



# ***JPRS Report***

# **China**

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# China

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### Political Pluralism Seen Inappropriate

91CM0383A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 3, 11 Mar 91  
pp 11-17

[Article by Qiu Dunhong (6726 2415 4767): "Political Pluralism Refuted"]

[Text] Pluralism, an ancient philosophical concept, is enjoying a new-found popularity, what with all the talk about political pluralism, economic pluralism, cultural pluralism, social pluralism, pluralism of interests, philosophical pluralism, ideological pluralism, pluralism of opinions, pluralism of truths, and so on. We cannot comment on each and every one of them, but we must analyze and study political pluralism more closely. This is because political pluralism is a prerequisite for all the other forms of pluralism mentioned above. Besides, many people have been pushing political pluralism as a solution to "one-party dictatorship" and as a "perfect recipe" for achieving political democratization.

#### 1. Origin and Essence of the Concept

Political pluralism (or "political pluralization," "pluralistic politics" refers to the presence in a country of two or more independent political organizations that have different interests and are on an equal footing vis-a-vis one another. Essentially, political pluralism advocates separation of power and multiple centers of power. The earliest proposals for political pluralism date back to the feudal society of the Middle Ages in Europe. As capitalism developed in feudal Europe after the 12th century, guilds and mercantile associations of craftsmen and merchants appeared in one European city after another. To further their own interests in their struggle with feudal powers, these organizations proposed political pluralism. Municipalities, guilds, trades, and the church, they argued, were independent entities that existed before the state. The sovereignty of the state should not be monopolized by the government but must be shared by a multitude of social organizations, of which the government was one. This argument reflected to a certain extent the progressive demand of the growing bourgeoisie for freedom from the shackles of feudalism, but it neither rejected nor undermined the state power of the feudal ruling class. In lumping together national sovereignty with social organizations, it was also theoretically unconvincing.

After the success of the bourgeois revolution, political pluralism came to mean three things as interpreted by the bourgeoisie. One, it means a political model for the organization of state power in a capitalist country. It provides a theoretical foundation for a fragmented structure and system, and equal competition among multiple political entities. This explains why the concept of political pluralism in modern Western political vocabulary is closely connected with the capitalist countries' concepts of multi-party competition, parties taking turns in running the country, separation of power, checks and balances, and local self-government. Two, as an instrument

for expressing the wishes of social organizations, political pluralism directly serves the independence, activities, and special interests of all social organizations. Three, to prove that the bourgeois state is not the tool of the ruling class but an organization that serves the public welfare, some bourgeois scholars in modern times also resorted to the concept of political pluralism in order to sell welfare policies aimed at easing the class conflict. As laissez-faire capitalism entered the mature stage, political pluralism also rode a wave of popularity, with a host of bourgeois scholars peddling their own brand of political pluralism. In the United States, Robert Dahl pushed forward his "multiple democracy" theory. In Britain, Maitland came up with the "corporate character" concept. Laski, a Labor Party theorist, advanced his "theory of pluralist state." In France, Mi Er Du Er Ke Mu [1736 1422 2629 7422 0344 1191] pushed the "theory of cooperation among all classes." However, as laissez-faire capitalist competition gave way to monopoly capitalism, pluralism too entered a period of decline. Laski revised his political teaching and became a champion of "Fabianism," arguing that the state should transcend all other organizations. Dahl also felt compelled to admit that his theory of multiple democracy was seriously flawed.

In recent years, political pluralism has experienced a new surge of popularity in the West mainly because ruling groups have been turning to it more and more as an instrument to propagandize bourgeois values and as part of the strategy of "peaceful evolution" directed at socialist countries. On 7 October 1988, then U.S. Deputy Secretary of State Whitehead said, "By diligently working toward political and economic pluralization and respecting human rights, Eastern European nations may bring about better, more effective, and more mutually beneficial relations between themselves and the United States" In the spring of 1989, the quarterly publication FOREIGN AFFAIRS carried an article by former president Richard Nixon. Nixon wrote, "We should continue to differentiate between the various Eastern European nations, separating those that are willing to move toward political pluralistic reform from those that are not." On 16 February 1989, the West German weekly TIME said in an editorial, "To date the bastion of one-party rule is on the retreat. When a communist party adds a touch of pluralism, it is reform. This is a historic breakthrough." On 13 March 1989, Brzezinski, former U.S. presidential national security adviser, wrote, "The United States, West Europe, and Japan should insist that a nation formally develop a political and economic pluralism reform plan in return for any substantive aid." On 12 May 1989, President Bush said in an address at Texas A & M University, "Western policies must encourage the Soviet Union to evolve in the direction of an open society, undertake political pluralization as a long-term objective, and respect human rights." We can thus see that political pluralism has a clear class orientation and political purpose in the eyes of both bourgeois scholars and professional politicians. As a theory, no doubt it serves as a camouflage for class rule in capitalist nations. The capitalist state, they argue, does not monopolize all

power. Nor is the government the sole center of power. Instead, they say, the government shares power with an array of social organizations. This kind of capitalist regime in which all social organizations can take part in running the affairs of the state, it is said, effectively constitutes collective rule embracing all members of society. So, they argue, the working people should completely give up their struggle with the bourgeois for democracy and socialism. The theoretical tendency and class nature of political pluralism are clear; there is no doubt that political pluralism serves to consolidate bourgeois rule. The political pluralistic systems established in accordance with the principles of the separation of power and the multiplicity of power centers, whether multi-party competition or separation of power among the three branches of government, were all painstakingly put together by the bourgeois as the best form of government. On the one hand, it satisfies the demand for a share of power by competing interest groups within the bourgeoisie. On the other hand, it gives the bourgeoisie a maximum sense of security because of equal competition and the appearance of democracy—the regular turnover in government. Such is the essence, theoretical and practical, of the political pluralism the bourgeoisie is trying so hard to promote to date. And when it is used as a bourgeois value to turn socialist nations into capitalist ones, its class nature is so unmistakable that no comment is necessary.

## 2. Certain Issues That Must Be Clarified

For a while, political pluralism attracted quite a following in China's theoretical community as well. The main reason is that the pluralization of the ownership system, it was thought, would necessarily result in the diversification of interests, which, in turn, would make political pluralism all but inevitable. Only political pluralism, some people argue, can really achieve political democratization and solve the problem of corruption. In the eyes of some of the best and brightest among us, only political pluralism and multi-party rule can solve the "dire consequences" of "one-party dictatorship." To clear up the ideological confusion created by this kind of thinking, we must rebut it in the following three ways:

First, the appearance of a thing has been confused for its essence. So-called monism and pluralism are actually the most fundamental issues in philosophy. Monism sees everything in the world as having one single origin. Materialistic monism sees the origin as material while idealistic monism sees it as spiritual. Dualism sums up the world as the combination of two kinds of origins, material and spiritual. Pluralism contends that the world consists of many independent entities that do not rely on one another.

Later, the principles of monism and dualism, originally applied to the origin of the world, were transplanted to other areas. Hence the emergence of all sorts of pluralism, including political pluralism. In reality, so-called monism or dualism does not refer to the number of the forms of a thing, but to its essence. Is it "monistic" or is

it "pluralistic"? In accordance with this logic, is the political subject of our discussion monistic or pluralistic in essence? We think it is monistic. Take state power, for instance. While formally it can be divided into legislative, executive, and judicial power, each independent of the other, it remains a state with a ruling class. In other words, how ever power is separated, it is in the hands of the ruling class, one class. The classes that are ruled can only remain in a position of powerlessness. Or take political parties. In capitalist countries, there is formally multi-party competition with the parties running the country in turns. In essence, however, they are all bourgeois parties. How ever sharp the intra-party factional struggle, a party can still close ranks and present a united front against the opposition. How ever fierce the competition between bourgeois parties, they can still come together as a political alliance against the proletarian party. Thus there is no country in the world with a class dictatorship that has a political system embracing different classes, nor can there be such a country. Such is the essence of any political phenomenon, whether it is a bourgeois dictatorship or proletarian dictatorship. We call this the unity of Marxist philosophy or, as they say, "political centralization."

Marxist monism, however, recognizes at the same time the "pluralistic" nature of things, that is, the dualism or pluralism in the form of expression or state of existence of a thing. For example, a variety of political systems can be found in similar bourgeois dictatorships, including constitutional monarchy and democratic republic. Constitutional monarchies, take either one of two forms: dual monarchy or parliamentary monarchy. A democratic republic can be either a presidential system, a cabinet system, or a committee system. Bourgeois parties include such parties as the Conservative Party, Labor Party, Democratic Party, Republican Party, Liberal Democratic Party, and Defense Republican Alliance. The Liberal Democratic Party can be divided into the Tanaka faction, the Fukuda faction, Nakasone faction, Takeshita faction, and Kaifu faction, among others. Can this variety be described as pluralism? No. The character "yuan" has a special meaning; it refers to the essence of a thing. According to the "Fanlu" section in *The Spring and Autumn Annals*, "yuan is the origin of all things." "Yang," or appearance, on the other hand, refers to the nonessential expression of a thing, not something parallel to and independent of "yuan," but an expression reflecting its essence and derived therefrom. Accordingly, dialectical monism does not just simplistically recognize "one" and not "multi." Instead, it recognizes "one yuan," not a "multiple origin." That is, a thing has only one origin, but multiple expressions. Everything in the world is uniform, yet varied. From ancient times to the present day, human society has been developing dialectically in this centralized yet diversified manner.

In view of the above analysis, we have every reason to conclude that the theory of political pluralism errs in confusing the appearance of a thing for its essence, in misinterpreting the multiple expressions of a thing to be

its pluralistic essence. Consciously and otherwise, these people want to distort and repudiate the basic tenets of Marxist materialist philosophy. They also have their political motives. In *Who Rules America Now?*, G. Domhoff wrote, "Contrary to the pluralist view of power, this book proposes to systematically prove that an upper class exists in U.S. society, that is, a class that rules the United States by virtue of its economic and political dominance."<sup>1</sup> Another U.S. scholar wrote, "All societies are dominated by an elite. If supreme power is not concentrated in the hands of a minority of people in the top social echelon, then large-scale social organizations cannot come into existence." "Pluralist scholars may not agree with this contention, namely that he who occupies a position in a social organization and wields formal authority in economic, government, or social affairs necessarily has power."<sup>2</sup> So we can see that even some bourgeois scholars do not recognize that the bourgeois regime is pluralistic. To date, there hasn't been a single individual championing political pluralism who doesn't represent a particular political persuasion and political demand from the standpoint of a particular class. As advocates of pluralism, why are they always unable to accept socialism and insist on pursuing Western "monomorphism"? Why can't the "democracy fighters" tolerate the CPC, which has brought happiness and brightness to the Chinese people? Facts speak louder than words. People who advocate pluralism do not even practice what they preach. All their words and deeds are "monist" through and through, which just goes to show that the basic principles of Marxism are a truth that will never be refuted.

Second, unrealistic political fantasy. The ownership system in China these days, some people imagine, has been diversified. The diversification of forms of ownership and interests, so it is thought, will necessarily lead to political pluralism. People who reason in such a specious manner will not see their wishes come true. To begin with, they have forgotten or denied a basic fact, namely that the coexistence between socialist ownership, on the one hand, and collective ownership, cooperative ownership, and individual ownership, on the other, is not one where these ownership systems are independent of and on an equal footing with one another. Rather, public ownership dominates and is supplemented by other "subordinate" ownership systems. According to data in the *China Statistical Yearbook 1989*, workers in the state sector made up 98.6 of all workers while workers in the collective sector constituted just 1.4 percent. The sector owned by the whole people accounted for 64.86 percent of the gross value of industrial output. Corresponding figures for the collective, urban, and rural individual sector, and others were 32.08 percent, 1.85 percent, and 1.21 percent, respectively. Fixed assets investment by the state sector made up 61.3 percent of all social fixed assets investment, compared with 13.8 percent by the collective sector and 24.9 percent by the urban and rural individual sector. Accordingly, we see no pluralism in the present ownership system. Instead, what we have is a diversified economic setup where various economies

and several economic structures coexist within the framework of socialist public ownership. Even if the relative importance of other forms of ownership increases as social productive forces develop, they will not pursue an independent course of development separate from the "yuan," or "basic element," of socialist public ownership, as long as they pursue the social development goal of a "common prosperity."

It is also not correct to characterize the interest relations in China under socialism as interest pluralism. When we refer to the interest relations among the three parties—the state, collective, and individual—we are not talking about a relationship among independent and equal, basic elements. Instead, we are talking about a diversification of the forms of interest that is subordinate to the fundamental interests of the state and the people, even as it accommodates other interest relations. In reconciling all interests relations, the party and the government have always followed the principle of reasonable adjustment and overall consideration, emphasized subordinating personal interests to overall interests, partial interests to general interests, immediate interests to long-term interests, and adjusted all interest relations properly in accordance with the principle of giving maximum consideration to the state, moderate consideration to the enterprise, and minor consideration to the individual. In China, it is both wrong and harmful to ignore or reject sectoral or personal interests. But so is severing the dialectical unity between partial interests and personal interests on the one hand, and general interests on the other, and stressing the various partial interests exclusively. The purpose of expanding the decision-making authority of localities and enterprises is not to encourage departmentalism or local economic separatism. Allowing some people to become rich ahead of others does not mean fattening a new exploiting class with the blood and sweat of the people. As long as China practices socialism, the fundamental interests of the state and people cannot but take precedence over everything else and the "major principle" cannot but prevail over the "minor principle." Any partial interests cannot become an independent element separate from the general interest, but must develop harmoniously with the general interest, under the premise of a "rising tide lifts all boats." Differences in interests do exist objectively, but are the varied expression of fundamentally identical interests. This is completely different from the presence of a variety of interest centers that are on an equal level.

By the same logic, since there is no pluralization of ownership systems or of economic interests, one cannot assume that there is an economic base in China for achieving political pluralism. This is highly disappointing to people who preach pluralism. Their original plan was to see an economic pluralization materialize, after which private ownership and the middle class would emerge as independent elements, and, with class forces they can depend on, such features as "parliamentary democracy," "free competition," "separation of power between the three branches of government," and a

“multi-party system” would be a matter of course. As it happened, history did not develop the way they had hoped. As long as the nature of the socialist economy, dominated by public ownership remains unchanged, political pluralism in China cannot but be a pipe dream.

Third, a reform plan that led to turmoil. Some people see pluralism as the antidote for totalitarianism and the multi-party system as a panacea for getting rid of corruption. Hence the fundamental objective of political structural reform is to bring about political pluralism. In our opinion, people who make this kind of judgment first of all overestimate the power of pluralization. Bourgeois multi-party competition, turnover in government, checks and balances, and other formal expressions of pluralism rest on an economic foundation of capitalist private ownership and the special interests of assorted monopoly capitalist groups. Their tools are trading money for power and competing for votes. On the surface, such pluralization pits equals against one another and allows a constant turnover in government amid much fanfare, but it does not change the monistic nature of the exercise of power by the bourgeoisie and has brought forth such problems as the waste of money and energy, unrest, strife, and work paralysis. Generally speaking, power unchecked may lead to the abuse of power. That is why our party has traditionally attached a good deal of importance to the construction of democratic centralism. Even as we try to improve intra-party democracy and the discipline and supervision system, we take pains to make the most of the masses, democratic parties, the media, and the judiciary as supervisory organs. If we perfect the above system and firmly carry it out, it will be a much more effective watchdog than the system of checks and balances with its internal bickering. A political party that has a strong sense of mission and progressiveness, and maintains its pureness and spirit of forging ahead on its own initiative, is more justifiably proud of itself, carries itself with more dignity, tries harder to improve itself, and is more honest than a political party that is a mere instrument in the competition for power. We believe that as long as its internal democratic mechanisms are sound, a one-party system is able to check and even eliminate “totalitarianism.” Provided they keep their advanced character, proletarian parties will certainly succeed in overcoming all their shortcomings. Is a non-totalitarian Western nation incorrupt just because of pluralism? No. The U.S. presidential system, which concentrates party, political, and military power in the hands of one man, who is also head of state, is a true centralization of state power. In the West, how many political scandals have made their way to the front pages of the newspapers alone? We can thus see that political corruption in a nation is not necessarily determined by the number of political parties, nor can it be eliminated through the election of a political party. The strength of a proletarian party does not depend on whether it has this or that problem, but whether it has the ability and resolve to tackle its problems. Since the 4th Plenum of the 13th CPC Central Committee, the party has been remarkably successful in its struggle with

corruption, which has enhanced the entire nation’s trust toward the party and increased its centripetal force. This is because a vast majority of the Chinese people believe, namely, that only by adhering to and improving the leadership of the party can China check and eliminate corruption. Without the strong and effective leadership of the CPC, we will not only fail to combat corruption, but corruption will only become worse. If even an experienced, mature party with a glorious history and fine tradition is undependable, then what can we in China count on? How can the corrupt conduct of the best and the brightest who have not yet taken over the reins of power convince the masses that combating corruption is something they shouldn’t be concerned with?

The most important issue for a ruling party is whether or not it can run the country well. Is the country stable, united, and prosperous? Are the working people happy, living and working in peace and contentment? This is the litmus test for a ruling party. All forms of government must serve this fundamental purpose. If even the basic stability of a nation or the basic livelihood of its people cannot be ensured, what is the use of talking about “democracy”? Japan has retained the emperor system even after it became an economic superpower. In Britain, the House of Lords is composed of people made life peers by the queen. In the United States, the president alone can veto a bill passed by a majority in Congress. These are most undemocratic phenomena. Yet they happen in what are touted to be the most “democratic” nations. How can we explain that? Certainly we are not saying that we should not press ahead with democratic construction. On the contrary, only in a socialist country can the construction of a high degree of democracy be tackled as a basic mission. Isn’t that historic progress compared to capitalists endlessly scrambling for profit and power through the use of democratic tools? By virtue of their ownership of capital goods, the Chinese people enjoy a range of freedoms and democratic rights to the fullest extent, such as the right to work, live, and study. Isn’t that better than the kind of democracy in which the majority of a nation still belong to a class being exploited by a handful of people? Regardless of how they preach the advantages of political pluralism, one fundamental fact cannot be denied: if we were to divide power between the three branches and introduce multi-party competition in a large, and economically and culturally backward country with more than a billion people, the inevitable outcome is a proliferation of parties and factions, power struggles, and chaos across the land. Against that kind of backdrop, how can we pursue economic construction? What really can political pluralism offer the Chinese people? Anyone who feels a sense of responsibility for the fundamental interests of the Chinese people must totally give up any reform plan that seeks political pluralism. As for those who are actually opposing the party and socialism in the name of political pluralism, we must never allow them to have their way.

**Footnotes:**

1. G. Domhoff, *Who Rules America Now?*, p 1
2. Thomas Day [Dai Yi 2071 0122], *The Reagan Years: Who Controls America?*, pp 9, 12

**Political, Ideological Work in New Era**

**Five Tasks**

91CM0410A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 4, 5 Apr 91 pp 4, 6-8

[Article by special commentator: "Attach Importance to the Social Effects of Ideology—Strengthen Work in the Ideological Field"; XUEXI YU YANJIU is the official journal of the Beijing Municipal CPC Committee]

[Excerpt] [passage omitted]

**III.**

Devoting utmost attention to the struggle in the ideological field and strengthening ideological work are important tasks now confronting the entire party. These tasks will be of protracted duration and are tasks in which our efforts must not slacken the least bit. Without the slightest wavering, we must uphold the guidance and direction of Marxism-Leninism and Mao Zedong-Thought. Our values must be guided by the ideological systems of socialism and communism, and we must implement the party's policy of "letting a hundred flowers bloom and a hundred schools of thought contend." We shall oppose "Leftist" deviation as well as threats from the Right. We shall uphold Marxism in our struggle, but shall also, according to the objective realities and changed circumstances, develop Marxism in a creative way. On the basic premise of upholding the four cardinal principles, we shall support and encourage courageous exploration and free argument based on scientific research and on questions of theory or practice. We shall permit opposing views and differing opinions. We shall allow errors and correction of errors. Within the scope of socialist democracy and its legal system, we shall exert efforts to bring about a vivid and flourishing state of affairs at the ideological, theoretical, and propaganda front. For this purpose, it is necessary for us to perform effective down-to-earth work in the following areas:

1. We must implement in earnest the party's ideological guidance. When judging whether the party's ideological guidance is really being implemented, we must see whether the powers of leadership in the various ideological departments are truly in the hands of Marxists. We must see whether socialist ideology is in a dominant position in society, and whether it is energetically exercising its guiding and educating functions, playing its part in the struggle, and serving as a force toward cohesion and of inspirational effect. We must also see whether the party's basic political line of "one center, two basic points" is comprehensively implemented, and whether energetic ideological struggle is waged against all kinds of anti-Marxist ideas, etc. Only if the responses are

positive in all work in these spheres can we say that we have truly strengthened party guidance over ideological work. In concrete terms, party committees at all levels must periodically study ideological work and designate well-qualified cadres to be leaders in ideological work. We must put forward in a timely way guidance on the study, propaganda, and research of important questions. We must call attention in good time to problems that may arise and help hold the line against hostile onslaughts. We must supervise and spur on the various ideological departments to do a good job of internal ideological education. We must do our utmost to help the departments resolve real difficulties that they are unable to solve themselves. Only in this way can we say that the party is truly and earnestly implementing ideological guidance.

2. In our fight in the field of ideology, we must seize the initiative, fight aggressively, and fight a long-term fight. Following the 3d Plenary Session of the 11th CPC Central Committee, we entered upon the road of reform and opening to the outside world to achieve prosperity for the people and build a powerful state, and we have indeed achieved huge successes which have won the admiration of the whole world. However, in the ideological field, under the effects of large, small, internal, and external forces, we have for a period of time, compromised, retreated, and lost many positions, while bourgeois liberalization ideas were not only not suppressed, but on the contrary, when suppressed in one spot, was able to raise its heads in other places, and became displayed ever more violently. "A tree may prefer calm, but the wind will not subside." There is no peace at all in this world, and mankind is not everywhere filled with love. "Peaceful evolution" is also not peaceful, but will in the end lead to bloodshed, and even to incarcerations and executions. To fight while maintaining the initiative and fight aggressively in the ideological field means in fact standing firm on Marxism, using the viewpoint of class struggle and the method of class analysis, maintaining politically a high degree of clear-headedness and vigilance, becoming knowledgeable about the bourgeois liberalization trend, studying thoroughly countermeasures against infiltration and untoward developments, taking the initiative in the fight, and not retreating under any circumstances. We must launch thorough, systematic, and long-term education in socialist thought, engage in highly effective ideological-political work among the masses, and in a well-defined attack, eliminate all influences of liberalization. Only in this way can we turn passivity into activity in the ideological struggle and retreat into advance, and thereby even more effectively enhance the effects of socialist ideology.

3. In the ideological field, we must raise our banner high, retain a firm hold of the rostrum, and occupy and hold our positions. The core force that leads us in our undertaking is the Communist Party of China; the theoretical foundation that guides our thinking is Marxism-Leninism. These are the true and abiding guidelines in the defense of which earlier generations of revolutionaries have shed their blood, and those are also today's

clear norms, written into the constitution to guide the people in word and action. On the premise of upholding the four cardinal principles, we are agreeable to inquiries into state affairs, and on the basis of the "double hundreds," to arguments over the right and wrong of academic issues. In our socialist ideology, the dominant tone and main melody has to be patriotism, and it is the banner of collectivism, socialism, Marxism-Leninism and Mao Zedong-Thought that we must raise high. Facts have proven that in this new historical era, the ideological struggle is still going on. This struggle is a protracted struggle, complex and uncompromising. Any ideological positions which proletarian ideology will not seize, will be seized by bourgeois ideology. That is an objective law that cannot be changed by the will of man. On this point we must be quite clear in our minds.

4. The new situation requires that we strengthen the study, propaganda, and research of Marxist theory. Leaders in our revolution have often pointed out that without revolutionary theory, there is no revolutionary action. Raising the theoretical level in the party is a fundamental guarantee for correct and scientific leadership by the party. Because the international situation today is one of great turmoil, and because we have to achieve urgent construction and reform tasks domestically, the following matters are of extreme importance, as well as of far-reaching historical significance: emphasizing the thorough study, propaganda, and research of Marxist theory; reviewing the experiences and lessons of the reform and opening to the outside world; clarifying all theories in the ideological field and questioning whether thinking is correct or wrong; thoroughly criticizing and assessing the trend of bourgeois liberalization; crushing the infiltration and subversion of imperialism and its plot of "peaceful evolution"; strengthening the party's "immunity to infections"; strengthening its fighting strength; guaranteeing that the state will never change its "political coloring"; strengthening the scientific nature of work and foresightedness in our work; and further enhancing the development of socialism with Chinese characteristics. It is for this purpose that we must work hard to improve training in Marxist theory for the large contingent of cadres, especially party members in leading positions, and develop a broad contingent of cadres who are well-versed in Marxist theory. We must use education in Marxism-Leninism and Mao Zedong-Thought, and arm the next generation with new research results in Marxist theory, in order to resolve the immediate contradictions and answer profound questions of ideology.

