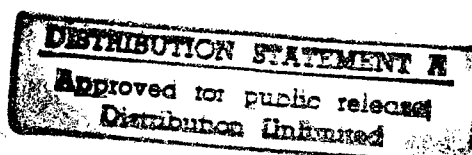


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17 AUGUST 1990



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GENERAL

Discussion of Strategic Changes in Europe

90CM0306A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 11, 8 Jun 90 pp 3-6

[Article by Chen Peiyao (7115 0160 1031): "Huge Changes in Europe: The Old System Crumbles, a New Situation Takes Shape"]

[Text] The changes that have occurred in the state of affairs in Europe over the last year are simply dazzling. If we somewhat sort out the various complex and conflicting events and examine them in connection with the history of international relations during the last 40 years, we will easily see that Europe has entered an era of epoch-making transformations, an era in which the old Yalta system is rapidly disintegrating and a new situation of international relations is taking shape. A short time ago, people witnessed how the East European countries changed their political and economic systems, saw the great mansion of the Warsaw Pact hover on the point of collapse, and regarded these events as merely concerning the East, while the West remained relatively calm. In the West, there was even some pleasure and rejoicing about the success of its "peace strategy." But before long, there came the accelerated pace of German unification and the melting away of the dividing line between East and West, events which called into question NATO's strategic objectives, armament plans, and the deployment of Allied forces in West Germany. These facts began to destabilize the very foundations of the large mansion of NATO, and the United States, Britain, and France began to worry about the preservation of their interests in Europe. We all know that the stability of postwar Europe (we may call it a balance) was built on the foundation of a confrontation between the two large blocs, NATO and the Warsaw Pact, and that it was thus upheld by the two pillars of East and West. This stability entailed the threatening situation of having two sides face each other at daggers drawn, as well as having both sides engage in diplomatic dialogue. The dramatic changes in the East created an East-West imbalance, and this will also compel corresponding changes in the Western system. It is for this reason that the present changes in postwar Europe will cause enormous changes of historical significance and most comprehensive dimensions throughout all of Europe.

The major characteristics of the postwar European system were the political and military confrontation created by the Yalta agreement and the "one divided into two" rule [a Mao Zedong saying] applied to Germany and Europe, having two Germanys with differing economic systems and two military blocs, namely NATO and the Warsaw Pact. The present changes are now about to gradually obliterate all these major characteristics.

The "Two Merging Into One" of Germany and Its Resurgence

In mid-March this year, after the proposal for speediest unification of Germany put forward by the Christian Democratic Union won overwhelming endorsement in the elections to the new GDR parliament, the process of German unification was greatly speeded up. Negotiations between the two German Governments finally ended in a state treaty, signed on 18 May, for "currency, economic, and social federation" of the two Germanys. This treaty came into force on 1 July, and concluded the first phase of German unification, namely acceptance by the GDR of the West German mark as its legal tender. Precisely as GDR Premier de Maziere said, by this treaty the GDR is importing the core component of West Germany's economic and social system. The treaty rendered German's unification "irreversible." At the same time as the two Germanys were solving their internal problems of unification, they were also stepping up discussions with the United States, Britain, and France to solve the external problems, planning, by means of several rounds of "two plus four" negotiations, to achieve unification within about one year.

At the moment it is of course still unclear whether a united Germany will be a member of NATO, or partly of NATO and partly of the Warsaw Pact, and what fate is in store for U.S. forces stationed in West Germany and Soviet forces stationed in the GDR, but a unified Germany taking shape in Europe appears to be a reality. After unification, Germany's territory will be 35.6 square km and its population 78 million (France's is 21 million, Britain's is 57 million), its labor force will be 37 million (France's is 21 million, Britain's is 26 million), its GNP will be \$1,400 billion (France's is \$947 billion, Britain's is \$812.5 billion). Germany is the third-largest industrial country of the Western world, behind only the United States and Japan. As of the end of July last year, its net assets abroad were \$215 billion, making it the world's second-largest creditor nation after Japan. When it comes to economic strength, West Germany had in the past been stronger than Britain and France, but the many post-World War II dispositions, such as the division of its territory and the stationing of foreign troops on its territory, left Germany always one head shorter than Britain and France. The balance in relations between Britain and France on the one hand and Germany on the other hand relied more or less on Germany being "long on economics and short on politics," while Britain and France were "long on politics and short on economics." After unification, Germany will have all the rights and the status that every sovereign state possesses; it will no longer be an economic "giant" and a political and military "dwarf," but will rather, relying on its abundant overall strength and its favorable location in the heart of Europe, push Britain, France, and all its neighboring countries into the background. Within the European Community a unified Germany will occupy a most conspicuous, commanding position. It is estimated that Germany's GNP by the year 1995 will be equal to that of Britain and France combined, that it will break up the

balance of power within the European Community, and that the new situation that will emerge will be a new alignment, with Germany as its central force. Within all of Europe, German unification and resurgence will constitute a serious challenge in economic as well as in political respects for the two superpowers, the United States and the Soviet Union. The U.S. magazine NEWSWEEK noted the possibility of this kind of a challenge, and expressed the belief that Germany will become a superpower of a new type, because, on the precondition that there will be no world war, the title of superpower will no more be decided by guided missiles, tanks, and aircraft carriers, but rather by a country's strength in trade and finances.

Gradual Vanishing of the Confrontation Between the Two Military Blocs

The political and military situation of the Warsaw Pact has changed dramatically since last year. The Soviet Union has abandoned its strategic objective of world domination through continuously increasing military strength and has adopted as its primary objective avoidance of war and seeking a relaxed world environment. The military forces of the Soviet Union have also shifted from continuously expanding their foreign involvements, as in the past, to primary emphasis on the protection of the security of Soviet territory. In the building up of its national defense, the Soviet Union has shifted from seeking military superiority to pursuing a policy of "reasonable sufficiency" and "qualitative buildup of its armed forces." It has shifted from pursuing parity with the high standards of the West to establishing strategic parity at a low level. Its military structure has been changed from an offensive to a defensive type, and the military deployment has been changed from forward deployment to a retracted deployment. The Soviet Union has unilaterally declared a 500,000-man reduction of its armed forces, of which 240,000 will be forces stationed in Europe, as well as a reduction of 10,000 tanks, 8,500 guns, and 800 military aircraft. According to Soviet dispositions, first-line Soviet forces in Europe will be reduced by 42.5 percent, and 50 percent of its tanks will be withdrawn from Eastern Europe. Central Europe is the focus of NATO-Warsaw Pact confrontation, and the total of the first-rate offensive forces which the Soviet Union will withdraw from this area is even larger than the entire combat strength of the U.S. 7th Army Group now stationed in Central Europe, and is 20 percent above the military force reduction demanded of the Soviet Union by NATO in the European disarmament negotiations. Following the lead of the Soviet Union, the other Warsaw Pact countries also unilaterally declared plans for the reduction of their armed forces, initiating a flurry of disarmament within the Warsaw Pact. In the wake of the change in the political situation in the East European countries and their inclination, to varying degrees, toward the West, it is impossible for the eastern region of Germany to remain politically and militarily a member of the Warsaw Pact. Hungary and Czechoslovakia have demanded that the Soviet Union

withdraw all its forces, and are demanding their own withdrawal from the Warsaw Pact, even the dissolution of the Warsaw Pact. Support for the Warsaw Pact by other East European countries is also given rather unwillingly and is of limited extent. It is at present impossible for the Warsaw Pact to function as a balance against NATO, and Western public opinion considers the Warsaw Pact as existing in name but actually dead.

In the face of these changes in the Warsaw Pact, NATO has politically lost its objective and militarily lost its adversary, and it has become questionable whether NATO itself can survive. William Kaufman, a former official of the U.S. Department of Defense and main originator of NATO strategy, said: "NATO has now become an organization that no longer conforms to the trend of the time," and "as there is no more Warsaw Pact, NATO stands there like a scarecrow, having lost all its functions." NATO was created to contain the Soviet Union and the East European countries, to provide for an extended period a massive force deployed as a defense along the East-West frontier from Norway in the north to Turkey in the south. A large contingent of Allied troops was especially stationed in West Germany as a collective force in a forward defense position. The total Allied garrison force amounted to 392,000 men, of whom 233,000 were Americans. The United States had also stationed a large number of short-range nuclear weapons and about 4,000 nuclear warheads in West Germany. According to NATO's present estimation, after gradual withdrawal of Soviet forces from Eastern Europe and with Soviet disarmament, its conventional forces constitute no further direct threat to NATO's West European allies, and, in a comparison of Eastern and Western strength, the East has no superiority anymore. Many within NATO are therefore questioning whether NATO's present strategy has become obsolete, and whether the deployment of NATO forces is necessary. They are even questioning whether the continued existence of NATO as a military bloc is necessary. Belgium has already declared that it will withdraw its contingent from the NATO forces stationed in West Germany. NATO authorities and authorities in the principal NATO countries are of course unwilling to negate lightly the necessity for the further existence of NATO, but the May meeting of foreign ministers and defense ministers could not but come to the following decisions:

- 1) Cancellation of plans for modernization of strategic nuclear weapons in Europe. The strategic nuclear weapons deployed by NATO in West Germany would have been useful mainly for strikes against the GDR, and their farthest range would have been sufficient only for strikes against Czechoslovakia. Obviously, these weapons have become obsolete after all the changes in Eastern Europe and after German unification.
- 2) Abolishing the requirement that NATO member states increase their defense expenditure by three percent every year.
- 3) Submitting current NATO strategy, such as "forward defense," "elastic response," "first-strike employment of nuclear weapons" and other important

policies to the NATO summit conference, which will be held in London in July, for examination and deliberation.

NATO is now facing head-on the acute problem of its uncertain future and of its future direction. For NATO's future, there are now two alternatives: First, to effect a fundamental transformation and continue as a political alliance of the West. It could possibly abandon its "forward defense" strategy, that is, no longer have member states dispatch large contingents of troops as guards at the East-West border. Actually the former border between East and West will no longer exist after German unification and the developments in Eastern Europe, while it would also be impossible for NATO to move the defense line of allied forces further east to the western frontier of the Soviet Union. It may possibly provide a new interpretation of the strategy of "elastic response," namely, render the strategic principle more abstract, more vague, without further reliance on nuclear force. NATO authorities are presently fairly agreed that the organization should play a political role, that it should negotiate disarmament with the Soviet Union, and, when exploring the possibility of setting up a new European security structure, it should serve as a forum for the coordination of the various standpoints among Western states, and, by maintaining a certain military force, serve as a deterrent against the Soviet Union. The second alternative is its gradual dissolution. NATO's continuation would be a restraint on Germany, which rising Germany would not suffer for a long time. West German authorities now emphasize that it is a political necessity for a united Germany to remain in NATO; in a certain sense it is a measure of expediency. We have heard that West Germany's Foreign Minister Genscher said privately that German membership in NATO is a transitional affair before NATO and the Warsaw Pact are dissolved. Lafontaine, who is the Social Democratic Party's presidential candidate, has publicly indicated that he would immediately have Germany withdraw from NATO and join an all-European federation. Not long ago, a public opinion poll in East and West Germany about the future direction of a united Germany indicated that 60 percent in West Germany were for joining an all-European system, 22 percent for neutrality, and 18 percent for remaining in NATO. In the GDR, 50 percent were for neutrality and demilitarization, 33 percent were for neutrality but without demilitarization, five percent for joining NATO, one percent for joining the Warsaw Pact, and 11 percent were for joining NATO and the Warsaw Pact. If Germany would one day withdraw from NATO, France has always had its differing views about NATO, and the other countries would not be able to sustain NATO. The two above-stated alternatives for NATO's future are possibly not at all contradictory. For the near future, it looks as if NATO could, with a few reforms, be maintained, but after a certain number of years, following the new constitution of forces in Europe, NATO will disintegrate.

Gradual Formation of a New Setup

German unification and the vanishing confrontation between the two blocs signify the collapse of the old order in Europe and at the same time the formation of a new setup. The international situation indicates a balance in the relations and forces as between the principal countries. The old situation in Europe was one of polarization, and a balance of power established by the struggle for supremacy between the United States and the Soviet Union. The reason why the old setup could no longer be maintained is that the power of the United States and of the Soviet Union has weakened, and this is also the reason for the formation of a new center of power. Academic circles in a certain way view Western Europe as one unified power, especially due to the development of the EEC and the revival of the West European alliance, so that at times all Europe "speaks with one voice." People pin their hopes on West European integration; in economic respects on establishment of a "unified market"; and, in political respects, precisely as Delors, president of the EC's Executive Commission, has said, on the movement toward a "European Government" with independence in defense affairs. This kind of a Western Europe can, of course, become a power center, which could well match the United States and the Soviet Union. Although this is not an impossible prospect, it is rather unrealistic. Mrs. Thatcher, the British prime minister, is a realist. It is her opinion that each country of Western Europe has its own traditions, and that no one country is willing to turn over its sovereignty to someone else. "Any attempt to abolish nationalities and transfer all rights concentratedly to some kind of European entity would be extremely harmful." France has traditionally emphasized maintaining its sovereignty and the state's independence. De Gaulle has in the past been the standard bearer of opposition to the establishment of a "suprastate organization." De Gaulle's propositions are still the principle that is being followed by the present French Government. West Germany stressed European integration and did indeed propose establishment of a "suprastate organization" for the reason that its sovereignty had already in the postwar period been incomplete, and because it hoped that it would benefit in a united Europe due to its abundant economic power. Actually, West European integration so far consists only of interstate cooperation; Western Europe has not become a unified political and military force. At present, because of the accelerated pace of German unification and its resurgence, it can be predicted that a new power center is forming. This prospect is already worrying the United States, the Soviet Union, Britain, and France, who all intend to have Germany join an effective international organization and thereby restrain the development of Germany's military power. The West wants Germany to stay in NATO. The Soviet Union once proposed neutrality for Germany, but quickly changed its stance and asked for Germany to stay simultaneously in NATO and in the Warsaw Pact. Kissinger said, Germany's neutrality would be a "disaster for Europe," with consequences that would be extremely dangerous

for all concerned. What international organization could restrain the rise of Germany? It seems there is no force strong enough to be able to stop German unification; there is also no mechanism available that could restrain the rise of Germany. During the last decade of this century, the old state of polarization with U.S.-Soviet coexistence and mutual antagonism will possibly yield to a state of plurality in which the three great powers, the United States, the Soviet Union, and Germany, will have firmly established themselves like the three legs of a tripod.

The overall situation is bound up with the system of organization, but the two are not identical. When NATO and the Warsaw Pact, manifestations of the Yalta system, disintegrate, a new system is bound to come into being. Some people in the West propose to have the European Community and NATO become the nucleus in the development of a multilevel economic and security order. There are also some people in the West who propose to take the European Security Organization as the nucleus in the establishment of a standing organ for cooperation, and have the various countries of Europe, together with the countries of North America, cooperate and coexist. In its own propaganda, the Soviet Union was building up a "great European mansion," that would reach from the Ural Mountains to the Atlantic. At present, no comparatively realistic blueprint for the future exists as yet. The changeover from the old to a new system is not something that will be all smooth sailing. It will be decisively influenced by repeated struggles between the major powers. During this period, it will hardly be possible to avoid repeated turbulence in the European situation.

UNITED STATES

Hypocrisy Seen in U.S. 'Human Rights Diplomacy'

90CM0183A Shenyang SHENYANG SHIFAN
XUEYUAN XUEBAO [JOURNAL OF SHENYANG
TEACHER'S COLLEGE] in Chinese No 2, 10 Apr 90
pp 1-6

[Article by Yuan Changyao (913 2490 1031), responsible editor Wang Wenda (3796 2429 6671): "An Appraisal of the 'Human Rights' Diplomacy of the United States"]

[Text] After the counterrevolutionary rebellion in June 1989 was put down by China, some forces in Western countries, at the head of them the United States, wantonly attacked the Chinese Government and, under the pretext of protecting "human rights," imposed so-called "sanctions" against China. This interference in the internal affairs of another country evoked, quite naturally, a countercharge by the Chinese people. Looking back in history we see that those in power in the United States have always been apt at using the pretexts of "morality" and "human rights" to justify interference in other country's internal affairs. This is precisely where we see the hypocrisy and foxiness of U.S. imperialism.

Because of the improving relations between China and the United States during the last few years, and because of China's policy of opening up to the outside world, there have been ever-increasing contacts between China and the United States in various fields. In addition, exposure to the influences of bourgeois liberalization had the press and mass media engage in exaggerated praise for the United States, and very seldom did they criticize or rebuke the United States. To some witless people it would seem that the United States is by its very nature good and kindhearted. This, actually, is an erroneous assumption. We have to realize that the foreign policy of the United States, including the changing developments in its policy toward China, is certainly not determined by any likes or dislikes for the Chinese people, and even less determined by its approval or disapproval of Chinese Government policies, but rather is determined by considerations of advantages or disadvantages for the ruling clique in the United States. The present article will analyze the true essence of the "human rights" diplomacy practiced by the United States, as apparent in the following different aspects:

1. Human rights as referring to personal freedom and other democratic rights.

The idea of human rights can be traced back in its origin to ancient Greece, but the human rights slogan was first clearly and definitely enunciated by the thinkers of the newly arising bourgeoisie of the Enlightenment period in modern times. During the bourgeois revolutions in the United States and Europe, the bourgeoisie adopted human rights as their weapon against feudal despotism. The U.S. Declaration of Independence of 1776 emphasized the principle of "natural rights," declaring "the right to life, liberty, and the pursuit of happiness" as rights of all mankind. The purpose at that time was to repudiate the tyranny of the British colonialists and to establish an independent bourgeois republic. During World War II, the "four freedoms" proclaimed by U.S. President Roosevelt on 6 January 1941, the "Atlantic Charter" proclaimed on 14 August of the same year by Roosevelt together with British Prime Minister Churchill, and the "Declaration of the United Nations," which was drafted under the direction of Roosevelt and then promulgated on 1 January 1942, are all documents that explicitly guarantee the basic principle of human rights. Cause for all these acts was the indignation and antagonism of billions of people aroused by the savage and immoral atrocities committed by the fascist countries during World War II. Because of this general sentiment at that time, the United States, relying on its great power and scheming to achieve world "leadership," espoused the cause of "human rights" as a means to gain general popular support for itself.

On 10 December 1948, the United Nations at its second session adopted the "Universal Declaration on Human Rights," proclaiming the basic rights to be enjoyed by every individual, including as well the right to work and

other economic, social, and cultural rights, and at the same time setting up a special "Commission on Human Rights."

Western scholars regarded the "Covenant on Economic, Social, and Cultural Rights" and the "Covenant on Civil and Political Rights," passed on 9 December 1966 and taking effect in 1976, as supplements and elaborations of the original "Declaration."

However, the "Universal Declaration on Human Rights" and the other human rights covenants and documents have not been uniformly accepted as everyone's human rights concepts and as provisions of legal force. The British High Court Judge Lord Denning regarded the provisions of the human rights conventions as "general but not definite" and "not applicable as law in a British court of law; therefore," he said, "we must still adhere to our own legal principles." Because of the differences in ideologies, national cultural traditions, and stages of social development of the different peoples concerned, there are, therefore, very large discrepancies in the interpretation of human rights, and as a result the various governments all go their own way in the specific determination and implementation of human rights. For instance, former U.S. President Nixon once said of the different interpretation of human rights as between the United States and the Soviet Union: "The Soviet Union regards free medical care, housing, education, and full employment as main human rights. We, however, believe that the main human rights should be freedom of speech, of publication, of religion, and free elections."¹ Therefore, using "human rights" merely as diplomatic tactics frequently leads to disputes between countries, and is of no help in resolving international disputes. Strictly speaking then, human rights can only be interpreted and applied by each country according to its own specific national conditions. The human rights declaration and the various covenants can only act as self-restraints for each particular government, and will give moral support to people in their struggle for human rights, but must not be a means to interfere in the internal affairs of other countries.

2. Using human rights as a means of diplomacy can only confuse and complicate international relations, because no sovereign state will want outsiders to interfere in its internal affairs. Human rights diplomacy and the sovereignty of states are bound to end up in mutual contradictions. There is here a difficult question, which is hard to answer: Is a sovereign state justified or obligated to pass judgment on human rights conditions in another sovereign state? Would doing so be within the country's national interests? If a country would use its own value concepts and moral standards in assessing another country or making demands on another country, without considering the moral standards of the regime in that other country, or its specific political peculiarities and ideological conditions, that would in fact make peaceful coexistence between states impossible, because it would violate the very principles of peaceful coexistence. Some knowledgeable Americans too object to the use of human

rights as a means of diplomacy. For instance, Ernest Lefevre, whom President Reagan had once proposed as assistant secretary of state for human rights, was outspoken in his objections to human rights diplomacy, thereby risking his appointment to office. He said, "There is and should be a profound moral constraint on efforts designated to alter domestic practices, institutions, and policies within other states. Otherwise we would make ourselves judges over other societies which do not have the same value standards as ours are," and we would "confuse domestic with foreign policies."² In his opinion, the sovereignty of a state constitutes a necessary, most solid, and absolutely firm wall, which keeps human rights from penetrating the sphere of diplomacy. He believes the United States must not be the judge and critic of other governments in questions of human rights. He added that a government may at most, as part of quiet and confidential diplomacy, admonish another country with regard to its handling of human rights questions. He emphasized that it is impossible to have "one comprehensive and uniform measure or standard to evaluate human rights." His conclusion is, "We cannot export human rights, as we also cannot export respect for the legal system."³ Cyrus Vance, secretary of state in the Carter administration, draws the following lesson from a review of the bankrupt "human rights diplomacy": "In pursuing a human rights policy, we must also understand the limits of our power and wisdom. We could defeat our goals either through a rigid attempt to impose our value on others or a doctrinaire plan of action," because "in the cause of human rights ...no mechanistic formula will produce an automatic answer."⁴ He warns his successors to avoid "imposing our values or forms of government on others."⁵ Some scholars object from the standpoint of civil law and international law theory to any introduction of human rights into the sphere of diplomacy, believing that this would not only do harm to law theory, but also violate the rules of international law, because "in today's world, common awareness of human rights among all governments is very weak and fragile." "The international community is evidently unwilling to accept the idea that humanitarianism has the right to intervene." "This not only reflects the fact that the international community is unwilling to accede the right of intervention to certain countries, and thereby allow them to infringe on sovereignties and the principles of nonintervention. Another reason is that there is still no generally accepted theory of 'what human rights really are.'"⁶ American scholars have pointed out that although Article 1 Paragraph 3 of the United Nations Charter stipulates as its purpose "promoting and encouraging respect for human rights and for fundamental freedoms for all," the UN "Universal Declaration on Human Rights" and all other human rights documents do not establish a uniform human rights concept and provisions with the force of law. On 9 December 1981, the United Nations passed a "Declaration on Noninterference and Nonintervention in the Internal Affairs of Other Countries," as Resolution No. 36/103. It clearly prescribes that "no state or coalition of states has the right to interfere or intervene in whatever

way or for whatever reason in the internal or diplomatic affairs of another country," and that "all countries are obligated to abstain from utilizing or distorting the human rights question for the purpose of exerting pressure on any other country or to foment suspicion or stir up confusion between any other coalition of states or between states." This is undoubtedly a stern warning and condemnation directed against the United States for its use of human rights diplomacy to interfere in the internal affairs of other countries.

Certain important personalities in the ruling stratum of the United States maintain a double standard, whether with regard to the principles of human rights or with regard to the principle of noninterference in the internal affairs of others. The United States thinks it may use the human rights question as a pretext to wantonly interfere in the internal affairs of other countries, while other countries must not speak out freely on human rights problems in the United States, because this is a matter exclusively reserved for U.S. attention. The American Bar Association was firmly opposed to Congress giving its approval to the human rights conventions, stating that "human rights are essentially a matter of internal jurisdiction of the United States" and "approval of the human rights conventions would open wide a door for interference by the United Nations in the area of human rights." Not only that, when the U.S. Congress in 1981 debated such human rights documents as the "International Covenant on Civil and Political Rights," it added that, "whenever a provision is in conflict with U.S. law, a reservation, understanding, or declaration is recommended," "in order to harmonize the treaties with existing provisions of domestic law." Even with these reservations and limitations, the U.S. Congress still never ratified the above-mentioned two human rights covenants.⁷

3. Although the United States always poses as defender of moral principles and often accuses others of slighting "human rights," the human rights record within the United States is very bad. A mere cursory review of U.S. history has us easily understand why the U.S. Congress declined to ratify the human rights conventions.

The early history of the United States is a history of sanguinary genocide and racial oppression. The U.S. expansion to its present territory from its earliest 13 original states is based on the plunder of land from the native Indians and is built on thousands upon thousands of Indian corpses. The development of the southern parts of the United States, in particular, is the tearful and blood-stained history of black slavery. As is common knowledge, the United States, which has all along boasted being model of democratic government, has only as late as the 1940's of this century instituted universal suffrage, while racial discrimination continues to this day. Even President Roosevelt, well-known worldwide for his advocacy of human rights, had been motivated by racial prejudice when he approved the large-scale persecution of Japanese residents and persons of Japanese descent. After Pearl Harbor, the U.S. ruling

class demanded segregation of Japanese residents and persons of Japanese descent on the pretext that there might be collusion between them and the enemy. As a result, from the three states of California, Washington, and Oregon alone, 112,000 persons of Japanese descent were locked up in 10 concentration camps, euphemistically called "relocation centers." Families of these detainees were often separated and sent to different concentration camps. Conditions at these concentration camps were very bad, not much better than POW camps or military desert encampments. The detainees had to endure somewhat over three hard war years in the concentration camps. It was only as late as 1988, 40 years later, that they received some compensation, but by that time most of them were no more alive. On the other hand, resident aliens of such enemy countries as Germany and Italy, or Americans of German or Italian descent did not have to suffer this kind of "segregation."

As for racial discrimination against American blacks, incidents are just too numerous to mention.

In 1896, an U.S. court of law, in the case of Plessy versus Ferguson, established the preposterous principle of "separate but equal," whereby the system of segregating blacks received legal approbation. There was general segregation of blacks in schools of every kind. It was only as late as 17 May 1954 that a federal court, in the case of Oliver Brown et al. versus Board of Education of Topeka, decided that racial segregation in public schools violates the 14th Amendment of the Constitution. "Justice Warren announced as representative of the Supreme Court that segregation of educational installations is by nature unequal."⁸ In the following few years, it became gradually recognized, but only after continuous struggle by blacks and some righteous whites, that segregation in public places is illegal. However, in actual life a system of segregation is still firmly and stubbornly being maintained in many places. Up to the present, racial discrimination has the majority of blacks live in a state of poverty and in addition suffer all kinds of oppression.

4. Karl Marx, the great teacher of the proletariat, already had thoroughly revealed and castigated the two-faced tactics of hypocrisy and deceit practiced by bourgeois politicians, when he wrote, "The extreme hypocrisy of the bourgeois civilization and its barbaric character will become nakedly exposed to our eyes, as soon as we turn our eyes from our native lands to the colonies, because in our native lands this bourgeois civilizations still appears in respectable forms, but in the colonies is appears without the least concealment... This is how these men really are who are protecting property, order, family, and religion."⁹ Without delving into the remote past, limiting ourselves to the period following World War II, that is, the period after the United States had signed and ratified the charter of the United Nations, we can see the scandalous ways in which the United States, relying in its international relations on its superior power, frequently wantonly encroached on the sovereignty of other countries, interfered in the internal affairs of other countries, and even openly staged armed aggression against other

countries. The following is a brief list of the most prominent cases of this nature:

- March 1947: President Truman announced aid to Greece and Turkey; interference in the internal affairs of Greece.
- June 1950: Outbreak of the Korean war. The United States invaded Korea under the UN flag. The 7th Fleet entered the Taiwan Strait, interfering in China's internal affairs. In December of the same year, the United States imposed a blockade against New China.
- July 1958: U.S. marines landed in Lebanon.
- December 1961: U.S. military forces intervened directly in the Vietnam war.
- April 1961: The U.S. Central Intelligence Agency engineered the Bay of Pigs invasion of Cuba.
- October 1962: The Cuban missile crisis. The United States blockaded Cuba.
- January 1964: The United States suppressed the Panamanian people as they struggled to regain sovereignty over the Canal Zone.
- August 1964: The United States fabricated the "Gulf of Tonkin incident"; the U.S. Air Force engaged in barbaric bombardment of the People's Republic of Vietnam.
- April 1970: U.S. military forces invaded Cambodia.
- September 1973: Instigated by the United States, the Allende government was overthrown in Chile.
- October 1983: The United States invaded Grenada.
- March 1988: The United States sent its military forces into Honduras.
- December 1989: The United States staged a large-scale invasion of Panama.

During the 1989 invasion of Panama, heavy losses of life and property were suffered by the peaceful population of Panama. According to reports, several hundred civilians were killed by U.S. military action, another several thousand were wounded, and several tens of thousands lost their homes. This is the latest brutality of the United States, violating human rights of another country without regard for the norms of international law.

As to cases of U.S. violations of Chinese sovereignty and human rights, there is an even longer string of such incidents throughout the history of Sino-U.S. relations. Let us here limit ourselves merely to what Shen Jianhong [3038 0494 5725], Taiwan's last ambassador to the United States, and well-known friend of the United States, had to say; that alone will give people enough food for thought: "In its dealings with China, the United States in speech and actions has also departed from its repeatedly proclaimed principles, and the earliest case in point for this disparity between external action and internal ideas happened in U.S.-Japan relations." He also criticized the United States: "Even after becoming an ally to fight shoulder to shoulder in war, the United States was reluctant to give up its extraterritoriality in China. The U.S. stand was to abandon these privileges in China only after other countries had done so first. The Sino-U.S. treaty abolishing these U.S. privileges in

China was ratified only as late as January 1943, when China finally achieved liberation from the fetters of the unequal treaties."¹⁰

5. Among recent presidents of the United States, Jimmy Carter was particularly famous for pushing the so-called "human rights diplomacy." In his inaugural address on 20 January 1977 he proclaimed that his government must show "new dedication and a new spirit," and that his government's "commitment to human rights must be absolute." He asserted, "There can be no nobler nor more ambitious task for the United States to undertake than to help shape a just and peaceful world that is truly humane."

On 22 May of the same year, Carter delivered a speech at Notre Dame University in which he revealed his foreign policy, saying, "I believe that we can have this kind of foreign policy, a policy that is democratic, that is based on fundamental values, and that uses power and influence, which we have, for humane purposes."

In his speech on 6 December 1978 commemorating the 30th anniversary of the Declaration on Human Rights, Carter again emphasized, "Emphasis on the principles of human rights is the soul of U.S. foreign policy, and is the essential factor that determines the kind of relation that the United States will maintain with other countries."

What are background and motivation to Carter's noisy proclamations of a "human rights policy"? Is it really true that he is concerned about respecting human rights and concerned about the peoples of all nations of the world, as he so ostentatiously proclaims? If we first of all look at the problems that the United States faced when Carter became president, it will show us that he inherited a very unseemly run-down shop with a large heap of internal and external problems. By extending its tentacles in every direction and by expanding its influences to the utmost, the United States had actually already begun to decline from its high position of overlord of the capitalist world. Because of its defeat in the Vietnam war, the United States not only had to deplore the loss of several tens of thousand of its men, but had given cause to serious consequences. In the armament race between the United States and the Soviet Union, not only had the Soviet Union gained superiority in conventional weapons, but it had caught up, and, in the quantity and equivalent weight of nuclear weapons and means of delivery, even had begun to surpass the United States. Many advantages in armament gradually passed into the hands of the Soviet Union. Brezhnev was not only firmly entrenched in his East European position, but extended his influence to many territories in the world. It was a threatening situation indeed! In the capitalist camp, the economic powers of Western Europe and Japan were growing steadily, and the position of the United States was correspondingly declining. In the Third World, the United States found itself in an isolated position because of its constant aggression in all parts of the world. Domestically, the economic crisis and the U.S. defeat in the Vietnam war brought about divisiveness and a

mixture of crises in political confidence and morality. Carter acknowledged, "The Vietnam war has engendered a deep crisis of morality and destroyed the world's confidence in our policies. The economic stringency of the 1970's had the general public lose confidence in the ability of industrialized democratic countries to provide for the enduring welfare of its peoples, and the concealed pessimism of some of our leaders has aggravated the crisis of confidence." In his opinion, this situation demanded that the United States institute a new foreign policy, and he thought he had found the panacea in "human rights diplomacy." He was hoping this would restore morale, refurbish the image of the United States, and regain the initiative in the U.S.-Soviet struggle for hegemony. Because it is impossible to regain economic power in a short period of time, and equally impossible to quickly regain superiority in the arms race, and because these are facts that cannot be changed by the mere will of any human, there was then this "human rights diplomacy" which could be loudly intoned with little effort and made to sound pleasing to everyone's ears. Carter's human rights diplomacy was first of all directed against his main adversary, the Soviet Union. He intended to use "human rights" as a weapon, utilizing the "human rights question" to support the dissident forces within the Soviet Union, to shake the foundations of Soviet rule, and also with the intention of utilizing "human rights diplomacy" to mobilize world opinion to achieve his objective of isolating the Soviet Union. What Carter had not taken into account is that "human rights diplomacy" may meet with insurmountable contradictions and difficulties. He found that some of the United States' allies and staunchest supporters were frequently countries with the most abominable human rights records. Regimes in these countries were most disrespectful of human rights by whatever standards one would evaluate them. Carter was thus faced with two difficult decisions: Either to uphold without discrimination certain standards of human rights, which would hurt one's most trusted followers and most loyal lackeys, or to apply different standards, which would invite condemnation for inconsistency and be self-contradictory. Very soon Carter found that it is easy to talk about but difficult to implement "human rights policy." "Because of the heavy emphasis that was placed on Soviet-U.S. competition, a dominant factor in our dealings with foreign countries became whether they espoused an anticommunist line. There were times when rightwing monarchs and military dictators were automatically immune from any criticism of their oppressive actions. Our apparent commitment was to protect them from any internal political movement that might result in the establishment of a more liberal ruling group. Instead of promoting freedom and democratic principles, our government seemed to believe that in any struggle with evil, we could not compete effectively unless we played by the same rules or lack of rules as the evildoers."¹¹

Carter's human rights diplomacy spread confusion in his own backyard. In March 1977, when the State Department submitted to Congress its plan for \$150 million to be given to 14 Latin American countries, it had greatly reduced the amounts to be given to countries that had "violated human rights" and abolished military aid to Chile and Uruguay. Thereupon, Argentina, Uruguay, Brazil, El Salvador, and Nicaragua issued statements, accusing the United States of "interfering in internal affairs," "encroaching upon sovereignty," and "offending national dignity." All of them rejected U.S. military aid. Brazil abrogated its 1952 military aid agreement with the United States. Chile's president ordered rejection of loans that were to be granted with additional human rights provisos. The member countries of the Organization of American States split into two opposing camps on the human rights question. On the other hand, the United States for strategic reasons did not pursue its human rights policy with regard to some regimes that persistently violated human rights, such as South Korea, the Philippines, and the Pahlavi dynasty in Iran. This fully revealed the hypocrisy of "human rights diplomacy." "Human rights diplomacy" had truly entered a blind alley. It was finally quietly laid to rest, ending up with nothing having been actually achieved by it.

Finally, let us analyze the mechanics of U.S. policy decisions in foreign affairs?

Foreign policy refers to "the principles and practice of a country controlling the world beyond its borders, especially using other countries to control the world beyond one's borders, especially also the relations between other countries."

Even a brief investigation of U.S. foreign policy in recent years will show us that important decisions in U.S. relations with other parts of the world are actually very much influenced by domestic politics. The progressive American scholar Morton Berkowitz came to the following conclusion after a thorough study: In the United States "gaining power of control over the state" will permit the private interests of a certain social group to become interests of the state. "Therefore, this set of interests will then become the public interest, and, in the domain of foreign policy, the national interest, and will then be surrounded with all the authority and majesty that the state possesses."¹² Furthermore, through propaganda and persuasion the other members of the society will come to believe in these interests and protect them as their own interests. Therefore, "the national interests pursued by a nation or stated as such by its leaders are simply the interests of the dominant group or classes. It is this transmutation of private interests into national interests that is the essence of the elitist political tradition. This transmutation was never stated more succinctly and lucidly than in the classic statement by former Secretary of Defense Charles Wilson that 'what is good for General Motors is good for the United States.'¹³ "U.S. foreign policy in general is essentially and overwhelmingly in line with the general objectives and interests of its corporate business community."¹⁴

Morton Berkowitz and his coauthors show in their research of the processes that led to important foreign policy decisions in 11 cases: In the postwar period the entire history of U.S. intervention in foreign countries was "making interventions out to be justifiable" under the banner of anticommunism. They merely added every time some specific reasons, brought up according to strategic or economic needs. "In fact, one can safely say that virtually every important U.S. foreign policy decision in the postwar period has occurred in response to some perceived or apparent communist threat."¹⁵ Here we have to draw the attention of well-intentioned persons with certain illusions to the fact that since U.S. state power is still in the hands of a political elite, these conditions will not change. Under no circumstances must we relax vigilance because of the improvement in Sino-U.S. relations and the relaxation in the world situation during the last few years, nor must we forget or ignore the fact that U.S. state power is essentially still in the hands of a monopolistic bourgeoisie. Otherwise, we would get ourselves into a passive position in the ever-changing international situation or find ourselves unable to understand the true state of affairs. We need not fear losing our direction or encountering any changes in the complex international relations as long as we have a firm grasp of the true essence of all things, maintain a cool and rational mind at all times, and maintain self-reliance as well as self-respect. This is the conclusion that we draw from an exposure of the true character of U.S. human rights diplomacy.

