes that each enterprise must pay to the government. Moreover, after income taxes have been lowered, the energy and transportation construction funds have been phased out, and depreciation has been accelerated selectively, enterprises should use depreciation funds and after-tax profits to pay off their loans instead of repaying loans before paying taxes. Such a move would help realize state ownership, straighten out the distribution relationship between the state and the enterprise, expedite the rationalization of enterprise behavior, and reduce administrative intervention by government departments, thus enabling the enterprise to gain full decision-making power in production and management.

Energetically but steadily and cautiously expand the experiment in shareholding. The shareholding system was originally a form of enterprise organization that accompanied production socialization and the corresponding socialization of properties. It is not inherently related to capitalism. The nature of a shareholding enterprise is determined by the mix of share ownership. If a majority of the shares are held by the state and other public legal bodies, then there is no doubt that the enterprise will be under public ownership. The most striking feature and biggest merit of the shareholding system as a modern enterprise system is that it defines the properties of the independent legal person and establish a proper relationship between the ultimate owner of properties, the legal owner, the manager, and the producer. Such a relationship is precisely what the state-owned enterprise lacks and what it needs most. Most of the "shareholding companies" which appeared in recent years, however, do not meet the basic criteria and have been nibbling away at the interests of the state. Currently there is an urgent need to formulate a series of laws and

regulations concerning the organization of shareholding companies, the issue and trading of shares, and company bankruptcy procedures to guide the healthy development of the shareholding experiment on the right track.

Comparative Study of Enterprise Reform

HK2007041090 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 5, May 90 pp 14-18

[Article by Sun Xiaoliang (1327 2400 5328), edited by Liu Qichang (0491 0366 2490): "A Comparative Study of Trends in the Structural Reform of Enterprises"]

[Text] Following discussions on whether or not the contracted managerial responsibility system for enterprises should still be practiced after the implementation of the Eighth 5-Year Plan for Economic and Social Development, trends in the structural reform of enterprises have once again become a hot topic of discussion. The following are some of my personal views from the basic perspective of coordinating with and supporting the overall reform.

I. Two Basic Trends of Thought

Before the economic structural reform, enterprises under ownership by the whole people were not only owned by the state on behalf of the whole people but were operated by the state. In other words, they were "state-owned and state-operated." Under this system, an enterprise which performed well must hand over all its profits; the enterprise and its staff and workers would not be paid more. On the other hand, an enterprise which performed poorly would be taken care of by the state even if it sustained losses for years; the enterprise and its staff and workers would not be getting less. Consequently, the direct links between enterprise performance and remuneration for labor were cut off and the role of the interest mechanism was eliminated. This resulted in the situation where "everyone has an iron rice bowl and eats from the same big pot," which seriously dampened the enthusiasm of employees and enterprises to seek continuous improvements in management. To solve this problem, the structural reform of enterprises was proposed.

How should we go about the reform? There are two basic trends of thought: One is to regard enterprises as operators and directly tie the interests of enterprises and employees to their performance, so that they will be paid more when they performed well and less when they performed poorly. In other words, they have to bear risks of income and assume limited responsibility for profit and loss. The concrete manifestation of this trend of thought first took the form of profit-sharing and later developed into the contracted managerial responsibility system. The second trend of thought is to regard enterprises as owners who are responsible for their own profit and loss. They not only must bear risks of income, but must risk losing their property. The concrete manifestation of this trend of thought is the joint-stock system.

Here, this refers to the joint-stock system with shareholding by publicly owned corporate bodies. Publicly owned corporate bodies may be business corporations under ownership by the whole people or the collective, or legal persons in the form of funds or companies handling state-owned assets. The separation of profits and taxes and after-tax contracting do not as yet constitute trends of reform with a unique mechanism. They are no more than variations of the contract system which simply replace the practice of contracts for total profits with contracts for after-tax profits.

Today, over 90 percent of enterprises under ownership by the whole people have adopted the contract system and achieved considerable success. The results have been obvious. We may call the contract system a historic step forward in the structural reform of enterprises. The basic precondition of the contract system is that as operators, enterprises have to fulfill contracts handed out by governments at various levels in their capacity as representatives of owners. This relationship is what people often refer to as the "separation of ownership and the power of operation." The question is, if enterprises are mere operators, they cannot be expected to assume sole responsibility for profit and loss, because responsibility for profit or loss must be preconditioned by the ownership of assets. This is precisely where the inherent limitations of the contract system lies. It is unjustified to criticize enterprises for "assuming responsibility for profit but not loss," because as operators, they cannot be held responsible for losses against their owners' assets. The fact is, enterprises are not responsible for their profits either, since profit-making enterprises must first ensure that their task of handing over profits to the state, that is, to their owners, is fulfilled. When profits retained by enterprises are reinvested, the assets thus acquired also belong to the state. The conclusion is clear: The contract system does not provide enterprises with the precondition for assuming sole responsibility for profit and loss.

As two trends for reform, there are similarities and differences between the contract system and the joint-stock system. Their similarities and differences may be summed up as identical direction but different degrees. In other words, there is no contradiction in direction, only a difference in degrees. What is meant by identical direction is that they are both heading in the same direction, that is, tying payment for the work of employees to the performance of enterprises and arousing the enthusiasm of enterprises and their employees through the interest mechanism. What is meant by different degrees is that the degree and extent to which the two are "tied" are different, and hence the role played by the interest mechanism is also different. The contract system only requires enterprises to bear risks of income and assume limited responsibility for profit and loss; while the joint-stock system requires enterprises to bear risks of property and assume sole responsibility for profit and loss.

The complexity of the question also lies in the fact that the enterprise system is but an element of the economic structure as a whole. Hence, how to choose between these two trends in the structural reform of enterprises cannot be studied in isolation and must be grasped in accordance with the demand to optimize the structure and from the inter-connections between different systems.

II. Two Decisive Factors

Observed from the inter-connections between different systems, there are two factors that decide the direction of the structural reform of enterprises. One is whether or not enterprises should be asked to assume sole responsibility for profit and loss, as perceived from the needs of the economic structural reform as a whole. The other is how far we intend to make use of market regulation and the market mechanism.

If enterprises are not required to assume sole responsibility for profit and loss, then there is no need to have the joint-stock system. The contract system alone will suffice. There question is, will it work if enterprises do not assume sole responsibility for profit and loss in the new economic structure? I do not think it will. The reasons are as follows: First, there are interrelations of mutual checks and balances between sole responsibility for profit and loss and management autonomy for enterprises. Only when enterprises are required to assume responsibility for their own profit and loss can we make sure that they will correctly exercise their powers of management autonomy; and only when they have management autonomy can we expect them to assume responsibility for their own profit and loss. If either is lacking, it will be impossible to establish an internal mechanism of checks and balances. Some enterprises are now seen to be engaged in short-term behavior, while others are issuing rewards in cash and in kind indiscriminately. The root cause of these problems is that they have autonomy but are not responsible for their own profit and loss. Some enterprises in the West have much greater autonomy than ours, but they do not have these problems. Why? Because they are responsible for their own profit and loss and they have an internal mechanism of checks and balances. Second, as the main body of market activities, enterprises must assume sole responsibility for their own profit and loss before their marketing behavior can be governed. If enterprises are not held responsible for their own profit and loss, even if there are perfect market regulations, they will not be implemented. Many of our foreign trade companies are fighting against one another at home for supply of goods by competitive bidding, and are trying to cut into foreign markets by slashing prices even if it means sustaining losses. The reason is that these companies are not held responsible for their own profit and loss, and the state will make good the deficits in the end. Third, only when enterprises are held responsible for their own profit and loss will they respond positively to regulatory means taken by the state, and only in this way will the state be able to effectively carry out macroeconomic regulation

and control. In the West, a 0.5 percent adjustment in interest rate on loans will have a great impact on investment activities. In China, however, even a 5 percent adjustment will have limited effects on such activities. An important reason for this disparity in behavior lies in whether or not enterprises are held responsible for their own profit and loss. If an enterprise is not held responsible for its own profit and loss, an increase in interest rate will only mean that it will have to pay more interests and hand over less profits. It will not be forced to cut down on credit. Under the circumstances, interest rate will lose its function as an economic regulatory means, and the state will only be able to control the scale of credit through the direct control of credit quotas. From the above, we can see that enterprises assuming sole responsibility for their profit and loss is the cornerstone of the new system, without which the new system cannot be established. If responsibility for one's own profit and loss is required, enterprises must not be regarded as mere operators, but must be accorded the status of owners. The contract system cannot fulfill this requirement.

Two options are available for making enterprises owners. One is through the transfer of ownership. This involves the change from "big public ownership" to "small public ownership," that is, from ownership by the whole people to joint ownership by the workers of an enterprise. The problem with this method is that theoretically speaking, workers of an enterprise only constitute a small portion of the whole people, and it is not justifiable to transfer assets belonging to the whole people to a group of workers. On the practical level, the experience of foreign countries also indicates poor results. The second option is the separation of ownership. This means splitting full ownership into two levels, with ultimate ownership (ownership in the legal sense) belonging to the whole people; and corporate ownership (ownership in the economic sense) belonging to the enterprise concerned. The enterprise assumes sole responsibility for profit and loss as a corporate body. In this way, we can keep the system of ownership by the whole people intact while ensuring that enterprises assume sole responsibility for profit and loss.

An examination of the evolution of the enterprise form will help us understand that the joint-stock system is the ready answer to the separation of ownership. In the history of economic development, the enterprise form has undergone the following process of development: First there were only sole proprietors. Then partnerships emerged. They were both natural-person enterprises, with full ownership belonging to a single entity—the entrepreneur. Joint-stock enterprises emerged at a later stage. The emergence of the joint-stock system changed the situation where full ownership belongs to a single entity, and ownership is separated into share ownership and physical asset ownership. The persons providing the funds will have share ownership, while the joint-stock enterprises will have the status of a corporate body independent from those providing the funds. We thus

have corporate assets and corporate ownership. As opposed to natural-person enterprises, joint-stock enterprises are referred to as corporate enterprises. Against their shares, persons providing the funds will be eligible to a share of the income on assets as well as the right to vote. This is a concrete expression of their ownership. However, no person providing the funds shall have the power to dispose of and manage enterprise assets, nor can he directly intervene in the operational activities of the enterprise. This shows that persons providing the funds do not have full ownership. Meanwhile, the corporate body of the enterprise has the power to possess, dispose of and manage corporate assets. In other words, it is actually managing the physical assets purchased with the funds provided by shareholders. This is a concrete expression of ownership by the corporate body. However, major policy decisions are still decided by the general meeting of shareholders, and income on assets also goes to shareholders. This shows that neither does the enterprise have full ownership. In other words, full ownership is split into two: That which belongs to shareholders and that which belongs to the corporate body of the enterprise. Both have entitlement to ownership, but neither has full ownership. It is precisely under such circumstances that the ultimate owner (shareholder) will still be the whole people while the enterprise assumes sole responsibility for profit and loss on assets as a corporate body.

Can we thus draw the conclusion that the joint-stock system is the only option for the structural reform of enterprises? The matter is not that simple because the system we choose for enterprises also has a lot to do with the role market forces is to play. If the activities of production and circulation of an enterprise are basically regulated by the government's mandatory plans, and the market forces are only allowed a limited role, management autonomy for enterprises is out of the question. This being the case, there is no reason to hold enterprises responsible for their profit and loss. Under the circumstances, there is no objective need for the joint-stock system.

It is now clear that the planned commodity economy is a distinctive trait of our economic form. This is a conclusion drawn on the basis of theoretical research. On this basis, we have also come a step closer toward understanding that our economic operational mechanism is the integration of the planned economy with market regulation. This is a conclusion drawn on the basis of studies on fundamental principles. However, there must be an intermediate link, or "concrete form of realization," between fundamental principle and practice. Without such an intermediate link, there is no way that fundamental principles can be implemented in actual practice. What is still unclear is what precisely is this intermediate link.

Through what concrete form should the planned economy be integrated with market regulation? There are four suggestions, or four options, before us. Each option needs a corresponding system of enterprise.

First option: The production and circulation of small commodities should be subject to market regulation, while production and circulation of most products should be directly regulated through planning. In such a situation, because the majority of enterprises only have limited management autonomy, they should only be required to bear risks of income and assume limited responsibility for profit and loss. Meanwhile, the joint-stock system will not be necessary, and the contract system will suffice. As a corresponding measure, the state must directly manage the microeconomic activities, such as production, supply and marketing, of these enterprises, and arrange the organizational structure in such a way as to meet these functional requirements. Functional changes and structural reform in the true sense are not possible.

Second option: Small enterprises should be subject to market regulation, while large and medium-sized enterprises should be directly regulated through planning. In such a situation, small enterprises should be required to practice the joint-stock system because they are independent and responsible for their own profit and loss. Since large and medium-sized enterprises only have limited management autonomy, only have to bear risks of income and have limited responsibility for profit and loss, they should not be required to practice the joint-stock system and should stick to the contract system. As a corresponding measure, the state must exercise the dual function of direct and indirect management, and the organizational structure should be arranged in accordance with the needs of this dual function. This means that the organizational structure will have to be expanded rather than streamlined, or else it will not be possible to attend to all needs. Meanwhile, chaotic market situation and corruption resulting from the practice of the double-track system in respect of planning, circulation, pricing and distribution will be unavoidable. It will also be difficult to effectively coordinate production and technical cooperation between enterprises under two different systems.

Third option: Major expansions of the production capacity should be directly regulated through planning, while production activities and small renovation projects should be subject to market regulation. In such a situation, because the overwhelming majority of enterprises are independent and responsible for their profit and loss, the joint-stock system should be practiced. The state should regulate and control the production and operational activities of enterprises mainly through indirect means. As a corresponding measure, functional changes and structural reform in the true sense may be carried out in state organs.

Fourth option: All production and construction activities should be subject to market regulation, while the state should guide the production and operational activities of enterprises through regulation and control of the market. This is what is meant by "the state regulates and controls the market, while the market guides enterprises." This option is identical to the third option in terms of the enterprise system and the function and

organizational structure of the state in economic management. The difference lies in whether major developments of production capacity are directly regulated through planning or subject to market regulation.

When comparing these four options, we must emphasize the following two points in particular: First, we must emphasize that the enterprise system, the role of the market and the macroeconomic management structure of the state are inter-related and must not be studied in isolation. At present, some comrades support the idea that enterprises should be independent and responsible for their own profit and loss, and agree that state organs should change their functions and carry out structural reform. However, they are opposed to the idea of giving full scope to the role of market regulation. This flies in the face of logic. Just imagine, without the market, how can enterprises operate independently? If they cannot operate independently, why should they be held responsible for their own profit and loss? Without the market, enterprises can only rely on competent government departments to organize and coordinate the supply of raw materials, the marketing of products, production cooperation, and so on. Under the circumstances, how can economic management departments of the government change their functions and carry out structural reform? Second, technological advancement will necessarily lead to the socialization of production, and the socialization of production will require coordination. This is an objective law independent of man's will. There are no more than two types of methods for the coordination of social and economic activities. One is direct coordination through planning, or administrative coordination; the other is market coordination. Extreme cases of pure market coordination without any planning and pure administrative coordination without involvement of the market do not exist in our present-day world. They are also undesirable. Hence there is no point wasting our time discussing them. What we should study and discuss is how the two should be integrated when planning and the market are both playing their regulatory role. The four options discussed above are specific suggestions within this framework.

Summing up the above points in the form of a simple chart, we will come up with the following:

III. Two Possible Futures

It has been proven by practice that regulation through planning and market regulation both have their strong and weak points. Subjectively, man invariably hopes that through appropriate integration, it will be possible to give concentrated expression to the strong points of planning and the market and steer clear of their drawbacks. However, there is yet another possibility, and that is, to retain the drawbacks of both while leaving out their strong points. In order to have the first future and avoid the second future, we must compare and study the four options discussed above and make a proper choice.

If we take the first option, that is, small commodities are to be subject to market regulation while other products are to be directly regulated through planning, we will end up

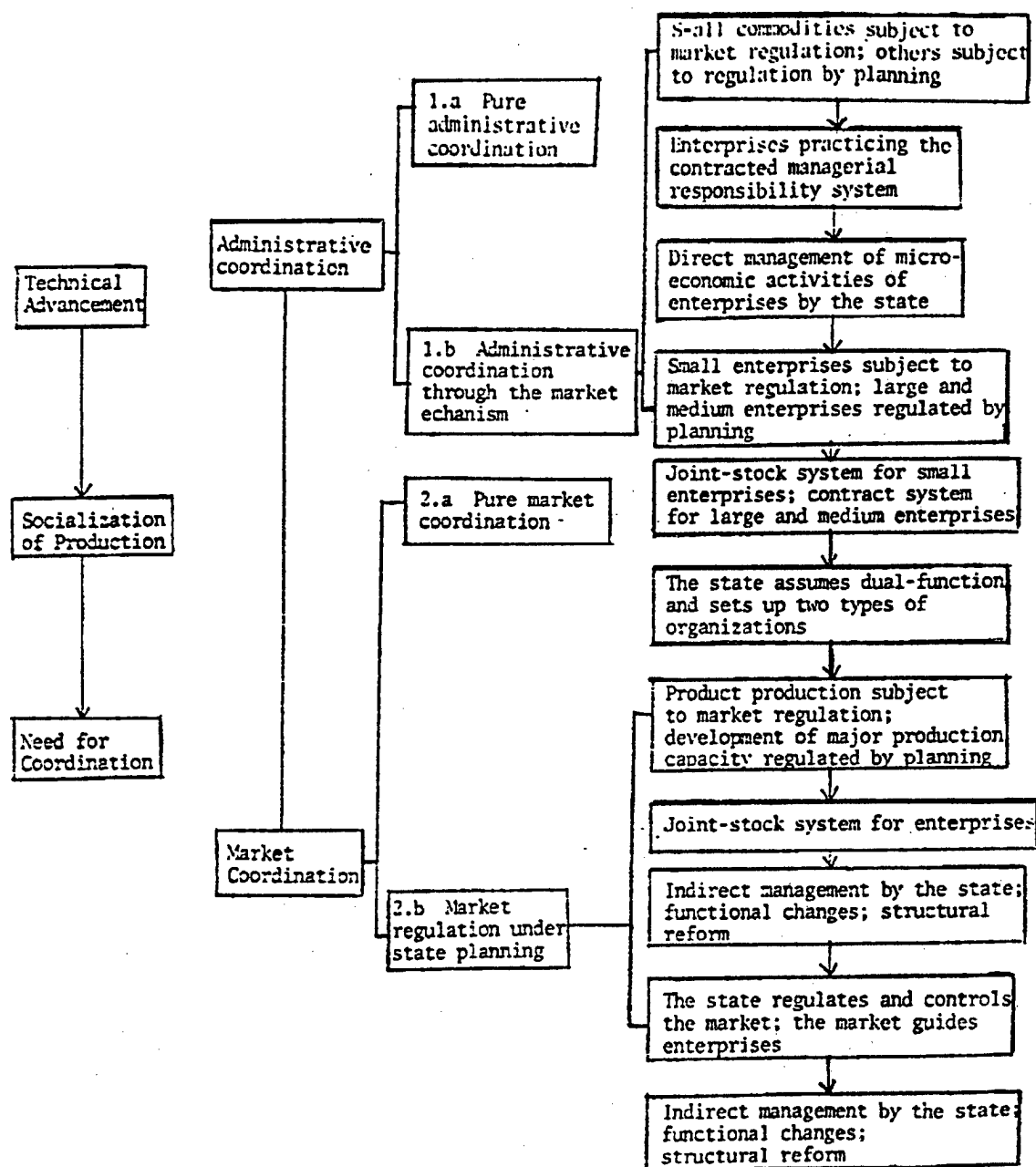
having a system more or less the same as that before the reforms. Although we can guarantee the orderly progress of economic activities, the following problems will still occur: First, production is not suited to demands and the product mix cannot be promptly readjusted in accordance with changes in the demand pattern; there are many intermediate links between production and consumption; production cost is high while efficiency is low; and so on. The production and circulation of small commodities alone can eliminate these drawbacks and fully bring into play the advantages of market regulation. Second, since the majority of enterprises only have limited management autonomy and can only assume very limited responsibility for profit and loss, it is impossible to fundamentally put an end to the situation where "everyone has an iron rice bowl and eats from the same big pot." This means that the problem of enterprises lacking vitality cannot be fundamentally resolved. Third, it is unlikely that there will be substantial changes in the functions of governments at various levels. They will still be attending to a lot of things that are beyond their scope and capability, and bureaucratism cannot be avoided.

If we take the second option, that is, small enterprises are to be subject to market regulation while large and medium-sized enterprises are to be directly regulated through planning, there will be even more problems: First, the vitality of small enterprises will increase when they are independent and responsible for their own profit and loss, while the vitality of large and medium-sized enterprises will be straight-jacketed because they have limited autonomy and only have limited responsibility for profit and loss. The resultant situation is what people usually refer to as "killing the tiger by over-attention and letting loose the monkey." This is unfavorable to the optimization of the economic structure, the implementation of the industrial policy, the long-term development of the national economy and the sharpening of our competitive edge in the international market. Second, this will result in the all-round implementation of the double-track system. In other words, there will be two separate structures and operational mechanisms for small enterprises and large and medium-sized enterprises, double-track pricing, dual channels of circulation, and so on. Under such circumstances, it will be impossible to properly bring into play the operational rules of planning and the market. This will not only upset the order of economic activities but will provide the hot-bed for various forms of corruption. Third, it will be difficult to coordinate economic activities. In economic activities, a thousand and one ties of cooperation objectively exist. When large and medium-sized enterprises organize production, they may need small enterprises to provide them with necessary support or certain raw and semi-finished materials. When small enterprises organize production, they too may need large and medium-sized enterprises to provide them with raw and semi-finished materials or certain parts and auxiliary equipment. There are all kinds of ties between them. If two operational mechanisms coexist, there is no way that normal production can be ensured. This is in fact the

state of affairs in which we found ourselves during the past few years. Such a situation is may still be tolerable if it is just an inevitable phase during the transition from the old system to the new, but will be unthinkable if it is regularized as a system.

In my opinion, the third option, that is, major developments of production capacity are to be directly regulated through planning while the production and circulation of products are to be regulated by the market, is a good

system. First, enterprises will enjoy a great measure of independence. This means that they can assume sole responsibility for profit and loss and hence greatly increase their vitality. Second, under this precondition, state organs can absolve themselves from the direct management of the microeconomic activities of enterprises. This means that they can effect functional changes and carry out more thoroughgoing structural reforms. Third, since major developments of production capacity which affect the long-term deployment of



resources are directly regulated through planning, serious blindness can be avoided if planning is scientific. With fixed production capacity, enterprises may promptly readjust their product mix in accordance with changes in market demand, thus preventing a dislocation between production and demand. The problem with this system is: What is to be done if substantial changes in the demand for a certain product make it necessary to readjust production capacity? In real life, such a situation does not frequently arise. Hence, it should be possible to readjust the development of production capacity through planning.

If we take the fourth option, that is, production and construction are to be subject to market regulation, while the state is to ensure the fulfillment of planned targets through regulation and control of the market. This system has some of the advantages of the third option and is more conducive to the invigoration of enterprises. The main problem is that major developments of production capacity will affect the macroeconomic balance, which cannot be regulated by the market mechanism. At the same time, since the development of production capacity concerns the rational deployment of resources, direct regulation through planning is perhaps more suitable. For instance, the Soviet Union was confronted with this important choice after World War Two: Should the limited financial and material resources be used primarily in the development of atomic bombs, or in economic construction? The market mechanism can do nothing about choices of this kind. It is in these matters that the strong points of direct regulation through planning lie.

The above may be summed up in brief as follows: The third option has most of the strong points of planning and market regulation and does not have their drawbacks. This is probably the best way out. The fourth option can fully bring into play the strong points of market regulation, but cannot avoid its drawbacks or give expression to the strong points of regulation through planning. The first option can give full scope to the strong points of regulation through planning, but cannot avoid its drawbacks or give expression to the strong points of market regulation. These two options are second best. The second option has the drawbacks of planning and market regulation but do not have their strong points. This is the worst possible course of action. After making the above comparative study and analysis, it goes without saying how the structural reform of enterprises should be carried out.

Sales Trends in Different Markets Examined

90CE0307A Beijing JINGJI RIBAO in Chinese
27 June 90 p 2

[Article by Yan Kalin (7051 0595 2651): "Attention Should Be Paid To Examining the Unpredictability of Markets That Are Like 'the Weather in June'"]

[Text] *The two new domestic market trends that have appeared recently, of rural markets being clearly softer*

than urban ones, and capital goods markets being clearly softer than consumer markets, merit attention.

The State Statistical Bureau reported last Tuesday, 19 June 1990, that in the first five months of 1990, while retail sales of consumer goods rose 0.7 percent in the cities, they fell 6.6 percent on the county level and below, and that in the first four months of 1990 as compared to the same period in 1989, while overall social commodity sales fell 3.1 percent, sales of capital goods in the materials sector fell 12.4 percent.

In the past when urban sales were soft, while people often described the still bright prospects of rural markets as "although the East may not be bright, the West still is," and hoped that industrial and commercial enterprises would vigorously organize supplies of industrial goods for the countryside, "the West" is now not very bright either, and the condition of rural markets is far from being as optimistic as people had imagined.

While raw materials and energy have always been in very short supply, not only have these shortages now been greatly eased, but sales of many products have fallen suddenly and overstocking of goods has shot up. Information sources say that at the end of March 1990 as compared to the same time in 1989, steel mills throughout the PRC had 42.6 percent more rolled steel in stock and cement plants had 36.4 percent more cement in stock, and that in the capital goods sector throughout the PRC in the first quarter of 1990 as compared to the same period in 1989, sales turnover fell 17.7 percent for industrial chemicals, 20.3 percent for building materials, and 22.9 percent for electronics products.

What is shown by this contrast between past and present sales trends?

Although some people thought that since the soft markets in 1989 were caused by the gradual spread of markets from urban to rural and from consumer to capital goods, a gradual change would also naturally occur in the same order in the process of stimulating markets in 1990; while urban and consumer market sales have now just bottomed out and are ready to rise, sales on rural and capital goods markets have just reached their low point.

Although this analysis of the order of market change makes a certain amount of sense, as long as rural markets are clearly softer than urban ones, there are still many new issues that are not covered by this "order theory." For instance, the drop in peasant net income is a rather glaring issue. Although peasant net income in the PRC averaged 601.5 yuan per capita in 1989, which meant that it was 10.4 percent more than in 1988, after adjusting for inflation, it was actually 1.6 percent less than in 1988. Moreover, this trend has still not been reversed in 1990. A poll taken in Sichuan Province found that average cash income in rural areas in the first

quarter of 1990 was 6.9 yuan per capita lower than in the same period in 1988. The drop in peasant income was certainly not caused by a drop in output, but rather by increased output without correspondingly increased income, a major cause of which was problems in farm by-product procurement and sales. According to the Ministry of Agriculture, peasants throughout the PRC at present still have millions of tons of grain on hand which must be sold quickly, including over 100 million tons each in Hunan and Hubei provinces and 850,000 tons in Anhui Province. It is also understood that procurement of farm by-products has dropped more than 10 percent in quite a few provinces in the first quarter of 1990, and that large amounts of rabbit fur, sheep's wool, cattle-hides, local specialties, and traditional Chinese medicinal materials are overstocked in peasants' hands. In places such as Xinjiang and Inner Mongolia, the "fleece war" has turned into a "sheep slaughter," with the price of mutton falling from 5 to 2.5 yuan per 0.5 kilogram. Although Zhejiang and Fujian provinces have harvested bumper crops of marine products, they are still faced with a situation of unmarketable products and falling prices. The drop in peasant income was bound to cause a decrease in purchasing power. In addition, some areas report that certain peasants are still holding "white slips" and "padded account slips," which are also more or less affecting their purchasing power. Moreover, the decrease in peasant purchasing power is not only giving rural markets declining sales and even making them clearly softer than urban markets, but it is also having an adverse impact on the agricultural production initiative of peasants, industrial goods sales and thus, the pace of recovery of industrial production. It should be pointed out that this is a new and major issue which should arouse much concern.

Moreover, although our soft capital goods market is generally considered to be a temporary phenomenon, there are also many new factors behind it. First, although sales in the materials sector have fallen somewhat in 1990, stocks of materials have dropped instead of correspondingly increasing. Although the materials sector should normally be playing a "reservoir" role at present, by procuring and stockpiling more of certain materials that satisfy needs and are of good quality but are temporarily unmarketable, which could both enhance its regulatory capability and also help production enterprises resolve their overstocking difficulties, the statistics show that capital goods procurement in the materials sector fell 12.3 percent in the first four months of 1990 instead. Why is there no "water" in these materials "reservoirs?" This has yet to be investigated. Second, although industrial production has been rising month after month recently, why has the demand for capital goods still been falling? Moreover, although the concerned parties have been taking steps for months to suitably increase investment and start capital construction projects to stimulate markets, why have capital goods markets still not become stronger despite the stimulation?

Furthermore, although overall public supply and demand were basically balanced in the PRC in 1989, and our production and public supplies have been increasing in 1990, the short-term condition of our rural and capital goods markets shows that consumer demand has certainly not increased correspondingly. Some people say that production will ultimately not increase until consumption increases, and that a decrease in or slow rate of growth of production limits consumption and forms a vicious cycle instead. Production and consumption must generally be coordinated because, while too much consumption is no good, too little also causes many problems. This particularly requires that macroeconomic studies be conducted to answer the following questions: Are our current consumption levels actually too high or too low? Is our consumption growing too fast or too slow? What are rational proportions to be maintained between consumption and production and between overall public supply and demand? Unless clear theoretical answers are found to these questions, it will remain hard to correctly guide our macroeconomic regulation and control.

People have described the capricious unpredictability of markets as being like "the weather in June or the face of a child." Although certain sectors predicted at the beginning of 1990 that domestic markets would bottom out in April and pick up in May, retail sales of social commodities are still (in June) in a state of negative growth. Domestic markets are not only facing many new problems at present, but they are also burdened with certain old problems, which have not yet been completely cleared up and are in urgent need of thorough study.

Separation of Taxes, Profits Advocated

90CE0149A Chongqing GAIGE [REFORM] in Chinese No 2, Mar 90 pp 57-62

[Article by Wang Dingkun (3769 1353 0981): "Significance of Tax and Profit Separation and How To Achieve It"]

[Text]

I

The so-called separation of profits and taxes means separating the taxes from the profits that the state is to receive out of the profits of enterprises, and changing from the "pre-tax repayment of loans" to "after tax repayment of loans."

The separation of taxes and profits is both a correct choice theoretically, and is additionally an inevitable necessity for spurring economic system reform in today's economic climate.

A. In a theoretical sense, the separation of taxes and profits is essentially a fundamental part of correctly distinguishing between state tax revenues and profit revenues. It pretty well stabilizes and normalizes the two distribution relationships of a different nature that exist between the state and enterprises, thereby getting out of

the old thought pattern of no separation of taxes and profits for reform of the enterprises profits distribution system. It also finds a new logical point of departure for thorough reform of this system.

Under socialism, a dual status, as well as two attendant benefit-distribution relationships objectively exist between the state and state-owned enterprises. On the one hand, as the administrator of society, the state carries responsibility for the most ordinary administrative functions in socioeconomic life, entering into relations with enterprises through the law, regulations, and decrees, i.e., ordinary social administrative relations. On the other hand, as the custodian of all assets under ownership of the whole people, the state carries the economic functions of controlling assets and distributing investments and benefits, entering into relations with enterprises via rules and regulations, and contracts, i.e., special property relationships. In contradistinction to this, two distribution relationships of a different nature exist between the state and enterprises: One is the benefits distribution relationship between the state and enterprises that stems from ordinary social administrative functions. Since this distribution relationship is based on state political authority, it is characterized by coercion and noncompensation. Not only does it exist between the state and state-owned enterprises, but also between the state and non state-owned enterprises. This relationship is conducted primarily in the form of tax collections. The second is the benefits distribution relationship that stems from special property ownership relationships. This distribution relationship is founded on property ownership rights; thus, to a very great extent, it is contractual in character, and exists only between the state and state-owned enterprises. This relationship is conducted primarily through enterprises payments of profits to the state.

Up until the time that the payment of profits was changed to the payment of taxes to the state, the method used in handling the tax and profits distribution relationship between the state and enterprises was primarily to adopt either a percentage for each enterprise or a contracted base figure for profit separation and profit contracting. The distribution relationship between the two was not very consistent and stable. Thus, in June 1983 the first step in changing payments of profits to payment of taxes began to be instituted. In September 1984, the second step of this change was carried out. No doubt, the change from profit payments to tax payments played an important role in changing the distribution relationship between the state and enterprises; however, because it sweepingly replaced profit payments with tax payments, it negated the character and methods of profit payments, violated the different attributes of taxes and profits, and also violated the inherent characteristics and basic principles of tax collection. Clearly, this was a distortion of theory. Furthermore, the 55 percent tax income tax rate for state-owned enterprises was too high. A single regulation tax rate per enterprise had the appearance of a tax without being a tax. The role of things such as "before

tax loan repayment," as well as difficulty in consistently increasing government revenues rendered difficult the continuation of this system in practice. Subsequently a large scale contract system was instituted. Even though the contract system played an extremely important role in effecting a "separation of ownership and operating rights within the state-owned economy" and organically linked responsibilities, rights and benefits, insured no decline in government revenues, and promoted economic development, as far as the distribution relationship between the state and enterprises was concerned, since it contracted both taxes and profits, there was actually no distinction between taxes and profits. The substitution of profit payments for tax payments went to another extreme once again. In addition, one on one contract base figures talks once again put obstacles in the way of the regularization of distribution relationships between the state and enterprises. Actually, in changing the distribution relationship between the state and enterprises, the task of changing from payment of profits to payment of taxes lay in regularizing the distribution relationship between the state and enterprises that stemmed from the state's ordinary functions in administering society. Since the two were neither interchangeable or transposable, going around in circles, "substituting payment of taxes for payment of profits, substituting payment of profits for payment of taxes, and again substituting payment of taxes for payment of profits was inevitable.

B. In reality, the separation of taxes and profits is a better choice.

The advent in recent years of total demand that is much greater than total supply, an inflation rate that shows no signs of coming down, low increase in government revenues, a great increase in both the fiscal deficit and regular government financial disbursements, and a marked weakening of macroeconomic control capabilities, has led to an extremely strained national macroeconomic environment that ultimately necessitated "improvement of the economic climate and rectification of the economic order." Thus, the task of reforming the enterprise profit distribution system in order to insure steady increase in government revenues has come up once again. It should be noted that transformation or readjustment of the profit distribution system means the reconstitution of the pattern of benefits already formed in the distribution relationship between the state and enterprises. Furthermore, with each such reconstitution, it is impossible to avoid varying degrees of shock on overall social and economic life. The present pattern of benefits gradually came into being over the past 10 years under the guiding thought of "yielding of public authority." In addition, transformation or readjustment of the prevailing enterprise profit distribution system will also have to be done in the face of difficulties in receipts and payments that both the state and enterprises face. Thus, it is necessary to effect a retransformation of the enterprise profit distribution system so as to reduce the shock on society insofar as possible, bringing about a "soft

landing" in the transformation of the enterprise profits distribution system. The reality mentioned above is founded on the foregoing thought.

The separation of taxes and profits has two meanings and two roles as follows:

1. The separation of taxes and profits both satisfies requirements of the current policy of improving the economic environment and restructuring the economic order, and also helps its further mutual dovetailing with deeper reform.

Given the extremely strained macroeconomic climate, and hard going in the rebuilding of the microeconomy, the separation of taxes and profits is the better method. First, it both helps insure steady increase in government revenues, and it also takes appropriate account of the interests of enterprises. On the one hand, the state gets a certain percentage of tax revenue from the profits that enterprises realize, while at the same time the state gets a certain amount of return on capital from the enterprises' aftertax profits, thereby insuring state receipt of financial revenues through two different channels that steadily increase as enterprises' economic returns rise. On the other hand, the state can act on the basis of the enterprises' circumstances with regard to income tax rates and the distribution of enterprises' aftertax profits as economic development needs require. It can set income tax rates as well as the amount of aftertax profits to be shared, while looking out for enterprises' interests. Second, it helps control the scale of investment, changing enterprises' investment behavior for the gradual building and perfection of an enterprise self-restraint mechanism. The change from "before tax loan repayment" to "after-tax loan repayment" hardened restraints on enterprise investment. This helped eliminate the abnormal situation of "enterprise borrowing, banks lending, and government repaying." It called a halt to enterprises investing and starting projects blindly, and it helped control the scale of investment, curing at its source the "enterprise investment starvation syndrome." Third, the institution of uniform income tax rates helped in making tax payments of different enterprises fair, thereby improving external conditions for equal competition among enterprises. Fourth, definition of the character of the two different distribution relationships helped bring about a further separation of government administration and enterprise management, and the separation of ownership authority and operating authority, creating conditions for enterprises to become truly relatively independent commodity producers and operators.

2. Separation of taxes and profits can be both in keeping with current requirements for improving the economic environment and restructuring the economic order, and help in dovetailing it with the further deepening of reform.

The economic reform, and the improvement of the economic environment and restructuring of the economic order now underway in China is being carried out

in by no means free and easy but rather in straitened circumstances; therefore, choices about reform of the enterprise profit distribution system must be based on the following two considerations: It is both necessary to meet requirements of the current improvement of the economic environment and restructuring of the economic order, and also to help further mutual dovetailing with deep reforms. The separation of taxes and profits fits it with these requirements rather well. First, the separation of taxes and profits can help increase the government's macroeconomic regulation capabilities, and it can help in the framing and implementation of the existing finance and tax system. It can also foster the elements needed in a new system. On the one hand, the separation of taxes and profits should be initiated by finance units as a government administrative organ. This is not only because the rigidity of government financial expenditures forces government financial departments to actively promote a separation of taxes and profits as a means of stabilizing government financial revenues, but also as state financial control organs as well as custodians of state assets under the prevailing system, they possess more initiative in setting tax rates as well as the size of enterprises' aftertax profits. No doubt, this can help government finance play a greater role in improving the economic environment and rectifying the economic order, and it strengthens its macroeconomic regulation capabilities. On the other hand, since the separation of taxes and profits helps in "keeping separate account of funds," this lays a basis for the government to institute a future tax-separation system. In addition, the setting of unified income tax rates for state-owned enterprises firms up tax revenues more than previously. It also helps unify and improve the country's income tax system, and it promotes the in-depth development of finance and tax system reform. Second, not only does it help stabilize enterprises and help further improve the contracting system, but it also creates conditions for a possible future stock share system.

II

Up to this point, our discussion of tax and profit separation has been limited only to the scope of its significance and role while omitting two important issues: 1) the issue of "how to share" in the separation of taxes and profits, i.e., how to set the amounts shared, how to set up a tax structure, and how to divide up aftertax profits; and 2) the issue of the "method for realizing" a separation of taxes and profits. The separation of taxes and profits is the right thing to do. This is not at issue. However, unless these two matters are correctly resolved, a result far different than the one anticipated may be unavoidable in the "separation of taxes and profits."

A. The Issue of How To Set the Amounts Shared

How to share in the separation of taxes and profits is an issue that bears, first of all, on where the state sets income tax rates on the profits that enterprises realize. The setting of income tax rates determines the portion

that the state will collect in the form of taxes from the profits that enterprises realize, which correspondingly sets the amount of enterprises' aftertax profits. The principle for setting enterprises' income tax rates is, first, that it must be done on the basis of the basic attributes of the economic relationships that income taxes reflects. We know that that the income taxes that enterprises pay to the state reflect the distribution relationship between the state and enterprises stemming from the state's general social administration function. Consequently, the income taxes that enterprises pay should be used primarily for needed expenses incurred in the state's exercise of its function as an administrator of society, i.e., expenditures for public social consumption. Furthermore, enterprises' payments of profits to the state reflect the distribution relationship between the state as owner of assets and enterprises. As the owner of assets, the state wants to increase the value of its assets; therefore, the profits that enterprises pay the state should be used mostly to increase the value of assets, i.e., for investment. Thus, the main basis for a logical separation of tax and profit amounts should be tax revenues for use in social public expenses, and profits used for investment. Second, consideration should also be given to the fairness issue in tax payments by enterprises under different forms of ownership. For a long time serious tax payment inequities have existed among enterprises under different forms of ownership; consequently, "collective enterprises benefited more than state-owned enterprises, and individual enterprises benefited more than collective enterprises." An extremely serious situation exists in which the greater the contribution of state-owned enterprises, the heavier and the more inequitable their tax payments. Therefore, in setting income tax rates for state-owned enterprises, all possible should be done to achieve fair tax payments, enterprises under different forms of ownership thereby being able to compete on an equal footing. Insofar as circumstances permit, every effort should be made in the setting of enterprise income tax rates to institute uniform income tax rates for enterprises under different forms of ownership.

B. The Issue of Establishing an Income Tax Rate Structure

The enterprise income tax rate structure used in most foreign countries today is a flat percentage rate. In China, the situation varies from place to place. Chongqing uses uniform five bracket progressive rates levied on income in excess of specified amounts, the minimum tax rate being 10 percent, and the maximum being 35 percent. Xiamen practices a uniform 15 percent tax rate for the collection of income taxes. At the beginning of 1989, the Ministry of Finance and the State Restructuring of the Economic System Commission proposed a plan for setting a uniform 35 percent tax rate for the collection of income taxes. We feel that a flat tax rate possesses advantages that a multiple bracket progressive rates levied on income in excess of specified amounts does not have in that its standards are uniform and fair,

and it is not detrimental to the principle of the equality of marginal benefits. However, given the present level of the country's economic development and its actual circumstances, use of a multiple bracket progressive rates levied on income in excess of specified amounts for enterprises' income taxes is more desirable. This is because the country's socioeconomic development is at many different levels and development is uneven. Not only is there a very great difference in the level of economic development between one province and another, and between one region and another, but differences are also very great for enterprises of the same kind in the same region. The development of productivity is also extremely uneven, and differences in enterprises' economic returns are great. Figuring out equitable amount limits for use as a percentage tax rate would be very difficult to do. Pertinent statistical data show that 616 enterprises in Chongqing that practiced tax profits separation and after tax contracting accounted for 72 percent of the profitable enterprises within budget throughout the city. Enterprises among them that contracted profits after taxes numbered 436, or 75 percent. Enterprises contracting zero profits numbered 78, or 13 percent. Enterprises contracting negative figure profits, i.e., those that could not be sure of meeting enterprise profit base figures after payment of taxes, requiring repayments from the treasury numbered 75, or 12 percent. Moreover, only 44 percent of industrial enterprises within budget in the city were enterprises that could run pilot projects. Thus, only 33 percent of the city's industrial enterprises within budget could do aftertax contracting. In addition, a large area survey of 594 enterprises in six industries in nine provinces and urban areas, which the State Restructuring of the Economic System Commission conducted, showed that on the basis of final settlement figures for 1987, after payment of income taxes at a 35 percent rate, the results of calculations were substantially identical with the situation in Chongqing. Thus, in order for the separation of taxes and profits to be worthy of the name, and for the sake of smooth performance, we recommend the uniform institution now of five bracket progressive rates levied on income in excess of specified amounts, with proper lowering of the upper and lower tax rate limits, the tax rate for the lowest bracket being 5 percent, and 30 percent for the top bracket as a means of helping the smooth launching of tax and profit separation, and solving the problem of enterprises having no profits left after taxes (meaning property owners showing no returns, and enterprises being unable to repay loans).

C. The Issue of Dividing Up Aftertax Profits

After they have paid their income tax, enterprises' aftertax profits will be re-divided between the state and the enterprise as profits paid to the state and profits retained by the enterprise. Since loans are repaid after taxes, for enterprises that have a special loan fund to be repaid, a portion of the enterprise's profits have to be allocated as fund repayment. The profits that enterprises pay the state are in the nature of a return on assets for

which the state enjoys property rights. In theory, enterprises' aftertax profits should be divided up between the state and the enterprise at an average profit rate or average interest rate. However, no actual industry average interest rate exists in China, and there is a very great difference in the status of individual enterprise assets resulting from numerous external factors, the historical process of formation, and actual circumstances. In addition, there is the very great difficulty in evaluating the value of assets in existing enterprises. As a result, a comparative norm division of enterprises' aftertax profits, using an average profit rate or an average interest rate is impossible in fact. Therefore, inasmuch as the actual circumstances of enterprises in China vary greatly today, there is no generally applicable quantitative standard that can be used to divide up aftertax profits. All that can be done is to use the principles of insuring a steady increase in government revenues, and to look after the interests of the enterprise properly, then make a concrete determination on the basis of the enterprise's actual profit distribution in recent years.

D. Method for Separation Taxes and Profits

The so-called issue of a method for separation of profits and taxes means the kind of enterprise operating responsibility method to be used in the separation of taxes and profits. The operating responsibility methods that actual enterprises have are mostly contract systems, enterprise rental systems, and stock share systems. The separation of profits and taxes can be done using any of the following several methods: 1) The contract system: aftertax contracting, meaning the use of contract system current regulations; 2) the enterprise rental system: aftertax payment of rent money, meaning payment of aftertax profits in the form of rent; and 3) the stock share system: withdrawal of interest and distribution of bonuses according to share holdings after payment of taxes.

From the theoretical standpoint, the separation of taxes and profits through the stock share system is the ideal choice. Because the stock share system is not just a basic legal form that maintains and balances all capital owned assets and distribution rights located in the same entity in accordance with the generally applicable property rights regulations in a commodity economy, but also provides a specific means whereby owners' capital returns are realized, return on assets is expressed through stock interest and dividends that derive from stock ownership or control over stock ownership, as well as from other rights. Furthermore, these benefits rise or fall as the profits of the enterprise rise and fall. Thus, the benefit relationship between the state, as owner of the property, and the enterprise is one in which the state obtains by law interest and dividends according to its shares. However, conditions do not yet exist for implementation of the stock share system in China.

The enterprise rental system is currently in use mostly in small state-owned enterprises. Aftertax payment of rent

is actually a system for paying fees for the use of property. Since the setting of the amount of rent is fraught with difficulties, mostly it is set today through competitive bidding. This method is not normal and it lacks a scientific basis; thus, it violates the original intention of tax and profit separation as an effort to stabilize and normalize distribution relations between the state and enterprises. Thus, except for its use in small state-owned enterprises, it is of no value for promotion.

The contract system is a responsibility system for operation that is in general use by state-owned enterprises in the country. Tax and profit separation, and aftertax contracting are a consolidation and a perfection of the contract system. It both helps make the most of the advantages of the combination of responsibilities, rights, and benefits in the contract system to arouse enterprise enthusiasm for production operations, and it can also firm up tax receipts, normalize distribution relationships between the state and enterprise's that stem from exercise of the state's ordinary social administration function, and narrow the magnitude of the abnormal portion of enterprise profits distribution. Nevertheless, following implementation of aftertax contracting, one on one base figure talks continued. Enterprises' aftertax profit distribution relationships remained abnormal and, in addition, the problem of enterprises' aftertax profit retention property ownership rights was not resolved. Consequently, further perfection and improvement was still required in the "tax and profit separation, aftertax contracting" implementation process. Active creation of conditions for a transition to a stock share system was also needed.