5. We must be willing to invest resources and provide needed material support. Socialist ideology is an important component of socialist revolution and construction; it is the fundamental guarantee that ensures the direction of the socialist advance. The substance, development, and perfection of socialist ideology depends not only on the correctness of theoretical thinking, but also on strong material support. The lesson provided a few years ago by the spread of a tide of bourgeois liberalization made it

clear that Western hostile forces had been most willing to spend money to nurture, support, and buy over, using every possible means, anti-communist and anti-socialist opposition parties. Employing a large investment of high-tech and sophisticated equipment, they battled against our ideological positions to capture our youths. To counter their efforts, we must be willing to invest resources and be ready to exert ourselves to the utmost to provide the necessary finance, equipment, and material means to launch work in the ideological field. We must not judge investment of resources in this endeavor in terms of economic returns, but rather in terms of social benefits for the country as a whole. Leadership in the government and party at all levels must consciously adopt this concept.

### Li Ximing on Tasks

*91CM0410B Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 4, 5 Apr 91 pp 9-12*

[Speech by Li Ximing (2621 6932 6900) on 23 March 1991 at the General Meeting to Commend Units and Persons Having Performed Outstanding Ideological-Political Work in Beijing Municipality: "Energetically Strengthen Ideological-Political Work in the New Era—Promote Reform, Opening to the Outside World, and Socialist Modernization in the Capital"]

[Text] Comrades: The General Meeting To Commend Units and Persons Having Performed Outstanding Ideological-Political Work in Beijing Municipality is of singular and profound significance for ideological-political work. I shall take this opportunity to extend my cordial greetings and heartfelt gratitude to the units and persons who are today being commended for outstanding ideological-political work, and also to all comrades throughout the municipality who have diligently and assiduously worked on ideological-political tasks and made active contributions.

Since the Third Plenary Session of the 11th CPC Central Committee, the most important part of the social practice of our entire party and of all our people has been our efforts to evolve and develop socialism with Chinese characteristics. In this process, our comrades energetically engaged in ideological-political work on all the various fronts. They have accomplished much work, accumulated valuable experiences, and achieved outstanding successes. Even though our ideological-political work has suffered disruptions and had even been weakened at one time, in this great undertaking of loyal devotion to the party, those comrades engaged in ideological-political work have all along vowed to firmly adhere to their chosen course and have on those chosen grounds diligently ploughed and cultivated, quietly contributing to the development of socialism with Chinese characteristics, and spared no efforts. This spirit must find full approval and be held in the highest esteem by the party and the people. After the 4 June disturbance, the central leadership group, with Comrade Jiang Zemin at its center, earnestly reviewed the positive and negative

experiences in economic construction, party building, and ideological-political work since the founding of the PRC 40 years ago, paying particular attention to the 10 years of reform and opening up to the outside world, and the conditions of overcoming a partial weakening which occurred during efforts to develop a socialist spiritual civilization. They have raised the consciousness of the party and society about the importance of strengthening ideological-political work in the new era. Ideological-political work in our municipality of Beijing was also improved and strengthened; a new overall situation has been created which is a powerful guarantee of political stability in the capital, and which is also promoting economic and cultural development.

Because this year is the first of the last decade of this century, we are faced with the tasks of fulfilling the 10-Year Plan of Beijing Municipality as well as the Eighth 5-Year Plan, which makes ideological-political work even more formidable and strenuous. At the Seventh Plenary Session of the 13th CPC Central Committee, Comrade Jiang Zemin pointed out: If we were to focus on one point in summarizing our experiences, it would be integration of the universal truth of Marxism with China's specific realities, taking our own road, and developing socialism with Chinese characteristics. All party comrades should set their minds on this target, and should pool in their practice the wisdom of the masses and continue to do a good job of furthering this great undertaking. In the "Proposal" passed at the Seventh Plenary Session, there is a scientific summation of the fundamental theory and practice regarding the development of socialism with Chinese characteristics. It is comprised in 12 principles, which will for some time to come be our reference for strengthening ideological-political work and for achieving unity of thinking throughout the party and among all the people of the country. We shall propagandize among and mobilize the masses, we shall unite as one, raise our spirits high, and struggle to fulfill the second stage of our strategic objectives for the national economy and for social development put forward at the Seventh Plenary Session, and we shall use facts to again prove the superiority of socialism and its strong vitality. To do this, we need to exert ourselves to do effective work in the following directions:

1. Ideological-political work must adopt the clear-cut stand of firmly upholding the four cardinal principles and must unswervingly propagate and promote reform and opening to the outside world.

Having led the whole nation through arduous experimentations, our party has formulated a fundamental political line and series of feasible, effective, general, and specific policies, with economic construction at the core, that firmly uphold the four cardinal principles, reform, and opening to the outside world. The correct and comprehensive implementation of this fundamental line of the party is the foundation on which our nation stands, and is also the road toward developing China into a strong state. Firmly upholding the four cardinal

principles, reform, and opening to the outside world are the starting points and foothold for ideological-political work in the new era. The important question for us is now how to organically integrate adherence to the four cardinal principles with the firm resolve to reform and open up to the outside world. This is a problem which we must thoroughly explore and earnestly answer. In this respect, the Shoudu Iron and Steel Corporation [SISC] and the general party branch of Doudian Village in the Fangshan District have provided us with valuable experiences. The major characteristic of ideological-political work at SISC is that it integrates adherence to the four cardinal principles and determination to reform and open up to the outside world on the one hand, with the practice of socialist industrial modernization and implementation of the contract system on the other hand. The party committee and factory committee at the SISC never neglected education in socialist thought and ideological-political work during the structural reform of enterprises, reform of the leadership system, and production development. They adapted their actions closely to the realities of the situation, persisted in education in basic Marxist theory, and maintained the principle of frontal "inculcation." Through reform, they assured their many staff members and workers of their position as masters of their own affairs, and had the majority of staff members and workers trust socialism, fervently love socialism, and practice socialism in a big way. They did this not only for moral reasons, but also because they kept in mind the practical side of developing the productive forces of socialist enterprises in the public ownership system, and improving the livelihood of staff members and workers. Consequently they have been able to achieve the huge success of an annual average 20 percent increase in profits and taxes for 12 consecutive years. The general party branch of Doudian Village of Fangshan District, under the leadership of its veteran secretary Comrade Zhang Zhenliang [8022 2182 0081], resolutely took the road of socialist agricultural modernization, carried out collective contracting, and continuously enhanced the strength of the collective economy. On the one hand, the village upheld the principle of distribution according to work, and on the other hand, upheld the principle of prosperity to be shared by all. It became within a 10-year period, a model of a new, modernized, socialist village. Not only was there huge progress in production, but the peasants "at the same time as their money-bags were swelling, had their 'brain-bags' swell with the new thoughts of socialism."

Advanced exemplary experiences tell us that upholding the four cardinal principles and upholding reform and opening to the outside world supplement and complement each other. As we propagate the four cardinal principles with a clear-cut stand and full confidence of the righteousness of our cause, we not only do not obstruct the deepening of the reform and further opening up to the outside world, but on the contrary, enable a more effective promotion of reform and opening to the outside world. Leadership at all levels of the party and

the government must soberly recognize that the more we reform and open to the outside world, the more we need to strengthen ideological-political work. As we carry out reform and opening up, opening the gates to receive advanced Western technologies, Western countries will certainly not miss the opportunity to transmit and propagandize bourgeois concepts, and will compel us to accept these concepts. The promotion of the strategy of "peaceful evolution" by the hostile forces of the West is precisely a way in which they misuse the opportunity of reform and opening up to carry out their political, ideological, moral, and cultural infiltration to undermine our confidence in socialism. The more we occupy ourselves with reform and opening to the outside world, the firmer must be our grasp of patriotism, collectivism, and socialist education. The more we must promote national self-respect, self-confidence, and our sense of pride, the more we must pay a high degree of attention to the struggle in the ideological field, and the firmer must be our determination to follow the socialist direction.

2. In ideological-political work, we must firmly insist on conformity with economic construction, tally with the realities of life, accomplish actual tasks, and seek to gain actual results.

Pushing economic construction forward is the central concern in all our work. If we cannot achieve progress in our economy, we cannot demonstrate the superiority of socialism, and socialism will then have no attraction. Our ideological-political work must meet the needs of the situation and it must consciously serve economic construction as well as serve reform and opening to the outside world.

Although the economic situation in the world is showing improvement since the beginning of the year, there has been no fundamental change for the better in efficiency and structural rationalization. Regarding the increasing number of unprofitable enterprises, there has been in particular no change in the sluggishness of large- and medium-size state-run enterprises, which remains a very conspicuous problem. The objective causes for this are partly the market environment and economic policies, and also the operational, managerial, and distribution mechanisms of the enterprises themselves and the problems in the organizational system. Party committees at all levels and comrades at the ideological-political work front must face up to these problems; energetically take action; fire the enthusiasm of the people; confront, analyze, and overcome the difficulties, and exert efforts to achieve even greater successes.

Integrating ideological-political work with economic work in the entire process of enterprise production and development should be the principle observed by all ideological-political departments and all cadres engaged in ideological-political work. The propaganda department of the SISC party committee and the department in charge of ideological-political work firmly adhere to a single line in its ideological-political work. Every day one

of its members attends the enterprise's regular production management meetings and each of its members must go to the workshops and work teams to become familiar with all pertinent data, focus their work on the problems of production development, and actively lead staff and workers in showing initiative in being the masters of their own affairs. The members earnestly have acted on behalf of the many staff and workers, established many feasible and effective methods and institutions, and caused ideological-political work to penetrate to every level and every corner of the enterprise. The Municipal and City Construction Company No 3 came to Beijing in 1983, converted from a military collective for construction and engineering work in the capital. They carried on the glorious tradition of the PLA and demonstrated to the fullest, adherence to the principle of unity of politics and business operation, and uninterruptedly educated their staff and workers in the ways of serving the people. They directed their staff and workers to reject the unhealthy trend and evil practice of "considering in all matters only one's own monetary profit," and thus nurtured a contingent of staff and workers that is fully proficient and has all the "four good qualities." When an oil pipeline ruptured in nearby Liangcun Village and crude oil spilled, some people haggled about the repair price and would not immediately begin the repair. As soon as the Municipal and City Construction Company No 3 was informed by phone, they immediately went to the scene of the accident and battled for 3 days and 3 nights to finish the job. During the time of the 4 June riot, they braved being surrounded, attacked, and maligned by evil elements, and continued their work, ensuring the scheduled completion of the job. They certainly deserved being praised as "the emergency shock brigade that moves fast, knows its job, and wins its battles" on the urban construction front!

Experiences of advanced units have proven that only when ideological-political work is integrated and conducted in unison with economic work will it be received well and show the full measure of vitality. Those engaged in ideological-political work should be firm in going deep into the first line of production and construction to gain a firsthand understanding of conditions. They must extend their activities to every link of the enterprise, really and truly help the masses solve problems, and arouse the socialist enthusiasm of staff and workers to the fullest extent, thereby promoting the development of productive forces.

3. Ideological-political work must rely on support from all quarters and must on the most extensive scale propagate among the masses, organize the masses, and create a huge social momentum.

The basic line that our party follows in its work and the lifeblood of our ideological-political work is to trust the masses, rely on the masses, and mobilize the masses as much as possible. The people are the primary subject, and also the motivating force in our ideological-political work. Only by placing full trust in the masses, mobilizing

support from all quarters, having every one do ideological-political work, thus creating a huge social momentum, will we be able to truly unite and consolidate the masses and have them dedicate their hearts and souls to the development of socialism with Chinese characteristics.

Last year, the resounding propaganda welcoming the Asian Games had been very enlightening for us. At the start, there was much discussion about holding Asian Games and all kinds of doubts and concerns were raised. At that time, we used newspapers, radio and TV, and also had leading comrades appear in person to give information on preparations for the Asian Games. The various difficulties encountered in these preparations were explained, and it was shown how the people, in a spirit of full dedication, tenaciously struggled to overcome the difficulties. This strengthened the confidence of everyone in the success of the Asian Games and gave the entire population of the municipality an understanding of and feelings of patriotic zeal toward the Asian Games as an event that would raise the prestige of our nation. During propaganda continuously conducted throughout the municipality—300 days, 200 days, 100 days, 50 days to welcome the Asian Games—about 3 million people participated in various forms of propaganda. The masses enthusiastically joined in various practices to welcome the Asian Games, launched such activities as “emulate Lei Feng, create a new atmosphere, welcome the Asian Games, make your contribution,” and actively promoted “three-fold excellence,” which consisted of “excellent quality of service, excellent order, and excellence in beautifying the surroundings.” Because propaganda on welcoming the Asian Games deeply penetrated the minds of the people and mobilized the masses at all fronts, the games were a great success, and all relevant work was done to record perfection. In the course of the Asian Games, ideological-political work also gathered a rich harvest of experiences.

If we say that propaganda welcoming the Asian Games was successful in creating a certain “extensive atmosphere” throughout society, it is also possible to use the same methods to create an “intensive atmosphere” within each unit and district. Experience by the residents’ committee of Liuyin Street, the Guangqiao neighborhood, and the West city district, illustrates this point. There were only 8 cadres in this committee, in whose jurisdiction live 1,099 households consisting of 3,025 people. The 8 men effectively carry out ideological-political work for over 3,000 people by relying mainly on mobilizing teachers, cadres, party members, workers, men and officers of the PLA, and university and middle school students to be the backbone of that community. By organizing film and tape shows, propaganda display cases, wallboard newspapers at street corners; launching moral appraisals, holding knowledge competitions, starting political evening classes; organizing propaganda lectures, study meetings, symposia, consultations, house visits, heart-to-heart talks, and similar activities among the neighborhood residents, a kind of “Liuyin” love for

party and country was gradually fostered, as well as an attitude of finding pleasure in helping others, observing discipline, obeying the law, and sacrificing one’s own interests for the sake of others. This residents’ committee was chosen as an “advanced municipal/district unit” in 13 competitions, and became the advanced model in neighborhood work throughout the country.

4. Strategically, our ideological-political work must take make the education and nurturing of our youths a priority.

Our youths are the future of the motherland; they will go on into the new century and shoulder the heavy burden of developing socialism with Chinese characteristics. In the interest of a long-range development strategy, we must take great care to attend to and plan the ideological-political work directed at our youths. We must start out from the realities, persist in the correct political direction, but also have the courage to develop and create, so as to nurture the successors in the next century as persons with ideals, morals, culture, and discipline, and as persons who will firmly believe in socialism and fervently love the party and the people. Hu Jinfeng, a political instructor at the No 2 Middle School attached to Beijing Normal University, now 36 years old, has been a political instructor for Young Pioneers for 20 years and trained 317 classes of over 1 million Young Pioneers. She combined training their intellect with an initiation in ideology and morals; her ideological-political work was full of creativity. For instance, she organized ideological and educational activities by “simulated inspections of China and the world,” and led the students, using books, pictures, TV shows, and interviews, to an understanding of China’s history and present condition, the social customs and conditions in the various countries of the world, and the superiority of the socialist system and the rotten and declining state of capitalism. Her main line was the initial instruction on communism using two forms: initiating “hero detachments” and making it a school of “red-scarf leaguers,” directing the children to go on healthily from primary to middle school, from Young Pioneers to members of the Communist Youth League, and from childhood to manhood or womanhood. She taught the children to cherish their middle school years, start out well in their middle school years, unite under the “hero’s banner,” and foster the concept of collectivism; to cherish the years of their youth, start well on their years of youthfulness, unite under the youth league flag, and foster a correct outlook on life. She thereby achieved very good educational results. The ideological character, creativity, and spirit of assiduous study displayed in her work made her a model who deserves to be emulated by every single cadre engaged in political work. In strengthening education and guidance of youths in such areas as ideals, ethics, and integrity of feelings, comrades of the theory group of the youth league’s municipal party committee have done thorough and painstaking work, and also achieved very good results. In the new historical era of reform and opening to the outside world, strengthening the ideological-political education of our youths has a special

important and pressing significance. Party committees at all levels and all segments of society must fulfill their responsibilities. The Communist Youth League and the Women's Federation and other such mass organizations must also play their role with increased enthusiasm.

5. On the foundation of the excellent tradition that we have inherited and that we must carry on, ideological-political work must courageously make new creations in order to conform to the demands of socialist modernization.

In the wake of reform and opening to the outside world and other political and economic developments, many new problems arose in ideological-political work. We shall, on the one hand, earnestly continue the good experiences, methods, and traditions that have developed in ideological-political work during the past several decades, and shall, on the other hand, adapt ourselves to the new historical conditions, strengthen and improve ideological-political work in multi-level, multi-channel, and multi-sided ways, and study and explore new content, methods, and forms of ideological-political work. In the last few years, the ideological-political front of Beijing Municipality has brought forth many advance units and persons who, on the basis of the inherited foundation, have courageously blazed new trails. They have put forward many useful ideas and accumulated many successful experiences. Comrade Liu Zhifeng [0491 1807 1496], secretary of the party committee at the Yanshan Petrochemical Corporation, has been engaged in ideological-political work for over 20 years. In his theory and practice, he treats ideological-political work as a scientific field and firmly maintains that those engaged in this work must not only rely on truth, but also on integrity of character, and make strict demands on oneself. He links up ideological-political work with the realities of the situation, goes directly to the critical points, and thereby achieves good results. In response to the strong desire for more intellectual and cultural content by peasants in the suburb of the capital, the Women's Federation of Tongxian County started a "mass book-reading club," and through book-reading activities, launched ideological-political work. In 2 years, the membership had grown to over 10,000. This developed to such an extent that every village has a book and periodical library, there is a member in every village, and if one person joined the club, his entire family would benefit. Successful experiments and innovations such as these open up new ways of further strengthening ideological-political work in the new era. On the premise of maintaining the correct political direction, those who are engaged in this work will also have the problem of liberation of thinking. There is, on the one hand, the desire to uphold past values and carry on what has been inherited, and, on the other hand, the desire to explore and develop. The work of the Conference for the Study of Ideological-Political Work shall strengthen and fully assert its effectiveness in uniting the support of multiple sources, and shall explore and study in a thorough and systematic way ideological-political work, this branch of

science, which is so strong in Marxist practice, in an effort to lift ideological-political work to a new and higher level.

Comrades, ideological-political work is concerned with the development of man. It is an intellectual labor of a high level and great complexity. You who are attending this meeting are all exemplary representatives on the ideological-political front. I hope you will unite all comrades who are enthusiastic about ideological-political work, emulate comrades Lei Feng and Jiao Yulu, display a spirit of unselfish dedication, exert efforts to further improve ideological-political work in the new era, contribute your knowledge and strengths to fulfilling the Eighth 5-Year Plan and the grand tasks for the 1990's, and promote the capital's reform, opening to the outside world, and socialist modernization!

Under the leadership of the CPC Central Committee, with Comrade Jiang Zemin at its center, let us unite as one, struggle arduously, accomplish down-to-earth work, and exert ourselves to win new victories!

#### Scientist Warns Against Building 3 Gorges Dam

*HK0405080991 Beijing QUNYAN [POPULAR TRIBUNE] in Chinese No 4, 7 Apr 91 p 2*

[Article by Qian Weichang (6929 0251 7022), dated 5 February 1991: "Revelations From the Gulf War"]

[Text] The Gulf war has gone on for almost 20 days. At first, it was electronic warfare; later it turned into an air raid with a concerto of cruise missiles—mainly Scuds and Patriots, amid carpet bombing. Recently, it has developed into high-altitude carpet bombing by B-52's, with civilian and war installations being destroyed simultaneously, and with the two sides fanatically shouting threats to each other about the use of chemical, biological, and nuclear weapons. It was said that the final victory of such "modern warfare"—which makes one associate this with the descriptions in a popular ancient Chinese novel on gods and heroes—is determined by classical ground actions. However, the subsistence material losses were expensive.

The missile warfare has posed a problem for Egypt on how to protect the Aswan Dam. By inference through historical experiences, the Aswan Dam lies deep in Egypt's hinterland, there is no question about the safety of the dam in times of ordinary war. However, in the era of missiles, places hundreds of kilometers or a thousand kilometers away are all accessible targets, at the command of Scuds or any other missile. Moreover, there are all kinds of intercontinental missiles whose range makes it pointless to distinguish between front and rear lines or between first and third lines.

Here, a question has surfaced concerning the strategic weaknesses of a large-scale water conservancy work. People still remember the huge damage and losses that

Henan, Anhui, and northern Jiangsu suffered which resulted from the breach in Henan's Huayuankou on the Huang He's bank. The water-storage capacity of the planned Three Gorges Dam is on the same scale as Egypt's Aswan but larger. If there is any error, the six provinces and cities in the Chang Jiang's lower reaches will become submerged and several hundred million people will find themselves homeless. This question must be considered strategically. We must not spend dozens of billions or hundreds of billions of yuan to build the dam, which will be the world's largest. If we do, it will become a burden for our future generations as outside enemies could use the dam for blackmail. This reveals that as long as peace is not secured in the international situation, the Three Gorges project should not be started.

### **New Deputy Premier Profiled**

*91CM0421A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 223, 16 Apr 91  
pp 28-31*

[Article by Ch'en Jui-hsia (7115 3843 7209): "Zou Jiahua: New Star in Zhongnanhai"]

### **[Text] Hurried Top Level Transfer of Personnel; Critical Assignments at a Critical Time**

On the eve of the NPC at the end of March, the top level of the Chinese Communist Party hurriedly made some major decisions about personnel changes. These changes were critical assignments at a critical time that will certainly have an important effect on China's political arena.

### **Zou Jiahua: A Superstar in the Political Arena For Several Years To Come**

Zou Jiahua, who is unanimously regarded as a political comer, became a new State Council vice premier. Because Yao Yilin is seriously ill, the major financial and economic responsibilities in the central government have been gradually handed over to the 65-year-old Zou Jiahua. It is a good bet that Zou will advance further in the future. He will quickly enter the Politburo Standing Committee to become a giant superstar in the Chinese political arena.

Zou Jiahua presents an impressive appearance, has a dignified bearing, and is steady and composed. He is generally regarded as an affable and capable high-ranking Chinese Communist official. During the coming 10 years, when China will be implementing a combined planned economy and commodity economy, he will face numerous difficulties; however, he will also have numerous opportunities to distinguish himself.

### **Difficult Problems That Zou Jiahua Will Have to Solve**

China's future economic development poses both opportunities and quite a few difficulties.

As one of the highest policymakers in Chinese economic circles, Zou Jiahua will have to face and solve these economic problems:

- (1) deep-level problems of economic reform;
- (2) market slump;
- (3) economic returns;
- (4) tight state financial situation;
- (5) the construction capital problem;
- (6) development of the agricultural foundation;
- (7) population pressure;
- (8) developing science and technology, and education;
- (9) shortages of energy, resources, and raw materials;
- (10) opening up international markets;
- (11) staff members' and workers' practical problems in daily life, housing, food and water, and electricity; and
- (12) the effect of unhealthy social tendencies, corruption, and graft on enterprises and the economy.

There are myriad things to do. A major test for Zou Jiahua, among the countless problems, is how to perform an economic miracle for China and quickly show outstanding results; this is also what Communist China's success or failure in the next 10 years will hinge on.

### **Zou Jiahua's Plans and Remedies For the New Year**

Just what are Zou Jiahua's plans and remedies for the new year? He has said that he will focus on economic construction, persevere in reform and opening up to the outside world, continue to push improvement of the economic environment and rectification of the economic order and the deepening of reform, and improve the economic order. While maintaining stability, he plans to insist on and improve balance in gross economic output, devote energies to readjusting the economic structure, improving returns, actively open up markets, and advance a normal economic cycle and modest growth, by which the country will gradually move toward a path of sustained, steady, and coordinated development.