Footnotes

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EAST EUROPE

View of Bulgarian Progress, Problems Under Zhivkov

90CM0299A Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 12, 16 Jun 90 pp 12-14

[Article by Ming Zhen (6900 4176) and Yang Hua (2799 5478): "Zhivkov and Bulgaria"]

[Excerpts] In October of 1989, a Bulgarian "ecology-oriented" organization of less than 200 persons seized the opportunity of the meeting in Sofia of the World Environmental Conference to launch a signature drive, in which they first only asked for public discussion of state construction projects, to ensure that no harm will result to the natural environment and ecological balance of this "kingdom of roses" on the shores of the Black Sea. However, this signature drive unexpectedly resulted in a great transformation of the political situation, a change as had never before been experienced since Bulgaria's liberation. The secretary general of the Bulgarian Communist Party [BCP] for 35 years, Zhivkov, who was concurrently chairman of the State Council, was compelled to declare his resignation and was subsequently severely criticized, expelled from the party, and arrested for investigation. Later, the BCP relinquished its leadership position, which had been prescribed by the Constitution, and changed its name to "Socialist Party," in the hope of gaining victory in subsequent free elections under the slogan of "democratic socialism," and of becoming the ruling democratic party in a multiparty system. Now, elections of delegates to the Bulgarian National Assembly have already begun, the first ballot having taken place on 10 June and the second ballot to take place on 17 June. It is reported that in a population of somewhat over 9 million Bulgarians, there are by now dozens of political parties participating in the election. Public opinion has it that whatever the outcome of the

elections, a historical era has come to an end in Bulgaria, an era that is connected with the name of Zhivkov. [passage omitted]

A Tortuous Road in Search of New Ways

The rise and fall of Zhivkov reflects from a particular aspect the extremely close link between Bulgaria and the Soviet Union. In its long and sorrowful history, Bulgaria has been twice liberated by its "Slavic elder brother." It happened the first time in the 1870's, when tsarist Russia launched the Balkan War and advanced to the gates of Istanbul, the capital of the Ottoman Empire, forcing the Turkish sultan to recognize Bulgaria's independence. Bulgaria at that time freed itself from five centuries of rule by a foreign nation. The second liberation occurred toward the end of World War II, when the Red Army carried the war into the Balkan Peninsula and helped the BCP bring about an uprising of the Bulgarian people, topple the Boris dynasty, establish a people's regime, and set out on the road of socialism. Members of the BCP had always closely cooperated with the CPSU ever since joining the Comintern in 1919. The first generation of Bulgarian leaders after the country's liberation, such as Dimitrov, Kolarov, and Chervenkov, had all worked in the Comintern and in the Soviet Union for many years. Slogans such as "The Soviet Union is the motherland of socialism" and "One's attitude toward the CPSU is the touchstone for proletarian internationalism" have for a long time been the motto of the BCP.

To integrate the socialist ideal with the particular conditions of Bulgaria, to gain even broader support and a larger following, the Bulgarian leaders in the early years after the country's liberation had once also put forward the need to explore a road to socialism with special Bulgarian characteristics. Dimitrov had proposed to bring into play as much as possible the potential of a system of people's democracy, to maintain the "Fatherland Front" that had been formed during the antifascist struggle, and to win the cooperation of other parties. The man who at one time was Dimitrov's successor, Kostov, had proposed to proceed according to the law of economics in socialist construction and to safeguard Bulgarian interests in the country's foreign economic relations. However, due to the influence of the cold war and Soviet interference, these men's ideas could never be realized. After 1947, Bulgaria too, as all the other East European countries, carried out large-scale political purges under Soviet direction. All parties other than the Agrarian Union were suppressed, and within the ranks of the BCP itself many persons were unjustly, falsely, and wrongly charged with crimes. In 1949, Kostov was labeled "the ringleader of a treasonable clique" and sent to the gallows. In September of the same year, Dimitrov died in Moscow of illness. Thereafter, Bulgaria copied indiscriminately the political and economic system of the Soviet Union, initiated an across-the-board nationalization of industry, collectivized agriculture, and carried out socialist construction according to the principle of "preferential development of heavy industry."

Unquestionably, Bulgaria has attained remarkable achievements in the somewhat more than 40 years of socialist construction. During this period, by means of eight five-year plans, national income increased by 15 times and the people's consumption funds increased sevenfold. A country which had been a backward agrarian country before the war had by then been transformed into a medium-developed country with a certain industrial base and modernized agriculture. The living standard of the people, in material as well as in cultural respects, had risen considerably. For every 100 Bulgarian households there were 39 small motorcars, 17.5 square meters was the average area of a home throughout the entire population, and for every 10,000 people there were 126 university students. However, the drawbacks of the "Soviet model" have equally shown up in Bulgaria most conspicuously. The system of centralized planning caused a slump in the Bulgarian economy, there appeared technological backwardness, economic dislocation, and loss of competitiveness. Although the country lacks sources of energy and mineral resources, Bulgaria one-sidedly emphasized development of the mechanical-electrical, metallurgical, and chemical engineering branches of industry, with the result that it had to import large quantities of petroleum, iron ore, and other raw and semifinished materials, while the products that were thus produced could not be sold on the international market because of their low quality. On the other hand, agriculture, food processing, light industry, and tourism, pursuits for which favorable conditions and an excellent tradition existed, were neglected and given no chance for further development. At the same time, excessive reliance was placed in foreign economic relations on cooperation with the Soviet Union (over 50 percent of Bulgaria's total foreign trade was with the Soviet Union), and through the reciprocal division of labor it was not possible for Bulgaria to participate broadly in international economic exchanges, as it also had an adverse effect on Bulgaria's own economic construction.

After his assumption of power, Zhivkov proposed as early as 1954 at the "April BCP Congress" to "apply Marxism-Leninism in a creative way according to the conditions that prevailed in Bulgaria," and to "employ on a broad scale the advanced achievements of modern technology in order to accelerate economic development." He also indicated that he would develop socialist democracy and restore the socialist legal system. During his term of office some exploratory trials were indeed made in connection with the theory of socialist transformation and in policies. For instance, in the question of transforming the socialist system of ownership by the whole people, Zhivkov had put forward the idea of separating ownership rights and management rights, a concept that was generally taken seriously. However, under the actual conditions in Bulgaria, Zhivkov had no alternative but to emphasize "comprehensive alignment with the Soviet Union," although he had also proposed that, "when utilizing experiences of the Soviet Union, consideration must be given to Bulgarian conditions and

to the historical traditions and socioeconomic peculiarities of Bulgaria." At the same time, precisely as expressed by Bulgarian public opinion, Zhivkov's reforms frequently stopped with their verbalization, while specific policies remained indecisive and became affected to some extent by a subjective willfulness. For instance, in the 1970's, Zhivkov proposed to establish "agrarian-industrial complexes" in the Bulgarian villages to facilitate collectivization and specialization of agriculture on an industrial basis. His proposal was for some time highly praised and emulated in the Soviet Union and in some East European countries, however, these "agrarian-industrial complexes" were initiated essentially to "accelerate a closer linkage and merger of the state ownership and the collective ownership systems" by having them combine into a "unified ownership by the whole people." This measure seriously dampened peasant enthusiasm for cultivation. It led to a rapid decline in the rural population and even to the complete desolation of many villages. Bulgaria's agriculture, once a thriving enterprise, faltered year after year in the 1980's; production of beetroot, fruit, beef, mutton, and of other agricultural and animal husbandry products declined, with serious consequences for market supplies and for the people's livelihood. At the same time, for the purpose of maintaining its huge processing industry, Bulgaria was forced in the 1980's to take up large loans; the total of its foreign debts has now reached almost \$10 billion, and the state's deficit is continuously increasing. Persons involved in Bulgaria's economic affairs believe that the 4.5-percent annual increase rate during the last few years was actually maintained by currency inflation and foreign borrowing.

In political respects, Zhivkov not only never considered reforming the union of party and government, and the system of having the party act as government, but he rather worked energetically to raise his personal prestige, taking arbitrary and independent actions. As time went on he was apt to order everybody about in his capacity of secretary general of the BCP Central Committee and chairman of the State Council, making it impossible for the National Assembly and the Council of Ministers to exercise their proper powers and perform their functions. He also appointed his trusted followers to positions and discriminated and took strong measures against all who disagreed with him, incurring responsibility for many cases of injustice. A most flagrant one was when Zhivkov, following Brezhnev's theory of "developed socialism," set up as his objective the establishment in Bulgaria of a "single-nationality state" and ordered the Turkish residents in 1984, who made up about one-tenth of the total population, to adopt Bulgarian names. This measure aroused furious resentment among the Turkish population, who resisted unyieldingly, a situation which in some districts led to armed clashes in which some government personnel were killed and wounded. In May 1989 Bulgaria revised its passport and nationality laws to allow citizens to apply for exit permits and to relinquish Bulgarian nationality; this prompted 300,000 Turkish citizens to leave the country.

For all the above-stated reasons, there were many serious dangers lurking under Bulgaria's outwardly calm political scene since the advent of the 1980's, and these dangers were continuously intensified by developments in Bulgaria and abroad. The large contingent of BCP members, cadres, and the masses ardently demanded exploration of a road toward reform of socialism according to the national conditions of Bulgaria and the developments of the times, and to proceed in a thorough and not merely perfunctory way, in real substance and not merely by empty words, while the forces of the various opposition parties intended to exploit the crisis for the overthrow of the leadership of the BCP and of the socialist system. It is precisely under these complex circumstances that the one-time movement for "ecological openness" became the fuse that touched off a dramatic change in the political situation.

The Inexhaustible Torrent

The Bulgarian people are famous for their diligence and their simple and pure character. They are strong-willed but also kind and gentle, they are honest and generous but also clever. The ideal of socialism has a long history of over 100 years in Bulgaria. With respect to actual events in postwar Bulgaria during the past 45 years, including the Zhivkov era and the person of Zhivkov himself, its people of course exercise a rigorous but also fair evaluation. Although since November last year there is a great hubbub in the public media, most people, however, are coolly observing and thinking things over. The people justly utter all kinds of severe criticism of Zhivkov and demand that he be investigated, but the people will also not lightly believe that Zhivkov and his followers had once been members of the reactionary gendarmerie in the old society, or that they have stashed away in foreign banks huge amounts of foreign exchange. These rumors were already denied after investigation by a special commission of the National Assembly, which decided to primarily investigate Zhivkov's responsibility for the offense of instituting during his term of office a policy of hostile ethnic confrontation and misuse of the powers of office for personal gain. The commission also decided not to hold a public trial of Zhivkov and even intends to invite Bulgarian and foreign specialists to treat his illness to preserve his good health. The people are highly dissatisfied with the practice of socialism in Bulgaria, but do not totally condemn the past. They are even less inclined to abandon the socialist ideal, but hope to reform and improve the socialist political and economic system of Bulgaria, enabling it to bring its deserved superiority fully into play. Of course, a trial of strength is going on presently between the various ideological trends, and the influence of such ideas as free capitalism and social democracy is also raising its head, but in the final analysis it is the broad masses of workers, peasants, and intellectuals who dominate Bulgarian history, and their basic interests are inseparably linked with the socialist direction of developments.

In the West, there is at present a theory of "the finale of history" in circulation, which asserts that with the ascent

of Western bourgeois freedom, democracy, and human rights, the summit has been reached in human ideological development, and that this constitutes a "finale of history." In other words, advocacy of capitalism will last forever. Men who think in this way may be people who, of course, are aware of what happened in the times of our forefathers, but they are certainly of the kind that somehow disregards the fact that generations of men will follow us. The mistake of this way of thinking is very obvious. The long flow of history is endless, and ideological development is also boundless. Socialism is an inevitable development of human history. The scientific ideology of Marxism is the revolutionary truth of the proletariat, as it is also the crystallization of human ideological development. Marxism too does not at all believe that human ideological progress has come to its end. On the contrary, Marxism itself will continuously replenish itself and will develop continuously. What has truly come to its "finale" is indeed the idealist conception of history that declares that history has come to its end. In human history, including the endless torrent of social and ideological development, the Bulgarian people have in the past played their own particular role and will do so in future.

WEST EUROPE

Unified Germany's Status Discussed

HA 1607135390 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 11, 1 Jun 90 pp 14-15

[Article by Zhuo Wen (0587 2429): "Some Proposals on the Military Status of Unified Germany"—first two paragraphs are SHIJIE ZHISHI introduction]

[Text] The alliance membership of the future Germany is the focus of controversy in negotiations over the unification of the two Germanys. While the Soviet Union objects to the idea of a unified Germany remaining in NATO, the United States advocates full NATO membership for Germany. Genscher has put forward a compromise proposition which caters to the interests of all the parties concerned. At present, it seems that the Soviet proposal is in a weak position.

At present, the military status of a unified Germany is still an external factor which determines whether or not the smooth reunification of the two Germanys can be realized.

U.S. and Soviet Proposals, and the Genscher Proposition

This year, the Soviet Union and the United States have rapidly adjusted their stands regarding Germany and put forward their respective proposals and views. When Hans Modrow, chairman of the Council of Ministers of Democratic Germany visited the Soviet Union in January, the Soviet Union put forward a "neutralization" proposal for a unified Germany with three conditions attached: 1) The prohibition of the formation of military

alliances; 2) The retaining of defense power at an appropriate scale only; 3) The recognition of postwar boundaries. The United States is diametrically opposed to such conditions. Not only does that country explicitly oppose the "neutralization" of a unified Germany, but it also demands that Germany becomes an "out-and-out NATO member," so as to prevent unified Germany from following France's footsteps in merely joining NATO's political organs and being divorced from its military organs.

On 31 January, Foreign Affairs Minister Genscher forwarded the following proposals of compromise: that postwar boundaries be recognized and no territorial demands be made of neighboring countries; that nuclear, chemical, and biological armaments be abandoned and German troops slashed on a large scale; that original West German territory remain in NATO and fulfill all NATO obligations, and NATO or West German troops not be garrisoned in original Democratic German territory; and that, during the transitional period before the "pan-European security system" takes shape, Soviet troops be allowed to remain in original Democratic German territory.

Medium-sized and small NATO members like Britain and France, with the intention to put unified Germany under restrictions, indicated apparent support for the U.S. stand. Meanwhile, France forwarded a proposal for speeding up the construction of a monetary, economic, and political union and later proposed the formulation of a "joint defense policy" for the 12 member nations of the European Economic Community, in order to strive to use the European Community to pin down Germany's progress in unification, and to control a unified Germany. Britain attaches a great deal of importance to using NATO's internal influence to restrict and control Germany, and stresses that NATO's nuclear deterrence and the U.S., British, and French troops stationed in Germany must be retained. Moreover, Britain also wants to urge France to rejoin NATO's united military commanding organizations, so as to strengthen NATO and pin down Germany.

In the Warsaw Pact-NATO joint meeting which was held on 13 February in Ottawa and the Warsaw Pact foreign ministers meeting which took place on 17 March, most Warsaw Pact countries, including Hungary, Poland, Czechoslovakia, and Romania expressed their vigorous disagreement with the Soviet demand that "neutralization" be carried out in a unified Germany. Those countries hoped that a unified Germany would remain in NATO and believed that only NATO political and military organs were in a position to control a strong and unified Germany.

Only after extremely vigorous battles of opinion and psychological warfare did the United States apparently relent on the issue of "including the entire Germany in NATO" and express its willingness to accept the idea in the "Genscher proposition" that West Germany remain in NATO after the unification of the country, and that

NATO forces not be garrisoned in East Germany. During Chancellor Kohl's visit to the Soviet Union on 10 February, the Soviet Union no longer insisted on the "neutralization" demand. Soviet Foreign Minister Shevardnadze said that the neutralization proposition was "the best proposal" but not the only one, and that the Soviet Union was willing to discuss ideas from all sides. During the U.S.-Soviet foreign ministers meeting held between 4 and 6 April, the Soviet Union suggested that before the "pan-European security system" took shape, unified Germany should be a NATO member and a Warsaw Pact member simultaneously. The United States and NATO flatly rejected that idea and pointed out that it was "a neutralization proposition in another form." Lingered controversy still surround this issue, which has become one of the central topics of the "two plus four" meeting.

The Intentions of the Various Sides and the Outlook

Western public opinion believes that the neutralization of Germany advocated by the Soviet Union mainly denotes military neutralization for unified Germany, that is, not entering into an alliance with NATO, but the Soviet Union does not object to Germany remaining in the European Economic Community. Its major intentions are as follows: 1) To pull West Germany away from NATO, thus seriously weakening that organization. 2) Through the measure of permitting unified Germany to retain only minimal defense power and demanding that NATO cut most of its troops in West Germany, to promote the easing of tension and disarmament in Central Europe, so that the Soviet Union would be able to reduce its own military expenditures and employ such funds to develop its economy instead. 3) Through the neutralization of unified Germany, to get more trade, credit, and technology in the future. Soviet Foreign Minister Shevardnadze frankly admits that after the merging of the currencies of the two Germanys, the Soviet Union would gain huge revenues in West German marks by providing Democratic Germany with 17 million tons of petroleum every year. If West Germany fulfills Democratic Germany's obligation of providing the Soviet Union with goods, then the Soviet Union might even have access to advanced machinery, facilities, and technology. 4) To make use of its resolution of the "external issue" of the unification of Germany to define all postwar boundaries in Europe.

The United States, which has always been worried that West Germany would follow the "unification" path, has the following considerations in insisting that unified Germany remain in NATO: 1) When France withdrew from the unified NATO military structure in 1966, West Germany became NATO's mainstay in Europe. If West Germany withdraws from NATO or becomes a country with incomplete NATO membership, NATO would lose its main strength, and the United States would lose the legitimate basis for its military and political presence in Europe. With the great strengthening of the West German economy and the expansion of that country's apolitical influence in recent years, the United States has

actually adjusted its policy toward Europe. It has shifted the importance it used to attach to the U.S.-British "special relationship" to that with West Germany. In May of last year, President Bush publicly announced that West Germany was a U.S. "ally and partner that plays a leading role" in NATO. Through its relationship with unified Germany, the United States hopes to maintain its leading status in Europe and its influence in European affairs. 2) There is no doubt that NATO's main function is to counter the Warsaw Pact, and, as former German Chancellor Schmidt said, to supervise West Germany. With the relaxation of U.S.-Soviet relations, the progress made in disarmament, and the gradual dissolution of the Warsaw Pact, the latter function of NATO would gain increasing prominence. Shackling unified Germany to NATO would serve to restrain Germany and reduce the doubts and suspicions harbored by West European countries about the unification of Germany.

West Germany has put forward the Genscher proposition to prevent the United States and the Soviet Union from adhering to their respective stands and refusing to compromise and therefore bungling the historical golden opportunity. Hence, the proposition agreed that reunified Germany should remain in NATO, so as to win the Allies' support for the unification of Germany, and that some Soviet troops should be garrisoned in East Germany in order to satisfy the Soviet Union's "needs in its security and interests" and to minimize the Soviet Union's internal antagonism against and discontent about the unification of Germany. Through the recognition of postwar boundaries and large-scale slashing of Soviet troops, the suspicions and anxieties of Germany's neighboring countries, especially of Poland and France, with regard to the unification of Germany will be dispelled. Generally speaking, this is a requirement for West Germany to eliminate obstacles and realize unification. In fact, the "neutralization" and "demilitarization" of unified Germany do not conform to Germany's hope of becoming a country with completely independent sovereignty. If unified Germany remains in NATO and the European Economic Community, these two organizations will provide it with security protection and enable it to utilize its own economic and technological power to maneuver among various political groupings and develop relations with West and East European countries. Supported by the European Economic Community, Germany will also be able to compete with the United States and Japan in the international market and strive to become a major nation in Europe and in the world. This is a more profound intention of the Genscher proposition.

According to public opinion, as the new government of Democratic Germany shares a similar stand with West Germany, the Soviet Union will become the only country which advocates simultaneous Warsaw Pact and NATO memberships for unified Germany. As the Soviet Union has allowed room for itself by expressing its willingness to seek a compromise, the chances of realizing the Soviet proposal are slim. To a large extent, the

Soviet Union is using the proposal as a bargaining chip and will not hold on to it for long. After difficult negotiations and vigorous bickering, a compromise

proposition acceptable to all parties concerned can still be expected to be reached, and the "Genscher proposition" will still be the basis of the discussions.

NATIONAL AFFAIRS, POLICY

Large Contractors Unwilling To Renew Enterprise Contracts

90CE0211A Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 4, 23 Apr 90 p 54

[Article by Song Jin (1345 6651) and Shi Xiaoying (0670 2556 7751) under the rubric "Long Lens": "Why Some Entrepreneurs Are Unwilling To Renew Contracts"]

[Text] Recently, in a survey of 84 enterprises whose contracts had matured or were about to mature, it was discovered that 43 percent of the entrepreneurs orally indicated their unwillingness to sign a contract for the next contract period. Another 17.8 percent submitted written reports asking to resign from the program. The primary reasons for this reluctance to renew contracts were the rapidly changing external environment, too many production and operating problems, and excessive pressure on business entrepreneurs. Specifically, the following eight situations apply:

1. The external situation is changing rapidly, and there is no assurance that contracts with the enterprise will be met. The problems that have appeared most recently are a severe insufficiency of funding, continuing inflation in raw material costs, and the difficulty of ensuring energy resources and electric power.

2. The relationship between "the two centers" is unclear, so entrepreneurs do not know what to do. First, entrepreneurs are worried that the factory director (manager) responsibility system will change, so they are unwilling to go all out; second, they feel that since the relationship between "the two centers" is unclear, they do not dare to go all out.

3. Entrepreneurs have a lingering fear of enterprise anticorruption campaigns. They have three specific fears: First, they are afraid that previous entertaining and gift-giving in the operation of their businesses will come back to haunt them; second, they fear that supply and marketing personnel will be unwilling to go out and do their jobs—that they "would rather lie low than to take any risks"; third, they are afraid that if they break off contact with the other party it will have repercussions for future enterprise growth. In some enterprises "factories are drawing back, the leadership is becoming timid, and supply and marketing personnel are growing over-cautious."

4. Too many fees are collected and too many expenses apportioned, so that enterprises have a hard time holding their own. According to surveys, 74 departments now collect fees directly from enterprises on 306 or more different items. Statistics compiled on 15 enterprises indicate that it costs a total of 6.4 million yuan per year for them to pay for various apportioned expenses—an average of 426.7 thousand yuan each—which accounts for 5.4 percent of their realized profits.

5. There is too much administrative intervention, and it is difficult for enterprises to practice autonomy. Right now, in matters as major as the marketing of hot goods that are in short supply or the setup of an enterprise's internal structure, and in matters as minor as the building of a bathroom, some department is always interfering.

6. There are no effective safeguards to protect the lawful rights and interests of factory directors. One-third of those surveyed replied that they have been reviled, threatened, and coerced.

7. Policy errors made by entrepreneurs have landed enterprises in predicaments from which they have no power to extricate themselves. Because of an entrepreneurial misjudgment, the Sheyang Fiberboard Factory unrealistically embarked on a project to raise eels. As a result, when the market changed the plant was left with 1.39 million yuan worth of overstocks, and an enterprise otherwise in perfectly good condition was squeezed and left gasping for life.

8. Some entrepreneurs say they are not willing to take on a job, but in their hearts they are willing. The main factors that produce this phenomenon are twofold: First of all, entrepreneurs are unclear about what situation will prevail during the next round of contracts—they just don't know how things stand—so they denounce the plan at first, but when the time comes they cannot decide what to do. Second, they may adopt this posture to use as capital in haggling with the project initiator in the next round of contracts.

Given the above situation, we feel that, first and foremost, we must clarify policy further and calm public opinion. Then we must as quickly as possible formulate detailed rules and regulations to enforce the "enterprise law," reorder the various internal enterprise relationships, handle past policies and methods concerned in a practical fashion, and allow entrepreneurs to handle production and operations, as they have in the past, justly and forcefully. Second, with respect to funding, energy resources, raw materials, and so forth, we must create a good external environment for enterprises, work hard to alleviate their burdens, and strictly prohibit indiscriminate apportionment. Third, we should improve quality in entrepreneurial ranks to ensure that policy decisions are more democratic and scientific. Fourth, we must strengthen the legal system and effectively utilize legal weapons to protect the lawful rights and interests of entrepreneurs. Fifth, we must standardize actions allowable under contracts in order to reduce capricious behavior.

Points of Understanding Regarding Economic Problems

90CE0232A Beijing JINRONG SHIBAO in Chinese
1 May 90 p 3

[Article by Jia Kang (6328 1660) and Xu Xueli (6079 1331 4409): "Some Points of Understanding Regarding Current Economic Problems"]

[Text] During the first quarter of this year, agricultural production was off to a good start, industrial production bottomed out and began picking up slowly in March (up 1.4 percent compared to the same period last year), and the overall retail price index rose less than five percent. All this indicates that the general economic situation is good. However, enterprise profitability is still on the decline. Profits and taxes from state-owned industrial enterprises within the budget have been falling while losses by unprofitable enterprises are mounting, worsening the budget deficit.

It should be realized that some time must elapse between the proper implementation of economic rectification measures and an improvement in enterprise profits and an easing of fiscal problems. But provided investment and consumption explosion is brought under control, the structure is optimized, and management is improved, the pay-offs will certainly be evident after a period of time. In the future, therefore, we should continue to regulate the structure and control the growth rate steadily using profitability as the bottom line and avoid a reappearance of the tendency to seek fast output growth exclusively. Meanwhile, we also need to review our experience promptly and further improve the various measures to improve the economic climate, rectify the economic order, and intensify reform. Even as we treat the symptoms—tackling the most urgent issues, we must try to treat the disease in the interest of long-term coordinated steady development, in the process curing the disease as well as treating the symptoms. In this context let me offer some points of analysis and understanding.

1. There are three striking contradictions today.

First, on the production front, while the supply of funds has picked up, they have not had the stimulatory effects expected. Because of a serious structural imbalance, when banking credit was again eased after the economy cooled down, its stimulatory effects were not evident. On top of the increases in lending in the last quarter of last year, banks and credit unions increased lending of all kinds by another 31.6 billion yuan. In the first quarter of this year, up 22.8 billion yuan compared to the same period last year, including a 1.5 billion yuan increase in industrial loans and 14 billion yuan increase in working fund loans. However, a considerable portion of the new infusion of loans has not been steered into the right channels. Some has been spent as "maintenance fees" (to pay off loans, wages), instead of being used to jump-start the production process. Some funds entered the production arena only to end up as yet more goods sitting in the warehouses.

Second, in the area of consumption, there is the contradiction between an enormous surplus household purchasing power and weak immediate purchasing power. Accumulative savings by citizens and their cash on hand now exceed 700 billion yuan in all, but current consumer purchasing power remains anemic, with retail sales of consumer goods in urban areas increasing a mere 0.1

percent, while its rural counterpart at or below the county level actually dropped 0.7 percent. In 35 large and mid-sized cities, per capita cost-of-living earnings rose 4.1 percent over the previous year after discounting the price factor, but in fact cost-of-living expenses dropped 5.8 percent compared to a year ago.

The third contradiction can be found in the area of investment. On the one hand, there is an urgent need for structural adjustment. On the other hand, it will take some time before investment begins to work. Right now the adjustment of the existing stock is fraught with difficulties. Even as we push for structural optimization and scale back ordinary new projects, we have to fall back on a preferential policy for key state projects for adjustment purposes. Not only is there a shortage of funds for priority projects, but it usually takes three to five years for projects that solve bottlenecks in raw materials, energy supply, and transportation, or promote product turnover, to begin to pay off or have an optimizing effect on the structure. In contrast, reversing the trend toward declining profitability and easing the budget problems are urgent problems that brook no delay.

2. The key issue is structural optimization.

Generally speaking, all the above-mentioned contradictions revolve around the question of economic structure. In a fundamental sense, it is precisely because the industrial structure is lopsided and products are not what the market needs that loans fail to stimulate the economy and the market is soft. In fact, what people presently call a soft market is not your ordinary soft market. For one thing, it is soft mainly relative to the overheated market and panic purchasing of an earlier period. For another, good quality new products are still popular. A number of consumer goods needed by the masses and products of certain kinds and styles are still in short supply. A feasible approach seems to be that even as we use the necessary tools to curb ordinary capital construction projects and do our best to provide for key projects, we should use economic tools as much as possible to accommodate the interests of all quarters, thereby encouraging the reorganization of part of the existing volume, increasing effective supply, and promoting the implementation of the national industrial policy and structural optimization. The following measures may be considered:

1) The supply and demand gap for some products is narrowing in the wake of the cooling of the economy. Taking advantage of this opportunity, we should introduce measures to adjust and deregulate prices, ease the burden of subsidies on the treasury, reduce price distortions, and narrow the gap between the two tracks of the dual-track pricing system, providing more accurate signals for future resource allocation.

2) Vigorously improve enterprise contract mechanisms and adjust the distribution relationship between the central government and localities during the period of

economic rectification. The current contract system should be gradually replaced by a contract system under which loans are repaid after taxes and taxes and profits are separate in order to straighten out the relationships between government and enterprises and bank and credit relations and reinforce the integration between power, responsibility, and interests. The general direction of development for the "eating-from-separate-stoves" budgeting system should be a level-by-level budgeting system based on tax separation, the purpose of which is to stabilize, rationalize, and institutionalize central and local relations and reverse the quickening trend toward regional separation.

3) Improve and perfect the industrial management system. To begin with, the state should draw up a clear-cut national industrial policy and technological policy. Enterprises can then be given individual guidance according to their nature based on such policies. Technological transformation plan of a command nature may be applied to enterprises of a special nature and large- and medium-sized mainstay enterprises. In the case of ordinary enterprises, structural regulation may be effected through guidance planning and an investment direction tax.

4) If possible, close, suspend, or merge some enterprises or convert them to another line of business. At the same time, work hard to set up a social security system so that when the existing stock of assets is reorganized in the future, we have a feasible way to take care of the workers' livelihood and stabilize social life.

3. Guide surplus household purchasing power correctly.

At a time when surplus household purchasing power is rising rapidly, the attempt to withdraw credit from circulation alone will have negative side effects because it merely postpones but not assimilates the purchasing power. Moreover, its operating costs are high (interest payments on savings deposits already amount to tens of billions of yuan each year) and it may weaken the market. Earlier we raised interest rates and offered value-guaranteed savings accounts to "divert" purchasing power and cool the economy. Now we should lower interest rates appropriately and encourage a suitable amount of consumption. To do so is to deploy economic levers flexibly after judging the hour and sizing up the situation.

Since there is at present only a limited number of channels to assimilate surplus household purchasing power, we can easily put the market under too much pressure. When people all want to buy the same things or decide against buying the same things, it does nothing to promote coordinated, stable reproduction. A vigorous effort should be made to search for a new way to regulate and assimilate surplus purchasing power by withdrawing commodities from circulation. For example, people should be allowed to pay for big-ticket durable consumer goods by installment. Home ownership savings accounts should be introduced in conjunction with housing

reform. When savings reach a specified amount, they will go toward the payment of a house. Forced purchases and limited purchases can be flexibly deployed in light of the supply-demand situation. The rural market may be further opened up to regulate excesses and weaknesses in purchasing power. The market may rebound in the second half of this year. We must take into account every problem that may arise then and be fully prepared.

4. Make the most of state-owned commercial enterprises and goods and materials agencies as "reservoir."

As "reservoirs," state-owned commercial enterprises and goods and materials departments are enormously significant for stabilizing the market and regulating the economy. As we improve the economic climate, rectify the economic order, and intensify reforms in the days ahead, it is imperative that we integrate the national industrial policy and technological policy. We must use a mix of the necessary administrative methods such as goods allocation, as well as economic tools such as preferential reserve fund loans, to make the most of state-owned commercial enterprises and goods and material agencies as reservoirs. Wholesalers, in particular, must not be concerned about short-term profitability. An essential thing is to identify and distinguish between consumer goods and products which are popular and sought-after on the market, those which do not sell well at the moment because of some short-term factors, and those which really have no demand and should not be procured. The finance department may consider offering proper interest subsidies to reserve funds needed by the first type of products.

5. The budgetary situation is grim. A major effort must be made to increase revenues and cut spending.

The budget was in the red in the first two months of this year, a first in several years. While the deficit had turned into a surplus by the end of March, the surplus was the smallest for the corresponding period since 1980. In the first quarter, government revenues rose 4.7 percent over the same period last year, while expenditures shot up 17 percent. There are several reasons behind the lag in revenues, but the most important is the poor returns of enterprises. Considering that it will be some time before the profit margin of enterprises improves, the budget outlook this year remains quite grim. There is a need to mobilize all forces to increase revenues and cut spending as soon as possible.

1) Few of the revenue-enhancing measures considered earlier have been introduced. Efforts should be doubled to work out an implementation plan.

2) We approach the end of another institutional cycle again this year. Local finance departments may be tempted to lower income base figures and inflate expenditure base numbers. Thus the need to set up an institutional framework without delay to "reassure" the localities and remove resistance to increase revenues and cut spending.

3) In conjunction with the various localities and sectors, finance and tax departments should organize forces to tackle the big money makers and money losers among enterprises. Those who are major contributors of profits and taxes should be given special support, while big money losers should be examined by the various parties concerned. Specific plans should be worked out to cut the losses. They should be aggressively monitored to make sure the measures are implemented.

Market Slump Explained, Solution Offered

90CE0309A Beijing JINGJI CANKAO in Chinese
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[Article in "Tantao Shangque" ["Inquiry and Discussions"] column by Fan Gang (2868 4854): "How To Counteract a 'Poor Country's Market Slump.'"]

[Text] *The crux of the current market slump lies in the relatively inadequate demand which is inevitable during a period of economic rectification after the economy, an economy of shortages, has gone through a prolonged period of overheated growth and has suffered structural dislocation.*

The key to counteracting the market slump during the period of economic rectification lies not in expanding credit input, especially increasing current fund loans, to "switch on" production, nor does it lie in increasing the demand for consumer products and increasing expenditure to stimulate the economy, nor should we increase investment across the board; rather, we should concentrate the financial resources on increasing fixed asset investment in the economy's basic sectors that are essential to the economy's long-term development but which have increasingly become the "tight" sectors as the economic structure deteriorates.

The Market Before the "Slump"

China's economy has long been characterized by its backward productive force. It is also an economy plagued by recurring excess demand and supply-demand disequilibrium. Since the mid- to late-1980's, the supply-demand relationship has displayed the following characteristics:

One, while total consumption demand has continued to expand, it is the demand for "luxury consumer goods" which has increased the fastest. This is attributable to two factors: On the one hand, since the right to make spending decisions is handed down to the lower levels, "public-funded consumption" has increased significantly, and as a result, there is a huge demand for automobiles, banquets, and assorted public buildings, halls, galleries, and institutions. On the other hand, since the right to make allocation decisions is handed down, personal nonwage income (such as bonuses) has also increased significantly. Economists call this income "transitory income." The fluctuation in personal consumption demand, especially the demand for durable consumer goods, is caused mainly by the fluctuation in

transitory income. Its rapid increase can cause the demand for durable consumer goods to soar (and vice versa).

Two, while total investment demand has continued to increase, it is investment demand in the processing industry that has increased the fastest. This is because when the right to make investment decisions is handed down to the lower levels, and under the financial system of eating out of separate pots, the grass-roots units (localities and enterprises) are more inclined to invest in the processing industry which requires little capital, entails a short construction period, and generates high profit; they are not interested in investing in agriculture, communications, energy, raw material, economic infrastructure, education, and science and technology and other basic economic sectors.

Guided by the above two "lopsided" demand structures, an important feature that has emerged in China's production development in recent years is the unilateral expansion of the processing industry's production and supply capacity, especially in the production of luxury consumer goods; meanwhile, the basic sectors have been growing at a much slower pace (at the same time, the problems of worn-out equipment and inadequate compensation rendered by the overheated economy are especially serious in these sectors). "Full-capacity operation" (and even "beyond capacity") and the flourishing market are spurred and sustained mostly by investments in the processing industry (and other nonproductive investments) and "impulsive consumption" of luxury consumer goods. Prosperity and growth in themselves are not a bad thing. The problem is that prosperity has come to the "wrong place." To a poverty-stricken country that has a weak economic foundation and which, both from the point of economic strength and the per capita national income, cannot afford this kind of luxury consumption, the situation can only cause the economic structure to deteriorate and the economic growth to "run out of steam."

The Causes and the Nature of the "Slump"

We began making economic adjustments at the end of 1988. The main rectification measures are: (1) Reduce capital construction projects; (2) tighten the credit and money supply; (3) control various "institutional consumption"; (4) control the increase in bonuses and other nonwage personal income. These measures naturally slowed the rate of increase in total demand. Specifically, the cutback in capital construction projects and tightened credit have directly led to a decrease in the demand for investment goods, while the reduction in institutional consumption and the slower rate of increase in personal income have directly curtailed the demand for consumer goods, especially various luxury consumer goods. Since the structure of society's productive capacity was formed a few years ago to accommodate the demand mix of that time, when demand in the above two areas decreases, it naturally leads to a "market slump" and an excess productive capacity in those two areas,

and because society's productive sectors are linked to one another, a slump in those two areas will spread to the other sectors through the "multiplier effect" and will lead to an inadequate total demand.

Thus, *the crux of the current market slump lies in the relatively inadequate demand which is inevitable during the period of economic rectification after the economy, an economy of shortages, has gone through a prolonged period of rapid growth and has suffered structural dislocation.* There are two points which should be clarified. One, the current market slump may be due to inadequate demand, but no matter how low the level of production is, and no matter if excess demand (shortages) is the norm in this economy, it does not rule out the possibility of inadequate demand at a specific period of time (such as during this unusual period of rectification), and the current phenomenon of inadequate demand does not in any way refute the fact that under normal circumstances China's economy is still one of excess demand. Two, the current market slump is an overall quantitative problem which has its roots in the imbalanced structure. We must analyze the condition from the point of the change in macroeconomic policies, the national income allocation structure, the money supply and other overall quantitative changes. We cannot explain the present situation by looking at such things as the people's consumption preference, their "consumption level," the quality of the products, and how "sellable" the products are or are not. Nor can we solve this macroeconomic problem by "microeconomic means."

The Advantages and Disadvantages of the "Slump"

The unusual market slump which we are facing today obviously has its positive side. It is caused by the above-described attempts to reduce demand and therefore it offers us an opportunity to readjust the economic structure. The basic issue is, the old demand-mix and the corresponding production-mix and supply-mix as determined by the kind of impulsive consumption and the fast-growing processing industry were not a good thing, and were inappropriate, for a poor country like ours. A market slump in itself is not a good thing, but if the slump happens in the "right place," it can have positive effects. It is time to curtail the demands which should be curtailed. If we fail to understand this, if we resume the kind of all out investment in the processing industry and indulge in excess consumption as soon as we are hit by the market slump and simply accommodate the previous production-mix and supply-mix, we will defeated the rectification effort.

But market slump and slowed production are, nevertheless, not a good thing. First, it signifies that part of the productive capacity society has built up in the past is being idled and wasted. Second, the inadequate total demand caused by reduced market demand in some sectors can also lead to an overstock of goods and excess capacity in the "bottleneck" sectors which in the long-run should continue to be developed. This will have an

adverse effort on attempts to increase society's productive capacity. Also, under China's present system, enterprises can curtail or even stop production but cannot shut down, nor can the workers lose their jobs, and as social problems increase and fiscal income decreases, in the end, even coming up with the money to pay the workers' wages and subsidize the losses may be a problem and can eventually lead to "stagflation." In short, our economy cannot withstand a prolonged market slump. This problem requires a prompt solution.