III

Current pilot projects on implementation of "tax and profit separation, and aftertax contracting" show that numerous problems still exist. Examples are the self-accumulation, self-transformation, and self-development problem, and the aftertax loan repayment problem; the problem of attendant reform of the finance and tax system, the investment system, and the state-owned assets control system; and problems in the framing of associated policies, etc. We have only done some exploration of the problem of enterprises' self-accumulation, self-transformation, and self-development following implementation of tax and profit separation.

As was said above, implementation of tax and profit separation and aftertax contracting, and a change from before tax loan repayment to aftertax loan repayment may play a tremendous role in restricting enterprises' investment behavior, impelling enterprises to focus attention on investment returns, thereby curing at its source the "investment starvation syndrome." Moreover, because of hardening of external limitations on enterprises' investment, enterprise investment may also exhibit a "short-term" tendency, particularly when a large amount of investment is required to carry out technical transformation and replacement of equipment

from which results are difficult to see at the moment. The same applies to projects from which social returns are very great but from which economic returns are not too good. Enterprises will be less willing to invest in these, but will prefer to invest in projects that show quick results and from which they can get a return in a short period of time, that is fair, and that is fast. This is because of the following: First, after the separation of taxes and profits, dynamically speaking, the relative percentage of profit that an enterprise realizes may decline, and the percentage of state financial receipts may rise, which is just the reverse of the present situation. Consequently, enterprises' self-accumulation capabilities will decline relatively to a certain extent. Second, because of the cessation of uncompensated government support attending aftertax loan repayment, enterprises' new investment funds will have to come from payments out of their own retained aftertax profits. Investment risk increases and is borne largely by the enterprise itself. Furthermore, ownership of the fixed assets that an enterprise acquires with its retained aftertax profits and the profits realized from them remains cloudy. In addition, because of the many policy changes in recent years and the increased investment risk, out of consideration for their own economic returns, enterprises have used the not very large amount of development funds in retained profits for short-term projects that show quick results, but have shown little interest in in-house technical replacement projects requiring substantial investment. Doubtlessly, this is extremely disadvantageous for enterprises' self-transformation and self-development.

It should be noted that enterprises' self-transportation and self-development capabilities have a bearing on the future speed and level of development of the nation's industry. Realization of strategic economic development goals set for the end of the present century and the middle of the next century require maintenance of a certain speed of economic growth. Moreover, transformation of the technological level of the billions of fixed assets existing in the country today in order to increase reserve strength for total economic development happens to be the key to realization of this goal. At the same time, most of the country's existing large- and medium-sized enterprises, with the exception of new ones built in recent years, were built prior to the 1960's, and are already aging. The restoration of these enterprises cannot be achieved through their own efforts. The before-tax loan repayment system provided tremendous stimulus for enterprises to undertake technical transformation and equipment replacement. Pertinent data show more than 170 billion yuan as having been invested in technical transformation and capital construction from 1981 through 1987, and more than 100 billion yuan worth of property as having been completed and put into production. This increased the technological level of numerous enterprises to that of the 1960's and 1970's, or even the advanced level of the 1980's. During the period 1981 through 1988, nearly 90 percent of enterprises' increased profits derived from newly added production

capacity and readjustment of product mix, and 70 percent of the money for the readjustment of enterprises' product mix and newly added production capacity came from being able to repay loans before taxes. This shows that changes in the technical level of enterprises is actually dependent upon uncompensated government support.

Among enterprise self-accumulation, self-development, and self transformation, self-accumulation is fundamental. The greater the accumulation, the larger the amount of money available for technical transformation and equipment replacement, and the faster the enterprise develops. For a long time, the level of administration and the quality of the workforce in the nation's enterprises has been relatively low, and waste has been substantial. Thus, enterprises can get self-accumulation and self-transformation money by fully tapping internal potential, improving administration, improving workforce quality, and reducing waste, thereby improving their overall economic returns. Nevertheless, government support is also required. For example, the state should adopt measures to solve problems in the technical transformation of old enterprises that conform to state industrial policy and social needs, or investment in projects that take a long time to return capital, but require a large amount of money, projects that do not produce or produce relatively little direct economic benefit, but that produce substantial social benefit, as well as projects that develop new products that fill national needs, and major technical transformation projects. Failure to do so will mean a deterioration of enterprises' technical transformation and development capabilities that will inevitably harm reserve strength for economic development.

In this regard, we suggest the following:

1. Consistent macroeconomic policies to insure continuity and consistency in the implementation of major economic policies, creating a fairly stable macroeconomic environment for enterprises.

2. For technical transformation projects or investment projects that conform to state industrial policy and social needs, particularly when a large amount of investment is required and the recovery period is long, but from which social returns are marked, the state should provide vigorous policy encouragement and support. a) It should provide support in the form of interest discounts for the readjustment of industrial structure; b) investment repayment periods should be dovetailed with the period of return on investment to make the two coincide with each other insofar as possible; c) moderate increase in composite discount rates and moderate reduction in loan interest rates; d) New profits that enterprises earn from projects for which they have used their own retained profits, and from projects in which they have newly invested should be regarded as new product development returns that are exempted from taxation for a certain period of time and used for repayment of loans.

3. The responsibilities, rights, and profits from investment of the state and enterprises should be spelled out, the principle applied of whoever invests makes the decisions; and whoever makes the decisions and whoever bears investment risks receives returns. In addition, feasibility validation should be improved for all investment projects.

Finally, we want to emphasize once again that the orientation of tax and profit separation reform is correct and should be unswervingly pursued. However, in view of the present reality of national financial receipt and payment problems, and enterprise financial receipt and payment problems, the promotion of tax and profit separation should be a relatively long process; it cannot be accomplished in a single move. In carrying it out, special attention has to be given to the framing of associated policies that both protect the national interest enabling steady growth of government revenues, and that take proper account of the interests of enterprises so that they can get through their straitened economic circumstances with no great damage to their vitality and without impairing their reserve strength for economic development.

Rules of Shareholding System Viewed

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[Article by Zhou Kunru (0719 0981 1172) and Peng Huichun (3403 1920 2504), edited by Shen Zhiyu (3088 1807 3342): "A Discussion of the General Rules of the Shareholding System"]

[Text] At present, a major reason why the work of experimenting with the shareholding system in some enterprises in our country is not proceeding too smoothly is that, in this work, the general rules of the shareholding system have not been respected. What is meant by the general rules of the shareholding system are the basic principles which must be observed by different forms of shareholding system under different social systems and different ownership systems. As to the specific contents of these general rules, people do not at present have unified ideas. This is mainly because of the great diversity of shareholding enterprises abroad. The most common forms are limited shareholding companies, limited liability companies, unlimited shareholding companies, and share partnerships. These do have certain points in common, but also have points of difference. As the types of share enterprises which people examine are different, these people stress the points of difference, and this has led to differences of opinion on the specific contents of the general rules. This article will attempt, using limited shareholding companies and limited liability companies as the major targets of study, to discard the points of difference between these forms and abstract the common principles they share. On this basis, we will attempt a preliminary discussion of the general rules of the shareholding system. We believe that there are at least five general rules of the shareholding system.

1. Establishment in Accordance With Legally Stipulated Procedures

The share enterprises in Western countries are all approved and ratified by the government of the country in which they are located in accordance with the stipulations of their company law. All activities of the enterprise, including the handling of internal and external relations and withdrawal or merger, must accord with the stipulations of the company law. In different countries, there are different stipulations on the legal procedures for establishing a shareholding enterprise, but a common requirement is that they must be established in accordance with legally stipulated procedures. For example, the famous U.S. company law expert Professor (Harley) [ha li 0761 6849] sums up the legal procedures for establishing a limited shareholding system in the United States into 15 steps. These include: submitting an application to the state legislature or secretary of state for approval to establish a company; submitting articles of association for the company to the secretary of state or relevant local government organization; obtaining the approval of the state government or federal government for the company to issue shares; purchasing blank share certificates which conform to set standards from a legal supplies store; and sending by post to the secretary of state a series of documents on the organization of the company, for the record. These documents include the names of equity holders, directors and staff members, place of registration, letters of appointment of company agents, share transfer certificates, and so on.

Our country does not yet have a company law or similar legislation, unified stipulations on the procedures for establishing a share company are lacking, and there are no systematic regulations to follow. Thus, grasping the formulation of systematic policy laws and regulations relevant to the shareholding system is essential for guaranteeing the healthy development of the shareholding system.

2. The Entire Assets Are Divided Into Shares

The entire assets being divided into shares is a basic characteristic of shareholding enterprises which distinguishes them from other enterprises. What is meant by "shares" are those units into which the entire capital of an enterprise is equally divided. Dividing into shares means that the enterprise divides its entire capital into a number of shares. The holders of the shares are the owners of the enterprise. Stock certificates are the certificates of ownership of the enterprise. In a limited shareholding company, a stock certificate is a share and dividing assets into stock involves dividing assets into shares. In a limited liability company, the company cannot issue shares, and the number of stockholders is generally smaller. After they pay their money for shares, the company provides them with a stock certificate. Although there are differences in the form of the stockholding certificates of limited liability companies and those of limited shareholding companies, the two types of companies do have common characteristics. They are

both shareholding companies, both have assets divided into shares, both have independent corporate status, the responsibilities of the shareholders in respect of the liabilities of the company are limited in both cases, and shareholders' liability is restricted to the funds which they have invested.

In the non-public shareholding system being experimented with in our country, we could draw in these common characteristics, but we should not blindly copy aspects which differ between the various forms. In this respect, we need to engage in scientific transformation, so that the regulations accord with our country's needs. For example, we should allow the staff and workers of enterprises to become shareholders in their own enterprises, and perhaps stock certificates could be considered internal shares. This type of shareholding system could be referred to as an internal shareholding system.

The rule which requires the entirety of assets to be converted into shares not only stresses the share system, but also requires that, within the scope of the enterprise's property rights, the entirety of shares must be equivalent to the entirety of the assets of the enterprise. The entirety of assets includes both fixed assets and circulating funds. Many articles have already been written on the appraisal of fixed assets and their conversion into shares, but insufficient attention has been paid to the question of circulating funds. There are very great differences in the specific situation of the circulating funds of whole-people enterprises. Some enterprises have absolutely no circulating funds at all, and they rely on bank credit to meet their needs. Other enterprises have some of their own circulating funds, but also rely on bank credit for another portion. Still other enterprises do not require bank credit at all and rely on their own circulating funds. If this situation is not carefully investigated, it might result in the entirety of the assets of some enterprises being converted into shares, while in other enterprises, only the fixed assets will be converted into shares. How are we to rationally handle the circulating funds problem? Our idea is that in accordance with the current stipulation of banks whereby "credit is given up to twice the deposits", where an enterprise's own circulating funds are insufficient to meet one-third of the annual average balance of the entirety of circulating funds, we should use a figure of one-third of the average annual balance of the entire circulating funds and add this to its overall assets, and then convert this to shares. Enterprises which have their own circulating funds in excess of one-third of the average annual balance of the entirety of their circulating funds, should convert the full amount of their circulating funds into shares. Written as a formula, this is:

Total value of shares = appraised value of fixed assets + at least one-third of the average annual balance of circulating funds.

3. The Nonrefundability of Stocks (Shares)

After stockholders purchase stocks (shares), the enterprise does not have the obligation to return the amount

of capital invested to the stockholders. After stocks or shares are purchased, the original capital cannot be refunded. Thus stocks and shares are nonrefundable by nature. Repayment of funds invested in shares is an exceptional occurrence. This can happen for example when a shareholder sells his stocks or shares to another person, or the enterprise is merged and the other enterprise purchases the stocks or shares. Redemption of shares by a shareholding company is another matter. The redemption of shares by a shareholding company usually results from one of two goals: The first is to reduce the expenditure on dividends. If a company issues fixed-interest preferential shares, in general they have a redemption clause. When the interest rates in the financial market drop, the issuing unit usually exercises the redemption clause and through issuing new, lower interest preferential shares, it redeems the originally issued preferential shares. Thereby, it economizes on dividend expenditure. The second is to reduce the capital of the company. Different countries have different stipulations on the question of the redemption of shares. For example, the legal stipulations in Italy and Belgium prohibit a company from buying back issued shares, except to reduce the capital of a company. Britain and France, in principle, prohibit a company from buying back shares already issued, but preferential shares are not subject to this restriction. U.S. law stipulates that companies can buy back ordinary shares, but that stored shares do not enjoy the right to dividends or voting rights.

In our country, some share enterprises have implemented the system of repayment of capital when shares mature. This way of doing things actually turns stocks into bonds and confuses the distinction between shares being nonrefundable and bonds being refundable. We should thus refer to all refundable "shares" as bonds. At the same time, we should change the nonfixed, excessively high interest rates into fixed, rational interest rates. Further, for these bonds there should be no distribution of bonuses beyond interest, so as to restore their actual characteristics as bonds, and ensure that the original meaning of shares remains distinct.

4. The Same Shares Enjoy the Same Benefits and Bear the Same Risks

In limited share companies, the same number of the same type of shares have the right to enjoy the same earnings and the same management rights and must bear the same risk. Different types of shares have different earning rights and management rights and bear different risks. The distinction between ordinary shares and preferential shares is the standard differentiation between the size of risks borne and the rights and interests enjoyed. The rights and interests enjoyed are in direct relation to the risks borne by the different types of shares. Ordinary shares bear great risk and also enjoy large earnings and management rights. The preferential shares bear little risk but their earnings and management rights are small. In limited liability companies, the shares are all of the same types and shareholders enjoy

different earning rights and management rights and bear different risks only on the basis of differences in the number of shares held. Regardless of whether we speak of shares or stocks, both fully manifest the pattern of the same shares enjoying the same benefits and bearing the same risks, while different types of shares enjoy different benefits and bear different risks.

This rule stresses two aspects: The first is that the same shares enjoy the same benefits and the second is that the same shares bear the same risks. In the enterprises which have trial-implemented the shareholding system in our country, there exist quite great disparities in these two aspects. Seen in terms of the principle of the same shares enjoying the same benefits, in these enterprises, the shares held by individuals enjoy large benefits, while state-owned shares enjoy little or no benefit. Seen from the principle of the same shares bearing the same risks, in the majority of enterprises, the practice of guaranteeing the capital, the interest, and the bonuses of individual shares exists in many enterprises. This is divorced from the operational situation of the enterprise and the earnings are guaranteed regardless of operations. Thus, there is no risk to speak of. In some shareholding enterprises, the state shares do not enjoy shareholder benefits and also do not bear risks. They are completely outside the shareholding system. At present, the state-owned shares are just empty ownership rights and they do not really safeguard the rights and interests of the state as a shareholder. The shares held by individuals have squeezed out the state shares in the distribution of benefits, meaning that in such distribution of benefits, the scales are tipped greatly to where the individuals enjoy much greater dividends and bonuses. The state should set down clear regulations implementing the rule whereby the same shares enjoy the same benefits and share the same risks, so as to rectify the situation where, in the distribution of earnings, the individual is stressed and the state neglected, which gives rise to short-term activities of looking lightly on accumulation, while stressing consumption.

5. The Values of Stocks (Shares) Float

The ordinary shares and preferential shares issued by limited shareholding companies can be freely traded in stock exchanges. The floating nature of the share value will be reflected in the floating of prices in the stock exchange. Limited liability companies do not issue shares to the society, and their stock certificates cannot be freely bought and sold in the market.

Thus, the question of a rise or fall in the prices of the stock certificates does not exist. However, we cannot on this basis come to the conclusion that the stocks of limited liability companies do not accord with the pattern of shares having a floating value. Essentially, as the entirety of the capital of a limited liability company has been turned into stocks, and because in years when profits are made, the limited liability company will retain a certain proportion of the profits as public

accumulation funds so as to expand the amount of its capital, the amount of company capital represented by each share will be greater than the amount shown on the stock certificate. In years when losses are incurred, the entirety of the funds of the enterprises are relatively reduced, and the amount of capital represented by each share is accordingly reduced. In addition, when a limited liability company is merged with another enterprise, the superior enterprise uses funds to purchase the stock certificates, or exchanges its own shares for the stock certificates. At such a time, the stock certificates of the merged limited liability enterprises will have a trading price. The trading price at such a time will generally not be the same as the original amount of funds indicated on the certificate. The above several situations show that the value of limited liability company stocks is not fixed and unchanging. Rather, these too follow the pattern of floating value.

In the current situation where our country does not have a stock market, it is only possible to trial-implement the shareholding system in a way whereby it is temporarily limited to the non-public issue of shares. How can these internal shares issued by the shareholding companies manifest the requirement that the price of shares should float? Comrade Jiang Yiwei, in his article "On the Shareholding System", proposed that an enterprise when making profits should, in accordance with the stipulations of its articles of association, retain a certain proportion of its profits as public accumulation funds. The retention of the public accumulation funds will mean that the capital of the enterprise will rise in value and the shares should also rise in value. If losses are incurred, the shares should drop in value. Thus, the enterprises could implement the method of "yearend final accounting of value" and after the company has done its yearend accounting, the actual value of the shares for that year can be made known. We believe that this method has three advantages: The first is that it will strengthen the concern of the shareholding staff and workers for the operational situation of the enterprise and the loss or increase in capital. Second, shareholders will be willing to have low dividends as the funds can then be used to expand public accumulation and develop production. Third, it clarifies ownership of public accumulation funds and will not lead to further situations of ownership over assets being unclear.

PROVINCIAL

Hebei 1989 Final Accounts, 1990 Draft Budget
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["Report on Hebei Province's 1989 Final Accounts and 1990 Draft Budget—Presented at the Third Session of the Hebei Provincial Seventh People's Congress on 18 April 1990 by Han Xizheng (7281 6932 2973), Chairman of Hebei Province Finance Department"]

[Text] Fellow delegates:

On behalf of the provincial people's government, I am submitting to you for examination and approval Hebei Province's 1989 final accounts and 1990 draft budget.

I. The 1989 Final Accounts

In 1989, Hebei Province implemented diligently the general policy of rectification and improvement and thorough reform, acted in the spirit of the Second Session of the Provincial Seventh People's Congress, surmounted difficulties, overcame obstructions, and worked very hard to produce new results in our economic endeavors. The scope of capital construction and the magnitude of price increase have basically been put under control. The supply-demand conflict was eased, and despite localized natural disasters, grain output set a historic record and industrial production sustained reasonable growth. There was ample supply of goods in the market in the urban and rural areas. Besides accomplishing all these, the province also managed successfully to meet its budget. We overfulfilled the revenue portion of the budget and also increased spending in key areas. We supported the development of economic constructions and various undertakings and facilitated the smooth progress of rectification and improvement and thorough reform.

The Second Session of the Provincial Seventh People's Congress approved a 1989 budget of 6.806 billion yuan in revenues. During fiscal year, because the state approved an agricultural tax reduction and exemption in view of the natural disasters, devolved some central-level enterprises to the province-level, and designated the power plant construction fund and grain allocation and operation fund as special income, the year-end adjusted revenue came to 6.959 billion yuan. This change has already been reported to the Standing Committee of the Provincial People's Congress. The present recapitulation of the final accounts of the 1989 budget shows an income of 7.613 billion yuan, fulfilling 109.4 percent of the budget, an increase of 17.5 percent over than the previous year's income. The major sources of revenue are: 1) Industrial and commercial tax generated 6.561 billion yuan, 105.7 percent of the budgeted amount and 17.6 percent more than in the previous year. This increase in revenue was due mainly to production increase and better tax collection and management procedure; new tax categories also generated some revenues. 2) Enterprises incurred 171.25 million yuan in losses, 127.08 million yuan more than budgeted. Unlike the year before, enterprises were losing money instead of delivering profit. Specifically, industrial enterprises generated 718.86 million yuan in income, an increase of 4.4 percent; commercial enterprises showed a loss of 88.72 million yuan, an increase of 36.9 percent; grain enterprises showed a loss of 256.02 million yuan, an increase of 74.0 percent. The commercial and grain enterprises' losses were due mainly to increased expenses. 3) Agricultural tax generated 216.48 million yuan in revenue,

104.3 percent of the budgeted amount. Farmland occupation tax generated 89.38 million yuan, which came to only 60.7 percent of the budget. The main reason was that less land was actually approved for use than planned. Farming, forestry, and special product taxes generated 46.30 million yuan, fulfilling 84.9 percent of the budget. Natural disasters in some areas reduced the income somewhat. 4) The energy, communications, and key construction fund generated 184.66 million yuan, and the state's budget regulation fund generated another 197.95 million yuan, both came close to the amount budgeted. 5) Other income came to 193.92 million yuan, 153.66 million more than budgeted. This revenue came mainly from fines and confiscations sorted out and collected in connection with the rectification and improvement movement.

In addition, Hebei Province sold 1.05 billion yuan of assorted bonds in 1989, fulfilling 102.2 percent of its state-assigned responsibility.

A part of Hebei Province's above-quota revenue in 1989 was due to the state's policies. The budget regulation fund which the state began to collect last year, the urban and rural land-use tax, and the stamp tax all added to the province's income. Discounting the policy-induced marginal income and normal income actually increased 9.9 percent, which is compatible with the province's economic growth rate.

The Second Session of the Provincial Seventh People's Congress approved a spending level of 5.744 billion yuan for 1989. During implementation, because the central authorities added some special funds retroactively, because we used the fund balance from the previous year and carried over some special funds, and because of last year's surplus, the year-end adjusted expenditure came to 8.856 billion yuan, and we have already reported this change to the Standing Committee of the Provincial People's Congress. A recapitulation of the final accounts shows the total expenditure to be 7.730 billion yuan, which came to 87.3 percent of the adjusted budget, 14.5 percent more than the previous year. The major expense items are: 1) Capital construction expenditure came to 351.17 million yuan, 93.4 percent of the budgeted amount and 11.8 percent less than the previous year's amount. 2) Enterprise renovation and upgrading expenses came to 112.92 million yuan, fulfilling 77 percent of the budget and spending 34.5 percent less than in the previous year. The cutback in these two areas was in response to the state's urge, which led to a budget-cut early in the year. Of the two, spending on enterprise renovation and upgrading fell short of the budget by a wider margin. This was mainly because the central government was slow in allocating funds. 3) The three categories of scientific and technological expenses and science and technology undertaking expenditure came to 109.13 million yuan, completing 83.9 percent of the budget and spending 1.3 percent more compared to the previous year. 4) Aid for rural production and farming, forestry, and water conservancy undertaking expenses came to 622.40 million yuan, fulfilling 76.4 percent of the budget and spending 22.3 percent more than the previous year. Specifically, we spent 354.32 million yuan to aid rural productions, 46.1 percent more than in the

previous year. 5) Cultural, educational, public health undertaking expenses came to 2.180 billion yuan, fulfilling 96.9 percent of the budget and spending 13.8 percent more than in the previous year. Specifically, educational expenses came to 1.319 billion yuan, 13.5 percent more than in the previous year. 6) Administrative and management expenses (including public security, procuratorial, and judicial expenses) came to 1.175 billion yuan, fulfilling 95.1 percent of the budget and spending 18.9 percent more than in the previous year. The increase was due mainly to a larger staff, higher wages, and some new and essential facilities for the public security, procuratorial, and judicial systems. 7) Price subsidies came to 1.399 billion yuan, fulfilling 84.8 percent of the budget and spending 10.3 percent more than in the previous year.

According to the financial system of "progressive revenue-remittance contract" which the state has installed in Hebei Province, the current year's income minus the portion remitted to the central authorities plus the central government's special fund and grant-in-aid plus the previous year's closing, balance, and transfer-in funds equal the province's available financial resource, which came to 8.912 billion yuan in 1989. The year's actual expenditure was 7.730 billion yuan, and as urged by the state, a village finance working fund of 29.06 million yuan was set up, and the balance of special funds carried forward to next year came to 1.337 billion yuan, with a deficit of 183.98 million yuan (including 99.47 million in deficits ran up by the prefectures and cities,) which was 24.31 million yuan less than budgeted.

The second session of the seventh provincial People's Congress approved a budget with revenue of 201.58 million yuan and expenditure of 1.566 billion yuan at the province-level. The year-end adjusted income was 383.21 million yuan and adjusted spending was 2.895 billion yuan. These changes at the province-level have also been reported to the Standing Committee of the Provincial People's Congress. Last year's actual province-level income was 443 million yuan (including a special income of 130 million generated by the power plant construction fund), accounting for 115.6 percent of the entire budget, an increase of 26.3 percent over the previous year's income. Of this amount, 504.80 million yuan came from industrial and commercial tax, fulfilling 99.3 percent of the budget. The shortfall was due mainly to the decline in the assessed amount of crude salt tax and reduced salt tax revenue. Enterprises showed a loss of 632.29 million yuan, 4.6 percent less than budgeted, but because most of the losses were due to grain sales and the state's foreign trade policy, loss subsidies increased by 47.6 percent compared to the previous year. The energy, communications, and key construction fund generated 184.66 million yuan, and the newly imposed budget regulation fund generated 197.95 million yuan. The actual province-level expenditure came to 2.339 billion yuan, accounting for 80.8 percent of the entire budget, 11.6 percent more than the previous year's spending. The main expense items are: Capital construction expenditure came to 335.39 million yuan, fulfilling

97.3 percent of the budget, 9.5 percent less than in the previous year. The three categories of scientific and technological expenses and spending on science and technology undertakings came to 50.59 million yuan, fulfilling 78.6 percent of the budget and spending 0.4 percent more than in the previous year. Aid for rural production and farming, forestry, and water conservancy expenditure came to 81.07 million yuan, 65.1 completion of the budget. This was due mainly to the delay in getting the special funds from the central authorities, which slowed the budget completion rate. In addition, some special funds were allocated to the prefectures and cities and were accounted for by the lower levels at year-end, which understated the actual amount of agricultural support at the province-level. Cultural, educational, and public health expenditures came to 268.09 million yuan, 94.7 percent of the budgeted amount, 7.0 percent more than in the previous year. Specifically, educational expenses came to 143.11 million yuan, an increase of 11 percent over the previous year's spending. Administration and management expenses (including public security, procuratorial, and judicial expenses) came to 102.12 million yuan, 86 percent of the budgeted amount, 19.9 percent more than in the previous year. Price subsidies came to 1.065 billion yuan, fulfilling 82.2 percent of the budget and spending 10.3 percent more than in the previous year.

The 1989 income at the province-level plus 2.904 billion yuan turned over by the prefectures and cities and 1.035 billion yuan in central government's special funds and grants plus a balance of 610.22 million yuan carried over from the previous year minus 1.749 billion yuan remitted to the central authorities and 205.60 million yuan in subsidies for the localities bring the available financial resource at the province-level to 2.937 billion yuan. The year's expenditure was 2.339 billion yuan, with a balance of 682.56 million to be carried forward to next year. Offsetting revenue and expenditure, the year's deficit was 84.50 million yuan, 40.50 million yuan less than budgeted.

Hebei's financial and economic tasks survived a tough year last year. Early in the year, revenue and expenditure were budgeted tightly, and during implementation, we encountered a shortage of funds, energy, and raw materials. Industrial production slipped temporarily. The political upheaval in later spring and early summer, the fairly serious natural disasters in some areas early and late in the year, the market slump in the last months of the year, the drop in enterprise profit and other unfavorable factors had an adverse effect on the budget. In view of this grim situation and in an effort to meet the budget, led by the provincial party committee and provincial government, every level of government and every department acted diligently in the spirit of the Fourth and Fifth Plenary Sessions of the 13th CPC Central Committee and the Second Session of the Seventh Provincial People's Congress and worked very hard in several areas:

1. We implemented the general policy of rectification and improvement and strived to increase the financial ministry's macroeconomic control capacity. Last year, in compliance with the demands of rectification and improvement, the province as well as the localities adopted some measures to centralize funds and increase revenue. For example, we adjusted and raised the remittance bases of some industries and enterprises where the bases had been too low; we took over the portion of enterprise income generated by an excess increase in prices, set up a new budget regulation fund, imposed a surcharge on commodities under special control, and consolidated the tax exemption and reduction practices. These measures played a positive role in balancing the budget, reducing the deficit, and enhancing the financial ministry's macroeconomic control capability. We took a step further to strengthen management of the extra-budget funds, tightened control over the use of those funds on capital construction and non-individual as well as individual consumptions, improved the method of setting up a special savings account for the administrative and institutional units' extra-budget funds, actively guided the direction of enterprises' extra-budget funds, and played a positive role in promoting the proper use of those funds.

2. We implemented thorough enterprise reform, strengthened management and administration, and facilitated the increase in production and income. Last year, every level of government and every department had a better grasp of the concept of relying on reform to promote development and better management to increase profit. With respect to thorough reform, we supplemented and perfected the contract system, implemented the risk collateral fund system in more than 1,500 contractor-enterprises, and started the practice of linking the total wage bill to economic efficiency in 84 percent of the industrial enterprises, further improving the enterprise contract management responsibility system. With respect to strengthening enterprise management and administration, we began with the basic tasks and perfected the systems, refined the methods, broadly promoted activities that helped enterprises reach higher and higher goals, reviewed and popularized some exemplary experiences, vigorously promoted modern management methods, and helped raised enterprise management standards. Meanwhile, to pinpoint the problems facing enterprises, governments at all levels gathered a group of cadres and sent them deep into the grass-roots level to help solve real problems, and we tried in every possible way to stabilize enterprise production and even implemented a biased policy favoring the major profit tax-generating households and key enterprises with respect to funds, energy resources, and raw materials and so on. All these had a positive effect on increasing production, efficiency, and revenue. In 1989, the province's budgeted industrial enterprises produced 19.79 billion yuan's worth of goods, 5.0 percent more than in the previous year; they generated 4.46 billion yuan in profit taxes, 1.4 percent more than in the

previous year, and they delivered 2.45 billion yuan in profit taxes to the higher authorities, 9.2 percent more than in the previous year.

3. We strengthened tax collection and management and strived to plug loopholes and increase revenue. Governments and finance departments at all levels acted diligently in the spirit of the instruction handed down by the State Council on doing a better job with tax collection, held steadfast to the law when collecting taxes, and strengthened tax collection and management. We adopted several methods to increase taxation propaganda, further improved the collection and management system, and promoted the specialized collection, management, audit responsibility systems. We tightened control over the sources of tax revenue, consolidated and centralized the collection of individual tax, and strengthened the collection and management of personal income regulation tax. We targeted and cracked down on tax fraud and tax evasion. More than 2,500 cases were processed and nearly 20 million yuan in back taxes were recovered. We manned the auditing teams with more than 1,400 people and set up more than 200 tax examination stations in the train stations, docks and other places in the cities and counties to help plug tax loopholes. In addition, as urged by the higher authorities, tax organs at below province-level implemented a vertical management system. All these measures helped further strengthen taxation work and made possible a steady increase in tax revenues. Province-wide, revenue from industrial and commercial tax increased 17.6 percent compared to the previous year. Of that amount, individual tax revenue increased 40 percent and personal income regulation tax increased 8-fold.

4. We tightened control over spending and strengthened fund management. Last year, governments and finance departments at all levels took active steps to adjust the mix of spending and raised funds from many sources, and while personnel wages and essential office expenditures were guaranteed, fixed asset investments were cut back, and every effort was made to squeeze extra funds to enable us to spend more on agriculture, education, and science and technology. Province-wide, the 1989 budgeted capital construction expenditure was reduced by 11.8 percent compared to the year before; enterprise renovation and upgrading expense fell by 34.5 percent, spending to aid rural production increased 46.1 percent, educational spending increased 13.5 percent, and spending on scientific undertakings increased 3.0 percent. Meanwhile, to give full play to fund-use efficiency, departments at all levels further improved the systems, refined the methods, and strengthened management. They supported and promoted the development of agriculture, education, science and other undertakings. Last year, province-wide, we drilled or repaired 62,000 motor-pumped wells, completed more than 2,400 project to provide drinking water for human and animal consumption, planted 216,000 hectares of forests, improved 28,000 hectares of grassland, and upgraded 115,000 hectares of medium- to low-yield farmland, all with

government as well as nongovernment funds. We funded more than 300 agricultural service systems, helped as many as 9.25 million students of all grades and all types, added 4.2 percent more hospital beds in various medical institutions, and made progress with the develop, application, and promotion of science and technology and cultural undertakings.

5. We strengthened financial supervision and conducted a major round of tax audit. Last year, the provincial government and governments at all levels cracked down on individuals who owed the government money, tracked down the extra-budget funds, collected fines from couples who had more than their quota of children, and sorted out the many administrative fees and charges. Meanwhile, in compliance with the State Council's central plan, we launched an annual, full-scale examination of taxes, finance, and prices. Besides mobilizing everybody to conduct his own review, we selected more than 30,000 inspectors and sent them to more than 570,000 units to conduct a major inspection. Up to the end of January of this year, the self-inspection and major inspections have uncovered 617 million yuan's worth of assorted violations; 389 million yuan is due the Treasury, and 326 million yuan has been paid so far. We also dealt with a number of serious, typical cases. These efforts were coordinated with the rectification and improvement movement; they helped increase the government's revenue and enforce financial discipline.

Although Hebei Province was successful at its financial tasks in 1989, the budget problems we encountered should not be overlooked. The fiscal deficit problem was serious; construction funds were scarce; every level, especially the county level, had its share of difficulties. In 1989, another 66 counties showed deficits totalling 88.11 million yuan. Some localities and units have not adjusted to the idea of belt-tightening and are still crying out for more aid. The staff size is growing rapidly, and the number of organs is increasing significantly; more and more, public finance has become a "guzzler." Enterprises continue to waste materials and maintain low economic efficiency, limiting the increase in the government's revenue. In addition, tax evasion and tax fraud, unlawful profit retention, diversion of funds and other violations of financial and economic laws are rampant. Targeting the above problems, we have adopted certain measures, and they have proved effective, but we are far from solving all the problems. We must carefully review our experiences, study various measures, continue to work hard, and take a further step to solve the financial and economic problems.

II. Draft of the 1990 Budget

In the spirit of the Fifth and Sixth Plenary Sessions of the 13th CPC Central Committee, and taking into consideration the province's financial and economic reality, Hebei Province has drawn up its 1990 budget based on the principle of further implementing the general policy of rectification and improvement and thorough reform and following through with the tight financial policy. We

want to increase output, improve economic efficiency, ensure steady revenue increase, tighten control over expenditure, improve the spending-mix, guarantee the important needs, and create a better environment for the sustained, steady, and smooth development of the province's socioeconomic undertakings.

The state has assigned Hebei Province the task of generating 7.913 billion yuan in revenue in 1990. The localities have submitted a budget totalling 7.955 billion yuan in revenues. As urged by the state, the power plant construction fund and income from education surcharge have been included in the budget. Accordingly, the province's 1990 income is expected to be 8.144 billion yuan, 6.2 percent more than last year's based on comparable parameters. The major sources of income are: 7.142 billion yuan from industrial and commercial tax, 8.9 percent more than last year, and 372 million yuan agricultural tax, farmland occupation tax, and farming, forestry, and special product tax, 5.6 percent more than last year. Enterprises loss will come to 171.27 million, same as last year (this includes 632.99 million yuan generated by the industrial enterprises, loss of 90.16 million yuan incurred by the commercial enterprise, loss of 311.56 million yuan incurred by the grain enterprises, and loss of 444.87 million yuan incurred by the foreign trade enterprises); the energy, communications, and key construction fund should generate 183 million yuan and the state's budget regulation fund income should generate 200 million yuan, to be distributed according to the tasks assigned by the state; special funds should generate 327.27 million yuan, and other income is expected to bring 91.22 million yuan.

In addition, the state has distributed 467.51 million yuan's worth of assorted bonds for sale in Hebei Province. They have been sent to the prefectures and cities.

The province's 1990 budgeted income less 1,912,650,000 yuan to be remitted to the central authorities (this includes 1.733 billion yuan in remittance required by the system, special remittance of 80 million yuan in cigarette and liquor taxes, and supplemental remittance of 100 million yuan for the state's centralized fund) plus 701.06 million yuan in grants settled by the central authorities and 1.337 billion yuan in balance of special funds carried over, and upon remedying last year's deficit, the province's available financial resources equal 8.086 billion yuan. A recapitulation of the province's budgeted expenditure comes to 8.324 billion yuan, and the balance of revenue and expenditure shows a deficit of 238.70 million yuan. Specifically, the current year's budgeted expenditure comes to 6.953 billion yuan, an increase of 6.1 percent over last year's. The major expense items are: Capital construction expenses, 252.61 million yuan, 0.9 percent less than last year's; enterprise renovation and improvement expenditure, 103.19 million yuan, 2.5 percent less than last year's; the three categories of scientific and technological expenses and science and technology undertaking expenses, 110.09 million yuan, an increase of 10.2 percent over last year; aid for rural production and farming, forestry, and water

conservancy undertaking expenses, 615.92 million yuan, an increase of 11.1 percent over last year; cultural, educational, and public health spending, 2.191 billion yuan, 8.1 percent more than last year, including 1.360 billion yuan for educational undertakings, 9.3 percent more than last year; pension for the disabled and families of the deceased and social welfare spending, 226.09 million yuan, 10.1 percent more than last year; administration and management expenses (including public security, procuratorial, and judicial spending), 1.111 billion yuan, 5.6 percent more than last year; price subsidy expenses, 40.68 million yuan, 2.6 percent less than last year's; total reserve, 137.03 million yuan, or 2 percent of the total budgeted expenditure.

The 1990 province-level budgeted items are as follows: Budgeted income, 433.79 million yuan, 2.1 percent lower than last year's actual income. This includes 500 million yuan in industrial and commercial tax revenue, 1 percent less than last year's, mainly because we take into account a further decline in the assessment of crude salt tax, lower interest the banks charge on loans, and lower salt and business taxes; 565.90 million yuan loss incurred by enterprises, 10.5 percent less than last year's, mainly because after the adjustment of the foreign exchange rate, foreign trade loss subsidies is expected to decrease; 183 million yuan generated by the energy, communications, and key construction fund and 200 million yuan by the state's budget regulation fund—they are allocated according to plans handed down by the state; 130 million yuan in special fund income. The above province-level budgeted income plus 452.46 million yuan in the central authorities' grant settlement, 682.56 million yuan in special fund balance carried forward from last year, 3.065 billion yuan turned over by the prefectures and cities, less 1.913 billion yuan remitted to the central authorities and 205.60 million yuan in fixed allowance for the localities, and upon making up for last year's deficit, the available finance resource at the province-level is 2.451 billion yuan. The province has budgeted a total expenditure of 2.549 billion yuan for 1990, with a deficit of 98 million yuan. This includes 1.866 billion yuan in current year fiscal expenses, 6.5 percent more than last year's. The major expense items are: Capital construction, 220 million yuan; enterprise renovation and upgrading, 10 million yuan; simple constructions, 20 million yuan, aid for the underdeveloped regions, 10 million yuan—spending on these four items are at par with last year's level; the three categories of scientific and technological expenses and science and technology undertaking expenses, 69.56 million yuan, 11.9 percent more than last year's budget; aid-agriculture expenses, 211.62 million yuan, 14.0 percent more than last year; cultural, educational, public health undertakings, 309.26 million yuan, an increase of 8.4 percent compared to last year—including 171.71 million yuan for educational undertakings, 11.5 percent more than last year's funding; administration and management expenses (including public security, procuratorial, and judicial expenses,) 67.16 million yuan, 11.9 percent increase over last year; price subsidy, 510.93

million yuan, 3.1 percent less than last year; reserve fund, 50 million yuan, or 2.7 percent of the budget.

The following points about the 1990 budget should be clarified:

1. On the magnitude of increase in budgeted income: In 1990, income is expected to increase 6.2 percent. This is in accordance with the tasks assigned to Hebei by the CPC Central Committee and the norm of the province's economic plan for the year. This year, there are many unstable factors and some new revenue-reducing elements in the economy, including higher purchase price of grain and oil and higher railway transport price. Revenue-gathering will be facing many difficulties. To ensure reasonable increase in revenue, the provincial government has formulated some revenue-enhancing measures, such as perfecting and stabilizing the enterprise contract system, adjusting and reducing loss subsidies for foreign trade enterprises, and improving the way personal income regulation tax is collected. The above-described revenue-enhancing and revenue-reducing elements have been taken into consideration when shaping the budget; therefore, on the whole, this year's budgeted income is compatible with the province's economic development plan and is a positive budget.

2. On budgeting the major expense items: The CPC Central Committee has asked that during the period of rectification and improvement we implement a tight fiscal policy and limit the scope of expenditure to what the state's can afford and to adjust the spending-mix to guarantee some projects while cutting back on others. According to this general principle, we reduced spending on capital constructions, enterprise renovation and upgrading, urban preservation, and some price subsidies and so on in the budget. On the other hand, in order to increase effective supply and add staying power to economic development, we have arranged for moderate increases in spending on agriculture, education, science and other key areas, and spending on aid for rural production and funding for educational and scientific undertakings have increased faster than the normal increase in income and expenditure. Under these difficult economic circumstances, we have tried our very best. We must strengthen fund management and actively gather funds through different channels to promote the development of Hebei's agricultural, educational, and scientific undertakings.

3. On stabilizing the people's lives and raising their living standard: The state has stipulated an adjustment of the workers' wages and an increase in the retirees' living expense allowance beginning on the fourth quarter of last year. This measure has already been put into effect. This year's budget takes into account the added expense incurred in adjusting the wages of workers in the administrative and institutional units. The issue of wage-adjustment for workers in state-run enterprises will be resolved by linking the total wage bill to economic efficiency. Enterprises that incur loss or earn low profit because of state plan have also been taken care of in the

budget. Steps have been taken to help the displaced workers of enterprises that have stopped or suspended operation. In addition, the state has decided to raise the contract purchase price of cotton, oil crops and other agricultural products and has made allowance in the budget for the needed additional subsidies. This will increase the peasants' income. Also, allowance has been made in the budget for the direct subsidies for grain, oil, meat, eggs, vegetable, coal, soap and other necessities. Although these items will add to the total expenditure, they are necessary in order to stabilize the overall situation.

4. On the budget deficit: To achieve sustained, steady, and smooth economic development, we must establish the idea of a balanced budget and recognize the dangers of fiscal deficits, and in practice, we must strive to balance the budget. But the financial difficulties Hebei Province is facing have accumulated over several years and cannot be solved overnight. The financial situation this year is especially grim. Due to many factors, it will be difficult to increase revenue this year. Meanwhile the larger staff size and certain policy-oriented factors have increased spending by nearly 500 million yuan. Effort to concentrate financial resources at the central level has added another 100 million yuan to Hebei Province's total remittance, and adding the effects of the deficits in the previous two years, it will be very difficult to balance the 1990 budget. After adopting some revenue-enhancing measures, there is still a revenue shortfall, and we are forced to accept a deficit in our budget. To reduce the negative effects of the deficit, when we implement the budget, we must gather and distribute funds carefully and properly to ensure that the spending plans are carried out. On the other hand, we must actively raise funds and tighten control over spending and strive to reduce the year-end deficit figure.

III. Seek Unity of Thinking, Muster Enthusiasm, Strive To Meet Hebei Province's 1990 Budget

Our economic tasks will be very difficult in 1990. The financial situation is very grim. In order to complete the year's financial tasks, governments and departments at all levels must act diligently in the spirit of the Fifth and Sixth Plenary Session of the 13th CPC Central Committee and the Third Session of the Seventh National People's Congress as well as the Eighth and Ninth Enlarged Meetings of the Full Session of the Third Provincial Party Committee, seek unity of thinking, face the problems squarely, move forward despite hardship, seek out and make full use of the positive elements, muster enthusiasm, establish confidence, go all out, and do a solid job.

1. We should take the "double increase, double economy" movement further and strive to deepen enterprise reform and ensure steady revenue increase. There are many unstable elements in the economy this year. If we are to survive our financial difficulties, we must vigorously tap our own potential, increase output and practice thrift, increase income and reduce spending, deepen the

reform, and strive to increase enterprises' economic efficiency. For this reason, we must give priority to improving economic efficiency this year and try to do our very best. We must improve our workstyle, go deep into the grass-roots level, rely on and mobilize the masses, study and formulate practical and effective measures, and implement those measures out diligently. We must take advantage of this period of adjustment to readjust the industrial structure and product-mix and improve structural efficiency. We must help enterprises improve and perfect the way they set their standards, measurements, quotas and other basic parameters and strengthen management internally. We should continue to promote various advanced management methods, raise the management standards, implement comprehensive accounting system, promote economizing and practice thrift, strive to achieve the goal of reducing raw material consumption by 1 percent and lowering enterprise management cost by 10 percent. We must continue to help enterprises sort out their "triangle of debts" to ease the fund shortage problem. We should continue to support the backbone and key enterprises in terms of policies, funds, energy supply, and raw materials to promote steady development in production and operation. We should gather the manpower to go through each and every money-losing unit and adopt the necessary policies and measures to try to reduce industrial enterprise loss by 25 percent, commercial enterprise loss by 10 percent, grain enterprise loss by 11 percent, and keep other enterprise losses to below last year's level. Adhering to the principle of stabilizing the policies, promoting what is beneficial and eliminate what is harmful, providing different types of guidance, and contributing more to society, we want to reinforce and perfect the enterprise contract management responsibility system. Enterprises that will continue their management contract this year will generally retain their original contract bases and percentages without adjustments. Only enterprises whose original contract bases and incremental percentages are too low will see changes made. When a contract expires, a new contract base and incremental percentage will be determined and a new contract will be drawn up. The terms of the contract should be refined; the contract quota and verification and supervision systems should be improved. All contracting enterprises must take out a percentage of their retained profit to set up a risk fund. Qualified enterprises should experiment with the collateralized risk contract system to enhance their ability to take care of their own profits and losses. We must strengthen management of the state-owned assets to preserve their integrity and ensure their appreciation in value. We should continue to improve the method of linking the total wage bill to economic efficiency and balance the interests of the state, enterprises, and workers. We should facilitate steady revenue increase and enhance enterprises' staying power through better management and thorough reform.