Zou Jiahua said that his plans for 1991 are as follows:

- (1) for each normal year in agriculture, plans call for a gross annual output of 425 billion kilograms of grain, an amount slightly higher than the average for the past 2 years; and outputs of cotton, oil-bearing crops, sugar crops, meat, and aquatic products slightly higher than those during 1990.
- (2) plans call for a 6 percent increase over 1990 in the gross output value of industry, including an increase between 3 and 4 percent from industries owned by the whole people, and an increase between 10 and 12 percent from township and town industries.

(3) plans call for an investment in total social fixed assets of 500 billion yuan renminbi. In accordance with state industrial policy, a modest tilt will be made toward development of agriculture, water conservancy, energy, and transportation;

(4) painstaking organization of commodity supply, strict control over prices; and good planning of the people's standard of living;

(5) further opening to the outside world in order to advance foreign trade and economic and technical exchanges and cooperation;

(6) advancement of scientific and technical progress and the development of intellectual abilities; and further development of various social endeavors such as culture, hygiene, and physical education.

Zou Jiahua suggested as several keys to fulfilling the 1991 plan: first, devote the main effort to readjusting the economic structure in order to quickly stride forward. Second, energetically conduct a "quality, variety, and benefits year" campaign to improve quality and return. Third, open up further markets to advance a normal economic cycle. Fourth, actively perfect and deepen reform, and correctly handle the correlation between deepening reform and improving the economic environment and rectifying the economic order, and development of the economy.

#### **Zou Taofen's [6760 7290 1164] Eldest Son Is Ye Jianying's Son-In-Law**

Zou Jiahua is the eldest son of Zou Taofen, who was a celebrity among Chinese literary circles and a social campaigner during the 1920's and 1930's era. Zou Taofen's personal relations with Zhou Enlai, Song Qingling, and Chen Yi, as well as with people in all walks of life outside the Party were extremely close. He enjoyed very high prestige in Chinese intellectual and cultural circles. He was uncompromising against evil deeds and evil persons, and he was open and aboveboard. Even in the Kuomintang government numerous people respected him.

Zou Jiahua was born in November 1926 in Shanghai. The name given him at birth was Zou Jiahua.

At the time of Zou Jiahua's birth, Zou Taofen was taking over as chief editor of SHENGHUO [LIFE] magazine. SHENGHUO was a very serious magazine that stood for resistance to Japan and national salvation. Thanks to the hard work of Zou Taofen and others, magazine sales reached 145,000 in 1932, breaking the 1920's and 1930's Chinese magazine publishing record.

As a young man, Zou Jiahua accompanied his father, Zou Taofen, on trips to Shanghai, Chongqing, and Hong Kong during campaigns for resistance against Japan and for national salvation. He led a very unsettled life as a child.

In running SHENGHUO magazine, Zou Taofen came under all kinds of pressure from the Kuomintang government. Finally, the magazine was banned, and Zou Taofen was forced to flee the country. With the beginning of the War of Resistance to Japan, Zou Taofen actively engaged in anti-Japanese activities. When Hong Kong fell, he went into the Dong Jiang guerrilla zone [in Guangdong Province]. On 24 July 1944, he died from an illness in Shanghai at only 49 years of age.

Before his death, Zou Taofen wrote a note to be read posthumously that said: "My wife, Shen Cuizhen [3089 4733 4903] can do social work; my eldest son Jiahua [0857 7511], is specializing in mechanical engineering; my second son, Jialiu [0857 7511], is studying medicine; and my young daughter, Jiali, [0857 7537] likes literature. I hope that they will all have opportunities to pursue advanced studies so as to be able to make a contribution to the magnificent revolutionary cause."

As a result of his having accompanied his father as a young man, Zou Taofen knew hardships, experienced life, and came to know a number of outstanding people in all walks of life. He had also withstood tests and difficulties as a result of which his breadth of vision and his political experiences were stimulated at an early age. This lay a solid foundation for the development of his future political career.

#### **Zou Jiahua Joined the New Fourth Army in 1944 and Became a Member of the CPC in 1945**

In 1944, the 18 year old Zou Jiahua joined the New Fourth Army at Huainan, and in 1945, he studied finance and economics at the New Fourth Army's Construction University.

While at the Construction University in 1945, Zou Jiahua joined the CPC.

Not long thereafter, he was assigned to be a secretary in the Industry and Commerce Department of the Shandong Provincial People's Government with responsibility for road construction, bridge building, and construction work. From 1946 to 1948, Zou Jiahua worked in the northeast liberated area as a secretary in the Hadong Prefecture CPC Committee in Songjiang Province, and as deputy secretary, and secretary in the Chang'an District of Binxian County in Songjiang Province. Subsequently, he got the opportunity to realize his desire to study mechanical engineering.

After taking a refresher course in Russian at Industrial University in Harbin in 1948, Zou Jiahua went to the USSR to study, later entering the machinery manufacturing department of Moscow's Baoman [transliteration] Higher Industrial Academy.

Many years later, when talking about Zou Taofen's posthumous note and his own aspiration to study, Zou Jiahua said: When he wrote the note to be read posthumously, my father asked me what we wanted to do, and I said that I wanted to study mechanical engineering.

Since Zou Taofen had cancer at the time, he hoped one child would study medicine. Zou Jiahua said that he wanted my younger brother, Zou Jialiu, to study medicine, and my younger sister, Jiali, to study literature. This is what he wrote in the note. Later on because of a change in circumstances, my younger brother went to Yan'an in Shaanxi. At that time he was still young, but later on he went into meteorology, and he has been working in that field for several decades now. He has made contributions at the Chinese Ministry of Meteorology, and is now director of the Chinese Meteorology Bureau, as well as chairman of the World Meteorology Organization, and a candidate member of the CPC Central Committee. Zou Jiali remained at her mother's side serving as editor-in-chief of the Shanghai Literature and Art Press, and as director of the Taofen Memorial Hall. She is now an advisor to that hall.

#### **How Zou Jiahua Selected the Study of Machinery**

Zou Jiahua said: Because I enjoyed fiddling around with machinery ever since I was a child but had not made up my mind about what field I wanted to study, it was when I thought about my father's desire while I was in the Communist Party that spurred me to change departments. I was studying at the finance and economics department at Construction University, which might be considered close to the engineering department. It seemed somewhat farther removed from the civil government department, which was conducting mass work at the time, and from the education department. Later on, when I was constructing roads, building bridges, and performing all sorts of civil engineering jobs in the Construction Department of the Shandong Provincial government, this work seemed closer to machinery. When I went to the USSR to study, in view of my past experience, mechanical engineering seemed a very natural road to take. Nevertheless, after working in the State Council, everything I do now is of an organizational and administrative nature, so I am gradually getting rusty in my field.

#### **Went to Study in the USSR With Li Peng during the Late 1940's**

Looking back on his days as a student in the USSR, Zou Jiahua said that during the late 1940's, he went to the USSR to study along with some young people, including Li Peng, the present Politburo Standing Committee member and premier of the State Council. A total of 21 people went to study in the USSR at that time. Twenty of them are still alive today. Only one, a woman named Luo (who was the daughter of the former New Fourth Army Second Division commander), has passed away.

Zou Jiahua recalled that when the 21 of us were sent to the USSR to study, the Shenyang Campaign had not yet begun. In 1948, the USSR still had diplomatic relations with the Kuomintang, and the Kuomintang government still had an embassy in Moscow. Although the CPC had agreed to let the children go study, since the USSR still maintained diplomatic relations with the Kuomintang,

Zou Jiahua and the others were put in the care of the USSR International Red Cross. The Soviet authorities sent them outside of Moscow rather than have them within the city limits, in order to avoid publicity. Consequently, their living conditions were also fairly poor.

#### **After Returning From Schooling in the USSR, Zou Spent a Long Time in Shenyang and Beijing Doing Machine Tool Work**

In the USSR, they began studying Russian for a year. By the autumn of 1949, the Kuomintang was thoroughly defeated on the mainland, and in October 1949, the Chinese established the capital at Beijing. On 1 October, the new China was founded. The outcome was a foregone conclusion. Thus, after beginning classes in September 1949, Zou Jiahua and the others returned to Moscow. Zou Jiahua studied machine manufacture at the Baoman Higher Technology Academy. He graduated in early 1955 and returned to China.

After returning to China, Zou Jiahua first worked in the No 2 Machine Tool Plant in Shenyang, Liaoning Province. At first he was a technician; then he became deputy engineer in charge. Later on, he became deputy chief engineer, chief engineer, and plant manager. He worked in Shenyang for 6 years altogether. He was transferred after 1964 to the Machine Tool Research Institute of the First Ministry of Machine Building in Beijing where he became director of the Machine Tool Research Institute in the First Ministry of Machine Building under the State Council.

#### **Sent Down to the Countryside For 6 Years During the Cultural Revolution**

After the "Great Cultural Revolution" began in 1966, Zou Jiahua lost his authority and was sent to labor for 6 years. In addition, his father's memorial hall was also closed for a time.

This Taofen Memorial Hall in Shanghai, whose construction Zhou Enlai had authorized in the 1950's, was built in 1956 at No. 53 Wanyifang, Chongqing Road, South, in Shanghai. Zou Jiahua disclosed that at the outset of the "Cultural Revolution" Zhang Chunqiao, Wang Hongwen, and Yao Wenyuan singled out the Taofen Memorial Hall as a special case for investigation, and had closed it for a very long time.

In 1971, Zou Jiahua entered the cadre school at Lo'an County in Henan Province. At that time, the Chinese Communist Youth League Central Committee Cadre School was located in Xixian County. Zou Jiahua stayed there for a year, learning to plant rice and reading a little. In 1972, the 46 year old Zou Jiahua returned to Beijing where he was transferred to the State Council First Ministry of Machine Building Mechanical Research Institute as Deputy director and concurrently CPC Committee secretary.

At the end of 1973, he was transferred to the State Council National Defense Industries Office to work on

national defense industry matters. He worked there from 1974 till 1982 as deputy director of the State Council National Defense Industries Office and as deputy secretary of the Party organization. Subsequently the National Defense Industries Office was merged with the National Defense Science and Technology Commission to become the National Defense Science and Technology Industrial Commission. Zou Jiahua became deputy director of this National Defense Science and Technology Industrial Commission, and deputy secretary of the CPC committee. He held military status at that time. It was during this period that Zou Jiahua began a gradual rise in the political arena.

At the time of 11th Party Central Committee, Zou Jiahua had already been selected a candidate member of the Central Committee.

#### **Began Gradual Ascent During the 1980's**

At the 11th Party Central Committee in September 1982, Zou Jiahua continued to be selected as a candidate member of the CPC Central Committee.

In the fall of 1985 at the CPC Party Congress, Zou Jiahua was selected a member of the CPC Central Committee.

At the 12th Party Central Committee in November 1987, Zhou Jiahua continued to be selected a member of the CPC Central Committee.

#### **From Minister of Arms Industry to State Planning Commission Director**

In 1985, Zou Jiahua became Minister of Arms Industry and secretary of its Party organization. When Zou Jiahua was transferred from deputy director of the National Defense Industries Office to Minister of Arms Industry, the Chinese arms industry was having trouble selling its products. As soon as he took office, Zou Jiahua placed the emphasis in production on the development of civilian products. Today, civilian goods account for 60 percent of the output value of the arms system.

Next, Zou Jiahua took off his military uniform in a change to a civilian position. In 1987, China established the State Machine Industry Commission. Zou Jiahua became director of the State Machine Industry Commission and secretary of its Party organization.

After becoming director of the State Machinery Industry Commission, he immediately changed the notion that the machine industry should only pursue its own development. Instead, he made customers' needs the goal, and servicing those needs the industry's purpose. As a result, both the number of enterprises and their output value account for one-third of the electromechanical industries in Chinese industry. Thus they function rather well in equipping the national economy.

In 1988, when China carried out system reform, the Machine Industry Commission was merged with the Ministry of Electronics to become the Ministry of

Machine Building and Electronics. Zou Jiahua was appointed Minister of Machine Building and Electronics. At the same time, he was elevated to membership in the State Council responsible for 10 sectors including energy, transportation, raw and processed materials, machinery, and electronics. This permitted him to further gain well-rounded and rich administrative and managerial experience. When China's economy overheated in 1988, energy was in extremely short supply. This seriously limited China's economic development. China's largest city, Shanghai, had only 2 days supply of coal for a time. The State Council decided to have Zou Jiahua handle this difficult problem. After careful research and investigation, Zou quickly centralized allocations and coordinated the supply of transportation with coal production, thereby turning around the situation very quickly.

On 26 December 1989, Zou Jiahua replaced Yao Yilin in the important position of director of the State Planning Commission.

The 65 year old Zou Jiahua has a fine academic background and is also the son-in-law of the national president, NPC member, and Military marshal Ye Jianying. He is the husband of Ye Chumei [0673 2806 2734]. Nevertheless, Zou Jiahua does not put on the airs of a son of a high-ranking cadre. He treats people generously and cordially, and lives a simple life. After serving in an important position in the State Council for the past several years, he still lives at Nansha Gou in Sanli He in Beijing and has no plans to move.

He still maintains the bearing of a military man. As he walks along the street, his back is straight and his steps steady. He goes into his study each morning at 8 o'clock sharp. He neither smokes nor drinks and has no bad habits. The sweaters that he usually wears, bear patches. Several years ago, when he was already a minister and high-ranking official, he would still regularly go to the market where he lined up to buy fresh milk. His next door neighbors are the noted Chinese author Qian Zhongshu [6929 6988 2579] and Yang Jiang, [2799 4829] with whom he gets along very well. Zou Jiahua's interpersonal relations are very good. Not only does he have specialized knowledge; he is fluent in Russian, understands English, and is also a skilled calligrapher. His hobby is driving an automobile. If you see his sedan passing by in Beijing, the one sitting behind the steering wheel is usually this director of the State Planning Commission and newly appointed deputy premier of the State Council, Mr. Zou himself.

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#### **Vice Ministerial Changes Announced**

*HK1605035091 Hong Kong AFP in English 0339 GMT  
16 May 91*

[Text] Beijing, May 16 (AFP)—China has removed its executive vice-minister of agriculture and a vice-minister at the powerful State Commission for Restructuring the Economy, the PEOPLE'S DAILY reported Thursday.

The official newspaper also said the government named new vice-ministers of justice and water resources.

Zhang Yanning was removed as vice-minister of the ministry-level economic policy commission, the paper said, while Chen Dun was removed as executive vice-minister of agriculture, the most powerful of the ministry's four vice-ministries.

Zhang Xiufu and Zhou Wenzhi were appointed, respectively, vice-ministers of justice and water resources, the PEOPLE'S DAILY said.

The newspaper, which said the changes took place recently, gave no reasons.

It did not say who had replaced the ousted officials, nor who the two new vice-ministers had replaced.

#### **First National Supervision Theory Seminar Ends**

*OW3005185891 Beijing XINHUA Domestic Service in Chinese 1303 GMT 29 May 91*

[By reporter Wang Wenjun (3769 2429 0193)]

[Text] Chengdu, 29 May (XINHUA)—The first National Supervision Theory Seminar ended in Chengdu today. A total of over 90 people attended the

meeting, including leaders and supervision theorists from the Ministry of Supervision; the China Supervision Society; the departments of supervision of every province, municipality, and autonomous region; and experts and professors of political science, the science of administration, and the science of law.

The discussion meeting on the theories of supervision received 435 theses on various subjects from all areas. They dealt with running a clean government, correcting unhealthy trends among trades and professions, making supervision of law enforcement and administration serve economic construction, the system and functions of administrative supervision, and legislation for supervision. Among the writers of these theses were leading cadres, general cadres, supervision theorists, and some experts and scholars.

#### **State Council Appoints Information Office Heads**

*OW0406065491 Beijing XINHUA in English 0633 GMT 4 Jun 91*

[Text] Beijing, June 4 (XINHUA)—The State Council has appointed Zhu Muzhi, director, and Zeng Jianhui and Zhou Jue, deputy directors, of the Information Office of the State Council.

## GENERAL

**Zhang Zhuoyuan: Proceed Steadily With Price Reform**

91CE0461A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE THEORY AND PRACTICE] in Chinese No 2,  
Feb 91 pp 16-19

[Article by Zhang Zhuoyuan (1728 0587 0337): "Proceed With Price Reform on the Condition of Maintaining Macroeconomic Stability"]

[Excerpts] [passage omitted]

**Price Reform Grows More Important and Urgent Each Day**

[passage omitted] Presently, there are still various obstacles to structural adjustment (mainly to the industrial and product structures). With regard to systems relationships, the main obstacles are: local fiscal contracts, serious distortions in the price relationships, major defects in enterprise mechanisms (they are responsible for profits, but not losses), and incomplete mechanisms for state macroeconomic regulation and control. The most important of these are local fiscal contracts and distortions in the price relationships. As the economic work in recent years indicates, it is difficult to solve the problem of local fiscal contracts, because it is almost impossible begin due to the layers of obstacles. Originally, there was a plan to consult localities on implementing a separate tax system. Some transitional mode for implementing a separate taxation system has also been studied. However, there has been much opposition and repeated resistance from localities, especially from regions where the economy developed rather quickly in the last few years, where local fiscal revenues increased rather substantially, and where rather large benefits came from local fiscal contracts. Localities would rather increase the contracted base amount for fiscal deliveries than change to a separate taxation system such as is practiced in many countries. There is an important reason for this: locally owned and operated enterprises are not distinguished from government enterprises. Without changing the enterprise contract system, it would really be difficult to change the system of local fiscal contracts. The monetary amount stipulated in enterprise contracts is usually negotiated, case by case, between the local government and the enterprise. In these circumstances, it would be very difficult to change the system of local fiscal contracts into a separate taxation system that included having the center and localities share taxes on products, and that would inhibit localities' tendency of wanting to invest in and develop only processing industries that have short start-up periods, earn fast returns, and are highly effective. Without this, it would be very hard to enhance the construction of basic industries, restrict the blind development of overabundant processing industries, rationally adjust the industrial and product structures, and overcome the tendency towards structural similarity among regions.

The case of price distortions is not entirely the same as the case of the layers of difficulties with reforming the fiscal system, although there are still difficulties with the former. Yet it is possible to do something with price adjustment and deregulation after the problem of overall inflation has initially been resolved, and when the macroeconomy has restabilized and inflation has been forcefully inhibited. Today, when the roles of market mechanisms and market guidance are expanding, proceeding with price reform and changing the relative prices of various products and services will forcefully guide the development of China's industrial and product structures in a rational direction. [passage omitted]

**Clarifying the Target and Scope of Price Reform Once Again**

[passage omitted] Deepening reform means proceeding with market-oriented reforms, i.e., gradually expanding the role of market mechanisms. The key reason that the traditional system is defective in many ways and is in need of reform is that it rejects the commodity-monetary relationship and market mechanisms, thereby stifling the life and vitality of the economy. To reform the traditional economic system, it is necessary to vigorously develop the commodity economy and expand the role of market mechanisms, proceeding in a market-oriented way. Market-oriented reform should certainly be combined with planned guidance and macroeconomic control.

Since 1985, a general agreement on the issue of the goals of economic system reform has appeared in China's economic circles. The agreement is to establish an economic system which suits a planned commodity economy based on public ownership, contains Chinese characteristics, and is full of life and vitality, so as to promote the smooth development of productive forces. Briefly put, it is to establish a new system of a planned commodity economy. According to my understanding, under such a system, activities of the commodity economy will be the basis of socioeconomic activities, and it will be necessary to vigorously develop the commodity economy and fully use market mechanisms. It will also be imperative to exercise macroeconomic control and planned guidance over economic activities, so as to bring the activities of the commodity economy onto the track of planned development, and thus prevent the cyclical economic crises that occur under capitalism. With such a system, the central government will exercise plan-based regulation and control at the macroeconomic level; microeconomic activities will be regulated mainly by the market. A great many state and non-state enterprises will face the same competitive marketplace as they produce and operate. A rather reasonable and complete social security system will be established, so as to realize the unity between justice and efficiency. This could also embody the principle of combining the planned economy with market regulation.

As discussed above, economic system reform should be market-oriented, and the goal for economic system

reform is to establish a new system of a planned commodity economy. Thus, the goal for price reform means replacing the traditional system of administrative pricing by establishing a system where the prices of a few key goods and services are regulated by the state, with the prices of the numerous remaining goods and services regulated by the market. Under such a new system, the government should have an effective grip (including regulation and control) over macroeconomic-level prices, including the regulation and control of such strategic prices as the general price level, changes to the general price level, the most important price ratios, interest rates, exchange rates, and wages. On the other hand, many microeconomic-level prices can be deregulated as far as possible, so that the prices of various specific products and services may rather fully reflect the scarcity of resources and the supply-and-demand relationship. This will form a relatively rational price structure.

Since 1985, the above goal for price reform has gradually met with approval from many in economic circles and in the circle of economic theory, and China's price reform has been advancing towards this goal. After 12 years of reform, we have changed the uniform mode of plan-based pricing. Of all transactions in goods and services, a little more than half have prices that are determined wholly or partially by the market. Many people realize that the reason China's economic reform has been increasingly dynamic, with a brisk market and with people leading a full and colorful life, is largely because of the gradual deregulation of the prices of many goods and services. In my view, future price reform must continue to advance in the direction agreed upon in the last few years, so as to make greater achievements.

Proceeding from the above premise, we should regard price adjustment mainly as preparing for price deregulation. According to the experiences of the last few years, price adjustment tends to bring with it an inflationary spiral. This is truer still when there is a loss of control at the macroeconomic level. Therefore, relying solely on price adjustments would not lead to a proper order in the price relationship. We must still adopt an approach combining adjustment with deregulation. Second, with regard to joining the tracks in the dual-track pricing system for the means of production, we must clarify that most are to be covered by a single-track, market-regulated pricing system. Only a few of the most important means of production—including products that have a natural monopoly—are to be covered by a single-track, plan-based pricing system.

#### **Price Reform Must be Promoted Gradually**

In economic system reform, including reform of the pricing system, we must proceed gradually because of China's situation. The existing economic situation is not so bad that we must use electric shock treatment. I do not believe that most of China's economists feel China's economy is in such a difficult state or that we are desperate and must use electric shock treatment to jump

start it. Therefore, I do not approve of the method of simultaneously putting all price reforms into place, although some foreign experts have tried hard to recommend this method to us. If we adopt this method, the resulting political shocks would be too great, and would be harmful to economic and social stability.

The simultaneous deregulation of the prices of almost all products and services is not advisable. This is not only because of the excessively violent changes in economic interest relationships that would result, but also because of the immaturity of China's market. When the market relationship is underdeveloped, even if all prices were simultaneously deregulated, it would still be difficult to form truly market-regulated prices. In other words, with an immature market, it would still be difficult to rationalize the price differentials formed after price deregulation, and the differentials would very likely remain distorted. Thus, in my view, after clarifying the direction of reform, we must still take steady reform steps which will lead to gradual advancements. We must not attempt to have a proper order all at once, with everything in place simultaneously. There is no need to take so great a risk in realizing the goal of reform.

The economic system reform of a socialist country is the self-perfection of the socialist economic system. Except for cases with extraordinary circumstances, it is usually necessary to adopt the method of developing gradually. China is a large country with a population of over 1.1 billion. Its various regional economies are developing very unevenly; the economy is rather backward, and the commodity economy is very underdeveloped. All of this requires that we must proceed steadily with China's economic system reform. Initially we may even have to "grope our way across the river by feeling the stones," that is, gradually introduce and expand market mechanisms. It is imperative not to recklessly adopt the approach of solving the problem through a once-and-for-all action. China's dual-track pricing system for the means of industrial production represented a gradual reform for moving smoothly from a highly centralized system of an administrative command economy to a system of a planned commodity economy. It was an attempt to gradually permeate price formation with market mechanisms. Later, because of moderate inflation, the price differentials between the two tracks became too great. In addition, the excessively broad scope covered by the dual-track pricing system and mismanagement led to prominent defects in the dual-track system, resulting in criticism from all sides. Nevertheless, we must not be hasty in solving the problem of the dual-track pricing system and joining the tracks. It is impractical to attempt to join the tracks in one or two years; it seems that it will take a minimum of five to eight years.

#### **Seize the Opportunity of Macroeconomic Stability and Proceed with Price Reform Quickly**

We must proceed with price reform gradually, but this does not mean that it is all right to go slowly or not to

adopt an active attitude. We should seize the opportunity and actively proceed with price reform when conditions are right.