How To Counteract a Poor Country's Market Slump: Increase the Scope of Investment in the Basic Sectors

The fundamental difference between the market slump China is facing today and the kind encountered frequently by the capitalist economies of the West is that for the latter, the most basic economic problem is society's excess productive capacity, and for a poor country like ours, the most basic economic problem is inadequate productive capacity. Therefore, basic Western economic theory suggests stimulating civilian consumption expenditure while increasing government spending (including Keynes's theory that the government should increase nonproductive, public works projects) and utilizing the existing, excess productive capacity while reducing the rate of capital accumulation to combat depression. But for us, *the basic approach to counteracting the market slump during the period of economic rectification should be to increase fixed asset investment in the basic sectors* and to use that to spur the increase in total demand, and while we put the existing productive capacity to full use, we must further increase society's productive capacity.

The characteristics of our approach to counteracting the market slump are: One, *we do not rely on increasing credit input, especially increasing current fund loans, to "switch on" production* (experience proved that this often only leads to an overstock of goods, and even if production is started up, it will soon "die down.") Instead, we rely on increasing the demand for finished goods to bring along the economy and raise the productive capacity utilization rate. Two, *we do not try to increase the demand for consumer goods and increase expenditure to stimulate the economy;* instead, we rely on increasing demand for finished investment goods to bring along the rest of the economy. First, we make full use of the productive capacity of the sectors that produce investment goods and increase our productive investment, and this in turn will increase the people's income and consumption demand. Three, *we do not increase investments across the board.* We will not flock to every project we can get our hands on, nor will we increase investment in the processing industry and nonproductive projects at this time; rather, we will concentrate our financial resources to increase investment in the economy's basic sectors which have increasingly become society's "bottleneck" sectors as the economic structure deteriorates, and from there we can help the economy as a whole recover. Of course, it takes time to go from increasing fixed asset investment in the basic sectors to

restoring the normal rate of economic growth, *but this approach lets us "kill three birds with one stone" by not only increasing current demand but also adjusting the economic structure through quantitative changes and increasing society's productive capacity at the same time.*

Under China's current power allocation system, the central government is responsible for investing in the basic sectors. But under the current financial system, particularly given the conditions that the market is in a slump and fiscal revenues are increasing slowly, the central government is unable to concentrate more financial resources on increasing investment in the basic sectors. This makes it necessary to run up a little deficit or increase the credit and money supply early on for the sake of increasing investment. So long as the increased fiscal spending is expended in the right places and the money supply is not scattered around, "like sprinkling pepper," or even put into the wrong places, this approach will nevertheless be a positive public finance policy and monetary policy (based on the fundamental relationship between revenue and expenditure, prior to reaching full capacity, this measure by itself will not cause inflation.) China's economy is facing an unusual problem during this period of rectification, and unusual steps must be taken to deal with it. Only in this way can it turn a bad thing into a good thing and not only help the economy emerge from the market slump but also put it on the track of healthy development.

Thoughts on Readjusting Economic Structure

90CE0355A Beijing JINGJI RIBAO in Chinese
3 Jul 90 p 3

[By Wei Jie (7614 2638)]

[Text] Structural imbalances are the major cause of the economic difficulties which China now faces. To a large extent it can be said that aggregate inflation, market slumps, and lower efficiency all derive from structural imbalances. Thus, following the comprehensive implementation of overall retrenchment, we should shift the emphasis from improving the economic environment and rectifying the economic order to readjusting the structure, thereby strengthening its effectiveness.

Implementing a Policy of Effective Structural Readjustment

There are three main aspects to a policy of structural readjustment. **First, an ordered policy of structural appropriateness.** An ordered policy of structural appropriateness consists of stipulating state policy provisions for industrial curtailment to enable departments, which under the new requirements need to be curtailed, to carry out curtailment in a safe and orderly manner. Its main function is, by means of policy forms, to enable these departments to carry out timely and appropriate reductions according to structural requirements and to enable them to make readjustments while curtailment is underway; thereby rationalizing the process and meeting the needs of the new required structure. Specifically, the

main policy measures of an ordered policy of structural appropriateness are the following: (1) Instituting a system of subsidies for industries being curtailed. For example, furnishing free curtailment allowances for certain industries that are curtailed and furnishing necessary subsidies for certain industries which close down, suspend operation, merge with others, or switch their line of production, thereby promoting the smooth curtailment of those industries that need to be curtailed. (2) Instituting a policy of heavy taxation for industries that should be curtailed which are not curtailed and using administrative means to control the scale of their production to limit their production capacity, to reduce their labor time and wages, and to lower the price of their products, thereby ensuring needed structural changes and industrial readjustment. (3) Strengthening the liquidity of production factors for industries that should be curtailed, including a policy of providing preferential reinvestment for those shifting capital, supporting and encouraging training for workers to change jobs and training for improving vocational skills, and organizing and perfecting referral services for worker and staff personnel in order to prevent social unrest during curtailments. (4) Instituting preferential policies of scientific and technical renovation and technological transformation for industries that should be curtailed to transform and renovate that portion of them that remains after they have been curtailed and to make required structural readjustments.

Second, a purposeful policy of structural preservation. A purposeful policy of structural preservation consists in adopting state policy provisions which purposefully preserve part of the strength of industries that are beginning to decline but for which there is still a certain need to maintain a certain level of production. Its main function is to prevent industries already in decline from completely and immediately abandoning their original sphere of production and to preserve their most important strengths through readjustment and rectification, thereby satisfying a social need which has lessened but a portion of which still exists. Specifically, the main measures of this policy are the following: (1) Maintaining income for declining industries and guaranteeing that the prices of their products do not fall below normal levels, thereby ensuring that their lowest profits are not below the average level. (2) Ensuring that those portions of the declining industries which are retained still are able, under their necessarily reduced conditions, to undergo the required technical renovation and technological transformation and ensuring that industries enjoying other policy treatment cannot adopt discriminatory policies for their industry. (3) Retaining the strongest and economically most efficient portion of declining industries through a policy of dealing with each case on its merits and eliminating the backward portions of declining industries in order to ensure that they can have a relatively high degree of economic efficiency, thereby enabling them to sustain themselves during their required cutbacks. It ought to be pointed out that the above policy measures to maintain declining industries

are not intended to prevent them from changing but rather to appropriately moderate the speed at which they change, thereby reducing pain and social costs during the process and ensuring that structural readjustments are accomplished smoothly and efficiently.

Third, a far-sighted policy of structural plasticity. A far-sighted policy of structural plasticity consists in adopting the summation of various types of preferential policies to strongly support and encourage the rapid development of new industries that have a growth future. The main policy measures are: (1) Providing policies of preferential fiscal levies and bank loans for newly developing industries, including interest-free loans, low-interest loans, as well as financial subsidies and reduced taxes. (2) Putting into effect preferential pricing policies for newly developing industries, including minimum protective prices and maximum prices. (3) Instituting a policy of resource rationing for newly developing industries, including rationing of raw and processed materials and energy and rationing of the importation of advanced equipment, high-level technical personnel, and a high-quality workforce. (4) Implementing a preferential scientific and technical policy for newly developing industries. The state should use direct financial means to subsidize the development of those newly developing industries which can be effectively promoted but whose enterprises are unwilling to develop them technically because the return on their investment is slow and the risk great, thereby promoting and fostering the development of newly developing industries.

Strengthening Our Ability To Regulate and Control the Structure Macroeconomically

Our present structural imbalance is the result of our weakened ability for macroeconomic regulation and control. We must therefore, in readjusting the structure, first of all strengthen the state's ability for macroeconomic regulation and control. Judging from the actual situation, if we are to guarantee financial and material resources for strengthening macroeconomic regulation and control, the main thing is to readjust our excessively decentralized management of these resources. First, we must enhance the state's authority to control financial revenue and expenditure, monetary revenue and expenditure, and foreign exchange revenue and expenditure, and increase the proportion of the national income that the state can allocate, thereby strengthening the ability of the state to readjust the structure through increments. To accomplish this, we must make appropriate adjustments to and perfect the various contract systems, such as financial contract systems, foreign trade contract systems, and layered contract systems for credit. We must, on the premise of not reducing the overall financial funds retained by the localities, readjust the method of dividing up fiscal levies. High-volume tax revenues from such items as tobacco and alcoholic beverages which are directly turned over to the central budget do not become part of the basic funds that are divided up. Therefore, on the basis of stabilizing the distribution relationship between the central authorities and the localities, we

must gradually ensure that the distribution of tax revenues between the central authorities and the localities is done on a rational basis, thus increasing the central authorities's proportion of finances. With regard to foreign trade, we must perfect and even out the proportion of foreign exchange retained by the various regions and the various departments and strengthen the management of foreign trade activities throughout the country, especially import permits and export quotas, thereby preventing confusion in foreign trade activities and structural imbalances. With regard to credit, we must strengthen the independent regulatory function of the central bank and change the method by which the branches of the People's Bank of China are established according to administrative divisions in order to free banks from a position subordinate to administrative organs, thereby enabling the central bank to effectively regulate and control structural changes. **Second, we must reconstruct relations between central authorities and localities, gradually separate the management of the state economy from the management of local public affairs, reduce excessive reliance on local governments for the economic management of local planning, financial administration, banking, and foreign trade, and strengthen the central government's unified management and key point leadership of these local economic management departments, thereby basically weakening the indiscriminate construction by localities and the expansion of their partial and local interests, integrating the economic structure, and achieving coordinated structural development.**

At the same time that we are increasing guarantees for macroeconomic regulation, control of material, and financial resources through the above measures, we also should strengthen our ability to regulate and control the structure macroeconomically through increased efficiency. This would mainly entail: (1) Establishing a sound scientific and democratic system of macroeconomic regulation and control that would include organizations for decisionmaking, for consultation, for supervision, and for information and feedback, in order to use legal means to establish a set of procedures for implementing scientific and democratic decisionmaking, to reduce mistakes in macroeconomic regulation and control, and to guarantee the success of these measures. (2) Strengthening the coordination of various central economic departments in macroeconomic regulation and control and setting up national industrial coordinating committees to coordinate planning, financial, banking, and pricing departments in regulating the structure and to increase the effect industrial policies. (3) Making every effort to improve methods of macroeconomic regulation and control, mainly relying on economic levers and policy decrees, doing everything possible to separate the government from enterprises, eliminating the tendency toward commercializing authority, creating a climate of fair competition for enterprise selection and readjustment of production, and implementing differential profit ratios and measures to differentiate interest rates, interest paid in the form of a deduction when

selling a bill of exchange, and tax exemptions, thereby bringing about rational structural development.

Perfecting the Structural Regulatory Function of Market Mechanisms

A major cause of the present structural imbalance is that the structural regulatory function of market mechanisms has not been perfected. Thus, in readjusting the structure, we must perfect these functions. Judging from the present situation, these functions have not been perfected mainly because of our irrational pricing structure, which likewise has induced and exacerbated structural imbalance. **Therefore, the key to perfecting the structural regulatory function of market mechanisms is in reforming the irrational pricing structure.** At present in China the irrational pricing structure is mainly represented by a tendency for basic industrial prices to be low and those for manufactured goods to be high. The essential thing then is to readjust the relationship between these prices. Theoretically, this type of structural readjustment of prices can be effected either by forcing prices down for manufactured goods or by raising basic industrial prices. However, because of the price rigidity that exists while the process is taking place, this type of readjustment of the price structure can only be effected by raising basic industrial prices. Increasing basic industrial prices inevitably will lead to a rise in manufacturing costs. In a situation where other conditions remain the same, a rise in costs will lead to a rise in prices for manufactured goods. Thus, we have to effectively control the extent of these price rises. Since the purpose of increasing basic industrial prices is to promote the development of basic industry and to restrain the excessively rapid growth of manufacturing by carrying out a rational structural readjustment, it is necessary to restrain the increase in manufactured goods while basic industrial prices are being increased. However, this process is bound to cause some manufacturing enterprises to suffer losses and even go bankrupt. For this reason, we should, as soon as possible, set up and perfect mechanisms for readjusting the assets and stocks for production factor markets and for enterprise mergers. Additionally, we should also quicken the pace of enterprise reform, encourage enterprise innovation in technical and product development and in managerial activities, improve economic efficiency, and lower costs and consumption in order to assimilate the increased costs from readjusting the price structure. Looking at these macroeconomic measures in their entirety, we should perfect the planning, investment, credit and taxation aspects of the system in order to coordinate the price structure and thereby prevent its readjustment from becoming an isolated effort.

Planning the readjustment of the price structure is a large, systems engineering project. Prior to its completion, market mechanisms are often likely to send out certain mistaken information concerning the production process, thus causing structural imbalance. We should, therefore, through various measures, improve the clarity and accuracy of market information during this period. This mainly entails: (1) Establishing and perfecting a

system for the scientific collection, processing, and dissemination of market news, enhancing its clarity, allowing all enterprises to obtain it accurately and promptly, thus enabling them to readjust the scope and direction of their production on the basis of its veracity and thereby guaranteeing coordinated structural development. (2) Developing various methods and various levels of market news and advice, not only using the dominant position of the state to develop market news and advice on the overall situation of the national economy, but also encouraging various types of economic research bodies at various levels to do the same, permitting and promoting various organizations that engage in market investigations and analysis to take part in these activities, and encouraging various civil market research groups to do this work for pay. (3) Analyzing and studying the various factors which adulterate and distort market information, including institutional factors, market behavior, and market expectations, and promptly rejecting the influence of these factors, and announcing the true situation with respect to market requirements, thus enabling enterprises to coordinate their development and production according to these requirements. (4) Scientifically analyzing the laws governing the lag in market information according to data from past experience, making accurate estimates of these lags, and having these serve as important parameters for analyzing market information, thus being able to make accurate judgments of structural changes as reflected in market information and thereby ensuring structural coordination.

Strengthening the Readjustment of Assets Structure

Structural imbalance is an inevitable result of structural imbalance of assets. Therefore, in readjusting the structure, we must readjust assets structure. Judging from China's present situation, there are two main causes of structural imbalance of assets: First, structural imbalance in investment has led to increasing the structural imbalance of assets. Second, hindering the turnover of resources has caused structural imbalance in assets and stocks. Consequently, readjusting the structural imbalance of assets should mainly be carried out by regulating the structural imbalance of investment and the hindering of resources.

Regulating the structural imbalance of investment. This mainly entails the following: (1) Strengthening the management of loans for fixed assets. Banks at the various levels should establish credit ratios for various categories of industries and trades in accordance with state industrial policies and state investment plans and report them one by one to higher levels for collection by the central bank and transmittal to the State Planning Commission for examination and approval. In planning credit for fixed assets, banks are not only "refixing the proportions." They also must guarantee the integrity of the investment structure. With loans for fixed assets, they especially must eliminate factors of selfish departmentalism and localism, thereby establishing a rationality for

the investment structure for fixed assets. (2) Strengthening the management of extrabudgetary investment funds. In this regard, banks must strengthen their regulation of the propensity to invest extrabudgetary funds, including refusing to provide loans for operating funds for investment projects that violate the structure of industrial production. Departments of financial administration and industry and commerce administration should, through taxation and various administrative measures, force a reduction in those investment projects which violate state investment structure and planning, even to the extent of confiscating the investment funds of those enterprises that refuse to obey warnings. (3) Strengthening industrial policy guidance for investment structure. We must especially, through two-way transformation measures of regionalizing industrial policy and industrializing regional policy, properly resolve the problem of regional industrial structure tending toward assimilation and encourage regional cooperation and area division of labor to achieve the dual economic efficiencies of division of labor and economy of scale. In addition, we also must emphasize the guidance of industrial policy with respect to the investment structure of township and town enterprises, bring their investment into state investment planning, and strengthen the examination and approval work vis-a-vis township and town enterprise investment in order to resolutely prohibit investment which does not meet the requirements of industrial policy.

Regulating the hinderance of resource turnover. This mainly entails the following two measures: First, deepening reform and promoting the establishment of a production factor market. In this regard, we must introduce competitive mechanisms, improve inferior and discarded products, optimize the selection of resources, and allow a rational turnover of production factors, thereby promoting the gradual readjustment of assets and stocks. We must also set up a rational operating system for a factors market, mainly to include a rational system of factors prices, fair opportunities for business dealings, an effective social security system, and fair arbitration organizations. Second, readjusting the enterprise profit relationship and promoting enterprise mergers and integrations. In order to reconstitute a rational turnover of stocks, we must immediately promote the merger and integration of enterprises. Government at all levels and especially local governments and departments in charge of administration must eliminate blockades and protectionism, carry out mergers and integration for the purpose of optimizing the resource mix, build bridges between superior and inferior enterprises so they can exchange information, and establish mergers and integrations of enterprises under various ownership systems which cut across trades, which are transregional, and which are compatible. While the mergers are going on, those being merged are not to be subjected to any kind of subordinate relations restrictions. The governments should adopt a policy of openness and publicly announce mergers and the basic situation with respect to the assets and management of the

merging enterprises, thereby encouraging decisions to merge by both parties. At the same time, we also must provide guidance to some of the small enterprises to transform them and to carry out their structural integration based on the principles of specialized cooperation for large- and medium-size enterprises, thereby reconstituting their production structure according to large- and medium-sized enterprises and thus gradually making the structure more rational.

Social Demand Increases Normalize During Jan-Jun

*OW0108092390 Beijing XINHUA Domestic Service
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[By reporter Wu Shishen]

[Text] Beijing, 31 Jul (XINHUA)—The eight major economic indexes released by the State Statistics Bureau, the State Planning Commission, the Ministry of Finance, and the People's Bank of China show a steady upturn in China's investment in fixed assets, monthly increases in the country's balance of bank credits, and continued rises in the wages of its employees and workers during the first half of this year. All this indicates a normalization of the increases in social demand.

It has been learned that state-owned enterprises invested 74 billion yuan during the first six months of this year, three billion yuan more than the same period last year. Investment in capital construction projects was made primarily in such key sectors as energy, transportation, post and telecommunications, culture, education, public health, and scientific research. As of the end of June, the balance of bank credits stood at 1,302.2 billion yuan, up 61.3 billion yuan from the beginning of the year. The wages of employees and workers in China totaled 127.5 billion yuan during the first six months, representing a net increase of 7.9 percent over the same period of last year. Rampant allocation and issuance of bonuses was eased significantly in all localities.

Because of the sluggish market and the relatively slow industrial growth rate, there were no marked improvements in the economic performance of industry during the first half of this year. Per capita labor productivity in state-owned industrial enterprises with independent business accounting was 9,290 yuan, down 0.8 percent from the corresponding period of last year. The costs of comparable products [ke bi chan pin cheng ben 0668 3024 3934 0756 2052 2609] in state-owned industrial enterprises covered by the state budget continued to exceed the budgeted amounts. The rates of profits and tax revenues on sales generally declined, and those on capital were down 6.8 percent from the same period of last year. During the first six months of this year, industrial enterprises at and above the county level consumed 4.86 metric tons of standard coal for every 10,000 yuan of gross industrial product, raising the level of energy consumption by 2.1 percent.

PROVINCIAL

Gansu Perfects Enterprise Contract System

HK0908122190 Lanzhou Gansu Provincial Service
in Mandarin 2300 GMT 8 Aug 90

[Text] According to GANSU RIBAO, "Measures of Perfecting Enterprise Contracted Management Responsibility System," which has been formulated by the Gansu Provincial Structural Reform Commission, will soon be promulgated.

The "Measures" stipulate that it is necessary to adhere to the main contents and the basic form of the existing enterprise contracted management responsibility system and continue to implement factory director (manager) responsibility system and all the existing measures aimed at invigorating enterprises.

The "Measures" point out that enterprises should be contracted by collectives or by the majority of the existing enterprise leaders. This is a principle all the comrades should bear in mind.

FINANCE, BANKING

Excess Money Supply Seen as Obstacle to Financial Reform

90CE0263A Chongqing GAIGE [REFORM] in Chinese
No 3, 20 May 90 pp 66-71

[Article in "Restructuring of the Financial System" column by Ren Junyin (0117 1498 0995): "An Analysis of the Problems Facing Financial Reform"; passages in boldface as published.]

[Text] Reform of the financial system in the last 10 years has proceeded along the line of "turning banks into bona fide banks," as urged by Comrade Xiaoping. This no doubt is the correct way and is the way most appropriate for China. Despite breakthroughs in theory with respect to using banks to manage and regulate the economy, this is nevertheless our first attempt in practice, and we have little experience. In addition, the restructuring of the economic system is plagued by a lack of coordination, and therefore the financial reform is facing many problems today. There are many lessons we should review carefully.

1. **On the money supply policy:** Between 1984 and 1988, we lost credit control twice, and twice we tightened the economy. Neither time was a success. It was not until the financial troubles of August 1988, when prices soared and there were runs on banks nationwide and panic buying everywhere, that the state made a firm decision to carry out rectification and improvement and clarified its policy to combat inflation. This has led to the third round of economic tightening as we know today. There are two questions worth careful considerations: First, what brought on the rectification and improvement

process? Second, what kind of money supply policy should be implemented during rectification and improvement?

Let us analyze the first question. Previously, the tight policy was abandoned twice because we failed to address two issues: One, the relationship between economic growth and inflation. The two previous attempts to tighten the economy failed mainly because we traded macroeconomic balance for industrial growth. When industrial growth slowed, the nation panicked and decided to sacrifice monetary stability in return for rapid growth. "Overheat" became one of the main economic features of those years. Two, the issue of fund accumulation when the economy takes off. It takes money to implement reform; it takes money to develop the economy; it takes money to raise the people's income level. Where does the money come from? Besides domestic accumulation and a limited amount of foreign loan, printing money seems to be the only solution. The amount of money printed in the last five years is more than three times the total amount printed in the 34 years prior to 1983 put together. In the past, we acknowledged the excess demand but chose to ignore the hazards excess demand could bring. This was what made rectification and improvement necessary. Obviously, if we had been more alert when we lost credit control the first time, in 1984, we could have avoided this period of rectification and improvement.

Let us respond to the second question. After a year's rectification and improvement, the excess money input is put under control. The situation of double investment-and-consumption expansion is beginning to turn around; price increase has slowed; the overheated economy has cooled. But with respect to the monetary policy, we are faced with a difficult choice: On the one hand, industrial growth has slumped several months in a row, undermining the tight policy. On the other hand, while the pace of printing new money has slowed, the quantity of money has been increasing rapidly. Preliminary estimates show that even if we figure in the price factor, at today's prices, the money supply has grown by more than 200 billion yuan since 1984. Obviously, using cash as the sole criterion in assessing the tightness of the monetary policy can be very misleading. If we look at the total money supply, there was no tightening in 1989. Faced with the choice of slowing industrial growth and tight money or an excess money supply, what should we do? There is only one solution: Readjust the economic structure and put the money supply policy to work in the process.

2. **On the question of the economic structure.** At the national planning conference last fall, it was pointed out that whether China's economy could eventually realize sustained, steady, and smooth development would basically depend on whether she could make significant change in the economic structure and improve economic efficiency while curbing total demand. In the last 10 years, the nation's major economic indicators have doubled; meanwhile, bank assets have increased more than

six times, topping 1.3 trillion yuan. It is estimated that bank assets will catch up with and equal the annual GNP before long. Obviously, the tight money has nothing to do with the monetary policy but is attributable ultimately to the structural distortion. The only way to solve the money supply problem is to readjust the economic structure. Only by enlivening the stock of money [in circulation] can the tight policy be truly effective.

One unique characteristic of the present round of inflation is that it is intertwined with the decentralization of funds; the two act as each other's cause and effect. This is because excess investment is the basic cause of inflation, and bloated investment is always accompanied by an acute shortage of fund input in the basic industry. The issue is very clear: Uncontrolled investment refers to an excess extra-budget investment demand; it refers to an excess investment demand in the processing industry and in goods which are already over-abundant and not to investment in the basic industry. The present problem is, where do the huge sums of money used to finance the nonessential projects come from? They come from the decentralization of fiscal revenues and credit funds. Today, there is almost as much extra-budget fund as there is budgeted fund. Only 64 percent of the fixed asset loans the banks extend are examined and approved as a part of the state plan. Adding the many fund gathering activities, it is simply inevitable that the investment structure is distorted. Wherever there is investment, there is production. Where do the current funds come from? Under the financial contract system, the banks must lend money to the county-run industries and local industries. Today, of the close to a trillion yuan in current fund loans, only 80 percent are being put into the state-run enterprises, down from 96 percent a decade ago, and out of that total, only 63.7 percent go to the budgeted enterprises directly controlled by the state. Fund decentralization—excess extra-plan investment demand—reckless development of the processing industry—distorted enterprise structure and industrial structure: This is the established formula. The serious problem lies in the fact that the distorted enterprise structure and industrial structure tend to boost the money supply, which is the bitter pill we are forced to swallow today. Nowadays, every enterprise wants to survive and grow, and to ensure overall stability, the banks must lend them money. To protect the state's mainstay enterprises, we pump money into the key sectors; to speed up industrial growth, we pile up more debts. Even then, funds are still exceptionally tight, and increasingly, enterprises are defaulting on each other. Even "startup" funds for key enterprises often only turn over once and disappear forever. If money is always lent out but never repaid, there is no alternative but to keep increasing the money supply. Loss of control over the money supply and distortion of the economic structure are probably the most important lessons of the last 10 years. If we fail to deal with this conflict, we will not be able to move ahead with the next reform step. We cannot forever make the banks take care of the others.

3. On the relationships between public finance and banking and between banks and enterprises. Fiscal and monetary policies have always been the most effective levers for regulating society's total demand. But public finance and banking serve different functions, and the two types of funds must be strictly separated and should never be mixed together. In the last 10 years, the financial ministry has been making overdrafts and borrowing money from the central bank, and banks have been buying treasury bonds; meanwhile, the financial ministry has been in arrears with funds meant for the money-losing enterprises. These add up to a substantial sum of money. Even if the banks should hand over the funds they themselves had accumulated over the last 40 years, it would not be enough to fill the above-described gap. Why? As a result of the decentralization of funds, the state's fiscal income as a percentage of the national income as well as the central government's revenue as a percentage of the total revenue have plummeted. Meanwhile, it has been difficult to curtail public spending. As a result, we have had deficits in 9 out of the last 10 years. Of the total budget, billions of yuan are being spent on the state's key investment projects. Strictly speaking, this money comes from banks and from society in the form of public debt. At the same time, almost all of the government's revenues are spent on consumption. It is not an exaggeration when people call the financial ministry a "guzzler." Fiscal balance is propped up by credit. No wonder the financial ministry has little regulatory and control capability.

Let us now look at the relationship between banks and enterprises. Heavy borrowing is one of the main features of today's enterprise operations. Let us look first at the budgeted state-run enterprises. In 1981, they owned 58 percent of all current funds, which dropped to 21.9 percent in 1988. They have lost more than 100 billion yuan in current funds over a seven-year period. In other words, nearly 80 percent of the industrial enterprises', more than 90 percent of the commercial enterprises', and 99 percent of the foreign-trade enterprises' operating funds, are bank loans. For certain trades and industries, the amount of enterprise-owned funds has decreased even in absolute term over the last 10 years. Enterprises are increasingly more dependent on banks. This is an ominous situation. It indicates that enterprises are much less able to take risks and that enterprise assets are being offset by huge debts. The problem is, the rapid increase in idled loan funds has become a serious concern. Some of that money has been turned into fiscal revenue to fund personal consumption; some is but paper assets. Yet, banks collect interest as usual, hand the money over to the financial ministry as usual, and retain a percentage of the profit as usual, and for enterprises, banks, and the financial ministry, it is business as usual. Increasingly, the entire economy is operating on phony premises.

Now let us look at the banks. More and more, the financial ministry and enterprises are dependent on banks for loans. Where do banks get their money? Besides the several billion yuan of new issuance each

year, they depend basically on savings deposits. The savings deposits come partly from the purchase of agricultural products from the peasants, which are then sold and the money deposited; the rest is from fiscal spending which is turned into consumption and workers' income—the latter is watered down and often involves the matter of loans. As a result, the financial ministry squeezes the banks, enterprises count on the banks, and banks depend on deposits, and after each round, there are more loans, more consumption, and more savings; banks have more funds, and the state has more debts (that is, the financial ministry and enterprises owe banks more money, and banks owe individuals more money). Today, individuals own close to a trillion yuan in financial assets, which are increasing at the rate of hundreds of billion yuan a year. It will not be long before private assets exceed the accumulated state-owned assets. This is a perilous situation.

4. On the banks' fund management system. In the last 10 years, credit fund management has evolved from centralized control of revenue and expenditure to "differential management" to today's "actual loans based on actual deposits." We have made significant progress. We have strengthened the central bank's regulation and control capacity and have enlivened the specialized banks' operation. But strictly speaking, we have not eradicated the defects of the way funds are allocated under the old system. In other words, the specialized banks' operating scope is still undefined and funds of different kinds are being mixed. The mechanism continues to encourage the specialized banks to rely on, or force, the central bank to increase the money supply. The two biggest problems are:

One, the issue of separate management of policy-oriented loans and ordinary loans: In comparison, the integration of economic planning and market regulation has added the market as a new feature to the old system. But the way banks allocate funds has not changed sufficiently to accommodate this new feature. The specialized banks continue to mix different kinds of funds when putting them to use. As a result, policy-oriented loans which the state must guarantee are often inadequately funded, leaving a hole for the central bank to patch, or sometimes the loans turn over only once and are diverted elsewhere, and new loans must be arranged in the next round. This forces the central bank to increase the money supply, which is directly responsible for the distorted fund composition. This situation is caused mainly by the lack of division of labor among different financial institutions. Policy-oriented business and ordinary banking business are mixed together and handled by the same specialized banks. Inevitably, the banks want to extend more loans that prove profitable to them in order to increase retained profit, or they try to expand operation so as to make more money. Consequently, they force the central bank to fill the gap, and the central bank must make the money available. Apparently, if the central bank wants to reverse this passive

role, it should at least set up several accounts to manage different funds separately to free itself from the specialized banks' pressure.

Two, the issue of separate management of long-term and short-term credit. Today, there is a growing problem with the mix of credit funds of different terms. Proportionally, both the supply of short-term funds and the demand for long-term fund use have been increasing. In other words, a large chunk of funds being put to long-term use come from short-term sources. But short-term deposits can be withdrawn at any time, and a cash-flow problem can lead directly to a payment or credit crisis. In China, it is up to the central bank to shore things up by printing more money. The most typical example is Construction Bank: On the one hand, it is putting huge sums of savings deposits into long-term investment; on the other hand, it is borrowing heavily from the central bank. Printing money is one way to fund a lot of constructions, but we cannot pull this trick all the time. A more workable method is to put long-term credit and short-term credit under different accounts and manage them separately. This lays the groundwork for structural reform in the future. As a precondition to separate management, we should recognize the three main sources of funds for the state's important investments: One, state budget; two, a percentage of Construction Bank's savings deposits; three, the issuance of long-term construction bonds, using a portion of the budgeted investments on discounting. Most investments in China's basic industry should eventually be financed by this last method. We should let those institutions specializing in long-term credit handle this task.

5. On how the monetary policy works. A decade of reform has brought dramatic changes to the economic elements. Whether we are talking about the state-run enterprises or collective and individual economies, their production, supply, and sales have come to depend on the market. This reality has posed many new issues in the way the monetary policy works: One, up to now, we are still assessing the monetary policy by the amount of cash input. Cash plays an extremely important role in deciding the state's macroeconomic policies. But sample a survey showed that one-third of the currency in circulation is being used to settle business accounts and on production and operation turnover. This is very different from the situation in a product economy. What is important is that the amount of cash input has a direct bearing on the total deposit. In lending a sum of money, how much of that is eventually returned as deposit and how much is turned into cash is determined by market stability, price stability, and economic stability; they are beyond the bank's control. In addition, so far as the money supply is concerned, both deposits and cash are means of purchase, and today, more than 90 percent of society's transactions are still being settled via bank transfers, and both deposit and currency must be backed by real goods. When making policy-decisions, it is extremely dangerous to look only at cash and ignore the total money supply: In 1988, 68 billion yuan in cash was

put into circulation; it dropped to 21 billion yuan by 1989, but compared to 1988, the total money supply was much larger. What is of concern is, this year's financial assessment and decisionmaking are still based on the 21 billion-yuan figure. Two, during rectification and improvement, it is essential that we make the loan scale the monetary policy's target. But this kind of control by fixed-quota, as characterized by administrative management, is not a long-term solution after all. When the management of policy-oriented loans is separated from ordinary loans and long-term loans from short-term loans, the monetary policy should shift to the regulation of basic money. Only by keeping the central bank's credit income and expenditure balanced can society's credit scale be kept under control. Three, allocating loan funds by quota has been an old method practiced for several decades. There are many defects. Unsecured loans can lead to untrustworthiness. People treat the money not as borrowed capital but as public fund which need not be repaid when due. Even more dangerous is, this kind of bank credit is not backed by marketable goods and materials and can get out of control, because enterprises need not use marketable products as collateral when borrowing money from the specialized banks, and likewise the specialized banks can borrow money from the central bank. This abnormal integration and transformation of commercial credit and bank credit pushes society's credit scale beyond limit, and nobody can make any sense out of it. In the socialist commodity production process, common commodity production management principles cannot be ignored. Credit should always be backed by contracts and receipts, and there should be tangible means to guarantee the seriousness and safety of the loan. Therefore, it is the banks' fundamental task to grant all commercial credit in note form. It prevents some enterprises from defaulting, and through the banks' discount operation, commercial credit can become a part of regular bank credit. In this way, the granting of loans and the sale of goods and materials are linked together, and through the central bank's rediscounting operation, we can ascertain the exact amount of credit the economy needs.

6. On the banks' organization structure. Since China implemented the central bank system, several issues have emerged which should be explored: One, the question of dividing the functions between the central bank's headquarters and its branches and sub-branches. To say the least, we should no longer allow the provincial branches to exercise authority to allocate basic currency as we did in the past, because this practice prompts the specialized banks to "take in more and lend out more" and encourages enterprises to "deposit more and borrow more." Such practices produce an infinite amount of derivative deposits. The correct reform thinking should be to centralize the power to print money and to formulate credit, monetary, and interest policies. The branches and sub-branches are the central bank's local agencies; they are responsible for implementing the macroeconomic policies and monetary policy, for regulating the local money supply, managing and auditing the business

conduct of all financial institutions under their jurisdiction, and for making sure that the general banking policies are being carried out. The matter of setting up the branches and sub-branches by economic districts should be further analyzed. Two, the question of whether domination by four specialized banks, each cornering a market, is the pattern of the future: When short-term and long-term credit and loans of different nature are put under separate management, we should at least have different kinds of financial institutions to handle different tasks. We can take out some operations in the existing specialized banks and turn them into separate departments or even into separate organizations. The remaining ordinary banking operations, such as loans for nonessential enterprises, medium- and small-sized enterprises, and collective and individual economies, can be serviced by specialized banking organizations, but we must insist that they balance their own revenue and expenditure and that they be administered by the central bank as commercial banks. Three, we should make some adjustments to deal with the many savings institutions that have sprung up and the large number of county-level specialized banks and institutions in the economically backward regions. Four, upon weeding out the trust and investment companies and other nonbank financial institutions, perhaps we can consider setting up some trust investment banks, and in addition to handling the traditional trust operations, they can underwrite bonds to gather funds for the localities and for the smaller but profitable projects, but they must be prohibited from absorbing savings deposits and ordinary enterprise deposits; instead, they should raise capital in the market to fund the better projects selectively and supplement the policy-oriented banks. Five, Bank of Communications and other newly-established, multipurpose banks are essentially local banks. We should continue to experiment with them and manage them as if they were commercial banks. The central bank should not take responsibility for them. Six, the rural credit cooperatives should continue to be managed by Agricultural Bank on behalf of the central bank while a future system is being further studied and explored. Seven, a monopolized insurance system has numerous drawbacks. As more types of insurance are being offered and as the insurance business expands, some lines, such as life insurance, should become independent businesses. Administrative departments should not run insurance companies.

7. On the specialized banks' management mechanisms. At present, huge sums of loans are either past-due or are idled or not turning over; the assets are of poor quality. This is a serious problem. As state banks, the specialized banks should put policies first, but as business-oriented economic entities, they are responsible for the direction and profitability of their loan funds and for making sure that the loans are repaid. They must take macroeconomic responsibilities, but they also need some management mechanisms to restrain themselves and to help them take risks. This is a very tricky problem. Before putting the different operations under separate management, the reform measures already implemented should

be amplified and perfected: One, with respect to Agricultural Bank's contract responsibility to the financial ministry and other individually contracted responsibilities, the emphasis should be on revising and perfecting the quota verification system and adding more macroeconomic indicators. To overcome short-sighted behavior, we should not link profit to wages and funds directly. Two, we should implement several responsibility systems, with the focus on the bank manager responsibility system. All business departments are responsible to the bank manager, and the lower levels are responsible to the upper levels. In particular, we should specify our demand for better quality assets in the contracts. Three, like Bank of Communications, the state's specialized banks should implement a risk management system, focusing especially on the management of the asset-liability ratio. This is an important step in ensuring the liquidity of the banking system's assets and its ability to repay debts. Banks must not lend out everything; they should not put more emphasis on lending than on retrieving loans. They should use different asset ratios to restrain their lending behavior. Four, the lending and repayment of enterprise loans should take place at the primary level, and it is vital that we perfect the microeconomic decision-making process pertaining to loans. We should popularize the practice of "examining everything thrice and sharing decisionmaking" instead of letting the credit officer be the sole decisionmaker. This is very important to the readjustment of the loan composition and to guaranteeing the proper direction of the loan funds. Five, enlivening the stock of funds is the most important, and also the most difficult, part of our present financial task. To strengthen asset management, we must sort out the banking system's assets and formulate measures according to the assets' different risk factors and manage them accordingly. By sorting out and ranking the assets according to the state's industrial policy, we can optimize the loan procedure and tighten the lending process. We should stop injecting new loans in enterprises that appear to be profitable but are in fact losing money as well as enterprises that produce goods already in abundance.