2. We must do a good job with tax collection and go all out to boost revenue. Governments and tax departments at all levels must continue to act in the spirit of the

important document on doing a better job with tax collection issued by the State Council last year; they should focus on collecting and managing taxes and go all out to boost revenue. While concentrating on the large enterprise units and major revenue sources, we should also enforce the tax law in the collective-owned and private enterprises and individual industrial and commercial households. We must vigorously encourage the individual industrial and commercial households and private enterprises to set up accounting procedure and systems, and we should formulate and implement separate tax collection and management methods for individual industries and businesses and the private economy, and differentiate them by trade, to control the revenue sources. Beginning this year, we will implement a comprehensive system of using tax forms to report individual income regulation taxes due as a way to improve the collection and management of individual income regulation taxes and to increase government revenue and reduce the unfair distribution in society. We must focus diligently on the collection and management of farming, forestry, and special product tax, farmland occupation tax, the energy, communications, and key construction fund, and the budget regulation fund and strive to fulfill this year's revenue-collection tasks. We must continue to improve the collection and management system, promote the separation of tax collection, management, and audit as the principle feature of the restructuring of the tax collection and management system, and gradually set up a tight, scientific system in which enforcement of the law to collect taxes and the supervision and examination process can constrain each other and promote each other. We must continue to sort out and consolidate the tax reduction and exemption practices to prevent reckless and improper reductions and exemptions. We should target the serious problem of people defaulting on their tax payments, sort things out, and collect payment promptly. We must crack down on tax fraud, tax evasion, refusal to pay taxes, physical attack of tax collectors and other crimes; we must enforce tax law and discipline. We should continue to implement and perfect the reward and penalty-based tax responsibility system to mobilize the enthusiasm of tax departments at all levels. Meanwhile, we should devote major efforts to strengthen ideological and political work to educate the masses of tax collectors to act according to the law, to be honest and law-abiding, and to collect taxes in a civilized way.

3. We will implement a tight policy and tightly control our public spending. Urged by the Central Committee to "tighten our belts for a few years," governments and departments at all levels must reduce spending and be hardworking and thrifty in everything they do, and take a stand against, and try to rectify, unhealthy practices which are wasteful and extravagant. This is necessary in order to survive the present financial difficulties, but more important, it is the way to uphold and amplify our fine tradition and workstyle of self-reliance, arduous struggle, and close association with the masses. This year, except for guaranteeing the workers' wages, some

essential public spendings, and moderate increase in investment in agriculture, education, science and other key areas, all other spendings will be cut back. We must comply with the "Budget Management Regulation" ratified by the Provincial People's Congress. When the expense items have been decided, we must be stick to them and must not go over the budget. No locality, department, or unit should attempt to cut income and increase spending on its own. We must strengthen and improve expense management. All administrative and institutional units are under "dual-contract for their sizes and funds." We must make possible the gradual installation of the method of making every level supervise the administrative outlay of the level below and control the increase in personnel expenses. We should further improve and perfect the management of public funding of medicare, plug loopholes, and combat waste. We should continue to implement the conference ticket system to control the cost of holding conferences. We should further curtail the purchasing power of nonindividual consumers, set a purchasing power quota at each level, and enforce the quota to prevent violation. Commodities not under special control should also be managed closely. Less funds can be allocated to the profit-oriented institutional units, depending on how much money they are making. We should weed out and consolidate the many societies, associations, centers and other social groups as well as newspapera and periodicals and gradually abolish or reduce their subsidies. Meanwhile, we should strengthen the management of various special public funds and implement comprehensively a special fund use-responsibility system and a track-and-review system to improve efficiency in fund-use.

4. We should rectify taxation order and manage and supervise taxation closely. In recent years, because macroeconomic management has been lax, there is confusion in the economic domain. This is manifested in the realm of public finance as rampant violation of financial and economic discipline. Governments at all levels have already noticed and have worked hard to deal with the situation. But during rectification and improvement, restoring order in public finance and taxation will remain an arduous task. We must act in the spirit of the CPC Central Committee and diligently restore taxation order and strenghten financial management and supervision. We should continue to make the annual, major examination of taxes, public finance, and product prices a success, find the "small gold mines" and seek out individuals who owe public funds, investigate and deal with discipline violations, perfect the system, and plug loopholes. We should sort out and consolidate standards for fees, subsidies, and allowances. Any payment that does not comply with the central authorities' and the province's uniform specification must be rectified. We should begin the task of managing the state's assets immediately, put an end to the attempts to pocket public funds or seize state-owned assets, and prevent the loss of income guaranteed by property rights. According to state regulations, we should gradually bring some of the extra-budget revenue items and special funds now controlled

by the departments under the budget for proper management. We should go over all the extra-budget enterprises and gradually bring the qualified ones under the budget, and even those that are not quite ready should try to implement the same financial system as the budgeted enterprises. We should gradually expand the scope of special bank deposit for the extra-budget funds and strengthen the planned management of, and increase policy guidance toward, the state-run enterprises' extra-budget funds. The use of extra-budget funds to pay bonuses, to fund capital construction, and to purchase commodities that are under special control will be investigated thoroughly according to regulations before given approval. The management of income generated by fines and confiscations should be strengthened. The relevant departments and units must turn over all fines and confiscated funds to the finance department at their own level. They must not hide or try to spend that money. The units' essential business expenses will be examined by the finance department and appropriated at its discretion. We should vigorously promote the installation of a legal system for public finance, set up and perfect various tax laws, regulations, and systems, and do everything strictly according to the law in order to put taxation on a normal, legal management track.

Fellow delegates: In the first quarter of this year, Hebei has collected 1.62 billion yuan in revenues, only 0.8 percent more than last year in the same period. There is no room for optimism. We must do some careful studies and adopt appropriate measures, make every effort to surmount difficulties, work hard to speed up revenue increase, and strive to fulfill the 1990 budget.

Shenyang High-Tech Zone Increases Output

OW0908084990 Beijing XINHUA in English
0657 GMT 9 Aug 90

[Text] Shenyang, August 9 (XINHUA)—Shenyang's Nanhu Hi-Tech Development Zone has generated 259 million yuan in industrial output value since it was built in 1988.

Hi-tech production accounted for 30 percent of the figure.

The 22-sq-km zone, located in the southern part of Liaoning Province's Shenyang City, boasts 12 universities, 27 research institutes and three labs with 12,000 researchers and teachers.

Zhang Guolin, an official in charge of the zone's development, said 183 enterprises in the fields of automation, information, new materials, bio-engineering and laser technology opened in the first half of this year.

Yunnan Province's Industrial, Economic Output Up

OW0308082590 Beijing XINHUA in English
0743 GMT 3 Aug 90

[Text] Kunming, August 3 (XINHUA)—Statistics show that the total industrial output value of southwest China's Yunnan Province in the first half of this year increased by 7.6 percent over last year.

Total summer grain output of the province reached 1.61 million tons, an increase of 22 percent over 1989.

In the meantime, the financial income, foreign exchange and urban and rural bank savings of the province increased by 24.6 percent, 12 percent and 20.3 percent, respectively, over last year.

In the first half of this year the province completed 280,000 water-conservancy projects and increased the irrigated area by 1.03 million mu. Agricultural materials supply increased by 12.9 percent over the same period last year.

Thanks to the preferential policies applied to the energy industries, Yunnan's raw coal output in this period increased by 7.3 percent and generating capacity increased by 13.5 percent over last year.

Experts here said that Yunnan's economy is expected to keep up this favorable trend in the second half of this year and a good harvest is forecast.

FINANCE, BANKING

Coordination of Debt, Fiscal, Monetary Policies

90CE0302A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 5, 11 May 90
pp 25-31

[Article by Qin Hai (4440 3189), National Information Center: "Coordination of Debt Policy With Fiscal and Monetary Policies"]

[Excerpts] [passage omitted] This article proposes a new coordination and tie-in plan as part of macroeconomic policy. This new tie-in plan is characterized by making debt policy an independent branch of macroeconomic policy, giving it equal place with fiscal policy and monetary policy, and using it together with fiscal policy and monetary policy to promote increase in supply and to restrain expansion of demand. In addition, to distinguish it from macroeconomic activities, since the debt problem—including both internal and external debt—is actually a structural part of total demand at any given period of time, the emphasis of debt policy must be on changing the structure whereby total demand is created and grows. It cannot clash with fiscal and monetary policies during any period of time, and it must be coordinated with deviations in the make-up of all macroeconomic policies. The term debt as used in this article applies only to internal debt.

I. Debt Policy: An Unclearly Defined Macroeconomic Policy

Ever since 1979, the country has gradually affirmed the position and role of debt in national economic development and in the operation of the economy. In 1981, the country began to revive internal debt. Since the country uses a single entry budgeting system to record financial receipts and expenditures, from the very outset debt income was treated in the same way as regular income and entered into the financial receipts and expenditures bookkeeping system.

Beginning in 1981, the country's increase in internal debt pretty well maintained a steady growth momentum. Internal debt income as a percentage of fiscal deficits and budget income maintained a certain stability, internal debt amounting to more than one-fourth of the fiscal debt, and between 2.95 and 5.63 percent of national fiscal budget income. (See Table 1.) This fully showed that debt income merely served as the principal means of remedying fiscal deficits, and has come to be regarded as regular income and entered into financial receipt and expenditure accountings. Thus, from an economic policy standpoint, the country's internal debt is part of financial receipts and expenditures; there is no defined, independent debt policy, and even were there a debt policy, it would be included in fiscal policy. Debt policy has no independent position and influence within the macroeconomic policy system. Since the role and scope, as well as the effect of fiscal policy includes the issuance, subscription to, and control of internal debt, the speed of growth of the country's internal debt coincides with changes in the difference between government financial receipts and expenditures. During years of a substantial deficit, the speed of increase in the internal debt is also fairly substantial and vice versa. This limits the effect of internal debt on macroeconomic activities within a fairly narrow range.

Objectively speaking, although debt policy is not spelled out in fiscal policy, debt policy as an independent economic policy is in process of formation. First of all, in 1981, the kinds of internal debt in the country began to increase little by little. From 1981 through 1986, there was only one kind of internal debt. By 1987, the number increased to five, and after 1988 they increased again, this time to seven in a great opening up of the undiversified debt structure. Second, a pluralistic trend of development took place in the use of the country's debentures. A rough estimate shows that in 1987, 45 percent of the government's total internal debt was used to make up the fiscal deficit; 30 percent was used for investment in fixed assets and for investment in replacements and improvements, and 25 percent was used to make up for the shortage of circulating capital in enterprises. In addition, the debentures that different economic entities issued (most of which government organs guaranteed, and

which also might be regarded as government bonds) played a major role in raising funds for the construction of dwellings and basic facilities. Third, debentures have already become a kind of social asset that offer a greater choice of monetary assets under the country's prevailing economic system. According to 1987 statistics, entrepreneurial units spent 36 billion yuan of unbudgeted funds on the purchase of all kinds of debentures, and individual residents subscribed 34 billion yuan for debentures. This was 51 and 49 percent respectively of total debentures, and this played a certain role in slowing inflationary growth of both unbudgeted funds and residents' surplus purchasing power. In addition, the partial financial and the regional financing of debentures, as well as the appearance here and there of exchanges for negotiable securities caused the debentures market to begin to develop, and this played a positive role in increasing awareness of assets in society.

Table 1. China's Internal Debt and Fiscal Deficit as a Percentage of Financial Revenues

Year	Units: %		
	Internal Debt Speed of Increase	Internal Debt/ Fiscal Deficit	Internal Debt/ Financial Revenues
1982	100	38.79	4.21
1983	94.70	33.83	3.56
1984	102.3	33.91	2.98
1985	142.5	87.52	3.41
1986	103.1	29.93	2.95
1987	100.9	25.32	2.87
1988	207.7	38.36	5.63

Note: The fiscal deficit is a hard deficit containing no debt revenues. By government financial revenues is meant regular revenues. Source of data: *China Statistical Yearbook*, (1989)

Although actual operation of the economy provides the possibility of gradually shaping debt policy, since debt relationships have never guided operation of the national economy in the country's macroeconomic control, this would still not become a serviceable economic policy. In the prevailing economic climate, it is both necessary and possible to make debt policy a branch of macroeconomic policy that is independent of fiscal policy.

II. History and Reality: Comparative Study of Internal Debt in the 1950's and the 1980's

Back in the 1950's, the country issued "Uniformly Indexed People's Victory Bonds" to meet the needs of internal construction. These bonds were not issued primarily for the purpose of making up the fiscal deficit, but mostly to raise money for economic development. (See Table 2)

Table 2. Internal Debt and the Fiscal Deficit in Relation to Surplus Purchasing Power During the 1950's

Year	Units: %		
	Internal Debt/ Fiscal Deficit	Internal Debt/ Surplus Purchasing Power	Internal Debt/ National Revenue
1950	51.0	-	-
1951	+	-	-
1954	760.0	16.1	1.12
1955	30.9	11.2	0.79
1956	23.8	8.1	0.69
1957	690.9	7.7	0.75
1958	26.8	6.7	0.77

Note: The + sign indicates a fiscal surplus. Source of data: *China Statistical Yearbook*, (1989)

Table 2 shows no definite ratio between the country's internal debt and fiscal deficit during the 1950's, but rather intense fluctuations. Everyone knows that if the government's financial receipts and expenditures are looked at in terms of the government's faith and credit, or on the basis of single entry budget-formulated financial receipts and expenditures, the country showed mostly a surplus between financial receipts and expenditures during the period immediately following founding of the people's republic. Even if measured in the broadest sense, the size of the fiscal deficit was relatively small. Thus, analyzed from this standpoint, debt revenues served as a form of capital accumulation channeled into the financial control of the whole society. In addition, internal debt as a percentage of social surplus purchasing power and national income remained consistent. Despite fluctuations in internal debt as a percentage of social surplus purchasing power, the degree of fluctuation was not great, being within the 5 percent range. Internal debt as a percentage of national income remained substantially at around 0.7 percent, which was super stable.

The main feature of internal debt operations during the 1950's was that they played a definite positive role in government financial receipts and expenditures and in social capital distribution. This role was limited, nevertheless, in that internal debt during the late 1950's was concentrated on the repayment of foreign debt resulting from the breaking of "fraternal relations" [with the USSR]. At the same time, the influence of internal debt in the operation of China's economy, and its position in macroeconomic control during the 1950's did not arouse the serious attention of the parties concerned. Because of the strengthening of the highly centralized economic control system, and the skewed interpretation of the meaning of a policy of self-reliance, the debt gradually tended to disappear. Fiscal control encompassed virtually all macroeconomic control, and fiscal policy substantially became the sole component of macroeconomic policy.

During the late 1970's, because of the effect of the "10 years of turmoil" and the ultra-leftist trend of thought, the entire economy verged on collapse. Because of the numerous neglected tasks requiring attention, the entire economy had a tremendous demand for capital at the beginning of reform that the government was far from able to satisfy. In addition, because of the effects of the longstanding centralized control system, social capital formation and distribution, which was done mostly through uncompensated government payment, constituted a definite deficit burden. Further increase in the size of the fiscal deficit was not only impossible, but could be done only by paying a high price. At this time, extension of the internal debt became unavoidable.

Beginning in 1982 and until the end of 1988, the country accumulated debt revenues totaling 44,514 billion yuan or 68.5 percent of the total fiscal deficit (the minimum financial deficit). It was not until 1979 that the government began to turn to banks for borrowing, and after 1980, use of debt income to make up for fiscal deficits appeared. The internal debt revival during the 1980's became a reality in light of historical experiences of the 1950's, and the economic exigencies of the time. Fundamentally, it did not go beyond the experience of the 1950's, nor could it become divorced from the government financial revenues and expenditures system. It revived as a necessary supplement to government revenues.

Table 3. Internal Debt and Fiscal Deficits Relative to Surplus Purchasing Power During the 1980's

Year	Units: %		
	Internal Debt/ National Income	Internal Debt/ Surplus Pur- chasing Power	Internal Debt/ Cash on Hand
1982	1.03	3.72	11.74
1983	0.88	2.87	9.07
1984	0.75	2.15	6.45
1985	0.86	2.40	7.39
1986	0.79	1.93	6.43
1987	0.67	1.49	5.43
1988	1.11	2.38	7.74

Source of Data: *China Statistical Yearbook*, (1989)

Analysis of the situation portrayed in Table 3 shows a basic similarity between 1980 and 1950 in internal debt as a percentage of national income, meaning that use of debt as a mechanism for the accumulation of social capital had not yet taken shape. Speed of growth of internal debt was slow and variable during the 1980's in comparison with surplus social purchasing power whose speed of increase was fairly rapid. By comparison with the situation in the 1950's, the contribution of internal debt in controlling social demand was extremely limited. This was particularly manifested in the inability of internal debt to regulate the cash on hand portion of surplus social purchasing power, the overall scale of internal debt amounting to less than 10 percent of cash

on hand. Common features of the operation of internal debt in China during the 1950's and 1980's may be expressed as follows: The operation of internal debt was a part of the operation of fiscal policy; the issuance and control of internal debt did nothing to improve the total demand situation throughout society, nor was structural readjustment of excess total demand the orientation of internal debt operation. Making up fiscal deficits was its sole policy objective, and the price paid for this policy objective was lengthening of the fiscal deficit period.

III. Internal Debt and Fiscal Deficits in Relation To Control of Demand

A. The fiscal deficit: Basis for the operation of internal debt. In a modern commodity economy, government participation in economic activity is conducted primarily through its financial receipt and disbursement activities. When government financial receipts do not balance expenditures, government macroeconomic activity will be in straitened circumstances. In addition, it will be powerless to make macroeconomic performance a part of normal policies or to guide the direction of macroeconomic performance. This means that when a fiscal deficit occurs, how the government intervenes in the operation of the economy to exercise macroeconomic control is a relatively thorny issue.

We know that when a fiscal deficit exists, in addition to safeguarding ordinary financial receipt and disbursement activity, the government can resort to various means such as overdrafts, the issuance of government bonds, or seeking international loans from international financial institutions or other governments to regulate macroeconomic operations; however, not every such channel is feasible and unobstructed. The feasibility of various plans must be ascertained on the basis of actual economic circumstances. Furthermore, in an overall sense, advantages and disadvantages, shortcomings and strengths exist in different plans.

We postulate that the macroeconomic climate throughout society is inflationary, meaning that total demand is greater than total supply. If a fiscal deficit exists under this circumstance, the optimum choice for remedying the deficit is to issue government debentures. If bank overdrafts are selected instead, that is bound to further expand the scale of total demand throughout society. If foreign loans are chosen, that can give rise to an increase in import demand. Although the issuance of debentures is for the purpose of repairing the gap in government demand for funds, in an overall sense, it will not cause an increase in total demand. In addition, we postulate that the macroeconomic operating environment throughout society is contracting, meaning a lack of effective demand. When a fiscal deficit exists under these circumstances, the fiscal deficit will inevitably be related to a contraction of the economic cycle, particularly a contraction of the business cycle and of the expansion of credit. The best way to remedy this fiscal deficit is obviously to enforce a deflationary fiscal policy for the purpose of reducing fiscal expenditures and

increasing fiscal revenues. At the same time, an inflationary monetary policy should be pursued, i.e., increasing the money supply to stimulate the approach of a new economic cycle to achieve economic prosperity, thereby engendering a cyclical boom and surplus in fiscal receipts and expenditures. Such a process of macroeconomic operation is, in essence, the stimulation of effective demand to exercise control over demand. If the issuance of government debentures to remedy the fiscal deficit is also used under these circumstances, obviously that will restrict the decisions and the earnings of principal would-be buyers. Such action will not get as marked macroeconomic results as borrowing funds from banks. Such loans can both remedy the deficit and also stimulate economic prosperity. However, this is not to say that the issuance of debentures is totally unnecessary. This is because the expansion of credit occasioned by the stimulation of insufficient effective demand creates a boom-style surplus in fiscal receipts and expenditures, which is prosperity of short duration, or is "inflationary prosperity." The painful experiences of western countries during the 1940's and 1950's showed this to be a quest for temporary relief regardless of consequences. Furthermore, it may force all macroeconomic operations into the enforcement of deficit policy. Finally, the issuance of government debentures should better become an unavoidable follow-up policy, the funds being used to remedy the deficit.

B. Demand control during a deficit: One theory postulates that objectively a fiscal deficit is essentially government excess demand for capital for a certain period of time. Such demand is an integral part of transitional total demand that is not demand in name but already realized demand. In macroeconomic activity, government financial receipts and expenditures, debt receipts and expenditures, and credit receipts and expenditures generate a definite effect on excess government demand.

Fiscal receipt and disbursement activities are the most fundamental way in which government engages in macroeconomic activity. The existence of fiscal receipts and expenditures objectively requires the use of debt receipts and expenditures and credit receipts and expenditures to effect fiscal receipts and expenditures, i.e., the debts and overdrafts that we emphasized earlier. Actually, debts and overdrafts should be regarded as one and the same thing; however, the macroeconomic effects of the two differ widely. In this regard, we provide a theoretical model about how to control demand through the issuance of government debentures in a climate of total demand inflation.

Suppose the macroeconomic environment throughout society is inflationary, meaning that total demand is greater than total supply, this situation being expressed in an inflation of social fixed assets investment demand and consumption demand. This supposition is essentially identical with actual circumstances in China today. In addition, suppose that the macroeconomic policy is deflationary, both fiscal policy and monetary policy being subordinate to unified economic policy goals,

namely to decrease total demand inflation but without mutual interference in execution. Suppose further the existence of a sustained fiscal deficit. Obviously the best choice for total demand control during this period is the issuance of government debentures. This is because so long as the goal of government debentures is not solely the control of the fiscal deficit, government debentures can change the demand structure of the whole society.

The issuance of a certain amount of government debentures under modern commodity economy conditions is based on government credit; it will not increase total demand throughout society. There is certain amount of rigidity in fiscal expenditures, but in a climate of total demand inflation and deflationary macroeconomic policies, the elasticity of fiscal revenues is bound to be less. This means that possibilities for improvement in fiscal receipts and expenditures within a short period of time is small. In addition, because of the need for no interference between fiscal policy and monetary policy, the overdraft channel is not available, so only the issuance of government debentures is possible at this time. Since government debentures do not amplify total demand throughout society, they are bound to be able to generate an economic effect in easing total demand and readjusting the structure of demand. Since the macroeconomic climate is inflationary, a certain amount of compulsory saving, panic buying, or holding back on making purchases naturally exists in society. Therefore, so long as the government's creditworthiness is stable, and the debenture maturity date and interest rate is about as good as for savings deposits, even if compulsory measures are used to get people to buy them, the excess purchasing power throughout society will inevitably be converted into debentures, thereby solving inflation of consumption demand and ultimately attaining the goal of easing total demand pressures. We may regard this as a "total demand debt control" model.

The "total demand debt control" model should have a future in macroeconomic management practice in China. The statistical data presented in the first part of this article show that the country's current debt burden (internal debt as a percentage of national income) is by no means high. The macroeconomic climate of the past several years in China also provides numerous hopeful choices. Abnormal objective economic phenomena such as compulsory savings, panic buying, and holding back from making purchases are no longer strangers in China. However, we are in process of gradually making decisive macroeconomic policy choices such as protecting the value of savings, and raising interest rates on savings deposits in this macroeconomic climate. Naturally, institution of a "total demand debt control" model also faces numerous risks in China. One is the risk of "bankrupting" national creditworthiness; another is the risk of powerful blows against bank savings. However, so long as we improve existing relations between the government and banks, and maintain the independent position and influence of the financial system in macroeconomic operation, the government and banks jointly enforcing

independent economic policies and sharing risks to state creditworthiness, the "total demand debt control" model is workable in China's macroeconomic practice.

IV. Reestablishment of a Debt Concept: Coordination of Deviations in the Macroeconomic Policy System

A. Comparison of Degree of Reliance on Debt of Different Countries. Debt accompanies the development of a commodity economy. Economic development in all modern countries shows that too narrow an understanding of the relationship between creditors and debtors hurts macroeconomic balance. Nor may internal debt receipts be used solely to remedy fiscal deficits; they must also play a role in easing total demand pressure. Therefore, objectively, the amount of each country's debt is not a case of the more the better; it should be kept within the limits of gross domestic product. [passage omitted]

Naturally, the degree to which China relies on debt cannot be compared to that of developed countries, but it differs greatly from that of developing countries. The degree to which China relies on debt solely for the purpose of using debt receipts to service the deficit is approximately 1 percent of gross domestic product, too small an amount to play a role in easing total demand and regulating total demand structure. Thus, it generates government expectations of increase in debt income, and sustains the deficit. Inflationary pressure does not diminish, and the speed of increase in society's surplus purchasing power exceeds the speed of increase in debt income. Therefore, re-establishment of a debt concept is the lesson we have learned from an international comparison of the degree to which we rely on debt.

B. China's internal debt policy: Planning and execution. One direct exemplification of the re-establishment of a debt concept is the rapid pursuit of an internal debt policy in the prevailing economic climate. However, since the peak period for China's debt repayment is drawing ever nearer, just how to plan and execute China's internal debt policy is an extraordinarily touchy and pressing problem. We have the following ideas about the planning and execution of China's internal debt policy.

1. Moderate increase in China's amount of internal debt. China's present internal debt is not large. Figured objectively in terms of the country's national strength, we believe that a 25 to 30 percent reliance on debt is realistic, and will not lead to other untoward phenomena in operation of the macroeconomy.

2. Change in the country's present fiscal budgeting method. The single entry budget should be changed to a multiple entry budget in order to change the ill-defined target orientation of the country's internal debt or the extreme orientation toward sole concern with the deficit. The country's single entry budget system in use today helps expansion of financial policies, but it also has made for long-term deficit rigidity and the expectation of internal debt income. This situation must be changed

quickly. Generally speaking, fiscal expenditures are truly rigid; they can only increase but not decrease, but the same is not the case for fiscal revenues. Therefore, not only should fiscal expenditures be restricted to fiscal income, but internal debt receipts and expenditures should be made independent of fiscal receipts and expenditures. Debt receipts (particularly from internal debt) should be used both to remedy the fiscal deficit, and should also be used to soak up surplus purchasing power in society, and to adjust the effective social demand structure to achieve the social benefit of easing demand pressure.

3. Restructuring of the creditor - debtor relationship system, insuring a free shift in the relationship between creditors and debtors in order to advance the growth and development of negotiable securities markets for the gradual perfection of the country's financial market. The worsening of the relationship between government financial receipts and expenditures, and currency inflation today have caused a very great lowering of national credit. Should the country increase the degree to which it relies on internal debt, that would be bound to imperil state credit per se. However, guaranteeing a free shift of the creditor - debtor relationship to dissolve the risk to state credit is feasible. The linking together of state credit, bank credit, and enterprise credit, guaranteeing their separate independence is a precondition for no difficulties in finding buyers for state debentures. State debentures express a debtor - creditor relationship between the government and the would-be principal buyers of debentures. A pluralization has occurred in the country's debtor relationship, namely the appearance of multiple debtors including the state, local governments, banks, and various enterprises (or companies) having the status of juridical persons, but the creditor relationship is unitary. Thus it is necessary to guarantee a credit shift in the relationship between debtors and creditors. For example, once state credit becomes more risky, residents may be assured that their credit claims on the state can be shifted to enterprises, and once an enterprise's credit becomes more risky, residents (staff members and workers) may be assured that their credit claims on the enterprise can be shifted to the state. Guaranteeing a credit shift in the creditor - debtor relationship can solve not only long pending problems in the evaluation of fixed assets, spur readjustment of the amount of assets available through the financing of assets flow through indebtedness and a shift in credit, and accelerate readjustment of the industrial structure and of industries, but it can also give impetus to reform of microeconomic foundation rebuilding in which remodeling of enterprises' operating mechanism is the key element.

4. Internal debt policy should be independent of fiscal policy. This independence should be premised on mutual noninterference between fiscal policy and monetary policy. China's monetary policy has no independence of its own. There is neither independence in monetary policy goals, nor independence in the monetary policy functioning process. The central bank may set

certain monetary supply goals, but there is no monetary policy in charge of monetary supply. Frequently fiscal policy holds the leading position, or government fiscal policy impacts on monetary policy. If this situation continues, internal debt policy will actually be no different than an institutionalization of overdrafts. Therefore, if we are serious about pursuing an internal debt policy, the existing relationship between government finance and the banks must be broken and the independence of monetary policy assured to provide the clear macroeconomic policy conditions needed to proceed with an internal debt policy.

5. Assuring Coordination of Internal Debt Policy Devoatopms From Fiscal and Monetary Policy. The issue of coordinating deviations in macroeconomic policies is tantamount to the mutual coordination of macroeconomic policies. Actually, it is to study the macroeconomic policy coordination issue from a different angle. Mutual coordination focuses on the enforcement of all macroeconomic policies while the coordination of deviations focuses on the negative role in enforcement of certain macroeconomic policies, using macroeconomic policies to remedy and overcome them. In the enforcement of internal debt policy (or debtor policy), it is particularly necessary to pay attention to the coordination of deviations in macroeconomic policy.

In general, internal debt income in countries having a fiscal deficit has a certain rigidity. For this reason, we will examine only the coordination of macroeconomic policy deviations when internal debt increases. Once internal debt increases, an effect is bound to occur on residents' cash holdings, savings accounts, and the extrabudgetary funds of local entrepreneurial units, thereby damaging or giving impetus to increase or decrease in consumption choices and savings account balances, and to the increase or decrease of unbudgeted funds. Supposing the existence of a certain similarity between interest rates and maturity dates for internal debt and for savings accounts, there would be no trading in debentures; they could only serve as near-money for the readjustment and make over of the relationship between creditor and debtor; thus, once the amount of internal debt expanded, no very great impact would be produced on savings accounts. It would only play a role in moderating demand and readjusting the relationship between local and central authorities, while simultaneously expanding residents' choices of financial assets. Supposing again higher interest on debentures than on savings accounts for a like period of time. From the standpoint of residents' intentions in selecting financial assets, this would be bound to produce a powerful impact on savings accounts, stimulate credit inflation, and counteract the positive role of internal debt policy, thereby giving rise to full currency inflation. Therefore, as applied to China's current circumstances, coordination of deviations between the country's internal debt policy and its macroeconomic policy requires a gradual separation of internal debt policy from fiscal policy and an inclination toward monetary policy. In a situation in

which conditions are increasingly coming to a head, a complete operating transition to open market activity can coordinate macroeconomic policy wholesale through open market operations.

V. Conclusions

This article's analysis shows the status and influence of debt policy in the macroeconomic policy system; moreover, in reviewing and analyzing China's internal debt performance, we have also reached a series of conclusions. In order to more clearly demonstrate the author's attitude, we will capsule below a series of conclusions that require highlighting:

1. Earliest possible definition of debt policy so as to avoid the influence of outmoded macroeconomic management thinking on management practice in the new climate, changing the prevailing fiscal accounting method.

2. The "total demand debt control" model is a theoretical abstraction for the control of total demand during deficits. Its practical foundation is the simultaneous operation of debt policy, fiscal policy, and monetary policy, and approaching policy objectives independent of each other.

3. Reestablishment of debt concepts, not only changing the goal of debt revenues being solely for the purpose of remedying fiscal deficits, but also being able to include a series of ideas for readjusting the total demand structure, and helping establish a capital accumulation mechanism in society.

4. The planning and execution of China's debt policy should emphasize important components, including a moderate scale of debt and a rationally constructed creditor and debtor system. In addition, it should include active pursuit of fiscal system reform and monetary system reform. Neither can be emphasized at the expense of the other.

5. Debt policy. The process of coordinating the deviation between fiscal policy and monetary policy should be a process of gradual separation of fiscal policy and debt policy. In addition, it should also be a process whereby debt policy gradually gets closer to monetary policy while fiscal policy and monetary policy are independent of each other.

INDUSTRY

Output of Textile Products in July

HK0908121790 Beijing CEI Database in English
9 Aug 90

[Text] Beijing (CEI)—Following is a list of the output of textile products in July 1990, released by the State Statistical Bureau:

Item	Unit	7/90	7/89
Yarn	10,000 t	35.62	39.81
Yarn	10,000 pc	198	222
Cloth of:	100 m.m	14.26	15.32
Pure cotton	100 m.m	7.83	9.44
Chemical fiber	100 m.m	1.81	1.70
Silk	10,000 t	0.44	0.41
Silk fabric	100 m.m	1.41	1.28
Woolen fabric	10,000 m	2,220	2,233
Knitting wool	10,000 t	1.30	1.70
Gunnysack	10,000 pc	5,102	6,224
Garment	100 m.pc	1.67	1.54

Notes: m.m—million meter; pc—piece; t—ton; m.pc—million piece

July Industrial Growth Hits 2.9 Percent

OW0908004390 Beijing XINHUA in English
1419 GMT 8 Aug 90

[Text] Beijing, August 8 (XINHUA)—China's industrial growth in July hit 2.9 percent, with total industrial output value of 154.2 billion yuan.

According to statistics released by the State Statistical Bureau today, growth was slower than in the two previous months due to planned overhauls by raw material producers, shortages of funds, energy and raw cotton; and insufficient demand.

China's total industrial output value in the first seven months reached 1,080 billion yuan, 2.3 percent more than in the same period of last year.

Readjustments Suggested in Light Industry Groups

90CE0318A Beijing ZHONGGUO JINGJI TIZHE
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 4, 23 Apr 90 pp 27-29

[Article by Liu Changhung (0419 7022 5725) and Li Tongxi (2621 0681 0823): "The Structural Characteristics of the Light Industry Enterprise Groups and the Proper Readjustment Measures"]

[Text] There are nearly 170 enterprise groups of different types in the light industry system. They are scattered over 30 or so different industries and are made up of more than 5,000 enterprises, accounting for around seven percent of all light industrial enterprises. At the core level, they generate more than 25 billion yuan in industrial output value, accounting 15 percent of light industry's total output. The formation of these enterprise groups has had a definite effect on the development of China's light industry, but on the whole, these groups are still in their infancy and are yet immature, and there are problems with the mix of businesses, the scale composition, the organizational structure, the regional structure, and the dynamic structure. This article offers some simple and crude suggestions on how to resolve the structural conflicts.

Characteristics of the Mix of Businesses and Certain Readjustment Measures

The light industry enterprise groups are characterized by their "lopsided" mix of businesses. Nearly 170 groups are concentrated in the household electrical appliance, food and beverage, plastic ware, everyday chemical product, and bicycle industries. More than 80 enterprise groups, or 50 percent of the total number, are in these five businesses. The core of these groups generates as much as 17 billion yuan in industrial output value, accounting for 68 percent of the total amount. Of these five lines of business, household electrical appliance and bicycle are the most important. Of the 20 enterprise groups whose sales revenue exceeds 300 million yuan, 17 are in these five lines of business; 13 of the 20 enterprises groups whose foreign exchange earning through exporting tops \$10 million are in these five lines of business; all five enterprises groups whose realized profit tax surpasses 100 million yuan are in these five lines of business.

There are two forces behind the light industry enterprise groups' lopsided business mix: One is the pulling force of market demand; the other is the thrust of productive technologies. The pulling force refers to the urban population's desire for better quality products and their increased demand for luxury durable goods (such as refrigerators), prestigious products (such as brand name bicycles), and new consumer products (such as expensive drinks and everyday chemical products). This has promoted the growth of enterprise groups in those industries. The thrust of production technologies refers to the advanced technologies in some industries, many of which are importing production lines and equipment, and their production methods tend to facilitate specialization, cooperation, and integration with other businesses.

The pulling force of market demand and the thrust of advanced technologies have facilitated the formation of enterprise groups in certain industries on the one hand and have brought new structural conflicts on the other hand. The most striking phenomenon is that while the rapid development of enterprise groups has triggered a surge in production, it has also speeded up market saturation. For example, since the formation of enterprise groups in the refrigerator and brand name bicycle businesses, their output value has been increasing at a rate in excess of 50 percent. As a result, while purchase coupons were needed to buy those goods in 1988, there was an overstock by 1989. This shortens the life cycles of many products, and we are faced with a constant flood of new imports (so as to replace the old products). Furthermore, the explosive development of these burgeoning businesses has failed to bring along the development of the basic and traditional industries; instead, they have exacerbated the structural imbalance between industries.

Targeting the lopsided business-mix of the light industry enterprise groups, we suggest the following readjustment measures: One, we can formulate a policy on developing

externally oriented enterprise groups (such as resolving the conflict between foreign and domestic sales and extending guaranteed preferences to imported technologies and raw materials) to encourage those businesses whose products are saturating the domestic market to develop foreign markets. Two, we should develop multi-angle operations, that is, develop management strategy which lets each group manage two or more businesses at the same time. This not only means increasing the types of goods being produced but also expanding the production and market scopes. The objective is to spread the risks and avoid letting a change in the market for some products affect revenues. Meanwhile, we should encourage the groups to leave those businesses that are "saturated" and turn instead to the sectors that are still "maturing." Three, based on the state's industrial policy and its deliberately biased policies, we can formulate a preferential policy to encourage the basic industries, especially the raw materials industry, to develop their own enterprise groups or join other groups.

Characteristics of the Scale Composition and Organizational Structure and Certain Readjustment Measures

The light industry enterprise groups' scale composition and organizational structure are characteristically "small" and "scattered." "Small" refers first to the small size of the groups at the core level. A survey of 166 groups indicates that only 37 groups have a core large enough to control more than 50 percent of the group's asset; 35 percent of the groups have not formed a core. Second, it refers to the fact that there are few large groups but many small groups. Only five groups, or three percent, generate more than 100 million yuan in realized profit tax a year; only 18 groups, or 10 percent, earn more than \$10 million a year through exporting; 20 groups, or 12 percent, have annual sales worth more than 300 million yuan. "Scattered" means first, the groups' asset management is far from completely integrated at the core level. Only 15 groups, or nine percent, have completely merged their asset management. Two, there is little specialization and cooperation among member enterprises of the same group. The enterprises are only loosely put together. Some member enterprises are still "medium in size but all-encompassing in operation" or "small in size but all-encompassing in operation." These groups are but the simple sum of enterprises of similar types.

Since the light industry enterprise groups' scale composition and organizational structure are characteristically "small" and "scattered," it does not give play to the advantages of enterprise groups. Being too small, especially at the core level, undermines the groups' cohesiveness and their ability to unify and control the members. It limits the development of specialized productions and makes it impossible to develop overall superiority.

There are three ways to readjust the scale composition and organizational structure: One, we can systematically turn the pool of funds into shares of stock and set up a

unified mechanism so that internally the groups are made up of several interest groups but a single production operation. Turning the pool of funds into shares requires the member enterprises to take physical inventory to determine fund sources and put their capital funds (including current funds and fixed assets) into the group. The former owner of an enterprise becomes a shareholder and is entitled to a share of the group's income as shareholder, severing his subordinate ties and allocation relationship with his former enterprise. Meanwhile, the group becomes a legal entity and the major shareholder of the enterprise, and it controls that enterprise's production and operation. In this way, the group can concentrate the necessary power of management to guide and coordinate the member enterprises uniformly and promote the transregional, transdepartmental, and transownership system circulation and allocation of key factors of production and give play to the group's overall superiority. Two, when we recruit member enterprises for the groups, we should uphold the principle of "linking more odd than integrated enterprises, more small than large enterprises." We want to attract more specialized, small plants and fewer all-purpose, large plants. This will make it easier to spread out the parts and components and coordinate the specialized arts of crafts of production within the group. Three, we should rely on policies to encourage and advocate cooperation among specialized departments in production, and by revamping the groups' enterprise organizational structure, we can convert the maximum amount of enterprises' component of force into the strongest possible resultant of forces.

Characteristics of the Regional Structure and Some Readjustment Measures

The light industry enterprises groups' regional structure is characterized by its high degree of concentration. Nearly 170 enterprise groups are concentrated in Beijing, Shanghai, Tianjin, Liaoning, Jiangsu, Shandong, Guangdong, and Zhejiang. Some 113 enterprise groups, or 75 percent, found in these eight provinces and municipalities are light industry enterprise groups. Not only is there a concentration in number but there is a concentration of businesses, large groups, and member enterprises. The concentration of businesses is demonstrated by the fact that 60 percent of the 113 groups are in the household electrical appliance, bicycle, food, everyday chemical products, and plastic ware businesses. Concentration of large groups is demonstrated by the fact that 17 of the 20 largest light industry groups are located in these eight provinces and municipalities. Concentration of members is demonstrated by the fact that 75 percent of the country's 5,000 member enterprises are located in those provinces and municipalities. This kind of concentration has turned the southeast coastal area and large cities into the core intensive processing region.

The concentration of the light industry enterprise groups in the southeast coastal areas and large cities is clearly manifested in the extension of the traditional structure. On the one hand, this kind of concentration greatly

boosts the well-developed regions' economic strength and multiplies the amount of key factors of production at their disposal. In particular, it increases the core cities' economic attraction and their sphere of influence and creates an even wider scope of productive cooperation, so that the well-developed regions can produce even more prestigious goods, develop new technologies, and produce higher grade products and more substitutes. On the other hand, concentrated production makes the supply of raw material and the transportation of finished goods more difficult, exacerbating the structural conflict between the processing regions and the raw material-producing regions and increasing the imbalance between the well-developed regions and the underdeveloped regions.

To readjust this irrational distribution, we must formulate appropriate policies with respect to macroeconomic regulation and control: One, we should formulate a preferential policy to encourage enterprise groups in the well-developed to attract members from the underdeveloped regions to make the input of labor force, equipment, plants and facilities and other capital goods more efficient. Two, we should rally and guide the existing mainstay enterprises in the raw material-producing areas and underdeveloped regions to set up enterprise groups. In particular, we should make use of the strength of the primary, secondary, and tertiary enterprises to help the war industry switch to civilian productions and integrate the military and civilian industries and forge a stable and comprehensive cooperative relationship led by the production of civilian goods. In this way, we can let the large- and medium-sized enterprises in the northwest bring along the development of many smaller enterprises and gradually improve the scale composition and organizational structure of enterprises in the northwest.

Characteristics of the Dynamic Structure and Some Readjustment Measures

The enterprise groups' dynamic structure refers to the internal association and the proportional relationship between time and quantity as the groups develop. Temporally and quantitatively, the light industry enterprise groups' development has obviously been distorted and overheated. Ninety percent of the light industry enterprise groups were developed in the last two years. This distorted and overheated phenomenon is due primarily to over-zealousness in encouraging the development of enterprise groups while neglecting to provide them with proper guidance and supervision, and this has led to their rash and shortsighted development. Many groups have been set up only to find that they have no means to offer their service, no ability to foster cooperation, and no ties to form any kind of relationship.

How do we rectify and improve this distorted and overheated phenomenon? First, we must recognize the objective law of development of enterprise groups. Generally, their scale grows from small to large; their management scope expands from narrow to wide; their association evolves from loose to tight; their sphere of

influence spreads from near to far. China's enterprise groups are still in a budding stage. If we want a large number of large scale, high quality groups, we must take time for exploration and practice.

Second, we must strengthen the government departments' macroeconomic regulation and control over the development of enterprise groups. Enterprise groups are the link between the new and the old systems. The readjustment of macroeconomic policies and the restructuring of the microcosmic foundation will be reflected in the way they function in the economy. Enterprise groups are the nucleus of the economy. Whatever economic and legal means the government management departments takes to deal with them must be supplemented by the necessary administrative measures to provide indirect regulation and control. Specifically, we can use a combination of economic levers to guide, encourage, or curb their production and management activities; we can formulate some enterprise group business development programs based on the state's industrial policies, and we can put the enterprise groups industry-by-industry under the appropriate departments in charge.

Last, we should formulate a set of orderly, standardized, and systematic policies, laws, and regulations (such as a feasibility study system, examination and approval system, registration system, statistics system, and checking system) to manage the enterprise groups. One, we can supervise and control the way enterprise groups are set up and the way they function based on these laws and regulations. Two, we can rectify and improve the existing enterprise groups according to these laws and regulations to make sure that they follow the track laid by the objective law of development.

Hebei Metallurgical Production Results Reported

SK0808012390 Shijiazhuang HEBEI RIBAO
in Chinese 13 Jul 90 p 1

[Summary] In the first half of 1990, Hebei Province made marked progress in metallurgical production. During the January-June period this year, the province's total metallurgical industrial output value reached 1.975 billion yuan, a 15.93 percent increase over the same period of 1989 and the metallurgical industrial enterprises across the province fulfilled their first-half production plan on schedule.

Shandong Official Addresses Industrial Production

SK2806073490 Jinan Shandong Provincial Service
in Mandarin 2200 GMT 25 Jun 90

[Text] In his report on the industrial production situation submitted to the 16th Standing Committee meeting of the seventh provincial People's Congress, (Sun Guangyuan), chairman of the provincial economic commission, said: Since the beginning of this year, the province's industrial production situation has been good; however, difficulties and problems remain

extremely conspicuous. In the coming months, continued efforts should be made to succeed in the work in six fields.

(Sun Guangyuan) said: Since the beginning of this year, governments at all levels and departments in charge of industrial production in the province have achieved remarkable results in trying every possible means to maintain stable growth in industrial production by conscientiously implementing the principles of economic rectification and in-depth reform. The rate of industrial development has picked up each month. In May, the industrial output value increased by 11.5 percent over the corresponding period last year. Initial results have been achieved in economic structural readjustment, and light industry has developed in a coordinated manner throughout the province. The trend in the export of commodities has been good. From January through May, the province's total sum of commodities purchased for export and the volume of export and foreign exchange respectively registered an 18.7 percent and 23 percent over the corresponding period last year. The number of enterprises reducing or halting altogether their operations and the number of unemployed have been reduced considerably. However, difficulties and problems remain extremely conspicuous. Major indicators are: Economic results and the growth rate have not picked up simultaneously; the mix of consumer goods has been seriously out of proportion; and a thorough favorable turn has not been effected in the domestic market.

(Sun Guangyuan) said: In the coming several months, we should continue to grasp the work in six fields, regard the improvement in economic results as the major direction of our endeavors, strive to stabilize the pace of industrial development, and ensure the fulfillment of all work tasks of this year. 1) We should continue to grasp the sales of commodities. 2) We should concentrate our energy on accelerating the economic structural readjustment. 3) We should base ourselves on tapping internal potential and strengthening enterprise management. 4) We should deepen enterprise reform, and further improve enterprise managerial mechanisms. 5) We should strengthen ideological and political work, and maintain a good mental state. 6) We should further strengthen leadership over industrial production and ensure the normal operation of industrial production.

Shanghai Industrial Output Drops Slightly in July

OW0608031390 Shanghai City Service in Mandarin
2200 GMT 4 Aug 90

[Text] Shanghai's industrial output in July showed a slight decrease due to sustained high temperatures. According to figures compiled by the Municipal Statistics Bureau, July's industrial output of 9.38 billion yuan represents a drop of 1.9 percent from the same month last year. The cumulative industrial output for the January-July period, valued at 65.289 billion yuan, is a 0.3 percent increase from the same period last year.

In Shanghai, the central industries increased at a faster pace in July, output value increased 9.4 percent compared with the same month last year, [words indistinct] shipbuilding companies all experienced an increase in output of over 10 percent. Due to the combined effect of various factors, including a lack of funds, insufficient production orders, repairs to facilities, and the adjustment of product mix, the output of Shanghai's local industries in July dropped 3.6 percent in comparison with the same period last year. The machine building and electronics bureau and the textile bureau showed the biggest margin of decrease, 13.7 percent and 9.6 percent respectively.