In practice, China's reform demonstrates: The most important condition for proceeding with price reform is properly measured economic development, with the macroeconomy in overall balance. Before 1985, the economy generally developed by a proper amount, and there were not yet serious macroeconomic imbalances, and thus price reform advanced rather smoothly. From 1985 to 1988, because we proceeded with expanding macroeconomic reform, inflation gradually appeared, and the overall imbalance and structural imbalances became interwoven. This resulted in an obstruction of various price reform efforts, and even led to the serious situation of a return of irrational price ratios. In contrast, since the end of 1989, because macroeconomic stability was restored, the adoption of many price adjustment measures did not lead to excessively large inflation or market fluctuations. This shows that proceeding with price reform requires a rather relaxed economic and market environment, and requires that the state pursue steady macroeconomic policies to create good conditions for price reform.

It seems that the opportunity for expediting price reform in China still exists in 1991. This is because: With continued improvement and rectification, the economy is developing at a moderate speed, which is not likely to lead to large disruptions in the balance between total social supply and demand. Agriculture delivered a bumper harvest in 1990, and we can expect food prices to remain stable. Thus we may determine that the market's retail-price level will not change too greatly, as investigations of typical cases in the past indicate that food price increases and the resultant chain reactions accounted for half of the factors inducing increases in market retail prices. In 1990 the extent of price increases was greatly reduced, resulting in basic stability and gradually eliminating the public's inflationary expectations. The population's savings will continue to increase, but on a reduced scale. Therefore there will not be such dramatic changes in the state of market, such as moving from enjoying the emergence of a buyer's market into suffering from a tight market or market fluctuations, etc. Based on all this, I think it is all right to consider a larger measure of reform for 1991. Besides adjusting prices, it is necessary to consider deregulating the prices of some products and services. Those that were previously deregulated, and then regulated again at the beginning of improvement and rectification, should be deregulated again.

We should also realize that the opportunity for price reform will not always be there; sometimes it can be a fleeting phenomenon. We should note that 120 billion yuan in currency was added in the fourth quarter of 1989. In 1990 bank money increased by over 20 percent, and the money supply (currency issues plus deposit money) also increased by over 20 percent, greatly exceeding the extent of economic growth and price

inflation. This indicates the existence of a new danger of inflation. In my view, we must neither continue huge capital inputs nor greatly increase credit supply in order to solve the problem of a weak market, for this means using inflationary measures to sustain economic growth. This would lead to the vicious cycle of inflation—contraction—inflation. Solving the problem of a weak market by increasing credit supply and capital inputs would cause problems when carried to a certain limit. It would lead to the reappearance of imbalances in total social supply and demand, and the market would become tight again. By that time the opportunity for price reform would naturally no longer exist.

In short, we should still persist in improvement and rectification, and give priority to stabilizing the economy. With this as a base, we must proceed with price reform and other reforms, and concentrate on pushing the economy into a benign cycle, so that China's economy may embark on the healthy road of long-term, sustained, steady, and coordinated development.

#### **Forum Compares Contract System With Tax, Profit Separation**

*91CE0520A Chongqing TIGAI XINXI [SYSTEMIC REFORM NEWS] in Chinese No 4, 20 Feb 91 pp 9-11*

[Article edited by Mo Rong (5459 5554), affiliated with the Capital Iron and Steel Research and Development Corp: "Summary of Discussion at Forum To Compare the Contract System With the Separation of Taxes From Profits"]

[Text] *Which approach should we actually take during the Eighth Five-Year Plan and future enterprise reform? Should we continue to uphold and perfect the contract system, or practice the separation of taxes from profits? In order to provide the state with a scientific basis for making the correct decision, the Capital Iron and Steel Research and Development Corporation recently held a "Forum To Compare the Contract System with the Separation of Taxes from Profits." Over 40 people, including delegates from the sectors in charge of enterprises in 10 provinces and cities (prefectures), such as Hunan, Anhui, Beijing, Chongqing, Mudanjiang City, Yiyang City (Hunan), Nanyang City (Henan), Yancheng Prefecture (Jiangsu), and Jingzhou Prefecture (Hubei), and specialists and scholars from departments such as the State Restructuring of the Economic System Commission, the State Council Development Research Center, and the State Planning Commission, participated in the forum.*

*The participants at the forum conscientiously analyzed and compared the theoretical basis, effects, and practical results of both the contract system and the separation of taxes from profits.*

#### **I. While the Contract System Has the Effect of Constantly Enlarging "The Pie," the Separation of Taxes From Profits Can Undermine This Function.**

Comrades from economic commissions in provinces, such as Hunan and Anhui, spoke as follows: The contract

system is based on responsibility, its greatest function being to stimulate enterprises to constantly make more money to enlarge "the pie" of public wealth. After enterprises are contracted, rigidly saddling them with the task of turning over more profits to the state than they can handle, infringes on their and their staff members' and workers' vital interests, and puts great pressure on them. However, allowing them to keep their extra profits after fulfilling their duty to the state, to be used for upgrading and expanding, and improving their staff members' and workers' lives, is a great motivation. This is bound to have the effect of motivating enterprise staff members and workers to constantly achieve better efficiency through enhancing their management and administration and pursuing technological progress. Some of the participants pointed out that, as the superiority of socialism is its ability to arouse and stimulate the initiative and creativity of workers as the masters, the contract system can bring this superiority into full play.

After comparing the contract system to the separation of taxes from profits, some comrades spoke as follows: The separation of taxes from profits is merely a form of distribution between the state and enterprises. Not only does it not have the effect of stimulating enterprises to make more money but, as the amount of income taxes that enterprises pay fluctuates with their efficiency, with more efficient enterprises paying more, less efficient ones paying less, and even losing ones being guaranteed minimum profits by refunds from state finance coffers, the separation of taxes from profits is equivalent to a covert resumption of "everyone eating out of one big pot." This "fluctuating" effect is bound to sap enterprise motivation by keeping them from working energetically and creatively. Other comrades said that the pilot projects in the separation of taxes from profits enable enterprises with unstable economic efficiency to take an indifferent approach, because they dilute the pressure and sap their sense of responsibility for risk, while making enterprises with declining efficiency feel that they have met a liberator, and leaving some large- and medium-sized enterprises with steadily growing efficiency feeling resentful.

## **II. The Contract System Is Better Able Than the Separation of Taxes from Profits To Ensure Stable and Increasing Revenues.**

The delegates to the forum remarked that a primary effect of the contract system, which stimulates enterprises to make more money and steadily enlarges "the pie," is to increase sources of revenue. They noted that when the amount of enterprise profits to be paid to the state is contracted rigidly, while enterprises that earn more profits will keep more profits, and the percentage of revenue from enterprise realized profits will shrink somewhat, the absolute amount of actual state revenue will increase sharply in the following ways: 1) progressive annual increases in the amount of profits that enterprises contract to turn over to the state will result in steady revenue increases; 2) as allowing enterprises to keep

more profits enhances their self-upgrading and self-development capabilities, the state will be paid more circulation taxes as enterprises expand their production and increase their sales volumes; 3) as contracted enterprises will sustain less losses on a smaller scale, the state's outlay for loss subsidies will decrease; 4) allowing enterprises to keep more profits, most of which will be invested in enterprise upgrading and expansion, will be bound to lighten the state's investment burden. As the new fixed assets from increased investment by enterprises will still belong to the state, the state will still generally "get the biggest share" of enterprise net income.

The delegates made the following points: The contract system functions specifically as a "brake" in stopping declining revenues. While the second step of the change from profits to taxes in 1986 put the realized profits of industrial enterprises into a 22-month decline, precluding an increase in the amount of profits paid to the state, it was only the contract system, which the State Council later put into effect throughout China, that finally stopped the revenue decline. When enterprises encountered severe difficulties in 1990, such as soft markets, overstocking of products, and fund shortages, which sharply reduced their economic efficiency and brought only a 0.2 percent increase in the realized profits and taxes of budgeted industrial enterprises throughout China, revenue payments to the state still increased 6.6 percent. Some delegates commented that the contract system has the effect of "ensuring steady increases in state revenue despite conditions."

Some comrades at the forum pointed out incisively that, instead of making a point of motivating enterprises to improve their efficiency to expand sources of revenue, the separation of taxes from profits merely takes away another little piece of enterprise retained profits, which is like killing the goose that lays the golden eggs, is bound to exhaust financial resources and decrease revenues, and makes the separation of taxes from profits a short-sighted fiscal action.

## **III. The Contract System Contributes More Than the Separation of Taxes from Profits To Enhancing Enterprise Growth Stamina and Giving Them a Better Input-Output Cycle.**

The delegates made the following remarks: The current lack of enterprise stamina is a particularly glaring problem. On one hand, while about 70 percent of enterprises were not basically upgraded during the Seventh Five-Year Plan, leaving them with obsolete equipment, backward technologies, and products that were unable to compete on foreign or domestic markets, on the other hand, fiscal difficulties left the state unable to invest much in upgrading aging enterprises. The contract system was able to effectively resolve this contradiction by guaranteeing the amount of profits enterprises paid to the state, thus enabling them to quickly retain more profits and accumulate more funds through making more profits and overfulfilling quotas. In order to fulfill

their duty of making annually increasing payments to the state and make more profits in the future, enterprises are bound to use most of these increased funds for upgrading and expansion. When enterprises invest their own accumulated money and assume the responsibilities and risks so involved, they are bound to strive for better efficiency. As enterprises enhance their investment capabilities and gradually take the route of self-accumulation, self-upgrading, and self-development, a better input-output cycle will evolve throughout society.

The separation of taxes from profits saps the self-accumulation capability of enterprises. As it changes the profit distribution structure between the state and enterprises, giving most of increased enterprise profits to the state, and increasing state taxes along with increased enterprise profits, enterprises are left with maintaining or even having difficulty maintaining simple reproduction. The delegates at the forum remarked that the trend of steadily shrinking state-owned assets is particularly worth noting.

#### **IV. Pilot Project Experience Proves That the Separation of Taxes From Profits Is Less Standardized Than the Contract System.**

Some comrades felt that the contract system method of setting contract bases through "one-on-one" negotiations is not standardized. Many comrades at the forum made the following points: "One-on-one" negotiations not only are not a defect of the contract system, but also are precisely why the contract system is suited to China's national conditions and has shown such great vitality in practice. As China had long practiced a product economy, in which there were differences between things, such as the amount of state investment in, the structural composition of, and the technology and equipment levels of various state-owned enterprises, as well as the weight of state directive plan tasks currently undertaken, the amount of raw materials provided in the state plan, and product prices and values, these inherent objective factors caused huge disparities in economic efficiency. The "one-on-one" negotiations, which varied contract bases according to enterprise conditions, were finally able to put enterprises with differing conditions into a state of relatively equal competition. In the words of an economist who was present at the forum, China's national conditions dictate that only nonstandard methods can be adopted to deal with nonstandard economic realities. Other comrades made the following remarks: As the industrial contract system has been practiced in China for a decade, we have accumulated much experience in setting contract bases rationally, which gives "one-on-one" negotiations an even more scientific basis. Moreover, production developments, and the gradual future evolution of equal profit and tax rates throughout society, mean that the use of standardized methods to set contract bases will succeed when the time is ripe.

Comrades from areas in which pilot projects in the separation of taxes from profits were underway, reported

the following matters at the forum: None of the pilot projects in Chongqing, Mudanjiang City, Yiyang City (Hunan), or Nanyang City (Henan) are being conducted completely according to the pilot project plans announced by the Ministry of Finance (MOF), and all of them have adopted various adaptations. The 35 percent uniform income tax rate stipulated by MOF has certainly not yet become uniform, with actual income tax rates in pilot project enterprises varying from 14.32 percent to 34.25 percent, and great differences also occurring in the percentages of aftertax loan repayments. In the separation of taxes from profits, "one-on-one" negotiations are required not only for setting aftertax contract bases, but also for setting aftertax loan repayment percentages, the amounts of finance refunds, and choices of plan adaptations. Some specialists said that while the separation of taxes from profits is purportedly more "standardized," it is actually less so.

The delegates to the forum also made the following suggestions:

1. As the current pilot projects in the separation of taxes from profits have been underway for only a short period of time, are not being truly conducted according to the plans designed for them by finance departments, and have not yet fully demonstrated their pros and cons, it would be premature to maintain that they are our "enterprise reform orientation," and they should not be popularized on a large scale until they have been proved successful.
2. Until the Central Committee and State Council have decided to put the separation of taxes from profits into full effect, actual functioning departments, the business world, and theoretical circles should be encouraged to explore and debate the theory and practice of the separation of taxes from profits. That is, the comrades who endorse it should be allowed to fully express their views, and those who disapprove of it should be allowed to fully voice their objections.
3. Concerned government sectors should now do a good job of dovetailing the first and second phases of contracts, in order to achieve policy and economic stability. Moreover, they should reaffirm the constancy of their policy of upholding and perfecting the contract system, publicize its successes, and sum up its typical experiences.
4. In the new round of contracts, the various contract mistakes should be corrected, in order to improve the contract system.
5. In setting contract bases, we must break free from the patterns of the second phase of the change from profits to taxes, and proceed from actual enterprise conditions. That is, we must consider both the current macroeconomic climate that enterprises are facing, as well as their future growth prospects, in order to put them under a certain amount of pressure, while leaving them plenty of room for growth.

6. Macroeconomic reform must be focused on upholding and perfecting a complete contract system. A task of top priority is to solve the problems of too heavy burdens and too little retained profits among large- and medium-sized state-owned enterprises, in order to "store up wealth in enterprises," enable them to recuperate and multiply, and help put them as quickly as possible onto the track of self-accumulation, self-upgrading, and self-development.

### **External, Internal Requirements for Invigorating Enterprises**

#### **Less State Control; Market, Wage Reform**

91P30140A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 15,  
15 Apr 91 p 14

[Article by staff reporter Wu Kan (0702 0170): "External Requirements for Invigorating Large-, Medium-Sized Enterprises"]

[Summary] The Chinese Government has recently advocated that invigorating large and medium-sized enterprises is the key link in deepening reform of the economic system and has expressed a willingness to create a favorable external environment for this endeavor.

Experience shows that the improvement of external conditions should include the following three aspects:

1. Reducing government intervention and alleviating enterprise burdens. Under a planned economy, state enterprises are subject to government administration without independence. Although it is impossible to totally eliminate state intervention under the present circumstances, a partial reduction would give enterprises some leeway to adjust their operations based on actual conditions and to gradually gain the ability to stand on their own. Statistics show that every year enterprises must pay 44 different kinds of taxes, fees, and bonds in addition to various levies and fines. The profit retention rate for in-budget industrial enterprises was 3.5 percent of total sales in 1988, 2.1 percent in 1989, and 1.7 percent in 1990. Hence, a reduction of enterprise burdens has become an urgent task.

2. Establishing a unified national market as soon as possible. In this regard, two related problems must be resolved. First, price reform must be implemented, with the elimination of dual-track prices, the double-guarantee practice, and financial subsidies. Second, regional blockades must be dismantled. Fair competition in an open market will eliminate inefficient units and bring out the latent vitality of enterprises.

3. Adjusting wages and quickly establishing a social security system. The current enterprise operators, be they factory leaders or managers, actually have no real independence of operation. Matters concerning planning, materials, capital, wages, technological innovation, and internal mechanisms are all governed by related

state administrative organs. Deficiencies under the "iron rice bowl" still exist. Without an adequate social security system, unemployed workers discharged through dismissal or factory close-downs will contribute to social instability. This is one of the main reasons that many reform measures cannot be implemented.

It will be extremely difficult to resolve these problems because they are so complex and wide-ranging. Nonetheless, without addressing these issues, invigorating large and medium-sized enterprises is only a paper exercise.

#### **Morale, Technology, Competitiveness**

91P30140B Hong Kong CHING-CHI TAO-PAO  
in Chinese No 17, 29 Apr 91 p 14

[Article by staff reporter Wu Kan (0702 0170): "Internal Conditions Required for Enlivening Large, Medium-Sized Enterprises"]

[Summary] In addition to improving external conditions, invigoration of large and medium-sized enterprises also requires appropriate adjustments to internal mechanisms.

First of all, it is important to instill in workers a sense of responsibility and ownership. Ever since contract management and leasing systems began operation, the status of enterprise employees has never been properly addressed. Prior to reform, workers viewed themselves as enterprise owners. But now, workers who are not contractors or lessees feel that they are merely employees. This is especially true in cases where contractors or lessees do not know how to handle labor relations, crippling employee initiative. One Zhejiang representative commented during the recent NPC that the morale of state enterprise workers at present is the lowest in 40 years and that many have already reached the stage of deliberately "going slow." This is really not an overstatement. Therefore, unless employee morale is improved, there cannot be any invigoration of enterprises.

Second, there is the problem of technological innovation. After enterprises have been contracted or leased, many contractors who fear that technical innovation will impede the pace of production, that large expenditures will result in few gains, and that targets will not be achieved, often allow malfunctioning machinery to continue operation, pay little attention to technical innovation, or try to use improper means to sell inferior products. As a result, the decline in product quality is growing more serious every day, and the problem needs to be addressed as soon as possible. The government should increase funds for technological innovation and allow higher depreciation for equipment. Meanwhile, enterprises should also adopt a long-term view, which is rather difficult to do under the current system.

The third question concerns reorganization of enterprises and adjustment of the industrial structure and product mix. Organized like a small, closed society,

many state enterprises are ill-equipped to compete effectively in the open market. Some enterprises that are accustomed to obeying orders and lack judgement will continue to produce unwanted products. Therefore, reorganizing state enterprises according to the rules of commodity economy and improving the industrial structure and product mix are also of great importance.

## PROVINCIAL

### Zhejiang's Seventh Five-Year Plan Statistics

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in Chinese 4 Apr 91 p 2

[Zhejiang Provincial Statistical Bureau's Communiqué on the Statistics for Zhejiang Province's National Socio-economic Development During the Seventh Five-Year Plan Period, dated 27 March]

[Text] During the Seventh Five-Year Plan period (1986-1990), the people of the whole province, under the leadership of the provincial party committee and the provincial government and guided by the policies formulated by the party Central Committee and the State Council to invigorate the domestic economy and to facilitate opening to the outside world, scored new achievements in the course of building socialism with Chinese characteristics after overcoming difficulties and making serious efforts to invigorate the economy and promote various social undertakings. The province's economic strength was further enhanced; market supplies were abundant; new progress was made in economic relations with foreign countries; the standards of living of the urban and rural residents improved conspicuously; and new advances were made in social undertakings, including science and technology, education, culture, public health, sports, and family planning. During the Seventh Five-Year Plan period, the province's gross domestic production increased by an average of 7.3 percent annually; national income, 7.8 percent; and total industrial and agricultural output value, 14.3 percent. All of these met the requirements set in the plan. The main problems during the period were: The economy was overheated and conspicuous inflation occurred in the course of economic development; economic growth slowed down; lifting of economic restrictions was relatively insufficient; at times there was insufficient coordination in handling the relationship between developing a commodity economy and strengthening the building of a spiritual civilization.

#### I. Agriculture

During the Seventh Five-Year Plan period, our province further implemented the strategic principle of promoting big developments in the commodity economy in rural areas by making agriculture the foundation. During the second-step reform, the rural economy grew fairly quickly as a result of readjusting the rural production structure, increasing agricultural input, and popularizing agrotechniques. In 1990 the province's total economic

production in rural areas reached 115 billion yuan, up 1.2 times over 1985 and increasing at an average of 17.5 percent a year. The production of rural industry, construction industry, transportation services, commerce, catering services, and other nonagricultural sectors increased by 23.9 percent, with their proportion rising from 60.8 percent in 1985 to 70.7 percent in 1990. During the Seventh Five-Year Plan period, the rural industry developed into an important pillar of the rural economy, with its proportion of the total rural production rising from 46.2 percent in 1985, 50.9 percent in 1986, and 57.7 percent in 1990. During the Seventh Five-Year Plan period, village and township enterprises employed 300,000 rural workers. In 1990 the province's total rural economic income reached 93.16 billion yuan, up 4.3 times over 1985 and increasing at an average of 39.8 percent annually.

Agricultural production increased. In 1990, total agricultural production amounted to 33.677 billion yuan, up by 18.4 percent over 1985 and increasing at average of 3.4 percent annually and surpassing the planned target of 3 percent. Of this, crop cultivation production increased at an average of 0.5 percent annually. Forestry basically remained the same; animal husbandry, 2.4 percent; sideline production, 14.5 percent; and fishery, 7.7 percent.

Among the major agricultural products, production of grain, cotton, jute and ambar hemp remained the same in the first four years of the Five-Year Plan, but in 1990 the situation changed. Production of silkworm cocoons and aquatic products increased for many consecutive years. During the Seventh Five-year Plan period, the average annual production of major farm and sideline products, such as grain, cotton, and jute and ambar hemp, dropped by varying degrees compared with the Sixth Five-Year Plan period, while the output of other products increased by a fairly large margin.

The average annual output of major agricultural products was as follows (metric tons):

	Seventh Five-Yr Plan	Sixth Five-Yr Plan	Increase Over Sixth Five Yr Plan (%)
Grain	15,776,200	16,306,900	-3.3
Cotton	58,200	94,700	-38.5
Rapeseed	407,300	359,000	13.5
Jute, ambar hemp	155,500	197,900	-22.4
Tea	116,600	97,400	19.7
Silkworm cocoons	104,900	69,900	50.1
Citrus fruit	543,700	177,000	207.2
Pork, beef and mutton	812,800	687,800	18.2
Aquatic products	1,277,100	910,600	40.2

Progress was made in afforestation. During the Seventh Five-Year plan, a total of 6.925 million mu of land was afforested, exceeding the planned target. The percentage of forest cover is now 45.8 percent, ranking among the highest of all provinces and municipalities in the country.

Conditions for agricultural production were further improved. Funds for supporting agriculture increased. During the Seventh Five-Year Plan period, the local authorities of the province invested a total of 4.493 billion yuan in agriculture, an increase of 120 percent over the Sixth Five-Year Plan period. Comprehensive agricultural development was started. During the Seventh Five-Year Plan, 686 million workdays were devoted to farmland capital construction. As a result, more than 500,000 mu of land was developed, and the problem of soil erosion was tackled on 140 million mu. Progress was made in developing agriculture through science and technology. Achievements made in agricultural science and technology, such as fine varieties, model planting, applying chemical fertilizer according to prescriptions, and plastic sheeting, were used and popularized, thus bringing greater potentials for production into play. Fine varieties of seeds were used in planting about 85 percent of the grain crops in 1990. Agricultural equipment was improved to some extent. At the end of 1990, the value of fixed assets for production in the rural areas reached 22.566 billion yuan, increasing 200 percent over 1985. The aggregate power of the province's farm machinery was 12,179,100 kilowatts, a 50.3-percent increase over 1985. The amount of chemical fertilizer applied increased by 29.9 percent, and the consumption of electricity by 72.6 percent.

However, our comprehensive agricultural-production capacity remained low. The prominent manifestations were: 1) The area of our cultivated land considerably decreased. Although this was controlled to some extent in the past two years, the province's area of cultivated land in 1990 was still 798,000 mu less than in 1985. During the readjustment of the agricultural structure, the area of farmland sown to grain crops was once excessively reduced. 2) Our capability of resisting natural disasters was still weak, water conservancy facilities were in bad repair, and the irrigated area was reduced. 3) While implementing the Household Responsibility System With Remuneration Linked to Output, insufficient attention was paid to collective operations in the dual management system. As a result, village-level collective economies were generally weak, affecting agricultural development.

## II. Industry

During the Seventh Five-Year Plan, our province concentrated on enterprise reform and vigorously implemented the enterprise contract system. As a result, the vitality of enterprises noticeably increased, and progress was made in industrial production. The province's total industrial output value in 1990 was 142.937 billion yuan, increasing 110 percent over 1985 and showing an

average annual rise of 16.3 percent. This represented a 9 percent overfulfillment of the planned target, marking the third highest growth period after the First and Sixth Five-Year Plans. However, development was uneven, and there were rather big fluctuations. In the first three years of the Seventh Five-Year Plan, the economy was overheated and the average annual industrial growth rate was 22.4 percent. In the last two years, efforts were made to improve the economic environment and rectify the economic order, and the growth rate noticeably dropped—the average annual growth rate was 7.7 percent. During the Seventh Five-Year Plan, the average annual growth rate was 14.6 percent in heavy industry and 17.2 percent in light industry. In terms of ownership, the average annual growth rate was 7 percent in state-owned industries, 17.9 percent in collectively owned industries, 58.7 percent in individual-owned industries in urban and rural areas, and 43.1 percent in Chinese-foreign joint ventures, exclusively foreign-owned industries, and industries with other economic factors.