8. On the financial market. Today, the main problem with our short-term fund market is that there are ample funds but not much lending and borrowing (specialized banks' deposit in the central bank already accounts for 10 percent of its deposits), and there is insufficient circulation to balance the fund surplus and deficiency among different regions and administrative organs, forcing the central bank to increase the money supply. If we fail to enliven the reserve funds, we will not be able to

control the total money supply. We must create a system to solve the fund gathering and distribution problem between financial institutions. China's long-term financial market consists primarily of the issuance and transfer of assorted bonds. Reviewing our experience over the last few years, we should try to attract more institutional investors when issuing national debt obligations, and with regard to issuances to individuals, we should avoid mandatory subscription as much as possible. Furthermore, we should speed up the opening and development of secondary markets, especially a market for circulating national debt instruments. This should be treated as one of the major reform objectives. Looking ahead into the next few years, the financial ministry will continue to exert pressure on banks. We should open up the market, promote the sale of national debt instruments, and help the financial ministry solve its fund problems. What we should do first is to set up some intermediaries in the urban hubs which have a solid foundation to facilitate stock exchange and establish a stock exchange network. We should promptly set up new systems and draft new laws, gather experience through the experimental units, and try to get the circulation of national debt instruments going as soon as possible.

9. On foreign exchange and foreign debt management. Today, a serious problem regarding foreign exchange management lies in over-decentralization; the share of foreign exchange at the central government's disposal has continued to dwindle. In order to guarantee the needs of the central government's key projects, we should readjust the localities' and enterprises' retention percentage and centralize fund control to some extent. Meanwhile, we should study the method of determining the retention percentage by major commodity categories and simplify the retention percentages, changing the present method of setting multiple retention standards according to region, department, commodity, and so on. We should also centralize to a degree the power to examine and approve foreign exchange retention percentage. We should further develop and perfect the foreign exchange regulation market and guide the direction of foreign exchange regulation strictly according to the state's industrial policy. China will soon enter the peak debt repayment period. The management of foreign loan borrowing, utilization, and repayment will be an arduous task. A problem that requires immediate attention is that too many people are borrowing money on their own. This situation must not be allowed to go on. Besides restricting international commercial loans, we should weed out the foreign loan counters and centralize the foreign loan activities to some extent.

INDUSTRY

July Transportation, Post, Telecommunications Service

HK0908121390 Beijing CEI Database in English
9 Aug 90

[Text] Beijing (CEI)—Following is a list of volume of transportation and post and telecommunications service in July 1990, released by the State Statistical Bureau.

	Unit	7/90	7/89
Cargo	100 m t	2.20	2.24
railways	100 m t	1.23	1.24
auto	100 m t	0.47	0.52
ships	100 m t	0.50	0.48
CAAC	10,000 t	2.25	2.70
Circulating cargo	(100 million tons/km)	1893.32	1753.65
railways		881.20	882.33
auto		28.60	33.03
ships		983.03	837.59
CAAC		0.49	0.70
Passengers	(100 million persons)	4.32	4.60
railways		0.81	1.02
auto		3.34	3.37
ships		0.16	0.20
CAAC	(10,000 person)	104.50	113.13
Circulating passengers	(100 million persons/km)	392.10	453.59
railways		219.68	272.50
auto		146.64	150.41
ships		12.37	14.53
CAAC		13.41	16.15
Cargo handling of main coastal ports	(100 million tons)	0.40	0.38
Circulating volume of civil aviation	(100 million tons/km)	1.47	1.89
Volume of post and telecommunications	(100 million yuan)	7.1	5.60

Gross Industrial Output in July

HK0908122190 Beijing CEI Database in English
9 Aug 90

[Text] Beijing (CEI)—Following is list of China's total industrial output value in July 1990, released by the China State Statistical Bureau.

	(in 100 million yuan)		
	1-7/90	7/90	7/89
Total including:	7632.2	1094.7	1063.4
Export products	868.6	138.5	
Light industry	3852.9	543.8	522.2
Heavy industry	3779.3	550.9	541.2
State-run	4667.6	655.1	656.4
Collective	2527.7	369.4	359.7
Others	436.9	70.2	47.3

Note: industrial output value is measured in 1980's constant yuan.

SMALL-SCALE ENTERPRISES

Editorial Lauds Rural Enterprise Regulations

90CE0349A Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 15 Jun 90 p 1

[Unattributed Editorial: "An Important Milestone"]

[Text] The "Chinese People's Republic Regulations on Rural Enterprises Under Collective Ownership," which millions of China's peasants and broad masses of cadres, workers, and staff of township and town enterprises have long looked forward to and which were passed by the State Council's 59th Standing Committee meeting and signed by Premier Li Peng on 3 June 1990 as State Council Order No 59, have now been formally promulgated. This constitutes the first set of important administrative enactments pertaining to township and town enterprises drawn up by the State Council. It is a major event in the structural reform of China's rural economy and in building the country's legal system, as well as an important historical milestone in the development of township and town enterprises. We enthusiastically greet the promulgation of the "Regulations"!

The new force that township and town enterprises have suddenly become in China's vast rural area is the result of implementing the party's basic line on the elementary stage of socialism. At present, township and town enterprises have become a major support of China's rural economy and a major component of the national economy. Their development has played an important role and will continue to play an even more important role in causing the socialist commodity economy to prosper, supporting agricultural production and building up the rural areas, shifting surplus manpower in the rural areas, raising the standard of living of the peasants, increasing state finances and foreign exchange income, bringing about China's industrialization and modernization, establishing a new-type of relationship between town and country and between industry and agriculture, consolidating the worker-peasant alliance, and consolidating the socialist front in the rural areas. Collective ownership is dominant among township and town enterprises and constitutes their main body and backbone. In 1989, there were 1.536 million rural enterprises under

collective ownership, employing 47.201 million persons. Total output value came to 485.568 billion yuan (based on 1980 fixed prices), which was 65.4 percent of the total output value of township and town enterprises. They had more than 380 billion yuan in collective assets, of which more than 192 billion yuan were fixed assets. They have now become a principal force in the rural economy and have thereby consolidated, developed, and strengthened China's economy under socialist public ownership. Just as Premier Li Peng pointed out in his "Government Work Report" at the third session of the Seventh National People's Congress, "The development of township and rural collective ownership has provided the necessary material foundation to increase peasant income, provide social security, develop rural education, consolidate basic-level political power, and strengthen the building of a spiritual civilization." A major reason why rural enterprises under collective ownership have been able to flourish and develop strongly has been the guiding principles and a series of important policy measures characterized by "positive support, rational programs, correct guidance, and strong management" which the party and the state have put into effect for township and town enterprises, thereby doing their utmost to arouse millions of peasants to take the socialist road and actively inspiring enthusiasm for these enterprises while vigorously developing agriculture in order to promote development of social productive forces in the rural areas. Guided by the macroeconomic planning of the state, rural collective enterprises are full of life with such vital functions as independent management, independent business accounting, and responsibility for their own profit and loss. Proceeding from the objective reality of China's economic and social development, the State Council has, since the Third Plenary Session of the 11th CPC Central Committee, used laws and regulations to affirm party and state policies concerning the development of township and town enterprises under collective ownership. This has demonstrated that the party's basic line is to focus on the building of a socialist economy, to adhere to the four cardinal principles, and to adhere to reform and opening up to the outside and has given expression to the will of the state and the people. They have become rules of behavior that all of society must follow. This not only amply sums up the practical experience of developing township and town enterprises during more than 10 years of reform, it also represents a new development in the structural reform of China's rural economy and the building of its legal system.

The advent of the "Regulations on Rural Enterprises Under Collective Ownership" represents a new development in combining Marxism and the actual conditions in China during the building of socialism. Long ago in the "Manifesto of the Communist Party," Marx and Engels pointed out: "Combining agriculture and industry abolishes the antithesis between town and country."¹ They also pointed out: "If it is said that communal land is the first basic prerequisite for the existence of the peasantry, then industrial sideline production is the second basic

prerequisite."² "If we are to prevent those who have been squeezed out of agriculture from going without work or crowding into the cities, we must enable them to engage in industrial work in the rural areas."³ Lenin also declared: "The development of a commodity economy means more and more of the people leaving agriculture, that is, an increase in the industrial population and a decrease in the agricultural population."⁴ The development of China's township and town enterprises and the series of general and specific policies pertaining to them have been produced under the guidance of these basic principles of Marxism-Leninism. As early as the fifties, Comrade Mao Zedong, in giving his full approval for the development of commune and brigade enterprises (the forerunners of rural collective enterprises), predicated, "Herein lies our great, bright, and magnificent hope." Comrade Deng Xiaoping has unequivocally pointed out: "The new force of the township and town enterprises suddenly coming to the fore... has been the biggest unanticipated harvest of rural reform." "If the central authorities have had some success in dealing with this issue, it has been because the policies they formulated were on the right track." Today, using legal rights to guarantee rural enterprises under collective ownership by promulgating and putting into effect the "Regulations" to ensure their healthy development has also become a major achievement of the CPC in its resolute utilization of Marxist principles in the building of socialism in China, thus further enriching and developing Marxism-Leninism and Mao Zedong Thought.

At present, stability is the overriding task. If we are to have stability throughout the country, we must first have stability in the rural areas, in agriculture, and among the peasantry. And if we are to have stability in the rural areas, in agriculture, and among the peasantry, the policies pertaining to township and town enterprises, which are important mainstays of the rural economy, must be firm, the will of the people must be firm, and the development of enterprises must be firm. More and more people are recognizing the implications of this issue for overall stability. However, beginning last year, because of the temporary difficulties the economy was having, some unfair criticisms of township and town enterprises have been publicly voiced. Some comrades have felt misgivings about the direction China is taking in developing township and town enterprises and have even wavered in their support, and vast numbers of township and town enterprise cadres, workers, and staff personnel have feared policy changes, thereby seriously affecting the stable development of these enterprises. Despite the many assurances from leading comrades from the party Central Committee and the State Council on the status and functions of township and town enterprises, some departments and comrades still felt misgivings and biases because the legal rights and certain important economic relationships of township and town enterprises lacked the protection and readjustment of special state-promulgated laws. Promulgation of the "Regulations" has made clear again that the general and specific policies of the party and the state pertaining to

township and town enterprises have not changed. They give expression to the consistency, resoluteness, and firmness of party and state policies concerning the development of these enterprises. By establishing the legal status of rural enterprises under collective ownership and making specific provisions for sustaining, maintaining, guiding, and managing them, the "Regulations" provide reliable legal guarantees for their stability and healthy development. At the same time, they give expression to the overall demand for the central authorities to improve the economic environment and rectify the economic order and to deepen reform and the objective demand for enterprises to develop themselves. This has an extremely important practical significance and far-reaching historical significance for stabilizing policies and people's will as well as for stable development, and thereby for stabilizing the rural areas and stabilizing the overall situation.

Developing township and town enterprises is a task of strategic significance. Experience has shown that deviating from the development of township and town enterprises makes it impossible for China to implement the strategic objectives of its economic development. Just as leading comrades from the State Council have emphatically pointed out, China has to have township and town enterprises and, to meet their overall needs, all parties must enthusiastically support their development by stressing the positive and avoiding the negative and by continuing to give full play to their superior features. We hope that all localities will take vigorous action to earnestly organize the proper study, dissemination, and implementation of the "Regulations" among the cadres, workers, and staff personnel.

We are confident that, following the full implementation of the "Regulations," China's rural enterprises under collective ownership will from now on, in accordance with the provisions of the "Regulations," enter a new stage of healthier development, thereby making an even greater contribution to the building of socialism with Chinese characteristics.

Footnotes:

1. *Selections from Marx and Engels*, Vol. 1, page 273.
2. "Questions Concerning the French and German Peasantry," *Selections From Marx and Engels*, Vol. 4, p 299.
3. *Complete Works of Marx and Engels*, Vol. 19, page 369.
4. *The Complete Works of Lenin*, Vol. 3, page 19.

Better Operation of Township, Town Enterprises Sought

90CE0315A Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY]
in Chinese No 6, 23 Jun 90 pp 24-28]

[Article by Zhang Yi (1728 3015) and Cao Guangming (2580 0342 2494): "Actively Guide Township and Town

Enterprises in Readjustment, Restructuring, Transformation, and Improvement"]

[Text] Thanks to a series of correct plans and policy guidance from the Central Committee, since the Third Plenary Session of the 11th Party Central Committee township and town enterprises have used their special vitality for rapid development of the country's economic structure, industrial structure, and for changing the face of the entire rural landscape. Today, township and town enterprises have become an important integral component of the national economy, and have become the road that must be taken if the country's rural economy is to prosper. In 1989, township and town enterprises had a gross output value of 735 billion yuan. This was 60 percent of gross rural social output value and 25 percent of gross national social output value. Township and town gross industrial output value was 510 billion yuan, 30 percent of national industrial gross output value. Township and town industries provided \$10 billion in foreign exchange, 19 percent of national foreign exchange earnings from exports. They paid the state 36 billion in taxes, 12.8 percent of the country's financial revenues. These five figures provide powerful demonstration of the role and status of township and town enterprises.

Taking aim at problems that appeared in the national economy, in 1988 the state advanced a policy of improving the economic environment and restructuring the economic order, which also occasioned some new problems in development of the economy. As an important integral part of the national economy, township and town enterprises are likewise facing a capital shortage, a scarcity of raw and processed materials, an energy shortage, and insufficient reserve strength for development. Under these circumstances, what are township and town enterprises to do? We provide our views below in the hope that comrades will discuss them with each other.

1. Rational Planning; Coordinated Development

(1) **Development of Township and Town Enterprises for Rural Modernization Is a Mission that History Has Bestowed on the Peasants, and Is Essential to the Country's Economic Development** Realization of this task is an undertaking that will take a long time and be carried on by several generations. Therefore, the building of township and town enterprises will have to be done in a step-by-step, orderly fashion. There can be no hurrying to achieve quick results out of a desire to become rich. Each jurisdiction will have to formulate a near term, an intermediate term, and a long term development plan on the basis of its own circumstances. In doing so, they will have to consider the following:

1. Goals that are identical with those espoused by the party and the state. They will have to define a guiding thought for the development of township and town enterprises that enriches the country and provides prosperity for the people, that opens new employment avenues for surplus rural labor, that promotes readjustment

of the rural industrial structure, that hasten the pace of the country's modernization, and that develops the rural economy and makes it boom, adhering to the socialist road and a socialist orientation in action.

2. Coordination with development plans for the national economy as a whole. They will have to suit general method to local circumstances in the charting of an orientation for development of local township and town enterprises, industries, and products that are based on macroeconomic plans for development of the national economy and the needs of domestic and foreign markets, as well as the country's ability to provide materials, energy, and capital. All rural villages should take agriculture as the foundation, rely on agriculture, and serve agriculture, emphasizing packaging, shipping, supply and marketing for agricultural by-products processing industries, food industries, livestock feed industries, and agricultural products, and doing a good job of providing service before and after production to advance uninterrupted development of agricultural production.

3. While developing secondary industries, it is necessary to develop tertiary industries that serve needs in the daily life of people in cities and the countryside and in production, as well as the flow of commodities. When surplus rural labor shifts out of primary industries into secondary industries, the same old road of developed countries should not be followed. The development of secondary and tertiary industries should be coordinated from the very beginning.

(2) Proceeding From Local Realities, Acting Within Capabilities, Balancing Development, and Maintaining a Moderate Development Speed. The speed of development of township and town enterprises of the past several years was an outgrowth of special circumstances. Although this development was rational and objectively necessary from the standpoint of the far-flung rural villages, from the national macroeconomic standpoint, such a speed of development intensified the shortage of credit, capital, materials, and transportation. Therefore, the overly high speed has to be reduced and a rational speed of development set for township and town enterprises, contests between enterprises for output value and the forcing up of targets guarded against, and "inflated" high targets guarded against as well.

In view of the extreme imbalance between one area and another in development of the country's township and town enterprises, when charting the speed of development of township and town enterprises, different requirements should be set for different areas and different industries. "Arbitrary uniformity," and "putting all at a single level" is to be guarded against, the only principle being the principle of returns.

1. Places that have already developed a certain amount of township and town enterprises should place the emphasis of development henceforth on the expansion of reproduction. They should steadily readjust the product mix of township and town enterprises, making it

more and more rational. They should steadily improve management methods, improve the level of administration, and increase economic and social returns from enterprises. Township and town enterprises in such places should be properly controlled. In general, no additional enterprises of the same kind should be established. Instead, the existing ones should be improved in the building of a number of enterprises having the advanced international level of the 1980's.

2. New projects must start off at a high level, produce premium products, add high value, and have new technology. They must truly produce products that show good economic returns and that are strongly competitive.

3. In order to avoid starting up projects ill-advisedly and setting up establishments rashly, henceforth there is to be strict enforcement of examination and approval procedures in the establishment of township and town enterprises, particularly rural collective enterprises. Feasibility investigations and validations are to be conducted. Departments in charge of township and town enterprises are to conduct strict checks, holding unnecessary losses at the pre-investment level. They are to control strictly township and town enterprise takeovers of land for capital construction.

4. Places in which township and town enterprises have yet to develop should likewise not start projects ill-advisedly. They should benefit from the experiences and lessons of advanced areas, not fail to take into account conditions, and not become involved in grandiose projects beyond their capabilities. Naturally, this does not rule out the use of circulating funds that the state provides to help township and town enterprises for the building of some key projects and turnkey projects. Much less does it rule out the use of foreign capital to run some advanced enterprises in partnership.

(3) Organically Linking the Development of Township and Town Enterprises to the Building of Rural Market Towns Master plans implemented by stages should be used to build small industrial areas that enable township and town enterprises to become the mainstays of rural market towns, and that enable rural market towns to become catalysts for township and town enterprises.

1. Township and town enterprises should be properly concentrated in rural market towns in accordance with overall plans for national construction, and their operation should rely on funds that the enterprises have themselves accumulated. Market towns are to be built in a planned, step-by-step way.

The development of township and town enterprises, particularly the operation of enterprises in market towns, must be strictly watched, no industrial projects that pollute or that have no pollution control measures being allowed to spread in rural areas, much less permit the development of new polluting enterprises. Already existing polluting enterprises are to be brought under full

control. The destruction of the rural ecology and the bequeathing of harm to posterity cannot be permitted for present gain.

3. Planning must be done before construction begins in building rural market towns. Requirements must be set high at the outset and consideration given to future development. There can be no building today only to tear down tomorrow to the detriment of the wealth of working people.

(4) Need for Township and Town Enterprise Development To Be Coordinated With National Economic Development. Township and town enterprises must be rooted in agriculture and rural villages, and they must serve agriculture and rural villages. Nevertheless, they should not proceed solely from needs in the economic development of agriculture and rural villages, but rather from macroeconomic planning, macroeconomic distribution, macroeconomic needs, and macroeconomic support capacity so that their development is coordinated with the development of agriculture and rural villages, and even development of the entire national economy.

(5) Capital, Energy, Raw and Processed Materials, Transportation Capacity, and Skilled Personnel Remain Important Elements Limiting the Development of Township and Town Enterprises.

1. Township and town enterprises have to focus on generating capital, gathering capital, and using capital. Most of enterprises' profits should be retained in enterprises and in township and town economic organizations for planned use in the expansion of reproduction. Methods such as putting money into shares little by little and the operation of stock share cooperative enterprises should be employed to collect capital from staff members, workers, and peasants as a means of putting idle rural funds to use in the development of production. Partnerships and joint ventures may be used to attract capital from both inside the country and abroad, turnover of funds and products within enterprises accelerated, and the amount of tied up funds reduced.

2. Solution to the energy problem has to be done both through the development of energy and the conservation of energy. High energy-consuming enterprises should not be developed in energy-short areas. Where such enterprises exist, readjustments should be made, having them enter into partnerships with enterprises in places where energy is abundant. Efforts must also be made to conserve energy. This is an area in which very great potential exists. Multiple ways must be found to develop energy for township and town industries. Fuel can be bartered for electricity; money can be pooled to build generating plants; electric power stations may be built at pit heads, and thermal electric power may be produced in partnership. In short, it is necessary both to rely on the state without relying solely on the state for solution to the energy problem.

3. The shortage of raw and processed materials for some industries remains a problem to be confronted for a long

time in the country's industrial development. Thus, it is necessary to work around disadvantages and make the most of advantages in the development of township and town industries. We do not have to develop industries requiring raw and processed materials in short supply; instead, we can actively develop industries for which raw and processed materials are plentiful. In addition to relying on the state to solve the problem of inadequate supplies of some needed raw materials, township and town enterprises should build their own raw and processed materials bases, using joint investment and compensation trade to do so.

2. Particular Stress on Development of Different Enterprises

It is necessary to begin with local advantages in accordance with the overall national economic development strategy and industrial policy priorities to decide the emphasis of development of industries, trades, and products. For the country as a whole, this means the following:

(1) Agricultural By-product Processing Industries Are Key Industries and Dominant Industries Among Township and Town Industries. One of the problems hurting the development of agricultural product processing industries at the present time is the low profit rate for simple processing. Second is the lack of complete advanced plants. Efforts must be directed toward using equipment in multiple ways in order to accelerate the speed of development, processing of a single product changed to processing of several products, changing simple production to series production, and changing from independent operations to continuous production operations that go from sowing to growing to processing, and involve agriculture, industry, and business. Also needed is research, importation, absorption, and digestion of equipment to accelerate the processing of agricultural products. Agricultural product processing enterprises should build their own raw materials bases, and they should steadily improve and raise the quality of raw materials as processing needs require.

(2) The Construction Materials Industry Is a Mainstay Among Township and Town Industries That Will Henceforth Remain an Important and Indispensable Part of Township and Town Industries. When developing township and town enterprises and construction materials enterprises, attention should be devoted, first of all, to doing all possible to conserve energy, using advanced energy conservation techniques in order to control energy consumption at the minimum level. Second is conservation of the use of land; and third is improvement of product quality. In addition, new construction materials should be actively developed, and smoke and dust pollution should be controlled.

(3) Active Development of Light Industrial Wares Used in Daily Life. Township and town enterprises' production of light industrial wares used in daily life should be for

the purpose of expanding rural markets, beginning with rural areas but orienting toward cities, and entry into international markets.

(4) The Mining Industry Is an Industry That Offers Broad Development Prospects for Township and Town Enterprises. The development of township and town mining industries has to be done in an organized and planned way according to an overall plan. There can be no reckless mining and digging that destroys resources. The most prominent problem that townships and towns face in operating mine is safety. Safety in production should be given first place. Where conditions do not exist for safety in production, or where safety in other mines is threatened, positively no mining should be permitted. Individual mining operations should gradually be phased into joint mining for the the shaping of mining, ore dressing and shipping combines. Mining of ore products already in sufficient supply should be controlled, the mining of ore products for which there is no need at the moment not allowed.

(5) Proper Control of the Development of Machinery Industry. The machine processing industry has already developed substantially in China. Existing enterprises should be guided in the direction of specialized, socialized cooperative production, organizing a series production system for hot-selling products. Vigorous efforts should be made to develop small hardware items and small electromechanical products for home use.

(6) The Construction Industry Is a Mainstay Among Township and Town Enterprises. The tasks that face the township and town construction industry at the present time are improving the quality of staff members and workers, improving project quality, improving project management, and doing all possible to conserve capital construction investment; gradually building of their own designing corps; diversifying, and linking running [liudong 3177 0520] construction with processing bases.

(7) Businesses, Service Industries, and Communications and Transportation Industries Bear the Task of Providing Various Services to the Peasants, Agriculture, and Rural Industry; They Play a Role as Supply and Marketing Bridges in Economic Intercourse Between City and Countryside, and Between One Region and Another. Multiple business channels are in process of formation in rural villages today. This requires improvement and rectification of the service orientation of township and town supply and marketing companies, and of specialized companies, placing service first. Companies' point of departure and the point of return cannot be the pursuit of profit. In addition, the masses have to be accommodated through the building of more businesses and service industry network outlet points. Third is emphasis on service quality and emphasis on business ethics. In the transportation industry, the focus should be on medium and short distance shipping, first place going to improvement of service quality, the collection of fair fees, and rectification of operating mentality.

3. Response to Objective Circumstances; Improvement of Ability To Meet Emergencies

The country is currently going through a period of readjustment and improvement. As a result of the deepening improvement of the economic environment and restructuring of the economic order, township and town enterprises are facing grim testing of their ability to survive and develop. All the work done in township and town enterprises must be able to meet and make emergency response to the new historical conditions. While competing, they must seek to survive, improve, and develop. They must use their fine products and low prices, practicality, premium service, and honoring of contracts to win markets and gain the confidence of customers.

Scientific and technical progress must be relied upon for gradual improvement of the scientific and technical level of township and town enterprises. The lack of skilled scientific and technical personnel in township and town enterprise poses real difficulties. We must make fullest use of scientific and technical forces available in society to serve township and town enterprises. In addition, we must use all means to train our own well-grounded scientific and technical forces. We must use technological development, cooperation, and imports to change the former production operation type enterprises into scientific and technical production operation type enterprises.

Quality is an enterprise's life. We must improve quality control and standardization work. Township and town enterprises must have available the inspection techniques and personnel needed for quality control so as to improve their inspection and supervision. For some time to come, enterprises should put capital into this aspect of their work. They should use various testing techniques to eliminate sub-standard products during the production process. In the field of standardization, township and town enterprises must organize production on the basis of nationally set standards. Products, work, and service standards should be consistent with applicable national regulations. When international standards pertain, every effort should be made to apply international standards. In the case of items for which the state has not yet set standards, enterprises should formulate their own standards. Products that do not meet standards should positively not leave the factory.

Active opening of markets. In order to meet requirements in a market economy, not only should township and town enterprises use existing channels of circulation, markets, and flow organizations for the supply of raw and processed materials and the sale of products, but they should organize supply and marketing personnel as local realities require to effect joint supply and joint marketing. They should hold sales fairs from time to time, and operate specialty markets in order to change the current situation in which supply and marketing personnel run all over without having a home base.

4. Deepening of Enterprise Reform; Improvement of Enterprise Vitality

Various reforms of the contract responsibility systems, leasing system, and of sales and mergers, and the promotion within enterprises of the factory manager appointment system, the staff member and worker contract system and floating wage systems should be done to enable township and town enterprises to shape their own flexible administrative mechanisms. This includes a market regulation administrative mechanism, a distribution mechanism of the more work, the more gain, an optimized team labor mechanism, and a self accumulation development mechanism. Practice shows such mechanisms to be extremely successful in the development of a planned commodity economy. In the future, full use should continue to be made of the function of these mechanisms to spur development of township and town enterprises. Furthermore, as circumstances change, the reform of enterprises should be constantly deepened.

(1) Further Perfection of Township and Town Enterprises' Operations Contract Responsibility System. (1) Setting of too low contract norms for enterprises should be guarded against. Enterprise production capacity, its actual production over the years, enterprise development potential, market forecasting, and availability of funds, and reference to the average advanced level of other industries in the same field locally should be used to make scientific estimates before setting contract quotas. (2) Guarding against contractors taking a short-term view. First is the selection of the contractor. Contractors to be selected are those comrades who are able to adhere to the four basic principles, carry out the party and the state's plans, policies, and regulations, abide by the law in operations, dare to reform and innovate, possess a spirit of arduous pioneering, are dedicated, enjoy making a contribution, possess definite cultural and technical knowledge, understand management, are adept at administration, are familiar with the production activities in their own trade, have moral integrity, are even handed in dealings, carry forward democracy, and accept supervision. Second is the lengthening of the number of years contracted. Contract periods may be lengthened to between three and five years. Third is encouragement of consecutive contracting. So long as contract agreements can be fulfilled fairly well within the contracting period, continuity should be maintained. Outstanding contractors should not be bound by contract periods, but can be contracted with continuously so they can make long-range plans. Fourth, contract norms must be complete. They are to include production norms, enterprise withholding norms, profit payment norms, enterprise technical transformation norms, enterprise reserve strength development norms, spiritual civilization building norms, and product development and personnel training norms. (3) Contractors' contracting profits but not contracting losses are to be guarded against. Risk hypothecation contracting is to be instituted for all personnel, and a risk hypothecation fund system established, the amount of the fund being set on the basis of the size of the enterprise, the number of staff members and

workers, and the degree of risk. Losses to contracting enterprises resulting from poor administration and management should be reimbursed out of the risk hypothecation fund. Contracts should truly be responsible for both profits and losses.

(2) Active Practice of a Stock Share Cooperative System. Stock share cooperative systems have been tried out for many years. All jurisdictions have gained a certain amount of successful experience with them that should be promptly summarized and spread. When township and town enterprises institute stock share cooperative systems, they should not copy indiscriminately and apply wholesale the stock share system methods of some western countries. They should use them as an effective method for pooling funds and increasing staff member and worker cohesiveness, enabling a further linking of ownership rights and management rights. They should link the destiny of enterprises to the destiny of the broad masses of staff members and workers, share risks, share benefits, and cause staff members and workers to be concerned about the future of the enterprise.

(3) Bold Trials of Enterprise Mergers, Sales, or Transfers of Possession. Improving the economic environment and restructuring the economic order has brought the risk that some enterprises may have to close or halt production. In order that their existing productivity not be lost or damaged, and in order to cause township and town enterprises to advance toward socialized large scale production, depending on circumstances, some enterprises may be able to get out of a slump through merger, sale, or transfer of possession. Some enterprises may rely on the capital, technology and talent pool of other enterprises, themselves playing a subordinate role; some may become a workshop for a large plant; and some may turn themselves over to an enterprise in another system of ownership or one that is privately run. In short, the already created productivity should be valued and protected so that it continues to function for the benefit of society.

When township and town enterprises are vast, have numerous trades in them, and complex levels, their management level may be uneven and far from what it should be. Generally speaking, it is common for such enterprises not to be intensively managed. Therefore, firm attention to enterprise management, improving internal efficiency, and increasing ability to adapt to changes is an urgent matter.

(1) Skilled Personnel Are the Key in Building Enterprises. Township and town enterprises must give serious attention to skilled personnel, and take firm hold on the building of a "four support" corps, including administration, technology, accounting, and supply and marketing. It is worth noting here that that in the past township and town enterprises have emphasized management while neglecting administration. As time goes by, to continue in this way is clearly inappropriate.

While giving close attention to management, close attention must also be given administration. A well administered township and town enterprise can multiply its returns. Much more must be done in this regard in the future.

(2) Better Basic Work in Enterprise Administration.

Township and town enterprises should place improved enterprise basic administration work ahead of all else including standards, measurement, quota systems, information, and rules and regulations, basic education, and the building of plant teams and groups, placing better internal administration in a position where it is regarded as of life and death importance for the enterprise. They should accurately select specific tasks for implementation one after another on the basis of their own characteristics and circumstances. Enterprises who are already doing complete basic administration work should, as needs require, devote attention to administrative work in the fields of quality control, equipment control, financial control, materials control, cost accounting, and safety in production. Enterprises having requisite conditions should actively promote modern administration, actively applying modern administrative methods and techniques to raise the enterprise's administrative level to new heights.

(3) Efforts To Raise the Educational and Technical Level of All Staff Members and Workers. Training of all personnel can be done at different levels and through different means. Township and town enterprises can apply ranking standards used for staff members and workers in enterprises under ownership of the whole people, setting grades and technical positions, thereby linking staff member and worker efforts to study with economic benefits in order to stir staff members and workers enthusiasm for improving their educational and technical qualifications. In the future, all new staff members and workers should have to undergo training before being assigned to a position. Those staff members who have not been trained or who failed to pass tests should not be allowed to operate machinery.

(4) Proper Handling of the Correlation Between Township and Town Enterprises' Accumulation and Consumption.

As township and town enterprises develop, it is only normal that the wages of their staff members and workers should increase somewhat; however, mindless increases in staff member and worker wages and bonuses without regard for development of the enterprise, distributing all earnings until there is nothing left and failing to withhold accumulations for the enterprise is not normal. As township and town enterprises develop, assuming a modest amount of socially necessary expenses is also normal; however, when an overwhelming majority of the township and town enterprise's profits are spent without regard for the technical transformation and retention of sufficient developmental funds, this is also not normal. Annual per capita

wage increases for staff members and workers in township and town enterprises should be linked to the enterprise's economic returns, and should ordinarily be lower than the enterprise's rate of increase in profits and taxes.

(5) Greater Emphasis on the Political and Ideological Education of Staff Members and Workers.

A good job must be done in building spiritual civilization, turning every staff member and worker into a worker "possessed of ideals, morality, culture, and obedience to discipline," who loves socialism, and making township and town enterprises into socialist universities that train up a new generation rural industrial army.

6. Making the Most of Individual Advantages; Entering Into Wideranging Partnerships

In order to develop top flight industries and top flight products in every jurisdiction, steadily improve quality, expand production, and increase product coverage, township and town enterprise can enter into wideranging partnerships and organize new socialized and specialized production groups using premium quality products, hot-selling products, traditional products, and local specialty products as a means. First they can use the hot selling products of urban industrial enterprises as a turnkey, taking the initiative in diffusing products and spare parts from enterprises under ownership of the whole people into township and town enterprises, becoming their associated plant. Second, they can use premium products and hot-selling products of township and village enterprises as a turnkey, diffusing some spare parts and technology to village-operated enterprises, stock share cooperative enterprises, and individually operated enterprises for production in the formation of a production group. Third, they can use local specialties and traditional products as a turnkey in organizing specialized production of a single product by a single township (or village), providing pre-production and post-production services for the formation of a regional production group.

Geographical advantages may be used to form wide ranging partnerships and joint venture production with urban enterprises for the organization of industrial and agricultural partnerships on the basis of equality and mutual interest. These partnerships would not change their own system of ownership and subordination, or individual financial systems.

In order to insure permanent sources of raw and processed materials for township and town enterprises, enterprises needing raw materials can enter into all sorts of partnerships with raw and processed materials producing areas. They can use various means such as joint factory (or mine) operations, and compensation trade. Township and town enterprises should also take the initiative to enter into beneficial partnerships with institutions of higher education and scientific research units. They should make full use of the technical forces at institutions of higher education and in scientific research

units, providing them with experimental areas and carrying out intermediary production. In addition, township and town enterprises should also open to the outside world, actively conducting economic intercourse with foreign traders to increase their product export capabilities in order to produce more foreign exchange for the country.

In entering into partnerships, township and town enterprises must abide by the principles of equality, voluntary participation, and mutual benefit. Partnerships must complete certain legal procedures, and all partnership agreements signed must be abided by.

CONSTRUCTION

Production Capacity for Construction Viewed

HK0708094790 Beijing CEI Database in English
7 Aug 90

[Text] Beijing (CEI)—Following is a list showing the newly-added production capacity by capital construction in the first half of 1990, released by CSICSC [China Statistics Information Consultancy Service Center].

	Unit	1-6/89	1-6/90
coal	10,000 t	400	219
generating capacity	10,000 kw	130.1	152.1
cement	10,000 t	8	
chemical fiber	10,000 t		
refined sugar	10,000 t	0.29	1.3
newly-built railways	km	61.9	

Completed Construction State-Owned Projects Listed

HK0708095590 Beijing CEI Database in English
7 Aug 90

[Text] Beijing (CEI)—Following is a list showing capital construction projects completed by state-owned units in the first half of 1990, released by CSICSC [China Statistics Information Consultancy Service Center].

	unit	1-6/90	1-6/89
Total Investment	100 million yuan	466.30	442.22
Constructed	item	30,089	32,174
Completed	item	2,177	2,433
Area Constructed	10,000 sm.	12959.35	14557.87
Housing	10,000 sm.	4857.08	4877.18
Area Completed	10,000 sm.	880.91	1124.55
Housing	10,000 sm.	391.49	384.61

List of Capital Construction Investment by Sectors

HK0808112990 Beijing CEI Database in English
8 Aug 90

[Text] Beijing (CEI)—Following is a list of capital construction investment by sectors in the first half of 1990, released by CSICSC [China Statistics Information Consultancy Service Center]:

	(in 100 million yuan)	
Sectors	1-6/90	1-6/89
Farming, Forestry, Husbandry, Fishery and Water Conservancy	18.56	17.33
Industries	270.79	259.12
Geology, Construction	2.90	
Transport, Post, Telecom.	60.15	54.41
Commerce, Food, Storage	11.55	13.94
Real Estate and Public Utility Consultancy	26.48	25.72
Education, Public Health and Broadcasting	33.76	23.14
Science and Research	5.83	1.15
Finance and Insurance	3.12	3.70
Others	33.17	43.35

Capital Construction Investment Figures Viewed

HK0808113990 Beijing CEI Database in English
8 Aug 90

[Text] Beijing (CEI)—Following is a list of capital construction investment by usage and affiliation in the first half of 1990, released by CSICSC [China Statistics Information Consultancy Service Center]:

	(in 100 million yuan)	
	1-6/90	1-6/89
Total Investment by Affiliation	466.3	442.22
Central Project	262.16	255.73
Local Project by Usage	204.15	186.49
Productive Project	337.48	316.39
Nonproductive Proj.	128.82	125.83
of which: Housing	46.72	42.88

COMMERCE

Yangzi Refrigerator Plant Embraces Patent Law

90P30066 Beijing FAZHI RIBAO in Chinese
24 Jul 90, p1

[Text] The Yangzi Electricity Company's main refrigerator-producing plant has concentrated on implementing the Patent Law and since 1988 has successively reported five applications for new patents, including one for freon installation. Of these five, four have already been

inspected by the State Patent Bureau and granted patents. Initial inspection has already determined that the remaining application is eligible, and an announcement to this effect has been made. These few patents have already increased the enterprises' direct economic gains by 20 million yuan.

This plant has over 400 engineers and S&T personnel, accounting for 13 percent of its overall personnel. "Depending on S&T to establish the enterprise" was the underlying principle used in setting up the plant, and it has used a variety of formats to promote consideration of the patent law. Moreover, the plant has used its own experience in obtaining patents for creations and inventions as an example for its employees. It has eliminated the old concepts of "mystery surrounding technology patents" and "the inaccessibility of technology patents" and has thus stimulated employees inventiveness and creativity. A young worker, Li Mingchu, challenged the existing unreliable, labor-intensive method of transporting refrigerators. He invented a "lifter." Use of his invention requires a refitted forked pulley and an operator; it is able to do the work of 40 people. The invention guarantees good handling of refrigerators needing to be moved and significantly increases labor productivity. It also has a wide range of other applications for stacking and moving different kinds of containers. Recently, in an exceptional move, Li Mingchu was hired as a technician. His invention has already received a patent.