The raw material industry and energy industry maintained their growth momentum in the midst of adjustment. The output of saleable consumer products maintained a certain degree of growth while bigger consumer items, such as household electrical products, continued to drop in the quantity of output. Farm materials and medical products showed a higher increase in output.

CONSTRUCTION

Jiangsu To Speed Construction of 15 Key Projects

OW0508060490 Beijing XINHUA in English
0541 GMT 5 Aug 90

[Text] Beijing, August 5 (XINHUA)—Jiangsu Province will speed up construction of 15 national key projects in a bid to insure steady development of the national economy, according to "XINHUA DAILY", the province's major daily newspaper.

It said the central government has invested 17.4 million yuan to support the projects.

This year, the paper said, the province has arranged 1.92 billion yuan in investment to start construction of three news projects and continue 12 ongoing projects.

It is learned that these projects focus on energy, communications and raw materials.

The three new projects include the Changshu Power Plant and the second-phase of the Zhangjiagang Port.

The 12 ongoing projects cover the Datun Coal Mine, Ligang Power Plant, Lianyungang Port, Nanjing Xinchenu Port, Xuzhou railway hub, renovation project of the Xuzhou-Lianyungang railway, Lianyungang Soda Factory, Yangzi Petrochemical Company, Nanjing Automobile Factory, second-phase of Yizheng Chemical Fiber Industrial Union Company, the Nanjing, Wuhan and Chongqing Optical Fiber (Jiangsu section) and Wuxi Micro-Electronic Scientific Research Union Company.

After completion, the paper said, the total annual power generation of the Changshu and Ligang power plants will reach 1.08 billion kwh, making up one-fourth of the generated energy in the province.

FOREIGN TRADE, INVESTMENT

Development Model Proposed for Interior Foreign Trade

90CE0287A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 4, 11 Apr 90
pp 48-51

[Article by Ceng Xianjian (2582 2009 1696) and Li Xiaoming (2621 2556 2494): "Set Up a Development Model for the Chinese Interior's Foreign Trade in Which 'Lower Promotes Higher, Import Promotes Export'"]

[Text] I. Change the Development Model for the Interior's Foreign Trade

Since the basic national policy of opening up to the outside world was established, China has, based upon the objective circumstances of regional development conditions and differences in level, adopted a "three-stage" development model in accordance with policy, economic, and technological gradient flow relative responses. The eastern coastal region, making full use of its geographical superiority, policy superiority, and labor power superiority, making foreign trade its "spring-board" and the interior its "prop," emphasizing technological progress, adjusting its industrial structure, and swiftly beginning to develop an outward-oriented economy, actively took part in international work outflow and international interchange, in which they obtained results that were the focus of attention. Unwilling to lag behind, the central region, judging the hour and sizing up the situation, formulated the strategic model of "intensive-extensive combination, higher-lower cycle," and partially developed some "small economic zones," thereby gradually changing its economic operational mechanisms. In this posture of going by level from the eastern region to the central region, the western region, drawing a lesson from bitter experience, is doing all it can to catch up, and has formulated a strategic policy of "crossing over the central part, uniting with the east, and developing the west," as well as making foreign trade the strategic focus of a full set of reforms. This domestic competition in development has this inspiration for the development of foreign trade: wherever the pace of opening up to the outside world is vigorous, foreign trade is developed swiftly, and importance is attached to the importation of advanced technologies and to the rational disposition of resources and productive forces, there the market's competitive forces will be strong, the commodity economy will be developed, and hopes will be high.

Since the Third Plenary Session of the 11th CPC Central Committee, the interior has made considerable progress in foreign trade undertakings. In the 1978-1988 period, the average growth rate in foreign trade export was about 15 percent, higher than the average growth rate in gross output value of industry and agriculture in the same period. However, the interior's foreign trade undertakings lag far behind those of the coastal provinces. The

interior's foreign trade not only has not yet played a guiding, key role in the development of the national economy, but on the contrary has been a weak link in economic development. Its problems are prominently manifested in the following four aspects: (1) The foreign trade management system is at a loss what to do. In the 10 years of reform, the interior's foreign trade system, from first to last, has been unable to get out of the trap of "if unity then rigidity, if release then cross over, if cross over then restraint, and if restraint then rigidity." Even if the interior's foreign trade management departments repeatedly stress that the problems of a single-family business, nonseparation of government and enterprise, disjointedness of production and marketing, and separation of industry and trade must be solved, and have adopted contract business, open-door self-run business, and other partial reforms, because there has been no overall design and because implementation has broken down, some enterprises have drifted into formalism and have come to a premature end halfway. (2) An export production system has not yet been established. Because the interior's foreign trade organization management system and business management system are not sound enough, coupled with the lack of a set of orderly policies of encouragement and overall plans, the phenomena of "branch and piece being disconnected" and of industry and trade being separated still exist. An export production system has not yet been established. A large amount of the sources of goods have drained away. It is impossible to form large-scale production in which mainstay industries and "fist"—hot-selling—products are dominant, in which scale superiorities are accumulated and overall united action is effected. (3) The export commodity structure is not rational enough. The main manifestations of this are: The interior's low-grade primary processed products and raw materials-type products occupy the main position, about 60 percent. In particular, a part of the products (about 35 percent of the total amount of exports) lack the competitive capability of nonprice factors, and the cost of converting them into foreign exchange is high, causing the phenomenon of high losses. (4) Import and export are separated from each other. At present, in the interior's import and export undertakings, "government administration comes out of many doors" and there is a lack of overall planning, comprehensive coordination, and planned coordination. The import and export structure has taken on contrary and different characteristics, namely, export production with resource and labor extensive-type products as the principal part, and import production with capital and technology intensive-type products as the principal part, causing a ratchet effect between import and export. On the one hand, stemming from the urgent need for economic development, each area does not hesitate to compete in internal competition, puts the brake on prices within its grasp, "lets the fertilizer and the water drain away," expands exports by means of taking high losses, and earns foreign exchange. On the other hand, each area makes the pursuit of add-on value for its resources its goal, duplicatively imports equipment and products (software technology trade is less

than 10 percent), among which a considerable part cannot display its effect and has not the slightest relationship to expanding reexportation. Unable to form and draw in beneficial results, the areas fall into the vicious circle in which a big shortage of foreign exchange coexists with indiscriminate use and waste. Of course, the causes of the abovementioned problem is many-sided. In foreign trade, internationally there is the subjective aspect that there is insufficient effort, and also externally the restraint of objective conditions. However, the main reason is that the interior has never truly put foreign trade in a "forerunner" position in the development of the national economy. Foreign trade itself also lacks a clear standard and a development model that integrates the short term with the long term.

For a long time the interior's foreign trade departments have consistently worked with a vague import replacement-type development model, and its defects are: For foreign trade the only means of circulation is the implementation of a directed-type plan, and it only plays the role for the interior's economy of making good omissions and deficiencies, being unable to achieve comparative interests. Under the guidance of this introverted-type foreign trade development model, which makes extensive development primary and which makes the consumption of a large amount of physical and live labor the price for achieving economic self-sufficiency within each province, the interior's foreign trade and the overall development of the national economy are basically disjointed. Independent development of the means of production for foreign trade is a case of a single weak force. There is a sole dependence on each province's internal balanced and closed-type cycle to promote the development of commodity production forces. Therefore, the interior's foreign trade is always operating in a low-level stable state.

The crux of the present situation in the interior's foreign trade provides the following inspiration for self-development: the overall improvement and rectification of the foreign trade situation already obviously brooks no delay. Only by as fast as possible smoothing out the interior's foreign trade management system and organizational forms, perfecting the export production system, optimizing the export commodity structure, unifying the management and operation of import and export undertakings, and improving overall quality can a "microclimate" be formed for the development of the interior's foreign trade.

Summing up what has been said, the interior's development model for foreign trade must be changed as fast as possible, and it should be the interior's national economy "forerunner" industry plus key development for foreign trade, thereby spurring the progress of other industries.

II. Connotations and Concepts for the Interior's Development Model for Foreign Trade

We think that for the interior's foreign trade a "leaping-type" development model should be selected and established, a model in which "lower promotes higher, import promotes export." This would be a high-standard development model in which internal and external are integrated. Its functional demands is: in accordance with the characteristics of a dynamic balance, through import and export of regional and social elements, promote the optimum combination of important production elements at a fairly high level, and improve labor results, in order to satisfy society's daily growing demand. Its internal mechanism is: with import as the lever, with export as the goal, with technology importation as the key, and with the development of leading export commodity production as the center, promote the change of the foreign trade export business structure from the closed type to the open type, and directly effect a leaping development from low level to high level. Its basic content is: with an export foundation of low-grade primary products in which each province in the interior possesses superiority in resources, it, at a fairly high starting point and in a planned manner, imports from abroad modernized, advanced, suitable new high-tech software and hardware equipment, and digests and absorbs them, improving the processing depth and add-on value of labor-intensive products, after which making a main turn to fairly high-grade seriated finished products. In this way, on the foundation of constantly improving scientific and technological progress and commodity foreign exchange-earning results, there will be an alternating cycle, mutual promotion, and "export substitution."

"Lower promoting higher" is the correct choice in integrating the near term with the long term, and in gradually switching from primary external orientation to secondary external orientation. In the near term "lower" means the interior economy's relative superiority and foreign trade focus. The interior has fairly abundant natural fiber resources, mineral resources, and agricultural and sideline, local and special, and animal husbandry products. Labor is plentiful and cheap, but the product processing techniques are fairly backward. The industrial level is low and is in a "virtual height" state. At the same time, the level of the interior's market consumption is fairly low. Therefore, the interior has a fairly big superiority for developing labor-intensive low-grade products. In addition, in recent years the developed countries have adjusted their product mix, yielding to China the "two yarns and two cloths" and other low-grade textile products (many concentrated in the interior provinces). The coastal cities are all textile and clothing industry "processing-type" cities, and depend to a great degree on the interior. From a look at the quotations on the international market, we see that the results of low-grade products are also highly objective. For example, for each ton of cotton yarn produced, about \$1,670 in foreign exchange is used, and the export selling price is \$2,350. Therefore, in a planned and

measured way in the interior to develop some yarn spindles, in an organized and scientific way to carry out scaled extraction and refining of some rare ore resources, and making overall plans, will make the processing of a large amount of agricultural, sideline, local, and special products increase in value and will raise the packaging level. With this the export of low-grade primary products will expand and additional foreign exchange will be earned. In the short-term export tasks, this is still a link that must be tightly grasped.

From the long-term view, "higher" is the important goal in the development of the interior's economy and foreign trade. Following the daily rise in the "rate of depreciation" in science and technology, the people's consumption level and labor productivity rate also rose constantly. In recent years there has appeared a trend on the international market to develop in the direction of serial finished products. Its characteristics are: high-grade commodities, which earn more foreign exchange and obtain better results; and new high-tech commodities and commodities with a wide distribution, which have fairly strong competitive power on the market. The more a country has developed economic technologies, the more it develops high-tech commodities and the higher its proportion of high-quality finished products becomes. This shows: the more a low-level transformation is the economic structure of the production center, the more it lacks elasticity and the smaller the circulation of important production elements. High-level transformation is the main indicator of social progress and economic development. Therefore, the stopover point in the development of the interior's foreign trade must be placed on the high-level export commodity structure, establishing the idea of "high-tech takeoff," gradually changing the motive power of foreign trade development from a dependence on extensive-type quantitative growth to a dependence on intensive-type qualitative improvement, concentratedly making use of foreign capital, importing technologies, implementing key input, and increasing the export proportion of "smart" technology intensive-type products and other new high-tech products.

The development focus of "lower promoting higher" makes resource-type products the foundation, integrates their immediate superiorities with their latent superiorities, and as fast as possible makes four major changes: 1) it changes export resource-type primary products into principal export finished products; 2) it changes export low-grade products into main export high-grade commodities; 3) it changes extensive processing to intensive in-depth processing; and 4) it changes dependence on traditional technologies for expansion in quantity into dependence on technological progress for improvement in quality.

"Import promotes export" not only means the integration of import and export in the general sense. It is a comprehensive, alternating single-and duplicate-type cycle in which exports draw in imports and in which imports promote exports. Its starting point and stopover

point are both in "export," and the objective of "import" is to raise the technological level of the local dominant export industries, accelerate export commodity escalated exchange, and, through "importation of technology—digestion and absorption—expansion of exports," form a benign cycle in foreign trade and export production, and causing an appropriate scale effect and optimum export substitute result in the interior's export production and business system.

The key point in the interior's foreign trade development model of "lower promotes higher, import promotes export" is: (1) *Integration of the focus with the general.* This development model has a focus, but this focus is that of progressive changes produced following the constant changes in temporal and spatial conditions, market environment, and production technology. Between the focus and the general (lower and higher, import and export) there is no relationship of this one declining and that one growing. From beginning to end, they are dynamically integrated and interdependent. They do not belong to a development model in which all things advance simultaneously. (2) *Integration of trade and production.* This means making foreign trade the basic condition for guiding the development of production, and, through the intermediary of technological progress, making foreign trade and production promote each other, improve in common, and develop in coordination, forming a blended pattern in which industry and trade are one and agriculture and trade are one. (3) *Integration of resources and markets.* This development model considers both the condition of resources for export production and the trends in the market environment, and also makes the satisfaction of people's consumption demands in life its goal. Therefore, it has a certain competitive capability on the market and has a stable structural rigidity. (4) *Integration of the externally oriented and the internally oriented.* This means making the internally oriented economy in which import substitution is primary the starting condition, developing in leaps, and heading toward the externally oriented economy in which export substitution is primary. In essence, this is a two-way mutual-aid development model in which the internally oriented economy and the externally oriented economy are organically integrated. (5) *Integration of speed and results.* This means changing from making extensive development primary to making intensive development primary. Its principal ways are to depend on technological progress; to develop from extensive to intensive; and to improve the quality of export products, the labor productivity rate, and the scaled production business. Its results are bound to produce a combined effect of high speed and good results coexisting with efficiency as the main exciting cause.

III. Corresponding Tasks for Implementing Interior's Development Model for Foreign Trade

A. Establish an effective administration and management system. The basic ideas of reform are: To make a clean break between the foreign trade and economic

relations committees (bureaus) of all provinces, prefectures (cities), and counties, which are centered on administrative and management functions, and the state trading corporations, which have administration and management as their central functions, strictly separating them, turning administrative direct commands into indirect controls, smoothing out the relationship between the government and the enterprise and the relationship between organizations, promoting the basic conditions for foreign trade businesses and enterprises to do business on their own initiative, and fully releasing the business vigor of foreign trade enterprises. At the same time, we must bestow on middle-grade cities the jurisdiction to open their doors to self-administration, and, in a planned and measured way, make the gradual transition from a partial opening of the door to a complete opening of the door, achieving in all provincial foreign trade administration and management departments a development of administration under overall planning. Within each state trading corporation a subsidiary may be set up in accordance with its professional type, and become a relatively independent economic entity with sole responsibility for its own profits and losses, each attending to its own business and doing contract business. In the short term each state trading company will put into place support in two aspects: on the one hand, establishing with the production enterprises in various places organic economic and technological relations; on the other hand, establishing close partnership relations with each foreign trade specialized corporation in each province, gradually making the transition from the self-run and agent "dual track" integrated business mechanism to complete open-door self-run business.

B. Establish macroeconomic guidance and supervision organizations. An organization is an important guarantee for effectively implementing the new model. It is suggested that in the interior the economic relations and foreign trade department of each province and the first-level foreign trade and economic relations of the prefectures and cities set up "comprehensive development offices." This kind of office would be a professional development guidance organization of an advisory and research nature. Its main functions would be: (1) With the economic relations and foreign trade department of the province as the nucleus, and with the international market as the guide, give overall consideration to the development of regional foreign trade, unify the interior and unify the outer areas, coordinate and organize the establishment of an export production system and the optimum adjustment of the export industrial structure. (2) Coordinate closely the relationship between foreign trade on the one hand and industry, agriculture, and technology on the other, and organize and implement the production and the honoring of agreements in export commodity plants. (3) Conscientiously investigate and study, timely feed back the problems and trends in foreign trade work, and make suggestions. (4) Implement all the export award policies and the foreign exchange retention provisions in order to

preserve the enthusiasm for production and business of all quarters. (5) Guide and supervise the direction of the import and export of local production enterprises and basic-level foreign trade departments, achieve export commodity planning, import technologies in a focused manner, optimize the import structure, restrain import behavior, and achieve the optimum disposition of resources, products, and technologies. (6) Establish an export subsidy fund and export risk fund, be responsible for centralizing management and use, and, in line with the transformation into an international market and the actual situation in production, flexibly adjust commodity selling prices, stabilize the source of resources, and guarantee the completion of the task of earning foreign exchange by export.

C. Establish a leading export commodity production system. This is an important foundation for stabilizing and expanding the sources of export goods and for developing the interior's foreign trade. Three aspects should be grasped well: 1) in line with the interior's resources and industrial conditions, rationally deploy the leading export production system and form regional and special socialized large-scale production; 2) with "fist"—hot-selling—products, which have a high industrial-relational effect and good results in earning foreign exchange by export, as the "faucet," strengthen the integration of industry, technology, and trade, organize enterprise groups, and, in accordance with the principle of "optimum combination, overall planning, display of strengths and avoidance of weaknesses, and development as one body," form an open, overall, multilevel, multifunctional "colonized" criss-cross export production network; and 3) with the backbone enterprises of large- and medium-sized cities as the central prop, with the county (city) enterprises as the support forces, and with the rural bases as the important foundation, establish, with the region as the unit, a "chain-type export industrial structure and a step-type export commodity structure." At the same time, we must, in line with the principle of comparative interests, for the leading export production system use international market prices to check and ratify input and output results, to check and ratify the system's shared proportion in earning foreign exchange by export. To change the planning system, while assessing its indices for earning foreign exchange by export, make the foreign exchange commission cost the important index for assessment, guide the enterprise production system to pursue international trade comparative interests, lower domestic consumption and stress business quality and results.

D. Formulate preferential policies that encourage export. Because China's market mechanisms are not sound enough, some commodities sell better in China than abroad. In addition, with the attraction of the high prices in the coastal areas, for a considerable part of the interior's large- and medium-sized export production enterprises, the exchange rate at the port is less than half the export rate. Therefore, it is urgently necessary to formulate some preferential policies that encourage the

development of production and the sending of export products to our ports: 1) Give priority consideration to arranging for the leading export production system the enterprises' production and construction investment and the technological transfer of item loans (especially for the importation of technologies), and consider giving them special-item discount loans. 2) To develop new high-tech export products, allocate special funds for trial-manufacture costs, and for three years reduce or remit the levying of income tax on them. 3) Conscientiously implement the policy of "large-scale optimization," giving the maximum protection of a local nature to the funds, energy sources, raw materials, and transportation of enterprises in the leading export production system. 4) The special factories, bases, and export enterprise groups in the leading export production system, after completion of the annual assessment and ratification of indices, are to implement the method of linking the total amount of wages with the total amount of foreign exchange earned. The foreign exchange that is retained can be higher than the normal export production enterprise's 15 percent, and the proportion of award and welfare funds extracted can be higher than 30 percent, in order to accelerate the pace of the interior's foreign trade main body construction. 5) The foreign exchange retained must be deeply and directly linked to the processing of export commodities. The higher the grade the greater the retention; and the tax departments should also lower the tax rate on finished products and on high-grade export commodities. Foreign trade departments can set up commodity quality awards, packaging awards, and awards for new high-tech results in order to encourage export commodities to develop in the direction of being high-grade finished products. 6) Foreign trade departments must raise money for the setting up of export risk funds and subsidy funds, and fix the lowest protective price for leading export commodities, in order to insure the effective completion of foreign trade tasks and goals.

(Writer's work units: Economic Research Center in the Xiangfan City Government and the same city's Textile Industry Corporation—both in Hubei Province)

Problems in Delegation of Foreign Trade Contracting

90CE0321A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 5, 30 May 90 pp 53-54

[Article by Song Guohua (1345 0948 5478): "Conflicts Encountered Following City-Level Separate Foreign Trade Contracting, and Their Remedies"]

[Text] The initiation of separate foreign trade contracting in China in 1988 aroused foreign trade business interest in foreign exchange-earning exports, and promoted development of the country's foreign trade. However, because city level separate contracting was not thorough going and since attendant economic system reforms were not made, city level foreign trade encountered new conflicts in separate contracting. Only by

recognizing and gradually solving these conflicts will it be possible to further reinvigorate city foreign trade enterprises and bring about a new situation in the earning of foreign exchange from exports.

I

The main conflicts encountered in the institution of city level separate foreign trade contracting were as follows: Conflicts generated by frictions between foreign trade system reform and the old system; business conflicts between production enterprises and foreign trade enterprises; and conflicts generated by price system inequities, etc. These conflicts showed up in the several regards discussed below.

1. Conflicts Between Separate Contracting Provisions and Operating Rights

According to separate contracting regulations, separate contracting is to be done for city level foreign trade, cities contracting foreign exchange receipt base figures with provinces, and turning over to the central government foreign exchange base figures and base figures on renminbi subsidies contained in export foreign exchange receipt base figures. Foreign trade companies in pilot project prefectures and cities are to engage directly in the import-export business. As of today, however, city level foreign trade enterprises still have no real import-export operating authority. For example, city level foreign trade enterprises may not deal directly with customs officials in ports of entry and exit; port customs authorities will not register them to do export business; and they still need a provincial foreign trade enterprise to act as an agent for them. They have no authority to take part in export commodity trade fares, and have no choice but to participate as a provincial foreign trade enterprise in order to fulfill their separate contracting base figures. Such a situation of contracting three base figures without being given operating authority for contracting dampens grassroots level foreign trade enterprises' enthusiasm for exporting to earn foreign exchange.

2. Conflict Resulting From Unequal Competition Between Inland Ports and Coastal Ports

By comparison with inland ports, coastal ports enjoy exceptional advantages. Furthermore, a series of tilt policies favor coastal seaports in terms of prices and foreign exchange retention. The inequality in competitive conditions makes inland enterprises producing for export want to export directly through coastal ports and not export from inland. This directly affects fulfillment of inland separate foreign trade contract quotas.

3. Conflict Between Internal and Foreign Sales

The country's currency inflation of recent years has caused a rise in production enterprises' product costs, while prices obtained for products in foreign markets have not been affected by domestic market fluctuations. This has distorted demand and prices of some products. Producing enterprises' economic returns from exports

are poor, so numerous enterprises feel it is better to sell in domestic rather than foreign markets, and that it is better to make a profit than to earn foreign exchange. This has seriously impaired the development of international markets. In addition, because there is no meshing and transition between the contracting of profits and taxes and the contracting of foreign trade within the same enterprise today, economic regulation levers differing, those enterprises that contract profits and taxes lack motivation and pressure to export in order to earn foreign exchange. At the same time, it requires enterprises assigned foreign trade contracting quotas to fulfill profits and tax contracting quotas. Today, when returns from exports are low, enterprises are caught between a rock and a hard place.

4. Conflict in Relative Export Commodity Costs

Costs vary for the export of different commodities to earn foreign exchange. Because of the lack of uniformity in costs of earning foreign exchange through the export of products, a great disparity exists between high and low. After institution of separate contracting in foreign trade, everyone rushed to export lost cost products resulting in a serious outflow of stocks. Commodities that could be exported suffered from a shortage of supply that made fulfillment of separate foreign trade quotas impossible, while even if one wanted to export high production cost products, it would be impossible to do so because of insufficient local financial resources. This inevitably produced two consequences: a shriveling of the overall scale of exports, and stimulation of a general rise in prices of low production cost products.

5. Conflict Between Production Enterprises and Foreign Trade Enterprises

Institution of separate foreign trade contracting shifted the focus of conflicts between production enterprises and foreign trade enterprises to various local levels. The provinces contracted to cities, counties, and production enterprises the foreign exchange quotas that they had contracted with the central government, and ultimately the task of fulfilling foreign exchange quotas fell on production enterprises. When raw and processed materials and capital were hard to come by, and when production enterprises had no assurance of being able to retain foreign exchange earnings, but foreign exchange earned from foreign trade contracting had to be tendered to the central government each month for apportionment nevertheless, this doubtlessly constituted a hardship for export product production enterprises. There was a saying, "the greater the exports, the greater the losses; the fewer the exports, the fewer the losses; no exports, no losses." Such a practice at a time when production enterprises already lacked sufficient reserve strength made it difficult for enterprises to survive. Some production enterprises tried every possible means of ridding themselves of all contacts with foreign trade enterprises. Should they suddenly find other sales channels, they frequently did not hesitate to tear up their

contracts with foreign trade enterprises, causing them definite hardships in the fulfillment of their separate contracting quotas.

II

Conflicts revealed in the wake of separate foreign trade contracting show some as being attributable to the prevailing foreign trade system, and others attributable to macroeconomic control. The writer believes that the departments concerned should conduct a thorough study of these conflicts and adopt attendant remedies as quickly as possible. The following suggestions are offered in this regard:

1. Need for uniformity in foreign trade policies. First of all, the state should overhaul separate foreign trade contracting enterprises. The state should then approve, at once, foreign operating authority and the right to operate as equals to those city level foreign trade enterprises that meet requirements for running an import-export business. Second, policies for the stimulation of exports should be uniform. All products exported to earn foreign exchange, no matter their place of origin or the kind of enterprise that produced them, should receive equal preference. Should it be necessary to adopt special policies for any given areas, these policies should be limited to the export production realm, and not applied to the export circulation realm.

2. Improved macroeconomic control of foreign trade. Foreign trade laws, and the rules and regulations system should be further improved for the building of a regular export order. Examples include the drawing up of a "fair competition law," a "new commodities export protection law," and at different times and for different commodities, a "maximum procurement price," and a "minimum export price." Effective follow-up and supervisory methods should also be established, the banks, customs, applied laws, and economic and administrative regulation and control methods used to guide the direction of enterprises' business dealings, and to punish dealings in violation of the law.

3. Adoption of preferential policies. Foreign trade production enterprises have a distinctive way of producing and doing business in the current economic structure, namely that they produce in an economic environment of scarcity, and sell in an economic environment of surplus. They experience substantial difficulties in both obtaining materials for production and in selling their products. Thus, preferential policies should apply to taxation, capital, and the supply of materials for such enterprises in order to create fine external conditions that enable them to obtain economic reimbursement. First is preferential taxation. Enterprises whose export product output value reaches more than 50 percent of the enterprise's output value for the year should have their income taxes, added value taxes, and bonus taxes reduced or annulled. Enterprises whose aftertax profit retention is hurt as a result of insuring export quota fulfillment should have their regulation taxes suitably

reduced or annulled. Second is preferential treatment in the use of foreign exchange. All the foreign exchange that enterprises that earn foreign exchange through exports are eligible to retain should be returned to them. When foreign exchange is needed to import technology and equipment for the purpose of expanding foreign trade production capabilities, priority should be given for foreign exchange loans, and permission should be given to repay the loans out of pretax new foreign exchange earnings. Third, every effort should be made to insure supply of the energy, materials, and electric power needed in production by foreign exchange-earning enterprises. Transportation departments should make priority arrangements for vehicles and ships needed for export materials, and banks should give priority to solving the shortage of funds. Fourth is the formulation of a bonus policy for the earning of foreign exchange. Bonus income that foreign exchange-earning export enterprises obtain from foreign trade departments should be handled as aftertax retained profits by enterprises. Production enterprises that make a major contribution in supporting fulfillment of foreign trade contract quotas, should be given major bonuses.

4. Renewal of a sense of responsibility to improve service quality. Foreign trade enterprises should establish a concept of service to production enterprises for the development of new relationships of mutual trust and mutual cooperation. They should change their business psychology, improve the transparency of foreign trade policies, prices, and profit retention, and carry out a policy of small profits but quick turnover that enables production enterprises to gain economic benefits. In addition, they should provide services to production enterprises in the provision of information, technology, equipment, foreign exchange, funds, and primary and supplementary materials.

Vice Ministers Discuss Foreign Economic Relations

OW2207125690 Beijing International Service
in Mandarin 0900 GMT 6 Jul 90

[From the "Report on Current Events" program]

[Text] Dear listeners, issue No. 6, the most recent, of the monthly GUOJI SHANGBAO [as received] [INTERNATIONAL BUSINESS NEWS] reported at length on an analysis of China's economic and trade issues given by Li Lanqing and Shen Jueren, vice ministers of foreign economic relations and trade. The vice ministers also explained China's economic relations and trade with foreign countries. A substantial amount of information was released for the first time by the ministry's officials in the report.

On China's isolation in foreign economic relations and trade, Vice Minister Li Lanqing said: China hopes to actively develop economic relations and trade with all Western nations. It has always attached great importance

to Sino-U.S. relations, taken a strong stance on a balanced expansion of Sino-Japanese trade, and expected that the formation of a large market within the EEC will be conducive to promoting bilateral economic relations and trade.

Vice Minister Li Lanqing said: China is willing to continue to maintain and develop cooperative economic relations and trade with the Soviet Union and East European countries. He also disclosed that the bilateral trade will be gradually changed to spot exchange trade [xian hui mao yi].

Li Lanqing said: While actively promoting trade between the two sides of the Taiwan Strait, China will develop economic cooperation and trade with the Hong Kong and Macao region in various fields, at multiple levels, and in different forms.

Vice Minister Li reiterated that China maintains only nongovernmental trade relations with South Korea and scientific and technical exchange with Israel, and that China has no economic relations and trade with South Africa.

Discussing a number of economic and trade issues, vice minister Li said: Prices of Chinese products, especially farm and sideline products, are distorted in the domestic market, and there is a disparity between the official renminbi currency and market exchange rate. Under such circumstances, the Chinese Government has to provide a little provisional economic subsidy to export enterprises. Such an economic subsidy is a provisional measure of a developing country to realize its own socio-economic plan.

Li Lanqing said: The amount of ammunition exported by China is rather limited. China has always adopted a prudent and responsible attitude toward ammunition trade, and strictly observed the following three principles: First, such trade will help build up a country's legitimate self-defense capability. Second, it will help safeguard and promote the peace, security, and stability of the region concerned. Third, it will not interfere in another country's internal affairs.

Li Lanqing said: Utilization of foreign capital is a major part of China's opening to the outside world and economic cooperation with foreign countries. At the present, relevant state departments and local governments at various levels are doing their best to help foreign-funded enterprises. With improvement in the macroeconomic environment and economic order, foreign businessmen will feel more secure about their investment in China, their operations will become more effective, and they will obtain lawful profits.

Discussing Sino-Japanese economic relations and trade, Vice Minister Shen Jueren said: Japan is China's top trading partner. China has attached great importance to developing economic relations and trade with Japan. In 1990, China and Japan will continue to expand bilateral

trade in a balanced manner and encourage more Japanese enterprises to invest in China. It is also hoped that the Japanese Government will further relax restrictions on technology transfer to China.

ECONOMIC ZONES

Shanghai Plans Development Companies in Pudong

HK2507124590 *Beijing CEI Database in English*
25 Jul 90

[Text] Shanghai (CEI)—Three development companies will be set up soon in Pudong by the Shanghai Municipal Government to speed up the development of the new economic zone.

According to authoritative sources, these companies include the Waigaoqiao Free Trade Zone Development Company, the Jinqiao Industrial Zone Development Company, and the Lujiazui Finance and Trade Development Company. All the three companies are open to foreign investors as share holders, the sources said.

Development of Shenzhen Stock Market

90CE0254B *Shenzhen SHENZHEN TEQU BAO*
in Chinese 29 May 90 p 1

[Interview by staff reporter of unnamed representative of the Shenzhen branch of the People's Bank of China; date, place not given]

[Text] In response to the circular issued by the Shenzhen municipal government on tightening stock market control, and banning illegal under-the-counter stock transactions, this newspaper conducted a special interview with a representative from the agency overseeing the Shenzhen stock market—the Bank of China's branch at the Shenzhen Tequ [special zone], and asked the bank official in charge to answer a few related questions.

[SHENZHEN TEQU BAO] The Shenzhen stock market, as a new reform feature in a period of growth, needs nurturing. Why did the municipal government issue this circular? What effect will it have on development of a market in Shenzhen?

[Official] We must first understand that banning illegal under-the-counter transactions outside the market is in the interest of the public, and not a means to stop legal trading in the stock market. The purpose of the circular is to allow trades to be carried out in a fair and orderly environment. The Shenzhen stock market is a new undertaking growing out of new reforms in the mechanics of business and finance operating in the special zone. After several years of nurture and growth, the following achievements have been noted: changes in the mechanics of enterprise operation to increase efficiency; responsibility toward the public by stock-holding enterprises entering the market, which is an effective

means of enterprise supervision by the public; conversion of social expenditure funds to an accumulating fund and increasing the investment awareness of people etc. These are changes we should support and protect.

However, management of the growing Shenzhen stock market is in the process of being perfected step-by-step. For example, many city residents are concerned about the fact that many illegal transactions are taking place outside the market at present. This concern is reflected by the attitude of numerous cadres and members of the general public directed toward the municipal government, asking that this situation in the stock market be corrected. Furthermore, in the last month, at least a hundred persons have been seen congregating every day to conduct private trading activities. Not only is this not the standard form of buying and selling, what is more important is that according to the banking rules of the PRC and regulations of the offices of business administration and public safety, such activities are illegal and should be stopped.

By banning illegal under-the-counter trades outside the market, and demanding that all stock transactions be made through a stock brokerage agency will help strengthen management of the stock market in the future, beneficially create a market that is good, fair, open and just, prevent possibility of opportunistic fraud being committed, and protect the legal interests and rights of most investors. The city is adopting a drastic measure to establish a new stock market protocol, the purpose of which is to allow this exploratory reform of the stock market to be carried out smoothly in a healthy direction.

[SHENZHEN TEQU BAO] Can you talk about the reasons why illegal trades outside the market take place? What are the ill effects of such activity on the large number of investors?

[Official] In the last three years, some pilot enterprises with restructured ownership systems created some requirements that allowed the issue and sale of their stocks to go public after approval by the municipal government. For several years, these enterprises, in varying degrees, have obtained relatively better ratings that they had in the past. The exemplary effect of such investment benefits attracted many new investors, even though new stock issues were unable to meet an ever increasing demand. Consequently, many investors placed large sums of money into the stock market that resulted in a volume of trading activity that has been increasing by the month this year. In May, the average daily trading volume has exceeded 2 million yuan. Such growth has greatly exceeded our level of management and service capacities at present. For example, the amount of business space available for trading activity, the amount of hours open for business and followup to register transfers, etc., cannot keep up with the demand. Moreover, part of the public does not understand the illegality and danger of trading under the counter outside

the market, and look only at its convenience. This is one of the reasons that illegal trading outside the market has cropped up.

However, we should point out that to achieve the greatest profit possible through busy buying-low and selling-high manipulations, some opportunistic elements have deliberately avoided using the regular stock trading channels to create a "laissez faire zone." Some individual speculators will use the freedom of this "zone" to manipulate the market, for some non-thinking followers to pursue blindly to achieve their goal of illegal profiteering. This is another reason that the illegal under-the-counter market exists.

If the public follows blindly, they can easily lose money. Because some illegal elements can easily use the under-the-counter market to commit fraud, it is highly possible for the public to purchase bogus stocks or stocks that were reported lost. On the other hand, with opportunists bidding up stock prices, many medium and small investors are likely to sustain economic loss etc. In the final analysis, those hurt the most are still the medium and small investors.

[SHENZHEN TEQU BAO] How will legal stock trading be carried out after illegal under-the-counter trading has been banned?

[Official] After the illegal under-the-counter market has been banned, and legal trading is conducted jointly by the Bureau of Business Administration, the Bureau of Public Safety, and the People's Bank under the unified leadership of the municipal government, we do not want, and I repeat we do not want, trading to decrease because of this change. We expect to adopt an active cleanup policy to resolve the current problem.

After under-the-counter trading has been banned, all trading activity must be conducted through a stock brokerage agency. That is to say, the sale and purchase of stocks must take a form of assignment given a brokerage agent who also takes care of the transfer. To prevent any curtailment of trading activity to any great extent, and to allow transactions to proceed in an orderly and efficient manner, we will adopt the following measures to strengthen management and improve service:

1. Purchase and sale of stocks by individuals or group units, the transfer and registration of stocks, and the posting of capital gains and dividends on them must be done with proof of residence or valid power-of-attorney documents, to facilitate management of this business process by responsible agencies, stock brokers, and companies whose stocks are coming on the market. Where information on present stocks are not consistent with the individual's status, a set time period is allowed for corrections to be made.

2. A power-of-attorney document is required for the sale and purchase of stocks made on behalf of others. Also, in accordance with international custom, rules are set for high-low closing figures. That is, the cost or return to the

assignor cannot be 10 percent higher or lower than the closing figures for a particular stock on the previous day. The cost of sale or purchase by the assignee follows the principle of price, the first priority; and timing, the second priority. Fair sales and purchases are to be made at stable market prices.

3. The stock broker should improve on the efficiency of stock transfer and registration, the time allowed to complete this procedure not to exceed seven days.

4. Revise business hours, by adding business hours at noontime, and changing staff days off on Saturdays and Sundays to other days to help meet customer needs.

Shenzhen Sees Steady Economic Growth

*HK2507124190 Beijing CEI Database in English
25 Jul 90*

[Text] Shenzhen (CEI)—The Shenzhen Special Economic Zone [SEZ] in south China's Guangdong Province saw sustained, steady and overall increases of major economic indices in the first half of this year, according to the local government.

The SEZ's half-year industrial output reached 7.8 billion yuan, up 27.8 percent over the same period of last year, and the half-year value of industrial exports was 3.98 billion yuan, up 45.3 percent. The proportion of industrial exports among the SEZ's total exports rose to 59.9 percent from the 52.7 percent a year ago.

In the half-year period, the SEZ's foreign trade volume increased 21.3 percent over a year ago to reach 3.115 billion U.S. dollars, with export up 23.4 percent to 1.817 billion dollars.

The SEZ's half-year retail sales reached 3.059 billion yuan, up 7.6 percent over a year ago.

The local government registered 1.024 billion yuan of revenues and 469 million dollars of foreign exchange settlement in the period, up 60.9 percent and 21.3 percent respectively over a year ago. But the SEZ's outlay was not made public.

The SEZ's half-year capital investment dropped 25.7 percent from a year ago. However, construction of major infrastructure projects as part of a move to improve the investment environment has not been suspended.

Deputy Secretary Inspects Yantai Economic Zone

*SK1407052590 Jinan Shandong Provincial Service
in Mandarin 2200 GMT 13 Jul 90*

[Summary] While conducting investigation and study at the Yantai Economic and Technological Developmental Zone on 13 July, Ma Zhongchen, deputy secretary of the provincial party committee, pointed out: In carrying out reform and opening to the outside world, we must further emancipate our minds, renew our concepts, make full and flexible use of policies of the central

authorities, and give the green light to the development of the Yantai Economic and Technological Developmental Zone in various fields.

Since the beginning of the construction in March 1985, the Yantai Economic and Technological Developmental Zone has signed a total of 118 contracts, valued at \$255 million, on importing from foreign countries and on cooperation with other localities in the country. In the first half of this year, this developmental zone realized 96.65 million yuan in industrial output value, an increase of 11 percent over the corresponding period last year; and created \$17.95 million in export and foreign exchange, an increase of 38 percent.

After hearing a report on the situation of this developmental zone, Comrade Ma Zhongchen and responsible comrades of pertinent departments at the provincial level pointed out: The development of this developmental zone is very inspiring. To make reform and opening up a success, we must further emancipate our minds, and make full and flexible use of policies of the central authorities. In addition, we should formulate some supporting measures in line with the reality to support and encourage the development of this developmental zone in various fields.

POPULATION

Suggestions for Using Fourth Census Data

*90CE0292A Beijing RENKOU YANJIU
[POPULATION RESEARCH] in Chinese No 3,
29 May 90 pp 45-47*

[Article by Qiao Xiaochun (0829 2556 2504) of the Population Institute at China People's University: "Developing and Using Data From the Fourth Census"]

[Excerpts] [passage omitted] I. Significance of Developing and Using Census Data

People often take census data errors as a standard for appraising the quality of census data, believing that the fewer the errors, the better the quality of the data. The net numerical error of China's 1982 third national census was 0.15 percent, far lower than the four percent of the United States' 1980 census, the 20.4 percent of Canada's 1976 census, and the 18 percent of India's 1981 census. It is even much lower than the one percent standard error that China set for itself. Therefore, if we consider a census as a process of gathering data on the population, it can be said that the 1982 census was extremely successful. Although state and local census organizations did a lot of analysis work on data collected after the third census, organizing a series of census data analysis study groups and writing a number of reports and academic theses analyzing the data, nonetheless, the data from the third census has yet to be fully developed and utilized. The data has not yet fulfilled the role it can and should play. [passage omitted]

II. Items Surveyed in the Fourth Census

To develop and use data from the fourth census, we must first understand the items surveyed. Only then can we know the scope to which census data can be applied as well as determine how to proceed with analysis and study.

The third national census surveyed a total of 19 items, 13 of which pertained to individuals and six to households as the unit considered. Compared to the third census, the fourth will look at a total of 21 items, 15 of which pertain to individuals and six to households. Nine items pertain to deceased persons.

While the fourth census retains some of the same items as on the third census, it also adds or changes others: Pertaining to households, the previous census only surveyed the number of persons born or deceased in 1981. This item on the fourth census now uses the previous one-half year as a standard criterion, namely, it inquires about the situation during the previous 18-month period. Pertaining to individuals, two new items aim to explore the population migration situation: "Permanent residence since 1 Jul 1985" and "Reason for emigrating from one's home." The old item, "household registration status of permanent residents," has been changed to "status and nature of household," with an added inquiry about agricultural and nonagricultural households. In the box regarding degree of education, there is an added item about studies completed. At the same time, the old "higher middle school" entry in the "degree of education" item has been divided into "higher middle school" and "middle technical school." The "college graduate" entry has been divided into "college-level technical school" and "regular college course." Under the item, "status of unemployed persons," "loss of ability to do labor" replaces the old "awaiting for assignment from the state" entry. There is an additional breakdown by sex in the box regarding "number of surviving children born." The old census question about the childbearing status of women in the previous one calendar year has been changed to the preceding one and one-half years. The number of pregnancies has been changed to an inquiry on the sex of the children.

Considering the items in the census, the contents of the fourth census can be divided into four major categories. A first category is the natural state of the population, including sex, age, relationship to the head of the household, births, pregnancies, and deaths. A second category is the social status of the population, including nationality, household status, degree of education, and marriage. A third category is regarding economic conditions, including the industry and employment structure of those employed, and the status of unemployed. A fourth category considers migration, including permanent residence as of 1985 and reasons for migration. These four major categories reflect the general status of China's population overall at the present stage. We can both make specific analyses of the data from different angles as well as overlap analyses of various aspects of the

population. By so doing we can study the characteristics of China's population and analyze China's population development rules.

III. How To Analyze Census Data

We must be clear about the goals before undertaking any task. Generally speaking, analyzing census data can achieve the following aims: 1) Describe the present nature of the population, reveal its reality, allow people to understand the basic situation of China's population, as well as the position which the population in a certain area occupies nationwide. Such analysis can discriminate between the static and dynamic states of the population. The static state largely is based on static population indices gathered by the census. It describes the status of the population at the time of the census, for example, the sex and age structure of the population, its degrees of education, and marriage conditions, as well as the employment and unemployment situations. The worth of the analysis of these issues mainly is determined by the analyst's understanding of the methods used to divide data into groups and population statistical indices. The more appropriate the division into groups and utilization of indices, the clearer the description of the issues. The dynamic status of the population mainly refers to births, deaths, and migration. It reflects the rate of population increases and changes. It mainly is used for analysis to reflect the intensity of population change indices. It can both describe the level of births, death, and migration during the previous one year or six months as well as be used to analyze varying rules in horizontal and vertical contrasts of the birth, death, and migration rates. 2) It provides theoretical bases for formulating government policies. Analyzing census data attains the goal of real socioeconomic service by finding existing population problems and related socioeconomic problems and providing means for their resolution. For example, one could use the results of census data to analyze the current phenomenon of early marriage, to study the socioeconomic and population factors behind this phenomenon as well as the its influence upon female childbearing. After analyzing the severity of this problem, one can suggest ways to prevent it or even predict the feasibility and degree of doing so as well as future prospects for resolving it. As another example, China's present abnormal age structure will greatly affect our future society and economy. This mainly will be seen in the questions of employment, educational access, and overly rapid population increases. We can analyze the time and degree of its influence, which can be of important significance in guiding government policy. 3) To enhance our understanding of population rules, and promote the development of population studies. Population studies is a branch of positivism. The comprehensiveness and accuracy of statistical population data is a prerequisite for the discipline's existence and development. We can explore China's population development rules, study the relationship between population and socioeconomic processes, and promote population studies in China by analyzing data from the fourth census and comparing it to previous data.

Most of the reports and essays analyzing previous census data merely stop at describing numerical data. Too little has been done on interpreting and uncovering the deeper implications reflected behind the data, thus weakening its guiding significance over the national economy. The reason for this is that the analysts have not understood enough about basic population analysis methods and techniques. Understanding and grasping certain population and statistical analysis methods are preconditions for analyzing census data. These methods mainly include: 1) General socioeconomic statistical analysis methods. For example, group analysis, mean value analysis, relative value analysis, dynamic analysis, and correlated analysis. 2) Population statistics analysis methods. This includes conceptualization and calculation methods for various vital statistical indices, and methods of analyzing and predicting population regeneration. 3) How to edit census data reports and select specific census topics for analysis is also the basis and an important prerequisite for analyzing census data.

IV. Several Suggestions for Developing and Using Census Data

A census is but a process of gathering data. It is a means, not an end. In order to ensure that data from the fourth census can be fully developed and utilized, I offer several suggestions.

1. Enhance leadership over census data analysis. It will be a great waste if census data is not fully used after expending tremendous human, material, and financial resources on it. We should make analysis of the data an important component part of the overall work on the census. We must pay equal attention to registering the population as to analyzing the data.

2. Enhance dissemination of census data. Make those in charge of all levels of census organizations and related departments really understand the value and significance of census data and of its guiding role in China's socioeconomic development, thereby making them voluntarily study and use the data.

3. Improve training of all levels of census organization workers and related census analysis personnel. In order to do a good job of census data analysis and really allow it to be of service to government work and policy formulation, we must have a data analysis force with certain population analysis capabilities. Only then can we prevent analysis from becoming a formality and really attain the goals of analysis.

4. Enhance cooperation with academics. At present, China already has a rather great population study force. It has already reached a certain level, whether in terms of scope or depth of study. Many researchers understand quite a bit about China's situation and have grasped modern population analysis methods. At the same time we also have rich experience in population research. If we can bring them into the force of census data analysis, this will play an important role in developing and using China's census data.