The production of major industrial products increased by a big margin. Forty industrial products were listed in the Seventh Five-Year Plan, the production of 28 of which, including electricity, steel, steel products, pig iron, cement, chemical fertilizer, yarn, cloth, silk, crude salt, and television sets, exceeded the planned targets. The output of most products in 1990 increased in varying degrees as compared with 1985. The amount of electricity generated rose from 13.203 billion kilowatt-hours [kWh] to 20.866 billion kWh, an increase of 58 percent; the output of steel went up from 541,000 metric tons to 859,000 metric tons, an increase of 58.8 percent; and the output of cement went up from 7,999,200 metric tons to 13.4 million metric tons, an increase of 67.5 percent.

Our industrial production capacity expanded. At the end of 1990, Zhejiang had 90,900 industrial enterprises at or above the village level; among which 522 were of large- or medium-sized enterprises, 204 more than that at the end of 1985. At the end of 1990, the total original value of the fixed assets of all industrial enterprises in the province operating on an independent accounting system amounted to 52.44 billion yuan, 1.4 times more than that at the end of 1985. In addition, we built numerous important industrial infrastructures and, as a result of importing new technologies and accelerating old enterprises' technological transformation, our technological level of industrial production was considerably raised and our industrial production establishment was further improved.

However, during a certain period, we paid too much attention to expanding industrial production and the growth of industrial output value, while making too little effort to readjust the industrial structure, transform our current technologies, and develop backbone enterprises and the basic raw and processed materials industry, resulting in an increasingly poor economic efficiency.

The production percentage of the basic raw and processed materials industry in the province's total industrial production dropped from 10.5 in 1985 to 10.2 in 1990. The material consumption rate of the industrial sector increased from 69 percent to 75.1 percent, and the profits and taxes generated from every 100 yuan of capital dropped from 32.56 yuan to 15.97 yuan.

### III. Fixed Asset Investment and the Construction Industry

To deal with the problem of insufficient investment over the years and keeping up with reform in the investment system, during the Seventh Five-Year Plan period, we opened up new financial sources to secure funds for economic development. During the Seventh Five-Year Plan period, the province's social fixed asset investment totalled 88.666 billion yuan, 59.637 billion yuan more than the Sixth Five-Year Plan, overfulfilling the planned target. Of this total fixed asset investment, 32.847 billion yuan were made by units of public ownership, 20.454 billion yuan more than the Sixth Five-Year Plan; 20.506 billion yuan were made by collective units, 12.952 billion yuan more than the Sixth Five-Year Plan; and 35.312 billion yuan were made by individuals in urban and rural areas, 26.231 billion yuan more than the Sixth Five-Year Plan.

The investment pattern was readjusted in one way or the other. The amount of investment in basic industries and infrastructure development was increased, and so was the proportion of this investment to the total investment. During the Seventh Five-Year Plan period, investment in the energy and raw and processed materials industries and transportation and posts and telecommunications facilities, which was a part of the total investment in capital construction, totalled 8.977 billion yuan, 6.526 billion yuan more than the Sixth Five-Year Plan. The percentage of this investment in the total investment increased from 31.7 in the Sixth Five-Year Plan period to 46.6 in the Seventh Five-Year Plan period. During the Seventh Five-Year Plan period, units of public ownership invested 10.916 billion yuan in revamping and modernizing facilities and technologies, up 1.6 times from the Sixth Five-Year Plan period.

We accelerated key construction, and encouraging results were achieved. The state and the province have plans for 86 key construction projects for the Seventh Five-Year Plan, with a total investment of 13 billion yuan. A total investment of 9.005 billion yuan was made, and a number of energy, raw and processed materials, and transportation projects were completed and put into operation. Some main projects are: new airports in Wenzhou and Ningbo, expansion of Hangzhou Airport, Shanghai-Hangzhou multi-track railroad (110.4 kilometers in Zhejiang), extension of the Jinshuitan and Shitang Hydropower Station, the new Beilun Power Plant, Hangzhou City's computerized switchboard project, expansion of the 2.5 million-tonne refinery of the Zhenhai Petrochemical Plant, the Zhejiang Acrylic Fibers Plant, the Ningbo Paper Mill, and new projects of Ningbo

University. In addition, construction of the second bridge across the Qiantang Jiang, the Qinshan Nuclear Power Plant, the Zhejiang Provincial Broadcasting and Television Center, the Hangzhou Gas Supply Center, and other key projects, is under way.

Production capacity rose considerably, thus strengthening the foundation for further economic development. During the Seventh Five-Year Plan period, 13,624 capital construction projects were completed throughout the province and put into operation, 21 of which were large and medium-sized projects. Some 10,227 projects in connection with updating and revamping old enterprises were completed. During the Seventh Five-year Plan period, fixed assets of units collectively owned by people throughout the province went up by 23.279 billion yuan, an increase of 13.562 billion yuan over the Sixth Five-Year Plan period. New major production capacities include: 1.6154 million kilowatts of power generating capacity, 525 million cubic meters of water storage capacity, 7.86 million metric tons of port cargo handling capacity, 2,698 km of newly built or expanded roads, 2,112 km of power transmission lines (over 110,000 volts), and 2.34 million metric tons of cement.

The construction industry progressed to some extent. In 1990 there were 737,000 construction workers throughout the province, an increase of 21.3 percent over 1985. During the Seventh Five-Year Plan period, production of state-owned construction enterprises amounted to 7.423 billion yuan, up 4.575 billion yuan over the Sixth Five-Year Plan period. The construction industry used better technology and equipment, and the quality of its designs and work improved considerably.

Progress was made in geological survey and prospecting work. During the Seventh Five-Year Plan period, 425,400m of drilling was completed in the province, further increasing the verified reserves of 26 kinds of minerals.

### IV. Transportation, Posts and Telecommunications

During the Seventh Five-Year Plan period, infrastructural transport facilities improved to some extent, thus enhancing transport capacity. In 1990, 832.6 km of railways were in operation in the province, of which 221.7 km were double-track railways, up 217.4 km over 1985; 38,500 km of highways and roads were opened to traffic, an increase of 50.6 percent over 1985; inland waterways in operation remained at the same level as that of 1985, which was 10,600 km; civil air routes and air service mileage rose from 15 and 10,200 km in 1985 to 46 and 38,900 km in 1990, respectively. In 1990 there were 150,000 civilian motor vehicles, 50,000 mechanized boats, an increase of 1 and 3.6 times respectively over 1985. During the Seventh Five-Year Plan period, 52 dock berths were added throughout the province, increasing the cargo handling capacity by 4.60 million metric tons. Of these, 28 were berths located along the coastal ports, increasing the seaport cargo handling capacity by 3.6 million metric tons.

In 1990 transport departments in the province handled 27.770 billion metric ton-km of goods, up 17.6 percent over 1985. Of this, the volume handled by the railways rose by 9 percent. The volume of passenger transportation was 18.512 billion person-km, up 1 percent over 1985, of which the volume handled by the highways increased 5.6 percent. The cargo handling capacity of major ports amounted to 43.20 million metric tons, an increase of 72 percent over 1985. The volume of air transportation was 320,000 persons, up 1.5 times over 1985. Advances were also made in the development of transport services run by individuals.

Posts and telecommunications developed rapidly. In 1990 transactions throughout the province amount to 454 million yuan, up 1.4 times over 1985, increasing at an annual average rate of 19.2 percent. The volume of international telecommunications and that of new undertakings, such as facsimile messages, telegrams, express letters delivered, and postal deposits, doubled. During the Seventh Five-Year Plan period, the number of telephone subscribers in urban areas totalled 175,800, up 1.7 times; that of telephone subscribers in rural areas was 67,800, increasing 1.2 times.

During the Seventh Five-Year Plan period, the domestic market changed quite rapidly. In the first three years, the market fluctuated sharply. In the last two years of the Seventh Five-Year Plan, through improving the economic environment and rectifying the economic order, the market gradually became normal and commodities were abundant. The total net domestic purchase of commodities by commercial establishments in the province increased from 16.18 billion yuan in 1985 to 38.589 billion yuan in 1990, an increase of 1.4 times. Of these commodities, industrial products increased by 1.6 times, and agricultural and sideline products by 84.5 percent. During the same period, the total amount of retail sales of commodities increased from 19.782 billion yuan to 40.894 billion yuan, an increase of 1.1 times, resulting in an average annual growth of 15.6 percent (the annual growth was 24 percent from 1986 to 1988, and 4.1 percent from 1989 to 1990); after adjustment for price rise, the actual growth was 21.9 percent.

As the circulation system was being reformed, profound changes took place in the market structure. The retail sales of commodities by collective units and units of public ownership increased by 72.9 percent from 1985 to 1990; the percentage of these sales in the total retail sales of commodities dropped from 76.9 in 1985 to 64.3 in 1990. The retail sales of commodities by joint ventures and individual business operators increased by 2.5 times during the same period; the percentages of these sales in the total retail sales of commodities increased from 14.6 in 1985 to 24.3 in 1990. The retail sales of commodities by peasants to the nonagricultural population increased by 1.8 times; the percentages of these sales in the total retail sales of commodities increased from 8.5 in 1985 to 11.4 in 1990. The amount of business done at urban and rural fairs increased from 4.403 billion yuan in 1985 to 16.19 billion yuan in 1990, or an increase of 2.7 times,

resulting in an average annual growth of 29.7 percent; after adjustment for price changes, the actual growth was 86.1 percent.

New developments were made in material supply and marketing. During the Seventh Five-Year Plan period, material supply establishments purchased a total amount of 68.095 billion yuan worth of materials (not including those purchased by cooperative establishments), or 53.313 billion yuan more than that of the Sixth Five-Year Plan. Materials sold by these establishments during the Seventh Five-Year Plan period totalled 71.967 billion yuan, an increase of 56.213 billion yuan over the Sixth Five-Year Plan.

Prices sharply increased in the first four years of the Seventh Five-Year Plan. Due to effective measures taken, prices were relatively stable in 1990. Price changes in each year of the Seventh Five-Year Plan are as follows (using prices of the previous year as 100):

Year	1986	1987	1988	1989	1990
Overall Price Index of Living Expense	106.2	108.8	121.5	118.2	102.1
Overall Retail Prices Index	106.0	109.5	122.1	117.8	101.6

## VI. Foreign Trade and International Tourism

During the Seventh Five-Year Plan period, particularly since 1988, our province gradually accelerated the pace of opening to the outside world. Presently, the number of open areas in the province has increased to 37 cities and counties covering a total of 44,700 square km. A multi-tier system for handling foreign economic relations has taken shape and consists of cities opened to the outside world, economic and technical development zones, and other open cities and counties. The province has established economic relations with more than 130 countries and regions.

Foreign trade continued to develop. Statistics of foreign trade departments showed that in 1990, as compared with 1985, the total value of export goods procured throughout the province rose from 2.892 billion yuan to 13.891 billion yuan, an increase of 3.8 times, averaging a 36.9-percent increase annually. The total value of export commodities rose from \$938 million to \$2.259 billion, increasing 1.4 times and averaging a 19.2-percent increase annually. During the Seventh Five-Year Plan period, the accumulated value of export commodities reached \$8.285 billion, 2.5 times the figure of the Sixth Five-Year Plan period.

Progress was made in the use of foreign capital. During the Seventh Five-Year Plan period, the province signed \$1.058 billion worth of contracts for the use of foreign capital, and actually used \$782 million of the foreign capital. The figures were respectively five and 5.4 times those of the 1979-1985 period. By the end of 1990, the province had approved 785 foreign-funded enterprises, 415 of which had been in business.

Progress was made in contracting for overseas projects and labor service cooperations with foreign countries. During the Seventh Five-Year Plan period, the province signed 778 contracts, valued at \$59.56 million, on building projects and providing labor services overseas. The actual volume of transactions totaled \$76.19 million.

Regarding international tourism, except for 1989, rapid progress was made in the four other years. Arrivals of foreign tourists increased from 272,900 in 1985 to 455,800 in 1990, an increase of 67 percent, averaging a 10.8-percent increase annually. During the Seventh Five-Year Plan period, the province received 1,751,300 foreign tourists, up 71.3 percent from the Sixth Five-Year Plan period, bringing in foreign exchange revenues which totaled 905 million yuan in foreign exchange certificates.

#### VII. Science and Technology, Education, Culture, Public Health and Sports

The contingent of scientists and technicians was constantly growing as new progress was being made in science and technology. The number of natural scientists in state-owned units throughout the province increased from 178,300 by the end of 1985 to 271,900 in 1990, an increase of 52.5 percent. During the Seventh Five-Year Plan period, the province made 4,933 scientific and technological achievements, 1.74 times the number of the Sixth Five-Year Plan period. Of these achievements, 22 were granted the state invention award, 118 won the state award for scientific and technological progress, 1,470 won the provincial award for scientific and technological progress, and 159 were granted the provincial sparking award. The province ranked first in the nation in biotechnology, seed breeding and cultivation of major crops, prevention and control of forest diseases and pests, planting of economic forests, microelectronic technology, optical fiber, application and research in testing equipment, and other areas of science and technology. The implementation of the "Spark Program," the "Torch Program," the "Harvest Program," and the "Prairie Fire Program" yielded marked economic results and promoted economic development. Research in social sciences also became more active, which contributed to economic construction and use of scientific methods in decision-making.

The province began to develop a system for work on patents. During the Seventh Five-Year Plan period, it accepted 7,035 patent applications, 2,817 of which were approved. New progress was made in meteorology, cartography, environmental protection, oceanography, metrology and other service areas of science and technology.

Steady progress was made in education. During the Seventh Five-Year Plan period, the province had 82,500 graduates from institutes of higher learning, up 60.6 percent from the Sixth Five-Year Plan period; 88,800 graduates from secondary technical schools, an increase

of 45.7 percent; and 2,521,200 graduates from all categories of adult educational facilities at college and high school levels. The nine-year compulsory education was implemented in areas whose population accounted for 53.7 percent of the province's population. Some readjustments were made in cultural undertakings. In 1990, as compared with 1985, 17 more new feature movies were produced; the number of film-projection units decreased by 1,012, art performing troupes by 36, and cultural halls by seven; and the publication of books and magazines dropped by 63.83 million copies and 10.76 million copies respectively, while newspaper publication increased by 72.9 million copies. In the same period, the number of museums, radio broadcasting stations, and television stations at and above county level increased by 30, 2, and 12 respectively. Television broadcasting covered 80.4 percent of the population and achieved the target of the Seventh Five-Year Plan, but radio broadcasting covered only 70.8 percent of the population and fell short of the planned target of 85 percent.

Continued progress was made in public health with improvements in medical care conditions. During the Seventh Five-Year-Plan period, the number of public health organizations and hospital beds increased by 631 and 16,900 respectively, while the number of full-time health workers rose by 17,700. However, difficulties in getting in-patient medical care in urban areas remained conspicuous, and medical care in rural areas remained comparatively backwards.

Sports developed quite rapidly, and the level of competition skills was raised constantly. During the Seventh Five-Year-Plan period, Zhejiang's athletes won 240.5 gold medals in major domestic and international competitions, including 21 world championship titles. The mass participation in sports events became more and more popular.

#### VIII. Standard of Living

Urban and rural residents remarkably raised their standard of living and level of consumption. Their per capita income used for living expenses exceeded 1,000 yuan in 1986 and reached 1,769.16 yuan in 1990, up 110 percent from 1985 at an average annual rate of 16.1 percent. The actual average annual rate of increase was 4 percent if commodity price increases were factored in. The peasants' per capita net income exceeded 1,000 yuan in 1989, and reached 1,099.04 yuan in 1990, up 90.5 percent from 1985 at an average annual rate of 13.8 percent. The actual average annual rate of increase was 5.2 percent, if commodity price increases were factored in. Durable consumer goods owned by urban and rural residents increased rapidly. At the end of 1990, every 100 urban families had 120.68 television sets (including 62.99 color television sets), 77.69 refrigerators, 70.07 washing machines, 74.22 radio-cassette recorders, and 10.48 high and middle-grade musical instruments. Every 100 rural families had 57.85 television sets (including 8.78 color television sets), 5.93 refrigerators, and 20.85 radio-cassette recorders.

Progress continued in urban and rural housing conditions. The per capita floor space in 1990 was 10.21 square meters in urban areas and 29.26 square meters in rural areas, up 21.8 percent and 32.6 percent respectively from 1985.

Savings deposits scored large gains in both urban and rural areas. By the end of 1990, the value of savings deposits by residents totaled 30,675 million yuan, or 350 percent more than at the end of 1985.

Employment kept increasing in urban areas. During the Seventh Five-Year-Plan period, some 371,700 people were given jobs in the province. The number of staff and workers in the province increased by 494,500, of which the increase in state-owned units was 401,600 and the increase in the number of urban individual workers was 177,500. Further development was made in social welfare work.

### IX. Population

During the Seventh Five-Year-Plan period, the total population growth in the province was brought under effective control. By the end of 1990, the province's total population was 42.38 million, an increase of 2.08 million or 5.2 percent over 1985 at an average annual rate of 10.01 per thousand. During the period, the province's natural population growth rate was 9.41 per thousand, within the limits of the planned target. The quality of the population had improved to some extent.

#### Note

All figures in this communique are preliminary. Values of gross output quoted in the communique are at current prices, whereas growth rates are at comparable prices.

### Xinjiang Economic Statistical Communique

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[Communique of the Xinjiang Regional Statistical Bureau on the Statistics of 1990 Economic and Social Development]

[Text] In 1990, the people of all nationalities in our region achieved notable results in its efforts to further implement the policy of improving the economic environment, rectifying economic order, and deepening reform under the leadership of the autonomous regional party committee and people's government. Total social demand and total supply were basically balanced. Agricultural production had a bumper harvest for the 13th year, industrial production maintained a degree of growth, the investment structure improved, the financial revenue grew steadily, and the entire regional economy continued to develop in the right direction. Education, science and technology, culture, public health, and physical culture and sports all made new progress. According to preliminary statistics, the region's gross national product was 25.315 billion yuan, an increase of 8.5 percent over the previous year; the total social output value reached 45.944 billion yuan, an increase of 9.8 percent; and the national income was 20.797 billion yuan, an

increase of 7.7 percent. The main problems in our economy were: severe stockpiles of some manufactured goods, continuous decline of economic efficiency, increased difficulties in production structure and product mix, and the constraints on economic development by the contradictions existing at a profound level in our economic life.

### 1. Agriculture

In 1990, governments at all levels in the autonomous region placed the improvement of agriculture and the achievement of a bumper agricultural harvest at the top of their economic work. They increased agricultural investment, adopted the strategy of developing agriculture through the application of science and technology, and carried out large-scale farmland water conservancy capital construction. All this, together with good climate, contributed to the all-around growth in agriculture, forestry, livestock breeding, sideline production, and fishery. Total agricultural output value in 1990 reached 14.465 billion yuan (7.775 billion yuan in terms of the 1980 constant price), an increase of 15.1 percent, with crop farming rising 21.2 percent and livestock breeding rising 2.1 percent. The ratio of livestock breeding in the total agricultural output value declined by 7.2 percent to 20.34 percent. The ratio of forestry, sideline production, and fishery dropped by 0.5 percent.

The output of grain set another historical record. The output of major economic crops all rose. The growth of cotton and beets was particularly faster. The per unit yield of major agricultural crops all had a fairly big increase. The per mu yield of grain rose by 20 kilograms, cotton by 18 kilograms, oil-bearing crops by 13 kilograms, and beets by 575 kilograms.

The output of major agricultural products was as follows:

	1990 (metric tons)	percentage of change from 1989
Grain (excluding potato)	6,768,900	8.6
of which, wheat	3,908,000	6.8
rice	472,700	14.1
corn	2,094,200	9.0
Cotton	468,800	59.1
Oil-bearing crops	389,600	20.6
Beets	2,243,700	126.8
Hemp	15,500	106.7
Melon	1,033,800	9.8
of which, muskmelon	377,500	-6.8
Vegetable	1,874,200	1.0
Fruits	798,800	9.0
of which, grape	330,900	14.6
Silkworm cocoon	2,534	39.3

The work of afforestation and greening made new progress. The shelter-forest project in north, northeast,

and northwest China progressed smoothly. A total of 38,100 hectares of trees were planted (calculation based on 80 percent survival rate), 88,000 hectares of trees were planted through afforestation projects, and 136 millions of trees were planted piecemeal. By the end of 1990, 51 counties (cities) and 92 production and construction corps farms had built a network of shelter-forests to protect farmland, an increase of three counties (cities) and 24 farms, respectively, over the previous year.

Production in animal husbandry steadily developed. The number of large animals, sheep, and goats in stock at year end increased some. The number of pigs in stock at year end slightly decreased. The output of meat, eggs, and other livestock products continued to increase.

The number of animals in stock and the output of major livestock products were as follows:

	1990	Increase over 1989 (%)
Total output of meats	304,600 tons	12.6
of which, beef	70,800 tons	8.6
mutton	157,500 tons	12.9
pork	49,300 tons	20.0
Milk	356,300 tons	8.3
Sheep wool	49,300 tons	1.0
Eggs	63,000 tons	3.8
Leather (in terms of cowhide)	2.1946 million sheets	6.0
Total animals/yearend	34.964 million head	1.4
Large animals/yearend	5.7588 million head	0.4
of which, ox	3.3822 million head	0.4
Sheep, goats/yearend	28.3081 million head	1.7
of which, sheep	23.8138 million head	1.2
Pigs/yearend	897,100 head	-0.1
Rate of survival in animal breeding in the year	13.5111 million head	5.6

Fishery production continued to grow. In 1990, the output of fish for the entire region was 23,200 metric tons, an increase of 13.2 percent over 1989, of which state-run units had 13,500 tons, an increase of 8 percent.

Village and town enterprises developed through readjustment. In 1990, the total output value of village and town enterprises for the entire region was 2.531 billion yuan, an increase of 11.2 percent over 1989; and total income was 2.499 billion yuan, an increase of 12.1 percent over 1989.

Agricultural investment increased and production conditions continued to improve. At the end of 1990, the entire region's farm machinery had a total power

capacity of 5.231 billion watts of farm machinery, a 6.1 percent increase over 1989; 46,200 large- and medium-sized tractors, a 1.5 percent increase; 10,800 small capacity and walking tractors, a 13 percent increase; 12,800 trucks for agricultural use, a 5.2 percent decrease; and a power capacity of 488 million watts of drainage and irrigation machinery for agricultural use, a 11.4 percent increase. A total of 394,600 tons of chemical fertilizers were applied during the year (calculation based on pure quantity), a 22.5 percent increase. The total consumption of electricity in rural areas was 1.047 billion kwh, a 25.2 percent increase. The effectively irrigated area was 41.0317 million mu, an increase of 0.3 percent over 1989. The extent of machinery usage in farming had been raised, with the rate of mechanized cultivation reached 79.4 percent, an increase of 8 percent over 1989. The rate of sowing by machinery was 71.8 percent, a 5.8 percent increase. The construction of basic water conservancy works was further strengthened. The entire region obtained fairly better results in constructing and renovating all kinds of water conservancy projects, treating salinity, preventing seeping to conserve water, and levelling farmland.

With the continued deepening of rural reform and the implementation of measures in overall agricultural development, the rural economy steadily developed. In 1990, the total output value of the rural community was 16.68 billion yuan, an increase of 12.7 percent over 1989, of which the output value of rural industries, building and transportation industries, and commerce increased 1.4 percent.

## 2. Industries

Industrial output maintained a certain degree of growth. The industrial output of the entire region totalled 21.992 billion yuan (12.984 billion yuan at constant 1980 prices), up 9.1 percent from the previous year. Industries at county level and above county level accounted for 21.418 billion yuan (12.525 billion yuan at constant 1980 prices), up 9.4 percent. Of the total, the output value of state-owned industries increased 8.8 percent over the previous year; collectively owned industries grew by 11.2 percent (of which village-run industries posted 24 percent growth); individually run industries grew 3.5 percent; Sino-foreign joint ventures, Sino-foreign cooperation, and wholly foreign owned industries grew 10.0 percent; while industries of other kinds of ownership rose 31.9 percent.

The region's total output value of heavy industries in 1990 was 11.139 billion yuan (6.671 billion yuan at constant 1980 prices), up 7.5 percent from the previous year; the total output value of light industries was 10.853 billion yuan (6.313 billion yuan at constant 1980 prices), up 10.9 percent.