The plant has done a good job of supplying the necessary conditions in terms of funds, personnel, equipment, and so forth for guaranteeing employees' inventiveness and creativity. Employees' S&T achievements are first inspected by the enterprise's authorities and patent agents who, if they find the achievements worthy of patents, promptly apply for them. Achievements that receive patents are quickly engineered and put into production. Currently the enterprise's patent implementation rate is 100 percent. Implementing the patent law has already become a long-term task for the enterprise. At present, aside from assigning four workers to a newly organized "Trademark/Patent Section," the enterprise has also installed five patent workers with additional specialized duties at four subordinate plants, hired a patent agent, and formulated provisional "Administrative Guidelines for Patent Work" in accordance with State regulations.

The realization of patented technology has not only brought economic results to the Yangzi Electricity Company's main refrigerator plant but has also strengthened the market competitiveness of its refrigerators. During the first five months of 1990, while industrial enterprises in general suffered a production slump, this plant achieved a total output value of 260 million yuan, a 13 percent increase over the corresponding period in 1989. It also exported some refrigerators to Thailand, Burma, and other countries.

FOREIGN TRADE, INVESTMENT

Zhejiang Establishes Foreign Investment Zone in Qianjiang

90CE0338B Hangzhou ZHEJIANG RIBAO in Chinese
18 Jun 90 p 1

[Article in column entitled "Pick Up the Pace of Opening Up to the Outside World and Further Develop the Externally Oriented Economy" by reporter Yang Xinyuan (2799 2450 0337): "Hangzhou Picks Up the Pace of Reform and Opening Up"]

[Text] After much preparations, in-depth studies and investigations, and repeated comparisons and deliberations, a major project that bridges the centuries and affects Hangzhou's whole economic situation—the construction of the Qianjiang Foreign and Taiwanese Investment Zone—has finally been unveiled in Hangzhou on 16 June. At the Fifth Plenary Session of the Sixth City Party Committee, Wu Renyuan [0702 0088 3293], member of the provincial party committee's Standing Committee and secretary of Hangzhou's city party committee, pointed out the need to mobilize society's forces and enlist the concerted efforts of the regions, departments, and trades and industries to work side by side and quickly create a situation where everybody shows an interest in, and wants to contribute to, the investment zone.

The Qianjiang Foreign and Taiwanese Investment Zone will be located on the shores of Qiantangjiang. On the north shore will be the Xiasha and Binhai Districts; to the south will be the Jiangnan District. The zone will be built on two, north and south shores, and will spread out into multiple sites. In the near-term, the development will cover 14 square kilometers.

Hangzhou City is one of China's regional economic centers along the east coast. It is also the nation's key scenic, tourist city. In the 10 years since reform and opening up began, its economy has developed rapidly. The city's GVIAO [Gross Value of Industrial and Agricultural Output] ranks seventh among the nation's large- and medium-sized cities. But amid the urban economic development in recent years, the conflict between population growth and the lack of space for maneuvering has intensified. Over-crowded urban industries are pressing against the scenic West Lake tourist district and imperiling the area with pollution. The nearly saturated urban environment also limits the development of tourism. Establishing the Qianjiang Foreign and Taiwanese Investment Zone in Hangzhou will open up the city and make room for maneuvering to develop Hangzhou's economy and gradually shift the city's urban industries toward the southeast. Some older enterprises too will undergo technological transformation as they gradually move into the investment zone. This will be of strategic significance to the optimization of the pattern of Hangzhou's economic and social development, to the formation of a new growing point for Hangzhou's externally

oriented economy, and to the transformation of Hangzhou into a first-class, international scenic and tourist city.

Plans to develop Hangzhou's Qianjiang foreign and Taiwanese investment zone have been in the minds of provincial and city leaders for some time. Prominent leaders of Hangzhou's city party committee and city government led several comrades in charge of various departments to the sites in the investment zone to make on-site studies, collect first-hand information, and make repeated comparisons and deliberations. On 8 June, the provincial party committee received a report from the city party committee and city government and agreed to Hangzhou's Qianjiang Foreign and Taiwanese Investment Zone. The principle behind the construction of this investment zone is to do overall planning, make centralized arrangements, proceed in stages, and bring along other developments. The general pattern is to "build a nest to attract the birds," lease the land in lots, attract foreign investors, and use Taiwanese capital to develop complete projects.

Today, the first stage preparatory work is already underway. The city government has proposed a plan to build a class-II highway between Qingtaimen and the Xiasha District. Upon deliberation, the provincial transportation department has given its support. Hangzhou City's bureau of transportation has sent technicians to do the survey and planning. Forces will be gathered and an all-out effort will be made to follow the city government's unified plans on the "four connects"—connect roadway, power supply, communication system, and running water—to get the construction of individual sites started.

20 Biggest Foreign Trade Corporations in 1989

HK2307135590 Beijing CEI Database in English
23 Jul 90

[Text] Beijing (CEI)—Following is a list of volumes of exports and imports handled by China's 20 biggest foreign trade corporations in 1989.

	Total	Export	Import
(unit: million usd)			
1. China National Chemicals Import and Export Corp.	7587.47	3852.32	3735.15
2. China National Cereals, Oils and Foodstuffs Import and Export Corp.	5249.29	1671.23	3578.06
3. China National Metals and Minerals Import and Export Corp.	3903.96	236.51	3667.45
4. China National Textiles Import and Export Corp.	3678.27	2624.62	1053.65
5. China National Technical Import and Export Corp.	3052.24	24.88	3027.36
6. China National Machinery Import and Export Corp.	2334.95	294.50	1940.45
7. China National Silk Import and Export Corp.	1488.91	1327.70	161.21
8. China National Native Produce and Animal By-Products Import and Export Corp.	1444.31	826.84	617.47
9. China National Light Industrial Products Import and Export Corp.	1277.31	297.33	979.98
10. China Nonferrous Metals Import and Export Corp.	987.82	438.14	549.68
11. China National Arts and Crafts Import and Export Corp.	944.86	805.98	138.88
12. China Electronics Import and Export Corp.	829.99	396.57	433.42
13. China Metallurgical Import and Export Corp.	804.55	243.20	561.35
14. Shandong Chemicals Import and Export Corp.	749.30	731.61	17.69
15. China Artex (Holdings) Corporation	662.89	630.89	32.00
16. China National Coal Import and Export Corp.	647.97	559.80	88.17
17. Shanghai Foreign Trade Corp.	536.49	21.74	514.75
18. Shanghai Silk Import and Export Corp.	524.62	415.13	109.45
19. Shanghai Garment Import and Export Corp.	516.34	404.11	112.23
20. Guangdong Light Industrial Products Import and Export Corp.	502.09	400.32	101.77

Enforcement of Export Goods Quality

HK0208082790 Beijing CHINA DAILY in English
2 Aug 90 p 1

[By staff reporter Qi Yingpu]

[Text] State and provincial foreign trade leaders met in Beijing yesterday determined to enforce better quality in the country's export goods.

The four-day national meeting is expected to censure five exporters of shoddy goods for damaging China's reputation in some of its traditional foreign markets.

At the meeting, Zheng Tuobin, Minister of Foreign Economic Relations and Trade (Mofert), called on provincial foreign trade officials to introduce tougher quality inspections for export items.

As part of the efforts to improve the quality and quantity of exports, China has disbanded 1,300 poorly-performing foreign trade companies—27 percent of the nation's foreign trade companies, Zheng said.

"The interests of foreign firms should not be harmed," the Minister said, adding that existing contracts with the disbanded firms would be honoured.

"Quality is the passport that commodities must possess to enter international market," the Minister said. It was the key to the steady growth of exports badly needed for China's modernization and foreign debt repayment.

Zheng said China would face great difficulties in maintaining the export growth it achieved in the first half of this year.

Between January and June, national exports hit \$24.1 billion, 21.7 percent more than during the same period last year.

Zheng predicted that inflation, shortage of funds and raw materials would continue hit the production of export items.

Other problems hindering export expansion included Western economic sanctions, Eastern Europe's economic difficulties and growing international trade protectionism.

But Zheng disclosed that the country is planning to lower credit lending rates in the next few months, a move intended to aid export growth.

Other senior State officials at meeting pledged to improve the quality of exports and increase foreign exchange earnings.

Gan Ziyu, Vice Minister of the State Planning Commission, called on local planning departments to help ensure the supply of products for export to foreign trade companies.

Wang Zengjing, Vice Minister of the Textile Industry, told the meeting that his ministry has named 1990 as "quality year."

To stop the quality decline in some textiles, China's top foreign exchange earner, Wang said his ministry would strengthen its export licence system to ensure that only quality products go to foreign consumers.

Yu Zhen, Vice Minister of Light Industry, vowed to improve the packaging and quality of China's light industrial products so that their annual export value could reach a target of \$15 billion by 1995. The value for this year is expected to be \$10 billion.

Gu Yongjiang, the newly-promoted Mofert vice minister, warned that cheap, poor quality exports were "a suicide act" which wasted national resources and cut into foreign exchange reserves.

Gu suggested a system of rewards and penalties be established to encourage quality production. Producers of shoddy goods would be barred from receiving State preferential treatment and their staff bonuses would be limited to a low level.

One year of effort had seen the quality of China's exports improve remarkably, the vice minister said.

Quality inspections by local governments had led them to revoke some firms' production licences while fewer foreign business people had complained about quality problems.

ECONOMIC ZONES

Dalian Port Succeeds in Tax Revenues

SK0208040590 Shenyang LIAONING RIBAO in Chinese 5 Jul 90 p1

[Text] As of 1800 on 30 June, Dalian Port—our country's largest foreign trade port—handled 24.3 million tons of goods, of which 66.7 percent were goods for foreign export trade. The total amount of profit and tax revenues exceeded 100 million yuan. Thus, this port succeeded in realizing the goal of fulfilling more than half of the task and profit plan in half a year.

Hainan Province Approves New Development Zone

OW0308102190 Beijing XINHUA in English 0947 GMT 3 Aug 90

[Text] Haikou, August 3 (XINHUA)—The government of Hainan Province recently approved an overall program for the Qinglan Harbor development zone.

The new development zone will cover 18 sq km in Wenchang County. It will feature pollution-free processing industries and tourism.

In the first stage priority will be given to infrastructure construction and water resources prospecting.

Update on Three Shanghai Economic Development Zones

90CE0329A Shanghai JIEFANG RIBAO in Chinese 3 Jun 90 pp 1, 3

[Article by JIEFANG RIBAO reporter Xu Maochang (1776 5399 2490), WEN HUI BAO reporter Huang Jian (7806 0313), and XINMIN WANBAO reporter Dan Changjiang (0030 7022 3068): "The Following Three Shanghai Economic Development Zones (EDZ's) Are Being Built and Developed with Vigorous Momentum, Shaping up Quickly, Attracting Foreign Investment, Achieving Outstanding Economic Efficiency, and Gaining Broad and Attractive Prospects: The Minhang EDZ Continues To Hold the National Championship Among Coastal EDZs for Earning Foreign Exchange from Exports of Manufactured Goods; the Hongqiao

EDZ Has Become an International Trade Center Focused on Commodity Exhibitions and Hotels; the Caohejing EDZ Is Burgeoning Quickly as a High-Tech Industrial Complex with Over 60 Enterprises"]

[Text] Foreign businessmen who are being attracted by the news of the opening up and development of Pudong and have just arrived in Shanghai, will discover that Shanghai already has a fairly large and highly successful zone that has been opened up to the outside world. The outstanding achievements of the three EDZ's of Minhang, Hongqiao, and Caohejing, are adding to the attraction of Shanghai's takeoff in opening up to the outside world.

Public figures from abroad, who have recently come to Shanghai to study the development of Pudong and seen these three EDZ's in passing, have cried out in surprise as follows: Very little is known abroad about these great EDZ's that you already have, which fully rival the Tapu EDZ in Hong Kong and the Yulang Industrial Zone in Singapore. Shanghai is certainly too modest about its hidden treasures!

Building the three EDZ's of Minhang, Hongqiao, and Caohejing has been a key part of Shanghai's plans to speed up its reform and opening up to the outside world. Since the State Council approved their establishment in 1986 and 1988, these three EDZ's have developed rapidly and, in a few short years, have grown to an impressive size, created a fine investment climate, and achieved remarkable economic efficiency in many of their enterprises.

Shanghai's three EDZ's have been subordinate to the "chessboard" of Shanghai's overall development, and have displayed various characteristics. The Minhang Economic and Technical Development Zone, which was started first, took advantage of Minhang's existing industrial base to focus on increasing its exports of manufactured goods. A commanding momentum has been maintained in its upsurge of investment by foreign businessmen since 1986. Both its number of foreign-invested projects and amounts invested have almost doubled year after year in the last four years. It has signed agreements for 61 foreign-invested enterprises with 11 countries and regions, such as Hong Kong, Macao, the United States, Japan, West Germany, Australia, Canada, Singapore, Thailand, Switzerland, and Italy, as well as Taiwan Province, and put into production 41 enterprises with a cumulative investment by foreign businessmen of \$221 million. Over 82 percent of these foreign-invested enterprises export their products or have advanced technology, and ones, such as the World-wide Toy Company, the Zeguibao Pharmaceutical Company, the Mitsubishi Elevator Company, and the Qiangsheng Company, are all well-known transnational corporations. As the Minhang EDZ has focused on improving its administrative and service quality and done everything it could to enhance both its "soft" and "hard" investment climates, many of its enterprises have earned foreign exchange from exports and achieved

generally good economic efficiency in their first year of operation. Of the 41 enterprises that have been put into production, four, such as "Mitsubishi," "Five Continent," "Shenming," and "Shenmei," have become large enterprises which have earned more than \$5 million in foreign exchange, and nine have earned more than \$1 million in foreign exchange. Since 1986, the Minhang EDZ's foreign-invested enterprises have doubled their gross output value and economic efficiency year after year, the absolute amount of foreign exchange that they earn has topped the list of the 14 EDZ's throughout the PRC for many years, and the Minhang EDZ holds the "championship for earning foreign exchange" among the coastal EDZ's.

The Hongqiao Economic and Technical Development Zone, which occupies 65.2 hectares, is currently the smallest EDZ in the PRC. It is a foreign economic relations and trade center focused on commodity exhibition halls and multi-story office buildings, apartment buildings, and hotels for international trade. These distinctive characteristics make it especially attractive to foreign businessmen, and the \$620 million in contracted investment that it has attracted since its establishment was approved, has turned it into the coastal development zone which has attracted the most foreign investment. Another distinct feature of the Hongqiao EDZ is that it was the first one in Shanghai to put into effect "compensated transfer of land use rights." The Sun Enterprise Company, Ltd., Japan has acquired 50 years of land use rights to 12,900 sq m, and the Puhao Investment Company, Ltd., Hong Kong, has acquired 50 years of land use rights to 3,600 sq m, on which they broke ground and started construction of the Taiyang Square building and the Xietai Center building in March and April, respectively, of 1990. Hongqiao's area of multi-story buildings has reached 630,000 sq m, or about 60 percent of its development plans. It is particularly worth noting that the biggest real estate company in the United States, the Crow International Group, Inc., has signed a letter of intent, and is going to sign a further protocol in June 1990, in preparation for building in Hongqiao a large, modern, wholly foreign-owned commodity exhibition center for international trade. The implementation of this project will fully utilize the hotel and office building facilities of Shanghai and the Hongqiao EDZ, and vigorously promote the development of Shanghai's externally-oriented economy.

The Caohejing High-Tech Development Zone is the only high-tech development zone of the coastal economic and technical development zones approved by the State Council. Certain famous high-tech enterprises from abroad have been attracted by Caohejing's broad development prospects and have come to invest here. The 3M Company, the Ruikan Cable Accessories Company, Ltd., the Foxboro Company, and the AT&T Communications Equipment Company, Ltd., from the United States, the Phillips Company from Holland, the Liquified Air Company, Ltd., from France, the Beyer Company from Belgium, and the Daiji Data Processing Company from

Japan, along with enterprises from other countries and regions, such as Hong Kong and Australia, have set up 19 high-tech, wholly foreign-owned enterprises or Sino-foreign joint ventures in Caohejing with an investment of \$210 million. High-tech enterprises run by Shanghai and various Central Government ministries, such as the Shanghai Fiber Optic Communications Engineering Company, the Ministry of Machine Building and Electronics' Special Electrical Engineering Test Center, and the Ministry of Aerospace Industry's Electronics Center, have all gone into operation in Caohejing. There are now over 60 enterprises throughout the EDZ engaged in various high-tech fields, such as microelectronics, aerospace, fiber optic communications, bioengineering, computers, and new materials. A burgeoning high-tech industrial complex is gradually being formed here.

Very rapid growth, foreign investment, and production efficiency are common features of Shanghai's three EDZ's. They are a strong indication that Shanghai has achieved remarkable success in improving its investment climate, and has already formed a good one. The complete drainage, sewage, water supply, gas, telecommunications lines, and facilities for EDZ service, such as power substations, program-controlled telephones, roads, post offices, drainage pumping stations, and sewage treatment plants, which the three EDZ's laid and built at top speed when they were first founded, won them good "hard" investment climates. After the municipal government's construction had begun to take shape, each EDZ paid special attention to improving its "soft" investment climate. The offices or regular administrative systems that were set up in the three EDZ's by administrative and service organs, such as customs, commercial inspection, tax bureaus, insurance agencies, the postal service, and banks, as well as public utilities, such as water, power, and coal, have enabled foreign businessmen to go through various formalities without having to leave the zones, save much time, and raise their administrative efficiency. In addition to the various preferential policies announced by the government of the PRC for economic and technical development zones, the preferential provisions on foreign investment in the three Shanghai EDZs that were announced by the municipal government, have been of even more benefit to foreign investors there. Their efficient administration, quality service, and preferential policies, have given the three Shanghai SEZ's a powerful magnetism in attracting foreign businessmen.

Shanghai Mayor Zhu Rongji announced recently that foreign businessmen who invest in the Minhang, Hongqiao, and Caohejing EDZ's will enjoy the same preferences as those who invest in Pudong. This decision will be bound to increase the magnetism of the SEZ's in attracting more foreign investment, and improve their prospects.

Shenzhen May Allow Foreigners in Stock Exchange

HK0108033990 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 1 Aug 90 p 1

[By Cheung Lai-kuen]

[Text] Shenzhen may allow foreign brokers and foreign investors to operate in China's first effective stock exchange to be set up this year, according to vice-mayor Li Guangzhen.

But municipal officials said in Shenzhen yesterday that establishment of the exchange would be done cautiously and progressively, especially after the fledgling stock market faced its first scandal—an epidemic of outsider trading in May.

Officials from the municipality and Shenzhen Branch of the People's Bank of China said more local companies would be allowed to list, a central clearing house for securities would be set up and more stock trading companies operate before the exchange opened.

Mr Li said after a seminar in Shenzhen that illegal speculation, which had forced up stock prices and aroused concern among China's economic planners, would not affect plans for the exchange.

Shenzhen mayor Zheng Liangyu said the stock market had completely recovered from its rash of illegal speculation and was beginning to develop at a steady pace.

The municipality would gradually strengthen supervision of the stock market, because trading was still a novelty to most people in China.

The Shenzhen stock market experienced its worst bout of outsider trading in the first four months of the year, when traders in Shenzhen began engineering the fledgling stock market.

They are reported to have swapped shares valued at nearly \$15 million, or roughly double the total value of all stock trading on the entire mainland.

Most of the transactions are said to have been on the black market. The resulting bull market inflated the share prices of leading Shenzhen enterprises.

The Shenzhen authorities were constrained to enforce regulations to control trading, which included a ceiling for stock prices.

Mr Li attributed the problems to a lack of experience.

"The sharp increase in prices was mainly because few stocks were listed for trading," he said. "People in Shenzhen were still unsure of the concept of stock investments."

Currently, only five stocks are listed on the stock market with the total amount of the issued shares about 1 billion yuan (about HK\$1.67 billion). A number of companies

in the zone have applied for listing and are being screened by municipal officials.

Mr Li said the companies included state-owned and foreign-funded enterprises whose businesses ranged from property development to manufacturing.

He declined to disclose the number of companies which had applied for listing but said two or three firms would be listed in the next few months.

Shenzhen's miniature stock exchange opened two years ago. Here and in other selected cities the authorities allowed a few companies to issue stock in a bid to raise investment capital and help absorb excess savings.

Although the authorities have allowed secondary markets to develop, they have been trying to discourage the wild speculation on Shenzhen's Red Lychee Avenue.

The authorities believe Shenzhen's new measures to curb illegal trading will succeed in putting an end to the wild swings the market experienced in May.

Shenzhen Speeding Development of Futian District

OW0108084090 Beijing XINHUA in English
0714 GMT 1 Aug 90

[Text] Shenzhen, August 1 (XINHUA)—Shenzhen is accelerating the economic development of its Futian District—the political, economic and cultural center of the city—to create better conditions for overseas investors.

The Futian District covers 78.8 sq km and has a population of 300,000. The district has three industrial zones, and a color television industrial town, a bonded industrial zone and an industrial village are under construction.

The city government has decided that Shenzhen will shift its emphasis from development of the Luohu Zone to Futian in the 1990's.

Thanks to rapid development in recent years, Futian has 110 industrial enterprises, covering the electronics, machine-building, garment, building materials, chemical and light industries. In 1989 its industrial output value reached 200 million yuan, doubling that in 1988, and its exports came to eight million U.S. dollars, four times that of the previous year.

District officials said that the first phase of the Shazhui Industrial Village will provide 360,000 sq m of factory space and plants with an annual capacity of three million TV tubes and screens will go into production in the color TV city soon.

The district is also building a power plant, a commercial network and four market places, while plans have been drawn up to construct the second phase of the Shanzui Industrial Village, as well as transport, storage and other service facilities.

POPULATION

Impact of 'Floating Population,' Surplus Labor

90CM0227A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 5, 10 May 90 pp 36-38

[Article by Liu Qian (0491 5409): "Laborers in the Guangdong Region"]

[Text] In the Year of the Snake [1989], a million laborers wandered about Guangdong and Guangxi provinces as in times past; in the beginning of the Year of the Horse [1990], rumbling trains again carried load after load of laborers south to Guangdong to "brave the world."

As February began, an average of more than 10,000 laborers from all over entered Guangzhou by train each day. On 4 February, in addition to regular passenger service, the Guangzhou Railroad Bureau started running three or four boxcar trains each day in order to carry an extra 10,000 southward-bound laborers into Guangzhou daily, but it is still difficult to relieve the pressure. According to reports, stations all along the Beijing-Guangzhou railroad line are seriously overcrowded with laborers. In the Wuhan station alone, there are 50,000 to 60,000 laborers. There are at least 1,000 and as many as 10,000 laborers in the Zhengzhou, Changsha, Zhuzhou, Hengyang, and Shaoguan stations. Suddenly the "tide of laborers" has become a real issue.

Why a Million Laborers Come

Guangzhou's station was bursting with people. There were clusters of laborers from outside the province hanging around, suitcases in hand; some sat, and others slept. The dense crowd filled the square and every spot along the road. The square in front of the station, formerly busy but orderly, had suddenly become a labor market, bustling with people. A tired-looking youth from Sichuan province told this reporter that he and his brother had come south to Guangzhou over half a month ago, and they had not seen even the trace of job. He had no alternative but to send his younger brother home to wait while he looked for work. He also said that his village only had a patch of land for each person and that they were all cultivated; it was a hardship for extra people to remain at home. As he spoke of the difficulties of working away from home, a young man standing next to him indignantly [stated], "Formerly the newspapers said that for farming people to venture out into the world was to 'reform one's thinking,' but now we have become drifters who annoy people, so I no longer care about that. I journeyed south to earn a living because I would not steal, and so that my family would at least have one less mouth to feed."

As [this reporter] has discovered, in recent years Sichuan Province's rural labor force has progressively increased by more than a million people each year. In addition, township enterprises "retired" several hundred thousand workers in 1989, so that the province's surplus rural

labor has risen to more than 15 million people. Approximately 20 million laborers entered agriculture, forestry, animal husbandry, sideline production, and fishery last year, which was an increase of two million [laborers] compared with 1988. Also, since the winter began, six million laborers entered into construction of water conservancy works, which was an increase of 100 percent compared with 1988. However, because of limited land resources and fierce weather conditions, it was difficult to use all this excess labor in water conservancy works construction. A strong desire to find work, as well as the higher wages earned by some laborers who had left home, spurred more and more young villagers in the prime of life to join the ranks of this "Sichuan Army" and head for economically-developed coastal regions like Guangdong and Fujian.

Because of a lack of organizational control, the wanderings of these laborers outside [their provinces] are extraordinarily free and undirected. Because they have no permanent housing and their diets are irregular, quite a few of them have become sick or injured, and a few desperate people have even resorted to crime. A few others, relying on good luck, contacts, or skill, are able to find admirably good unskilled work and so be glad of the opportunity. In the Youli Toy Factory in Fanyu county, a pretty young woman from Hunan told this reporter, "You shouldn't write that we are miserable; I may be suffering hardships here, but there is also a lot of money to be made. Really, we who leave our homes to work are like you college students who go abroad: we are going out to explore and see the world."

Wealth and poverty, development and backwardness: they are as opposite as the poles of a magnet. As a result many youths in poor districts do not hesitate to leave their homes and jobs, and will suffer many hardships to come to developed areas to seek their fortune. How can we blame them for this?

Shock Waves Caused by the Tide of Laborers

However, there are many people, especially those urban dwellers whose everyday lives are affected by the "tide of laborers," who reproach the laborers for not "being good and staying home," and who reproach the government for not "controlling these outsiders who are wandering everywhere." There are even those who exhort the government to "send laborers from outside the province home."

The annual "tide of laborers" not only causes headaches for the railroad authorities, but brings quite a few social problems as well. The large influx of population from outside the province in recent years has caused increasing social chaos in Guangdong. Last year, 78.2 percent of the crimes in Shenzhen were committed by people from outside the province. In Baoan County the share of crimes [committed by] people from outside the province increased from 71.7 percent in 1988 to 82 percent.

According to estimates by concerned departments in Guangzhou, if all laborers from outside the province are included, the current floating population in the city averages 1.1 to 1.3 million, or 32 to 38 percent of the resident population. Because of this, Guangzhou needs an additional supply of 650,000 kilowatt-hours of electricity, 130,000 tons of water, and over 1,000 tons of grain, vegetables, and non-staple foods each day; it also provides 600,000 places to sleep. Of course, Guangdong is a large, grain-deficient province, and now the annual consumption of grain at the negotiated price by outsiders, mainly the outside labor force, has reached approximately 750 million kilograms.

Faced with this huge "tide of laborers" and "upsurge in the floating population," Guangdong's urban administrative offices are all declaring that they are overwhelmed. Last year, the Guangdong provincial government had no choice but to require all enterprises that solicit laborers from elsewhere to first obtain governmental permission. Concerned departments in each district have also begun a step-by-step process of organizing and registering outside laborers. As soon as this process began, it not only met with resistance from outside laborers, but also encountered unanimous opposition from managers of enterprises [engaged in] "the three forms of import processing and compensation trade" (receiving raw materials, parts, and products for processing, and compensation trade). They said, "if we wait for a permit from the provincial government, our foreign orders will be snatched up by others. How can an export-oriented enterprise keep going this way?"

The "tide of laborers" has become a serious social problem. In the endless debate over this, criticism of workers from outside the province is often heard. However many people, especially citizens of Guangdong, seem to intentionally or unintentionally ignore this kind of issue.

Unbeatable Unskilled Workers

Let us first examine the kind of work these unskilled workers perform.

In recent years, Guangdong's enterprises engaged in the "three forms of import processing and compensation trade" have been subject to the conditions of the international market; their labor usage is determined by the number of orders placed by foreign businesses. Normally, the fixed labor force is too large, and factories cannot maintain it during slack production periods. Most enterprises engaged in the "three forms of import processing and compensation trade" rely on outside laborers to "come when beckoned and leave when dismissed." Enterprises engaged in the "three forms of import processing and compensation trade" process imported materials, and the delivery schedules for their finished products are tight. In order to stay on schedule, enterprise employees work shifts of 10 hours or more. At one handbag factory in Huiyang, during the busy periods workers work overtime 29 evenings per month, for three

hours per night; four nights a month they stay all night, almost working a 24-hour shift. There are also factories where the lunch break is only 20 minutes long. Currently there are many laborers from outside the province doing this kind of hard work in Guangdong.

Let us now examine the riches being earned by these unskilled workers.

According to statistics, labor from outside creates an annual industrial output worth 548 million renminbi and creates \$37,440 in foreign exchange earnings for the city of Dongwan. Last year outside labor working in Fanyu's second light industry created industrial output worth 400 million renminbi. From another perspective, if every outside laborer spends 70 renminbi per month, the total expenditures of outside laborers in Dongwan would be more than 200 million renminbi per year, contributing to the growth of the area's tertiary industries.

An official of the Dongwan Municipal Bureau of Labor said that the hard work of outside laborers has brought great wealth to Guangdong and has resulted in tangible rewards for the laborers. Last year alone, laborers from other parts of the country sent over 100 million renminbi in postal money orders from Dongwan. At the same time, the managerial experience, modern technology, and information on reform and opening up of these open coastal areas are continuously spreading into the closed, backward inner territories with the aid of these unskilled workers. In the past few years, quite a few unskilled workers have learned skills and accumulated capital in Guangdong, then returned home to open stores and run factories, becoming the leaders in developing their districts' economies and building fortunes for themselves.

What Should Be Done About It?

Faced with the turbulence of the "tide of laborers," economists and theorists have been doing some thinking. In response to the call to "send laborers home," one specialist researching the disposition of labor resources said, "If one million 'unskilled workers' in Guangdong were actually rounded up and sent home, it is hard to imagine what would happen to the enterprises [engaged in] the 'three forms of import processing and compensation trade' along the Guangzhou-Shenzhen, Guangzhou-Foshan, and Guangzhou-Zhuhai lines which rely on 'concentrated labor.'" In reality, the phenomenon of surplus rural labor drifting into the cities is an unavoidable problem that accompanies the process of national and regional industrialization and modernization. After 10 years of reform and opening up, there is no force which can keep this enormous surplus rural labor force shackled to their ancestral lands.

Then how should the problem of the "tide of laborers" be finally resolved? This reporter asked the Guangdong Bureau of Labor. The official in charge stated that it was not possible to round up all outside laborers and send them home, [but] they obviously cannot simply ignore the situation either. Under the current circumstances, we

can only put a lot of effort into organizing and managing the labor force by drawing support from the macroclimate of improvement and rectification and deepening reform, so that a chaotic situation like last year's cannot recur. This official believes that, although this year's "tide of laborers" is quite large, it differs from last year's in three major ways. First, most of this year's laborers have leaders and goals. Second, there are more older laborers and fewer younger ones, and those who have come [to Guangdong] previously have become integrated. Third, most of the laborers are returning to honor labor contracts from the previous year. Some county level departments in other provinces have started sending specialists to organize the laborers and to sign contracts in Guangdong. Most laborers who are currently wandering around Guangdong are "stragglers from a disbanded army."

In Fanyu, this reporter met Lao Luo [5071 5012], a labor leader from Jingan County in Guizhou. He explained that two years ago Jingan County, which is located in a poor, mountainous region of Guizhou, started trying to organize and send out laborers. Now this has become an important way for the region to escape poverty. They send over 10,000 youthful laborers to Guangdong annually; over 1,000 come to Fanyu County alone. When a great number of capital construction projects are halted, slowed down, or cancelled, they immediately switch to other work, such as road construction, bridge repair, land reclamation, handicrafts, and mining. Thus, a slowdown in basic construction has little effect on Jingan County's export of laborers.

According to Lao Luo, before this "Guizhou Army" goes forth they undergo rigorous, short-term training at the local Labor Bureau, including solid training in technology and management. In Fanyu, four cadres supervise more than 1,000 laborers from Jingan County; not only do they have regular classes for workers, they also engage in some useful activities. They started a small newspaper, LAODONG BAO [0525 0520 1032], which often has articles praising good people and good deeds and regularly selects outstanding workers. Lao Luo said that currently there are no laborers from Jingan County drifting around Guangdong, and many factories welcome their "Guizhou Army." It appears that this kind of organized export of labor is quite effective.

China has always been considered the country that most closely manages its households. However, there have been major changes in the wake of reform and opening up. Discontinued use of some coupon tickets for purchasing food and everyday items and some looser management have caused many difficulties in managing the outside population, including laborers. In response to this situation, comrades in Guangdong's public security departments have suggested that appropriate departments of the national government should enact regulations to control the floating population as soon as possible. Only then will all public security departments have a foundation upon which they [can] formulate regulations to manage the floating population.

It is reported that some of the workers from other provinces who have not found work have been drifting successively northward. The "tide of laborers" has also started moving in this direction. However, next year at this time, will the "tide of laborers" have returned?

AGRICULTURE

End to Grain Business Losses Sought in Heilongjiang

90CE0257A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 5, 20 May 90 pp 20-27]

[Article by Wu Yunbo (0702 0061 3134), Zhou Wenbao (0719 2494 0202), Zhang Chengyuan (1728 2110 0337), Liu Hang (0491 5300) and Xing Wei (6717 0251), Heilongjiang Provincial Government Rural Development Research Center: "Study of Remedies To Reduce Grain Business Losses in Heilongjiang Province"]

[Text] 1. Basic Situation Concerning Grain Business Losses and Subsidies

In Heilongjiang Province, the grain system is responsible for the grain business from purchase to storage, to shipment, to processing, and on to marketing. Prior to 1984, both purchases and sales were a state monopoly. After 1985, the system was changed to fixed contract procurement and a "double track system" of both parity price and negotiated price sales. By the end of 1988, the number of independently accounting units in the grain system throughout the province totaled 2,228 including 528 granaries, 243 processing plants, 110 livestock feed plants, 66 shipping enterprises, 116 negotiated price enterprises, 1,165 grain shops, and 24 other enterprises. Permanent staff members and workers numbered 180,000, and the whole system had fixed assets with a net value of 1.586 billion yuan.

Currently, losses and subsidies in the grain business are of three kinds: First is grain enterprise losses, meaning the losses after offsetting profits against all the various expenses that grain enterprises incur in the purchase, marketing, shipping processing, and storing of grain. Second is inversion subsidies. By this is meant price subsidies that the state pays on grain department sales of grain and edible oil. These were instituted after the state raised the prices it pays for grain and oil, but did not correspondingly increase sale prices so as to protect the consumers' interests. Third is purchase price subsidies. From 1979 through 1983, they were an added price paid for excess procurement (the 25 percent added price). In 1984, the added price was changed to a proportional added price depending on the kind of grain, such as the "inverse 3:7 ratio" [purchase price calculated according to 30 percent of the state purchase price and 70 percent of the excess purchase price] for wheat, and the "inverse 2:8 ratio" for paddy. These increased procurement expenditures are subsidized by the state.

Analysis of grain business losses and subsidies during the past several years shows the following several marked characteristics:

1. **Large Loss and Subsidy Figures.** The province's grain business losses and subsidies for the period 1984 through 1988 totaled 7.99 billion yuan (including enterprise losses of 3.123 billion yuan, price rise subsidies of 1.745 billion yuan, and added procurement price subsidies of 2.612 billion yuan) in an average 1.498 billion yuan average annual increase. In 1988, the figure reached 1.84 billion yuan (including enterprise losses of 765 million yuan, price rise subsidies of 429 million yuan, and added procurement price subsidies of 646 million yuan). This equaled one-quarter of total provincial government revenues for the year. It averaged 125 yuan per capita of city and town population throughout the province, and it was 8.6 percent higher than the average for the country as a whole.

2. **Widespread Losses.** After delegation of authority over the grain financial system, and payment of subsidies in the contracting of fixed amounts, an overwhelming majority of the province's 14 prefectures and municipalities, and 69 counties (or cities) showed increased losses year after year, only a very small number not showing increased losses.

3. **Rapid Increase in Both Losses and Subsidies.** During the 10 years from 1979 through 1988, grain enterprise losses in the province increased from 369 million yuan to 765 million yuan, up 396 million yuan in a 1.07-fold increase for an average 7.65 percent annual increase. During the last five years, in particular, the increase in losses was much greater than during the first five years.

The year-by-year increase in grain business losses and subsidies caused numerous problems in the operation of the province's national economy and grain economy.

1. **Increasingly Heavy Financial Burden.** Statistics show a provincial and municipal government financial burden totaling 716.7 million yuan resulting from grain business losses and price rise subsidies for the five year period 1984 through 1988, or an average annual 143.34 million yuan. Subsidies increased 310.9 million yuan between 1984 and 1988 in an annual average 3.3-fold increase.

2. **Grain Enterprises Face a Predicament.** Despite the substantial achievements from the large amount of work performed in recent years to increase grain enterprises' earnings and reduce their losses, profits reaching 428 million yuan in 1988 in a 630,000 yuan increase over 1987, and a 182 million yuan increase over 1985, with 216 million yuan of the profits being used to offset losses; nevertheless, because of the steady occurrence and increase in factors causing loss increases, losses mounted instead of declining, and enterprises carried a staggering burden.

Poor business conditions, a shortage of storage capacity, equipment in bad repair and ready to be scrapped, and backward storage conditions. The province has a storage

capacity of only 12.2 billion jin, which includes an unusable 2 billion jin of tuyuan [0960 0954] storage, and 1.7 billion jin of storage in houses badly in need of repair, leaving a usable storage capacity of only 8.5 billion jin. However, annual procurement, including grain purchased at negotiated prices, runs between 14 and 15 billion jin, so between 6 and 7 billion jin is stored in the open air each year. Nationwide, the ratio between grain and storage is 1:2, but in Heilongjiang Province, it is 1:0.7. This seriously impairs normal grain and edible oil supply.

Bad debts and large amounts of capital owing for long periods of time. As of the end of 1988, a total of 1.23 billion yuan of grain system working capital was owing or diverted to other purposes for long periods because of bad debts and other reasons. This was equal to 66.1 percent of the net worth of grain enterprises' fixed assets, 14.08 percent of all enterprise working capital, and 17.3 percent of bank loans as of the end of the year. During the past five years, the amount of grain enterprise working capital owing or diverted to other purposes increased by an average 150 million yuan annually. The ever increasing amount of siphoned off stagnant capital has become not only a heavy burden for enterprise development, but interest also has to be paid on it. In addition, there are interest penalties, and the doubling of penalties at a prevailing .84 percent interest rate for a total annual 20.16 percent interest payment. This amounts to an annual nearly 200 million yuan in interest. If this situation is not handled promptly, in as little as two to three and no more than three to five years, there will not be enough capital in the entire grain system to offset debts.