5. National and various levels of census organizations should establish specialized census data analysis groups. Because census organization work personnel are relatively familiar with the census data situation, they have a certain preponderance in the matter. Moreover, in recent years many rather highly educated young people have been brought into all levels of census organizations, filling out the ranks of the census work force. They have the basic prerequisites for analyzing census data. If we can organize them well, they will constitute a force for analyzing data from the fourth census that cannot be overlooked.

TRANSPORTATION

New Beijing-Wenzhou Air Route Opens

OW0208123790 Beijing XINHUA in English 0722
GMT 2 Aug 90

[Text] Wenzhou, August 2 (XINHUA)—A new air route linking Beijing with Wenzhou, one of the country's coastal open cities in east China's Zhejiang Province, went into operation today.

The route is 1,502 km and the flying time for the Boeing 737 aircraft is two hours and 15 minutes.

Regular flights are available every Thursday and Sunday. The plane takes off at 8:55 a.m. from Beijing's capital airport and reaches Wenzhou at 11:10 A.M. After a 45 minute wait at the Yongqiang Airport in Wenzhou the plane returns to Beijing.

A ceremony marking the inauguration of the new route was held here this morning.

AGRICULTURE

June Food Prices Reported

40060058A Beijing JINGJI CANKAO in Chinese
22 Jul 90 p 2

[Summary] In June, the average market price for rice was 1.4 yuan per kilogram, a 22.55 percent decrease from the same period in 1989; corn 0.77 yuan, a 6.86 percent decrease; and wheat 0.82 yuan, a 24.61 percent decrease. In urban areas, the average price for pork was 5.81 yuan per kilogram, a 10.70 percent decrease; beef 7.55 yuan, a 10.22 percent decrease; and lamb 8.07 yuan, a 3.07 percent decrease. In rural areas, the average price for pork was 5.30 yuan per kilogram, an 8.76 percent decrease; beef 7.13 yuan, a 9.38 percent decrease; eggs 5.00 yuan, a 0.18 percent decrease; and piglets 4.20 yuan, a 15.4 percent decrease.

Afforestation Project Increases Timber Reserves*OW0508231590 Beijing XINHUA in English
0635 GMT 5 Aug 90*

[Text] Beijing, August 5 (XINHUA)—The latest issue of the "OUTLOOK" weekly reported that a large afforestation project that extends from northeast to northwest China is estimated to have a total reserve of 847 million cubic meters of timber.

The project is also known as the "Green Great Wall".

Construction of the large shelterbelt, believed to be the largest ecological project in the world, started in 1978.

By the end of 1989, the total afforested area had reached 10 million hectares.

China can get each year 5.6 million cubic meters of timber from thinning.

It is learned that economic trees of the project can provide 2.7 billion yuan worth of produce every year.

According to the weekly, forestry businesses to be developed in the coming years will cover 129 projects. When these projects are put into operation, they are expected to generate 8.5 billion yuan in output value.

Anhui Province Hit by Severe Floods, Drought*OW0708083490 Beijing XINHUA in English
0636 GMT 7 Aug 90*

[Text] Hefei, August 7 (XINHUA)—Anhui Province, in east China, has suffered severe drought and flooding this summer.

Areas south of the Huaihe River have had little rain and high temperatures over the past month. About one million ha of farmland has been affected by the drought, and more than 600,000 people in these regions are having difficulty finding adequate drinking water.

Suxian and Lingbi Counties on the northern bank of the Huaihe River have been hit by two heavy rainstorms, which killed a dozen people and inundated 113,000 ha of farmland and many homes.

The provincial authorities sent a five-million-strong rescue squad headed by Lu Jingrong, secretary of the Anhui Provincial Party Committee, and Vice Governor Wang Sheyun to the disaster-afflicted areas.

Commercial and transportation departments in the province have provided the south with diesel oil, water pumps, pipes and the north with chemical fertilizer and relief supplies.

Efforts are being made to create artificial rainfall in the south.

Inner Mongolia Wheat Area*40060058B Beijing ZHONGGUO TONGJI XINXIBAO
in Chinese 18 Jun 90 p 1*

[Summary] The wheat area in Inner Mongolia this year is 16,673,000 mu, an increase of 1,551,900 mu, or 10.3 percent over 1989.

Shandong Province Increases Silk Exports*OW0208234390 Beijing XINHUA in English 0821
GMT 2 Aug 90*

[Text] Jinan, August 2 (XINHUA)—The east China province of Shandong, one of the country's major silk-producing regions, exported 48.12 million U.S. dollars-worth of silk in the first six months this year, 16.23 percent more than in the same period last year.

By the end of June the province had signed silk export contracts with foreign customers worth 61.57 million U.S. dollars, 50.94 percent more than in the same period last year.

The silk industry in Shandong has maintained a steady development in recent years. Its cocoon quality is the best in the country and it exports cocoons to Western Europe.

The province's 17 key silk enterprises have made consistent efforts to improve quality and upgrade technology by importing advanced equipment and technologies in order to meet the needs of the world silk market.

The silk garments industry has also made progress in the past two years. This year the province has so far exported silk garments worth 11.04 million U.S. dollars, much more than last year.

Shanghai Reaps Bumper Harvest of Summer Grain*OW0508100490 Shanghai JIEFANG RIBAO in Chinese
21 Jul 90 p 1*

["Dispatch" from reporter Zhang Weiguang]

[Text] This year Shanghai has reaped an all-round bumper harvest from its summer crops. The total grain output has reached 532,000 tons, 13.3 percent higher than last year, averaging 241 kg per mu, an increase of about 9 percent over last year. The total output of oil-bearing crops has been 176,000 tons, averaging 127 kg per mu, more than 17 percent over last year. As of 15 July, Shanghai's suburban areas had procured 202,600 tonnes of summer grain, more than the total summer grain procured last year; and 177,600 tonnes of oil-bearing crops, 25 percent higher than the same period last year.

During the end of last year and the beginning of this year, Zhu Rongji, municipal party committee secretary

and mayor, went down to grass-roots units in the suburban counties to conduct investigations and solve problems. The leadership of agricultural departments at various levels also gave top priority to agricultural production. The heads of townships and counties (districts) took the lead in cultivating high-yield lots and model farmlands. Party and government leaders of Jiading, Nanhui, Fengxian, Chuansha, and other counties promoted the overall work by cultivating leading cadres' high-yield lots in rural areas. This year suburban areas have cultivated 306,400 mu of high-yield lots, and a "bumper harvest" is planned for 1.95 million mu of farmland. Both figures were about double last year's figures.

The broad masses of office cadres and technical personnel also actively went down to rural areas to establish contacts and gain firsthand experience in the grass-roots units so as to launch the activities of "developing agriculture with new technology." This summer they popularized a dozen or so new techniques and measures for increasing output, such as breeding good strains, nurturing seedlings in set patterns, and plowing the fields to remove old crops and prepare for sowing. They also applied fungi to over 1 million mu to increase output. Meanwhile, farmland irrigation is obviously better than last year. The supply of both agricultural funds and the means of agricultural production is more plentiful than last year. All these have provided reliable guarantees for a bumper harvest of summer crops.

After the bumper harvest, peasants have not forgotten to contribute more to the country. They have assiduously sold their grain and oil to the state. At dawn every day, peasants from the major grain-producing districts in the suburban areas such as Songjiang, Jinshan and Qingpu counties will deliver their grain and oil by boat or small wagons for sale at grain stations. As of now, the three counties has procured over 110,000 tons of summer grain, accounting for more than 50 percent of the total quantity of grain procured by all the suburban areas. Comrades in the grain departments told this reporter that this year the grain and oil procured by all counties and townships in the suburban areas have considerably increased over last year.

After reaping an all-round bumper harvest of the summer crops, suburban peasants have redoubled their efforts to ensure good field management for early rice and single-season late rice in striving for higher annual grain production.

Shenzhen Opens Largest Flour, Feed Enterprise

*OW0908090490 Beijing XINHUA in English
0658 GMT 9 Aug 90*

[Text] Shenzhen, August 9 (XINHUA)—China's largest flour and feed enterprise is being built at Chiwan Port in the Shenzhen Special Economic Zone in south China's Guangdong Province.

Plans call for the enterprise, with total investment of 300 million Hong Kong dollars, to have an output value of 300 million Hong Kong dollars each year. Its products will mainly be sold in Hong Kong, and Southeast Asian countries.

Construction of the enterprise, jointly funded by a Hong Kong firm and several mainland corporations, will be completed in 20 months.

Drought Worsening in Zhejiang Province

*OW0408145790 Beijing XINHUA in English
1410 GMT 4 Aug 90*

[Text] Hangzhou, August 4 (XINHUA)—More than 4 million officials and farmers are making joint efforts fighting an unusual drought in east China's Zhejiang Province.

In the province, high temperatures have persisted since early June, and the drought has become more serious.

The drought has affected some 600,000 hectares of farmland throughout the province, accounting for 35 percent of the provincial total cultivated area.

Moreover, the drought has affected drinking water supply for 810,000 residents in some parts of the province.

Nevertheless, good harvests of summer grain have been reaped in the province, and the total output is expected to see a rise of 10 percent over last summer's figure.

Three Types of Officials 'Tarnish Public Service'
90CM0220A Shanghai SHEHUI [SOCIETY]
in Chinese No 4, 20 Apr 90 p 29

[Article by Wei Zeyang (7279 3419 3152): "We Must Discipline Lazy, Fatuous, and Corrupt Officials"]

[Text] Officials are the people who hold power and lead the masses. In today's campaign for reform, deregulation, and socialist modernization, most of our officials rule well, do their best to discharge their public duties, and have earned a good name among the masses. But there are also some party cadres who, to various degrees, are lazy, greedy, fatuous, corrupt, and degenerate, and it is these whom the masses call "the three officials," that is, lazy, fatuous, and corrupt officials. These individuals have lost sight of their personal responsibilities and have tarnished public service. We must act resolutely and truly discipline these lazy, fatuous, corrupt officials.

1. Lazy Officials. A small number of party cadres in positions of power have absolutely no consciousness of their position and do nothing to plan the affairs of their offices. They have no strong sense of responsibility, pressure, or mission, and they are negligent and indolent. They make no effort to handle far-reaching government affairs capably, diligently, and honestly. They are indifferent to the people's hardships, to the extent that local party construction and the growth of socialist material and intellectual culture have begun to "slip." In their indolence they have grown greedy and become addicted to eating, drinking, and making merry. They have become idlers at work and "heroes" at the banquet tables. Wei Mingshen [7614 2494 3932], formerly assistant administrator of Ankang Prefecture in Shaanxi, is ample proof that eating, drinking, and making merry make people sick.

2. Fatuous Officials. This kind of official is muddle-headed and acts on the basis of sentiment and hearsay. A year may pass in which he does make a contribution, but he still does not know how to conduct himself; a year may pass in which he is not bewildered, but as time goes on he grows more and more out of touch, loses his senses, and begins to do "muddleheaded things." When he sets out to do something he has no definite views of his own and he does not innovate; he just takes things as they come along, and, looking back, he has no idea what it was that he did. He is mediocre, unambitious, and entirely ignorant. Worse still, a few party cadres allow violations of party discipline and state law to go unchecked: They are overly lenient, dim, take no clear direction, and do not take a firm stand on anything. Under this kind of official, organizations and the "100 enterprises" grow lax, with each marching to a different drummer and each humming its own tune. Disunity spreads, in higher and lower echelons alike, and the grassroots masses lose faith in their leader. The official becomes a leader without a following, which provokes righteous indignation among the masses.

3. Corrupt Officials. These officials, during a time of reform, deregulation, and socialist modernization, have very little spirit of service to the people. They completely cast aside the glorious tradition of arduous struggle, and, contaminated by an atmosphere of "money lust," they think evil thoughts and depart from party principles and positions. Corrupt officials take advantage of the friction and conflict inherent when a new system replaces an old one, make use of the fact that our legal system is not yet completed and rules and regulations are still imperfect, and use to their own advantage the "gaps" and "loop holes" created when we replace the supervisory system with an organizational appraisal system. They curry favor with everyone in authority, use their power for personal gain, link money to power, trade value for value, engage in graft and accept bribes, resist neither ill-gotten wealth nor small gifts, and are reluctant to give up sensual pleasures. Most serious of all, one or two party comrades have publicly manipulated power to extort money from people, acted in collusion with lawless elements in society, and participated in speculation and profiteering, even to the extent of committing actual crimes. The spread of these corrupt, repulsive phenomena has had an exceedingly harmful effect on society and among the masses.

If we put the above three kinds of officials in perspective, we can clearly see the feudal attitudes left behind by the feudalistic social system. Like a vile stink, they have spread throughout society, corroding people's souls. It is hard for the ranks of Communist Party cadres to avoid the effects and corrosion caused by feudal attitudes, and this, coupled with deterioration in the social environment, ensures that a major slip has appeared in the ideological ethics of a small number of party cadres. Their spiritual "protective circle" has collapsed, their immunity has declined, and they can withstand neither the test of reform and deregulation, nor that of power. They are gradually becoming the antithesis of public servants.

The *Book of History* says "a state is defeated by the evil of its officials." This is a resounding truth. Everyone knows that in Chinese history whenever the country was administered soberly and calmly and the government was honest, society developed and was stable, whereas when the opposite held true there was incessant social upheaval. We must deliberate on the past, pay close attention to the present, keep the future in view, and focus on this top priority. Throughout China, in upper and lower echelons alike, we must adopt stronger measures to deal realistically with lazy, fatuous, and corrupt officials. We must apply the scope of socialist morality to hold them in check, and use party regulations, political discipline, and state law to keep them within bounds. We must truly see to it that lazy officials exert themselves, fatuous officials become more sober-minded, and corrupt officials turn over a new leaf. Right now it is especially important for us to train and guide the broad masses of party cadres to act conscientiously, according to the strictures of the CPC Central Committee and the

State Council, to strike a resolute blow against these rotten, repulsive phenomena. We must help them strive to promote honest government, establish an intense consciousness of the struggle, and courageously occupy the vanguard of reform and deregulation. They must be able both to undergo the training necessary for developing a commodity economy, and to pass the test of party spirit. They must also use their own normative behavior, in doing the difficult pioneering work, making contributions, and getting socialist modernization well established, to affect and unite the broad masses in order to form a stronger joint effort for reform and deregulation.

I feel that in this magnificent great nation, so long as we continue to use administrative and legal measures to punish lazy, fatuous, and corrupt officials, and so long as we use restructuring to improve the work on our system and ideological style and to truly eliminate the hotbed that breeds the "three kinds of officials," we will certainly be able to establish a good national foundation and ultimately build a powerful nation.

Wang Pinqin, New Deputy of XINHUA in Hong Kong

90CM0268A Hong Kong CHING PAO [THE MIRROR] in Chinese No 155, Jun 90 pp 18-20

[Article by Jo An (5387 1344): "Inside Story on Wang Pinqing Becoming Deputy Chief of XINHUA Bureau in Hong Kong"]

[Text] In May this year, former Deputy Chief of the Foreign Trade Department Wang Pinqing [3769 0756 3237] was named by the State Council to be the deputy chief of XINHUA NEWS AGENCY's Hong Kong Bureau, replacing She Mengxiao [0152 1322 1321], who became deputy minister of the Ministry of Justice.

Not much significance was attached to these moves which were generally regarded as normal reassignments of key Chinese Communist cadres. As to Wang himself, it was regarded as a lateral assignment, neither a promotion nor a demotion. But he had spent many years in the area of import-export trade. Considering the current state of China's foreign trade which faces some difficulties and clearly needs some decisions at the highest level, and Wang's past close connections with the Trade Department's Hong Kong staff, such as Hua Run [5478 3387], which was in Wang's immediate area of operations, this new assignment has inevitably aroused some speculation by outsiders.

Foreign Trade Is His Game

Wang Pinqing's personal career had no tortuous roads. At 60 years of age, it can be said that he has been in the trade business from the start of his working career, accumulating 40 years of experience, and he has generally been regarded as a solidly competent trade official.

Wang was born in 1930 in Suibin County, Heilongjiang Province. In 1947 he joined the revolution. After completing training in the Harbin Northeast Trade Administration in 1948, he worked in the Harbin Foreign Trade Company, the Shenyang Foreign Trade Office and the Shenyang Import-Export Company. He joined the party in 1951.

After the birth of New China, numerous neglected tasks awaited attention. It can be said that foreign trade had to start from scratch. At the time, a large number of professionals were needed to open up this new area, so group after group of young trained cadres gradually began to develop their roles. Wang, in his twenties, began his career in foreign trade.

He started work in the Instruments Import-Export Company. In the 1960's, he was transferred to the Foreign Trade Department to be in charge of the work of Communist Youth League members for a time. This tested his managerial abilities to the hilt. Later, he worked in the China General Grain-Oil-Foods Import-Export Company and in the office of the commercial attache in the Chinese Embassy in Romania.

His dedication to work and his managerial competence gained attention, and he progressed steadily upward. From September 1971 to March 1982 he was deputy chief of the office of the general manager of China General Grain-Oil-Foods Import-Export Company, deputy chief of the company, deputy general manager, adviser to the commercial secretary of the embassy in Romania, and then became general manager of the above company.

In March 1982 he was named representative of the chief of the Foreign Trade Department, participating in a number of major trade activities. Three years later, in December 1985, he became deputy chief of the department.

He Managed Import-Export Trade

Before he took the Hong Kong post, he was number four of the five current chiefs or deputy chiefs of the department. He came after department chief Zheng Tuobin [6774 2148 1755], deputy chiefs Li Lanqing [2621 1526 3237] and Lu Xuejian [0712 1331 0313], and ahead of deputy chief Shen Jueren [3088 6030 0086].

His major duties covered two specific department areas. One was import-export trade, which included the Import-Export Office, the China Foreign Trade Center (Group), and the China General Textile Import-Export Company, and so forth. The other area concerned trade with socialist countries, such as the Soviet Union and those in East Europe and Asia. The specific department was the Regional Trade Policy Office.

Leading Member of the Guangzhou Exchange

As a long-term trade official, Wang had a great understanding of the process of developing foreign trade. He

summarized it as follows: China has made great accomplishments in the past 40 years. In 1950, China's trade amounted to a mere \$1.135 billion, of which \$550 million was exports. Last year, trade reached \$81.55 billion, of which \$43.28 billion was exports. In particular, sailing in the winds of reform and opening up, the past decade or so has seen unprecedented energy and strength in export, foreign currency exchange, and international support, which are still increasing. Foreign trade will become increasingly important in the process of national economic development, not only boosting agricultural and industrial production, but also adding to national revenue and reserves. It will also expand employment opportunities, increase domestic commodity supply, and add to the prosperity of the market.

He feels that 80 percent of China's foreign exchange comes from import-export activity, and expanding exports is thus the primary mission of trade. In the past, China's export commodity organizations stressed many primary products, such as agricultural by-products and mining products; these created relatively little foreign exchange. Now, there is very obvious improvement; industrial goods, particularly textiles and electronics exports, have increased dramatically. Among these, textiles in particular have made the greatest gains in earning foreign exchange.

In recent years, Wang Pinqing has been a leading member of the Guangzhou Exchange. Since the 1957 inauguration of the China Export Commodity Exchange in Guangzhou, a high volume of transactions have been completed in the semiannual sessions, greatly enhancing China's foreign trade, and in particular [China's] exports. It has grown yearly except for periodic slowdowns caused by international economic crises. After the 4 June turbulence last year, the 64th session of the Exchange still managed to make its projected quota despite various difficulties. Wang is convinced that this is attributable to the power of reform and opening up actions. It also demonstrated the solid, harmonious collaboration between the various Chinese industrial and commercial elements.

Experience in Trade With the USSR

Because he has been advisor to the commercial attaché of the Chinese Embassy in Romania, Wang possesses confidence in understanding and handling trade relations with the Soviet Union and the East European countries. After he became deputy chief of the Foreign Trade Department, he directed the Office of Regional Trade Policy covering areas such as the Soviet Union, East Europe, Albania, Mongolia, and North Korea. His responsibility was to thoroughly implement the policies concerned, manage bilateral trade, currency exchange balances, and other priority matters, and organize bilateral economic negotiations and combined committee talks.

China's trade with the Soviet Union and East Europe remains on a credit basis, except for trade with Yugoslavia and Poland, which has been changed to cash-and-carry. Trade with the Soviet Union reached \$3.2 billion last year. The Soviet Union is now China's fifth-largest trading partner.

As the principal official in this area, in recent years Wang has led trade representative teams to these countries a number of times, taken part in bilateral talks, and signed agreements concerning trade accords and commodity and currency exchange. Thus he carries considerable weight in trade relations, changes, and directions.

Three Purposes in the New Job

Wang arrived in Hong Kong in early May. Since then, he has been busy becoming familiar with the work environment. He made his debut as XINHUA deputy bureau chief at the 17 May cocktail party celebrating the opening of the Central Bank Building; there he became the focal point of story-hunting reporters. In response to their persistent questioning, he simply replied that he came to Hong Kong to work on economic matters.

[Judging] from his past work and experience, he was probably being truthful, but what are the specifics? From all the signs, there seem to be three:

1. Clean Up and Reorganize Companies. According to indications from high-level party circles, the Trade Department is determined to straighten out the past irresponsible style of management in a number of trading companies, reverse the decline in the volume and quality of exports, and stop agreement violations and other activities that are detrimental to the credibility of China's foreign trade. Naturally, the targets include Chinese-supported organizations in Hong Kong and Macao. Allegedly the State Council attaches great importance to this, and currently cleanup and reorganization in the interior is already seeing small results, and cleanup and reorganization of Chinese-supported companies in Hong Kong and Macao is in progress. Wang has had much experience in trade, extensive dealings with these companies, and is very familiar with their establishment and management. He can probably easily discover problems. At the same time, he can handle things confidently and help the cleanup go smoothly.

2. Devise Ways To Increase Revenue. The major problem in China's efforts to increase trade is the shortage of foreign currency. With increasing debt, this can only be more aggravated. Plans to increase exports in order to obtain desperately needed foreign exchange has become the top priority of the Trade Department. Because Hong Kong and Macao occupy the top position in terms of foreign trade, and because their growth rates far outstrip other areas, the Chinese Communists view them as trump cards for boosting China's exports overseas, which will thus guarantee growth in exports of native goods. It is more than likely that Wang had been dispatched to Hong Kong for this end.

3. Expanding Market Diversification. Despite the fact that China has proclaimed that its opening up is multi-directional and multilayered and that it trades with the West and the socialist countries, it had not embarked on this road until the 4 June incident of last year. It only truly took substantive steps in order to break out of the economic sanctions imposed by the West. Most recently, top Chinese officials visited a number of Asian, African and Latin American countries to demonstrate this intention. In developing trade, China now actively seeks to make friends far and wide, calm old customers, get acquainted with new customers, and diversify the market. Hong Kong serves as the financial, trade, and communications center of the Far East and other parts of the world. Its financial power, ability to accumulate capital, close ties to international markets, and ability to handle transit goods are irreplaceable. Therefore, it is truly important to fully use Hong Kong's advantages to accumulate even more foreign capital, open new markets overseas, widen the corridors of trade, and do everything possible to increase trade in transit goods and trade with Third World countries in order to shake off [China's] negative world image. Perhaps Wang has been given a major mission in this area.

Issues in Restructuring Higher Education System

90CM0300A Beijing ZHONGGUO GAODENG
JIAOYU [HIGHER EDUCATION IN CHINA]
in Chinese No 6, 13 Jun 90 pp 16-18, 42

[Article by Long Zhengzhong (7893 2973 0022) and Chen Tianchu (7115 3944 0443): "On Problems of Restructuring Higher Education System"]

[Text] Since the Third Plenary Session of the 11th CPC Central Committee, higher education in China has been developing rapidly with remarkable results. By 1989 there were already 1,075 general institutions of higher education with almost 2.1 million undergraduates and 110,000 graduate students. Over the past 12 years, a total of 4 million undergraduates and 150,000 graduate students were trained. Meanwhile, continuing education, whose primary objective is to provide special training, has made major headway, with a total enrollment of 1.7 million students in more than 1,300 institutions. During this period, the internal structure of higher education has become more rational. The development of postgraduate education has eased the shortage of advanced professional personnel. The development of specialized education has turned out for socialist construction an army of badly needed specialized personnel. As a result of adjustments in the discipline structure of undergraduate education, such disciplines as the arts, finance and economics, politics and law, and management, which used to be rather weak, have developed rapidly. A large number of new disciplines and new specialties such as electronics, computer science, energy, materials science, and biotechnology, for which there is an acute social need, have matured one after another. A planned and systematic discipline-by-discipline effort to revise the catalog of specialties and adjust the lineup of specialties

offered has broadened the scope of specialties and made the qualified personnel more versatile. In short, after 12 years of development and reform, higher education in China has put together the rudiments of a comprehensive system that is multilevel and diversified, with a basically complete lineup of disciplines.

We should also see that at one point in the past 12 years higher education in China was characterized by overdevelopment. There was a preoccupation with quantitative growth, with education at the more advanced level. There was duplication in school construction and course offerings. All this affected the quality of education and resulted in structural waste and irrationality. With these problems in mind, the State Education Commission has taken some adjustment measures, which have begun to work. For some time to come, we must continue to work hard to stabilize the scale of higher education, optimize its structure, intensify reform, and improve its quality. This article offers some preliminary ideas on the further adjustment of the internal structure of higher education for public discussion and consideration.

The Levels of Higher Education

In recent years postgraduate education, undergraduate education, and specialized education have all made considerable progress in China; and the proportionate relations at all levels have also been modified. But looking at higher education as a whole, we still must resolve problems like the undue emphasis on the advanced level, structural imbalances, the divorce of higher education from national conditions, and detachment from actual needs. In the short run, therefore, we must limit postgraduate education, strengthen the training of advanced qualified personnel of a practical nature, stabilize the scale of undergraduate education, and expand specialized education as appropriate. After a few years' effort, we should gradually be able to find a way to develop socialist higher education that has a low center of gravity, emphasizes quality and practicality, and is highly efficient and consistent with China's conditions.

We must limit postgraduate education and step up the training of advanced personnel of a practical nature. Ever since institutions of higher education formally resumed accepting graduate students in 1978, postgraduate education in China has experienced rapid expansion. The intake of graduate students in 1978 was 10,708. By 1988 that number had soared 32,887, and the number of total enrollments in graduate schools was 113,000, up 1.12-fold and 10-fold, respectively. During the past 11 years, 230,000 candidates were enrolled in master's and Ph.D. programs, while the number of graduates was 120,000. By turning out large numbers of advanced qualified personnel, higher education has beefed up China's army of scientific and technical personnel and secondary school teachers. They are now playing an important role in all sectors of socialist

construction. Postgraduate education is higher-level education in higher education. Its development must necessarily be constrained by the level of economic, scientific and technical, and social development. Given the fact that China is in the initial stage of socialism, society has a stronger demand for undergraduates and technical graduates and a smaller demand for graduate students. In the near future, therefore, the scale of postgraduate education must be curbed. According to original 1986 projections by the Qualified Personnel Forecasting and Planning Office of the State Education Commission, the nation's demand for graduate students by the end of the century would be about 500,000. Based on this projection, the annual number of graduate students admitted should be a little over 30,000. In light of the allocation of graduate students upon graduation, it was subsequently proposed that the annual intake of graduate students not exceed 18,000. For the past several years, however, the actual number of students admitted surpassed 30,000 every year and reached a high of 46,871 in 1985.

After reviewing our experience in the development of higher education, using foreign experience as a guide, and taking into consideration China's national conditions and practical social needs, we believe it would be advisable to limit graduate student admissions to under 30,000 each year for the next several years.

The State Education Commission has taken a few steps to limit the growth of postgraduate education. It has been implementing the principle of need-based recruitment. In other words, promptly adjust the size of the intake of graduate students and the proportion between different disciplines in response to the demand for qualified personnel and information regarding the allocation of graduates. Within the national plan, we should conduct directional student admission, and, outside the plan, we should train students as commissioned by an agency, provided both stay within the overall student admission ceiling. It has increased the ratio of on-the-job students with practical experience and reduced the proportion of doctoral candidates as appropriate. These measures should be expanded in the days ahead.

We should also see that in the process of expanding postgraduate education rapidly, we have failed to change educational goals effectively, quickly, and significantly, thus aggravating the structural imbalance within the training of advanced personnel and the divorce from practical needs. For years most of the graduates of graduate schools have been assigned to education and the scientific research sector, whose capacity to absorb graduates is now much diminished for a variety of reasons, including organizational streamlining, staff reduction, and so on. Yet we are still turning out research- and teaching-oriented graduate students not suited to the needs of enterprises and institutions. We must put an end to this situation as soon as possible, stop producing just one type of graduate students, and make a mighty effort to intensify the training of graduate students of a practical type. We must turn out even more masters in the field of engineering and continue pilot

projects in master's programs in specialties like politics and law, finance and economics, to train graduates of a practical bent. Also, the program in clinical M.D.'s should be improved.

The balance between undergraduate education and specialized education should continue to be fine-tuned and the quality of both types of education should be improved, depending on the requirements at different levels. Undergraduate education, the cornerstone of higher education, experienced rapid expansion in the three years between 1983 and 1985, the annual intake of students rising from 230,000 to 317,000, an increase of 38 percent. Between 1986 and 1988, its growth was brought under control and the annual student intake climbed just seven percent, from 317,000 to 341,000. The focus of higher education development since 1983, specialized education has grown significantly. Between 1983 and 1988, the number of institutions offering specialized education rose from 190 to 477, their annual intake of students increased from 84,000 to 297,000, and enrollment grew from 225,000 to 680,000.

The balance between undergraduate education and specialized education has also been adjusted. The ratio between the number of undergraduates admitted and its specialized counterpart was 1:0.96 in 1985, 1:0.83 in 1986, 1:0.86 in 1987, 1:0.96 in 1988, and 1:0.99 in 1989.

In the near future, we propose that we give proper emphasis to specialized education and lower the center of gravity even as we hold the line on the overall scale of undergraduate education and specialized education in order to meet China's actual requirements for qualified personnel at the present stage. Agricultural and forestry education, for example, has experienced strong growth since 1984. In 1988, the ratio between undergraduates in that field and its specialized counterpart was 1:0.37, compared to 1:0.19 in 1983, and the ratio of the annual intake of students was 1:0.62, compared to 1:0.35 in 1983. We can thus see that the problem of imbalance in agricultural and forestry education between the undergraduate and the specialized levels and the undue emphasis on the advanced level remains a striking problem and must be further corrected.

The purpose of adjusting the structure of undergraduate education and specialized education is not only to ensure their proportionate development, but also to intensify educational reform and turn out specialized personnel who adhere to the socialist road, are morally, intellectually, and physically well-developed, and meet diverse social needs. At present, reform should concentrate on addressing the divorce of undergraduate education from industry and agriculture, from production and labor, from reality, and from the state of the nation. For years the nature, status, role, and development policies of specialized education have not been sufficiently understood. Inputs in specialized education have been meager, conditions in specialized education have generally been poor, the characteristics of specialized education have not been adequately highlighted, and the relationships

between specialized education and undergraduate education and between specialized education and technical secondary education have not been straightened out. All these problems should be given special attention.

The Structure of Discipline in Higher Education

As an essential component of the structure of higher education, the structure of discipline reflects the proportionate relationships between the different fields of study in higher education. The rationalization of the structure of discipline has enormous implications for the development and reform of higher education in China. Practice proves that blindly developing higher education regardless of whether there is a rational and scientific discipline structure will neither adapt to and satisfy the varied needs of economic construction nor bring about the stable, sustained, and effective development of higher education. The rationalization of the discipline structure of higher education is a highly complex issue. We need to study and delve into it in depth from all perspectives by combining theory with practice.

Generally speaking, subjects offered by higher education in China today fall into 11 major categories: arts, finance and economics, politics and law, science, engineering, agriculture, forestry, medicine, teacher training, physical education, and art. According to an analysis of the relevant data, after more than a decade of adjustment and development, the current discipline structure of higher education is basically consistent with the nation's economic, social, scientific, and technical conditions at the present stage. In the case of some other disciplines, however, we still need to make the necessary adjustments based on actual social conditions and changes in demand. In view of the fact that the training of qualified personnel is a complex and time-consuming process, we should go about adjusting those disciplines promptly when it is appropriate to do so. Also we must gradually create effective regulatory mechanisms to ensure the optimization of the overall structure of higher education.

Specifically, of the 11 broad categories of disciplines mentioned above, we are more familiar with arts, finance and economics, politics and law, science, engineering, agriculture, forestry, and medicine. Since the issues in each discipline are different, so should the direction and content of adjustment.

The scale of agricultural and forestry education should be appropriately adjusted and reduced. Judging from the size of student intake by institutions of higher education in the past 40 years, the annual intake of students in the field of agricultural and forestry at both the undergraduate and specialized levels usually accounted for about 10 percent of the total number of students admitted for that year, peaking out at 13.1 percent. Since 1965, admissions have been following a downward trend year after year. This is also true for total enrollment. In 1988, 32,965 undergraduate and specialized students were admitted in the field of agricultural and forestry, 4.9 percent of total admissions for that year, and altogether

113,505 students were enrolled in agricultural and forestry education, 5.5 percent of all enrollments. In light of the actual demands of agricultural and forestry production and development level for qualified personnel, possible state inputs in agricultural and forestry education in the near future, and the distribution and utilization of graduates in the last few years, admissions and enrollments are still too large and should be cut back substantially step by step. Within this century, annual admissions in the field of agriculture and forestry in higher education should be limited to 4.5 percent or so of total admissions for the year, while agriculture and forestry students should make up 4.7 percent of all enrollments. These ratios are quite realistic and achievable.

Adjust the proportionate relations among the various subjects in a timely way. In recent years the gap between the supply and demand of university graduates has been narrowing, the ratio between supply and demand being 1:2.8, 1:2.0, and 1:1.185 in 1986, 1987, and 1988, respectively. Social demand for qualified personnel has changed notably. In the past, there was a shortage of qualified personnel and the emphasis was on quantity. Today, the demand is for quality. This requires us to end the divorce and even deviation from society while holding the line on the overall scale of higher education and waste no time in adjusting the relations among the various disciplines in order to meet changed social needs.

Generally speaking, the situation in engineering, finance and economics, politics and law, and applied disciplines in arts like foreign languages is quite good, but adjustments are needed in science, arts, agriculture, forestry, and medicine. In 1989, a number of provinces, municipalities directly administered by the central government, and ministries reported the following graduate supply-demand ratios: science, 1:0.38; and arts, 1:0.58. In these fields, it is clear that supply exceeds demand. Although the excess of supply over demand is related to the short-term effects of the drive to improve the economic climate and rectify the economic order, the mismatch between graduates' job choices and social demand, and other reasons, the problem it reflects—oversupply of specialized graduates in basic disciplines—cannot but attract our attention.

As far as science is concerned, admissions in basic disciplines like mathematics, physics, chemistry, and biology have been too high, making up over 70 percent of all admissions in science. According to analyses and projections, in the near future China will need an additional supply of 11,000 qualified experts in these fields each year, leaving an oversupply of 5,000 people or so. Thus, adjustment in science in the days ahead will be mainly concerned with, first, reducing the number of institutions offering the specialties concerned and rolling back the size of student admissions; second, instead of training just theory-oriented graduates, we should turn out practical types for enterprises and other sectors; and,

third, taking measures to encourage comprehensive colleges to offer teacher-training programs and pre-med programs to encourage science graduates to teach in secondary schools.

Since the Third Plenary Session of the 11th CPC Central Committee, arts education has expanded markedly. Judging from the present situation, we should scale back admissions in some subjects and control the rate of growth in accordance with the spirit of improving the economic climate and rectifying the economic order. In some disciplines, there are too many institutions turning out too many graduates whose distribution is strikingly unbalanced. Those disciplines are due for some adjustments in accordance with social demand.

Turning to medical education, even as it satisfies the basic quantitative need for qualified personnel in the near future, it should ensure the quality of the corps of physicians. To resolve some of the problems in the present distribution of graduates in certain specialties in the field of medicine, the internal structure of medicine should be properly overhauled in light of practical social needs. According to studies and analyses, the size of admissions in specialties in modern medicine may remain unchanged, specialties in the field of pharmacy should increase admissions properly, but admissions in Chinese medicine should be reduced.

Specialty Structure in Higher Education

The specialty structure of higher education is a basic structure of the overall higher education structure. It is closely related to and overlaps the level structure, discipline structure, and other structures. In examining the structure of higher education, therefore, one cannot but have to involve issues related to specialty structure as well. The specialty structure of higher education usually includes two aspects: first, the offering of specialties, and, second, the distribution of specialties. In both cases we are currently confronted with the problem of reconciling macro control with micro invigoration. Research is needed to enable us to enhance the adaptability, rationality, and scientific nature of the specialized structure.

The adjustment and optimization of the specialty structure cannot be accomplished overnight, but requires unwavering hard work over a long period of time. As we see it, we should concentrate on doing a good job in the following areas in the near future:

First, step up studies and research using forecasts of qualified personnel to get a clear idea of the job structure of hiring agencies and their demand for qualified personnel, being particularly careful to analyze the distribution of college graduates in recent years and feedback from hiring agencies. Take necessary measures aimed at present problems and immediately adjust the admission plan and the direction of training. The State Education Commission had been getting something done on this front, such as proposing that admissions be suspended for certain specialties in response to information on

graduate supply and demand, sending investigators to the localities to learn about the distribution of graduates, and studying the specialty structure by subject.

Second, revise the undergraduate and specialized catalogs of the new round of institutions of higher education. Since 1982, the Ministry of Education has successively had the catalogs of such subjects as science, engineering, agriculture, medicine, and social science revised in accordance with the specialized offerings of institutions of higher education and social demand of the time. After adjustment, the number of specialties in science, engineering, agriculture, medicine, and social science declined from 1,343 to 671, a drop of 50 percent. In the process, some specialties were broadened and became more general. Moreover, a host of brand-new cutting-edge subjects and practical subjects were established, thus strengthening specialties in great demand. It should be said that this round of adjustment was the macro adjustment of the specialty structure and has had a positive effect on specialty construction and management in institutions of higher education. Be that as it may, specialties remain overly fragmented and ineffective, problems which have not been fundamentally resolved. In the wake of economic, scientific, technical, and social developments and the intensification of various reforms, both the state and society have new and more exacting demands that higher education take the initiative to adjust itself to the development of the socialist material civilization and spiritual civilization. Thus, further revising the catalog of undergraduate specialties in institutions of higher education has become a leading task for higher education today as well as an important means for optimizing the structure of higher education.

Whether it is in arts, science, engineering, or medicine, the scope of specialties must be broadened, the number of specialties reduced, and the work versatility of graduates enhanced. To do so, we must begin by reviewing our experience and proceed from realities step by step in accordance with priorities, depending on the conditions in each specialty. Do not apply one rule across the board. Preparation for this purpose had begun earlier in engineering and science, where a preliminary plan has been put forward. In agricultural and forestry education, planning is under way. Work will also begin in other fields, one after another.

Third, tighten the review and approval process for the establishment of specialties and their management, and vigorously adjust the distribution of institutions that offer the specialties. Right now, examination and approval for the establishment of a specialty and its management are a picture of confusion. That must be corrected. Specialties established in recent years without approval of the State Education Commission and not properly entered in the records should be overhauled and dealt with properly in accordance with their different circumstances. Specialties where the distribution of graduates in recent years was characterized by an excess of supply over demand should be strictly limited. Among

institutions of higher education today, too many departments offer the same specialties, which is ineffectual. According to rough estimates, between 1965 and 1985, departments offering specialties increased from 2,833 to 13,000, with 159 students in each department on the average, down from 288. There is a need for the State Education Commission to guide and organize provinces, municipalities, ministries, and commissions in rectifying the distribution points of specialties, zeroing in on duplicated specialties, specialties where the supply of graduates outstrips demand, and specialties that do not meet the basic conditions.

He Dongchang Discusses Higher Education Reform

OW0108221790 Beijing XINHUA Domestic Service
in Chinese 1311 GMT 28 Jul 90

[By RENMIN RIBAO reporter Zhang Shusheng (1728 6615 5110) and XINHUA reporter Cao Yongan (2580 3057 1344)]

[Text] Lanzhou, 28 Jul (XINHUA)—In restructuring and reforming China's higher education, it is necessary to adhere to the basic orientation of training talented people to serve socialism, said He Dongchang, vice minister of the State Education Commission, at a seminar on science education in schools of higher learning in Lanzhou.

He Dongchang said that restructuring and reform should be aimed at keeping today's higher education compatible with the needs of sustained, steady, and harmonious economic growth as well as structuring higher education for continuous, stable, and coordinated development.

He said a little more than 1 million students are enrolled at ordinary and adult schools of higher learning in China annually. The enrollment should not be increased, but should be controlled. The quality of schools of higher learning can directly affect the quality of cadres and the prestige of higher education. It is necessary to rectify the practice in some localities where, under the influence of "putting money above anything else," diplomas have been issued regardless of academic merit.

The vice minister added that restructuring higher education should be concentrated mainly on the distribution and structure of schools of higher learning. In readjusting specialties in general, there is no need to increase theoretical subjects, which should be developed at higher levels; emphasis should be placed on training professionals in applied science and technology. It is necessary to strive to rationalize the structure of schools of higher learning and improve their overall social benefit within five years. Along with the progress of reform, attention should be given to harnessing the enthusiasm of teachers, students, administrative personnel, and workers. Educational reform should include reform of teaching methods and programs. For example, students majoring in agriculture should be encouraged to go to the frontline of

production, and engineering students should be given more training in practical engineering work.

Happenings in Literary, Art Circles

'Wintry Weather' for Writers

90CM0262A Hong Kong CHENG MING
[CONTENDING] in Chinese No 151, May 90 p 23

[Article by Yang Lien (2799 6647): "Inside Information on the Way the CPC Deals With Its Literature and Art Circles"]

[Text] In the wake of the "4 June" incident, when many famous writers and theorists had been arrested and many had fled abroad, the literature and art circles underwent "rectification" and become an area of utter disaster, a fact that has attracted worldwide attention.

High-ranking officials of the CPC feel "rectification" of the literature and art circles to be an extremely troublesome affair, in fact, it could be briefly summarized as "hateful, fearful, and also hopeless." Organizationally, when the leadership of the Federation of Literary and Art Workers was reorganized, the left wing was allowed to come to power, and the Ministry of Culture had He Jingzhi [6320 2417 0037], a poet of the extreme left, assume the office of acting minister. In the area of theory, there was a rehash of the literary theories of Mao Zedong, and the Zhuozhou Conference was rehabilitated. However, under the present circumstances, only a few writers at the basic level have bartered away their honor for the party's patronage; most have reacted to "rectification" with silence or with freezing irony and burning satire.

Information from Beijing reveals that the differences of opinion among high-ranking Communists regarding the treatment of the literature and art circles are quietly widening. Persons around Wang Chen [3769 7201] energetically sponsor the reemergence of Deng Liqun [6772 0500 5028], to regain a "powerful stature" for the left wing of the party, but Hu Qiaomu [5170 0829 2606] and Deng Liqun have not yet openly declared their position in this respect, while Li Ruihuan and others have secretly placed obstructions in the way of this move. Apart from withdrawing his recommendation of Feng Jicai [7458 7535 2088], a Tianjin writer, for the position of minister of culture and agreeing to the appointment of He Jingzhi as acting minister, Li has in all other respects used public opinion instead of specific "rectification" of persons, with the intention of boosting his own image among literary and art circles and of organizing his own contingent of followers. The persons around Wang Chen, on the other hand, intend to bring again up the very "free" speech that Li Ruihuan, which he gave some years ago under the heading "Let us Play up the Special Character of Literature and Art and Lessen Specific Involvement by the Party," as a live target for an attack against Li, a scheme which was foiled by Deng Xiaoping and the Standing Committee of the Politburo.

In the Ministry of Culture, Li Ruihuan designated Vice Minister Ying Ruocheng [5391 5387 6134] and Liu Deyou [0491 1795 2589] to come to the fore, making a mere figurehead of Acting Minister He Jingzhi. In the exercise of his duties, Li Ruihuan's specific policies were of the following kind, and he accomplished the following specific tasks:

1. He persuaded famous writers and theorists who had been arrested to acknowledge their mistakes as a condition of their release, thus enabling their early return home. This action not only appeased public feelings, but also gained international prestige. This was the background to the release of one of the main contributors to *River Elegy*, Wang Luxiang [3769 7627 3276], and of some others.

2. For some writers who had participated in local demonstrations, especially famous writers, he felt imprisonment to be inopportune, and he relied mainly on sponsoring discussions with them, allowing them to maintain a neutral standpoint, so that, for instance, nothing happened to Shanghai's Bai Hua [4101 2901].

3. With regard to writers and artists who had fled abroad, he followed differentiated and diverse policies. In the Ministry of Culture's list of names, Liu Binyan, Su Xiaogang [5685 2556 1660], Xu Kang [1776 0474], Lao Mu [5071 2606], and Tsu Wei [4371 1983] are listed on a special register, and no illusions are entertained as to the attitudes of these persons. On the other hand, with regard to such writers and artists as Liu Zaifu [0491 0375 1788], Gong Jiesheng [1313 2212 3932], Dai Houying [2071 0624 5391], and Hua Wenyi [5478 2429 3354] of the Shanghai "gunzhu" opera group who had fled to New York, he intends to work through a variety of channels to have them maintain a neutral position as long as they are abroad. Vice Minister of Culture Ying Ruocheng declared in the course of a recent discussion that he will create favorable conditions for work on their return to China and for their future freedom of movement.

However, it is very questionable whether he can make good on his promise. For instance, in the case of Bai Hua, an institution in Germany had invited him to visit Germany and see with his own eyes the destruction of the Berlin Wall, but his visit was not approved by the authorities in charge. It is said that the matter had been referred up to the Politburo, which had denied approval. Communist China is not at all afraid that Bai Hua would not come back to China, but is afraid of the statements that Bai Hua may make abroad about the "4 June" incident, and that it will be difficult to deal with this matter after his return, being placed in a passive position. It shows that talk about freedom of movement is empty talk on which the Chinese Communists will not make good. Another difficult question is whether to allow family members of those who have fled abroad to leave China. There are these two opinions among high-ranking Communist officials: Some would allow them to go and some would not allow them to go. Allowing them to go would seem to encourage flight abroad, and not

allowing them to go seems to encroach on human rights. This question of whether to allow them to go or not is indeed a headache for the Chinese Communists.

4. "Rectification" will be directed mainly toward the matter [of ideology] and not directed against particular persons. Where theory is concerned, there will indeed be reverberations like loud thunder, but actual action will be like small drops of rain. Besides, it is the intention to give writers and artists a certain impression that the changes in the present leadership group are only of a temporary nature. Therefore, when this reporter asked Ying Ruocheng why a man of such advanced age as He Jingzhi was elected to leadership in the Ministry of Culture, Ying emphasized that he was only "acting" minister and will never become actual minister. This is a statement that really should be underlined.