Basic industries such as energy resources and raw materials continued to strengthen, product mix adjustment of some light and textile industries began to take effect, and designs and varieties were expanded. However, internal

structural conflicts of industries and the problem of certain products not meeting the demands of the market are still acute.

The output volume of major industrial products are as follows:

	1990	% growth from previous year
Cotton yarn	101,900 tons	45.9
Cloth	300 million m	8.8
Woolen goods	12.3037 million m	21.0
Knitting wool	2,179.13 tons	-14.2
Silk fabrics	2.6362 million m	-6.3
Machine-made paper, paperboard	90,090 ton	9.8
Crude salt	1.5919 million tons	-42.9
Sugar	168,400 tons	52.7
Alcoholic beverages (including beer)	118,600 tons (62,600 tons)	9.8 (17.2)
Canned Food	60,000 tons	57.5
Milk products	7,746.71 tons	16.5
Cigarettes	123,400 cartons	2.4
Leather	1,034,400 sheets	-10.2
Leather boots	2,584,300 pairs	-13.7
Synthetic detergent	21,600 tons	6.2
Bicycles	120,000	50.0
Television set (including color tv)	128,200 (51,800)	11.4 (-6.0)
Raw coal	21,002,000 tons	4.0
Crude oil	6,953,800 tons	8.0
Gasoline	1,309,600 tons	13.0
Diesel	1,447,400 tons	11.1
Power generated	6.979 billion kwh	10.8
Pig iron	405,700 tons	9.8
Steel	364,900 tons	20.3
Rolled steel	284,800 tons	11.6
Aluminum	17,300 tons	(-7.0)
Wood products	342,700 cubic m	(-8.5)
Cement	2,849,700 tons	8.3
Sulphuric acid	47,700 tons	10.7
Caustic soda	15,100 tons	22.8
Synthetic ammonia	397,100 tons	5.8
Agricultural Chemical Fertilizer (100unmixed)	287,600 tons	2.8
Agricultural Plastic Sheet	23,800 tons	(-4.9)
Small Tractors	16,900	(-30.2)
Tires	251,000 tubes	23.3

Xinjiang's industrial enterprises worked hard to improve product quality and to expand the designs and varieties of products under the unfavorable conditions of a weak market and stockpiling. A total of one national level, 61 ministerial level, and 221 regional level outstanding product quality awards were won in 1990. In addition, four enterprises with outstanding achievement in quality control won ministerial level awards, nine were commended by the autonomous region; while the state honored 10 and the autonomous region honored 192 groups as outstanding quality control groups.

The economic efficiency of enterprises continue to slide. Overall independent accounting of industrial enterprises' profits and taxes realized in 1990 was 1.573 billion yuan, down 18.7 percent from the previous year; of which, profits realized declined 61.4 percent. Stockpiling of finished products rose and the turnover period of working funds increased from the previous year's 141 to 154 days; the average profits realized per 100 yuan of capital fell from the previous year's 10.76 yuan to 6.98 yuan; the quality of certain products was still unstable, the number of loss making enterprises rose, and the amount of losses escalated.

### 3. Investment in Fixed Assets and the Construction Industry

In 1990, Xinjiang appropriately increased investment to activate the market and to stimulate production growth. Total investment in fixed assets throughout the region came to 8.878 billion yuan, up 18.3 percent from the previous year; of which, local investment accounted for 3.716 billion yuan, up 60 percent from the previous year. Of the total, 7.545 billion yuan was in state-owned enterprises, up 21.6 percent; 470 million yuan was in collectively owned enterprises, down 9.6 percent; and 863 million was towns' and villages' individual investment, up 10.4 percent from the previous year.

The investment structure was further adjusted. The development of the agricultural, energy resources, and education sectors was fortified with the support of the region's selective preferential policy. Among the investments made in the state-owned units, 553 million yuan was in the agricultural sector, up 27.9 percent from the previous year; 4.004 billion was in the energy resources industries, up 27.0 percent; 202 million yuan was in the education sector, up 31.5 percent; and their share of the investment pie respectively increased from the previous year's 6.98 percent to 7.34 percent, 50.8 percent to 53.08 percent, and from 2.48 percent to 2.68 percent.

In 1990, capital construction investment in state-owned units was 4.8 billion yuan, up 50 percent from the previous year; of which 1.682 billion yuan represents local investment, up 13.2 percent. Of the total capital construction investment, production-oriented construction investment was 3.739 billion yuan, up 60.5 percent from the previous year. This increased its share of the investment pie from the previous year's 72.84 percent to 77.9 percent; nonproduction-oriented investment was

1.061 billion yuan, reducing its share of the investment pie from 27.16 percent to 22.1 percent, of which, housing investment was 504 million yuan, up 42.4 percent. Construction of office buildings, public halls, hotels, and other nonproduction-oriented construction was cut down. Investment for replacement and renovation was 1.527 billion yuan, up 6.7 percent from the previous year; of which, local investment represents 572 million yuan, a drop of 9.1 percent.

Construction of major projects progressed at a quicker pace. A total of 2.859 billion yuan of investment in the region's 24 large- and medium-scale projects was completed in 1990, achieving 100.4 percent of the year's plan. The value of newly completed fixed assets was 1.941 billion yuan, while four large- and medium-scale projects were completed and commenced operation, making it the year with the largest number of large- and medium-scale projects put into operation during the Seventh Five-Year Plan period. Among the large- and medium-scale construction projects, investment for the exploration and maintenance of the Xinjiang oil field was 2.116 billion yuan, achieving 105.4 percent of the year's planned investment. Investment in the northern Xinjiang railways was 129 million yuan, representing 64.8 percent of the year's planned investment; the railway was connected in September 1990, thus, facilitating Xinjiang's opening to Europe and Asia in the western region.

The major increases in state-owned units' productivity in 1990 are: 275,000 tons of coal; 1,053,200 tons of oil; 1,000,000 of processed oil; 233,000 tons of cement; 635 kilometers of transmission line (above 110,000 kilovolts); 95.03 kilometers of new roads; increased water storage capacity of 105 million cubic meters; and 20,000 more places in universities, middle schools, and technical colleges.

The construction industry bottomed out and gradually recovered. State-owned construction enterprises completed a total output of 2.206 billion yuan, up 19.3 percent from the previous year; the area of housing construction was 5.781 million square meters, up 5.3 percent. The rate of labor productivity was 11,259 yuan, up 18.0 percent from the previous year.

Geological survey and exploration work attained new results. New minerals deposits discovered include: 71.87 million tons of coal; 48.8325 million tons of crude salt; 370,000 tons of mirabilite; 12.895 million tons of bentonite slurry; and machine core-drills were capable of reaching a depth of 72,000 meters. Significant results were achieved in oil prospecting work. Some 100 oil bearing structures, two medium small-scale oil fields, and a high yield oil gas well were prospected in the Tarim oil field during the year, including the discovery of China's first large-scale Jurassic oil field, which is another great discovery after the Tarim oil field.

#### 4. Transportation, Posts, and Telecommunications

While improving and rectifying their work, communications and transportation departments made continued efforts to improve transportation conditions and to tap potential; and the departments rationally arranged to promote their work and raise their transportation capacities. They thus guaranteed the transportation of important materials from this region to other localities.

Transportation services were as follows:

	Increase over 1990	Over 1989 (%)
Cargo	26.229 billion ton-km	-0.5
Railway	14.116 billion ton-km	6.4
Highway	10.809 billion ton-km	-8.2
Air	0.02 billion ton-km	6.8
Pipelines	1.284 billion ton-km	-6.5
Passengers	10.381 billion persons-km	-14.0
Railway	3.796 billion persons-km	-14.7
Highway	5.511 billion persons-km	-17.0
Air	1.073 billion persons-km	9.5

Passenger transportation volume declined because of the reduced economic growth rate, the smaller scale of circulation, and the higher passenger transportation fares set by the state, which affected people's travel.

The railway department strengthened management and promoted organization and coordination work. The total revenue for the year amounted to 789 million yuan. This figure was 8.7 percent more than the previous year after allowing for fare adjustment. Civil air transportation enterprises scored a rate of profit and tax of 26.29 percent, exceeding the previous year by 62.1 percent. The length of time for the turnover of a fixed amount of working capital was 56 days, or 45 days shorter than the previous year.

Posts and telecommunications showed quicker development. The business volume for the year amounted to 103 million yuan (calculated in terms of the 1980 constant prices), up 8.7 percent from the previous year. New progress was made in developing postal savings, express mail, extra express mail, and new services for radio beepers, directly dialed long-distance telephone calls, and mobile facsimile. Of these, express mail increased 53.4 percent and radio beeper users increased 1.1 times compared to the previous year. At the end of the year, there were 78,900 telephone lines in cities and 10,500 telephone lines in rural areas, exceeding the previous year's numbers by 10,300 and 304 respectively. During the year, 24,800 new program-controlled telephone lines appeared in cities, and 212 new long-distance telephone circuits installed, including three international telephone circuits with Hong Kong and Macao. A number of postal

and telecommunications projects were completed and put into operation, further increasing telecommunications capacity. The Urumqi-Turpan optical fiber cable line project passed the acceptance test and formally went into operation. The completion of the international postal and telecommunications exchange building in Horgos further facilitated communications between China and the Soviet Union.

### 5. Domestic Trade, Supply and Marketing of Materials

Urban and rural markets had an ample supply of goods, and market sales recovered gradually. The total value of retail sales in the region was 11.594 billion yuan, up 7.3 percent over 1989. The retail sales of consumer goods were 10.43 billion yuan, up 6.3 percent, of which 9.216 billion yuan worth of commodities were sold to residents, up 6.4 percent, and 1.214 billion yuan worth of commodities were sold to institutions, up 5.3 percent.

Urban markets tended to be stable while rural markets were still in decline. The annual value of retail sales were 8.144 billion, an increase of 9.2 percent over 1989. The annual value of retail sales at and below the county level was 2.286 billion yuan, a drop of 2.9 percent.

In terms of different categories of commodities, sales of food were stable and sales of beef, mutton, eggs, and aquatic products rose over 1989 figures. Among items for household use, sales of bicycles rose 14.1 percent, that of electric fans 31.2 percent, washing machines 15.5 percent, refrigerators 1.6 percent, and TV sets 21.2 percent, whereas sales of some clothing declined in comparison to 1989.

Of total retail sales, in state-owned enterprises they rose 3.9 percent, in collective units they rose 13.2 percent (of which supply and marketing cooperatives were up 16.2 percent), in joint ownership units of various types they rose by 40 percent, and in individual units they rose 6.5 percent. Sales by farmers to nonagricultural residents increased by 16.3 percent.

The market for means of agricultural production improved and enjoyed an ample supply of goods. Their prices were stable despite a slight decline. Supplies were better than in previous years. The annual value of retail sales was 1.164 billion yuan, an increase of 17.2 percent over 1989.

Economic results in trades and enterprises decreased broadly. Taxes and profits realized by state-run trades and supply and marketing cooperatives, based on a 100 yuan scale, dropped to 0.69 yuan in 1990 from 2.59 yuan in 1989, a decrease of 73.4 percent. Losses increased 60.3 percent, with slower circulation of capital.

The market for the means of production reversed its declining trend. The total value of the means of production sold by the regional material supply and marketing system in 1990 was 4.017 billion, an increase of 6.6 percent over 1989. Volume of rolled steel sold was

529,000 tons, about the same as 1989; timber 162,200 cm, up 20 percent; and cement 493,000 tons, up 0.3 percent.

Commodity prices were stable. The general level of retail commodity prices rose 4.1 percent in 1990, much lower than the 16.7 percent scored in 1989. It was the lowest since 1984. The general level of commodity prices rose 3.2 percent in cities and towns. It rose 5.3 percent in rural areas. Breakdown of retail commodity price increases are as follows:

	Percentage Increase Over 1990	December Percentage Increase Over December 1989
Foodstuff	1.5	3.5
Grain	0.4	7.4
Meat, poultry, and eggs	-4.8	-3.7
Vegetables	8.0	13.4
Aquatic products	5.3	-1.5
Cigarettes, liquor, and tea	5.9	6.7
Clothing	9.3	8.9
Articles for daily use	4.8	2.8
Medical and pharmaceutical products	5.0	1.3
Fuel	7.4	12.6
Means of Agricultural production	8.3	—
Service items	16.2	18.2

Overall increases in living expenses of residents in 1990 was 5 percent, including 4.5 percent in urban areas and 5.9 percent in rural areas.

### 6. Foreign Economic Relations and Trade and Tourism

Xinjiang's exports and imports decreased 15.6 percent over the preceding year, with the total volume amounting to \$410 million. Of this, the total volume of exports was \$335 million, or a 7.2 drop; and the total volume of imports was \$75 million, a 40 percent decrease. Except for exports of cotton yarn, hops, lithium carbonate, and rugs, which increased, exports of other major products decreased over 1989.

In 1990, new agreements involving the use of foreign capital totaling \$50,685,900 were signed; and a total of \$76,283,400 in foreign capital was actually used. Of the latter, \$65,135,800 were loans and \$11,147,600 were direct and other investments from foreign businessmen.

Tourism picked up at a fairly fast pace. A total of 79,800 foreigners, overseas Chinese, and compatriots from Hong Kong, Macao, and Taiwan visited Xinjiang for sightseeing, family reunion, and economic, scientific, and cultural exchanges during 1990, 18,500 or 30.1 percent more than 1989. Revenue from foreign exchange

coupons was 59.43 million yuan, an increase of 67.6 percent over the previous year.

### 7. Production and Construction Corps

The economy of the production and construction corps developed at a relatively rapid pace. Gross regional production was 4.546 billion yuan, an increase of 13.3 percent; social production values in the region exceeded 10 billion yuan to reach 10.059 billion yuan, an increase of 14.3 percent; and regional income was 4.147 billion yuan, an increase of 15.8 percent. It was another year of bumper agricultural harvests for the production and construction corps. Gross agricultural production increased 25.7 percent over 1989 to reach 3.832 billion yuan. Total grain production was 1,566,300 tons, an increase of 14.1 percent; cotton was 194,800, a 62.1 percent increase; oil-bearing crops was 88,700 tons, a 23.4 percent increase; and sugar beets was 919,600 tons, a 130 percent increase. However, production of livestock declined because of the impact of prices. Production of major animal products decreased by varying degrees. Industry continued to grow, with annual production values totalling 4.445 billion yuan, or a 10.8 percent increase over 1989. Yarn production increased 55.5 percent; cloth, 13.1 percent; woolen goods, 9.2 percent; sugar, 6 percent; and synthetic detergent, 4.8 percent. Total production values of construction trade amounted to 896 million yuan, an increase of 2.4 percent. In transportation, a total of 1.866 billion tons/km in cargo and 935 million passengers/km were transported in 1990. Commerce picked up and the total volume of retail sales was 1.97 billion yuan, an increase of 6.8 percent.

### 8. Science and Technology

Scientific and technological undertakings were further developed with new successes scored. In 1990, the region gained national prizes for three projects, including one fourth-grade invention prize and two third-grade prizes for progress in science and technology. The autonomous region received a total of 255 applications for prizes during the year; among them 129 applications were approved after appraisals, including 18 second-grade prizes, 56 third-grade prizes, and 55 fourth-grade prizes.

Initial results were achieved in 72 agrotechnical projects embodied in the key scientific and technical programs of the autonomous region after a year of research, experiments, demonstrations, and promotion. Among 27 industrial projects aiming at readjusting the industrial structure, promoting technical reform, and enhancing economic efficiency, 18 of them passed appraisal tests, including two projects reaching the international advanced level and 11 projects reaching the domestic advanced level. "Natural nicotine with a highly purified content," a project of the state "Torch Program" undertaken by Xinjiang University, was selected by the State Science and Technology Commission to participate in exhibitions of new technologies and products held in Hong Kong and Thailand. The "hygrothermo-sensitive

parts and sensor-based equipment" developed by the Xinjiang Physics Institute of the Chinese Academy of Sciences were used in the cluster-type booster rockers of the "Long March II" launched in July 1990.

Enterprises strengthened their ability to absorb, develop, and create technologies. In 1990, large- and medium-sized enterprises had 71 technological development units, an increase of 6 units over 1989. A total of 426 technological development projects, each with more than 10,000 yuan of expenditure, was carried out, an increase of 36 projects over 1989, thus promoting the technological progress of enterprises.

Stable progress was made in patent work. Patent offices received 250 patent applications in 1990, up 11.6 percent over 1989, of which applications from industrial and mining enterprises rose by 91.7 percent. A total of 139 applications was approved, up 15.8 over 1989.

Scientific and technical personnel grew in number. By the end of 1990, state-owned units had 238,7000 personnel specialized in the natural sciences, an increase of 19,800 persons over 1989. Meteorological departments, with the help of 128 meteorological stations, watchfully monitored and predicted weathers by using various scientific means such as meteorological satellites, weather radars, supplementary weather networks, and small-sized computer stations. They broadened the range of services, took an active and initiative role in providing meteorological information for party and government departments at all levels in preventing and reducing disasters and in commanding production. They made contributions to the economic progress of the autonomous region, and the agricultural bumper harvest in particular.

### 9. Education and Culture

Stable progress was made in general higher education. In 1990, 73 graduate students were enrolled in the region, an increase of 12.3 percent. There were 256 students attending graduate schools, a drop of 15 percent. Institutes of general higher education enrolled 7,900 undergraduate students, an increase of 0.3 percent. The total number of undergraduate students was 30,800, down 1 percent.

Secondary vocational and technical education was strengthened further. In 1990, there were 152,100 students studying in various types of secondary vocational or technical schools (including 40,200 students in technical workers' training schools, accounting for 37.7 percent of the total student enrollment of 403,200 at the senior secondary school level.

Basic education was continuously consolidated and improved. In 1990, there were 612,000 students in junior secondary schools and 1,857,200 pupils in primary schools. The enrollment rate of school-age children was 97.5 percent, or 0.3 percentage point higher than in

1989; and 82 percent of primary school graduates continued their study in secondary schools. Some 78 counties had universal primary education.

The quality of adult education further improved as a result of rectification. In 1990, institutions of adult higher education took in 10,000 new students, a total student enrollment of 28,800, down 4.3 percent over 1989. There were 39,600 students in adult secondary specialized schools, down 13 percent; 76,200 students in adult technical training schools, an increase of 220 percent; and 78,200 students in adult junior secondary schools and adult primary schools, up 29.3 percent.

Cultural undertakings developed in a wholesome manner. Artistic groups of various types produced 14 plays and staged 7,200 performances, which were attended by 8.79 million people. At the end of 1990, there were 2,268 film projection units. They showed films a total of 395,300 times and drew 129 million viewers. In 1990, radio stations throughout the region broadcast a total of 23,300 hours and produced 19 radio dramas in 31 parts. Television stations broadcast 3,698 hours; together with relevant departments, they produced 10 television dramas in 19 parts and translated 48 television dramas in 305 parts. Regional papers issued 140 million copies, including 50 million in ethnic languages; magazines, 6.67 million copies, including 4.6 million in ethnic languages; and books, 47.94 million copies, including 17.89 million in ethnic languages.

#### 10. Public Health and Sports

The year 1990 saw further development of medical facilities and public health undertakings. In 1990, there were 3,945 public health organs throughout Xinjiang. These included 1,049 hospitals, or 16 more than 1989. There were 60,700 hospital beds, 600 more than the preceding year; and 79,900 full-time technical health workers, 3,200 more than 1989. Of these, 33,700 were doctors, 900 more than 1989; and 23,400 nurses, 1,000 more than the previous year. Disease prevention, supervision, and monitoring were strengthened; prevention of endemic diseases was further consolidated; and marked results were achieved in rectifying medical and health order and the pharmaceutical market.

Remarkable achievements were scored in competitive sports last year. Athletes from Xinjiang won 17 gold, 15 silver, and 17 bronze medals in formal national competitions. Xinjiang sent an unprecedented number of athletes to the 11th Asian Games. They won one gold medal and silver medals and set an Asian record. This has been the best performance by Xinjiang athletes at the Asian Games. Mass sports activities continued to unfold throughout the region. A total of 2,544 sports meetings at and above the township and town levels were held, and 583,000 people participated. A total of 808,500 people passed the "National Physical Fitness Test," an increase of 2.1 percent over the preceding year.

#### 11. Standard of Living

In 1990, the income of urban and rural residents increased by various margins. Data from sample surveys showed that the per capita cash income of urban residents was 1,355.88 yuan, up 10.9 percent over 1989, or a real growth of 6.1 percent if increases in prices were excluded, the highest real income since 1987. The per capita net income of farmers was 622.45 yuan, up 14.1 percent over 1989, or a real growth of 9.4 percent if increases in commodity prices were excluded; however, some urban and rural families still suffered a poor standard of living.

Employment kept increasing in urban areas. Some 107,700 people were given jobs in cities and towns in 1990. By the end of the year, staff and workers in the region numbered 3,005,400, or 121,100 persons more than at the end of 1989.

The total wage bill for staff and workers in 1990 was 6.688 billion yuan, an increase of 16.6 percent over 1989. The per capita wage of urban employees was 2,272 yuan, a real increase of 8.3 percent if price hikes were excluded.

Savings deposits scored large gains in both urban and rural areas. By the end of 1990, the value of savings deposits by urban and rural residents totaled 12.842 billion yuan, 3.568 billion yuan or 38.5 percent more than at the end of 1989.

Urban and rural living conditions improved more. A total of 2,963,200 square meters of new buildings was completed in urban areas and 5,940,000 sq m of new houses were built in rural areas in 1990. By the end of 1990, per capita living space for urban residents was 9.79 square meters and per capita living space for rural residents was 14.04 square meters, an increase of 6.1 percent and 1.9 percent over the end of 1989, respectively. Urban and rural residents enjoyed more durable consumer goods. Problems of transportation, electricity, and running water faced by urban residents were somewhat alleviated.

Social welfare work continued to develop. In 1990, there were 6,746 beds in 377 social welfare institutions of various types throughout Xinjiang, respectively 570 and 28 more than the preceding year. They took a total of 5,156 clients, up 430 from 1989. Some 861,300 people in need in urban and rural areas received relief aid from the state. A social security system was established in 16 townships and towns, five more than the previous year. There was a rapid development of the urban community service network, with 229 community service facilities established. Some 347,200 households participated in household property insurance, and 1,707,100 persons in life insurance programs. The insurance companies paid 8.36 million yuan in claims for life insurance.

## 12. Population

According to sample surveys of population mobility in Xinjiang in 1990, the birth rate was 26.41 per 1,000 and the death rate was 7.81 per 1,000, resulting in a natural growth rate of 18.6 per 1,000. On the basis of this survey, at the end of 1990 the regional population was 15.2916 million (Public Security Department statistics report 14.9872 million), including 9.545 million minority nationalities (Public Security Department statistics report 9.341 million).

### Footnotes

1. All data of gross regional product, regional income, and total production value in various sectors quoted in this communique are calculated in terms of the prices in 1990, whereas growth rates are at comparable prices.
2. Gross regional product refers to the added value deriving from material and nonmaterial production departments and net income from abroad, and excludes the products and labor value in intermediate consumption.
3. The total rural product of society includes the total output value of agriculture and of collectively and privately owned rural industries, construction, transport, and commerce.
4. The figure of per capita net income of 622.45 yuan for farmers was obtained with their own consumed products calculated at state prices, and were thus comparable with figures for previous years. If the own consumption of such products are calculated at contract/state-purchase mixed average prices, the per capita net income of farmers will be 683.47 yuan.
5. The total population at the end of the year is based on the Fourth Census and estimated on the basis of sample surveys of population mobility. The Public Security Department's statistics is based on the household registration of the permanent population.