Reasons for increased payments are numerous, and they will make continuing the grain business difficult. First, because of a rise in bank interest rates, interest payments for 1989 reached 500 million yuan requiring payment of 235 million yuan more than in 1988. Second was an increase in grain procurement prices, which increased an average 18 percent and will mean a 100 million yuan increase in price subsidies. Third, price rises mean a rise in prices of materials needed in the grain business, and an increase in operating costs. Fourth the possibility that an increase in the amount of state purchases at negotiated prices to make up for parity price shortfalls caused by the fixed contract procurement loss rate also adds to government financial burdens.

2. Every Possible Means To Lower the Fixed Grain Contract Procurement Quota Loss Rate

In the prevailing grain financial system, the central government sets fixed procurement, marketing, shipping, and revenue and expenditure quotas for provinces, municipalities, and autonomous regions. It explicitly provides that "that portion of fixed contract grain procurement quotas that local jurisdictions cannot fulfill is to be augmented through the purchase of grain at negotiated prices. When the negotiated procurement price is high, local jurisdictions are to use their own money to

make up the amount in excess of the proportional price." This means that the extent to which fixed grain contract procurement quotas are fulfilled directly affects the provincial treasury; therefore, every means must be used to improve to the maximum the extent to which contracts are honored, which means reducing the loss rate from grain fixed procurement contracts in order to lighten the burden on the provincial treasury. Statistics show a 25.9 percent average annual loss rate on grain contracts during the four-year period 1985 to 1988. This included a 45 percent contract loss rate for the farm administrative general bureau.

Numerous reasons account for a high fixed grain contract loss rate, chief of which are as follows:

1) *Signing of Fixed Procurement Contracts by Households Impairs Sales by Bumper Crop Households to Skimpy Crop Households.* Current policies provide that grain departments are to sign fixed grain procurement contracts with individual households. Practice shows, however, that the fewer the number of units signing contracts, the less room for maneuver in making adjustments and the greater the loss rate. Under the prevailing price system, peasant households in bumper harvest areas (or bumper harvest households in a single township or village) generally are unwilling to sell more grain at a low price after they fulfill their contract quotas to make up for households who had a skimpy harvest. (Although the price is higher than the contract price, it is still lower than the market price). Consequently, the contract loss rate in disaster areas (skimpy harvest households) is high.

2) *A Large Differential Between List and Market Price Makes Peasants Unwilling To Sell Grain to the State.*

3) *Reduced Output From Natural Disasters Hurts Contract Fulfillment.* Ours is a vast province with diverse climatic conditions in which the ability to fight natural disasters is weak. For several years, natural disasters have been frequent. Some areas have been hard hit, the area having no output or a reduced output amounting to a substantial percentage of farmland each year. Exceptionally severe natural disasters throughout the province in 1985 produced a 31 percent contract loss rate. Even though the province as a whole brought in a bumper harvest, some areas were disaster stricken. Despite a 35 billion jin gross output in 1988, only 7.5 billion jin of fixed grain procurement quotas were fulfilled. Contract losses amounted to 3.6 billion jin for a 25.9 percent contract loss rate.

4) *Fairly Heavy Fixed Procurement Quotas Worsen Contract Fulfillment Difficulties.* The grain contract procurement quota that the central government has assigned the province is 9.09 billion jin of trade grain, which is nearly 10 percent of the national fixed procurement quota, putting Heilongjiang Province in first place nationally. The national fixed procurement quota is 66 jin per mu, but in Heilongjiang, it is 100 jin.

5) *Inequitable Financial and Administrative System Throttles Local Jurisdictions' Interest in Grain.* The fact that the more grain farmed the greater the losses is bound to impair local jurisdictions' interest in growing grain, making fulfillment of fixed procurement contract quotas increasingly difficult.

6) *State Farms' Consecutive Year Failure To Fulfill Fixed Procurement Quotas Increases the Contract Loss Rate.*

The following remedies must be taken now to lower the grain contract procurement loss rate and assure full fulfillment of procurement quotas:

1) *Improvement and Perfection of Procurement Contract Signing System.* This involves assigning fixed grain procurement quotas by each level of government, and contracting responsibility for their fulfillment with individual villages, the villages themselves ultimately assigning fixed procurement quotas to each household. No longer will grain departments and peasant households sign direct contracts with each other. This allows quite a bit of leeway in regulating the honoring of contracts and avoids the problem of some peasants being unable to honor contracts because of disasters. After instituting the contracting of procurement, marketing, and shipments, and a system of fixed quotas for revenues and expenditures, contracts must be adhered to and contracting policies strictly honored. City and country finance departments are to be fully responsible for that portion of increased expenditures resulting from failure to procure sufficient grain or sell too much grain; and the surplus resulting from procuring too much and selling less is to revert entirely to the local government for disposition. In order to insure fulfillment of fixed procurement quotas, prefectures (or cities) and counties are to be allowed to add a certain insurance coefficient when issuing quotas. They must set it on the basis of the region's normal year contract loss rate.

2) *Townships and Villages To Strive to Institute a Method Whereby "Industry Augments Grain, and Sideline Occupations Support Grain."* When a shortfall occurs in fixed grain procurement quotas as a result of disasters, all townships and villages may designate a portion of income from industrial sideline occupations to be used for the purchase of negotiated price grain to make up for the procurement loss rate.

3) *Actions Are To Be Taken and Efforts Made To Fulfill State Farm Fixed Grain Procurement Quotas.*

4) *All Preferential Policies To Be Linked Directly to Fixed Procurement Quotas To Stir Peasant Interest in Selling Grain to the State.* Pre-purchase down payment discount money may be added to the grain price as a subsidy not included in the price to be settled at the time that the grain is sold to the state. Banks may lend pre-purchase down payment funds directly to peasants for the purpose of helping peasants develop grain production. The province is to have at its disposal a certain quantity of the means of agricultural production to use in exchange for the purchase from peasants of parity price grain after

fixed procurement quotas have been fulfilled in bumper harvest areas. (For example, supply and marketing cooperatives may designate a portion of chemical fertilizer for the provincial grain bureau).

5) *Close Linking of Increased State Investment in Agriculture to Increased Fixed Grain Procurement Quotas.* When, for example, state investment in the transformation of dryland fields to wetland fields should be linked to increased fixed paddy procurement, and investment in the transformation of low and medium producing fields should be linked to increased fixed grain procurement, etc. In this way, not only will investment in agriculture be able to advance increases in production, but it will also play a role in helping assure fulfillment of the province's fixed grain procurement quotas.

6) *Greater Administrative Intervention in Grain Contract Fixed Procurement Work.* During the grain procurement period, governments at all levels should concentrate leaders, concentrate energies, and concentrate time on giving early attention to grain procurement with the same vigor they apply to government financial revenues. They should insure availability of funds for grain procurement, meeting procurement needs without the use of I.O.U.'s. During the grain procurement period, macro-control should be increased and grain markets controlled to create a fine environment for procurement. Pending contract fulfillment, no markets in a county may be opened, and pending fulfillment of the province's quotas, no grain may leave the province.

3. Step-by-Step Reduction of Parity Price Grain Sales

1) *Control and Contraction of Sales of Grain Rations For Strenuous Labor.* A total of 8 million people in Heilongjiang Province eat grain rations provided for strenuous labor, 5 million of them people who do physical labor in enterprises who are subsidized 35 million yuan annually. Another 3 million do mental labor. These are mostly students in colleges, vocational secondary schools, and senior and junior middle school for whom the subsidy costs 17.5 million yuan annually. The supplemental amount of grain provided those doing mental labor is 7 jin per person requiring an annual 6 to 7 yuan subsidy per capita. A more liberal amount could be given at a suitable time without producing an inordinate effect on either the price index or family burdens. The increase could be at two levels, one level for senior and junior middle school students, and another for college and secondary vocational school students, the living allowance provided college and secondary vocational school students being borne jointly by the state and the students' families. These students would receive more first. The living allowances of senior and middle school students would be borne by their families, and they would receive a greater amount second. The supplemental grain provided physical laborers should also be at several levels. One is to increase the ration first for staff members and workers in enterprises under direct central government jurisdiction, such as in oilfields, coal mining

and forest areas, where the ration can be increased once the time is ripe. Second is state-owned enterprises directly under provincial jurisdiction, which must be handled on a case-by-case basis. Enterprises having a fairly strong foundation and have made profits for a long period of time may be treated the same as enterprises under direct central government jurisdiction. For money losing enterprises, more liberal rations should be given more slowly or not at all. Third is collective enterprises in the province, which should, in principle, receive a more liberal ration year by year, the enterprises themselves being responsible for the living subsidy and the difference between parity and negotiated grain prices for staff members and workers, the enterprise swallowing part of the expense and carrying a portion on the books as a cost.

2) *Include the Supply of Nonstaple Bean Products in Residents' Grain Rations.* Currently the province spends 49.47 million yuan to subsidize parity price soybeans for bean products that city and town residents use. This amounts to 3 yuan per capita in cities, and 2.40 yuan per town resident. This can be liberalized in 1990 without any great effect on families. A special subsidy can be established for the increased expense incurred, the cost of this subsidy to be distributed among all trades and industries in society, or alternatively to be completely borne by all residents.

3) *Following Liberalization of Grain Used To Make Soy Sauce and Vinegar, the Per Capita Burden For the Province Will Be Less Than 0.30 Yuan.* Since soy sauce and vinegar making enterprises make miniscule profits, prices would rise substantially were further amounts of grain to be provided at negotiated prices, resident's burdens greatly exceeding 0.30 yuan per capita. The state should provide a moderate subsidy for this purpose so that prices do not rise too greatly for these products that have a bearing on the people's daily life.

4) *Hold Down Food Industry Use of Grain and Oil.* It would be extraordinarily difficult for food industries, which now just break even themselves, to swallow all of the increase in production costs that this measure would occasion; thus all that can be done is watch for opportunities to take small steps. Right now more grain can be provided only for high quality pastries, a combination of parity and negotiated price grain being provided for other purposes, fewer grain coupons required for purchases, and prices increased moderately. Then, after seeing how the market performs, the grain supply can be gradually liberalized.

5) *Complete Cutback in Sales of Grain to the Beverage and Food Industry.* Since the percentage of food and beverage industry earnings derived from staple foods is extremely small, and has virtually no effect on market prices, over a period of between one and two years all grain can be supplied to it at negotiated prices.

6) *Cutbacks in Edible Oil For Foods That the Food System Makes Itself.*

7) *Strict Control Over Increase in the Commodity Grain Eating Population*

4. Increased Macroeconomic Control; Invigoration of Negotiated Price Dealings

Good performance in grain and oil transactions is the main way and offers the greatest potential for invigorating the province's grain economy, and for increasing profits and reducing losses. Calculations using overall production, procurement, and sales data for grain throughout the province for the period 1984 through 1988 show gross output of grain and beans for the province in normal years is generally around the 33 to 34 billion mark. After deciding between 18 and 19 billion jin that the rural villages retain for three purposes, and another 10.6 billion as the fixed procurement quote, plus a small amount lost to natural disasters, between 4 and 5 billion jin remain for sale at negotiated prices. Were the whole amount sold by grain departments at 0.10 yuan per jin, not counting any added value for deep processing, between 400 and 500 million yuan would be realized. Even if it fetched 0.05 yuan per jin, a profit of between 200 and 250 million yuan could be obtained. If the price is increased for shipment outside the province, and the deeply processing amount enlarged, returns would be even more substantial. Therefore, good performance in negotiated price grain transaction plays a major role in reducing losses in the grain business.

However, macroeconomic control over negotiated price grain and oil transactions has been lost in Heilongjiang Province, everybody competing with each other to jack up prices in a tangled war. Sources of supply of grain are lost, sources of financing are decentralized, and the interests of the peasants, government departments, and local governments are impaired. The peasants get less money; grain departments receive less grain; and financial departments are unable to reduce subsidies. Thus, markets take a beating and advantages are lost in the tumult. The problems that arise out of the turmoil are manifested in the following ways:

1) *Interferes With Fulfillment of Fixed Contact Procurement Quotas.* Because so many people have a finger in the pie and raise prices, negotiated prices rise tremendously, accentuating the peasants' unwillingness to sell. The "live" part lashes the "dead" part; the conflict between the state and the peasants over grain purchases is extremely sharp. Conversely, the "dead" part exerts a drag on the "live" part making fulfillment of fixed procurement quotas impossible. The market cannot respond, and golden opportunities slip away.

2) *Impairs Market Supply.* Transactions are carried on through many channels. Most units that deal in grain carry no responsibility for supplying grain markets in the province. It is the grain departments that are responsible for looking after markets, and they cannot get their hands on sufficient grain, so they cannot guarantee market needs.

3) *Hot Selling Products Do Not Become Dominant Products.* Soybeans are a hot selling product in the province, which has an annual output of approximately 7 billion jin and sells approximately 3 billion jin at negotiated prices every year. However, grain departments handle only about half of this amount. In order to insure fulfillment of fixed procurement quotas, the province waits until March each year before beginning to remove restrictions on sales. However, other provinces purposely jack up prices during the period that we restrict grain shipments outside of the province, enticing some of the units dealing in grain in the province to jack up prices in buying up grain. But once restraints on sales are removed in the province, they take advantage of our desire to sell, buying grain at depressed prices. Although some grain dealing units in the province make a profit, for the province as a whole losses are very great.

4) The large number of people buying up grain and driving up prices sends a wrong signal to the peasants and upsets planting plans in some places. For example, the abnormal fluctuations in the price of soybeans causes producers to take a short-term view. They have heavily planted soybeans and are getting ready to plant more. In recent years, the wheat growing area has decreased from more than 30 million mu to 18 million mu.

I believe that the overall goal in invigorating negotiated price grain and oil-bearing crop sales should be as follows: to concentrate available grain and amass financial resources, to increase peasants' income, to reduce enterprises' losses and permit fewer financial subsidies, and to insure market supply.

Right now, greater macroregulation and control and enlivening of negotiated price grain dealings should be based on further improvement of the existing business, grain departments being responsible for the purchase and sale of negotiated price grain and oil, and responsible for dealings in negotiated price grain outside the province and the regulation and supply of markets within the province. Specifically, the following several things have to be done:

1) A "double track system, main channel, and level-by-level dealings" for fixed procurement, meaning monopoly control in the case of rice. In the case of soybeans, corn, wheat, and sorghum, it means mostly dealing through a main channel, and for the procurement of other grains, it means dealing through multiple channels.

2) Continued removal of restraints from township and village (including city) country fair market dealings in grain and edible oil. Once a county has fulfilled its grain procurement quotas, it may freely sell grain to grain markets under its administrative jurisdiction.

3) Balancing surpluses and shortages among producing areas and marketing areas through the operation of city and country wholesale grain markets, and trading among provinces being handled by provincial level wholesale grain markets.

4) Production units that use grain as a raw material may buy a certain quota of grain from wholesale markets to augment the amount that grain departments have provided them at negotiated prices, but they may not resell it at a profit.

Invigoration of grain and oil dealings at negotiated prices will require adherence to the following principles:

1) *Maintenance of a Two-Track Pricing System.* A uniform price should be enforced for the fixed procurement portion, and the price of the negotiated price portion should reflect the laws of value. Once each year, provincial price, industrial and business, grain, government finance and agricultural departments concerned should set negotiated prices for grain and oil on the basis of the grain and oil market situation for the year both inside and outside the province. They should announce both the parity price and the negotiated price at the same time, setting them once and for all with no further changes during the same grain procurement period. Peasants should be assured of receiving the benefits they deserve to help stir their interest in grain production in order to increase grain output.

2) *Proper Coordination and Handling of the Distribution of Benefits Among the Province, Prefectures (or Cities), and Counties.* Level-by-level control over negotiated price transactions is so that profits from negotiated prices go to those who bear the responsibility for parity price grain dealings, whoever takes responsibility for decreasing losses receiving the profit from negotiated price transactions. Authority for dealing in negotiated price grain and oil is to be turned over to provincial, city (or prefecture), and county grain and oil negotiated price companies. Other units in the grain system might act as procurement agents, but they would have no direct authority to sell.

3) *Greater Control Over Multi-Channel Dealings in the Establishment of a New Order in Grain Markets.* In accordance with pertinent regulations, industrial and commercial units are to issue permits to conduct transactions in negotiated price grain and oil to units that the Grain Bureau has found to meet requirements. Unlicensed units may not conduct transactions. No individual is allowed to deal in raw grain. All units that deal in negotiated price grain are to bear responsibility for supplying grain markets within the province, apportioning a certain amount of grain to grain units at procurement cost price and in a set percentage, and they are to pay taxes according to regulations.

Implementation of new methods for negotiated price grain transactions to improve unified control and unified administration over negotiated price grain. This will help insure fulfillment of fixed procurement quotas, will help assemble financial resources and increase local government's financial resources. Sale of grain at negotiated prices can make up for sales at parity prices, hold down prices, regulate shipments in and out, and insure

market needs within the province; it can increase peasants' income; and it can make fuller use of grain departments' personnel and facilities, improve economic returns, turn around the tangled warfare among many interests, control the directions in which grain flows, time, and prices, and permit firm control over the initiative in grain markets.

5. Perfection of the Grain Finance and Business System

Currently, the grain finance system in each of the country's provinces and cities is generally one of three kinds. In one kind, the provincial finance departments turn over responsibility for grain business fees and subsidies to grain departments, leaving further level-by-level assignment to the grain departments. In another kind, grain financing is delegated entirely to cities and counties for inclusion as part of local government finances; and in a third kind, both the finance department and the grain departments share control, contracting quotas. Prior to 1983, grain departments were solely in charge of grain finances in Heilongjiang Province, but from 1984 on, both finance and grain departments were in charge. Practice shows each of these forms to have advantages and disadvantages. It is necessary to do whatever the actual situation requires to perfect grain finance and business systems.

Maintenance of continuity and consistency of policies to stabilize grain production and dealings throughout the province. The system whereby grain financial matters were delegated to the control of prefectures, cities, and counties in 1984 should not be changed. The "Grain Purchase, Sale, Shipment, and Financial Contracting Method" that the provincial government established in April 1984 should be put firmly in place and gradually perfected. The way to do this is as follows: The provincial government should contract all subsidies for procurement, sale, and shipments to prefecture (or city), and county governments, and governments at all levels should be centrally in charge of grain procurement, sale, and shipping finances, and they should be entirely responsible for local grain procurement, sales, shipments, storage, processing and finances. Profits or losses from dealings should be enjoyed or borne by government finance departments at all levels. In addition, they should be responsible for organizing markets in accordance with contracting plans.

Advantages from the above plan are as follows:

1) The rights, responsibilities, and benefits of the province, prefectures, and counties are spelled out in reflection of the principles of each level bearing responsibility for increased expenditures in grain transactions, and of governments looking after their own finances. It can spur the interest of governments and finance departments at all levels in handling their grain businesses well.

2) The persons consuming the grain are the ones to pay. When their sales exceed procurement, local governments share the expense; when sales are less than procurement,

the surplus reverts to control of local governments, thereby reducing pressures on provincial governments for increased subsidies.

Making "Grain Procurement, Marketing, Shipment, and Financing Contract Methods" truly workable and better will require solution to the following problems:

(1) **Making Grain Financing a Real Part of City and County Financial Budgets Under Special Control.** All of the surplus within the contracted base figures is to revert to the cities and counties. Expenses in excess of the contracted base figure are also to be the responsibility of city and county finance departments and enterprises to be shared as regulations provide. They may not be charged to the accounts of grain enterprises.

(2) **Straightening Out Bank Charges.** The principle of clarifying reasons, straightening out responsibilities, discriminating among situations, and handling matters within a limited period of time is to be followed for gradual straightening out of this matter.

(3) **Levying of Fees for a Grain Regulation Fund and on the Shipment of Grain Outside the Province To Improve Government Financial Departments' Ability To Provide Subsidies.** Beginning with the shipment to market of new grain in 1989, an additional five percent is to be collected on top of the already existing five percent agricultural technology improvement fee on all grain, oil, and by-products sent outside the province. This money is to be used for the building of a provincial reserve grain fund and basic grain facilities. Beginning with the shipment to market of new grain in 1989, except for administrative agencies and government institutions, a 3 yuan per month per capita grain regulation fund fee is to be levied on all enterprises owned by the whole people, collectives, or private individuals and individual industries and businesses in cities and the countryside that consume state commodity rice. This money is to be used to dispose of charges to accounts, and for the subsidization of losses in the grain business that are attributable to policies.

(4) **The Building of Basic Facilities of Grain Enterprises To Be Made a Part of Provincial, City (District), and County Self-Supported Capital Construction Plans, and Gradually Carried Out According to Industry Plans for Gradual Improvement of Grain Enterprises' Basic Facilities.**

(5) **Enhancement of Provincial Grain Bureau Allocation and Transfer Authority, and Regulation and Control Authority Over Grain Plans Throughout the Province.** All prefectures, cities, and counties must strictly enforce grain allocation and transfer plans. Shipments outside the province of negotiated price grain are to be done only upon the approval of the provincial grain bureau. The provincial grain bureau is to have sole administrative authority and audit authority over grain markets throughout the province. Grain departments may send audit personnel to railroad stations and shipping piers,

and they may set up inspection stations or send inspection personnel to main railroad lines and transportation hubs. The provincial grain bureau is to devote close attention to the formulation of grain market control regulations throughout the province, using legislative procedures to put grain markets on a path of administration according to law as quickly as possible.

(6) Provincial Grain Bureau To Exercise Industry Control Authority. Plan guidance of the pattern of distribution throughout the province of grain and oil processing industries, and for the building of grain enterprise basic facilities is to be genuinely improved.

(7) Expansion of Provincial Grain Reserves. Beginning in 1990, all jurisdictions are to pool funds for the building of a provincial grain reserved fund year by year for steady increase in the province's grain reserves to increase the province's regulation and control capabilities.

6. Greater and Better Administration and Management of Grain Enterprises.

(1) Further Deepening of Enterprise Reform; Institution of All Kinds of Economic Contract Responsibility Systems. A substantial number of grain enterprises in the province have already instituted multiple forms of economic responsibility systems including risk offsetting, and contracting through the calling for tenders from which they have obtained fine results. Contracting and campaigns to increase income and reduce expenses have also enabled some units to halt business losses.

(2) Establishment of Work Objective Responsibility Systems From Top to Bottom in the Grain System. Current loss norms are seriously deficient, and the distribution of loss norms is also not entirely equitable causing imbalances between one city, one county, and one enterprise and another. After properly readjusting norms, actual expenses of all enterprises may be re-examined and more equitable work goals formulated for effective supervision of the level of production operations of all grain enterprises, and to avoid continued increase in losses.

(3) Strict Enforcement of All Rules and Regulations To Improve Financial Control. Although grain enterprises have numerous rules and regulations at the present time, there is a great deal of difference in the way each jurisdiction enforces them, and a very great difference in the amount of materials consumption and expenses of similar enterprises. The grassroots leaders of some enterprises have poor management skills and background, and some do not strictly ensure enforcement of various rules and regulations. This shows up particularly in the irrational use of funds. Although the irrational use of a substantial amount of funds is attributable to fiscal and government policy decisions, some is attributable to enterprises' own diversion of funds to purposes other than the intended ones, and to overspending for capital construction. Control must be tightened henceforth.

(4) Rational Setting of Base Figures for Business Losses. Grain system business losses are left out of final settlements. They are charged to grain enterprises, no city, county or provincial finance department accepting them. This very greatly damages the initiative of grain enterprises. Ways to solve this problem are as follows: The province should accept past losses not attributable to enterprises' irrational expenditures to reduce the psychological pressure on enterprises so that they can make a fresh start toward moving ahead with a light load, hasten the pace of reform, and reduce business losses. Second is the setting of sensible base figures for losses. So long as funds to subsidize losses are insufficient, work goals should be used in accepting work quality as a means of energizing work at the grassroots level. Third, prefecture, city and county contracting of grain procurement, marketing, and shipment should be linked to the province, government finance and grain system, the rights, responsibilities, and interests of all parties spelled out. So long as loss norms remain seriously deficient, it is impossible for all of them to be borne by the prefectures, cities, and counties in the province. The existing situation should be used as a basis for making clear that grain procurement is to be contracted by prefectures, cities, and counties, unfulfilled procurement quotas to be made up by the finance departments of each jurisdiction. Shipments are to be the responsibility of the grain system, which is to be responsible for losses beyond set base figures. Marketing is to be the joint responsibility of the grain system and local governments, the provincial finance department being entirely responsible for subsidizing the difference in price when more is sold than was procured no matter the kinds of grain or amounts sold. Losses incurred as a result of provincial government shifts in grain expenses and the formulation of regulations are to be borne by the provincial finance department.

(5) Launching of a Vigorous Campaign To Create Income in an Effort To Make Up Grain Business Losses. In recent years, the grain system has conducted various campaigns to increase income, including individual businesses and negotiated price dealings to make up some of the losses. These have been fairly successful, and should be used as a basis for the province's formulation of corresponding policies to help grain enterprises increase income.

7. Readjustment of Policies Related to the Grain Business

In order to reduce grain business losses correspondingly, the state should readjust policies related to the grain business.

(1) Equitable readjustment of loss contract base figures. The grain loss contracting period is to be readjusted in 1990. Heilongjiang Province should clarify just what the real grain business loss situation is and report it factually to the state in an effort to set grain business loss norms within reasonable limits during the next contracting period, thereby reducing the serious deficiency of the province's grain business loss contracting norms.

(2) Setting of the scope and base figures for cutbacks in grain sales in order to request the state to reduce the province's amount of fixed procurement within contracts. So long as the basic rations of the province's military forces and people can be assured, every effort should be made to cut back the amount of grain supplied at parity price. At the same time, the state should be asked to reduce its shipments outside the province of parity price soybeans. This is a basic policy for the benefit of the province and the people.

(3) Preferential policies should continue in effect for loan interest. In addition, the state should compensate the province at the national grain system average rate for use of self-supplied funds (10 percent), i.e., 380 million yuan. If preferential treatment cannot be accorded on interest rates, then, with regard to reducing the proportion of additional interest and penalty interest on previous charges and interest, it would be best to stop interest charges on overdue interest, so as to give the province's grain enterprises a chance to recover.

(4) The state should suitably readjust some out of date policy provisions on the basis of grain enterprise's current situation in order to solve some current hardships that grain enterprises face.

Although some policies that the province has itself formulated also lead to increased business losses for enterprises, in view of the need to keep the peasants' interested in growing grain, overly quick action to change them should not be taken at this time, but suitable readjustment of some should be considered.

(1) Inasmuch as quality price policies are languishing in agricultural production, and since the interest of the peasants in grain farming is not very high just now, the existing provisions should be maintained without readjustment.

(2) Only small steps can be taken for gradual elimination of restrictions on the factors causing increased losses from the sale of grain.

(3) The provincial government should acknowledge the losses that result from policy errors and wipe them out insofar as financial resources permit. Until such time as they are wiped out, interest payments resulting from them should not be charged.

(4) The province should consider the real situation in grain departments with regard to its personnel assignment policies, reducing personnel assignment norms in order to avoid personnel inflation in the grain system.

Sino-Japanese Research Develops Good Paddy Strains

90CE0345C Kunming YUNNAN RIBAO in Chinese
9 Jun 90 p 1

[Article by Zhou Jianfang (0719 7003 5364): "Gratifying Results Obtained From Sino-Japanese Cooperative Research on Paddy Breeding"]

[Excerpt] The Yunnan Provincial Science and Technology Commission yesterday held a news conference at which it announced gratifying results had been obtained from Sino-Japanese cooperative research on paddy breeding.

Sino-Japanese cooperative research on paddy breeding is, since China put into practice the policy of opening up to the outside world, the first long-term cooperative research project personally agreed upon by the agricultural ministers of China and Japan. This project was jointly undertaken by Yunnan Province's Agricultural Sciences Academy and Japan's Tropical Agriculture Research Center. Beginning in 1982 up to this year, the research has been carried out for eight years in three stages, and a total of 51 researchers have taken part in the project. Based on the principle of equality and mutual benefit, and on the provisions of the agreement, the Chinese and Japanese sides provided reciprocal genetic resources for use in the research and breeding, which were carried out in Kunming. This project, under the leadership, concern, and support of the agricultural departments of the two countries, through the sincere cooperation and arduous labor of Chinese and Japanese experts, centered on breeding, did a lot of basic research on paddy resources provided by the two sides as well as on cold and rice blast, which adversely affect Yunnan's paddy production. More than 30 research papers were written and published in academic periodicals at home and abroad. Research on methods of appraising cold resistance attained the world's advanced level. Out of the research came 27 improved new strains of paddy, among them the hybrid improved Composite Strain No 9, Composite Strain No 5, and Composite Strain No 10—all three of which were used Japan's ear-numbered variety (Gokansei) and Yunnan's ear-duplicated varieties Yun Jing 135 and Yun Jing 9. All three strains were appraised last year, and all of them obtained certificates of quality from the Yunnan Provincial Agricultural Crop Variety Examination and Approval Commission. They have the steady-yield and high-yield characteristics of cold resistance, early maturity, rice blast resistance, good-quality rice, and fine stems. They are suitable for planting on the medium- and top-grade fertile field of Yunnan at 1,800 to 2,000 meters elevation. In 1988, in a production demonstration on 10,000 mu, they obtained quite good results in high yield, disease resistance, and cold resistance, and a good harvest was obtained. In 1989, in an expanded demonstration on 80,000 mu they passed the tests that year of cold and rice blast; the average per unit area yield was 600 kilograms, 80 kilograms more than the average per-mu increased yield of the local variety that had been popularized over a large area, and they obtained a total increased yield of 6.4 million kilograms. The leaders of the Yunnan Provincial CPC Committee and Yunnan Provincial Government have attached much importance to the new improved varieties resulting from Sino-Japanese cooperation. They not only have personally inspected and guided on the spot the demonstrations, but also have listed the popularization of the composite strain varieties as one of the means for increasing grain yields in the province as a whole in 1990. According to statistics, this year the composite strain paddy varieties will be planted on an

area of 424,000 mu, mainly in the cities and counties of Zhaotong, Kunming, Tonghai, and Baoshan in Yunnan Province and in Liangshan Yi Autonomous Prefecture in Sichuan Province. [passage omitted].

Shanxi Reforms Grain, Oil Procurement System

90CE0345A Beijing JINGJI RIBAO in Chinese
27 Jun 90 p 1

[Report by staff reporter Tie Jingkui (1586 4842 7608): "Shanxi Deepens Reform of Grain, Oil Procurement System"]

[Text] Shanxi is constantly summing up its experiences in the reform of its grain and oil procurement system, and is taking measures to deepen the reform in order to overcome existing problems and to consolidate and develop the results of this reform.

In Shanxi, which is the only place in China where a province is reforming the grain and oil procurement system, the main parts of the reform are: In fixing the quantity of the populations's grain ration, the part of that quantity that exceeds the industrial-type grain by more than 14 kilograms has been changed to grain supplied at negotiated prices. Grain used for pastry, non-staple foodstuffs, brewing and winemaking, urban and rural feed, and various types of supplemental grain, have all been changed to grain that is supplied at negotiated prices and is market regulated. After industrial-type grain was changed to grain supplied at negotiated prices, the cost of the price difference between par and the negotiated price paid by staff and workers to buy industrial-type grain is subsidized by the staff and workers' unit. On the foundation of reducing the supply of grain at par, the grain contract quota purchasing task of the grain departments and the peasants has been reduced, and all of the advantages, after examination and ratification, of quota purchasing changed to negotiated price purchasing have been given to the peasants.

To further deepen the reform of the grain and oil system, Shanxi Province first of all, with regard to businesses that had taken losses in doing business with grain and oil at par, and also with regard to a small number of grain enterprises that lacked the capacity to sustain losses, respectively according to their different circumstances, appropriately gave them financial subsidies; and, with regard to foodstuffs, brewing, and winemaking enterprises that had been affected adversely to a fairly large extent, it gave them special consideration in credit and tax in order to help them overcome temporary difficulties. Second, it chose the appropriate moment to abolish the supply of industrial-type grain and trade-type grain at the highest prices, and further smoothed out the procurement prices of negotiated-price grain and oil businesses. Third, it strengthened the task-completion capability policy for grain and oil. The grain and oil procurement task assigned by the province to each locality must be insured of completion; and that part that is not completed will be bought at negotiated prices by

that locality by means of taking money out of its own finances in order to make up the difference, and there will no longer be outstanding accounts.

Ningxia Overstocked With Agricultural Products

90CE0345B Beijing JINGJI CANKAO in Chinese
4 Jul 90 p 2

[Article: "Ningxia Has a Large Amount of Overstocked Agricultural, Sideline, Local, and Special Products." Responsible editors Wan Zheng (5502 1794) and Wang Xuejiang (3769 1331 3068)]

[Text] According to a report in XINHUA SHE JINGJI XINXI [NEW CHINA NEWS AGENCY ECONOMIC INFORMATION], on 13 June Xi Yongshou [0674 3057 1108], deputy manager of the Agricultural and Sideline Products Trading Corporation in the Ningxi Hui Autonomous Region, told reporters that, since the beginning of the year, the prices of Ningxia's agricultural, sideline, local, and special products have steadily declined and a large amount of these products is overstocked.

Si Yongshou said that the market price for Ningxia's fine variety of husked rice fell from 1.80 yuan per kilogram in the second quarter of last year to 1.30 to 1.34 yuan per kilogram in the same period of this year, a drop of 30 percent; the price of sesame and peas fell from 1.60 yuan to 1.12 yuan per kilogram; and the price of Chinese wolfberry fell 50 to 60 percent.

According to information provided by the Ningxia Grain and Oil Negotiated Price Corporation and the Ningxia Supply and Marketing Cooperative, as of the end of May the overstocking situation in Ningxia's main agricultural and sideline products was: husked rice and wheat, 13 million kilograms; soybeans, 50.75 million kilograms; peas, 11 million kilograms; broadbeans, 1.58 million kilograms; corn, 13.5 million kilograms, buckwheat, 690,000 kilograms; Chinese wolfberry, 100,000 kilograms; red and black melon seeds, 1,500 tons; cotton and wool, 2,206 tons; cashmere, 222 tons; and sheepskin, 61,000 sheets. In addition, a considerable amount of agricultural, sideline, local, and special products, in particular wool, cashmere, sheepskin, red and black melon seeds, and Chinese wolfberry, were being held in the hands of peasants, because they were difficult to sell. Take, for example, wool and cashmere. The results of a recent survey taken by the Ningxia Rural Survey Team showed that last year in Ningxia's rural areas 1.14 kilogram of wool and cashmere was produced per capita, and at present only 0.81 kilogram has been sold per capita, meaning that more than a fourth has not been sold on the market.

The main reasons for the large overstocking of Ningxia's agricultural and sideline products are: First, with the market slump, the trading prices of agricultural, sideline, local, and special products have tumbled, and costs have increased. The relevant departments fear losing money, and the export and the shipment outside the province have decreased. Second, Ningxia has enhanced the education in scientific farming it gives to the peasants. During production the peasants have obtained widespread experience in

increasing output and getting bumper harvests. Last year there was a net increase of 155 million kilograms in the autonomous region's total output of agricultural products. Third, China's banks are hard pressed, and the buying power of the collective and the individual is falling. In addition, the limits of railroad transportation have made it impossible to sell many products.

Some economists in Ningxia think that, under the circumstances in which the state adjusts, rectifies, and vigorously guides the market, the current overstocking of agricultural and sideline products will not last too long. Following the change of seasons, some agricultural and sideline products will sell well in the second half of the year. However, a problem that cannot be overlooked is that this is another bumper harvest year, and if measures are not taken as quickly as possible, once agricultural products go on the market there will be an intermingling of the old and the new in which they will be difficult to sell, thereby dampening the peasants' enthusiasm.

Fujian Guaranteed Price for Rice

40060058D Fuzhou FUJIAN RIBAO in Chinese
22 Jul 90 p 1

[Summary] In 1990 the guaranteed price for negotiated purchases of medium grade early rice in Fujian Province is 39 yuan per 50 kilograms. The guaranteed price this year is lower than 1989, but is higher than that of neighboring provinces (except for Guangdong).

Guangxi Sugarcane Output, Area

40060058C Beijing ZHONGGUO TONGJI XINXIBAO
in Chinese 30 Jul 90 p 2

[Summary] During the 1989-1990 pressing season, Guangxi produced over 11,860,000 tons of sugarcane, and 1,302,000 tons of sugar. The income of sugarcane farmers totaled more than 1.18 billion yuan. In 1989 the sugarcane area was 4,280,000 mu.

Savings Deposits in Rural Areas Increase

OW1308152090 Beijing XINHUA in English
1447 GMT 13 Aug 90

[Text] Hohhot, August 13 (XINHUA)—Deposits in the Agricultural Bank of China were 233.96 billion yuan at the end of June, 28.41 billion yuan more than that at the beginning of the year.

Bank President Ma Yongwei, who is in Inner Mongolia attending the current national conference on financial work in the countryside, said the bank's savings deposits have increased by 20.85 billion yuan, the biggest increase in the history of the bank, and accounted for 73.4 percent of the total increase in deposits.

Ma noted that 19.99 billion yuan of the increase in savings deposits, 95.9 percent of the total, was in fixed deposits.

The rapid increase in savings was attributed to the bumper harvest, the pay raise and stable prices.

Some private businessmen have closed their enterprises and deposited their capital in the bank.

Production, Marketing of Vegetables, Pork Increasing

OW1308080590 Beijing XINHUA in English
0754 GMT 13 Aug 90

[Text] Beijing, August 13 (XINHUA)—According to the latest figures from the State Statistics Bureau, both the production and marketing of vegetables, pork, eggs and milk were thriving in China's large and medium-sized cities in the first half of this year.

According to preliminary statistics from 40 large and medium-sized cities, the output of vegetables reached 13.82 million tons in the first half of this year and the average supply of vegetables per capita was 68.1 kg, an increase of 3.1 kg over the same period of last year. In addition, prices have remained stable.

There has been a big increase in pork production. According to statistics from 30 cities, the output of pork reached 1.49 million tons and the average supply of pork per capita was 9.1 kg, an increase of 1.1 kg over last year.

The retail price of pork in state-run stores is 465 yuan per 100 kg, a drop of 3.1 percent compared to the same period of last year.

The output of fresh eggs and milk reached 860,000 and 570,000 tons, respectively, in the first half of this year. This means that each person had 5.3 kg of fresh eggs and 3.5 kg of milk available, increases of 0.1 and 0.2 kg respectively compared to the same period of last year.