However, despite the fact that a certain group of high-ranking officials in the PRC intends to lessen repercussions for writers and artists and wants in this way to buy public support, the wintry weather for literary and art circles has not yet passed in this country.

Left Wing Dominant in Literary Circles

90CM0262B Hong Kong CHENG MING
[CONTENDING] in Chinese No 152, Jun 90 pp 90-91

[Article by Huai Ping (2037 0393): "Left Wing on the Rampage in Literary and Art Circles"]

[Text] The Leftist Tune in Literary and Art Circles

For somewhat over two months now, the mouthpiece of the China Writers Association, WENYI BAO, is expanding, page after page and issue after issue, on the subject of "literature and art are to serve the people." The front-page headline of its 24 March issue was "Delegates of Literary and Art Workers at the Two Meetings (the NPC [National People's Congress] and the CPPCC [Chinese People's Political Consultative Conference]) Responded Fervently to the Call of the Times, Immersed Themselves Into the Heat of Actual Life, and Will Forever Keep Close Ties to the Masses." The article quoted a statement by Feng Mu [7458 3668], a member of the CPPCC: "The only way to create an era's literary tide is to promote the current advance of history as one's main theme. All writers who have a sense of responsibility and keep to the socialist road must observe the spirit expressed in the Central Committee's decision on the need to enhance the party's close ties to the masses. They must give serious consideration to the problem in their own future life and in their creative practice." The front-page headline in the 31 March issue was: "Personalities From Literary and Art Circles Who Attended the Two Meetings Enthusiastically Participated in the Political Affairs and Discussions, and Contributed Suggestions for the Promotion of Socialist Literature and Art." The text quoted remarks by CPPCC member and novelist Li Zhun [2621 0402] who said that the target of all his own descriptions had always been the masses and the real life of the masses and that it is only for this reason

that he was able to write things that were worthy of appreciation by the common people. Another headline in the same issue read: "Bring Forth More Works Which the Masses Will Love To Hear and Read About." It contained a statement by graphic artist Li Shaoyan [2621 1421 6056] who laments that in recent years literary and art workers have produced some art works which even those engaged in art find impossible to understand. He believes those engaged in literary and art work must resolve two problems: One is whom are we serving, and the other is how are we serving. Literary and art workers must first of all study Marxist-Leninist philosophy and Mao Zedong's writings to nurture an ideology of service to the people. WENYI BAO of 14 April reported on its front page on the symposium of some of the capital's leading publishers of literature and art, a meeting called by the Literature and Art Bureau of the Central Committee's Propaganda Department, and brings the main proceedings of the meeting under the heading "We Must Enhance the Flesh-and-Blood Ties Between Literature and Art and the Masses." In the latter part of the same issue, the paper publishes the speech by Liu Baiyu [0491 4101 5038], entitled "Literature and the People," which he gave to the editorial department of RENMIN WENXUE [PEOPLE'S LITERATURE]. The former believes that "the problem in the relationship between literature and art and the people is the core content of Marxist literary and art ideology. Maintaining a flesh-and-blood tie to the masses means expressing in essence the organic unity of party spirit and affinity to the people in socialist literature and art." The latter believes that "it is only possible to truly serve the people and serve socialism by firmly maintaining the socialist direction in literature and art."

Profuse Induction of Hack Writers

It is evident from what has been said above that those who speak out are either hack writers and elements of the extreme left or conservative elements. Li Zhun is deputy director of the Literature and Art Bureau in the Central Committee's Propaganda Department. His works, written with traditional technique, such as *Eastward Flows the Yellow River* published after the fall of the gang of four, were coldly received by the reader public, and therefore never republished in recent years. In the end, the only work of his that one may recall with appreciation is his *Don't Go That Road*, a piece from the 1950's, which was indeed "what the masses loved to hear and read about." Li Shaoyan, the creative graphic artist of Yanan in the 1930's, has preserved as his mental totem Mao Zedong's *Talks at the Yanan Forum on Literature and Art*. Liu Baiyu had participated in the 1981 criticism of *Unrequited Love* and since then put on a show which is, in fact, a rival show to "creative freedom." As to some of the leading publishers of literary and art who attended the symposium called by the Literature and Art Bureau of the Central Committee's Propaganda Department, such as Min Zhi [2404 3419], chief editor of WENXUE PINGLUN [LITERARY CRITICISM]; Zheng Bonong

[6774 0130 6593], chief editor of WENYI BAO [LITERATURE]; Xu Feiguang [1776 7236 0342], assistant chief editor of ZHONG LIU [MAINSTREAM]; Tu Wusheng [3205 2776 3932], leading cadre of WENYI LILUN YU PIPING [LITERARY THEORY AND CRITICISM]; Ding Zhenhai [0002 2182 3189], head of the literature and art department of RENMIN RIBAO; and Qiao Fushan [0829 4395 1472], head of the literature and art department of GUANGMING RIBAO, there is not one among them who is not of the conservative wing in literature and art, and the first four mentioned are really Lin Mohan's stooges, who for many years have been enemies of the literary reform party. All participants at the symposium have had to undergo careful screening. Artists who prior to the "4 June" incident had advocated freedom for literature and art, who had advocated independence and dignity for literature and art, who in the achievements of their painstaking labor had truly reflected the life of the people and in the form of their art had created something new, all persons of this type had been precluded from participation at the meeting. The principle that "the voice of one man alone should count," a principle which by now had not been about for quite some time, has reappeared over the vast territory of China, and what is called "service to the people" is in actual fact service to the communist rule over China and service to the consolidation of that regime. In the statement by Liu Baiyu, which was previously quoted, the way he combines party spirit with affinity to the people, and the way he places "service to the people" below "firmly upholding the socialist direction of literature and art" clears up the mystery. In his speech "Literature and the People," he defames even more vigorously those who would "place affinity for the people above party spirit." He said of them that "they will plunge the people into extreme misery, as they are intent only on self-serving self-aggrandizement, and that it is absolutely out of the question to speak of them as rendering service to the people and service to socialism." It shows that Liu Baiyu and his sort of people are terrified of works that truly serve the people, and that they hate such works like anything. After the "4 June" incident, it was permitted to publish only works that eulogize virtues and achievements, and no work was permitted to see the light of the day that pleaded on behalf of the people. This again shows essentially what kind of stuff their so-called "service to the people" is made of.

Glib Talk of "Flesh-and-Blood Attachment" to the People

During the recent "literature and art to serve the people" offensive, carried out with such loud clamor in the public media, some incompetent theorists had finally found a theoretical basis for themselves: It said in the report from the symposium of some of the capital's leading publishers of literature and art, the symposium which had been called by the Central Committee's Propaganda Department, that, "after the Third Plenary Session of the 11th CPC Central Committee, many writers and artists experienced a 'phenomenal outburst' of creative

work, namely work that reflected problems which are of general concern to the masses, and that expressed the flesh-and-blood attachment and very close ties to the masses, and that this made their works many times more welcome among the masses."

Anyone familiar with the literature and art of Communist China during the last 10-odd years knows that the above-stated conclusion is a bare-faced lie. After the demise of the gang of four, there was a strong propensity for works of a new realism which revealed the dark sides of the social reality in Communist China. There are two reasons for that: One is that the bitter, inhumane life, which writers and artists had been subjected to under the 20-odd-year rule of a cruel regime, provided the very material for their creative activities. The other reason is that writers and artists were able to enjoy increasing freedom under a comparatively more enlightened Communist Chinese regime (personified primarily in Hu Yaobang), when a "three nos" policy was initiated: No grabbing by the pigtail [seizing on mistakes], no capping people with defamatory labels, and no hitting with a big stick. Just imagine, if this movement would not have been cut short by the "antiliberalization" movement of 1981, the "anti-spiritual pollution" movement of 1983, and the "anti-bourgeois liberalization" movement early in 1987, literature and art in Communist China would certainly have reached the state of "a vast expanse of whiteness and true purity over the entire land," and where would the "phenomenal outburst" have come from? From the establishment of the Chinese Communist regime until the demise of the gang of four, the Chinese Communists pushed writers and artists to involve themselves deeply in the lives of workers, peasants, and soldiers, and the slogan "enhance the flesh-and-blood ties between literature and art and the masses" was repeated over and over again. But since there was no freedom of creation to speak of at that time, works that were produced lacked any noteworthy value. It goes to prove again that a flourishing literature and art indeed requires nothing else but a nonrestraining, non-interfering policy on literature and art.

Mao Zedong's Famous Dictum Is Again Motto

When elaborating on the need for literature and art to serve the people, several articles in WENYI BAO cite the slogan "what the masses like to hear and read about." This slogan goes back to an article written by Mao Zedong, published in October of 1938 under the heading "The Position of the CPC in the National War." The original text reads: "Foreign stereotypes must be abolished, there must be less singing of empty, abstract tunes, and dogmatism must be laid to rest; they must be replaced by the fresh, lively Chinese style and spirit which the common people like to hear and read about." This phrase was originally targeted at the attitude of party members toward Marxism. It was to express the idea that a discussion of Marxism without regard for China's specific characteristics would be an abstract and empty Marxism, and that it was therefore a problem that

urgently required the understanding of Chinese Communists, and also urgently required a resolution by Chinese Communism, to work out a concretization of Marxism, to have its every manifestation display China's specific characteristics, and to apply it in the light of China's specific characteristics. However, later, people applied the phrase "the Chinese style and spirit which the masses love to hear and read about" to literature and art as the theoretical basis for refusing to allow enrichment by foreign literature and art.

We have to understand that, although the formulation "Chinese style and spirit which the common people of China like to hear and read about" seems outwardly to be extremely respectful of the tastes and customs of the "common people of China," the actual effect was a surrender to the backward mentality of the common people of China, and to have them forever remain in that backward state. Because of China's despotic political system and the traditional ideological upbringing of meekly submitting to oppression, the common people of China have never had a mind of seeking deliverance on their own initiative. They have always pinned their hopes on heroes or otherwise outstanding personalities, to seize from the rich and give to the poor, to defeat the strong and support the weak, or on honest officials to come to the rescue of the people. If this kind of popular appreciation and custom would be followed, and if such purposes would be served by providing the people with subservient literary and art works, would this not amount to leaving them forever in a state of complete ignorance of democratic ideas? Would writers and artists that would work in this way not show a complete lack of responsibility?

"People" as a Facade in the Deceit of the People

Conservatives always criticize modernist works by claiming that the masses cannot understand them. They say that those artists do not respect national tradition and national customs, and even go so far as to accuse them of intending "complete Westernization." However, if a nation accepts cultural enrichment from another nation to promote development of its own national culture, that would actually be a measure that any nation with good future prospects should adopt. National works of literature and art that show revolutionary novelty by taking a lesson from foreign literature and art, may, in the beginning, due to differences in cultural traditions and customs, frequently be found unacceptable, but after further study and in the course of time, they will naturally fit in. When "obscure poetry" first came up in the early 1980's, did not some people reject its modern artistry because it scorned traditions, and said of it that it was obscurantist, obtuse, and enigmatic? In 1983, was it not that people like Zang Kejia [5258 0344 1367] still criticized such poetry as "blind veneration of Western things, bourgeois, decadent, and putrid stuff." "Highly obscure, highly eccentric, it will have people gnash their teeth in disgust and never get anything out of it." "Not something that the masses like to hear or read about," also hoping to

strangle it in its swaddling clothes? But now "obscure poetry" has been accepted by the masses. Those insults flung against it are nothing but the humming of flies against the wall.

Whether literature and art is to serve the workers, peasants, and soldiers, or to serve the people, in the final analysis, these works have to serve the Chinese Communist regime. This is the reason why they insist on adding to the "literature and art are to serve the people" an additional "to serve socialism." There are innumerable misdeeds committed by the Chinese Communists under the facade of the "people," and literature and art are no exceptions.

Writer Yi Ren Blasts Hu Shi, Westernization

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[Article by Yi Ren (1707 0086): "Hu Shi and Post-Hu Shi"]

[Text]

I

Hu Shi [5170 6624] gave a speech titled "Social Reform Required by Scientific Development" at the opening of a conference on scientific education in East Asia (organized by the U.S. Agency for International Development) in Taipei on 6 November 1961. He spoke in English, but we know this is what he said from material in the book *Exploring Culture and Philosophy* by Mr. Liu Shuxian [0491 6615 0341], a Taiwan scholar:

When I was invited to address today's conference, I was skeptical. Probably the conference organizers deliberately want to make fun of me, or to make fun of the audience. Maybe they want me to play the "devil's advocate" at the opening of the conference and say a few disagreeable words so that you can all tear them apart as you scrutinize them quietly.

I believe there is little spiritual content in our ancient Eastern civilizations. What spiritual content can there be in a civilization that tolerated the totally inhumane practice of female foot-binding for over 1,000 years, without so much as a whimper of protest? What spiritual content can there be in a civilization that tolerated the "caste system" for thousands of years?

Try to imagine an old woman beggar dying in abject poverty. Before she breathes her last, she is still chanting, "Merciful Buddha!" in the belief that her soul may go to the Pure Land ruled by Buddha. Does this old beggar have any spiritual value worth mentioning?

About 35 years ago I proposed that we rethink and redefine some terms that are often used and easily confused: "spiritual civilization," "material civilization," and "materialistic civilization."

The so-called "material civilization" should have a neutral meaning because all tools of civilization are the material expression of a concept. A stone ax, an earthen idol, a modern ocean-going liner, and a jet plane (Writer's note: that is, "jet-propelled" plane) are all material. There is no reason why a poet or philosopher sitting on a primitive sampan should deride or despise the material civilization of those aboard a modern jet flying overhead.

I also said that, although the term "materialistic civilization" is often used in a derogatory way to refer to the scientific and technical civilization of the modern Western world, I think it would be more appropriate to use it to describe the backward civilizations of the Old World. This is because the truly materialistic civilizations are those which are hemmed in, oppressed by, and cannot break free from the material environment and those which cannot utilize human intelligence to conquer nature to improve human living conditions. In short, I have to say that it is the civilization that feels impotent to battle the material environment and is conquered by it that is pathetically "materialistic."

On the other hand, I propose that we consider the modern scientific and technical civilization as a highly idealistic and spiritual civilization.

This is my sincere eulogy of the modern scientific and technical civilization.

This was Hu Shi's last public speech before he died. As he anticipated, his speech was a bombshell in Taiwan's world of ideas and triggered a debate on total Westernization, a debate on Chinese civilization versus Western civilization. It was also the last cultural debate centered on Hu Shi before he passed away.

Supporters of his speech argued that it was right on target in its criticism of modern ills. Some people did not see eye to eye with him, but believed he was well-intentioned. Typical of this viewpoint was the article "Cultural Debates: Review and Critique" by Liu Shuxian, who did not participate in the debate. In his article, published in UNIVERSITY LIFE, a Hong Kong magazine (Volume 8, No. 23, 16 April 1963), Mr. Liu Shuxian suggested that Hu Shi seemed to be jumping to conclusions when he totally rejected the ancient Chinese and Indian civilizations just because of "foot-binding" and the "caste system." Liu Shuxian asked rhetorically, "Can we not similarly prove the absence of spirituality in Western civilization by pointing to slavery in Greece and Rome, the chastity belt in the Middle Ages, and the problem of black slavery in modern America? Similarly, it is also far-fetched in the extreme to compare the old woman beggar to the advanced achievements of Eastern cultures such as Confucianism, Taoism, and the philosophy of Aoyishu [1159 5030 2579]. If there are superstitious old woman beggars in the East, isn't there foreign superstition in the West today as well?"

Liu Shuxian also disagreed with Hu Shi's claim that "material civilization" has a neutral meaning," contending that our choice of scientific values is not neutral. "If we want science and technology, we have no choice but to reject anti-science and anti-technology." The example of the sampan was sheer random shooting. As for Hu Shi's definitions of such concepts as "material civilization," "materialistic civilization," and "spiritual civilization," they really did not amount to much because they either were not elaborated or ran counter to "established usages." Finally Liu Shuxian noted that the "argument in Hu Shi's speech is simply too flimsy."

As for those who objected to Hu Shi's speech, they believed that the man who earned his Ph.D. in the West did not really understand the spirit of Chinese culture and rose to fame merely by interpreting Chinese culture to foreigners. Even now, when he was getting on in years, he must still lash out at Chinese culture at an international conference, doing his best to vilify and slander a much-beleaguered culture. This was clearly intolerable. It was Professor Xu Fuguan [1776 1788 6034] who first sharply rebuked Hu Shi in his article "The Shame of the Chinese, the Shame of the Asians" published in MINZHU PINGLUN [DEMOCRACY COMMENTARIES]. Almost immediately Huang Fusan [7806 1381 0005], a young scholar, wrote an article in WENXING [LITERARY SPARK] rebutting Xu Fuguan. Unwilling to let the matter drop, Xu Fuguan shot back with a long piece, "The Excessively Low-Priced Question of China and the West," in WENXING [LITERARY SPARK]. Subsequently, the magazine carried three more articles by Li Pengling [2621 1756 7881], Huang Fusan, and Dong Fangwang [2639 2455 2598], respectively, in support of Hu Shi: "In Defense of Mr. Hu Shi," "Clever Argument Versus Absurd Argument," and "Veiled Criticism."

On 14 February 1962, just as the debate he touched off was gaining momentum, Hu Shi reportedly had a sense that he was besieged and was feeling a little depressed. That day he attended a banquet. During the banquet, he got emotional and said a few words. Then he suffered a heart attack, which proved fatal. It never occurred to him that his speech would be his swan song.

Hu Shi is dead, but the curtain has yet to fall on the debate on Westernization. On the contrary, it is becoming more and more heated. It is just that the protagonists these days are Hu Qiuyuan [5170 4428 0626] and the new-tide "angry young man," Li Ao [2621 2407], whose role model is Hu Shi. The two exposed each other's past misdeeds and their battle of words finally culminated in a lawsuit, with the Taipei district court slapping each of them with a fine. (Li Ao and the publisher of his magazine were each fined NT\$1,000 [New Taiwan dollars], while Hu Qiuyuan was fined NT\$600.) Last year Renmin Wenxue Chubanshe put out a book by Li Ao titled *Tradition Under the Monologue*, which includes the article "13 Years and 13 Months," written on 17 December 1962 when Li Ao still bore a grudge against Hu Qiuyuan, Xu Fuguan, Zheng Xuejia

[6774 1331 4471], and Ren Zhuoxuan [0117 0587 1357]. As for the rights and wrongs among these people, we will not go into detail here.

II

At the heart of Hu Shi's speech remained the idea of total Westernization. The first person to use the expression "total Westernization" was not Hu Shi, but Chen Xujing [7115 1645 4842] (See Chapter 5, "Reasons for Total Westernization," in his book *The Future of Chinese Culture*). As Yin Haiguang [3009 3189 0342], an overseas scholar, put it, "Although he (Writer's note: that is, Hu Shi) avoided using the phrase 'total Westernization,' if we extend his argument to its logical limit, the young Hu Shi was not opposed to China taking the road to total Westernization in a peaceful and incremental way." (See *The Prospects for Chinese Culture*, Book 2). Let me add that the idea of total Westernization is not limited to "young Hu Shi." We may say that Hu Shi was a dyed-in-the-wool proponent of total Westernization all his life. The Hu Shi who wrote "Our Attitudes Toward Modern Western Civilization" (see *Collected Works of Hu Shi*) in 1926 (which was the article he referred to when he mentioned in his speech the proposal he made 35 years ago) was as much a total Westernization advocate as the Hu Shi who delivered his speech in English in 1961.

In "Our Attitudes Toward Modern Western Civilization," Hu Shi proclaimed loud and clear, "We must admit we are inferior to others in everything, not only materially, not only in machinery, but also politically, socially, and morally." (Emphasis my own, same as below.) Why is China inferior to other people in everything? What has been ruining us is not imperialism, according to Hu Shi, but "we have been deceiving ourselves." What has really been ruining China is an egoism pervading the country. All the Chinese do is to "blame others for everything, not ourselves." Thus, Hu Shi said, "Our number-one priority today is to cultivate a new psychology: A willingness to admit our mistakes and fully acknowledge that we are inferior to others in everything." "The second step is to be dead set on learning from others. Frankly, we need not be afraid to copy."

Thirty-five years later, in his 1961 speech, Hu Shi was still singing the same old tune of China being inferior to others in everything. Not only is our material civilization inferior to that of the West, but so is our spiritual civilization. Here Hu Shi was still hell-bent on preaching total Westernization. The only difference was that he now couched his argument in more acceptable language, calling it his "sincere eulogy of the modern scientific and technological civilization."

"Total Westernization" cannot and has not saved China, as proved by modern Chinese history after the May 4th Movement.

Hu Shi may have gone to heaven with his ossified thinking about total Westernization, but his slavish

mentality toward all things foreign, his worshipping foreign things, his fawning on foreign powers, and his slave-to-a-foreign-master looks have not followed his body into his coffin and been buried. On the contrary, like a specter, they continue to haunt some people, both in Taiwan and on the mainland. You do not have to go far back in history. Liu Binyan [0491 6333 7159], Yan Jiaqi [0917 1367 0366], Liu Zaifu [0491 0375 1788], Su Xiaokang [5685 2556 1660], and Liu Xiaobo [0491 2556 3134] (some of them already associating themselves with evil anti-communist forces in Taiwan) can all be described as his disciples and followers.

In his article "Looking Back as the Century Ends," Su Xiaokang expressed his profound admiration for Hu Shi's way. Extolling Hu Shi as a sage, a great teacher, Su Xiaokang says the road Hu Shi had chosen is the only permanent solution that intellectuals who truly thoroughly understand the secrets of Western success and the roots of Oriental backwardness can possibly choose. (Emphasis my own.) Su Xiaokang slavishly toed the line of Hu Shi the elder and treated Westernization as a perfect recipe for solving China's basic problems. The only difference is that Su Xiaokang has a new name for the Western civilization Hu Shi pursued: "bright blue civilization."

Hu Shi firmly rejected the notion that China's inferiority in everything is the result of imperialist colonial policies. Of course Hu Shi was merely trying to whitewash imperialism. Even more straightforward than the founding father on this issue is Liu Xiaobo, the "dark horse" in the world of letters. In his article "The Tragedy of Enlightenment: A Critique of the May 4th Movement," Liu Xiaobo came straight to the point, "From the perspective of historical development, colonization of backward nations by the West in recent times is a form of progress. Worldwide colonization drove the course of modernization. Colonization opened up a closed territory, a commodity market, and a cultural market so that the entire world is now open, in particular so that East and West are no longer closed to each other. Even more important, colonization brought to the world human rights, equality, freedom, democracy, and competition, things which used to belong to the people of the West only, giving rise to free competition on a global scale. Without colonization, there would have been no globalization, no internationalization." He went so far as to say that China should have been a "colony for three centuries," an opportunity which, unfortunately, China was deprived of. If Liu Xiaobo's dream of total Westernization in China proves unfulfilled, then China would become a subcolony, which is worse than a colony.

Hu Shi called for total Westernization in the name of "social reform." He was not alone. It so happened that the troublemaking elite also clamored for total Westernization under the signboard of "reform and openness." What was the "social reform" that Hu Shi talked about so glibly? Let us not worry about that. Comrade Deng Xiaoping has laid bare in a profound way the true colors of the elite of the 1980's. He wrote, "In the reform

process, there is also disruption from the right, which can be summed up as total Westernization in the name of supporting reform and openness, but their purpose is to steer China toward capitalism. People who have this rightist tendency do not genuinely support reform and the open policy. Instead they want to change the routine of our society." (*Deng Xiaoping on Arts and Literature*, p. 119.)

III

I am grateful to the editorial department of ZHONGLIU [MAINSTREAM] for printing in its inaugural issue some valuable materials on the strategy of "peaceful evolution" that international reactionary forces are applying to China. The following quotation comes from a letter dated 29 October 1947 from Stilwell, U.S. ambassador to China, to General Marshall, the top U.S. official in charge of China policy:

China's greatest hope seems to be its young, educated intelligentsia. This group of young intellectuals should be expanded to include the erstwhile passionately patriotic students, who have become cynical and dispirited because of a frustrating environment.... Given some general American aid of the type now under consideration, these young people can become a "shock brigade." ...The Chinese people are suited for democracy by nature, not communism.

What Stilwell called the "young intellectuals" here is just another term for the supporters of "democratic individualism," in the words of Dean Acheson, then U.S. secretary of state. From his youth until he died, Hu Shi epitomized the "democratic individualist." People like him always harbor unrealistic fantasies about the United States. In an article written in his early days, Hu Shi already portrayed the United States as a "human paradise" and "heaven on earth," even declaring that he would work hard to create such a "paradise" and "heaven" in China. To Hu Shi and his ilk, total Westernization means "total Americanization." It is not enough just to copy the U.S. social system, value system, morality, philosophy of life, and way of life. There is this classic analogy: Western civilization is like a beauty. If you want to possess her, then you must take everything, warts and all. You want their squash, onions, tomatoes, watches, Simmons mattresses, then you must at the same time put up with syphilis, bars, divorce, suggestive dancing, rock and roll, and the madness that goes with it. For more than half a century now, while one bunch of total Westernization adherents replaces another, the core substance of total Westernization has not changed. Precisely because the soil for democratic individualism is still there, the U.S. strategy of "peaceful evolution" retains a small audience in China.

Comrade Mao Zedong analyzed "democratic individualists" thus, "They are easily taken in by the sweet talk of U.S. imperialists, who would have you believe that they would honor equality and mutual benefit when dealing

with People's China even without a bitter protracted struggle. Democratic individualists are still full of the vestiges of reactionary thinking, that is, anti-people thinking, but they are not KMT [Kuomintang] reactionaries. They are the middle-roaders or rightists of People's China." (See *Selected Works of Mao Zedong*, Volume 4, p. 1,422.) Let me just add that the so-called social elite who fled China after the Beijing disturbances and established anticommunist anti-people reactionary political organizations overseas have already been colluding with the KMT. As for the likes of Fang Lizhi [2455 0536 0037] and Li Shuxian [2621 3219 8300], they are traitors, worse than bull shit. In short, democratic individualists have become the tools or targets that the U.S. Government looks for to implement its "peaceful evolution" strategy in China.

Stilwell continued in his letter:

Once we are clear who our target is, we can provide a kind of moral reawakening and revival... with former and current students as the most active core of this movement. The confidence of democratic youth (writer's note: that is, democratic individualists) will then be equal to that of communist youth. And China's future will generally hinge on which side among the modern generation gains the upper hand. If we truly believe in the democratic way of life (writer's note: that is, American way of life) and its ability to conquer the biggest modern enemy in the current struggle (writer's note: that is, the CPC and its teaching—Marxism-Leninism), then we have no fear. If even these procedures cannot defeat communist ideas and plots, then nothing will.

A couple of things are worth noting here: 1) The U.S. Government has made the student movement the focus of its "peaceful evolution" strategy because it is the "most active core." 2) The U.S. Government invariably pins its hope for the success of "peaceful evolution" on the youth of China, or, more specifically, on young democratic individualists. 3) In going in for "peaceful evolution" in China, the U.S. Government wants to overthrow the people's regime led by the CPC and Marxism. The student movement that broke out in the winter of 1986 and involved over 20 large and mid-sized cities and particularly the Beijing disturbance between the spring and summer of 1989 fully demonstrate that a tiny handful of democratic individualists, especially the so-called intellectual elite, is perfect as the U.S. "shock brigade" (Stilwell's words), commandos, and death squad in China, a role both shameful and pathetic.

"Peaceful evolution" has been a basic U.S. policy toward China since the end of World War II. U.S. presidents come and go, as do their think tanks, but the policy of "peaceful evolution" has remained unchanged over the decades. In the past decade, in particular, the United States has been pressing ahead with that strategy on all fronts. In ideological infiltration, especially, the United States has spared no effort. In a book published last year that has already been hailed in the West, a well-known

contemporary U.S. adviser gushes, "...these ideological gymnastics opened the door to a much wider infusion into China of new Western ideas. Especially within Beijing's think tanks, this intrusion generated a special fascination with theorists of the postindustrial society such as Daniel Bell, of the social consequences of the new information technologies such as Ilya Prigogine, and of the shape of the future such as Alvin Toffler. To a growing number of Chinese thinkers, these Western perspectives had more to offer regarding the real substance and direction of the 'primary stage' than the books of Marxism-Leninism which Zhao's own words were helping to delegitimize."

The words of this Western adviser bluntly show that the West is very keen to take over our socialist ideological realm and cultural front using modern Western capitalism (in the name of academic exchange, of course). They seek to wage a war without the smoke of gunpowder in China through steady cultural and ideological infiltration. Unfortunately, this is something that many of our well-intentioned comrades and young friends do not understand or do not fully understand. Our opinion-shapers should often remind their readers of the danger in this area so that they are better equipped to tell right from wrong and heighten their vigilance.

Hu Shi, who was absolutely irreconcilable to communism (as he characterized himself to Stilwell) was denounced for peddling total Westernization his entire life. As for Fang Lizhi, Liu Binyan, Yan Jiaqi, and Su Xiaokang, who followed in his footsteps, they are even worse than him, nothing more than a pack of rats running across the street.

Qin Benli, SHIJIE JINGJI DAOBAO Remembered

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[CONTENDING] in Chinese No 152, Jun 90 pp 46-49

[Article in "Special 1989 Prodemocracy Movement Anniversary Issue III" by Wu Zuoren (0124 0155 0086): "Qin Benli and SHIJIE JINGJI DAOBAO—Also Discussing DAOBAO's Influence on the Prodemocracy Movement"]

[Text] Last year, on 27 April, 100,000 Beijing students took to the streets to protest RENMIN RIBAO's reactionary "26 April" editorial, and the prodemocracy movement, composed mainly of students, reached a climax. Authorities in Shanghai tried in vain to put out the fire of democracy and convened a CPC meeting of 10,000 cadres on that very day to "take a clear stand" against the "disturbance." That night, they decided to clean up SHIJIE JINGJI DAOBAO and "suspended" Qin Benli's [2953 2609 4539] membership in the party organization and his post as chief editor. The authorities criticized DAOBAO for inciting "disturbance" and "stirring up" student strikes. On the next day, 28 April, this piece of criticism was carried in the newspapers and broadcasted over the radio.

This year, again on 28 April, DAOBAO, which has been reorganized under instructions from the Shanghai authorities, announced that Qin Benli "has been hospitalized" but refused to disclose the reason for Qin's belated "hospitalization," which is most puzzling. Is Qin Benli really gravely ill? Or is he struck by a "political ailment"? Qin Benli was one of the vanguards of the 1989 prodemocracy movement. Whether he is sick or not, people in China and abroad who worry about the prodemocracy movement are concerned for his safety.

I have always wanted to write something to commemorate the 1989 prodemocracy movement, but so many thoughts have welled up in my mind that I do not know where to begin. In exile, I received the sudden news from foreign reporters about Qin Benli's "hospitalization," which made me miss this leader of the prodemocracy movement all the more. Qin Benli and I worked together at one time and I am familiar with the stories about DAOBAO. I hereby dedicate this article to the revered Qin and the fair-minded people in DAOBAO.

The Core Members of DAOBAO Are "Rightists"

DAOBAO was set up by the Academy of Social Sciences of Shanghai's World Economy Research Institute (chaired by Professor Qin Benli) and was established during the "Xidan Democracy Wall" era. DAOBAO was the first to advocate "implementing internal reform, opening up to the outside world, and enlivening the economy," and it spearheaded the ideas of "emancipation of the mind" and "restructuring of the political system"; it has always cried out for China's "democratic modernization." The original cast of DAOBAO, besides chief editor Qin Benli, consisted of assistant editors in chief Wu Sai [0702 1049], Xiong Yingshi [3574 2019 4258] (concurrently, editor in chief of the DAOBAO-run XINWEN BAO), and Zhang Xizhi [1728 5045 0037] (rumor has it that he has been arrested), and other experts, as well as long-time, renowned journalists and democratic personalities inside and outside of the party. Back in 1957 when the CPC was engaging in "rectifications," these were the daring ones who "expressed opinions" and "furiously attacked the party" and were subsequently branded "rightists"; they have long been persecuted since. In 1979, when Qin first decided to publish a newspaper that reflected the popular will, he said that working for DAOBAO was not being "rightist," that he would have none of it. Many are still dwelling upon this statement with great relish.

Qin's DAOBAO was a "three-independent" civilian newspaper—it raised funds independently, recruited people independently, and advocated independence. Besides attempting to "strengthen the party's leadership" and making life difficult for the paper, the authorities never lent any financial help or granted it any favor. The authorities later claimed that DAOBAO was semi-official. Probably they felt guilty and were too embarrassed to claim that the paper was "official."

When Qin Benli first gathered funds to start his paper, it took some doing. Most of China's intellectuals are rich in intellect and poor in life. Press colleagues and celebrities who cared about DAOBAO came up with 800 here and squeezed another thousand there, and it was not easy to put together a sum of money. "Boss Qin" was a poor man himself. He took great pains, sold his belongs, and put up everything he had. Renowned scholar Qian Junrui [6929 0193 3843], (the late chairman of the Academy of Social Sciences of China's Institute of Economic Research) felt so guilty that he made a generous donation of 2,000 yuan, which was all he could afford. Qin Benli laughed and said, "Brother, your name may be 'Qian' [money], but you are dirt-poor, too. I appreciate your kindness," and he declined the offer.

DAOBAO was not an economic entity, nor was it a profit-oriented newspaper. It could not afford to operate its own press and had to pay JIEFANG RIBAO to do the printing. It was at the mercy of others. Faced with soaring paper prices, it could not sit back and enjoy the "official price" but had to pay the "negotiated price," and often it had a hard time making ends meet. But Qin Benli vowed that he would not "bow for 5 dou of rice" and would not run advertisements for money. Qin Benli forbade DAOBAO to print commercial advertisements, especially not on the front page. Occasionally, if it was absolutely necessary, he would agree to take an ad. Wu Sai, assistant editor in chief in charge of day-to-day business, was Qin's perfect partner. He would station himself in JIEFANG RIBAO's office in the afternoons and took charge of the paper's layout; he was always dependable, and he made sure that the paper kept up its literary quality.

A Subtle Influence on China's Political Situation

DAOBAO dared to charge the "forbidden zone" and break the rule of "unanimous opinion." From the time it refuted the 10-year-long Cultural Revolution and criticized Mao Zedong's mistakes and attacked the "patriarchal system" (dictatorship), it had steadfastly been anti-"left." All brilliant essays and speeches, whether they came from the authorities or civilians, whether they were from inside the system or outside, and whether they came from the mainland or overseas, so long as they were anti-"left" or showed reform insight, and even if the paper disagreed with the views, were treated equally without discrimination and were given a place of prominence in the paper. It was willing to print and report on all subjects. Of course, DAOBAO was selective in its own ways, and it put its emphasis on different topics at different times. Counted among DAOBAO's contributors were many well-known scholars and experts, Zhao Ziyang's "brain trust," leaders of the prodemocracy movement, and reformists. Qian Jiaju [0578 1367 7467], Fang Lizhi [2455 0536 0037], Liu Binyan [0491 6337 7159], Wang Ruowang [3769 5387 2598], Hu Jiwei [7579 4921 0251], Ge Yang [2047 2254], Yu Haocheng [0060 3185 2052], Wen Yuankai [3306 0337 0418], Yan Jiaqi [0917 1367 0366], Su Shaozhi [5685 4801 2535],

Bao Zunxin [0545 6690 0207] are among those who have had their works published in DAOBAO.

It was DAOBAO that first suggested that China's serious systemic problems could be solved only by the simultaneous restructuring of the economic system and the political system. It advocated changing the policy of "closing the country to all outside contacts" to all-out "opening up to the outside world," "steering away" from the bureaucratic administration structure, "privatizing" to some degree the key factors of production, and replacing the "single planned economy" with a "pluralistic market economy." It emphasized "human standards," tapping the wisdom of the people, developing democracy, abolishing "lifelong tenure," and replacing the "rule of man" with the "rule of law." Back then, upon judging the hour and sizing up the situation, the enlightened faction led by the likes of Hu Yaobang and Zhao Ziyang accepted DAOBAO's suggestions within the framework of keeping the socialist system intact and formulated a limited resolution on restructuring the economic system, which was put into effect.

It was also DAOBAO that suggested that the culprit causing the economic reform to stall rather than deepen was the "obsolete political system," and it reiterated the need to "restructure the political system" alongside the economic reform and let the two complement each other. Although it was a proposal for "political reform," and it contained such phrases as "abolition of lifelong tenure" and "popular elections," which necessarily offended many political old-timers, it nevertheless brought about the party Central Committee's resolution to "restructure the political system." Early on, DAOBAO advocated the "peaceful unification of China," and on the question of the repatriation of Taiwan and the return of Hong Kong, it was the first to come up with the idea of "one country, two systems," on which it conducted scientific proof and feasibility studies. The idea was later adopted by Deng Xiaoping. On DAOBAO's fifth anniversary, Zhao Ziyang and others personally sent their congratulatory notes. DAOBAO's influence on the high levels of government in the early days was obvious.

Influence That Reached Far and Wide

In midcourse and in the later period, DAOBAO not only continued to influence the high levels of government but also had an effect on the civilians, and it reached far across the sea to touch the foreign media, business, and political circles. In 1985-86, both THE NEW YORK TIMES and YOMIURI SHIMBUN showed an interest in financing a joint venture with DAOBAO to publish an "overseas edition" of DAOBAO. A Chinese-owned company in Canada also took the initiative to propose a joint venture with DAOBAO to print a "North American edition." Qin Benli, Xiong Yingshi, Wu Sai, and others screened the prospective partners and finally decided to go with the Chinese group in Canada. DAOBAO was to be responsible for soliciting articles, supervising the printing, and doing the translations; the Canadian side

was responsible for funding, registration, publication, and circulation. Upon receiving the Shanghai municipal party committee's consent, a report was submitted to the party Central Committee for examination and approval. Canadian Foreign Minister Clark sent a letter to the Chinese leaders to welcome DAOBAO and to wish the first "North American edition" luck. Subsequently, because of the "leftist victory" and anti-"liberalization" movement at the higher level, the letter went unanswered. The "North American edition" had been scheduled to go to print in Canada and circulate in the United States on 16 January 1987, but, on that day, General Secretary Hu Yaobang was forced to "resign," and the venture was aborted.

Back in those days, the then President Reagan also thought highly of DAOBAO and used it for reference in studying Chinese issues and formulating the U.S. China policy. When he sent invitations to reporters, DAOBAO's reporters stationed in the United States were often on the top of his list. When Bush was elected president, he invited Qin Benli to his inaugural ceremony, but the higher authorities used the fact that DAOBAO had just printed a radical essay by Su Shaozhi as an excuse, and refused to issue Qin an exit visa. Afterwards, it took a special permit from Jiang Zemin before Qin could visit the United States in April 1988. Back in 1949, Qin was designated by party insiders to be the first RENMIN RIBAO reporter stationed in the United States. Forty years later, for the first time, or maybe the last time, this man who had collaborated with Hu Sheng [5170 4939] (president of the Academy of Social Sciences of China) on the book *Meiguo Jingji Luehua Shi* [History of the United State's Economic Invasion of China], finally arrived in the United States—the land of democracy—as chief editor of a civilian newspaper, and he received a warm welcome from President Bush.

In recent years, DAOBAO shifted the focus of its study and reporting to the reform in the Soviet Union and Eastern Europe. CPC "big brothers" were very interested too. The Soviet ambassador to China met with DAOBAO's reporters in Beijing. A year before Gorbachev visited China, DAOBAO had disclosed that China and the Soviet Union would hold a summit meeting to bring about the "normalization" of relations between the two parties and two countries; it was the only paper to provide readers with the inside story. These examples demonstrate that both the East and the West took Qin's edition of DAOBAO to represent the popular will, that its opinion was sufficient to affect the CPC's high-level decisionmaking process, and that it played a guiding role in promoting China's reform and opening up. Once, I heard some Westerners said, "One can tell where China is heading by reading Shanghai's SHIJIE JINGJI DAOBAO." No wonder the political old-timers were shocked and said, "Since when has SHIJIE JINGJI DAOBAO been an 'economic herald'? It should be called ZHENGZHI DAOBAO [POLITICAL HERALD]." The paper had to be banished.

Bo Yibo Criticized DAOBAO

Qin's edition of DAOBAO was popular with the people mainly because it was the forum on human rights, the mouthpiece of democracy. DAOBAO was unique. To quote the great writer Ba Jin, "Qin Benli is a brave man. DAOBAO is unique in that it speaks the truth." Indeed, DAOBAO fought for human rights, sought democracy and freedom, steadfastly spoke the truth, and "pleaded on behalf of the people."

It is worth mentioning the sensational "Ma Ding incident" of a few years ago. In May 1986, Ma Ding [7456 0002], a lecturer from Nanjing, published an article in RENMIN RIBAO and quoted Marx as he discussed the issue of economic reform. The article was reprinted in its entirety by DAOBAO. Who would have thought that XINHUA SHE would resort to using Japanese and U.S. newspaper reports, which had quoted Ma Ding's article out of context, to denounce Ma Ding as "antisocialist" and would cook up other sinister accusations. Subsequently, under "instruction" from high-level officials, Ma Ding became the main target of the "antiliberalization" drive. When Qin Benli heard the news, he raged, "There is no human rights protection even for a writer. Everybody tells lies. What democracy for the people is there to speak of?" Back then, only DAOBAO stood up to meet the challenge, uphold justice, and speak out for justice; it engaged in a war of words with XINHUA SHE and eventually won Mr. Ma Ding's "rehabilitation."

At a Beijing cocktail party celebrating the 40th anniversary of JINGJI DAOBAO's publication in Hong Kong, Bo Yibo [5631 0001 3134] spoke before members of the press and economic and finance circles and Chinese and foreign guests and lauded the "success" of JINGJI DAOBAO in capitalist Hong Kong but publicly criticized by name socialist Shanghai's SHIJIE JINGJI DAOBAO, accusing it of "failing to serve the socialist four modernizations." This nonsense uttered by the decrepit henchman soon sent shock waves across Beijing's and Shanghai's media circles. Rumor quickly spread that "Qin Benli will soon be fired as editor in chief, and DAOBAO will have to reorganize or be suspended." In Beijing, some units declined to be interviewed by DAOBAO's reporters. Shanghai's Committee for Foreign Economic and Trade refused to furnish the paper with economic and trade information. Qin's DAOBAO was facing a crisis.

But Qin Benli did not back off. On the contrary, while he was in hot water himself, he raised the curtain on the 1986 student movement. On 24 November, DAOBAO printed in red on the front page Fang Lizhi's "The Leadership Role of the Intellectuals." The article pointed out that intellectuals have a patriotic tradition; they have democratic ideals; they are well-trained in advanced science and technology, and they are the best educated. Since they are "a part of the working class," they must be the "most advanced element of the working class" and should take the leadership role in everything. They should not be the "hair" that lives off of the "skin";

instead, they should be the "skin." They must fight for democracy and give place to their knowledge.

In early 1987, the CPC Central Committee issued a document on "antiliberalization" and singled out Fang Lizhi's article for harsh criticism in an "addendum" and ordered DAOBAO's party committee and editor in chief and assistant editors in chief to make "self-criticism." Qin Benli insisted that Fang Lizhi's article was not wrong, that its arguments were correct, and that it represented DAOBAO's viewpoint, and therefore it was not a mistake to print the article, and he refused to make "self-criticism" and also refused to print a criticism of Fang in DAOBAO. Pressured by the higher authorities, executive editor Wu Sai taunted, "Although you agree that the article itself is well-written, just because the author's name is 'Fang' and not 'Yuan,' you insist on calling a stag a horse and make deliberate misrepresentations. Perhaps I should simply change 'The Hundred Surnames' to 'The Yuan Family Register' from now on, and hopefully I will be spared the clobbering this time!"

This episode not only sowed the seeds for Qin Benli's eventual dismissal as editor in chief, but also caused the demise of the "North American edition," which was being readied for printing, and it also implicated DAOBAO's special reporters and caused the downfall of Pan Weiming [3382 4850 2494], chairman of the Shanghai Municipal CPC Committee's Propaganda Department.

Media Vanguard of the 1989 Prodemsocracy Movement

Qin Benli and his colleagues were aware of the steady deterioration in China and knew that there was danger everywhere. They foresaw the eruption of the 1989 prodemocracy movement. In late 1988, DAOBAO sponsored the "Symposium on the Issue of Global Membership." Those who attended were also participants of the 1989 prodemocracy movement. Faced with society's serious crises, they were full of grief, and each voiced his opinion. Some were bitter about the "graft and bribery, official profiteering and corruption"; some were worried and anxious about the "national economy that was on the brink of total collapse"; some were sad about the 200 million underfed and underclothed, poverty-stricken people and the 300 million illiterate citizens who were constantly fooled by the policy of keeping the people in ignorance; some were angered by the "trampling of human rights," and some cried out righteously for the "unconditional release of Wei Jingsheng [7614 0079 3932]." After the discussions, it was agreed unanimously that if the authorities did not turn over a new leaf and change for the sake the country, they would collapse one day and would face "expulsion from global membership" and would eventually destroy themselves! This symposium and DAOBAO's special column, "Discussing the Global Membership Issue" generated a concentrated dose of publicity and reporting and sent an SOS to the people. Objectively, it mentally prepared the public for the 1989 prodemocracy movement.

I remember on the third day after Hu Yaobang's passing, DAOBAO and the magazine XIN GUANCHANG [NEW OBSERVER] (Ge Yang, chief editor,) jointly invited scores of prodemocracy leaders and intellectual elites to attend a "Forum To Memorialize Hu Yaobang." Su Shaozhi and Yan Jiaqi and others pointed out that Hu Yaobang had been elected general secretary by a Plenary Session of the party Central Committee according to the party constitution, but was dismissed by someone who was not even a member of the party Central Committee (referring to the supersovereign Deng Xiaoping's decrepit henchman, Bo Yibo) without even going through the Plenary Session. What did this irregular procedure that violated the party constitution tell us? The implication was that it was a "palace coup." Those who attended the meeting understood tacitly, and they raised the timely issue of "a reassessment of Hu Yaobang" and zeroed in on the greatest evil of the time—"crack down on official profiteering and corruption." These two issues became the main slogans of the student movement which began three days later, and they permeated the 1989 prodemocracy movement. DAOBAO's "symposium" was the embryonic structure which gave birth to the "Autonomous Federation of University Students and Intellectuals" soon after. The day after the forum to memorialize Hu Yaobang, Qin Benli decided to print the minutes of the discussions and rushed to get it out before the 22 April Yaobang Memorial Service. This directly fueled the 1989 prodemocracy movement. "To be frozen in three feet of ice takes more than one cold day." DAOBAO's "symposium" and publication of the minutes were the fuse that eventually ignited the purge of Qin Benli and his DAOBAO by the Shanghai municipal party committee, headed at that time by Jiang Zemin.