## FINANCE, BANKING

### Trade Development Strategy Analyzed

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[Article by Ren Jijun (0117 4764 6511), Industrial Economics Institute, Chinese Academy of Social Sciences: "Trade Development Strategy Analyzed"]

[Text] **1. Incompatibility Between Export Orientation and the Economy of an Extra-Large Country; Exporting To Earn Foreign Exchange Is an Inevitable Choice in Economic Development.**

1) An export-oriented trade development strategy is not appropriate for the Chinese economy. Foreign trade accounts for a relatively small portion of the economy of

a large country. The relative importance of foreign trade is in inverse proportion to the size of a nation. Such, in the words of Meiji [2734 1015], a rising U.S. international economist, is the first principle of the decline of the relative importance of foreign trade. In other words, the larger the territory of a nation, the smaller its foreign trade as a share of its GNP. This is true for two reasons. First, for a tiny nation, just about all its trade is foreign trade. If, on the other hand, there is just one nation on earth, then there would be no such thing as foreign trade. The second reason has to do with the costs of transportation and distribution. Say the maximum radius of bread distribution is 150 kilometers. In the case of the United States, a substantial portion of the bread consumed by its people is supplied domestically, not shipped from Europe through international trade. The higher the freight charges of a commodity, the greater the dependence of a nation on domestic supplies<sup>1</sup>

Export orientation is not compatible with China's national conditions. In light of the fact that foreign trade is a relatively insignificant part of the economy of a large country, courtesy of the first principle, extra-large countries (with 50 million people or more) are ill advised to try to emulate the success story of the "four small dragons" of Asia using an export-oriented strategy, a highly outward-looking strategy in which foreign trade accounts for a significant part of a nation's economy. Japan is one example of an extra-large nation with an export-oriented development strategy, but it is unique in some ways. For example, it is an island nation with a small territory that is highly accessible by sea. Moreover, the Japanese economy is not overly dependent on exports, a mere 13.2 percent in 1985.<sup>2</sup> China is territorially vast. According to one of the reasons behind the first principle of the decline of the relative importance of foreign trade, China must rely even more on domestic production to meet its own demand. Besides, China has a huge interior, which has little contact with the outside world and is not readily accessible, thus further magnifying the relative importance of domestic demand and decreasing that of foreign trade. All this reduces the dependence of the Chinese economy on foreign trade in accordance with the first principle. In other words, it reduces the possibility of China adopting a highly outward-looking export-oriented development strategy.

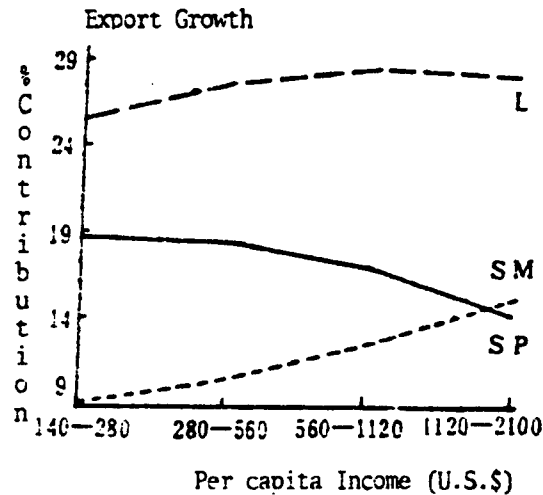
### 2. Export To Earn Foreign Exchange: An Inevitable Choice in Economic Development

Importing technology is a shortcut for the backward country that wants to close its gap with developed nations, as proven by the economic success story of Japan and Asia's "four small dragons." And a precondition for importing technology is the availability of foreign exchange with which one can pay for advanced foreign technology. This gives rise to the issue of balancing the savings gap with the foreign exchange gap. If domestic investment exceeds savings, the result is a savings gap, which must be closed by the excess of imports over exports, or the foreign exchange gap. The savings gap must equal the foreign exchange gap. If the

savings gap is larger than the foreign exchange gap, the country must either cut back on investment or increase savings. If the foreign exchange gap is larger than the domestic savings gap, then the nation must trim imports or boost exports. It is certainly possible to close the domestic savings gap with foreign exchange gap. But a loan must be repaid and the foreign businessman must remit his profits overseas. In the long haul, one must increase exports. And attracting foreign capital, when done properly, can enhance a nation's ability to export and raise its level of domestic savings, in the end bringing the two gaps into balance with each other.

Exports as an engine of economic growth for a large country. Diagram 1 shows that exports are a more powerful engine of economic growth for a large country than for a small country. This is true whether the nation is at the starting point of industrialization or at the finishing point. When per capita income is between \$280 and \$560, exports' contribution to economic growth is 50 to 150 percent more in a large country than in a small country. In the first half of industrialization, in particular, exports' contribution to the economic growth of a large country increases as the per capita income goes up. By the second half, exports' contribution to economic growth slows down by the day but still remains at a high level instead of declining.

The possibility of increasing export dependency in China. The per capita income of a nation is in inverse proportion to the relative importance of foreign trade. This is the second principle of the decline of the relative importance of foreign trade as put forward by Meiji.<sup>3</sup> This principle says that low-income developing nations



are more dependent on foreign trade than high-income developed nations. Table 1 shows the export dependency, that is, exports as a percentage of GDP, of extra-large developing nations. In 1986 the export dependency of the Chinese economy was 11.5 percent, lower than that of all other developing countries except for India and Brazil. (With a per capita GNP about five times that of China, Brazil should have a lower export dependency according to the second principle.) Given China's current low-income status, it seems that it is both achievable and not overly risky to increase China's export dependency by 5 percentage points to 16.8 percent, the average level of export dependency among most inward-looking developing countries, or even higher.

Table 1 Export Dependency of Extra-large Developing Nations (1986)

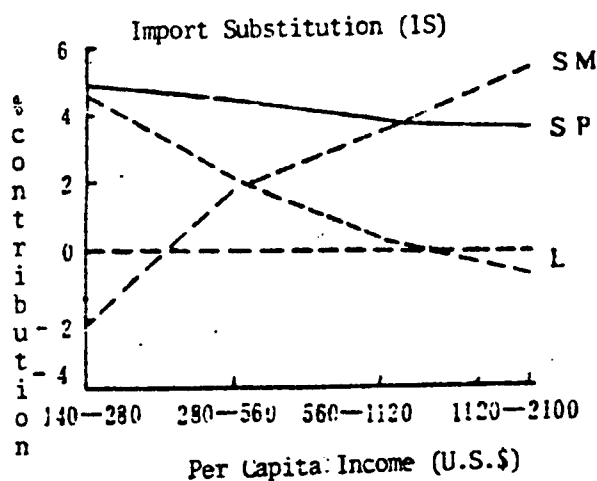
Country	Population (million)	Per Capita GNP (Total Value)(US\$)	Export Dependency	Nature of Trade Strategy
China	1054.0	300	11.5	staunchly inward
India	781.4	290	5.8	staunchly inward
Indonesia	166.4	490	19.7	generally inward
Pakistan	99.2	350	17.9	generally inward
Mexico	80.2	1,900	12.8	generally inward
Brazil	136.4	1,810	10.8	generally outward
Thailand	52.6	810	21.0	generally outward

Source: World Bank, "World Development Report 1988," pp 222-223, 226-227, 242-243.

2. The Inapplicability of Import Substitution as an Overall Strategy for China; the Need To Build Up Import-Substituting Industries

1) The Inappropriateness of import substitution as an overall strategy for China. China's inward-looking economy and trade development strategy. For years China has been following an inward-looking model of industrialization. The isolationism of its traditional system and the autarkic nature of its economy resemble

the primary inward-looking development strategy. Nevertheless, Chinese economic development is industry-led, which distinguishes it from the primary inward-looking trade strategy. On the other hand, Chinese industry, particularly heavy industry, used domestic products extensively to get around the material shortages created by the embargo. In this respect Chinese industry resembles secondary inward-looking industrialization through import substitution. However, import substitution in China rests on independence, self-reliance, and keeping the initiative in one's own hands, which is a far



cry from the massive imports and heavy indebtedness characteristic of the trading activities resulting from import substitution. More than 30 years into this unique inward-looking economy, China has put together a rather comprehensive industrial system on a substantial scale. In 1978 China launched economic reform and introduced the open policy, slowly turning what was once a closed economy into an open one. Gradually China has begun the second round of import substitution involving daily consumer goods, durable consumer goods, and some machinery, thereby narrowing its technological gap with developed nations. Between 1979 and 1989, China's industrial development strategy was more similar to the industrialization through import substitution model. Whether its economy is the traditional inward-looking economy or the post-reform import-substituting inward-looking economy, China faces the same problems that, according to development theorists overseas, affect the import-substituting secondary inward-looking industrial development strategy to varying extents.

Import substitution is inappropriate as an economic development strategy for China. First of all, Qian Na Li [6929 4780 6849] and colleagues demonstrate with their large-nation model that the contribution of import substitution to economic growth declines as incomes rise. When per capita income exceeds \$1,000, its contribution is actually negative. (See Table 2). From the perspective of long-term development, therefore, import substitution is not appropriate as a development strategy for China. Secondly, after examining the case studies of several developing nations in Asia, Fei Ching-han [6319 2529 3352] concludes unequivocally that import substitution is the industrial system for the early transitional period (from the traditional economy to modern economy.) It takes about 10 years to effect the transition from import substitution to export substitution.<sup>4</sup> China has been following an inward-looking industrial development model characterized by import substitution for years. The long existence of this model has given rise to a host of problems. It has been 10 years since we

reintroduced import substitution with regard to daily consumer goods and durable consumer goods. If we continue to industrialize through import substitution, we will only worsen the problems piled up over the years as a result of the inward-looking industrial development model. And as the contribution by import substitution to economic growth declines, the Chinese economy will not be able to keep growing at the rate achieved in the earlier phase of reform and openness. The crowning achievement of Taiwan and South Korea in economic development is that after accomplishing import substitution in light industry, they immediately shifted gears in their trade development strategy and overhauled their industrial structure. As for Brazil, Mexico, Argentina, Colombia, and other semi-industrialized countries, they did not change their industrial development strategy until after they ran into mounting problems after persistently following a strategy of import substitution nationwide. Their economic achievements do not measure up to those of Asia's "four small dragons," but following the adoption and improvement of the new trade strategy, they too have chalked up a remarkable economic record. It can thus be seen that the time has come to bring an end to China's present industrialization through import substitution strategy. The sooner we shift gears, the better able we will be to exploit the comparative edge of the new development strategy and hence expedite the industrialization of China. In short, in the mid- and long-term, import substitution is not appropriate as the strategy for China. Thirdly, import substitution is also not right for China if one wants to tackle the problem of low inefficiency in Chinese industry to date. This is true because import substitution is negatively related to increased production of capital goods.<sup>5</sup> The import substitution development strategy not only will fail to do anything to change China's low-efficiency production system and extensive mode of operations, but will only perpetuate and worsen it. As Qian Na Li said, "Protectionist policies, which promote import substitution, reduce competition, thus leading to inefficiency in production."<sup>6</sup> From the perspective of the problems that China urgently needs to resolve and from the perspective of the goals of reform, industrialization through import substitution is not the right choice.

2) The need for backward nations to build up import-substituting industries. Import substitution is not suitable as an overall development strategy for China. But as an economically and technically backward and poor nation that wants to catch up with developed countries and achieve prosperity, China must take a shortcut—import advanced foreign technology, utilize foreign capital, build up its industrial base step by step by establishing import-substituting industries, and narrow the gap between its industries and those in developed nations. This route has been validated by the successes of Japan and Asia's "four small dragons." Its effectiveness and speediness is proven. Thus the establishment of import-substitution industries is essential to Chinese economic development, whether short or long term.

### 3. Balanced Development Strategy: Choosing a Trade Development Strategy for China

1) Balanced Development Strategy and the Open Economy. There are two biases in China's theoretical community. One is that the import substitution strategy belongs in an outward-looking economy. Actually, the most important thing in differentiating an outward-looking economic development strategy from an inward-looking strategy is the incentive orientation of the trade policy, not the scale of outward-looking trade activities. In an import-substitution strategy, the incentives favor domestic sales and protect the domestic market, so it belongs in an inward-looking economy. The other bias is that only an export-oriented economy can be an outward-looking economy. People who think this way ignore the presence of a trade strategy that is appropriately outward-looking. In fact, we need not make an either-or choice between export orientation and import substitution. Besides these two extremes there is in fact a third way. In his 1977 book *Economic Development*, Kindleberger notes that there are three economic development strategies: export-oriented economic development strategy, import substitution economic development strategy, and the balanced-development-through-foreign-trade strategy. Citing the research findings of Lewis, he points to Japan as an example of balanced development through foreign trade. Qian Na Li too uses these three typical trade strategies and compares and contrasts their major characteristics. In the 1960's, Thailand was the only extra-large nation to adopt the balanced development strategy. According to the "World Development Report 1988," Brazil, Malaysia, and Turkey had abandoned import substitution in favor of balanced development by the 1970's and early 1980's. Qian Na Li and colleagues think that the balanced strategy combines the major elements of the export-oriented strategy and the import substitution strategy and demands that a balance be struck between tariff protection, foreign exchange allocation, anti-export bias, and the inflow of capital, the last to be phased in gradually. First, the demand for imports is to be curbed through the exchange rate policy, not tariff protection or foreign exchange allocation. The balanced development strategy is less anti-export than the import substitution strategy, so it tends to encourage an increase in exports. Second, it takes time to eliminate the anti-export bias. To offset the foreign loans needed to finance more imports, the balanced strategy calls for real currency devaluation. The result is that real currency devaluation slows down the increase in imports but not by as much as they would under an import substitution strategy. Meanwhile, exports go up but not as much as they would under an exports expansion strategy. The balanced strategy is also characterized by a substantial inflow of capital in the earlier period. Under this strategy, the demand for foreign capital is less than that under the export-oriented strategy, which mandates a rapid transfer of resources to the export sector, as well as that under the import substitution strategy, which strictly limits exports.<sup>7</sup>

The balanced development strategy neither discriminates against exports nor belittles import substitution. It neither over-subsidizes export industries nor over-protects import-substituting industries. It seeks to create a balanced neutral open economy.

2) The balanced development strategy suits China's conditions. The balanced development strategy has been successfully adopted in a number of extra-large developing countries, with remarkable results. Even more important, it suits China's circumstances. First of all, the balanced development strategy combines the elements of the export-oriented strategy and the import substitution strategy, making it just right for an extra-large country like China, which has already established a comprehensive industrial system, which needs both import substitution to further improve the industrial system and exports expansion to participate in international competition and specialization, and which is actually upgrading its industrial structure and trade structure continuously. Second, the balanced strategy strikes a balance among three things: tariff protection and foreign exchange allocation, the anti-export bias, and capital inflow. Not only is China a developing backward economy, but it also has been a highly-centralized planned economy for years. Compared to other developing nations with a similar industrial base, China's market system is grossly inadequate and its market mechanisms extremely deficient. Judging from the economic development process of the newly industrialized nations, the establishment of market mechanisms is not something that can be accomplished overnight; it is a long, drawn-out, gradual change. The gradual balanced adjustment of the three things mentioned above not only meets the demand and conforms with the trend of economic structural reform in China but also satisfies the demand of economic development: a continuous expansion of exports so as to earn foreign exchange. It also will bring down the overvalued renminbi vis-a-vis other currencies in order to ease inflation at home. Third, Qian Na Li's empirical analysis makes it clear that the balanced development strategy is less costly in foreign capital than either export expansion or import substitution. For a large country like China that must spend huge sums of foreign exchange to catch up with developed nations in many ways, but is faced with bottleneck restrictions on foreign exchange usage, the balanced strategy is indeed a low-cost high-performance option. Fourth, the balanced development strategy is in line with the macroeconomic objectives of China's economic reform and open policy and can cure its long-standing maladies of inward-looking development and low inefficiency. Qian Na Li describes the process of curing these problems thus, "Opening up the country to the outside world and taking an active part in international competition would improve efficiency in the nation. There is a 'challenge/counter-challenge' mechanism, one that is caused by international competition and works subtly. Domestic industries are compelled to adopt new technology to end inefficiency or low inefficiency. Most will also try to cut costs as much as possible. From this perspective, increasing exports is a good thing, as is free importing. Although a policy of increasing

imports may limit the market for domestic commodities, it increases competition, which will improve efficiency."<sup>8</sup> Use foreign competition to drive Chinese enterprises to improve efficiency and profitability, catch up with other nations in technology, organization, and methods of management, and keep up with the pace of technical and economic progress in the world. In turn, outward-looking enterprises can set an example for and disseminate information to other enterprises in the country and fuel their development. Improving the overall quality of enterprises in this manner is even more important than increasing export earnings. We can thus see that between the two extremes of export orientation and import substitution, the balanced trade strategy presents a more suitable option as the engine of industrialization. Certainly this does not mean that we should copy the balanced development strategy overseas mechanically. Instead we should make appropriate adjustments in accordance with China's national circumstances. For instance, China has been following the import substitution approach extensively among consumer goods, capital goods, and investment goods, and established a relatively comprehensive industrial production system. Besides, the Chinese economy has already been growing fairly rapidly without, however, resorting to borrowing massively overseas and attracting foreign capital, which was what other countries with the balanced strategy did in the early phase of industrialization in order to stimulate their economy.

#### **4. Using the Balanced Trade Development Strategy To Expedite the Circular Development of the Dual System**

1) The circular development of traditional industry and modern industry. How traditional industry and modern industry differ from and complement each other in structural functions. Traditional industry, such as light industry and the handicraft industry, and modern industry, such as heavy industry and high-tech industry, differ in capitalization, product mix, technical level, manpower composition, enterprise organization, and resource consumption, among other things. These differences give each of them its own special advantages. In the dynamic process of industrialization, it is entirely possible to capitalize fully on the respective advantages of traditional industry and modern industry so that these advantages complement one another and operate harmoniously with one another. In international economic intercourse, in particular, the traditional industries of a developing economy enjoy a comparative advantage vis-a-vis a developed economy. The developing economy is entirely capable of exploiting its time lags in the various structures as well as its technical backwardness in conjunction with the functional differences and complementariness between the two kinds of industries at home to bring about circular economic development.

Industrial specialization by China's traditional industries and modern industries. We may bring about industrial specialization based on the comparative advantage and structural function of the various industries so that both traditional industries and modern industries fulfill

the missions and play the role that economic development requires of them in accordance with their comparative advantage and special functions. Nurture traditional industries into export industries. Export labor-intensive products to earn foreign exchange. Expand the foreign exchange bottleneck which has been impeding economic development. Shift surplus rural manpower into other lines of work. Use modern industry as the lead. Utilize their technology-intensive and capital-intensive characteristics. Use the suitable modern industries as the growth sector to drive the steady development of the economy long term.

The dual circular development of light industry and heavy industry. In dual international economic circulation, export the products of light industry to earn foreign exchange. Import the technology and equipment required by heavy industry so that heavy industry can advance technologically and expand quantitatively, turning out more and better products more cost-effectively, which, in turn, would support the export of light industrial products. In dual domestic economic circulation, heavy industry provides technology and equipment for light industry. The latter, in turn, provides consumer goods for the workers of heavy industry. Also, since light industry is a bigger exporter and more profitable and since light industry employs more people by virtue of its labor-intensive nature, light industry provides savings that can be drawn upon as investment in heavy industry, which is more capital-intensive. In short, we should make use of the opposite comparative advantage of light and heavy industries in the domestic market and international market and form an opposite and complementary dual economic circulation.

2) The circular development of import-substituting industries and export industries. Utilize static comparative advantage and dynamic comparative advantage in unison. The "four small dragons" of Asia are a classic example of countries that have relied more on the principle of static comparative advantage to achieve economic take-off, while Japan is a model of those that stress the principle of dynamic comparative advantage to achieve fast economic growth. This shows that both the principle of static comparative advantage and the principle of dynamic comparative advantage have uses for a developing country. The main thing is how to combine the two to the best advantage. The dual circular economic development strategy makes use of both principles. Select some static comparative advantage industries as export industries to earn foreign exchange. Then put together new industries in accordance with the principle of dynamic comparative advantage. Import technology and equipment and gradually form new productive forces in order to change the base of comparative advantage and create a technology of economic dynamic advantage. The circular development of static comparative advantage industries and dynamic comparative advantage industries—using a country's static comparative advantage to support the formation of its dynamic comparative advantage and using the latter to further the

former—is a feasible way to achieve industrialization that uses the surplus in merchandise trade to cover the deficit in technical trade, that uses imported technology to develop productive forces with increasing speed, and that would turn comparative disadvantage into comparative advantage.

The circular development of export industries and import-substituting industries. In a neutral opened economy, if we give selected nascent import-substitution industries the appropriate amount of protection and at the same time encourage mature industries to compete on the international market and earn foreign exchange, the result is balanced growth for the two types of industry. Export industries support the development of import-substitution industries. The latter expedite the growth of export industries with their products and technical inputs. China should use its advantage as a latecomer and copy the technology, production, and management of advanced nations to form new productive forces, change its production function, accelerate economic development, and create an industrial structure where foreign exchange-earning and foreign-exchange-using industries, export industries and import-substitution industries, support each other.

3) The circular development of horizontal specialization and vertical specialization. First, if we devote our energies to the export of labor-intensive manufactured products and increase manufactured goods as a share of our exports, we may spare ourselves the over-concentration of export commodities, the over-concentration of export earnings, and the excessive fluctuations in export earnings characteristic of developing countries. We should actively participate in international specialization, particularly horizontal specialization, in order to improve the disadvantaged position China currently occupies in international specialization, which is predominantly one of vertical specialization. It should work its way up the hierarchy of international specialization by graduating from vertical specialization to horizontal specialization. It should diversify its role in international specialization with a mix of horizontal as well as vertical specialization. Second, the circular development of vertical specialization and horizontal specialization. Using foreign-exchange earning products that take part in horizontal international specialization, China may track the life-cycle of products. By capitalizing on the characteristics of a product when it matures and gradually becomes a standardized product—low research-intensity, assembly-line production methods, mass production technology, use of abundant low-cost labor—China can put its characteristics to good use, characteristics such as ample surplus manpower, low wages, and a social and industrial base of a fairly high level. China should make itself attractive to the producers of standardized products so that they would locate production in China. It should replace vertical specialization with horizontal specialization through import substitution. To shorten the product cycle and by capitalizing on their monopoly on high-tech, multinational companies divide the production process into different parts to be performed in

nations at different stages of development. China may use international contracting to participate actively in the vertical specialization of high-tech products, gradually bring about import substitution, increase the percentage of domestic contents, and begin to enter the production of and competition involving high-tech products.

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#### Footnotes

1. Stephen P. Meiji, *International Trade*, Zhongguo Shehui Kexue Chubanshe, 1988, pp 10-12)
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**Yu Guangyuan Views Emergence of Stock Market**  
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[Article by Yu Guangyuan (0060 0342 6678), written on 18 October 1990: "Reflections on China's Newly Emerging Stock Markets"]

[Text] China's newly emerging stock markets have recently been arousing much attention among economists, one of whom is myself.

There are few cities in China at present that have stocks on the market. As far as I know, only Shenzhen and Shanghai have regular stock markets on which trading is brisk and carried out on a large scale. I also know of some cities that are trading certain enterprises shares, but have not yet formed regular stock markets. It is also understood that other cities are offering stocks for sale and opening up stock markets. While I know very little about this situation because it has not yet been officially reported in the Chinese press, it has aroused my interest

because it is something new. This has led me to some reflections, including certain elementary theoretical ones.

As far as the stock markets that are emerging in China's socialist society being new in what areas and to what extent, I think that I can respond as follows: temporarily, they are unprecedented in Chinese history; spatially, our socialist country is the only one in which they exist today. In other words, our stock markets are still internationally unique. I have not heard of the Soviet Union having stock markets either in the past or present, nor have I heard of the emergence of stock markets in any other socialist country. As we economists generally like to study new matters, I also feel that there are certainly many new issues remaining to be studied here, because it is a new matter. Moreover, such a new phenomenon also presents we scholars with a new "scope for displaying our talents."