An official of the bureau attributed the improvement in the production and marketing of these items to the government's efforts to build vegetable and non-staple foods bases as well as flexible policies.

Jan-Jun Import of Cereals, Oils

HK1408133990 Beijing CEI Database in English
0944 GMT 14 Aug 90

[Text] Beijing (CEI)—Following is a list showing China's import of cereals, oils and food in the first half, 1990, released by the General Administration of Customs:

Item	Unit	Jan.-June 1990	Jan.-June 1989
Cereals	ton	7,407,790	8,732,687
Wheat	ton	6,537,154	7,708,913
Soybean	ton	343	584
Sugar	ton	599,830	1,009,315
Animal oils and fats	ton	22,063	55,944
Edible oils	ton	451,685	368,549
Other oils	ton	376,826	273,912

Manpower Exchange Market Helps Job Seekers
90CM0214A Beijing DAXUESHENG [UNIVERSITY STUDENT] in Chinese No 4, 10 Apr 90 pp 14-17

[Article by Tao Shidan (7118 0013 9116): "New Trends in the Job Market"]

[Text] In the 1980's, China was permeated with the heady scent of opening and reform. People were dissatisfied with remaining at their original units, and longed to go to new environments where their skills could earn them more. Not believing that one can turn to reality, they soon discovered that such "rebels" existed in nearly every unit. The phenomenon of "fish leaping upstream" has increased steadily; also, every industry is full of vitality, with hopes of climbing to rank among the world's most advanced, or at the least move into the lead domestically. These are not satisfied to passively wait for the "fish to leap upstream," but are starting to aggressively catch the "fish."

Just at this time, they are implementing a two-way selection process which is creating the conditions for a "job exchange center" for the "leaping fish" and the "fishermen."

In the spring of 1989, a reporter passing through Beijing's Haidian district happened upon the China Center for Science, Technology, and Personnel Development, which was making great strides forward. In a large exhibition hall, several hundred square meters in area, a dazzling array of multicolored advertisements beckoned to people. In those days, there was an endless stream of people consulting with the center. It is now said that the graduating class of 1990 is facing great difficulties finding assignments, so this reporter decided to seek some information from the "job exchange center." On 8 November 1989, I made a second visit to the China Center for Science, Technology, and Personnel Development.

1. A Cooling Off

The exchange center, visited so much in the past, has become a place where visitors are few and far between. It may have been because there had just been a thunderstorm, but in the great exhibition hall there was virtually no one present except exchange staff and the reporter. The tables and chairs were covered with dust covers, and the four walls were totally bare. There was but one advertisement, about a square meter in size, stating that a particular unit needed a few people. If this advertisement had not been posted at the entrance to the counseling office, it would have been very difficult for anyone to notice it.

A young exchange worker received us, and gave us some information.

The "Hainan fever" that started in 1988 had already cooled off. High-tech companies, especially those in circulation fields, were now in a state of reorganization, and basically were not hiring. Enterprises of the "three

sources of capital" type had a large scale drop in their manpower needs. Compared to the first half of the year, the outstanding change had been that fewer companies were requiring less people. One of the more luxurious hotels in Beijing had made this suggestion: Would it be possible to store on a computer the resumes of the manpower that had been sent out from the exchange, so that in two or three years, when the hotel may again have manpower needs, it could receive the resumes of these people again?

On 11 November 1989, this reporter arrived at the Haidian Manpower Market, located on Nanda Street, in Beijing's Haidian section, adjacent to the seat of the Haidian district government. The market's facade is very small, no more than several tens of square meters in area. It opened for business a little more than a year before, and since that time more than 10,000 people had come into this low, one-story building, through nearly every kind of policy and operating procedure dealing with manpower flow. In the spring and autumn of 1989, the market held two large-scale manpower conferences, and more than 7,000 people from over 100 hiring units met here for exchanges on manpower supply and demand. Nevertheless, only 140-some people leaped "upstream" and satisfied the tastes of the "fishermen." Still, they found their own suitable sphere.

2. Units of All the People Strongly Favored

The Haidian supervisory office, which no one in the past had cared to ask about held a discussion meeting in the fall on this market, which had more than 50 registrants in attendance. Some, hoping to go to work for units which were wholly owned by the people, requested permission to leave foreign investment enterprises and registered their names at this meeting. There were some units which were actually hiring: For example, the Vanguard Corporation was looking for more than 100 people who could work in Guangzhou for three successive years. However, the majority of the companies there were like the Milky Way Corporation, which was not hiring, but wanted to publicize itself or collect the names of some personnel to keep for possible future use.

The manpower exchange market is at present in a situation of "three are too many and one is too few": There are many people leaving units of the people, going to mechanistic business units, or rushing to go abroad, but there are few units looking for people. Moreover, hiring units run by local people are in the majority, and most of these are medium-sized to small companies, with few of the older, more established companies looking for people. None of the well-known firms from just one street in Haidian's Zhongguancun were hiring at the fall meeting; this included such companies as Kehai, Jinghai, Sitong, and Haitian. These companies are fundamentally stable and are capable of attracting talent on their own, a capability the intermediary manpower market lacks.

There are plenty of people who are "leaping upstream," but [if] afterwards they "observe, defer, and pass on," is that an enterprise run by local people? Who are at the higher levels? What are the operating conditions? There no doubt was considerable detailed questioning for clarity before they dared summon the courage to make the leap. No wonder people say that companies these days first seek reliability and then look to move forward on making a profit before developing talent. Consequently, among those whose businesses are wholly owned by the people, there is a desire to retain the status of a company which is "a big noise, operated by heaven." Those whose businesses are not wholly owned by the people will spare no effort to change their banner, to be under the great banner of being wholly owned by the people.

It is known that Beijing has 857 recognized new technology companies in the Haidian area alone; another 2,000 are unrecognized. A responsible person in the market exchange stated that there were times in the past when people had doubts, worrying whether new technology companies were indeed new in reality as well as in name, and what would the future be for these. The objective in holding the autumn discussion meeting was to publicize and promote new technology companies and make it clear to all that these companies will continue to develop.

3. The New Stipulations on Going Abroad and Retention of Files

The same day we were in the Haidian personnel office, a comrade from the Sitong Company happened to come in seeking some files before going abroad at his own expense. As a result, we came to know something about the business of record keeping concerning going abroad.

The director of the Haidian Manpower Exchange, Lian Yue [6647 6460], told reporters that it was not until after the suppression of the rebellion that the exchange assumed responsibility for retaining files on people applying for certification to go abroad at their own expense or their certification of resignation from their neighborhood districts, but they do not receive any payment for this. Maintaining a contract for both signatories for several years generally costs 1,000 yuan per year.

Bit by bit, information was collected in my brain, the trends in manpower exchange steadily became clear, and this article should wind that up. However, it was only on 1 February 1990, when I went a second time to visit the China Science, Technology, and Personnel Development Center, that an impressive black-on-white notice caught my eye:

In accordance with the relevant articles on stipulations of the Intermediate Groups Department and the Personnel Department, the files administered by this center are being transferred to the Personnel Department of the National Manpower Exchange Center. The files are closed at the present time.

After March, please contact comrades concerned with working and administrative procedures, or contact the National Manpower Exchange Center.

(Signed) China Science, Technology, and Personnel Development Center

This notice made it clear that the mission of the "China Science, Technology, and Personnel Development Center" had been declared finished.

On 3 February 1990 I telephoned the Personnel Department at the National Manpower Exchange Center, and on 5 February arrived at the center, located at the White Rock Bridge in Beijing's Haidian section, seeking a bit more information.

The Intermediate Groups and Personnel Departments in 1988 issued certain stipulations intended to strengthen the management of records concerning mobile personnel. In 1989, the two departments issued the following, noting that: "Some organizations, such as companies run by the people and manpower development centers, are still receiving and administering without authorization the personnel files of mobile personnel; this operation violates relevant stipulations." Some have even been so unprincipled as to use the documentation materials for leaving the country and the storing of files as the means to turn a profit. To move forward in managing the files of mobile personnel and to further the rational mobility of manpower, we make the following supplementary stipulations:

First, the personnel files of mobile personnel will, without exception, be managed by party committee groups at various levels or by government departments, as well as by the mobile manpower service organizations which are subordinate to them.

Second, party and state organizations, people's organizations, employees of state-operated enterprise units, and employed mobile personnel, must rely on party committee groups or government departments to manage their personnel records, including those of their subordinate mobile personnel service organizations, and to issue letters of introduction relative to their personnel. This will allow them to formally handle hiring, hiring procedures, and receipt of their personnel files.

Groups at all levels and personnel departments when dealing with the personnel files of mobile personnel leaving party and state organizations, people's organizations, and state-operated enterprise units will hereafter without exception rely upon the relevant party committee groups or government departments, including those of their subordinate manpower mobile service organizations, for issuance of file transfer notifications and handling of file transfer procedures.

Third, the documentation work of mobile personnel for leaving the country privately will, without exception, in the future be combined with that for returning, and personnel records management will be the responsibility

of party committee groups or government departments, including their manpower mobile service organizations.

This reporter did some on-site investigating, and found that even though it was Lunar New Year's Day, the snow was still not melted completely, there was still some moisture on the road, and the weather was still cold. The hour was already past nine, but those I had consulted with earlier still had storage personnel running to and fro. I had a question about how those in other parts of the country were storing records? Will they also store the records of personnel who lost their public offices? One wants to know how a wide variety of problems will be handled. As it happens, I ran into a comrade from the center's office, which allowed me to gain some general understanding of the center's nature and the scope of its business.

4. China's Authoritative Manpower Exchange Organization

The Personnel Department of the National Manpower Exchange Center is a comprehensive service organization for the national circulation of talent. Its internal structure consists of an information office, an exchange and safeguard office, a development office, an overseas study personnel office, and an international people-to-people exchange office. Its principal mission is to establish a manpower supply-and-demand information bank, gathering information on the supply and demand of talent. It functions as a go-between, a bridge builder between mobile talent and hiring units, helping both sides during the discussions leading up to the signing of a contract. It takes responsibility for the socialized management of mobile manpower groups. This includes management services for enterprises of the "three sources of capital" type, village enterprises, science and technology entities run by the people, privately operated enterprises, and manpower in the individual economy. It also includes a register of personnel waiting for work and seeking jobs, specialized job training, management of mobile manpower, the personnel relations of people waiting for work with groups, pay records, and records transfer, storage, and so forth. There are many other responsibilities, such as acting as go-between for specialized technical personnel holding concurrent posts, in developing technology, transferring S&T results, contracting and leasing, and so on.

The transfer of 1,600 files from the China Science, Technology and Personnel Development Center to the personnel department of the National Manpower Exchange Center is being implemented just as stipulated. Now if you wish to handle an individual file, in addition to paying a monthly fee of 20 yuan for personnel relations and files management, you must also go through the following procedures:

1. Obtain documents (duplicates) from the receiving unit approving receipt; this will include the receiving unit's business license or approval of its establishment from the department responsible for the work.

2. Fill out the "Register of Mobile Personnel"; after that the center will notify the unit in question in writing that files will be transferred.

3. After examination and agreement on the conserving relationship or the files, the center and the individual will sign a contract.

4. After the contract is signed, the center will notify the unit in writing of the procedures for file transfer.

That same afternoon, this reporter again hurried over to the Haidian Manpower Market and grabbed some help-wanted advertisements, which gave me some additional information:

- An instrument materials research institute needs an accountant, 20 to 30 years of age, and has technical positions ranking above that of accountant.

- A cultural articles service department needs a 10-person sales force, can open up new prospects for sales staff, good pay, can hold a concurrent position.

- A group corporation needs two or three people with more than a polytechnic education, who are familiar with nondestructive test instruments or bearings and have several years experience.

- A construction engineering company needs an engineering construction technician, an electrician, and a heating and ventilation technician.

A responsible person at the market said, "In January alone there were 15 hiring units here looking for people, and 40 people who were seeking positions registered as hoping to get an exchange.

"Going into February, the question most asked of us was, 'Is the Education Commission going to announce new policies on overseas study?'"

Just as it was time for this reporter to leave, a young man who had already been dismissed by the Kanghua Company came into the market again seeking his file. A market employee told him that if the next day he had completed the requisite conditions, that is, the unit documentation, his registration of permanent residence, the fee, and so on, then the young man could leave all the sooner.

Tomorrow, what he waits for is perhaps a new kind of hope.

Baby Trading Reported in Shandong, Henan, Anhui

90CM0235A Hong Kong CHING PAO [THE MIRROR] in Chinese No 154, 10 May 90 p 85

[Article by Sun Qi (1327 0366): "The Tide of Baby Trading in Shandong, Henan, and Anhui"]

[Text] The buying and selling of babies is proceeding either overtly or covertly in some villages along the

borders of Shandong, Henan, and Anhui Provinces. In the last three or four years, the selling of children has been spreading like a pestilence in some areas and villages.

Typical Super Commodities. In some places on the mainland, children have become typical super commodities, similar to calves, piglets, or lambs. The explicit marked price for boys is between 1,000 and 4,000 yuan (renminbi); [the marked price] for girls is between 500 and 1,000 yuan. In a certain village in Anhui, 20 children have been sold in the past five years, and some couples have already sold three children.

A child's value is calculated like that of any other "good." Those that are pretty or healthy command a high price; those that are thin, small, or slightly defective have a low price. According to a 60-year-old man who spoke to this reporter, one can make more money raising sons than raising anything else: a boy can be sold for several thousand yuan, equal to the price of a well-fed cow, 10 fat pigs, 50 sheep or 500 chickens... one could call it a business without capital. "In the past three or four years, it's become worse. It's evil! Evil!" [said the old man.]

People Who Make Money From Their "Bellies." In Shandong, Henan, and Anhui villages, selling babies has created a chain reaction. Formerly law-abiding peasant households are now scrambling to imitate each other, and want to make money from their "bellies."

In Yishan County, Anhui Province, there was a couple that produced food on two mu of land year-round, but were still as poor as ever. One day these two suddenly discovered that Zhang Mazi [1728 7802 1311], their extremely poor neighbor, had built a spacious, clean, and bright three-room house, and brought back a large color television set from the store. Formerly Zhang Mazi had sold three sons for a good 10,000 yuan. Seeing their neighbors living so prosperously, the couple thought it quite appropriate to follow Zhang Mazi's course. Four years later, the couple had given birth to two sons and sold them for 6,000 yuan. But because the wife's "machine" had been overworked, her body became emaciated and weak, and her hepatitis broke out again. The money they made selling children was completely spent on the wife's treatment, and even then they still went deeply into debt.

"Baby-Trading Profiteers" Arise at the Right Moment. A group of "baby-trading profiteers" or "agents" have appeared in the growing baby market. Motivated by money, they play the part of execrable buffoons on this criminal stage.

There was a Mr. Xu, from a village in the Heze District of Shandong Province, whose ancestors had raised cattle. He carried on his father's business, and was known far and wide as a cattle trader. Recently, however, he had found himself short of cash, and decided to follow "Older Brother" Ma, who traded in human beings, and become a "profiteer."

"Older Brother" Ma brought Xu to Sichuan, where, in conjunction with local traders, they engaged in the buying and selling of babies. Slowly Xu started doing business on his own. Within a few years, he sold five babies from outside the region, abducted and sold four women, and earned more than 10,000 yuan, suddenly becoming a "nouveau riche." But finally Ma lost his footing, and was caught by public security forces and dropped into the legal net.

The Experiences of Children Who Are Bought and Sold. Quite a few of the "super commodities" who are bought and sold find love and affection in their new homes. Not knowing their history, they even live quite peacefully. However, there are also quite a few who not only do not know the love of a mother and father, but who are even subjected to beatings and maltreatment, and their pure hearts are destroyed.

One couple spent two thousand yuan to buy a son. At the age of two, however, his body was still very weak and he could not talk. When they took him to a hospital for a check-up, it was discovered that his cerebrum was not fully developed and that he would be disabled all of his life. Believing that they wasted their money to buy an idiot son that was not even worth the price of a sheep, the couple heartlessly abandoned him.

A couple in one region was unable to conceive, and bought a son to raise. Three years later, however, the wife actually gave birth to twin boys, which delighted the whole family. Afterwards the later viewed their "foster son" as even more of an outsider, often beating and mistreating him; finally they resold him.

Save the Children Who Are Bought and Sold. In some mainland villages in some areas, incidents of illegally trading and cruelly injuring babies and children are nothing new. What are the reasons? The economic "Matthew effect," the evils of money, and valuing male [children] over female [children] have compelled people to buy and sell children.

In the National People's Congress, on numerous occasions many delegates have proposed resolutions for protecting children, and called for issuing a ban on baby trading. Nevertheless, in reality the legal rights of children often do not receive the protection they deserve. The people appeal to society: save the children!

'Urgent Need' To Tap Intellectual Resources

90CM0233A Hong Kong CHING PAO [THE MIRROR] in Chinese No 154, 10 May 90 pp 24-27

[Article by Ma Tengyun (7456 7506 0061): "China's Intellectual Resources Desperately Need To Be Developed"]

[Text] Heavily populated China abounds in intellectual resources. Since it has over 1 billion people, it has over 1 billion human minds. What an unrivaled potential

advantage this is! Unfortunately, the development is too late, too slow, too little, and too shallow.

Imagine that by the end of this century (only 10 years from now), China announces "the achievement of initial modernization" as scheduled, while it is still flooded with illiterate people. Wouldn't it be a laughingstock in history?

Widespread Illiteracy Worries People

On the eve of the founding of the PRC, 80 percent of all people in China were illiterate. It was a great burden left over from old China. In the past 40 years or so, adult illiteracy has been reduced by over 163 million, and the ratio of illiteracy has dropped to 20.6 percent. This undoubtedly is a great achievement.

Today, the absolute number of illiterates in Mainland China still remains at 220 million, the highest in the world. Judged from the distribution of illiteracy, there are more illiterates in rural areas than in urban areas and more among women than among men. About 92 percent of illiterates in China are in rural areas, and over 60 percent of them are women. A third of rural labor is illiterate. This is a major common reason for the current slow development of rural areas. It is also an important national condition which China must not ignore today.

There was a time when China made great achievements in wiping out illiteracy. That was in the 1950's and the 1960's. The rural anti-illiteracy campaign, which was carried out at the same time as the rural mutual aid and cooperation campaign, was a down-to-earth and successful campaign. It took the village as a unit and the mutual-aid team or cooperative as a base. It had leaders, funds, teachers, and step-by-step plans to eliminate illiteracy. It had a timetable to ensure that every plan was fulfilled. Unfortunately, later rural work was disrupted and the effort to wipe out illiteracy was also relaxed. Illiteracy thus began to "come to life" again. Some peasants whose "illiterate label" had been removed began to lose what they learned. And the number of new illiterates increased year after year as population grew rapidly.

As a matter of fact, in recent years there have been some advanced areas throughout China still persisting in the literacy program. For instance, Bazhong County of Sichuan Province, Wulian County of Shandong Province, and Songtao Miao Autonomous County of Guizhou Province all won international anti-illiteracy awards from UNESCO; 70 percent of all counties in Guangxi Zhuang Autonomous Region have basically eliminated on a countywide scale all youth and middle-age illiteracy (namely, all people between the ages of 14 and 40 in 68 counties have learned to read and write). The above-mentioned counties are located in eastern and western parts of China. They have the conditions to wipe out illiteracy. Most counties in China also have such conditions. The key is whether the local party committee and government make any subjective efforts

and whether their measures are effective. It is not that it cannot be done. It is because they do not want to do it.

As far as illiterates are concerned, many of them probably do not like to be "blind" (commonly referred to as being "illiterate"). Most of them are anxious to remove the illiterate label. Imagine: If they want to become rich, be specialized economic households, and walk out of their farms to do business, they cannot take one step without knowing how to read. They must study the rural economic reform system. Guangxi's leaders came face-to-face with such "demands of the times" and "urgent desires" of peasants and realized that failing to attend to them will seriously hinder the economic development of Guangxi's rural areas. It is on the basis of this awareness and years of hard work throughout the region that Guangxi has made today's achievements. If other provinces, municipalities, and autonomous regions in China have the determination and enthusiasm of Guangxi, the situation will be different.

What still worries people is rural areas. Many grassroots organizations are lax, there are no responsible persons and definite positions for many programs, and the ratio of illiteracy is continuing to increase instead of decreasing. The Chinese Government admitted that "ignorance cannot build socialism" (Li Peng said), but what do we do to really change the current situation of ignorance? Issuing calls and talking about the significance alone is far from being sufficient. We must also commit a large sum of money and adopt some feasible measures.

Here I would like to make two suggestions: All middle schools in rural areas share the responsibility of "teaching" some illiterate people in their neighborhoods; all military bases assume the task of "teaching" illiterate people in neighboring rural areas. If they do not fight, why can't they join the campaign to wipe out illiteracy? This is also a very effective way for the military to show love for the people. Although it is voluntary service, those who have done a good job should be commended. With these two great anti-illiteracy forces, we believe that the situation of widespread illiteracy in rural China will change considerably within a certain period of time.

Running Vocational Middle Schools in a Big Way Benefits Economic Development

How many in every 10,000 people in China are going to different schools? According to information published by the Liaoning Teachers University newspaper in 1984, of every 10,000 people, there are: 1) 1,352 grade school students; 2) 11.2 vocational (agricultural) middle school students; 3) 375.4 ordinary middle school students; 4) 62.7 ordinary high school students; 5) 11.4 secondary vocational school students; and 6) 21.2 college students.

It looks as though there are 30.7 times as many middle school students as vocational (agricultural) middle school students and 5.5 times as many high school

students as secondary vocational school students. The numbers of college, middle, and grade school students are out of proportion.

Let us take a look at the ratio of middle school students in other countries: There are 962 in the United States; 952 in France; 818 in Japan; and 638 in West Germany. (Note: These are figures published in 1975.) In China, however, there were only 454 middle school students in every 10,000 people in 1983.

I could not understand for many years why the number of college enrollments is limited but there are so many ordinary middle schools in China. Why don't they have more vocational middle schools (while all industries at home desperately need the supplement of educated labor reserves)? Such an imbalance has been a longstanding problem, but readjustment has been very slow.

I had a chance to visit some agricultural middle schools in inland China. The objective of those schools is very clear: To serve rural areas and agriculture. Students there learn theory and have field experience. After graduation, they become hot commodities. Peasants fight over them like fighting over bridegrooms. When they go to rural areas, they can accomplish a lot. If one village has one or two technicians with secondary vocational school education, agricultural production in the whole village will boom. Science and technology make it possible to fully develop agricultural potential!

If all towns and townships in China increase the ratio of vocational middle schools, they will definitely improve the quality of the labor force and accelerate the development of all industries including industry, agriculture, commerce, and transportation. As a matter of fact, in Japan and other countries, running vocational schools in a big way is already a road to success and not anything new. Judged from China's national conditions, there is an urgent need for a large number of new workers with secondary education and primary technical skills to push the not-so-developed production level in China. Currently, the ratio of ordinary middle schools to secondary vocational schools is 31:1.

As far as I know, the broad masses of peasants and rural cadres most welcome graduates from agricultural middle schools, not ordinary middle school students who are "jack of all trades and master of none."

China has a very good tradition in children's education. The current school attendance rate of children is over 90 percent. The attendance rate in urban areas is as high as 97 percent. China should be proud to be among the frontrunners in this regard.

As far as preschool education is concerned, many households have "hired" 24-hour tutors, namely radios and televisions, to give children a variety of education through images. This is an advantage over the past. But education at home is often influenced by feudal and patriarchal thought. Children whose parents both work are usually left alone at home during the day. They end

up in the streets, engaging in gang fights or thefts. Some even become "little hooligans" under the seduction of bad people. This has become the biggest worry of families where both parents work. Quite a few such tragedies have been reported.

As for elementary schools, they are okay in urban areas. In rural areas, especially remote mountainous areas, it is very difficult to go to school. Many country children have to do two things at one time. They have to chop wood, cut grass, and recite books from memory; older children also have to look after their younger brothers and sisters. Because of the limited number of schools in villages in mountainous areas, pupils have to climb mountains and hills or ride ferries in the rain and storms to get to their schools every day. It is very hard for them. Many students can not continue and have to drop out of school. According to my surveys in the mountainous areas, the higher the grade, the higher the dropout rate in elementary schools. Only 70 percent can really hold out till graduation. Those who have studied for two or three years will eventually become illiterates or semi-illiterates. In rural households where there are many children, it has almost become a rule to send only boys to schools and keep girls at home to take care of housework.

The Trouble With China's Education Is Higher Technical Education

At present China has 1,075 universities and colleges. Judged from the current level of social development, there are enough schools for now. The main problem is quality.

As far as I know, the following 10 issues need to be carefully discussed and resolved: the principles of administration, the systems of school, content, methods, teachers, teaching materials, equipment, funds, and the issue of assigning graduates.

Overseas and domestic experts and scholars have published many professional research results on the following 10 issues which I will not repeat one by one.

Here I would like to raise a "longstanding" issue. For a long time, college education has not "suited" the needs of society. To put it more clearly, (a considerable number of) graduates provided by universities are not very welcome or are received reluctantly by the receiving units. There are several reasons: One is that the professional knowledge of the assigned graduate is not what the receiving unit needs—a mismatch. Another is that the speciality is correct, but the assigned graduate has only some general concepts, doctrines, and outdated knowledge which do not suit the needs of the rapid development of actual work (this problem is prominent especially in some departments and units where modern science and technology are developing rapidly). The former may be resolved by changing the method of assignment. But the latter involves the fundamental issue of how to synchronize higher education with social development (not to mention the issue of "education

going ahead of others"). This is also a "longstanding" issue that we have debated for many years.

Mr. Kuang Yaming [0562 0068 2494] asked society: What is the actual receiving capacity of society for "the results of education" (note: this should include graduates)—that is, how many different levels of employment positions can society provide? Is it possible to find the best match between economic development and education?

Asking such questions can help communication and is good for the reform of "two-way advance."

However, as far as universities and departments in charge of higher education are concerned, the key seems to lie in self-examination and criticism. Is there an tall invisible wall on the campus that blocks the view of high-ranking officials, principals, and teachers and prevents them from seeing the rapid changes in the world and the daily changing expectations of all circles of society toward higher education? Educational reform is so slow to start. How can we expect to raise modern talent in the "static education" system that remains the same after several decades, with knowledge which is becoming obsolete, and in classrooms where there is no fresh air? Many old professors really have a great deal of knowledge and a good educational background, but they are old and weak. Their minds are failing. Their interest in and ability to absorb new knowledge are also weakening. Asking them to look forward to the 21st century and opening new courses is making excessive demands on them. However, it is not unreasonable for young people who are eager to learn new things to express to old professors such expectations and desires. After trying unsuccessfully, these students will be disappointed and lose interest in lectures. They will turn to libraries or just muddle through the semesters. After they graduate and go into society, people will call them "antiques" and "unreasonable substandard products." They will also feel wronged.

What caused the phenomenon in which universities and receiving units blame each other and students are caught in between? Fundamentally, education is divorced from society (to different degrees) and departments in charge of higher education are not coordinating with the economic commission.

"Taking Education Lightly" Reflects the Nearsightedness of State Plans

In the final analysis, the tendency to stress economy and ignore education has existed for many years in the overall plan of the state. The ratio of investment alone can fully explain this. In 1986, the national educational fund was 21.4 billion yuan, while the second phase of the construction of the "Baoshan Iron and Steel Company" alone cost as much as 12.8 billion yuan. In 1987, national group consumption reached 42.6 billion yuan.

The importance of 1,000 universities is not smaller than that of 1,000 enterprises. If the state had the same great

determination to run universities as it did with the "Baoshan Iron and Steel Company," the "nuclear power plant," and the "three-gorge construction project," the situation would not have been so "ugly." Let us think about it. Instead of enjoying his worry-free life in Hong Kong, Mr. Li Jiacheng [2621 0857 6134] makes actual contributions to the undertakings of higher education in China year after year. How can the Chinese officials in charge of education remain indifferent if they have a conscience? China has borrowed so much money from other countries, but how much has been used to "save" educational undertakings?

Everybody agrees that "education is a great cause" and "taking 100 years to rear people is an important project," but education is always given second priority in the state's overall plan. How are we going to account for this in history?

The egalitarian practice of treating all 1,000 universities the same way is, of course, not necessary. But is it necessary to put off again and again such demands as giving priority to funding selected key universities in every province to ensure that they become Chinese-style modern institutions of higher education both in name and reality and train really outstanding top-notch personnel desperately needed by society?

I think that, although China is poor, failing for a long time to give education necessary funding and input is caused basically by problems in guiding ideology and principles. Every premier and vice premier of every administration has said many things about "education being important," but they all moaned and groaned when asked for money. I thought that the 4 June incident would cause the authorities to pay attention to this matter and work on this weak link. As it turned out, they only blamed students for "lack of morality," teachers for "lack of teaching," and school principals for "lack of management" (which were proven facts and indeed needed to be strengthened). But what did high-ranking educational leaders learn from all this? How much more funding did the state give to education in its overall expenditure plan? After waiting for 40 years, it is still the same old story: The state is "financially very strapped," you have to open up more avenues to raise educational funds. In the meantime, military spending can increase sharply, social group purchases can expand continuously, and money-losing enterprises can get subsidies forever... The state still does not pay enough attention to educational undertakings when planning national expenditures (far less than the attention it pays to national defense and the economy). This reflects a nearsightedness in the state plan. It may also be called a bias.

Leaders worry most about economic stagnation. They think economic problems have nothing to do with "cultural factors" and "the factor of insufficient education." For a long time, they stressed the economy for the sake of the economy and failed to make it grow. They really should learn from the West in this regard. Japan's Toyota Corporation is willing to spend energy on the

education and training of its employees. Canada's input in higher education is very impressive. The General Electric Company of the United States hired an engineer named Charles Steinmetz who came up with over 200 patented inventions. Western entrepreneurs who have really enjoyed the benefits understand that they cannot succeed without the cooperation of scientists and that they would be real fools if they did not rely on the "mental power" of scientists to get rich. Western entrepreneurs are still laughing at China because China's economic departments do not have the "habit" of trying to use the ideas and scientific research results of "noneconomic departments." However, China's economic departments have another "habit." That is, when the economy stagnates, they are quick to resort to administrative orders, working extra shifts or extra hours, "tightening the belt," and "stretching the penny." Even if they wanted to "open up more avenues," they still have failed to vigorously develop intellectual resources hidden among millions of intellectuals!

They seem to think that only the scientific results of foreign scientists can bring foreign capitalists high profits and that all Chinese scientists and technicians are idiots and that their scientific results can never produce any economic returns. (Indeed, they will be waste paper and trash as long as they remain in the display room and do not enter the commodity market!)

In recent years, some Chinese leaders began to learn about the West's "silicon valley" and the fact that sophisticated products there can earn big money, which is true. But Westerners have today's achievements because they had foresight and were willing to invest ahead of time. Instead of standing by the pond and longing for fish, why don't Chinese leaders go back and make a net?

Many Western countries (even small ones) know that they can earn big money by manufacturing high-grade, precision, and advanced scientific and technological products and that they are better off exporting these than exporting industrial and agricultural raw materials and semiprocessed goods such as fish, shrimp, fruits, and wool! On 18 January 1990, Song Jian, chairman of the State Science and Technology Commission, frankly stated that China's pure high-tech products currently account for only 2.3 percent of total exports. He said that the success or failure of the high-tech industry was "an important step determining whether the Chinese nation can really stand up." Question: Has China "stood up" yet? It is 40 years after the founding of the PRC. When will China begin to take this important step?

China has 1.1 billion people and 1.1 billion minds. If we can develop the "advantage of minds" and if millions of people have healthy, fully developed, and highly intelligent minds, we will not have to worry about whether or

not China can "stand up." Chinese leaders should understand this: What makes China stand up? The answer is minds and fully developing and utilizing intellectual resources. This is the long-term advantage of China!

The Basic Objective of Educational Development

The objective of education is to train various kinds of personnel for society and the state, thus improving the quality of the whole nation.

Some people abroad believe that in the 1990's China will not be able to meet the demand unless it supplies 14.5 million college graduates. Let us just assume that this number is the goal that we should work for. According to statistics from the 1982 census, the total number of college graduates, counting even secondary vocational and technical schools, as well as television, correspondence, and sparetime college programs, is only 6 million.

I think that we should have different categories as well as multiple levels of personnel training. China is big and uneven. It needs advanced personnel as well as intermediate- and primary-level personnel. In a certain sense, it needs to make greater efforts to train the latter. First, because they are the "big gap" China urgently needs to fill up today. Second, because when there is a solid broad basis of intermediate- and primary-level personnel, there will be no shortage of reserves of advanced personnel. Of course, the most imminent problem is that there are several hundred million illiterates and semi-illiterates at home who constitute a "large area" of darkness and who make "improving the quality of the whole nation" unrealistic and empty talk.

Here I would like to raise one issue: Li Peng has declared to the whole world that in a 12-year period between 1989 and the end of this century China will "achieve initial modernization." My question is: On the date this goal is achieved, how many illiterates in China will learn to read? How high will the cultural quality of the nation be? Li Peng said only that by then "people should live better." He did not mention educational expectations and targets to the representatives of international education circles. This, I think, could not be an oversight.

If "modernization" does not include the improvement of the cultural quality of people, social development will become lopsided. People's material life will be rich, but cultural life will be poor and even vulgar. This is too far from the basic goal of socialism!

Let us think about it. "Twelve years later," which means more than years from now, China will still have several hundred million illiterates and semi-illiterates, but it will declare to the whole world that "it has achieved initial modernization." Won't it become a laughingstock in history on the eve of entering a new century? Chinese authorities, please think about this point carefully.

Anyang Militia, Reserve Troops Receive Training
90CM0256A Zhengzhou HENAN RIBAO in Chinese
3 Jun 90 p 3

[Article by Gu Xiaoqian (7357 1321 0051) and Wang Jun (3769 0193): "Anyang Military Subdistrict Vigorously Promotes Military Training Militia, Reserve Troops"]

[Text] The Anyang Military Subdistrict is vigorously promoting regularized military training of the militia and reserve troops, opening up a new path in the effort to raise the military quality of militia and reserve troops.

After the county (district) People's Armed Forces Department [PAFD] was transferred to local governments, the Anyang Military Subdistrict party committee called a working meeting of the county (district) PAFD in early 1987 on the topic of the new situation which had appeared. The work of the PAFD was the primary subject of discussion, everyone was guided to rethink their understanding of regularized military training, and activities were launched throughout the entire district to encourage everyone to "devote himself to national defense and the arming of the people." The military subdistrict and the county (district) PAFD have been doing several things in the last few years. One thing has been to carry out intensive training for short periods. Training in some topics that cannot be easily carried out when everyone is not gathered together has been carried out in a unified, intensive manner. A second thing has been to call meetings instead of carrying out training. The subdistrict and the county (district) PAFD have called meetings every year to discuss ongoing work. Prior to these meetings, they give advance notice to work units that are to receive training, and during the meetings they make random checks of the results of training in the various departments and work units. Preliminary statistics indicate that 2,500 militia and reserve troops were trained by this method alone in 1987. A third thing has been to carry out instruction by correspondence. Every year since 1987, the subdistrict has compiled and issued *365 Days of Military Theory*. Militia and reserve troops are asked to read one selection every day, and three levels of contests are organized between active duty, PAFD, and specialized militia cadres to test the cadres' mastery of the correspondence lessons. A fourth thing has been to launch academic research into military subjects. In 1987, the military subdistrict established a military research association and set up a specialized publication for militia and reserve troops, thereby creating excellent conditions to aid militia and reserve troops in studying about military theory. In the last three years, militia and reserve troops throughout the district

have written 112 scholarly articles, 20 of which were published in periodicals at the provincial level or higher. Prizes were awarded by the provincial military district to 10 persons.

The actions of the Anyang Military Subdistrict have enabled the militia and reserve troops to achieve some of the best results in the provincial military district in several areas of military training, and they have been praised many times by the General Staff and the Jinan Military Region. The provincial military district held a meeting here from 21 May to 24 May and summed up and promoted their experience and methods. Various leaders of the Jinan Military District and the provincial military district attended the meeting, including Zhang Xuishan [1728 4423 1472], Wang Yingzhou [3769 5391 3166], and Huang Qiugui [7806 4428 6311].

Editor's note: Since the PAFD reverted to the local governments, the signs of "emphasizing local government work and neglecting military training" have appeared in some localities, affecting the regularization of military training for militia and reserve troops to different degrees. This is a new problem which should be corrected immediately.

Since the PAFD reverted to the local governments, it has been doing its best to carry out the core work of the party, which revolves around local political work and economic construction. This is a responsibility which must not be shirked under any circumstances, it is true, but at the same time they cannot abandon the original tasks which belong to them as part of the PAFD. The PAFD is responsible for the very important tasks of carrying out national defense education and mobilizing and strengthening national defense reserve forces. It must also remain prepared for war in times of peace, and preserve and strengthen the glorious tradition of the people's armed forces. The idea that "the system has changed, the shop has switched its signs, and there is no longer any need to go forward with regularized military training" is a grave mistake. As the foundation of the "great wall of steel," the broad masses of PAFD cadres must firmly cultivate the attitude that the unit is the family, the concept that the military is the foundation upon which everything rests, an enthusiasm for arming the people, and a desire to devote one's life to national defense. They must earnestly organize and mobilize the great masses of militia and reserve troops to perform unstintingly the various military training subjects, thereby advancing work to arm the people at the same time that it serves the needs of the core work of the party in the new period. The Anyang Military Subdistrict has provided us with an example we can learn from, and it is hoped that every locality will do this work well in accordance with local conditions. [end editor's note]

Biodata on Premier Hau Pei-tsun

90CM0253A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 165, 13 May 90 pp 26-32

[Article by Chen Jou-chin (7115 2677 4897): "Is Democracy Rule by the People? You Are the 'People,' He is the 'Ruler'! A Look at Hau Pei-Tsun"]

[Text] A former aid to Hau Pei-tsun, after hearing that his old commanding officer had assumed the office of premier, continually praised Hau, saying that he ran a very tight ship in the military, and that he had a forceful personality. "Well, he's a soldier! At the very least he won't let a crisis lead to chaos." This man said that it was very good for the country that Hau Pei-tsun was becoming the premier. When asked about Hau Pei-tsun's concept of democracy, he laughed a bit and said, "If democracy means rule by the people, then you are the people and he is the ruler!"