Forum Marks Birthday, Career of Poet Bian Zhilin

OW0408085990 Beijing XINHUA in English
0719 GMT 4 Aug 90

[Text] Beijing, August 4 (XINHUA)—A forum was held here this morning at the Chinese Academy of Social Sciences to mark the 80th birthday and 60-year literary career of Bian Zhilin, one of China's leading poets, and a translator and expert on British literature.

About 100 experts and scholars from the Chinese Academy of Social Sciences, Beijing University, Beijing University of Foreign Studies and literary circles attended the forum.

Since 1930, when Bian published his first translations, he has published seven poetry anthologies, three collections of criticism of Chinese and foreign literature, three collections of reportage, essays and short stories, and 12 translations.

Among these works, the *10-Year Poems*, *Selections of British Poetry*, *Four Tragedies by Shakespeare* and *On Shakespearean Tragedy* were particularly well received.

The forum agreed that Bian, by drawing on classical Chinese poetry as well as modern Western poems by Baudelaire, Paul Valery and T.S. Eliot, has made great contributions to the development of modern Chinese poetry.

Bian has also made important contributions to translations of British poetry and studies of Shakespearean drama.

The forum urged Bian's successors to learn from his attitude of critical adoption of the best of the Chinese and foreign literary heritages.

Intellectuals Contribute to National Development

OW0608090390 Beijing BEIJING REVIEW in English
No 30, 23-29 Jul 90 pp 13-16

[Article by staff reporter Yao Jianquo: "Intellectuals-Contribute to Modernization"]

[Text] Respecting knowledge and respecting talents constitute one of China's basic policies. In the last few years China has improved the living conditions of the intellectuals, who are playing an important role in socialist modernization construction.

In China, the term "intellectuals" refers to people with a secondary or higher educational level as well as those who have a higher technical title than assistant engineer. In 1989, there were 22.18 million intellectuals in China, one-third of whom had received a college education. This stands in sharp contrast with the less than 1 million intellectuals in China shortly after liberation in 1949.

Along with this increase in the number of intellectuals there has been a change in the structure of various professions. In 1952, there were only 900 people involved in scientific research, 130,000 in engineering technology, more than 10,000 in agro-technology and over 180,000 in health care technology. At the time, only 4,000-plus held a title higher than engineer or lecturer. By 1989, however, the number of scientists and researchers had increased by more than 381 times, that of engineering technical personnel more than 31 times, agro-technicians close to 41 times, and people engaged in health care technology 15 times. The number of professors, associate professors, senior engineers, engineers and lecturers reached some 2 million, more than 500 times that of 1952. As a percentage of the Chinese population of 1.1 billion, however, they comprise only 2 percent, a figure lower than many other developing countries. Such a small technical pool cannot meet all the needs of China's modernization drive and so it is necessary that the nation make the most of their talents and at the same time train increasing numbers of people in science and technology.

Respect for Knowledge

After the Third Plenary Session of the 11th Party Central Committee held at the end of 1978, China moved to

correct past mistaken policies towards intellectuals. It was stipulated explicitly in the 1982 Constitution of the People's Republic of China that "in building socialism it is imperative to rely on the workers, peasants and intellectuals" and the Party also approved the policy that both knowledge and talents must be respected and, with regard to intellectuals, they should enjoy equal treatment and care in life. Such steps have contributed to improving the status of intellectuals in society.

A Rise in Status

The political and social status previously enjoyed by the intellectuals has been reaffirmed during the last ten years because, like workers and farmers, they are also masters of the socialist country. A large number of politically sound and professionally competent intellectuals have been promoted to various levels of leadership since 1982. Nation-wide, more than 1 million technical personnel now hold important, decision-making positions.

The proportion of intellectual deputies to the National People's Congress and intellectual members of the Chinese People's Political Consultative Conference (CPPCC) has increased. For example, 63.5 percent of the deputies to the Seventh National People's Congress are intellectuals with an education above the secondary polytechnical level. Moreover, the overwhelming majority of the CPPCC members are intellectuals.

In the ten years between 1979 and 1989, some 2.75 million intellectuals have joined the Communist Party of China, half the total of their CPC membership. Many other intellectuals have joined various democratic parties and people's organizations, and are actively involved in state political activities. Through a variety of channels, they can criticize and make proposals regarding affairs of state. Today, the government and CPC Central Committee regularly solicit the opinions of intellectuals before coming to a final policy decision.

Academic Titles

Since China began issuing academic titles in 1985, some 6.3 million people have been employed as senior professors, associate professors and lecturers or their equivalent. Of these people, 930,000 were granted a degree equivalent to professor and associate professor and 5.36 million conferred a title equivalent to lecturer. Some 6 million technical personnel have received pay rises at an additional expense to the state of 1.4 billion yuan. This has helped to improve the treatment justly due to intellectuals and inspired them to work harder.

Improvement in Working Conditions and Life

Intellectuals have seen improvement in both their working conditions and life. According to statistics, since 1983, close to 1 million intellectuals who had not been able to put their knowledge to work suited to their special training had been properly placed. At the same time, efforts were made to help the some 1.4 million intellectuals unite with their spouses living in other cities

or in rural areas. Many cities and units now provide physical examinations for intellectuals and devote major efforts to solving their housing problems.

To redress the situation in which many intellectuals were paid low salaries, the state has raised the standard of wages for intellectuals to allow for higher pay rises and bonuses. These measures have enabled a considerable number of intellectuals to increase their incomes and, currently, the total wages for the intellectuals in such areas as education, scientific research and public health are growing at a rate faster than any other.

To encourage this situation, the state has, three times since 1984, selected and awarded young and middle-aged scientists, technical workers and managers who have made outstanding contribution in their field of work. Those chosen, 2,219 in all, receive special treatment in wages, housing and health care. Compared with the intellectuals in developed countries, however, Chinese intellectuals still have poor working and living conditions. The steps taken, though not changing the fundamentally poor situation, do demonstrate the Chinese move towards improvement; they show society's recognition of the intellectuals' wisdom and labour.

Outstanding Achievements

China's intellectuals have a tradition of patriotism. Despite the country's low level of economic development and the consequent low pay scale and poor working conditions, they still work to the best of their ability for the rejuvenation of their country.

In the early 1950s, soon after the founding of New China, more than 2,500 experts, scholars and students, including geologist Li Siguang, physician Qian Xuesen, mathematician Hua Luogeng and bridge expert Mao Yisheng gave up the comfortable working and living conditions abroad and returned to China. Together with other scientific and technical personnel, they succeeded in developing such technical products as an artificial synthesis of insulin, the atomic bomb, hydrogen bomb and satellites. They also explored and opened up new oil-fields in the face of an imperialist blockade, removing once and for all the idea that China was an oil-poor country. The oil finds fulfilled growing domestic needs and provided the nation with a commodity to sell on the international market.

In 1978, China opened its doors to the outside world. Since then, in order to fill the gaps in science and technology between China and foreign countries, more than 60,000 students have been sent abroad to study the latest in scientific and technological developments. At the same time, visiting scholars and postgraduate students have also been sent abroad in unprecedented numbers. Those students who have completed their studies and returned home have found work based on their specialities studied abroad, thus providing the opportunities for them to give full play to their talents.

Xu Rigan, an expert of the Mongolian nationality, is praised internationally as the "father of test-tube goats" because he successfully bred the world's first externally fertilized test-tube goat while studying in Japan in 1984. After he returned home, the state helped him to continue his research by earmarking special funds for an animal experiment research centre staffed by six assistants. Since that time, he has concentrated all his energy on his work, successfully completing 78 experiments. As a result, the success rate of the external fertilized test-tube goat increased from the previous 45 percent to 95 percent. Following this achievement, he succeeded in test-tube fertilization of an ox, marking a giant leap of China's research in the field into the world's most advanced ranks.

There are many intellectuals in China like Xu Rigan and they can often do a lot even if they have never studied abroad.

Fu Huimin, now only 34 years old, is one of the youngest members of the school affairs committee of the Beijing Institute of Aeronautics and Astronautics. He obtained his Master's degree in engineering in 1984 and a Doctorate degree in engineering a year ahead of schedule in 1986. After graduation, he had planned to do research in the United States. However, when his tutor advised him to remain in China because of the great amount of teaching and scientific research work to do at the institute, he agreed. Over the past several years, in addition to participating in two graduate study programmes each term, he took part in 15 scientific research projects, seven of which have been completed, five of which passed ministry-level test, three of advanced international levels and one of advanced domestic level. In 1988, his research won the 3rd class award for national natural science achievements and, in 1989, he won Fok Ying Tung's (Henry Fok) award for "Young Teachers," first class. His name will appear in *Biographies of Contemporary Famous Figures*, compiled jointly by China, the United States, Japan and other countries.

Recalling his younger days, he said with a deep feeling that "without the support of the state and of the people, I never could have achieved what I have today. As a young intellectual, I can and will do a lot for my country."

Since China instituted national awards for natural science achievements in 1956, more than 700 awards for excellence in scientific research have been given out. Of these, the proof for the Goldbach conjecture by mathematician Chen Jingrun along with other achievements received international recognition. Over the past ten years, since state awards for inventions began, some 1,344 inventions which have won public notice in this way generated an economic return of more than 32.8 billion yuan. In 1989, some 20,278 major scientific and technological achievements won awards designated higher than provincial and ministerial level. Of these, 777 were at the state level and 11 percent at international level.

Mobile Stations

Those who hold a doctor's degree are the elite of the nation's 20 million intellectuals, and they enjoy special care by the state in their study and scientific research.

Since the Regulations on Academic Degrees came in force in 1981, China has trained some 4,800 doctorates. In order to provide them with necessary working conditions and bring their ability and intelligence into full play, China has established 157 post-doctorate mobile stations at 93 colleges and universities and research institutions since 1985 in Beijing, Shanghai, Xian, Nanjing, Changchun, Harbin, Wuhan, Hangzhou and other cities. Some 76 of the stations are used for science, 75 for physics and eight for agriculture, medicine and law. A total of 651 researchers who graduated from schools in China and abroad are enrolled at each station as post-doctorate research personnel. Some 206 of them obtained the doctorate degrees abroad.

In order to support talented post-doctorate research personnel, the state earmarked 20 million yuan (including US\$2 million) to set up a science fund for which all post-doctorates doing scientific research can apply. After a six-stage screening, some 304 doctors have own access to the fund of 2.286 million yuan in Renminbi and US\$360,500 in foreign exchange. They were able to buy small apparatus and equipment, experimental materials and books with the money. Some of them used the funds to hire assistants while some 80 or so post-doctorates used the foreign exchange to participate in international academic symposiums or go abroad for short-term joint research and experimental work related to their speciality, thus promoting the development of scientific work.

During the "Seventh-Five-Year Plan" period (1986-90), some 261 post-doctors conducted a total of 414 programmes of key scientific and technological research, including high technology, the national natural science fund programmes, major scientific and technological programmes at the provincial and ministerial levels and highly explorative frontier science programmes. Most were successful and 19 of them won science and technology awards from the state and its ministries. More than ten programmes are being reviewed by the relevant departments or have been approved for a patent by the state. About 748 research papers were published in inhouse or external academic journals and international academic conferences.

Guo Yiajun, a post-doctorate student of the Shanghai Institute of Biochemistry under the Chinese Academy of Sciences, achieved outstanding results in his research and comprehensive treatment of liver cancer. His new method for the comprehensive treatment of tumours reduced the cancer recurrence rate in the liver and prolonged the life of patients suffering from middle and terminal stages of the diseases. His research has been highly valued by international medical circles and, in 1989, he was selected one of the top ten scientists.

China's post-doctor mobile stations have been instrumental in training high-level specialists, pushing scientific research forward and promoting the construction of the national economy and social development. They have also provided a way out for those who earned a doctorate degree abroad to get back to work in China before taking a fixed post. Last year, 33 doctorates returned from the United States, France, Britain, Japan, Australia and other countries and took up research work in the post-doctorate mobile stations around China.

Sentencing Guidelines Established for Pornography

HK0908014790 Hong Kong HONGKONG STANDARD in English 9 Aug 90 p 10

[By Lo Dic]

[Text] In an effort to step up the anti-pornography campaign China's judicial authorities have instructed courts on the punishment to be handed out in such cases, according to the WORKERS' DAILY.

By laying down guidelines for the courts the crackdown on pornography and related crimes would be more effective, the authorities said.

The courts have convicted 1,162 people since the launch of the campaign in July 1989. Of those punished 785 were involved with producing or selling pornographic materials.

They were accused of seriously poisoning the social atmosphere and inducing youngsters into sexual offences, according to a statement jointly issued by the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security and the State Publishing Bureau.

Last year the courts convicted 293,435 young criminals, up 36 percent over 1988, of which a major portion were sexual offences, the statement said. More than 60 percent of those sentenced for sexual crimes had been "poisoned by pornographic materials".

The statement said the nationwide anti-pornography campaign had so far seen the confiscation of several tons of millions of obscene books and more than a million

obscene video tapes. Several thousand production lines or sales offices had been destroyed and a large number of criminals punished.

However the campaign was facing difficulties, the newspaper said quoting the statement, and it was necessary to employ legal means to ensure its success.

The statement acts as an explanation for a circular jointly dispatched by the Supreme People's Court and Supreme People's Procuratorate last month, entitled: Regulations on the Application of Laws in handling Pornographic Cases.

The regulations stipulated which laws should be used, depending on the scale of the offence.

It states that people who have produced 25 to 50 obscene video tapes, or 50 to 100 books or 250 to 500 pictures, should be punished in accordance with the law governing illegal profiteering.

The same punishment was applicable to people selling a limited amount of pornographic material, or who earned 15,000 to 30,000 yuan (HK\$25-50,000) from producing or selling such goods.

For cases involving volumes or values ten times the above, those involved would be prosecuted under the law governing indecent crimes.

For exceptionally serious offences the courts should prosecute under regulations from the National People's Congress that said serious crime should be "ruthlessly suppressed".

The judicial regulations also state that in cases where social institutions, such as government units or businesses are used to produce, sell or smuggle pornographic materials, those in charge should be held responsible.

For lesser cases such institutions can hand out their own punishments.

Provincial courts and procuratorates can also formulate their own regulations with reference to the conditions within their provinces, and in line with the general regulations, it stated.

The Beijing judicial authorities said the anti-pornography campaign would be a long-term affair.

Zhao Xu, Pioneer in Unmanned Aircraft Program
90CM0278A Beijing ZHONGGUO KONGJUN
[CHINESE AIR FORCE] in Chinese No 3, 28 May 90
pp 20-22

[Article by Chen Weigang (7115 0251 6921): "The Story of Chief Engineer Zhao and the Unmanned Plane"]

[Text] The development of a series of unmanned aircraft in China known as the Changkong 1 was reported on 14 November 1988 by HANGKONG SHIBAO [AERONAUTICS TIMES].

The overall flight performance of one of the aircraft in this series, a large, high-speed, super-low altitude target plane reached international standards. When this news reached the head designer of the first generation of Changkong 1 unmanned aircraft, he did not get very excited. He said calmly, "I just did a bit of the spade work."

On the night of the 40th anniversary of the founding of the republic, as the bright lights illuminated the balcony at Tiananmen, he did not forget to go on "doing spade work." During the few minutes before the fireworks display, he was using his ever-handly calculator to figure out the aerodynamic characteristics of unmanned aircraft.

This is Zhao Xu [6392 3563], the chief engineer of the Air Weapons State Target Range Testing Station No. 2, which is part of a certain Air Force training base.

The Flight of the Changkong 1

Before he even received his graduation diploma, Zhao Xu, who was studying in the missile department of the Aeronautics Institute in Beijing in 1959, had already fixed his sights on the state target range, located deep in the Badanjilin Desert, which was used especially for testing airborne weapons. In early fall 1964 he passed up the opportunity to stay in Beijing and gently refused his girlfriend's pleas, resolutely boarding a train to the West.

From that time on, lights frequently burned through the night in the boiler room of that camp in the Gobi Desert, and, under the lights, the same youth was always to be found, diligently studying through the night. Late one night, two figures were visible through the window. Who was the other person? What were they "secretly conferring" about? The situation then was that all university students were sent to do a year of military service at the company level before they were assigned to a particular unit, and Zhao Xu was sent to the boiler company to tend the boiler for a year. On that night, Zhao Xu was on duty, and the political commissar of the base went to see him. The political commissar knew that Zhao Xu was a top graduate from Beijing's Aeronautics Institute, and that he had studied flight mechanics and control. "Without a target plane, you can't settle on a final version for any weapon, no matter how good it is." The political commissar complained to him about the frustrations suffered in the past for the lack of a target plane at the

base. "In the late 1950's, China imported some unmanned aircraft from the Soviet Union, but they performed very badly. They could be used only over a narrow air space, fly for a very short time, and stay airborne 10 or 20 minutes. Furthermore, a lot of cooperation was required; every time we wanted to carry out aerial target practice, a large Soviet aircraft was required to release the unmanned aircraft in midair. There were very few of that type of unmanned aircraft left at the time, and the carrier planes were almost ready to go out of commission." The words of the political commissar weighed like heavy stones upon Zhao Xu's heart. He determined to devote his energy to changing this situation.

He reviewed his studies and came to the conclusion, on the basis of the level of technology in China's aeronautics industry at the time, that it would be possible to make an unmanned aircraft take off from the ground, if engine thrust were increased and the aircraft's takeoff system were properly designed. He tended the boiler and considered the problem. The lights that blazed all night long in the boiler room provided the conditions that enabled him to improve the theoretical foundation for his unmanned airplane. Before long, Zhao Xu delivered a feasible, incisive proposal to his superiors. The report elicited keen interest from the party secretary at the base, who quickly decided to have Zhao Xu serve as the chief designer of a project to refit an unmanned aircraft. This glorious task was assigned to seven university students.

This is how it happened that Zhao Xu, who had been sent down to the company to tend the boiler, was transferred ahead of time to the research center. For a recent graduate like Zhao Xu, this was a very demanding task. At that time, apart from a few textbooks on how to operate an unmanned aircraft, there were no reference works at all. They used the approximate calculation method to calculate that if they switched from the original ramjet to a turbojet produced in China, the thrust could be increased from 300+ to nearly 2,000 kilograms, which would be far more than that required for takeoff. In accordance with the characteristic concentrated stress of a certain type of turbojet, they designed a rigid structure in which the engine and the frame were attached together, thereby resolving the problem of thrust.

Unmanned aircraft at that time were carried up into the sky and dropped into flight, as if a hen were laying an egg. Zhao Xu had a stroke of inspiration as he looked at picture of a foreign aircraft, and he saw that the principle of launching a plane from the air would be the same if it were launched from the ground. He felt that if a small taxi vehicle were designed and the aircraft were installed on it, the thrust of the aircraft itself could be used to propel the vehicle, from which it would detach itself when it had accelerated to the proper speed, taking off on its own power. They dug up scraps from the junk heap, including wheels from a fighter jet, steel rods, and sheet metal. They had the base repair shop weld these scraps into a vehicle frame. They were going by the seat of their

pants, and they had to make do with whatever they could get. As the chief designer, Zhao Xu did overall calculations of aerodynamic characteristics, structural strength, flight performance, and flight trajectory. Due to the backwardness of facilities, he made use of everything he could get, including slide rules, abacuses, and manual calculators. Where materials were lacking, he devised measurement standards by comparing various objects, studying and testing along with everybody else. This is how they succeeded in making a takeoff vehicle for the aircraft.

However, making sure that the vehicle would separate from the aircraft was a very difficult problem. If it separated too early, the aircraft would not have enough lift to fly. If it separated too late, the takeoff vehicle would be lifted into the sky by the airplane. This problem vexed them for quite a long time. One night, Zhao Xu walked out of the office and down a flight of stairs which was pitch dark because a light bulb had burnt out. He bent over but still could not see the steps clearly. Suddenly he stepped into a void and he tumbled down the stairs, knocking his forehead against the wall and raising a large bump. He joked to himself, "The moment of force when I lowered my head was too much." Suddenly he shouted in excitement. Was this not precisely the sort of force that the unmanned aircraft needed? He turned, ran up the stairs, and formulated a plan that differed completely from normal takeoff methods. He worked out proofs for every step of the plan, and when his coworkers showed up for work in the morning to find him buried in his work, they asked, "What is Zhao Xu doing here so early this morning?" When he announced the new plan, everyone understood that he had pulled another "all nighter."

The aircraft modified by Zhao Xu and the seven other young students was test flown successfully. It laid the foundation for China's design of its own unmanned aircraft, and was a major event in the history of aeronautics in China. Later, this aircraft was named the Changkong 1 unmanned aircraft. A second one was modified and completed in the summer of 1967, and a third one was modified and completed in early 1968.

Not only was the success of the modification praiseworthy, but so was the selfless spirit of the modifiers. In April 1968, Zhao Xu and his comrades-in-arms selflessly gave this invention to the Nanjing Aeronautics Institute, enabling them to build upon the foundation they had laid to develop many different models of the Changkong 1. When the newest generation of the Changkong 1 passed assessment at the national level and its flight performance reached an advanced international level, the head of the Unmanned Aircraft Research Center at Nanjing Aeronautics Institute, Comrade Lu Qingfeng [0712 1987 7364], did not forget his comrades who had done the initial work on the Changkong 1. He wrote an article telling people that the Changkong 1 unmanned aircraft had been developed upon the basis of some unmanned aircraft which had been modified by certain troops in the Air Force.

Challenging Nuclear Pollution

Since the middle of the 1960's, China has made great strides with its nuclear testing, successively developing the atom bomb and the hydrogen bomb. This proved that China was a major power in possession of nuclear weapons. However, the nuclear tests caused the health of some pilots to suffer, because each time a nuclear test was carried out, a pilot had to fly a plane through the mushroom cloud to retrieve air samples for analysis. Records indicate that since China's first atomic bomb was successfully exploded on 16 October 1964, many pilots retrieved samples from the mushroom clouds and were injured by radiation. Some have even been forced to stop flying. This hard reality was shocking to Zhao Xu. He said, "As scientists involved in work on unmanned aircraft, we have a duty to prevent pilots from being exposed to nuclear pollution." They began to study and experiment on ways to use unmanned aircraft to fly through the clouds and retrieve air samples.

The time: 17 September 1977

The place: Lop Nur, Xinjiang

China was preparing to carry out its 14th above-ground atomic blast. Zhao Xu led his team to Malan, a site 310 kilometers from Lop Nur, to await orders. Changkong 1 stood in preparation to sally forth in combat with the mushroom cloud. As soon as the aircraft took off, Zhao Xu jumped in a jeep and raced 260 kilometers to the site where the plane was to land. Zhao Xu determined this site only after a long effort. After repeated calculations, he concluded that the best landing site was 50 kilometers away from the blast. As soon as the mushroom cloud, accompanied by a tremendously loud boom, rose in the air, the Changkong 1 unmanned aircraft penetrated the cloud, retrieved an air sample, and landed at the appointed site, setting a precedent for the use of unmanned aircraft in taking air samples in nuclear blasts. What amazed people most was that when the plane landed, it had almost no fuel left, attesting to the accuracy of Zhao Xu's calculations.

In order to increase the amount of samples taken in the tests, they upgraded the command equipment and successfully sent a team of two unmanned aircraft to take air samples after a nuclear blast. When he saw the team of unmanned aircraft safely returning with samples on 13 September 1979, Zhao Xu's eyes grew misty.

Opening a New Path

Zhao Xu adopted as his motto a famous quote from Mr. Lu Xun: "The world did not in the beginning have any roads. The places where people have walked most often, however, have become roads."

By 1979, the stock of imported target planes was nearly used up. The National Defense Science, Technology, and Industry Commission called a meeting of specialists, scholars, engineers, and technicians from universities, factories, research institutes, and testing units to study

ways to restart production on a target plane production line imported from the Soviet Union. China had once produced copies of Soviet models with help from the Soviet Union, but work came to a halt when the Soviet Union withdrew its experts. Debate at the meeting was intense. A factory stated that 10 million yuan would have to first be invested to repair machinery in order to restart the production line, and that this figure did not include raw and semifinished materials and other expenses. This factory contended that it would take at least three years to develop the plane and put it into service. A research unit felt that the aircraft produced by this type of production line would all be done completely according to the Soviet model, that the level of performance and reliability would not surpass that of the Soviet Union, and that they would not meet the needs of the units that are the end users. A testing unit pointed out that before this type of aircraft could be put into service, a series of manned test flights would have to be performed, and completely automated flights in which a pilot would serve as a "supervisory passenger" would have to be flown, which would directly threaten the lives and safety of pilots. An end user unit said that there is an urgent need for more target aircraft.

A sense of responsibility and mission led a certain engineer to make uncommon use of his wisdom. Zhao Xu put forth his own view: "If we plod methodically along with our research, development, and production, following in the paths that others have already trod, we will always follow behind the others. There is a certain type of aircraft which is practically no longer in service. Some have been donated to museums, and some are being used in schools for educational purposes. If we can make use of this type of aircraft, that would save a huge amount of money. I think we should directly modify that type of aircraft."

Zhao Xu's opinion was quickly adopted, and it was decided to let Zhao Xu lead a group of engineers and technicians to mount an assault upon the task.

After three years of effort, the major components had all been designed and installed, and the newly modified unmanned aircraft was taken through runway and flight tests. Although it was as docile as a lamb when flown by a pilot, taking off and landing smoothly, it acted more like a wild stallion without the pilot, and became impossible to control. Even though an automatic pilot device and a completely automated control system had been installed, it refused to listen to "orders." Every time it rolled down the runway, it would careen off to one side or the other, and sometimes it simply went around in circles.

When the modification work hit upon difficulties, many people recalled what the Soviet experts had said as they left: "If you want to modify a manned aircraft into an unmanned one, you will have to have a round runway at least four kilometers in diameter." Was this statement scientific? Was there any other option? Zhao Xu pored through countless books, reviewed huge amounts of

information and data, and did innumerable experiments. When the pressure of experiments was at its height, there was frequently no distinction between day and night. Sometimes he just took short naps in the office and continued working the next day. The riddle was finally solved. He used the pneumatic braking [sha qidong 0458 3049 0520] correction principle and modified the takeoff system with great success, enabling the unmanned aircraft to run nearly 4,000 meters from the east end of the runway to the west end, hardly leaving the center line. Thus, he dismantled the "round runway" theory of the Soviet experts.

The Target 5-A was ready for its first formal test flight on 15 June 1983 after a tortuous developmental history. This was an unforgettable day for Zhao Xu. He got up very early that morning and felt extremely excited. He was thinking about the fact that a four-year struggle to "storm the gate and take the pass" was coming to a head on this day. If the test flight were successful, it would mean that China's unmanned aircraft had joined the ranks of the major powers. The public address system broadcast a voice from the preparation team: "Preparations finished for plane No. 11. Request permission to take off." Zhao Xu answered firmly, "Permission granted to take off." Like an arrow released from the bow, unmanned aircraft number 11 moved down the runway. This silver-gray aircraft had taken off and landed from this runway many times, but it had never done it without a pilot. Today it was to shoot into the sky all by itself. Zhao Xu's face took on a serious expression, because he knew that the trip down the runway was the key to the success of this test flight. He felt very satisfied as he watched the aircraft hug the center line of the runway. Just when Zhao judged that the aircraft was about to take off, suddenly a fireball flashed. The aircraft had exploded. Smoke billowed into the sky. It was as if Zhao Xu had been struck by a bolt from the blue.

An investigation into the cause of the accident showed that the control system was receiving the signals for the landing gear two seconds too early, which caused it to retract the landing gear before it was completely off the ground. They did not lose heart, though. Once they found the cause of the accident, they went back to work to modify the aircraft and test it.

On 6 June 1984, after being approved by the Central Military Commission, a test of a new model of air-to-air missile was carried out at the Air Weapons State Firing Range. As dawn broke, the first rays of sunlight lent the firing range a misty beauty. A red, high-speed, unmanned aircraft rested silently on the runway. A series of orders issued forth from the command center: "Start engine!" "Take off!" With a thunderous roar, the unmanned aircraft took off, rose into the sky, turned, accelerated... Twenty minutes later, a new, Chinese-made high-speed attack plane loaded with a new type of missile shot up into the sky. It closed in on the unmanned aircraft. An evasive maneuver followed. It closed in again, and another evasion ensued. A few minutes later, a missile spit out fire as it rocketed toward

the unmanned plane. For a split second, the sound and sight of an explosion rent the air. The missile had hit its target. The first flight of the new unmanned aircraft was a success. An old specialist exclaimed excitedly, "The techniques used to modify this unmanned aircraft can be used to modify any subsonic aircraft we have in China! It is as if we had built a giant unmanned aircraft factory for China."

Telegrams of congratulations from the Air Force and the National Defense Science, Technology, and Industry Commission added to the festive atmosphere. At this very moment, chief engineer Zhao embarked upon a new journey: the modification of supersonic fighter jets.

Report on Aviation Troops' 'Heroic Zhongdui'

90CM0277A Beijing ZHONGGUO KONGJUN
[CHINESE AIR FORCE] in Chinese No 3, 28 May 90
pp 5-9

[Article by Su Youhua (5685 3945 5478) and Li Yongchao (2621 3057 6389): "Where Seconds and Inches Mean Everything—A Report on the Aviation Troops' Heroic Zhongdui"]

[Text] (A brief history of the dadui.) *The 1st Dadui was set up by a certain regiment in the Guangzhou Air Force in 1951. This heroic, lightning fast, and valiant group shot down 11 aircraft and damaged three more without losing one of its own during the War To Resist U.S. Aggression and Aid Korea. Another glorious triumph in battle on 29 July 1958, when our aircraft outgunned the enemy 3 to 0, was their handiwork. The group was honored as a "crack zhongdui" by the Air Force in 1964. In 1965, it was named the "Heroic Zhongdui of the Aviation Troops" (a designation which was later changed to dadui after the zhongdui was made a regular part of the Air Force organizational hierarchy). This dadui has now maintained a record of safe flight for 39 straight years, and it has been evaluated by its superiors as an advanced unit for the last 14 years in a row. It has also been awarded the Third-Class Prize for Merit once and the Second-Class Prize for Merit four times. Last year, the 1st Dadui was chosen by the Air Force as a model unit of grassroots construction, and the dadui party branch was named by the General Political Department as an advanced grassroots party organization.*

The year is 1989.

Before the smoke from the firecrackers set off to celebrate the Lunar New Year clears, an order is received, and a group of young pilots in their twenties steps into a room full of pennants and plaques attesting to the excellence of their dadui.

These young men ("living dragons and breathing tigers," as the saying goes) are highly educated, have broad interests, look eagerly to the future, and have great confidence in life. They have gone through four years of rigorous training in flight school, and, exactly three years after graduation, it appears that they have jumped

another rung up the ladder after being trained in the operation of three types of modified fighter jets. They feel incomparably honored at being able to join the "Heroic Dadui of the Aviation Troops," a fighting unit whose fame has spread far and wide. They have been prepared for the intense and rigorous requirements of the heroes' unit, but what exactly is it that awaits these men?

The First Day of Flight

On 25 February 1989, this group of young pilots had its first day of flight since coming to the 1st Dadui.

The aircraft were lined up at the airport. One jet after another roared down the runway and lifted into flight. Lin Rongjun [2651 2837 6511], that feisty young kid from Dalian, the city on the beautiful seacoast, was one of the better pilots in the group. On this day, his flight went smoothly, and he felt very relaxed.

When it came time for him to fly again, he scanned the scene through the glass of his cockpit as he taxied the jet toward the runway. Suddenly, he saw Wang Chunhai [3769 2504 3189], commander of the dadui, standing on the resting pad peering intently in his direction. Lin Rongjun, after 10 days or so in the dadui, had gotten a very good impression of the dadui commander. He had concern for people, set an example in everything he did, and had a good sense of humor. Lin impulsively lifted his left hand from the throttle and made a casual, clever salute to the dadui commander.

We have seen pilots salute and blow kisses from the cockpit in foreign movies, and no one thought anything of it. No one, that is, except commander Wang Chunhai.

It never occurred to Lin Rongjun that this little flick of the hand, plus the fact that he did not promptly notify the flight controller when he reached 1,000 meters, would lead commander Wang to criticize him severely during evaluations, saying that he flew too nonchalantly. The commander asked him to do a self-criticism.

His face grew red, and he bridled at this treatment, thinking, "All I did was wave. And I didn't get into any big trouble when I was flying, so why make it sound so serious? Isn't he making a mountain out of a molehill?"

Wang Chunhai has Wang Chunhai's standards.

The heavy weight of historical honor itself exerts a kind of pressure. As the 16th commander of the 1st Dadui, Wang Chunhai is deeply aware of the responsibility that rests upon his shoulders. He and Wen Zuxiang [3306 4371 3276], the 15th instructor of the unit, feel that this group of pilots is young, full of life, and well grounded in the basic skills, but that they are clearly too cavalier, which is at great variance with the tradition of the 1st Dadui!

Just look at all the foreign tricks they pulled on the first day of flight! Some of them made movements that have nothing to do with flying. Some of them use the wrong

radio terms, saying "passed" [tongguo] instead of "make a pass," [tongchang] or "radio station" instead of "flight control center." Someone flying at 1,000 meters reported an altitude of 800. Some people taxied too fast. Some didn't even have their oxygen masks on as they taxied to the runway... With something as serious as flying, every movement should be subject to rigorous standards, and every word or phrase used to make reports must be carefully chosen.

That evening, Wang Chunhai and the instructor had a talk with Lin Rongjun. They talked about the tradition of the dadui and about the importance of behavior during training. They talked about how irrelevant movements cannot be made in flight, about the dangers of nonchalance, and about how nothing is meaningless in flight. After listening to these words, Lin Rongjun gladly and willingly made a self-criticism.

Another Day in Flight

The time is mid-March 1989. On this day, the 1st Dadui is flying in formations of two. It is time for the pair led by Fang Yuman [2455 3768 3341] to split up and land. Fang Yuman lands first. However, time goes by and we still see no hint of the second plane, flown by Lin Rongjun. Wang Chunhai clutches his watch and counts the time.

A minute goes by. Ten seconds, 11, 12... 20 seconds and still no aircraft. What's wrong? Oh, here it comes! It glides in and lands. Wang Chunhai looks at his watch. It has already been one minute, 35 seconds!

According to scoring standards, when formations land, the time between landings can neither be too short nor too long. Five points are awarded if the aircraft land within one minute of each other, give or take five seconds; four points for plus or minus 10 seconds; and three points for plus or minus 15 seconds. Fang Yuman's team apparently has failed to qualify.

It is Wang Chunhai's custom to evaluate performances on the spot, and he likes to get to the bottom of every incident, large or small, immediately. He strides quickly to the resting pad and asks Fang Yuman and Lin Rongjun, who have just gotten out of their planes, "What happened with you two?" Fang Yuman does not say a word. Lin Rongjun says, "It might have been because my speedometer is off. It reads about 50 kilometers per hour faster than the actual speed."

Wang Chunhai's face immediately takes on a grim expression, and he furrows his brows deeply. He says angrily, "You do such a lousy job on a task this easy! You look as if you'd never flown in formation before! If your speedometer was off, why didn't you calibrate yourselves in the air and get it straightened out? Why didn't you report to the tower before you flew back and landed? How are we supposed to take care of ground preparations? Why didn't you get coordinated?" He announces,

"You haven't qualified as skilled pilots today. If you don't find out exactly how this happened, you're not going to fly anymore."

Wang Chunhai always speaks fast, but when he criticizes someone, it sounds like a string of firecrackers going off. There were a lot of ground crew around when this incident happened. Fang Yuman had a hard time swallowing this criticism. He felt that he hadn't made any mistakes in his procedures or maneuvers. They had landed a bit too far apart, that was all. Making mountains out of molehills again!

At first glance, this tall guy from Harbin, with his curly hair and prominent nose, looks a bit like a foreigner. His skills as a pilot are fantastic, but he's rather proud. The dadui commander didn't take this pride into consideration at all with his criticisms; Fang Yuman's face turned beet red. As he walked to the rest area, he mumbled to himself, "We were only 10 or 20 seconds off..."

When Wang Chunhai heard his mumbling, he stopped him and said, "You were the lead plane, so you're the first one who has to take responsibility for today's incident. Do you know it's dangerous for two planes to be too far apart? You don't think 10 or 20 seconds off was too bad? How much distance in the air is 10 or 20 seconds? If it were a four-plane formation in combat, having every plane that far apart would be a disaster!"

During evaluations that day, Wang Chunhai again criticized the incident and told them they would definitely have to find out how the incident had happened and learn a lesson from it.

Only at that time did Fang Yuman finally realize the gravity of the problem. After the meeting, he and Lin Rongjun earnestly looked into the cause of the incident, learned a lesson, and came up with ways to prevent it from happening again.

While visiting Dadui No. 1, this reporter copied down a list of rules which can be found on the back of various documents:

Ten Rules for Conduct Around Aircraft

1. Pilots must move quickly when boarding aircraft and maintain an enthusiastic demeanor.
2. Pilots must salute and report to the instructor and the lead aircraft when boarding and getting off aircraft.
3. Pilots must take drinking water to the lead aircraft and the instructor.
4. Pilots must earnestly listen to the evaluations of the lead aircraft and the instructor.
5. Pilots must report any flight problems in a prompt manner to cadres of the dadui.
6. Pilots must report any health problems in a timely manner to flight physicians.

7. Pilots must respect the on-duty staff officers' work. They must not argue or dispute with them.

8. Pilots must respect aircraft maintenance personnel. Pilots must take the initiative to help maintenance personnel push aircraft.

9. Pilots must develop a spirit of friendliness, and take the initiative to take meals and water to people.

10. Pilots must maintain a serious atmosphere around aircraft. They must not talk about matters unrelated to flight.

"The Character-Building Path"

There is a winding, narrow path among the rice paddies that leads from the dormitories of the 1st Dadui to the mess hall. It did not take the young pilots long to make a lasting acquaintance with this little path.

The path is about 400 meters long and roughly one meter wide, and it has been laid with cement blocks. Each time the pilots of the 1st Dadui go to eat one of their three daily meals, they must follow this path. What distinguishes them from run-of-the-mill travellers along this path is that every time they walk down it, they have to march in orderly formation, singing chants and keeping in step with each other just as if they were on a major thoroughfare. They maintain this discipline until they reach the door of the mess hall and the commands "attention!" and "at ease!" are barked out. Only then are they allowed into the mess hall.

The first time the young pilots walked this path, they did not yet know that it was the dadui's "character-building path." Some of them chatted as they walked. Perhaps because it was cold, the pilot Xie Xiaoming [6200 2556 2494] even turned up the fur collar on his flight jacket, thereby incurring the criticism of deputy dadui commander Sun Yibin [1327 3015 2430].

Some people could not understand this. They thought, "This is nothing more than a path through the rice paddies and fish ponds. It's not near any government or military offices, it's not really part of the camp, and no division or regiment commanders can see us. Why do we have to march in such strict formation?"

The cadres of the 1st Dadui, however, feel that cultivating good conduct requires not only rigorous demands while on the training site, but a long, slow polishing of character in everyday activities as well. Whether others can see you or not, you should maintain self-discipline at all times. For this reason, even though some old cadres and pilots have families that live on the military compound, and they can go home to their families after eating on days they are not flying, each one, from the dadui commander on down, still voluntarily rides his bicycle to the dadui and marches together with everyone else to the mess hall. After the meal, they go back to the dadui and ride their bicycles home.

One day at noon, just after a rain, the dadui assembled and began to march to the mess hall. Then Wang Qiang [3769 1730], who had been bringing up the rear, suddenly heard a splash in the water next to the path and turned to see what it was. Wow! In a sloping ditch between two fish ponds, a four-inch-long crucian carp was flopping on its side in the shallow water, its white belly and shiny scales gleaming.

Wang Qiang possessed a pair of bright, quick eyes. He was not so tall, but he was extremely smart. He had won first place in November 1988 in a contest of flight knowledge. He was from Zigong City in Sichuan Province. When he was little he had spent some time with relatives in the countryside and had caught fish in the ditches between the rice paddies with other boys. The fish in front of him seemed to remind him of his youthful pastime, and in a forgetful moment, he darted to the edge of the pond and brought up the fish. He exclaimed excitedly, "A fish! A fish!" When everyone looked back and saw Wang Qiang's childish enthusiasm, they could not help laughing.

Someone barked out, "Wang Qiang! What are you doing? Get up here!" This was the voice of Sun Yibin. Wang Qiang suddenly remembered himself. "Oh! How could I have forgotten discipline?" He immediately threw the fish down and got back into line.

Although this was just a little incident, he still willingly made a self-criticism at the daily affairs meeting.

Ten Don'ts of Military Conduct and Discipline

1. Personnel are not allowed to dress sloppily or wear military uniform without wearing a hat.
2. Personnel are not allowed to make unauthorized modifications of their military uniforms or mix new and old uniforms.
3. Female personnel are not allowed to wear fancy undergarments, high heel shoes, strange shoes, or brightly colored shoes.
4. Cadres are not allowed to leave the military compound with their military uniforms on.
5. Personnel are not allowed to grow long hair, beards, or fingernails.
6. Personnel are not allowed to smoke or eat while walking.
7. Personnel are not allowed to throw their arms around a companion's shoulders while walking, or "do the three things" with their hands (i.e.—put hands in pockets, cross forearms in front, or cup hands together behind the back).
8. Personnel are not allowed to roll up shirt sleeves or pant cuffs.
9. Personnel are not allowed to walk around bare-chested.

10. Personnel are not allowed to throw clothes casually about while exercising.

How Long Is One Minute, 30 Seconds?

The place is China's Jiangnan region, the time is April. The wind is light and the skies sunny.

On the runway, wearing gravity suits, Wang Chunhai and Fang Yuman are perspiring rivulets of sweat, yet they continue to climb up and down the ladder of a fighter jet, discussing over and over again: "I think three steps and in will do." "I think four steps and in is better."

What they are doing is practicing over and over to see what is the fastest way to get into the jet after the emergency siren has sounded. They are trying to shave one or two seconds off the time.

Since April of last year, the 1st Dadui has been on combat-readiness duty at the orders of its regiment. The first pair of fighter jets is being flown by Wang Chunhai and Fang Yuman.

According to regulations, pilots must complete all flight preparations, including starting their engines, within three minutes after the emergency siren has gone off. In order to improve combat performance, Wang Chunhai proposed that his men pare this time down to one minute and 30 seconds. Every man in the dadui had to achieve this standard or be disqualified.

When the dadui was carrying out education on combat preparedness, he and the instructor taught together. They stressed that quickness is the core of the "lightning strike" performance of the dadui. In modern air combat, time is measured in seconds. If the J-7 fighter jet flies at a speed of Mach 2.05 (that is, twice the speed of sound), it will travel 700 meters per second. If you are fighting against another aircraft of the same class and you are one second behind, you can forget about catching up. If you are one minute and 30 seconds behind, you will have to make up 63,000 meters, so air combat is not a matter of minutes and seconds; it is a matter of seconds. Whoever can gain time will gain the offensive. That year when a previous generation of fighter pilots beat the enemy 3 to 0, it was only two minutes from the time they discovered the four Kuomintang jets in the air over the southeastern seacoast until they battle was finished. Of "the five quicks" in "lightning strike" performance, the first is getting off to a quick start. This type of performance must be perpetuated.

One minute and 30 seconds goes by in the wink of an eye. How many movements must be executed? As soon as the siren goes off, the pilot must first put on his gravity suit. This is a specially made pair of pants which reaches from the ankles to the waist. It tightly wraps a person's calves, thighs, and waist in order to prevent him from growing dizzy or fainting due to a lack of blood to the brain caused by high centrifugal forces generated when the fighter makes sharp turns or loops. There are three

one-meter-long zippers on the pants. Once the pants are on, the pilot must grab a pistol holster and strap it around his waist as he runs onto the runway. He must cover the 100 yards from the rest lounge to the fighter jet at top speed. He must then climb up the ladder and into the cockpit. Once in the cockpit, there is another series of operations to perform: put on the parachute sack, hook up the parachute, hang up a rubber liferaft, put on gloves, put on a helmet lining, and hang a microphone around the neck. He still has to turn on a lot of switches, report, and request permission to taxi to the runway. It would be hard enough to get all this done in three minutes. Where does a person cut 90 seconds from the procedure?

Wang Chunhai has his methods. He focuses on a few key aspects and talks to everyone about the main points, then, with watch in hand, he trains each man over and over again.

When putting on the gravity suit, the zipper is easily snagged, and the quicker you try to zip it up, the worse it gets snagged. Wang Chunhai and Sun Yibin demonstrated for everybody. They showed special tricks in folding the gravity suit, pressing it against the leg, and zipping it up. When the middle finger of the right hand is pressed against the pants directly beneath the zipper, it does not get snagged. They took a candle from home and waxed the zipper to lubricate it. By using this method, they were able to put on the gravity suits in 20 seconds, while it had originally taken 30 seconds. At the beginning, Lin Rongjun was always very slow, so he would close the door in the dormitory and secretly practice by himself. He was embarrassed once to be discovered by instructor Wen Zuxiang, but in the end he was able to get the suit on in 17 seconds.

As for climbing into the plane, is it faster to go three steps and in, or four steps and in? The new model fighter jets are twice as high as the old ones. The shorter pilots have a hard time making it in three steps. If you do four steps and in, should you start with your left foot, or your right? After repeated practice, they were able to run the 100 meters to the plane and climb in 30 seconds.

The dadui also unified the procedure to be followed once the pilot is in the cockpit. Before ever entering the cockpit, they will have put every item of flight gear in a specified place. The helmet must be hung on the stick pointing outward. The neck microphone must be placed on the aiming device. The helmet lining and gloves must be put at the right side of the front windshield with the helmet lining on bottom, the left glove on top of that, and the right glove on top of the left glove. The oxygen mask must be hung by its right hook from the emergency brake handle.

In order to simplify these movements and make them easy to remember, they boiled the procedure down to a mnemonic phrase: "put on, turn on, rig up, hook up, and wear." As soon as the pilot gets into the cockpit, he puts the parachute on over his right shoulder. Next, he turns

on several switches and puts the parachute on over his left shoulder. He then rigs up the parachute hooks as well as his chest and crotch lines, and hooks up his life raft. Finally, he puts on the helmet lining, helmet, and neck microphone.

After repeated practice, the pilot learns to execute each movement smoothly.

Last year, the 1st Dadui organized many training exercises and tests, and every pilot reached the high goal of completing preparations for first-class battle preparedness within one minute and 30 seconds.

A Sunday Ambush

It is Sunday, 10 April 1989, and the troops are on a scheduled rest.

Apart from Wang Chunhai and Fang Yuman, who are on combat preparedness duty at the outer airfield, those with family nearby have gone home, those with errands to run have gone into town, and others remain at the dadui reading, writing letters, washing clothes...

Suddenly, the telephone rings.

Wang Qiang, who is reading a book, quickly picks it up and reports his name. On the other end of the line, the on-duty commander of the regiment gives an order:

"Hurry! 1st Dadui must give us another pair of aircraft and assume third-class battle preparations! They must be at the outer airfield within 20 minutes! A jeep will be there to pick you up immediately!"

As it turned out, this was an emergency training procedure arranged by the highest level of command to test this division's degree of combat preparedness and ability to rush to the airfield. Not a single person in the entire division had advance knowledge of the test. This was an ambush!

Wang Qiang looked at his watch. It was 1630.

He immediately called the pilot Xie Xiaoming to begin preparations. Both persons took off their jackets and shoes, changed into their flight clothes and shoes, grabbed their instrument bags and left.

This took one minute and 25 seconds.

The jeep arrived just at that time. Both persons hopped in and the vehicle sped to the outer airfield. It took a total of 13 minutes to reach the office of the outer airfield.

Everyone was very surprised. It is several kilometers from the inner field to the office of the outer airfield, and they also had to prepare their flight gear. How could the pilots from the 1st Dadui have been so fast?

How, indeed, were they so fast? Wang Qiang and Xie Xiaoming both knew very well that it was due to the repeated training that they had done over the past few months in their dadui!

Not long after this group of young pilots had first arrived, the dadui had carried out training in which the pilots collected "the three bags" under emergency conditions and rushed to battle. After a couple of sharp whistle blasts, everyone in the dadui scrambled pell-mell to the front of the building. It had taken six minutes to assemble. The dadui commander stood at the head of the line and the instructor brought up the rear, while the deputy commander of the dadui inspected the troops. During that exercise, not only had they assembled too slowly, but the pilots did not have all their things. Some had forgotten to take their anemometers and vector rules with them, and some had even forgotten to change their shoes.

The dadui commander had decided that this sort of training would have to be carried out often until the results matched combat-preparedness requirements, and he put the deputy dadui commander in charge of the project.

The dadui began its training with "the three bags."

The "three bags" that they talk about are the combat bag, the flight gear bag, and the toiletry bag. The size and use of each bag is different.

The combat bag is a tubular bag made of canvas which is usually folded up and stored on a shelf in the dormitory. When it is needed, as during an emergency mobilization, the pilot immediately folds up his bedding and sticks it in the bag along with a pair of shoes and a wash basin. When the pull-string at the mouth is drawn tight, the bag can immediately be loaded on a large aircraft and travel along with the pilot. There is a card on the bag with the user's name and unit written on it.

The flight gear bag is a rectangular bag of canvas meant to be carried about by hand. In it are placed items needed for flying, such as an anemometer, a vector rule, maps, a flight manual, red and blue pencils, a gravity suit, a helmet, and an oxygen mask.

The toiletry bag is also rather small. It is packed with underwear, shorts, silk linings (which are also part of flight gear), as well as toothpaste and a toothbrush in a separate little box. None of this is used in normal circumstances. It is kept ready to be taken immediately in an emergency.

During an emergency mobilization, pilots pick up a change of clothes, pack up the combat bag, and are ready to go.

Once the things to be taken are established, there is still a question of practicing until every movement is down pat.

After repeated practice, the entire dadui was able to complete the "three-bag" emergency assembly procedures in one minute 30 seconds or two minutes.

No wonder they were able to pass the test when this surprise was sprung on them.

After this training exercise was completed, higher-level operational departments appraised the combat preparedness of this division and especially praised the 1st Dadui.

Dinner that day for Wang Qiang and Xie Xiaoming was delayed, but their spirits were high.

Ten Questions on Character Building in the 1st Dadui

1. Do you get out of bed and make it up in less than three minutes?
2. Do you join the ranks in time when there is an assembly? Do you often lag behind the rest of the men?
3. During marches and exercises, do you maintain a sharp military bearing?
4. Do you normally put your clothes away neatly? Do you do housekeeping chores conscientiously? Have you completed the "four fixed things in three minutes" chore?
5. Do you immediately act upon regulations handed down by your superiors and the demands of the dadui?
6. Do you make sure to obtain permission for all vacation leave?
7. Do you turn out the lights at night on time?
8. Are you able to complete all preparations for emergency combat flight and mechanized mobilization?
9. How is your conduct at the outer airfield? Do you show quickness getting in and out of aircraft?
10. Are you concerned about the group as a whole? When you see a mess anywhere on the dadui premises, do you take the initiative to clean it up?

New Frequency-Stabilized Radar System for Air Force

90P60037A Beijing KEJI RIBAO in Chinese 14 Jul 90 p 4

[Article by Han Changguang (7281 2512 0342): "Radar Analog-Digital Hybrid Frequency-Stabilized System"]

[Summary] The meter-wave radar analog-digital hybrid frequency-stabilized system developed by the Air Force Radar Institute has passed the Air Force technical appraisal. This system is urgently needed equipment for improving the anti-jamming capability of the current meter-wave radar in active service. Testing of the prototype for this stable, reliable, easily maintainable, low-cost system has shown that the main technical indicator

for visibility amid clutter has risen from the original 18dB to 30dB, greatly improving the radar's low-airspace detection ability.

Developments Reported in Satellite Communications

Vehicle-Mounted Satcom Ground Station

90P60038A Beijing KEJI RIBAO in Chinese 16 Jul 90 p 2

[Unattributed article: "3-Meter Vehicle-Mounted Satellite Communications Ground Station Debuts"]

[Text] (Summarized from JIANGSU KEJI BAO)—A new communications system described as a 3-meter vehicle-mounted satellite communications ground station has been developed by Research Institute 63 of the PLA [People's Liberation Army] General Staff, and was technically certified a few days ago. This flexible, secure, high voice-quality system permits simultaneous multiplexed bidirectional secure digital speech, is easy to operate, has high output power, a high reception-quality factor, and can function in the computer automated measurement and control [CAMAC] mode. All the station equipment may be installed on one vehicle. The appearance of this system provides a new dimension for troop mobile communications.

Multichannel Satellite TV RF Modulator

90P60038B Tianjin ZHONGGUO JISHU SHICHANG BAO [CHINA TECHNOLOGY MARKET NEWS] in Chinese 14 Jul 90 p 2

[Unattributed article: "MSR-1 Multichannel Satellite TV RF Modulator"]

[Summary] The MSR-1 multichannel satellite TV RF [radio frequency] modulator, developed by the Nanjing Naval Medical Professional School's Applied Electronic Technology Equipment Plant at Haining, is designed to permit satellite ground stations to receive and retransmit satellite TV programs, and can also be used in the community antenna [CATV] closed-circuit TV systems at schools and businesses. One modulator permits reception and retransmission of the signals from three to five channels.

The principal technical parameters for the system are as follows: RF output level, about 100dB μ V [decibels above 1 microvolt] for 1 to 5 frequency channels, about 103dB μ V for 6-12 channels; tuning range, about 10dB μ V; intermodulation greater than or equal to 54dB; modulation depth, video, 80 plus or minus 5 percent; audio frequency deviation, greater than or equal to 50kHz. The dimensions of the unit are 360 x 300 x 119 millimeters, and weight is about 6 kilograms.

Army Takes Up Farming as Sideline Occupation
*HK3007085290 Hong Kong MING PAO in Chinese 30
Jul 90 p 2*

["Newsletter From Beijing" by Pu Li (5543 0500):
"Mainland Army Takes Up Farming as Sideline Occupation"]

[Text] On the eve of the 1 August Army Day, invited by a friend working in an Air Force unit, this writer drove from Beijing to the place where a certain regiment of the Sixth College of Pilots in Hebei Province's Dingxing County was situated. It happened that a meeting on the welfare management of the Air Force unit under the Beijing Military Region was being held there. According to my friend, the purpose of the on-the-spot meeting, which was not the first of its kind to be held there, was to let the whole Army engage in agricultural and sideline production so as to improve the living standards of officers and men.

According to a briefing, as the military units are short of expenses and prices have gone up, there has been a relative drop in the living standards of officers and soldiers. The units will have too many difficulties to cope with if they rely exclusively on the annual military spending covered by state finances. A captain said that, if we make our plan according to the expenditures allotted to us by the higher authorities, the mess officer will have to count every cent and make every cent count to ensure that the soldiers will have better meals. However, there were also cases of income falling short of expenditures, causing discontent among the soldiers.

In this situation, many units were involved in the practice of engaging in business to make money. Cases of taking bribes, violating criminal laws, and breaking military discipline occurred now and then. To counter this situation, the Central Military Commission sternly punished the officers and men who violated the law. It is said that the commander and political commissar of a regiment of the Air Force under the Beijing Military

Region were punished for that reason. An important central official suggested that the Army rely exclusively on state provisions and be barred altogether from running companies and engaging in agricultural and sideline production so as to better enforce military discipline and enhance combat capability. Nevertheless, when military spending is concerned, the authorities in charge of state revenue are willing to help but are unable to give additional funds. Finally, a compromise opinion was reached: That is, all companies and money-oriented institutions should be disbanded, and engaging in agricultural and sideline production after training is ensured will be allowed. Last year, the Central Military Commission formulated the "Program for Building Grassroots Military Units" and Jiang Zemin, general secretary of the CPC Central Committee, issued an instruction on closer relations between officers and men. Hence, the whole Army has since then regarded production and livelihood as part and parcel of Army building.

A certain regiment under the Sixth College of Pilots occupies a vast tract of land, of which cultivated land amounts to 1,200 mu or so. Since it disbanded its previously run companies, the regiment has run a chicken farm, a pig farm, a milk cow farm, fishponds, staple and nonstaple food processing workshops, a cake workshop, a bean-curd plant, and vegetable and meat supply centers. All companies under the regiment are more than sufficiently supplied with meat and vegetables.

The Air Force under the Beijing Military Region netted 1.1 million yuan from its agricultural and sideline production last year, of which 65 percent was used in improving the meals of officers and men, 20 percent in expanding production, and the remaining in the combat soldiers' recreational facilities. The regiment was locally called the "big player" [da hu 1129 2073]. In the past, it bought several hundred or thousand jin of meat and vegetables at a time. This aroused discontent among ordinary people. Now it has basically been sufficient in this respect by working its own land, thus easing strain on the market and improving relations between the Army and the people.

EAST REGION

Shandong Studies Development in Northeast Provinces

*SK0608011590 Jinan Shandong Provincial Service
in Mandarin 2200 GMT 4 Aug 90*

[Text] A group led by Ma Zhongchen, deputy secretary of the provincial party committee, to conduct study and observation in the three Northeast China provinces of Liaoning, Jilin, and Heilongjiang returned to Jinan recently after successfully fulfilling its study and observation tasks.

In line with the unified arrangements of the provincial party committee and government, Comrade Ma Zhongchen led responsible comrades of 14 pertinent departments of the provincial party committee and government to conduct study and observation on the issues in the fields of party building, party discipline, ideological and political work, economic construction, reform, and opening up. In addition to hearing the introduction of the leading comrades of the various provinces on the situation, the departments also held extensive discussions with their counterparts, and visited the seven cities of Dalian, Anshan, Benxi, Shenyang, Changchun, Jilin, and Harbin; the Dalian development zone opened to the outside world; the three border trade outlets of Manzhouli, Heihe, and Dandong; the five major enterprises of the Anshan Iron and Steel Company, the Changchun No. 1 Motor Vehicle Plant, the Jilin Chemical Industrial Company, the Harbin Boiler Plant, and the Harbin Aircraft Manufacturing Plant; the Liaoyuan and Changtu Agricultural [words indistinct]; the institutions operated by (Dalianwan) Town; and the Harbin Commercial and Trade Center.

Comrades of the three Northeast China provinces attached great importance to the activities of study and observation. Quan Shuren, secretary of the Liaoning Provincial party committee, He Zhukang, secretary of the Jilin Provincial party committee, and Sun Weiben, secretary of the Heilongjiang Provincial party committee, met with the comrades of the study and observation group.

Our province has always had close economic relations with the three Northeast China provinces. After a half month of study and observation, not only have their friendship and mutual understanding been enhanced, but also their economic and technological cooperation has seen new progress. After full consultation, the three provinces unanimously agreed to establish closer cooperative relations with our province in more extensive spheres, at higher levels, and through more measures. Our province signed a letter of agreement with Liaoning Province on further developing the lateral economic cooperation between the two provinces; with Jilin Province an agreement on establishing long-term and stable economic cooperative relations; and with Heilongjiang Province an agreement on establishing long-term economic cooperative relations. Meanwhile, it also signed

with Liaoning and Jilin Provinces, respectively, agreements on protecting the legal rights and interests of the units involved in their lateral cooperation. After discussions and consultation, our province and the three provinces brought forward 79 projects on economic and technological cooperation which they intended to carry out.

During the study and observation, Comrade Ma Zhongchen and responsible comrades of pertinent departments also held a forum in Shenyang with the eight persons invited by our province to serve as advisers to economic cooperation to hear their opinions and suggestions.

Through the study and observation, all members of the group reached the view that there were many advanced experiences worth learning from the three Northeast China provinces. In party building, the prominent characteristic of the three Northeast China provinces is their great attention to the training of leading cadres, and to the improvement of the party's grassroots organizations. In party discipline, they attached importance to the efforts to keep party organizations clean and honest, and enthusiastically supported reformers. In ideological and political work, they gave prominence to typical examples, and advocated enterprising spirit. In economic construction, reform, and opening up, their common characteristic is their clearly defined guiding thoughts, strong sense of and big strides in reform and opening up, and resolute attitude and down-to-earth work toward economic improvement and rectification. First, they have the strategic idea of long-term development, and pay great attention to basic industries and construction of facilities. Second, they are willing to devote great efforts and money to the technical transformation of old enterprises. Third, they use the adjustment of the organizational structure of enterprises to lead the adjustment of production setup. Fourth, they continue to improve and develop the contracted managerial responsibility system of enterprises, and exert conscientious efforts to make the new round of contracting successful. Fifth, they have good ideas and measures for opening to the outside world, and have achieved good results.

Shanghai Rewards Residents for Filial Devotion

*OW0808082090 Beijing XINHUA in English
0611 GMT 8 Aug 90*

[Text] Shanghai, August 8 (XINHUA)—More than 1,000 young men and women in Shanghai, China's leading manufacturing center, have recently won gold medals from the municipal government for performing the filial duties toward their aged parents.

Liu Yiqun, 36, is one of the 1,000 medal winners. Liu's father, Liu Zhongzhi, has been bedridden since suffering a cerebral hemorrhage in 1979.

Liu has almost forgot fashion clothing for herself in the past ten years. She uses a major part of her small income to buy nutritious food for her sick father.

Every day, she gives her father a sponge bath, shaves his beard, and carefully and patiently feeds him.

Under Liu's careful treatment, her father has never once suffered a bed sore during his ten-year stay in bed. And he has gradually regained his abilities.

In order to ensure that her sick father leads a happy life, Liu Yiqun has spent the ten years, the best part of her life, at her father's bedside.

Liu said, "I can bear all the hardships for my sick father's sake as he did in bringing me up."

Liu is not alone. A recent sample survey of 2,078 elderly people in Shanghai above the age of 65 showed that, 1,184 are given special respected treatment by their families, and 763 are treated equally. They account for 94 percent of the total. Only the remaining 6 percent are mistreated by their sons or daughters.

About three-fourths of young couples in Shanghai live with their parents in order to take good care of them.

During a long period in China's history, filial piety has been colored by feudal moral principles. That code requires "total obedience to parents."

Today's Shanghai residents, like those in all other parts of country, have improved and added new elements to this traditional Chinese virtue.

Chen Lijuan has been praised as a "good daughter-in-law" by her neighbors. Under her careful treatment, her father-in-law, who suffered paralysis for four years, can now walk in the street by himself.

Another survey last year of 454 sick old men showed that the majority are still respected and treated fairly by their families.

Shanghai was the first city in China to encounter the aging problem. Ten percent of Shanghai's population, 1.2 million, are above the age of 65.

Shanghai's young people also show great respect for their parents in their attitudes toward remarriage by the aged. An investigation of 200 young people showed that 55 percent actively supported the remarriage of their parents and 33 percent took it for granted. Only 12 percent opposed their parents remarrying.

More than 2,000 couples above the age of 50 have remarried in Shanghai each year since 1985.

CENTRAL-SOUTH REGION

Guangdong CPC Propaganda Department Holds Symposium

HK3107042690 *Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 30 Jul 90*

[Excerpt] From 21 July to 28 July, the Propaganda Department of the Guangdong Provincial CPC Committee held a symposium in Shantou to discuss specific ways and means aimed at strengthening people's confidence in socialism.

The symposium was attended by responsible persons of various city propaganda departments as well as leading comrades in charge of propaganda work from various provincial departments.

Huang Hao, member of the Standing Committee of the Guangdong Provincial CPC Committee and concurrently director of the Propaganda Department of the Guangdong Provincial CPC Committee, delivered a speech at the symposium.

Zhang Yueqiang, deputy director of the Propaganda Department of the Guangdong Provincial CPC Committee, put forward a number of new tasks for Guangdong's propaganda work in the second half of this year.

In his speech, Comrade Huang Hao called on all the comrades concerned in Guangdong to heighten their understanding of the importance of propaganda and ideological work, strengthen confidence in socialism and communism, adhere to socialist orientation in carrying out propaganda work, and further strengthen propaganda work at all levels.

Comrade Huang Hao stressed that it is necessary to comprehensively and correctly publicize the CPC's basic line, adhere to economic construction as the center, adhere to the four cardinal principles and the policy of reform and opening up to the outside world, continue to promote socialist spiritual civilization building and socialist material civilization building, emphasize and correctly handle struggle in the ideological sphere, advocate and develop a spirit of patriotism and seeking truth from facts, resolutely resist bourgeois liberalization, and produce more and better spiritual products with a view to further improving the general mood of society. [passage omitted]

Returned Students Display Talents in Hainan

OW3007134090 *Beijing XINHUA in English 0716 GMT 30 Jul 90*

[Text] Haikou, July 30 (XINHUA)—To 31-year-old Li Yang, life in south China's Hainan Province cannot be compared with that in the Federal Republic of Germany where he studied, but he is happy to find much room in this newest province to display his talent.

He said, "Hainan is economically underdeveloped. However, it abounds in natural resources and is allowed to implement preferential policies to develop itself as the country's largest special economic zone. It is a land of promise."

In April 1986, after Li obtained his master's degree in systems engineering at Aachen University of Technology in Federal Germany, he returned home to Beijing where his parents live. When he heard of Hainan's ambitious development plan, he joined the first group of outsiders to go to this island province.

According to him, the local authorities were impressed by his scholarly attainments and immediately appointed him deputy general manager of the Hainan Development and Construction Company, the largest company on the island in those days.

"It was not easy for a young man like me to help manage such a large company which has six factories with total fixed assets reaching 200 million yuan," Li recalled.

Li was admitted to Beijing University in the Chinese capital in 1978 and, half a year later, he was sent to study at Aachen University of Technology in Federal Germany. After graduation, he was invited to work in Manesman Company, one of the world's largest steel pipe producers, and a bank in Federal Germany.

"During my stay abroad, I felt very bad when someone at China's poverty [as received]. So I made up my mind then to devote myself to the development of poor areas in China."

Li Yang, like other residents in Hainan, was overjoyed and inspired in 1988 when it was approved to be the country's largest special economic zone and a new province.

"The road I chose is correct," said the young man who is working on introducing a share-holding system to his company.

With confidence, the young man said, "this will be an important step in reforming my company."

Li Yang's is not an isolated case in Hainan. Lin Zhixiang, an official in charge of the provincial personnel exchange center, said, "Hainan, a poor place that used to lose talents, is attracting people of ability in their tens of thousands from other parts of the country."

He believed that among these talented people, those who returned from abroad have become the backbone force. With new knowledge and a wide range of vision, they are playing an important role in Hainan's construction and development.

Lin said, many other such people are doing as good as Li Yang in Hainan.

Among the most outstanding are Huang Yulan, general manager of the Hainan Haizhou Industry Company

Ltd., and Jiang Shangzhou, assistant mayor of Sanya City, who all have studied in the United States, and Chen Feng, deputy director of the Hainan provincial office in charge of loans from the World Bank, who has studied in France.

Huang Yulan, 40, used to work at the Zhuzhou hard alloy plant in Hunan Province, central China, and went to study at Colorado School of Mines, the United States, in 1985. She returned home in April 1988 after obtaining doctor's degree.

She was then sent by her plant to Hainan to open an export-oriented company in the province.

Starting from scratch, a new plant was built and put into production within half a year, and Huang was praised for having achieved good speed.

A wife and mother, Huang also has difficulties in her family. When she came to work in Hainan, her husband was still in Hunan and their child lodged at a relative's family in Hangzhou, capital of east China's Zhejiang Province, and continued his school studies there.

Talking about her family, Huang smiled and said, "my best happiness is to succeed in my career and the family difficulties will be solved in due time."

According to officials of the provincial personnel exchange center, many people who returned home after studying abroad and now work in Hainan Province all have a pioneering spirit.

The officials agreed that preferential policies and big development potentials are important factors to draw people of ability from the outside.

Last year the province worked out a series of special policies for talents who are willing to work on the island.

With the deepening of the reform, the officials were convinced, more capable people will come to work in the province.

NORTHEAST REGION

Heilongjiang Political, Legal Conference Opens

SK2807032990 Harbin Heilongjiang Provincial Service
in Mandarin 2100 GMT 25 Jul 90

[Text] The provincial political and legal work conference opened in Harbin on the morning of 25 July. Major tasks of the conference are to examine and summarize how the overall plan for the battle for straightening out and improving public security was implemented, and to arrange the province's political and legal work for the next half of this year and for some time to come in order to continue to consolidate and develop the province's stability in politics, economy, society, and the people's feelings.

Provincial Vice Governor Du Xianzhong presided over the 25 July session. Zhou Wenhua, deputy secretary of the provincial party committee, gave a speech. He urged that party and government leaders at various levels should first firmly embrace the idea that stability prevails over everything else, and exert utmost efforts to successfully maintain political stability. They should make great efforts to raise the political consciousness of all the people. They should establish a system under which party and government leaders and all departments and units are responsible for the work of maintaining political stability, conscientiously solve contradictions, and successfully carry out the various emergency measures. All localities should further carry out the comprehensive improvement measures, and unfailingly fulfill the various tasks of the overall plan for the battle for straightening out and improving public security. They should guard against and overcome war-weariness, fear of difficulties, and slackness of efforts and vigilance, and carry out in-depth struggles to deal strict blows to serious criminal offenses to resolutely destroy a number of criminal gangs which have caused serious damage, and crack a number of major and serious cases. Meanwhile, we should wage in-depth struggles to deal blows to economic offenses. Urban residential areas and rural areas should continue to control cases of theft, robbery, and rape. Government offices, enterprises, and institutions should strengthen their own preventive measures to strictly guard against theft cases. In public places, we should further control cases of pickpocketing, theft, robbery, hooliganism, and trouble making. On highways, we should wage in-depth special struggles to deal blows to bus marauding and waylaying. On railways, we should carry out large-scale joint preventive work on trains. We should lay particular emphasis on propaganda and education on the legal system among young people, especially young students. Political and legal organs should improve the contingent of political and legal workers with the focus on improving their ability to enforce laws impartially.

Liaoning People's Congress Hears Work Reports

SK2707234790 Shenyang Liaoning Provincial Service
in Mandarin 0930 GMT 23 Jul 90

[Text] On the morning of 23 July, the 17th Standing Committee meeting of the seventh provincial People's Congress held its second plenary session to hear the report by Gao Chenghe, director of the provincial Financial Department, on the implementation of the financial budget in the first half of this year; the report by Guo Dawei, director of the provincial Public Security Department, on the situation of public security and social order; the report by Chen Suzhi, vice governor of the province, on the preparations for implementing the law of administrative procedure; the report by (Song Zulu), deputy president of the provincial Higher People's Court, on the preparations for the work before the implementation of the law of administrative procedure; and the report by (Wang Jixiang), deputy director of the provincial Security Bureau, on the implementation of the security law.

In her report, Chen Suzhi pointed out that the law of administrative procedure will be put into effect beginning 1 October this year. The provincial government and the governments at various levels have all made specific arrangements for implementing this law in line with their respective practical situation, primarily through training cadres, conducting extensive propaganda in society, strengthening the drawing-up of local administrative laws, positively conducting inspection on law enforcement, establishing systems concerning administrative [words indistinct], and establishing and perfecting legal organs of governments at all levels. Over the past year, governments at all levels throughout the province have made many preparations for implementing the law of administrative procedure and achieved great results in this regard. The implementation of the law of administrative procedure will surely accelerate the progress of the building of the legal system throughout society.

Gao Chenghe pointed out in his report, "Judging from the fulfillment of the revenue and expenditure budget in the first half of this year, we can see that the implementation of the financial budget has been confronted with difficulties, and the situation facing the financial departments is very grim. The task in the second half of this year is very arduous. We must seek unity of thought, enhance spirit, closely coordinate with each other, strengthen confidence, and adopt effective measures in light of the difficulties existing in the implementation of the budget to ensure the smooth fulfillment of the budget."

Lou Erkang, vice chairman of the provincial People's Congress Standing Committee, presided over the meeting held on 23 July. That afternoon, members inspected the Shenyang (Nanhu) Scientific and Technological Development Center.

Points To Consider in Educating Rural Residents

90CM0218A Harbin FENDOU [STRUGGLE]
in Chinese No 5, 1 May 90 p 44

[Article by Huang Shufeng (7806 2885 1496): "Points Which Should Be Borne in Mind During the Rural Village Development Educational Mission"]

[Text] The fundamental goal of the educational mission during rural village development is that the masses of educational cadres understand the present situation, both domestic and foreign, be clear as to their mission, have an inspired spirit, put extra effort into agitation, and strive to bring about the continuous, stable, and regulated development of the national economy. In order to attain this goal, in the mission of education, careful attention should be given to the following points:

1. **Doing a good job of educating rural areas on the situation requires accurate determination of the starting points.** First, begin with objective realities, correctly handling the relationship between talking about successes and looking at problems. Development of the

situation has two areas of importance, namely, revolutionary successes and problems which are still unresolved. Therefore, we cannot just talk of successes, putting people into a mood of blind optimism; nor can we just talk about the problems, putting them into a mood of pessimism. Rather, we should both talk of the successes and take note of the problems. Naturally, we should emphasize the new turn for the better that the party has taken in developing the rural areas since the Fourth and Fifth Plenary Sessions, giving the cadres and the masses an accurately appraised and cool-headed outlook on the situation. Second, begin with the morale of the masses, correctly handling the relationship between discussing hardships and rousing their enthusiasm. At present, the psychological makeup of the rural cadre masses is half joy and half sorrow, criticizing and coexisting. This state of mind demands that the situation-education mission combine discussion of their hardships with rousing their enthusiasm, spurring the peasants' enthusiasm for developing agricultural production, and overcoming their pessimistic and disheartened mood. At the same time, we must also lead them in looking ahead, rousing their enthusiasm for and increasing their confidence in agriculture in a big way, and their devotion to abundance. Third, begin with the zeal of the peasants, correctly handling the relationship between ideological education and work. On the one hand, grasp the problem of doubts and difficulties felt by the peasants, propagating targeted, persuasive education, clearing up confused understanding, making clear distinctions between right and wrong, unifying knowledge with the spirit of the central authorities. On the other hand, resolve as fully as possible the real problems of concern to the peasants, turning around the problems which are eating up and blocking agriculture, and thereby strengthening the effectiveness of education.

2. Doing a good job of educating the rural areas on the situation requires establishing an accurate standpoint. The first thing here is to base oneself on a stable overall situation, by talking about the good momentum of the entire party and entire nation in committing to agriculture in a big way, discussing the position and function of agriculture in the overall national economy, so that the cadres and the masses fully understand the vital significance that assisting and developing agriculture has for governmental stability and economic development. Second is to take one's stand with an inspirational spirit. Keep confidence building in mind, boosting morale, arousing enthusiasm for overcoming obstacles, educating to make the cadres and the masses of one heart and mind, to pull each other through troubles. By all means guard against exaggerating the gloomy side of things, negatively pandering to pessimism and backward thinking. Through education, make the peasants realize that the problems and difficulties that exist now are only temporary ones which can be surmounted, building their confidence that these can be managed, and strengthening their enthusiasm for developing agricultural output. Third, base oneself on positive leadership. Make publicizing the party's line, programs, and policies a vital

ingredient of situational education; at the same time, accurately and vividly summarize the many aspects of benefits to the masses, supplementing the representative experiences of the central authorities' and provincial committees' spirit. On many administrative levels, stress the development of a variety of educational activities. Be cautious in handling sensitive and heated matters. Make the maximum effort to publicize the exemplary people and advanced thinking that will gush forth during control and rectification, forming a good public opinion atmosphere.

3. Doing a good job of the mission of educating the rural areas on the situation requires doing the "four combinations." The first task here is to combine the mission of education on the situation with education on the national condition. Through discussion of modern history, the history of socialist construction, and revolutionary history, carry out education on the "three comparisons," that is, comparing the speed of socialist construction with that of capitalism, comparing agricultural development before and after liberation, and comparing rural life before and after liberation. Through the "three comparisons," combine education on the situation with patriotism, education on socialism (including maintaining independence and keeping the initiative), and arduous struggle. The second task is to combine education on the situation with education on agricultural economic policies. In policy education, stress the key points, take charge of the difficult points, and carry out education on multiple levels. Counter the peasants' "fear of change" psychology by discussing the stability and continuity of our agricultural economic policies; counter the peasants' misgivings about "turning to the large pile" by discussing the quality of the joint contract responsibility system and the characteristics of bilateral operation; counter the peasants' puzzlement at handling overall reform by explaining the direction and pace of deepening rural reform. Through education, make the peasants clear on the goals and specific measures for handling overall reform, giving them a deeper understanding of our agricultural economic policies and raising their level of political consciousness concerning various policies and procedures. The third task is to combine education on the situation with control of overall reform. According to the principles of educating while working, adjust as soon as possible those regional policies which are illogical, provide good service, honor contracts, and decrease burdens. Give careful attention to implementing the policy of "promoting science and technology in the rural areas," continuing to carry out the "383 projects," conscientiously coming to grips with fulfilling the policy of overall reform. To get practical results from overall reform, strengthen the persuasiveness of the educational mission, and use it to promote those areas where overall reform has fallen behind. The fourth task is to combine the mission of educating on the situation with the "three beneficial relationships." At present, a great many peasants are not sufficiently acquainted with the principles of socialist material ben

efits, and some of the peasants see their individual relationship to the nation purely as one of a commodity business relationship, and view their individual relationship with the collective simply as the relationship of the first and second parties in an economic contract. This results in the faulty ideology of "turning the head." Therefore, the mission of educating on the situation

should be to make the peasants clear on the pool of "three concurrent principles," and clear on the individual's position and function among the three. This will result in the peasants gaining a growing understanding of their own responsibilities and obligations, establishing the idea of national sharing, and making greater contributions to the nation and the collective.

Trade Deficit Policies Against Japan Ineffective

90CE0291A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 23,
11 Jun 90 p 37

[Article by Chang Yi (4545 1837): "Taiwan's Restrictions on Japanese Trade To Improve Its Trade Deficit With Japan Proving Difficult To Accomplish"]

[Text] The Japanese government's unexpected announcement that effective 1 June it was abolishing the preferential 72-hour visa exemption for visitors from Taiwan, drew criticism from the Taiwan representative to Japan, Chiang Li-wu [5592 2621 2976], as well as from the government and public on Taiwan. On 31 June, the "Ministry of Economic Affairs" convened a meeting at which it proposed to intervene with five major measures aimed at Japanese commercial imports, intended to decrease Japanese imports and improve Taiwan's adverse balance of trade with Japan.

Five Major Measures Adopted

The Ministry of Economic Affairs convened a meeting of various national trade agencies to study "A Plan To Disperse Import Market Sources." It was decided to adopt five major measures to decrease Japanese imports while expanding exports to that country, in order to decrease Taiwan's trade imbalance with Japan. Included in the five measures are dispersal of import sources, opening up Japanese markets, and levying antidumping tariffs. The Ministry also drew up an "Outline Plan for Strengthening Our Work Regarding Japan," which stressed such matters as: the division of industries between Taiwan and Japan; fulfilling the economic and trade relationship between the two nations; attracting Japanese technology; developing Taiwan's return trade to Japan of technologically intensive products, including strengthening its own sales to Japan, an overall plan for improving the structure of its Japan trade.

Actually, Taiwan has had a considerable trade imbalance with Japan in recent years, although Japan has in the past few years called upon Taiwan to reduce it. Moreover, scholars on Taiwan have suggested ways of improving the imbalance that would be in keeping with the two nations' trade structures. However, due to the Taiwan authorities' lack of sincerity about improving things, the imbalance has never come completely under control.

Statistics show that in 1989, Taiwan's trade deficit with Japan reached \$6.965 billion, double what it had been four years previously; by April of this year the trade deficit had reached more than \$2.4 billion, a 21.7 percent increase over the same period last year. Projections are that the deficit for all of this year will be \$8 billion, a 15 percent increase. This is why reduction of the trade deficit is of the utmost importance.

Temporary Measures

But, can the five measures put forward by the Ministry of Economic Affairs be reliably effective? Could even tougher measures be taken?

Vice Minister Chiang Ping'ün [3068 0014 0981] of the Ministry of Economic Affairs has noted that if the trade imbalance is to be eased, Taiwan cannot undertake any boycott of Japanese trade, as this would be counter to the standards of the General Agreement on Tariffs and Trade (GATT). It is hoped that the Japanese government will take special notice of the deteriorating situation, and cooperate with Taiwan in jointly dealing with the problem, so as to avoid trade frictions which could be triggered at any moment. Obviously, strong measures just will not do.

Looking at it another way, Taiwan cannot dispense with its reliance on Japanese trade. Taiwan economic and trade units have disclosed that the first 20 products imported by Taiwan from Japan include: atomic reactor instruments, electrical and mechanical equipment, ferroalloys, transportation equipment, organic chemicals, optical instruments, plastic materials, shipping equipment, iron and steel, copper and copper products, miscellaneous materials, glass or glass products, organic and inorganic chemical products, man-made fibers, paper and cardboard, fodder, aluminum, man-made fiber products, and cutting tools. Of these, only fodder can be imported from someplace other than Japan; there must be a reliance upon Japan for all the rest.

Regarding this situation, many of Taiwan's governmental organizations and media hold similar views.

National trade authorities realize that the trade imbalance between Taiwan and Japan is due chiefly to the discrepancy in the two nations' industrial structures. Taiwan's imports from Japan are consist largely of costly instruments, equipment and replacement materials. Moreover, this equipment and critical module imports are improving Taiwan's industrial structure and developing what it requires for foreign trade. Therefore, as Taiwan exports more, it comes to rely upon Japanese imports to a greater degree, and could eventually reach the point where its trade deficit with Japan will be sustained at so high a level that it cannot be brought down.

The research office of the Ministry of Economic Affairs also is aware that in Taiwan-Japan trade, Taiwan is a "small nation," lacking the requirements for a boycott of Japanese goods. Similarly, measures taken against Japan cannot strike too hard a blow, or else it could have a negative effect on Taiwan's own economy, and worsening its own trade situation.

For these reasons, the Ministry of Economic Affairs' proposed five measures to counter Japanese goods and improve the trade imbalance with Japan are recognized as stopgap, temporary remedies.

Permanent Measures

This reliance on Japan, and the great disparity between the two nations' technical research and development capabilities, with the result that there is no way of breaking through the structure produced by a vertical division of industry.

It appears that if Taiwan is to basically resolve its trade imbalance with Japan, it must do the following: build up its own technical development capacity and level of scientific research; produce commodities which match the needs of both its own domestic market and the Japanese market; vigorously raise the quality and design of its export products; and expand its exports to Japan. If Taiwan could just eliminate its reliance on Japan, then by dispersing the sources of its imports, Taiwan could decrease its trade imbalance with that country.

Taiwan economic experts also know that the Taiwan-Japan trade question is one of long standing. The Taiwan government should also engage in some self-examination: it has not taken very good care of its own country, investing very little in technical research and development, with the result that it depends upon Japanese imports for 70 percent of the modules in its export products. If Taiwan wishes to decrease the size of its trade imbalance with Japan, there are two routes it can take: the first is for Taiwan itself to manufacture the parts it has been importing from Japan; the other is to move forward in manufacturing the things which Japan itself needs. However, they also realize that the Japanese market is a very pluralized one: industrialists, other than those dealing in high level products, must be especially careful that their products meet Japan's "individualized" needs.

Part of the economic community realizes that the people of Taiwan absolutely adore Japanese products, so that now the Taiwan market is everywhere flooded with Japanese goods, including consumer products in general, as well as essential and nonessential goods. There have been appeals to the people to take Taiwan's overall situation into consideration, and refuse to buy Japanese goods. At the same time, there are plans to disperse the import market, with the government taking the initiative to promote among Taiwan firms goods from Europe and the United States. It is alleged that the Ministry of Economic Affairs has reached agreement on a joint boycott of Japanese goods among 10 publicly operated companies over which the Ministry has jurisdiction, quite possibly to not purchase Japanese mechanical equipment.

There is also a view which holds that Taiwan will put its future efforts into formation of a "South China Economic Group." They point out that the total population of Taiwan and Hong Kong, when combined with that of Fuchien, Kuangtung and Hainan Island, is about 120

million, a market as large as Japan's. If there could be a comprehensive plan for this "South China Economic Group," with the two coasts assisting and complementing each other, then through the use of mutual funding, manpower and resources, it could play an extremely important role in the world's economy.

It is clear that it will not be easy for Taiwan to improve its trade deficit with Japan by rejecting Japanese goods. Unless Taiwan can, in the long term, eliminate its excessive reliance on Japan, then a boycott of Japanese goods is an impossibility.

Health Exam Shows President Li in 'Good Condition'

*OW0108124990 Taipei CNA in English 1148 GMT
1 Aug 90*

[Text] Taipei, Aug. 1 (CNA)—A health examination report showed that President Li Teng-hui's health was in good condition, the presidential office said Wednesday.

President Li checked in the National Taiwan University Hospital July 21 and 22 for a routine health examination.

The report showed that the 68-year-old president weighted 79.5 kilograms, his blood pressure, and circulatory, respiratory, heart and digestive systems were all normal except for a mild gastritis.

X-ray scanning also showed that the president was in good shape except for a mild bony spur found between the sixth and seventh disks of cervical spines.

The examination report showed that President Li's previous minor problem with uric acid has been checked and was back to normal.

Doctors suggested, however, that the president have a new pair of eye glasses for presbyopia.

Kung Renominated as Examination Yuan President

*OW0208033990 Taipei CNA in English 0247 GMT
2 Aug 90*

[Text] Taipei, Aug. 2 (CNA)—President Li Teng-hui Wednesday renominated Kung Teh-cheng and Lin Chin-sheng as the president and vice president of the Examination Yuan respectively.

The Examination Yuan oversees the examination, the employment, and management of civil service personnel at all levels of Government of the Republic of China.

The renomination of Kung and Lin, whose current tenure of office expire on August 31, was later submitted to the Control Yuan for approval.

President Li also announced a list of 19 Examination Yuan members, 14 of them new faces.

Basic Law Said To Guarantee 'Stability, Prosperity'

90CM0288A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 23, 4 Jun 90
pp 24-25

[Article by Xin Chunying (0207 2504 7751): "The Basic Law Realistically Guarantees Hong Kong's Future Stability and Prosperity"]

[Text] Whether Hong Kong's stability and prosperity can be preserved after it reverts to Chinese rule, is a matter of utmost concern to both Hong Kong residents and mainland Chinese. Certain people with ulterior motives throughout the world have made a big issue of this in an attempt to shake the confidence of Hong Kong residents in Hong Kong's future stability and prosperity. Seeing the particular legal clauses in the Basic Law that has been adopted, which guarantee Hong Kong's future prosperity and stability, has further enhanced people's faith in Hong Kong's future.

Although many factors are involved in a society's stability and prosperity, the most fundamental one is economic stability and prosperity. Only when there are economic stability and prosperity, can there be stability and prosperity in other areas of society. The particular provisions in the Basic Law on Hong Kong's economy, provide a realistic guarantee that Hong Kong's "capitalist system will remain in effect for 50 years."

An economy is based on its system of ownership. The Basic Law provides for protection by law in the Hong Kong Special Administrative Region [SAR], of the right of individuals and corporations to acquire, use, dispose of, and inherit property, and the right of the owners of requisitioned property to be compensated for private and corporate assets that have been requisitioned from them according to law. As Hong Kong's present economic prosperity was achieved on the basis of private ownership, keeping its present system of ownership in effect is a prerequisite for safeguarding Hong Kong's stability. The Hong Kong SAR will keep its financial independence, with all of its revenues being used for its own needs instead of having to be turned over to the central people's government. The central people's government will not collect taxes in the Hong Kong SAR. The Basic Law further stipulates that fiscal budgets in the Hong Kong SAR will be based on the principle of keeping expenditures within the limits of revenue, and that every effort will be made to maintain a balance of revenue and expenditure, avoid deficits, and adapt the budget to the growth rate of the local GNP. This provision proceeds from the interests of the people of Hong Kong and is of vital significance. Fiscal deficits are phenomena that often occur in developed capitalist countries. For instance, each U.S. citizen's share of the U.S. Government debt is more than \$20,000. Being heavily in debt is bound to cause economic unrest and affect people's lives. Experience has proved that Hong Kong's fiscal policy of maintaining a basic balance of

overall revenue and expenditure has been effective for many years. The legal confirmation of this policy in the Basic Law, acknowledges a high degree of fiscal autonomy for the Hong Kong SAR.

The Hong Kong SAR will have an independent system of tax revenue and, in light of Hong Kong's long policy of low taxes, will legislate its own provisions on tax categories, rates, exemptions, and other matters. Low taxes is an unequivocal concept, which was set in contrast to the tax rates of other countries and regions. Low taxes help to attract foreign investment, improve the investment climate, and make products more competitive internationally. According to Hong Kong's tax regulations, the government collects four different kinds of direct taxes each tax year on goods, interest, salaries, and profits. These four taxes are collected completely separately, with graduated rates being used for salaries and interest on individual income, and standard tax rates being used to collect the others. Hong Kong's tax rates are lower than those in other developed capitalist countries. For instance, while corporation profit taxes are 56 percent in West Germany, 42 percent in Japan, 35 percent in England, 15-34 percent in the United States, 20-30 percent in South Korea, 33 percent in Singapore, and 15-25 percent in Taiwan, they are only 17 percent in Hong Kong. Hong Kong's low tax policy has promoted Hong Kong's prosperity by making it more attractive to investors.

Particular attention was paid in the Basic Law to preserving the standing of the Hong Kong SAR as an international banking center. The Basic Law stipulates that the government of the Hong Kong SAR will provide the economic and legal environment to preserve Hong Kong's standing as an international banking center. Hong Kong is now second only to New York and London among the world's three major banking centers. Some 44 of the 50 largest banking organizations in the world have branches in Hong Kong; and the Hong Kong and Shanghai Banking Corporation, Hong Kong, has become one of the world's 20 largest banks. Over 40 percent of Hong Kong's bank assets and liabilities are spread over more than 80 foreign countries. The prosperity of Hong Kong's various money markets is related to Hong Kong's conveniences, such as its great supply of and demand for foreign currency and gold created by its huge volume of trade and other overseas businesses, its lack of foreign exchange control, and its advanced communications systems. In order to guarantee the stability of Hong Kong's standing as an international banking center, The Basic Law stipulates that a foreign exchange control policy will not be put into effect in Hong Kong; Hong Kong currency can be freely converted into other currencies; Hong Kong will continue to have open foreign exchange, gold, negotiable securities, and futures markets; freedom of fund circulation, foreign trade, and the management of banking enterprises and money markets will be guaranteed; and the Hong Kong dollar will be the legal currency of the Hong Kong SAR. The government of the Hong Kong SAR will have the authority to issue

Hong Kong currency, which must be 100-percent backed up by starter funds. As Hong Kong currency is freely convertible, the stipulated regulations on starter funds are absolutely essential to guarantee its security.

Foreign economic relations and trade are major sources of income for Hong Kong. Since the 1970's, Hong Kong's industrial structure has gradually become more diversified and new and developing industries have flourished, and Hong Kong has now become the world's largest export base for ready-made clothing, toys, clocks, and watches. In addition, its entrepot trade has also steadily increased, and Hong Kong has become a veritable international trade center. The Basic Law stipulates that both enterprise ownership and foreign investment will be protected by Hong Kong law, and the Hong Kong SAR will keep its status as a free port in which tariffs will not be collected except as provided by law, free circulation of goods, invisible assets, and capital will be guaranteed, and the policy of free trade will remain in effect. The Basic Law stipulates that the Hong Kong SAR will be an independent tariff zone, and will participate in relevant international organizations and trade agreements, such as GATT, the international textiles trade plan, and preferential trade agreements, under the name of "Hong Kong, China." The Hong Kong SAR will continue to enjoy all of the export quotas, preferential tariffs, and other similar accords that were formerly in effect in Hong Kong. These stipulations will be very important in safeguarding Hong Kong's status as an international trade center. The aims of GATT to promote free trade and safeguard the principle of most-favored-nation treatment, are the basis of Hong Kong's foreign trade relations, and the international trade agreement on the international textiles trade plan is also of vital significance to Hong Kong. In addition, the stipulation in the Basic Law to continue to keep in effect various bilateral agreements that Hong Kong has reached, such as "The Accord on Promoting Investment

and Guarantees" and "The Treaty on Resolving Investment Disputes Between Countries and Nationals From Other Countries," will be a key factor in making Hong Kong even more prosperous.

The Basic Law stipulates the following three priorities for industrial development in the Hong Kong SAR: 1) The government of the Hong Kong SAR will provide the economic and legal environment to encourage all investments in, technological advances by, and development of new industries. 2) The government of the Hong Kong SAR will draw up suitable policies to promote and coordinate the development of all industries, such as manufacturing, commerce, tourism, real estate, transportation, public utilities, service industries, and fishery. 3) Attention will be paid to environmental protection along with industrial development. These provisions are aimed at producing more high-quality goods in Hong Kong, making Hong Kong more competitive on the international market, and putting Hong Kong's economy in the vanguard of the world's economy. Protecting the ecology while increasing industrial production and promoting socioeconomic prosperity will make Hong Kong, the "bright pearl of the Orient," even brighter.

Having made a comprehensive survey of the relevant provisions in the Basic Law on the Hong Kong SAR, all unbiased people must admit that they will substantially help Hong Kong to reassert its sovereignty and economic rights after the founding of the Hong Kong SAR, and are in keeping with the best interests of Hong Kong residents. Some of them, such as those on keeping expenditures within the limits of revenue and maintaining a balance of revenue and expenditure, have been applauded by certain Western legal scholars. This proves once again that the interests of Hong Kong residents are consistent with those of mainland Chinese, and that Hong Kong will become even more prosperous in the future.

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