Eloquent Speech Is Persuasive

Hau Pei-tsun would surely find it hard to accept the description of himself offered by his former staffer, because he himself feels that when people hold opposing views, "We handle it democratically! There are naturally different voices in a democracy. In the end, the minority submits to the majority." When members of the Legislative Yuan curse him in parliamentary session, he regards his reaction as magnanimous, saying, "I don't worry about little things like that."

It is indeed true, as his subordinates have said, that "he has read *Tzu Chih Tung Chien* [a voluminous work on Chinese history written in the 11th century] and the *Sankuo Yanyi* [*Romance of the Three Kingdoms*]. He can speak English. He's no rustic." The eloquence of Hau

Pei-tsun's speech surpasses that of any other cabinet-level official currently in office. His beautiful phrases, together with the deep timbre of his voice, lend a strong persuasiveness to his words. Thus, when the Democratic Progressive Party [DPP] criticized him, saying that he was a soldier interfering in politics, he was able to rebut, "ever since it was founded at Whampoa, the nation's military has served only as a protector of democratic government, and has most certainly never hindered democratic government."

It is apparent that there is quite a discrepancy between Hau Pei-tsun as he sees himself and the Hau Pei-tsun that others see. An examination of the facts reveals that there is a great divide between Hau Pei-tsun and himself. Hau Pei-tsun the thinking man is not the same as Hau Pei-tsun the man of action, and the thinking man himself can be self-contradictory.

The words of Hau Pei-tsun are those of a man who understands that accepting opinions that go against one's own is the fundamental tenet of democracy, but at the same time he feels that "advocacy of Taiwan independence" is treason. Even if Taiwan independence were achieved through a legal and constitutional procedure, he states that the nation's military would not support it. He feels that this would certainly be a matter of hiding under the cloak of democratic procedure to alter the nation's Constitution, therefore "the military must not only criticize advocacy of Taiwan independence, but must also prevent it."

People wonder incredulously how Hau Pei-tsun squares his concept of "accepting different opinions" with his idea that "different opinions must not be discussed." If the two ideas are located in two different halves of his brain, then there must not be any "bridge of logic" linking the two halves.

Public Statements by Hau Pei-tsun on the Nation's Future

Content of Statement	Date, Place
Taiwan-Mainland Relations	
The essence of relations across the Taiwan Strait is not "peaceful coexistence" or "a peaceful contest [chingsai]," but "peaceful competition [chingcheng]."	December 1989, Legislative Yuan
The threat from across the Taiwan Strait will not be reduced by an easing of East-West tensions.	March 1990, Legislative Yuan
The situation in the Taiwan Strait is unstable. It is a balance between two sides, both of which are flexing their muscles. This is a relaxed sort of tension, or a tense sort of relaxation.	May 1990, CHUNGKUO SHIHPAO
Development of relations between Taiwan and the mainland has nothing to do with our perception of them as the enemy. If development of relations between the two sides led us to think that the two sides were no longer enemies, and that we could reduce military forces, we would be playing into the Communist Party's united front tactic.	May 1990, CHUNGKUO SHIHPAO
Taiwan and the mainland are "one China, two governments"	April 1990, Legislative Yuan
Mainland Policy	
There are more advantages than drawbacks to allowing visits to relatives in the mainland. There is basically no connection between visits to relatives and our perception of the enemy.	June 1988, YUEN CHIEN TZACHIH
We view the communist regime and army, not the people of the mainland, as our enemy.	February 1990, CHUNGKUO SHIHPAO
There must be a popular element to our mainland policy, and it must be strengthened. There are more advantages than drawbacks to indirect trade.	February 1990, YUEN CHIEN TZACHIH

Public Statements by Hau Pei-tsun on the Nation's Future

It's not that we cannot change the "three no's" policy, but we must see how relations between Taiwan and the mainland develop before we can decide at what time, under what conditions, and in what way it might be changed. Relations will have to develop further before we can decide whether they have developed to the point where it is necessary to set up an intermediary.	April 1990, Legislative Yuan
Mainland policy must be formulated with the following three principles firmly in mind: First, it must be aggressively pursued, but we must not give in to wishful thinking. Second, we must take the initiative, but we must not overlook security issues. Third, there must be an overarching plan, and we must take it step by step as conditions permit.	May 1990, CHUNGKUO SHIHPAO
Military personnel absolutely cannot be allowed to visit relatives in the mainland.	December 1989, Legislative Yuan
View of Taiwan Independence	
The objective of the Chinese Communists' united front tactics is to get us to abandon "opposition to communism," while those who advocate Taiwan independence want us to abandon our commitment to "recover China."	June 1988, YUEN CHIEN TZACHIH
Although the island of Taiwan is very nice, it is no place to take long-term shelter. To advocate Taiwan independence is to "engage in idle daydreaming," and to "be so arrogant as to forget the existence of one's ancestors."	September 1989, Soldier's Day
Advocates of Taiwan independence concern themselves only with the future of Taiwan, and not that of the Republic of China. This is nothing but castles in the air.	November 1989, Central News Agency
Taiwan independence is impossible. Any democracy that proposes Taiwan independence is "suicidal democracy."	February 1990, CHUNGKUO SHIHPAO
Advocacy of Taiwan independence gives the Chinese Communists the best excuse to use military force against Taiwan.	February 1990, Chinese and foreign military journalists
The military must not only criticize the advocacy of Taiwan independence, it must prevent it. This is not military interference in politics.	February 1990, CHUNGKUO SHIHPAO
No activity that uses a democratic process to advocate alteration of the nation's name, its boundaries, its flag, or its constitution can be allowed (nowhere in the world has anyone ever used a legal, constitutional process to change a nation's name or its structure). I must clearly inform everyone of this fact.	February 1990, CHUNGKUO SHIHPAO
The current unlimited tolerance for the idea of Taiwan independence has become a crisis for the nation.	February 1990, YUEN CHIEN TZACHIH
Every person must firmly oppose the treasonous activities aimed at Taiwan independence. No one should or can consider themselves above the fray.	February 1990, Fuhsinggang
The nation's Army defends the Constitution of the Republic of China. It defends the Republic of China, not Taiwan independence. Our purpose is to create an opportunity to recover the mainland, not to become independent or separate from the mainland.	April 1990, Legislative Yuan
The Chinese Communists have said that "if Taiwan declares independence, we will have to attack Taiwan." Everyone in China and abroad knows this. For the sake of security, it would be better to believe this would happen than to disbelieve it.	April 1990, Legislative Yuan
President Li's pragmatic foreign policy does not constitute advocacy of Taiwan independence [taitu], nor does it make Taiwan independent [tutai].	April 1990, Legislative Yuan
I've lived 30 years in the mainland and 41 years in Taiwan. I love China and I love Taiwan. I don't have a phobia about communism. Most of my compatriots see me this way.	April 1990, Legislative Yuan
Advocacy of Taiwan independence is defined as: an abandonment of sovereignty over the Chinese mainland, an abandonment of the Constitution of the Republic of China, an alteration of the name and flag of the Republic of China and the establishment of a new and independent nation.	April 1990, Legislative Yuan

There Is a Big Difference Between Overstepping Institutional Boundaries and Respecting Them

During last year's general elections, the military laid siege to Wen Ha-hsiung [3306 0761 3574], former commander of the Joint Logistics Department. Wen's son-in-law, Ting Shou-chung [0002 1343 0022], was running for a seat in the Legislative Yuan as representative of Taipei's northern district. In order to keep him from taking votes away from Chao Chen-peng [6392 2182 7720], the candidate endorsed by the military, Hau Pei-tsun called Wen Ha-hsiung on the carpet, saying that

"if he could not even keep his own son-in-law under control, how could he ever have commanded troops?" Hau complained, "Ting Shou-chung's participation in the election destroys military unity." Hau Pei-tsun used the political interests of the military to threaten a candidate and deter him from exercising his right to participate in elections. This kind of political practice does not stand up well when measured against his solemn vows of respect for democracy.

Probably the most serious conflict between Hau Pei-tsun's democratic ideas and his actual practices was his

recent acceptance, in his capacity as a military strongman, of the premiership. Reforms are now freeing Taiwan's politics from the shadow of military rule, and the people are slowly moving away from the white terror of military rule. Soldiers are now taking further steps toward a role as defenders of the nation, but Hau Pei-tsun, in order to show that his desire to serve his country has not weakened, has turned Taiwan's politics back along a path that had already been travelled.

Hau Pei-tsun likes to emphasize that "the military takes great pains to observe institutional boundaries and to play its proper role." It is as if respecting institutional boundaries were a special virtue of his alone, yet just last September, when Li Huan [2621 3562] had just assumed the premiership and made a visit to the Ministry of Defense (as is customary in his position), Hau Pei-tsun, then the chief of the General Staff, actually failed to

show up. He only sent a deputy chief of the General Staff to meet Li. Not only did he ignore the premier, he acted as if he did not exist.

When Hau Pei-tsun was the chief of the General Staff and the Indigenous Defense Fighter [IDF] fighter jet was test-flown, Hau Pei-tsun was the principal person accompanying Li Teng-hui when the president inspected the aircraft. The minister of defense did not even participate. Later, when Hau Pei-tsun became minister of defense, he remained in reality chief of the General Staff even though he no longer wore a uniform. Not long ago, at the christening ceremony for the Flying Tiger combat vehicle, Hau Pei-tsun continued to play the leading role. The way he refuses to distinguish between the dual system of military command and military government and his unwillingness to set up procedures and precedents stand in sharp contrast to his so-called "respect for institutional boundaries."

Public Statements of Hau Pei-tsun on National Security

Content of Statement	Date, Place
The Probability of an Invasion of Taiwan by the Chinese Communists	
There are three situations which provide the Chinese Communists an opportunity to invade Taiwan: 1) Taiwan declares independence; 2) the military strength of Taiwan, Penghu, Chinmen, and Matsu shrinks to the point where it cannot withstand an attack; 3) internal unrest breaks out in Taiwan.	October 1989, China Television
Only military parity can truly deter the Chinese Communists from military adventurism. The fact that the Chinese Communists have not yet dared invade Taiwan shows that Taiwan's current military strength is sufficient to defend Taiwan, and that our strategy has been effective.	December 1989, Legislative Yuan
No matter what the relative strength of the Chinese Communist Army, Navy, and Air Force, they will always have superiority.	April 1990, Legislative Yuan
To be perfectly honest, what harm would it do me if the Chinese Communists invaded Taiwan? The worst thing that could happen is I would be killed.	April 1990, Legislative Yuan
The Military's Ability To Defend Taiwan	
As for attacking the mainland, we do not yet have sufficient strength, but we do have all the forces we need and more to defend Taiwan. Our defense equipment has reached the most advanced international standards.	August 1988, China Television
We have to manufacture the IDF as fast as we can, so we cannot wait until the practice flights have all been completed before we begin producing them. It is cheaper and quicker to buy the M48H Combat Truck than to make one ourselves. Most important, the fire-control system is the most advanced. We are looking for real performance, not just a pretty name. Although it will still be called the M48, it will be the most advanced combat truck.	December 1989, Legislative Yuan
We must have sufficient strength to maintain the conditions for peaceful competition, so the military cannot be reduced, the length of military service cannot be shortened, and the defense budget cannot be cut.	December 1989, Legislative Yuan
You would have to cut an Army division to buy one and a half F-16's. Can they take the place of a division?	April 1990, Legislative Yuan
If the Legislative Yuan wants to cut the defense budget, I will be able to use my professional knowledge of military affairs to judge such an action. If I don't feel it is in keeping with defense policy, I'll resign.	April 1990, Legislative Yuan
Although it costs a lot to stay prepared for war, we can avoid war by doing so. The biggest waste of money would be fight a war and lose.	April 1990, Legislative Yuan
Military reduction means to reduce ineffective military equipment. It absolutely does not mean to cut out effective troops capable of performing their mission.	December 1989, Legislative Yuan

Public Statements of Hau Pei-tsun on His Political Views

Content of Statement	Date, Place
Nationalization of the Military	
Our military became nationalized long ago. I am referring to the fact that the nation's military system and instruction must conform to the spirit mandated by the Constitution.	August 1988, China Television
Political education within our military is based upon the Three People's Principles. This is the political education of the nation, not of the Kuomintang (KMT). The military has always belonged to the nation. We cannot use a slogan about the nationalization of the military to make this organization lose its ideological spirit or will.	December 1989, Legislative Yuan
The nation's military supports any party that supports the Constitution.	December 1989, Legislative Yuan
Since the lifting of martial law, the military has not gotten involved in politics when there have been the ruling party and people outside the government, and even when people have taken to the street. The military has no problem maintaining a neutral position.	December 1989, Legislative Yuan
Soldiers also have the right to vote.	[date, place not given]
Party cells have long since been eliminated from the military, and all leading generals are limited to a specific term. This shows that the military has been nationalized.	December 1989, Legislative Yuan
I personally believe that we should draw up a national defense organization law.	April 1990, Legislative Yuan
The military's attitude regarding elections, whether past, present, or future, is neutral.	March 1990, Legislative Yuan
A soldier is not a tool to be used to aid any individual's political struggles, but a person who defends the sovereignty of the nation.	June 1988, YUEN CHIEN TZACHIH
Military Interference in Politics	
This worry has been fabricated by people with ulterior motives. They oppose the nation and everyone in the government. They want to vilify the military and even me personally. I reject this idea.	June 1988, YUEN CHIEN TZACHIH
When a military man takes part in politics, it has nothing to do with military interference in politics. Is that what it was when Eisenhower became president, or when Alexander Haig became secretary of state?	April 1989, Chin Tien Association
My status as a soldier is a thing of the past. I am now carrying out a role in government in my capacity as a civilian cabinet member.	December 1989, Legislative Yuan
How does that constitute military interference in politics? I don't object to this affair, but it is not that it doesn't bother me, either, because soldiers defend the existence of the nation. We have our own viewpoints and our proper role.	February 1990, CHUNGKUO SHIHPAO
My personal creed is not to get involved in political struggles. For the nation and for the political parties, I represent unity and amicability. I am not a burden. I am probably the most powerful chief of the General Staff, but I haven't abused that power, of course. When I say power here, I'm referring to the fact that the president agrees with all of my opinions.	February 1990, YUEN CHIEN TZACHIH
I am a military leader in a democratic country. I carry out my work as the Constitution of the Republic of China defines it.	December 1989, Legislative Yuan
What is the definition of a military strongman? I have never considered myself a military strongman.	December 1989, Legislative Yuan
I am a defender of the establishment system. A soldier is absolutely an impediment to democratic politics.	December 1989, Legislative Yuan
According to the Constitution, the president is the commander in chief of the three military branches. Furthermore, the president is a civilian, so the three military branches in our country are commanded by a civilian.	December 1989, Legislative Yuan.
It was rumored that the military establishment wanted me to be the vice president. I'm sorry, but I'm a soldier. I've never had any such plan.	December 1989, Legislative Yuan
The issue of military interference in politics is a hypothetical question without any basis in fact. Since the founding of the military at Whampoa, the military has never interfered in politics, and as a soldier myself, I deny that the military has any intention to interfere in politics.	December 1989, Legislative Yuan
I never tell lies. I am a member of the KMT. When I express my opinions (which are respectful of democracy) within the party, it has nothing to do with military interference in politics. Military interference in politics refers to a situation in which a soldier, in his capacity as a soldier, interferes in political affairs, or attempts to use military force to achieve his goals.	March 1990, Legislative Yuan
I personally will not run for president or vice president, and I am not involved in factional infighting.	March 1990, Legislative Yuan

Public Statements of Hau Pei-tsun on His Political Views (Continued)

If you say that participation by a soldier in politics automatically constitutes military interference, then I can't agree with your opinion.	March 1990, Legislative Yuan
You cannot say it is military interference in politics when a soldier takes civilian office. There are examples of this in every democratic country in the world. The military does not actively endorse any military candidates for civilian posts. A soldier must rely on his own efforts to gain such posts.	March 1990, Legislative Yuan
Statements Made During the KMT's Policy Struggle	
I have never been caught up in this whirlpool (referring to the internal KMT policy struggle).	February 1990, CHUNGKUO SHIHPAO
I don't belong to any faction. I stand on the side of the government.	March 1990, Legislative Yuan
The election of the president and vice president is an internal matter of the KMT. I've already said everything I want to say. I support the party's policies.	March 1990, Legislative Yuan
When the old leaders invited me to participate in discussions in early March, I originally turned them down. Later, they said they wanted me to go and get a feel for the situation, and only then did I go. In the meeting, I only expressed the hope that everyone would be sincere and united. I didn't say anything else.	March 1990, Legislative Yuan
During the KMT special plenary session, I was one of 180 middle delegates that stood up. I had already made my attitude very clear.	March 1990, Legislative Yuan
Whether the premier remains in office is a matter for the president to decide, and it must be reviewed by the entire Legislative Yuan. I personally have no influence over the president or the entire Legislative Yuan, so I don't have any opinion.	April 1990, Legislative Yuan.
Our defense policy will be maintained after the reorganization of the Executive Yuan whether I remain in office or not.	April 1990, Legislative Yuan
My desire to serve the country has never diminished.	April 1990, Legislative Yuan
I wouldn't use any military whatsoever to satisfy my personal political desires, and I don't have any political desires, anyway. What Chiang Ching-kuo said (The military shall not rule Taiwan) held true while he was alive, and it will continue to hold true now that he is gone.	April 1990, Legislative Yuan
Concept of Democracy and Rule of Law	
In democratic nations, the task of the soldier is to defend the country and the people. He has no personal desires or hopes.	June 1988, YUEN CHIEN TZACHIH
Of course soldiers have a political stance. The political stance of a soldier is the objectives of the nation. It is a constitutional stance, and it is the stance of the government. If a soldier had no political stance, then he wouldn't know what he was supposed to do. Wouldn't he then become just like the warlords of old?	February 1990, CHUNGKUO SHIHPAO
Whether to go to war should be decided at the political level. Once war has been chosen, soldiers should decide how to fight it. The soldier's task is to gain victory. Nowhere in the world does a parliament discuss the operational plans of the military.	December 1989, Legislative Yuan
Making the defense budget known to the public would be the same as making it known to the enemy.	April 1990, Legislative Yuan
Democracy is a powerful weapon in our effort to recover the mainland, but votes can't ward off bullets. It is not enough for our 20 million compatriots to vote unanimously to say: "No, Chinese Communists! Don't come over here!"	April 1990, Legislative Yuan
The success or failure of the National Affairs Conference hangs primarily on whether a consensus can be reached, particularly as this relates to the amendment of the Constitution and the issue of supplements.	April 1990, Legislative Yuan
I am not a legal scholar. I only know the Constitution of the Republic of China. I only understand the Constitution of the Republic of China. I only believe in the Constitution of the Republic of China.	April 1990, Legislative Yuan
Formulation of a Basic Law would be equivalent to freezing or abolishing the Constitution of the Republic of China. I cannot accept this.	April 1990, Legislative Yuan
We must return to the Constitution and set up a democratic, constitutional government. At the same time, we must be aware that we are living in special times. We are still in the period of communist rebellion. That is why we formulated the Temporary Provisions back then.	April 1990, Legislative Yuan
China must become democratic and it must be unified.	May 1990, CHUNGKUO SHIHPAO
Our nation's democracy is neither mature or healthy right now. The country has come down with "the senility of democracy" and "the puerility of democracy."	May 1990, CHUNGKUO SHIHPAO

Public Statements of Hau Pei-tsun on His Political Views (Continued)

Journalism and mass media today are abusing freedom of the press, which is a kind of "puerile democracy."	May 1990, CHUNGKUO SHIHPAO
Representatives in parliament have abused their right to oversee the government as well as their right to immunity.	May 1990, CHUNGKUO SHIHPAO

Now a Politician, Now a Soldier: Confusion of Roles

Hau Pei-tsun says, "soldiers do not concern themselves with politics," "my personal creed is not to get involved in political struggles," and "I have always been a man of my word. I myself will not run for president or vice president, and I am not involved in factional infighting." Anyone hearing such statements would feel reassured.

However, the moment Hau Pei-tsun stepped into Taipei Hotel in early March to take part in the reconciliation meeting, he made a liar of himself and shattered the reassured feeling people once had.

When Hau Pei-tsun responded to questions by members of the Legislative Yuan, he said that "it does not constitute military interference in politics when a soldier switches to a civilian post," and that "the military does not actively recommend military people for civilian posts." If Hau Pei-tsun's words were true, Interior Minister Hsu Shui-teh [6079 3055 1795] would not have such a hopeless expression on his face concerning his authority to control the appointment of the head of the National Police Administration.

If anyone expresses the slightest concern about whether Hau Pei-tsun's identity as a military man makes him unqualified to participate in the development of democratic politics, he will throw out a few high-sounding phrases fit for a speech. He will say "the only things that are permanent are systems and tradition," and "I will not leave any dishonorable blemish on the process by which the Republic of China is developing a democratic,

constitutional government." He even left President Kennedy of the United States gaping in admiration.

However, being a champion speaker on morality does not a great religious leader make. Let us consider the example of the elections late last year. Weng Ming-chih [5040 2494 1807], a DPP member from Chinmen, ran for a seat in the Legislative Yuan. The Interior Ministry had certified him as an eligible candidate, yet the military cooked up some lame excuse to forbid Weng from returning to Chinmen to campaign. How does this kind of behavior illustrate the statement that "systems are permanent"?

Everyone says that Hau Pei-tsun is a soldier, but Hau's own statements on this subject are vague and contradictory. When a member of the Legislative Yuan criticizes that his assumption of the post of minister of national defense constitutes military interference in politics, he shakes his head and says, "I am now carrying out a role in government in my capacity as a civilian cabinet member." When member of the Legislative Yuan asks him whether he intends to vie for the vice presidency, he sings a different tune, saying that he is a soldier, that he has never had such a plan or desire, and that he wants only to do his own job well.

This discrepancy between the words and deeds of Hau Pei-tsun originates in his temperament, which has been formed by his military experience. His military temperament is a barrier to his adjustment to the role of civilian bureaucrat.

The Views of Hau Pei-tsun on Economics

Content of Statement	Date, Place
Defense expenditures used to take up 50 percent of the national budget, but it didn't affect economic development.	August 1988, China Television
It takes 10 times as much money to support a policeman as a soldier in the Army, so from the standpoint of expenditures, using soldiers in the Army to guard the coast will save the country a lot of money.	December 1989, Legislative Yuan

The Views of Hau Pei-tsun on Law and Order

Content of Statement	Date, Place
Law and order in Taiwan has deteriorated terribly, but it would be impossible to restore martial law, military administration, and military rule, and it would not be feasible. To do so would be backpedaling. If we want democracy and human rights, everyone will have to make some sacrifices.	February 1990, YUEN CHIEN TZACHIH; and May 1990, CHUNGKUO SHIHPAO
The problem of law and order is the result of a general malaise involving the overall functioning of the government, the prevailing social climate, and the uncoordinated strength levels among the security organs. The fact that law and order is not good can be attributed only to the unfairness of the police.	May 1990, CHUNGKUO SHIHPAO

Hau Pei-tsun's Temperament

Content of Statement	Date, Place
I have two principles. First, I strive for sincerity—not to deceive myself. Second, I strive for honesty.	August 1988, China Television
I have always been fairly aggressive. I don't behave like the typical bureaucrat—"do more, you just make more mistakes; do less, make fewer mistakes; do nothing, make no mistakes." I have always felt that whatever you do, you should have a goal, an ideal, something to strive for. A strong desire to accomplish something is a very important quality in a military leader.	June 1989, YUEN CHIEN TZACHIH
I acknowledge that I have a strong desire to accomplish things, but I frankly declare that I do not have strong ambition. There is a difference between wanting to accomplish things and just having ambition. You've just got to be motivated by your own good intentions.	June 1989, YUEN CHIEN TZACHIH

Determined Resistance to Taiwan Independence

The formation of an army is a matter of taking a group of people with all sorts of temperaments and viewpoints, organizing them into a unit, and forcing them during the course of training to become a single type of person in order to meet the requirements of combat. This person adopts a simple faith and continually strengthens this simple faith. Only when all soldiers adhere firmly to this simple faith will they be willing to die in battle to protect their country. It is inevitable that when a good soldier has become like steel-reinforced concrete, he will not easily accept dissenting opinions, nor will he compromise or give in.

Hau Pei-tsun is no exception. A member of the Legislative Yuan commented that "you can see the adult in a three-year-old child, and you can see the old man in a boy of 10. With a man like Hau Pei-tsun, who's been a soldier for 70 years, his thinking is already set in a single groove, and it is very simple."

Let us take Wen Ming-chih's case to illustrate this fact. Hau firmly believes that advocacy of Taiwan independence is treason. The DPP, furthermore, advocates Taiwan independence, and the military teaches that the DPP is the worst enemy in the universe. The DPP flag cannot be allowed to fly at the front line, or else political warfare education would disintegrate. How would soldiers then fight a war? On the other hand, Hau Pei-tsun is probably just as his commanders and subordinates have described him. He attaches importance to academic learning and he is smart. He has been baptized in the simpler concepts of democracy, so he firmly believes in the idea that political parties should compete in a rational manner through elections. He is capable of reciting both of these ideas and making some sense. Both concepts exist in his mind, neither one impinging upon the other. When a case like that of Weng Ming-chih occurs, however, a conflict arises between the two concepts.

When the two beliefs become incompatible, Hau Pei-tsun has always made the wrong choice because Taiwan began permitting political parties to form only two or three years ago and the idea of politics based on several parties is not firmly rooted, whereas opposition to Taiwan independence, opposition to parties outside the

KMT, and opposition to the DPP are all viewpoints which have been driven firmly into his head.

Haughty and Aloof

Hau Pei-tsun is not only a soldier, he is a "king" among soldiers. A reserve soldier who served in Matsu in 1984 has described how Hau Pei-tsun suddenly went to see a water reservoir construction project in Matsu one day in 1984 to "check on the welfare" of the workers, officer, and soldiers. As soon as he went into the mess hall he walked straight to the kitchen to check whether it was clean, then he returned to the mess hall to eat with everyone else. Hau Pei-tsun sat at a big table all by himself and ate. In front of all the officers and men, his food had been pre-delivered by the Matsu Defense Troops—four plates of vegetables and one of fish. It was different from what everyone else was eating, and it need not be asked whether the food was good.

This reserve soldier said that after the meal Hau Pei-tsun shook hands with every soldier, not missing anyone. He asked everyone the same question: "How many bowls of rice did you eat?" He left immediately afterward.

His style of suddenly dropping in on the outer islands and inquiring about the welfare of officers and men there is somewhat different from that of Chiang Ching-kuo. Chiang had a very unassuming air. When he was with the officers and men, he ate the same food they did, and munched on the same *mantou*. Hau Pei-tsun, however, gives a rather haughty impression. Being a military leader is not the same as being the premier. Due to the special nature of the military, the powerful feeling enjoyed by the Chief of the General Staff is comparable to that of king in a long line of kings.

Hau Pei-tsun likes to take leaders from various levels of the three armed forces on morning jogs of 3,000 meters. As soon as they finish running, he immediately announces the times. The absurd thing is that even when Chief Hau is the oldest, his times are the fastest. Everyone always lags "a bit" behind. Hau Pei-tsun slowed down last year, and everyone also slowed down with him.

Although Hau Pei-tsun has stressed that his purpose in taking his military leaders out on morning jogs is to set an example by keeping physically fit, in reality it also affords an opportunity to "act like a king."

The King Is Subjected to Questioning

In all of history, only the fascist Mussolini shared this custom with Hau Pei-tsun. Mussolini also enjoyed having his high-level military and government officials jog with him, then he would make sport of those pot-bellied, puffing officials, saying "the nation's leaders should set an example for the people by keeping in top shape."

Before becoming minister of national defense, Hau Pei-tsun was the commander in chief of the Army for three years and chief of the General Staff for eight years. The length of his term exceeded that of any other chief of the General Staff. In his "military kingdom," he was a virtual king. It is extremely difficult to adjust to the scrutiny of several hundred eyes belonging to members of the Legislative Yuan eyes when descending from the

exalted position of "king" to premier. One can discern a bit about Hau Pei-tsun from the way he applauded and raised an approving thumb when Wu Yung-hsiung [0702 0516 7160] bitterly denounced the Chinese Communists in the Legislative Yuan.

The mistake of allowing a soldier like Hau Pei-tsun to take charge of the government has already been committed. It is harder to return to heaven than to get there in the first place. Apart from praying that Li Teng-hui will pray even more to his God to give Hau Pei-tsun the wisdom to successfully remake himself within the space of a few days, it would also be worthwhile for the members of the Legislative Yuan, Li Teng-hui, ordinary people, and Hau Pei-tsun to think deeply about something Cicero once said: "Anyone can make a mistake, but only a fool insists on standing by it."

United Democratic Alliance Views Prospects

90CM0203A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 244, 1 May 90 pp 42-43

["Political Salon" column by Ho Li (0149 4539): "How United Democrats of Hong Kong View Their Own Prospects"]

[Text] *Since the Hong Kong United Democratic Alliance was formed by democratic groups, the greatest attention has been given to its relationship with China, and especially to its personnel overlap with the Hong Kong Alliance in Support for the Patriotic Democratic Movement in China. With the situation between the "great northern" rulers and Hong Kong insecure, how do colleagues in the Hong Kong United Democratic Alliance appraise their future prospects as they form a party to participate in government?*

In the last month, two political topics have received the greatest attention in Hong Kong. The first is the British right-of-abode bill for Hong Kong people put forward by Britain. The second is the announced establishment of a "political party" by Hong Kong democratic group figures. The formation of a party by the democratic groups has been discussed on many occasions, and finally the Hong Kong United Democratic Alliance was formed, producing quite a sensational effect. At the time "political salons" appeared, we paid a visit to Yang Sen [2799 2773], deputy chairman of External Affairs of this alliance, to discuss the establishment of the new "party." Also participating in the discussion was Wang Yao-tsung [3769 5069 1350], a lecturer in the Lingnan Institute's Sociology Department.

The Chinese Side Has Serious Doubts

[Since] the establishment of the Hong Kong United Democratic Alliance (United Democrats), people have undoubtedly paid the greatest attention to the relationship between the United Democrats and the mainland. Hong Kong democratic groups came into being to unite existing groups and to strive to establish a democratic political system, and as a result established the Association to Promote Democracy. During last year's eruption of the democracy movement in Beijing, democratic groups rose up in vigorous support, and also established the Hong Kong Alliance in Support for the Patriotic Democratic Movement (Support Alliance). Since the events of 4 June, the Chinese communist authorities have looked on the Support Alliance as a "subversive organization." Eight of the more than 30 leading members of the newly established United Democrats (including the chairman, deputy chairman, members of the standing committee and central committee, etc.) are core members of the Support Alliance. For example, the United Democrats chairman, Li Chu-ming [2621 2691 6900], is also deputy chairman of the Support Alliance, and Support Alliance chairman Sze To-hwa [0674 1778 5478] is a standing committee member of the United Democrats. Because the United Democrats have this

type of background, how they will be viewed by the Chinese side has been the subject of wide discussion and conjecture.

Yang Sen stated that, in terms of China-Hong Kong relations, the Hong Kong United Democratic Alliance clearly states in its political program that its primary interest is in Hong Kong's local affairs, and that it will not directly participate in the internal politics of the Chinese mainland. However, the alliance believes that Hong Kong people have the right to take part in and appraise China's general affairs. If in the future Chinese mainland policies affect Hong Kong's high level of autonomy and democratic human rights, the United Democrats will argue strongly on just grounds. In addition, because in the future Hong Kong will be subordinate to China legally, the United Democrats believe that China and Hong Kong must cooperate and maintain a relationship characterized by dialogue.

As for how the Chinese side will view the United Democrats, Yang Sen said that "they can only understand it from intermediate reports. Views published in Chinese newspapers give great prominence to the fact that some members of the United Democrats are also members of the Support Alliance, and for this reason I believe that the Chinese side has become fixated on this issue. In addition, some reports reflecting the views of leftist figures state that the Chinese cannot improve relations with the United Democrats in the short term. Regardless, the United Democrats are willing to engage in a dialogue, but dialogue is a two-way street. You haven't discussed who I would talk with."

Adopting an Aim, Walking an Independent Path

Wang Yao-tsung pointed out that "the Chinese view the United Democrats with grave distrust. Even if the United Democrats recognize that Hong Kong will be legally subordinate to Beijing, Beijing may also hold that you [United Democrats] are only taking the legal relationship as an abstraction. You say that you must argue strongly on the issues of a high degree of autonomy and democratic human rights, and Beijing may consider that you are opposing it. And in terms of personnel, because there is some personnel overlap between the Support Alliance and the United Democrats, Beijing could say that you are a 'single group with two signboards.' Even if you separated the two groups, this would not necessarily change the existing Chinese view."

Yang Sen stated that "the political program of the United Democrats already explains that its work and the work of the Support Alliance are not the same. As to the question of personnel overlap, that is a road already travelled. With regard to Hong Kong's democratic development, there have been few people who were willing to join in, and so when the democracy movement was launched on the mainland last year, it was totally logical that the democratic groups of Hong Kong supported the movement." Yang Sen also stated that he has noticed some people referring to the democratic groups as "one

rabbit, three warrens" in leftist newspapers. "Three warrens" refers to the United Democrats, the Support Alliance, and the Association to Promote Democracy. This type of speech also reflects the attitude of the Chinese side towards the United Democrats. Whether the United Democrats and the Support Alliance could be separated into two groups in the future will not be clearly known until the Support Alliance elections.

Wang Yao-tsung believes that in fact the United Democrats need not take offense at how they are viewed by the Chinese side, nor at whether the Chinese side is willing to associate with them. The United Democrats need only take up and adopt a purpose, work on local issues, and wait for changes to occur on the mainland.

Hopes for Obtaining Nine Directly-Elected Seats in the Legislative Assembly Next Year

As Hong Kong develops party politics, it is inevitable that the Chinese side will look on like a tiger eyeing its prey. Some United Democrats believe that the Chinese have already classified them as disreputable, so what level of support within the society will the United Democrats be able to obtain? What appraisal do the people participating in the United Democrats have of this situation?

Yang Sen stated that "those involved in the establishment of the United Democrats have their own views. First, though at present there is a feeling of insecurity among Hong Kong people, they are standing up, which demonstrates that there is still confidence that the principle of Hong Kong people governing Hong Kong will be implemented. Second, in the past the strength of political discussion groups was quite dispersed, and it was necessary to combine strengths, put forward a political program, and establish a mass base. Third, Hong Kong has already reached the stage where developing party politics and fostering local political talent is required so that Hong Kong people will govern Hong Kong. As for organizing a party, they have discussed this for a long time; now it is time to make a decision, so that next year there can be elections for a legislative assembly."

After the United Democrats are established, might not the forces of other groups worry about how large the it is, and even join together to counter it? The short-term situation is such that the 89 Person Association, which is from industrial and commercial circles, and the Progressive Association, established by [Maria] Tam Wai-chu [6223 1920 3796], who is a member of the Legislative Council, could possibly collaborate. They may form Hong Kong's "Liberal Democratic Party" (modelled on Japan's Liberal Democratic Party), and advance along two lines in next year's direct legislative assembly elections and functional group elections. There has also been speculation about whether another Legislative Assembly member, Chang Chien-ch'uan [1728 7003 3123], who directs the "Hong Kong Fund," will be able to collaborate with industrial and commercial circles and the

Progressive Association. As for middle-of-the-road figures of non-democratic and non-conservative groups, a portion of these are perhaps also preparing to participate in politics. Under these circumstances, how do democratic groups appraise their own showing in next year's elections?

Yang Sen stated that "the democratic groups will spare no effort in next year's direct elections, and hope to obtain nine seats, or half of the 18 directly-elected seats, and strengthen the confidence of Hong Kong people in direct elections and in the future, as well as strengthening their own confidence. Looking towards the future, they hope that henceforth democratic groups can become a force that is not treated lightly; even if they are unable to govern, they could still exist as a healthy opposition force."

Wang Yao-tsung believes that direct elections will undoubtedly be beneficial for the democratic groups. Beijing clearly is worried that the results produced by a democratic political system will not be beneficial to it. Therefore it has placed many restrictions on the political system program of the Basic Law, limiting direct elections, using functional, group-differentiated "elections" to plant its own favorite chessmen in legislative organizations as much as possible, and may be bringing in the mechanism of "splitting the vote" in order to ensure its control of power.

We Cannot Complacently Wait for Change to Come

With rule by "the great northerners" imminent, presently Hong Kong is indeed a place where people feel uncertain. With a political atmosphere like this, how do United Democrats view their own prospects? What form can political party politics take in Hong Kong?

Wang Yao-tsung believes that, given Hong Kong's circumstances, political groups or parties will develop, though there are many inherent limitations. First of all, the political programs of political groups or parties are limited to local affairs, and the differences among the various groups are not displayed in this area. When there are no major issues or contradictions, political parties will find it difficult to be fully effective. Second, under the shadow of Beijing, Hong Kong people will have contradictory feelings about the political parties of democratic groups. On the one hand, residents would support such a party, while on the other hand, they would feel that it could not become strong and powerful, and that it could be constrained or even suppressed. In the final analysis, the future of Hong Kong is tightly linked with that of the Chinese mainland. If Beijing does not change, Hong Kong's room for maneuver will be very limited.

Yang Sen agreed that the development of political parties in Hong Kong has inherent limitations. His advice, and that of his fellow members of the United Democrats, was to "be determined, understand the limitations we are facing, and fully utilize already existing conditions." He says that after the announcement of establishment of

the United Democrats, the general reaction within the society was one of considerable enthusiasm. In the past, Hong Kong people rejected political organizations, but now there has clearly been a change. He said that everything must have a starting point, and since [people] are saying that in the future "Hong Kong people will govern Hong Kong," Hong Kong people will now start participating in politics. Recently, the head of the Hong Kong branch of the Xinhua News Agency said that he believes that the principle of "Hong Kong people governing Hong Kong" could not be brought about overnight, and hence it was necessary to start creating conditions that would allow this. Hong Kong supervisor Wei

Yi-hsin [5898 1150 0207] also noted that currently there is a need to suit things to Hong Kong's needs, and to develop political and social leaders. Of course, when Chinese and British officials make the above statements, they are in fact referring to different things. However Hong Kong people should understand that, in order to secure their future, they must work very hard now. The situation on the Chinese mainland cannot help but change due to numerous domestic and external factors. Nevertheless Hong Kong people cannot afford to be idle, and cannot sit helplessly on their hands, awaiting the arrival of change.

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