I think that, as what many economists are concerned about are practical economic problems, I cannot be said to be unconcerned about such problems either. Moreover, I would like to note that even though one is interested in purely theoretical issues, theoretical research is still conducted in order to solve practical problems. That "theory must be combined with practice," is also my working principle. I think that, in both capitalist and socialist societies, theoretical stock market research by economists must be linked to practical problems in the following areas: 1) What stock traders (called "shareholders" in capitalist societies) are particularly concerned about, is reaping profits from stock market trading. Thus, they are particularly concerned about stock market price trends, and predictions of stock market price fluctuations and the extent of such fluctuations, so that they can know when to buy or sell stocks. Shareholders also need help from economists. In order to serve shareholders, economists must scientifically analyze stock market history and status quo, and study the prescribed laws of stock market prices. This is one aspect of linking theory to practice for stock market issues. Of course, what kind of people in our society are shareholders, must also be studied. If shareholders include vast numbers of staff members and workers, issues in this area deserve to be emphasized. This depends on how China's shareholding system and stock markets develop. 2) We must take a stand with shareholding enterprises, and help enterprises to learn how stock markets affect them, because stock markets have a great impact on enterprise fundraising through selling shares and earning profits through management operations. In order to accomplish this, we must learn how the existence of stock markets can facilitate the selling of shares, and the impact of stock price fluctuations on enterprise fundraising and earnings. In this area, state control of stock trading has a big impact on enterprises. For instance, as stock market prices are often higher than the face value of shares, when enterprises sell shares at prices that are higher than face value, if all of the money acquired by selling the shares is allowed to become enterprise

income, which is generally the case, enterprises will acquire extra profits when stock prices rise. Economists in capitalist societies are also paying a great deal of attention to studying this. I think that economists in socialist societies should focus their stock market research on this issue. Whatever benefits enterprises also profits the whole socialist society. 3) We must take a stand with the government in studying the impact of stock markets on government work. We should study government control of stock markets, in order to promote what is beneficial and abolish what is harmful, including tax revenue. 4) We must also study the impact of stock markets in many other areas on overall socio-economic operations and economic growth. I do not wish to speak here about stock market operations in capitalist societies, but am only going to consider the need to study the possible impact of various kinds of stock market control systems in socialist societies on things, such as development of the productive forces and changes in production relations, i.e., the impact of stock markets on overall public financial operations and the distribution and redistribution of public wealth among people. What real impact stock markets will have on overall socioeconomic operations, is a matter that needs to be studied. 5) We should also study certain more "theoretical" issues, such as whether the emergence of stock markets in socialist societies is an objective historical inevitability, and the relation between stock markets in socialist societies and overall socialist economic reforms, i.e., study the emergence of stock markets in socialist societies from the perspective of the overall development of socialism. As a Marxist, my main interest is in this fifth area. Of course, in order to study the impact of stock markets on socialist society from this fifth perspective, it is necessary to understand the knowledge acquired from studying all five of these stock market aspects. Otherwise, it will be impossible to reach the correct conclusion from studies even in this fifth area, not to speak of any thorough understanding.

China's present stock markets have a very short history, and then only in a very few cities. As I cannot be said to have studied the stock markets in these cities very well because I have only been briefed on them by colleagues in the stock market business, I would still like to discuss certain tentative reflections on China's newly emerging stock markets in the area of economic theory. These reflections must temporarily be called merely objective views.

I would like to take up again here the abovementioned notion of "stock markets in socialist societies." By this, I do not mean "stock markets of a socialist nature." In other words, I am leaving the nature of stock markets unsettled here. I do not think that things "in socialist societies" are equivalent to those "of a socialist nature." For instance, we are now in the initial stage of socialism, in which diversified economic components coexist. While our individual economy, China's own private

capitalist economy, and the capitalist economy of foreigners in China are economic components "in a socialist society," they are not ones "of a socialist nature."

I am not going to try to decide today whether stock markets in socialist societies are part of a socialist economic system. While "of a socialist nature" is an even more abstract idea than "being part of a socialist system," I think that they are comparable. If stock markets are part of a socialist economic system, they are of a socialist nature, because being part of a socialist system (economic matters always being part of a socialist economic system) also means being of a socialist nature, and things of a socialist nature are also always part of a socialist economic system. Stock markets in socialist societies are equivalent to neither stock markets of a socialist nature, nor stock markets that are part of a socialist economic system. Whether stock markets in socialist societies are of a socialist nature or part of a socialist economic system depends on their conditions and, as stated above, is an issue that should be clarified through study and discussion.

Nor can I state clearly at present what conditions of stock markets in socialist societies determine whether they are of a socialist nature or part of a socialist economic system. As used here, conditions should include both essential and full ones.

I think that one essential condition is that they "contribute to socialist development." The aim of learning the real nature of China's stock markets is to determine their standing in a socialist society. Moreover, when determining their nature, we must, one, clarify the essential and full conditions for being of a socialist nature and, two, clarify what kind of stock markets we are actually determining the nature of. Even though they may all be "stock markets in a socialist society," those that emerge in the future might not be entirely the same as those that are emerging now. Future stock markets might be considerably different from current ones. This might affect our determination of the nature of stock markets. The current stock markets in certain Chinese cities are emerging through shareholding system pilot projects. Emerging through pilot projects is naturally different from popularizing nationwide after summing up pilot project experiences. Moreover, pilot projects can be of all types. Varying types of pilot projects will display differing results. Determinations based on studies of different results will not be the same. I think that we should be particularly careful when determining the nature of stock markets in socialist societies.

Let us go back and take up again the matter of whether stock markets in socialist societies contribute to the cause of socialism. I think that this matter is even more important than whether stock markets are of a socialist nature or part of a socialist system. Our determination on this matter will decide our approach as to whether to allow stock markets to exist, and our determination of

the nature of stock markets in socialist societies, as stated above, will decide their standing and prospects.

In which case, how should we proceed in studying this matter? I think that, as this is a very specific question, it should not be answered abstractly or generally, but should be studied in detail so that a specific determination can be made. I think that we could start by making a detailed study of the stock market pilot projects that are now underway in Shenzhen and Shanghai. As the current stock markets in Shenzhen and Shanghai are operating under specific conditions, in certain particular forms, and in concrete circumstances, it is possible to make a detailed study of their impact on the cause of socialism. The following are all concrete matters: the enterprises that sold the shares that are being traded on the market (such as which enterprises, their management and profit or loss situations, the overall face value of the shares that they sold, and whether they are prepared to sell more shares), the people who are trading on the stock market (shareholders), where stock markets are operating, state control of stock markets, the stock trading status quo, stock price fluctuations, which is reaping the profits from stock market trading, and how many profits are being reaped. As these each have a specific impact on socialist society because they are a matter of record, we can study them each in detail.

We can and should make a detailed study of the specific impact of stock markets in certain areas.

1. We must learn the impact on enterprises of stock markets in socialist societies.

We must consider separately here the impact of stock markets on shareholding enterprises that have put stocks on the market, and on enterprises that have not put a shareholding system into effect. Stock markets have a different impact on these two types of enterprises. China is now conducting shareholding system pilot projects. Only a tiny percentage of all of our enterprises are experimenting with shareholding systems, and even fewer of these have put stocks on the market (not all stock companies in capitalist societies can put stocks on the market either). Stock markets naturally have a bigger impact on enterprises that put stocks on the market than on those that do not.

It should be pointed out that after enterprises have sold shares and these shares are traded, there is no longer a direct relationship between their stock market price fluctuations and the profits that the enterprises acquired by putting them on the market. Stock price rises certainly do not increase these enterprises' circulating capital, which remains what they had acquired from selling the shares. But this is not to say that there is no relationship between the stock market and these enterprises' profits. On the contrary, there is still a considerable relationship, because allowing shares to be put on the market per se is a key condition for successful enterprise fundraising through selling shares. An enterprise not allowing its shares to be put on the market would force one with

money who buys its shares to renounce the mobility and liquidity of his money. This adds to the apprehensions of potential share purchasers. But allowing its shares to be put on the market makes it easier for the enterprise to find buyers for its shares and makes its fundraising more successful. Moreover, after stock market prices increase, if the enterprise that put the shares on the market sells new shares, it can acquire additional profits. The amount of these additional profits is affected by stock market control by the state. If the purchase face value of a share is  $X$  yuan, its stock market price is  $X + \Delta X$  yuan. An enterprise that sells more shares can sell them not at face value, but rather at a "negotiated price" of  $X + \Delta X'$  yuan. With regard to  $\Delta X'$ , the state can allow  $m\Delta X'$  to become enterprise income, and  $\Delta X'(1 - m)$  to become state income. If the state does not tax this business or intervene in other ways,  $m$  will equal 1, and  $1 - m$  will equal 0. In this case, the enterprise can pay dividends at  $X$  face value, while acquiring actual profits of  $X + m\Delta X'$ . Thus, stock purchasers could acquire profits of  $\Delta X - \Delta X'$ , and the government could acquire profits of  $\Delta X'(1 - m)$ . Added to enterprise profits, this would give the three parties gross profits of  $\Delta X$ , i.e.,  $(\Delta X - \Delta X') + \Delta X'(1 - m) + m\Delta X'$ . In addition, the enterprise can also benefit in ways, such as becoming better known. In light of such benefits, enterprises generally strive for government permission to put their shares on the market.

Stock markets do not have this kind of direct impact on enterprises that have not gained permission to put their shares on the market. While these enterprises generally still welcome stock markets because, even though they have not gained permission to put their shares on the market, the existence of stock markets still gives them hopes that they will eventually be allowed to put shares on the market, they are generally put in an adverse position when they enter into competition with enterprises that have put shares on the market. While enterprises that have not put shareholding systems into effect are challenged by shareholding enterprises, stock markets have a more indirect impact on them.

2. As to the impact of stock markets on state tax revenue, since the state collects taxes through material product production and circulation and all links of labor production, the stock market impact on profits in these fields has an indirect impact on state revenue. If this impact is positive, it will increase state tax revenue and, if it is negative, it will decrease state tax revenue. This is one way that stock markets affect state tax revenue. Stock markets also have a direct impact on state tax revenue, i.e., the state can levy stamp taxes on all stock transactions. In principle, the state can also collect income taxes from those who earn profits from stock transactions, as well as business and income taxes from stock market operators (including stock exchange managers and brokers). As China's stock markets exist in only a very few cities, they account for only a very small percentage of state tax revenue as to either absolute value or total amount. The conditions are not right for collecting some

taxes, and others are not collected. While stock markets now account for an insignificant part of state tax revenue increases, they may account for a significant part of local revenue in some cities after they open up stock markets, if considerable amounts of money are invested in stock transactions.

3. While China also has stock exchanges for "shareholders" and stock market operators to carry out stock transactions, we are still not affected by brokers. The objective of stock traders is naturally to acquire profits from buying and selling stocks. When stock market prices are basically rising, while shareholders can generally reap profits and sometimes very large ones, and stock market operators may also earn very good incomes, this eventually becomes a matter of partial and local interests from an economic perspective. Stock markets may also have a growing impact on public mentality, as more and more people take part in stock trading. Moreover, public controversy about this phenomenon may grow, because people may think that, in principle, stock market income is very out of line with income earned according to the principle of distribution according to work under the socialist system. This must be considered when reflecting on the nature of stock markets.

In addition, while stock markets may also have a certain impact on urban prosperity in areas, such as banking, hotels, catering, and commerce, it will be a very limited one.

An issue that particularly needs to be studied is the impact of stock markets on currency circulation. I will analyze this matter as follows:

1. When enterprises sell shares, currency shifts to enterprises from its original owners, who lose money but acquire shares. Moreover, enterprises also acquire operating funds in this process.

2. Shares from enterprises that allow their shares to be put on the market, become stocks that can be sold to acquire money in the hands of share purchasers. When they sell these stocks, they lose them, but get money back. The money so acquired is no longer the same amount that they paid for the shares, but is the stock market price at the time of sale. At this time, other people lose money and acquire stocks. During these kinds of transactions, there is always someone who is holding stocks but not money. Stock market operations include those who hold and can sell stocks on one hand, and those who have money and can buy stocks at any time on the other. This money that can be invested in the stock market at any time, cannot at the same time be invested in other areas by those who have it and, if it is in bank savings, must be able to be withdrawn and used at any time. This money corresponds and is in direct proportion to the value of all stocks on the market at market prices. If stock market prices are  $X$ , the sum of money that must always be in reserve for investment in stock transactions is  $SX$ ,  $S$  being determined by various

factors, but generally being less than 1, because there is always a large percentage of stocks that are not being traded. Moreover, this sum of reserve money is also generally larger than stock market turnover, because there is always a sum of money awaiting investment opportunities and not under transaction. However, it seems that we cannot exclude the possibility of S being greater than 1.

3. The impact of the stock market on currency circulation is that on the X amount of currency that has been used to buy and sell stocks, the part of which was equivalent to the stock prices when the enterprise sold the shares, having been used in enterprise operations. A large percentage of this currency can also be invested in other fields, and another part, i.e. the SX quantity, can be invested in stock trading at any time. This money can have originally been bank savings deposits, or cash on hand, etc. Where it actually came from is another matter that must be studied in detail. What we wish to consider now is the actual amounts of these two sums of money (i.e., how much has been spent on stocks, and how much is in reserve for buying stocks?). What impact do these two sums in their respective positions actually have on overall socioeconomic operations? When these two sums of money are in banks, what other uses can banks put them to based on their currency use characteristics? This is another basis for evaluating the situation, and may be the key issue that should be studied to determine whether these two sums in their respective positions have a favorable or unfavorable impact on a socialist economy.

While we listed above the possible impacts of stock markets in certain areas, we did not make a quantitative assessment or analysis, not to mention that our qualitative analysis was quite general and vague. In order to analyze the situation clearly, we must make a detailed study of issues, such as the impact of stock markets on overall social production and circulation, and the public demand for funds. In order to clarify the impact of stock markets on socialism, we must not only make qualitative and quantitative judgements in each area, but must also sum up their overall impact and weigh their pros and cons, in order to reach a comprehensive and accurate decision. I would also like to reemphasize here that, as we are currently in a testing phase, we must consider all variables, including the aftermath of having implemented various experimental programs. I would also like to repeat here that whether stock markets have a favorable or adverse impact on socialism, is the most crucial issue affecting China's stock markets. Only by clarifying the impact of stock markets can we approach this matter on a completely scientific basis. The nature of stock markets is naturally a very important issue because, once we clarify it, our knowledge and practice will be better defined and firmer. However, our first step must be to clarify the impact of particular control measures on stock markets under given conditions and in specific forms. While the current stock markets in places, such as Shenzhen and Shanghai, can provide especially valuable

material for study, in order to reach a final verdict, we not only must observe them over the long term, but also must carry out further experimentation. As this is such a complex matter, which is going to require a lot of work, I hope that we comrades will be up to the effort involved.

### Financial System Reform Problems, Solutions

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[Article by Xun Dazhi (5424 1129 1807), of the State Planning Commission Economic Research Institute: "Financial System Reform: Problems and Solutions"]

#### [Text] I. Defects of the Present Financial System

Reform of the financial system since 1978 has succeeded in breaking the centralized control over revenues and expenditures under the old system. However, the present system formed during reform has some rather serious defects of its own.

1. It is a regressive financial system. Contrary to the "progressive" financial system commonly practiced all over the world, China's present financial system, which has been shaped by the implementation of the enterprise contract system, is "regressive" in character: The state gets a rather large proportion of an enterprise's contracted base earnings, but very little of what the enterprise makes beyond the base. This "regressive" financial relationship also exists between the central and local governments. 2. It is a growth-rate-related financial system. China's present tax system is mainly one of indirect taxes, which accounted for more than 65 percent of the 1988 total tax revenues. Collected according to output value or sales volume, indirect taxes are related only to the rate of economic growth and the scale of the economy, and have no relationship with economic efficiency. Therefore, the financial system which depends mainly on indirect taxes is essentially a grow-rate-related system. To increase revenues, it relies mainly on raising the economic growth rate, and not on improving economic efficiency. 3. The tax structure is inherently defective. In China's revenue structure, the amount generated by individual income taxes is negligible compared with other categories of taxes, causing the state to rely too heavily on indirect taxes and enterprise income taxes. Problems have arisen as a result: The overreliance on indirect taxes has caused the financial system to become increasingly dependent on higher growth rates; the high enterprise income taxes (55 to 88 percent at present) are in effect an increase in business costs by the state and are not conducive to helping enterprises reduce costs; and the extremely limited role of the individual income tax, though it is most suitable to adopt progressive rates, has seriously hampered the formation of a progressive financial system. 4. The tax base is small, and tax burdens are uneven. China's financial revenues depend mainly on state-owned enterprises, especially large and medium-sized ones, and the tax burdens on

collective enterprises and individual operators are quite low. 5. The tax reduction-exemption and subsidy systems are chaotic. First, there are too many policies but no unified standard. Second, owing to the decentralization of controlling authority, all kinds of tax reductions and exemptions and subsidies have come into effect, causing disorder in the market and low efficiency in the distribution of resources. Third, the subsidy system, which takes care of everyone without discrimination, causes more and more enterprises to rely on state help and greatly increases the state's financial burden. 6. The way in which the interests of the central and local governments are separated is irrational. First, the division of central and local revenue sources is based on administrative relations, and not on tax categories. As a result, both the central and local governments are often concerned only about the enterprises under their respective jurisdictions and not the interests of the country as a whole. Second, under the financial contract system, the local governments keep all the revenues after meeting quotas for profits and taxes to be delivered to the state, and this has stimulated the local governments' strong desire for expansion.

## II. Predicament and Crisis

The shortcomings of the present financial system have caused a series of contradictions and problems in the operation of the national economy and landed the state in a serious financial crisis.

A. Serious revenue losses, particularly to the central government. The proportion of state revenues to national income dropped sharply to only 19.2 percent in 1988, a fall by 18 percentage points from 1978. This dropping process began as conscious government policy readjustments, but later turned into uncontrollable mechanistic losses. At the same time, the proportion of the revenues of the central government to state revenues as a whole also dropped precipitately, and as a result the burden of revenues lost fell evenly more heavily on the central government.

B. The "trap" of subsidies and transferred payments. The regressive financial system has artificially widened the income gap between enterprises. The more profitable an enterprise becomes, the smaller proportion of its profit is turned over to the state, and the less profitable it becomes, the greater proportion of its profits is turned over to the state. As a result, the state has to help the low-profit enterprises with all kinds of subsidies (including tax reductions and exemptions), and at the same time more payments for medical and health services, care for the old, relief for the poor, etc., are transferred to the state. These subsidies and transferred payments will keep growing under the regressive financial system.

C. Worsening financial deficits. While revenues are being lost seriously, expenditures are increasing rapidly due to inflation. As a result, the balance of revenues and expenditures is deteriorating rapidly, and the financial deficits are growing continuously.

D. Forced reduction of normal expenditures. The serious revenue losses have forced the state to vigorously reduce expenditures. First, expenditures are reduced in the fields of culture, education, public health, science and technology, and national defense. On the one hand, the reductions have seriously affected normal development in these fields. On the other hand, when the reductions have gone beyond the limit of tolerance, permission has to be given to these noncommercial institutions to engage in business operations, that is, to make money on their own, which has caused serious confusion to social and economic order. Second, expenditures are reduced on key national construction projects. As a result, the proportion of funds spent on capital construction is dropping rapidly, even registering negative growth in absolute value, causing the contradictions in the national economic structure to become worse.

E. The debt "trap." To alleviate the imbalance between revenues and expenditures, the state is forced to borrow large amounts of money from both domestic and foreign sources. As of the end of 1989, China's outstanding internal debts totaled about 85 billion yuan, and outstanding foreign debts totaled \$41.3 billion. At present, China is relying on borrowing more and more money to keep the gap between revenues and expenditures from widening further. Because there is no way to repay these debts, the country has no choice but to raise new debts to repay old ones, thus sinking ever deeper into the debt "trap."

F. The loss of huge amounts of revenues to the local governments and enterprises has on the one hand, given the propensity of enterprises to consume, further expanded consumption demands, and on the other hand, because of the irrational investment activities of enterprises and local governments, led to excessive expansion of the ordinary processing industries and constant widening of the gap between supply and demand for both the basic and processing industries.

The above analysis shows that under the present system, our financial policy must choose between worsening inflation and worsening structural contradictions. To alleviate the structural contradictions, it is necessary to increase spending, thus further aggravating inflation. To check inflation, it is necessary to reduce spending, thus further worsening the structural contradictions. The financial policy can only choose the middle course and swallow both bitter results at the same time. It is clear that the maladies of the present financial system must be cured without further delay, and the cure lies in pushing forward the reform of the financial system.

## III. Basic Ideas for Reforming the Financial System

The financial system consists mainly of a state budgeted revenue formation system and a state budget control system. If the enterprises are no longer required to turn over profits to the state, the state budgeted revenue formation system is in essence the national tax system. The state budget control system refers mainly to the

principles and forms for the division of powers to manage and control revenues and expenditures between the central and local governments. China's financial system reform is aimed at establishing a perfect tax system, which not only can maintain a rational relationship in distribution between the state and the enterprises, but also performs the function of structural regulation, and a budget control system, under which financial management is separated from level to level, from the central government down to the local governments, each having independent control of its own revenues and expenditures and striving to achieve its own balance.

A. A perfect tax system. The key question for a tax system is the categories of taxes to collect and the selection of a tax structure. The goal of China's tax reform should be the fashioning of a tax system dominated by the collection of enterprise value-added tax, enterprise income tax, and progressive individual income tax.

1. Value-added tax. Value-added tax is an indirect tax. Like other indirect taxes, it is easy to collect, with stable sources, and suitable for the use of different tax rates for different trades. At the same time, because value-added tax applies only to the increased portion of income from commodity sales, it can avoid double-taxation and overcome the problems caused by the present product tax, which impedes specialization and cooperation in production. More important, for the collection of value-added taxes, when an enterprise sells its product to another enterprise, which will process it further, it must provide the latter with documents showing the tax it has paid on the product. Otherwise, the second enterprise will have to pay all the sales taxes. This can effectively prevent enterprises from evading tax payments. Therefore, the present product tax should be replaced by value-added tax. However, value-added tax cannot regulate the level of income and has nothing to do with improving an enterprise's economic performance. Therefore, it should not become too large in proportion. With the perfection of direct taxes, the proportion of value-added tax to tax revenues as a whole should be about 20 percent, and that of all indirect taxes should not exceed 30 percent. 2. Enterprise income tax. An enterprise's income tax is directly related to its economic performance, and it is a major means to regulate distribution between the state and the enterprise. As the state's major means to regulate the enterprises after the separation of the state's function as the owner from its function as the administrator, enterprise income tax should be fair, with all enterprises treated equally. Generally enterprise income tax should be collected at proportional rates and not progressive rates. 3. Progressive individual income tax has the function of a built-in financial stabilizer. Essentially the function of a built-in financial stabilizer is to "iron out" the effects of the fluctuations in economic growth on the people's income level, thus maintaining steady social and economic development. Such a financial stabilizer consists mainly

of two parts. One is the progressive revenue formation system, and the other is the transferred payment system. The tax most suitable for the implementation of the progressive revenue system is the progressive individual income tax. Therefore, in reforming the tax system, the individual income tax must be increased in proportion. In a rational tax system, individual income tax should make up at least 15 percent of tax revenues as a whole. 4. Strict control over tax reduction and exemption. Necessary tax reduction and exemption for areas and industries in support of their development is an important form of financial regulation. However, rules governing tax reduction and exemption must be institutionalized and standardized. Generally the authority of tax reduction and exemption should be held by the Ministry of Finance.

B. A rational state budget control system: a level-to-level financial system based on a revenue-sharing system

1. A clear-cut division of functions and powers should be made between the central and local governments. The central government is responsible for the financing mainly of large-scale national infrastructure and key construction projects and the operations of the central administration, national defense, foreign affairs, disaster relief, and so forth. Local governments are responsible mainly for the construction of local infrastructure and public utilities. 2. Revenues should be divided between the central and local governments according to their functions and powers and the categories of taxes. Taxes can be divided into three groups, namely, shared taxes, central taxes, and local taxes. Important taxes, including individual income tax, enterprise income tax, and value-added tax, should be shared proportionally by the central and local governments. This will link the interests of the central and local governments, giving both the incentive to supervise all enterprises in the same way. 3. The central government and local governments at all levels should each seek to balance their own revenues and expenditures and form their own relatively independent budgets. The financial departments at all levels should strengthen in the form of laws their internal and external restraints, institutional and obligatory, to form a rights system in which the various levels of management authorities restrict each other, and to prevent each from "encroaching on the rights" of others.

#### IV. Ideas for the Near-Term Reform of the Financial System

The emphasis of the reform of the financial system in the near future is, on the premise of checking the growth in consumption demands, to gradually increase the proportion of state revenues to national income and the proportion of centrally controlled revenues to state revenues as a whole and readjust the pattern of national income distribution. The major measures are as follows:

A. Improve the enterprise contract responsibility system. The basic-figure contracts should be changed to proportional contracts, the proportions to be determined

according to types of trades or industries. As there is little likelihood for the tax system to be changed significantly in the near future, readjustment of the contract proportions is a major way to regulate the degree of revenue concentration. At present, the contract proportions should be set to guarantee that state revenues will be increased to 25-30 percent of national income. The significance of proportional contracts lies in the formation of a state revenue budgeting system which guarantees that state revenues will grow in step with national income.

**B. Cultivate the progressive individual income tax.** The progressive individual income tax should play a very important role, but is rather difficult to collect and control. It is imperative to start cultivating this tax now. First, it is necessary to lower the minimum taxable income, expand the scope of collection, and increase the people's understanding of the need to pay taxes. Second, the progressive individual income tax rates should be raised gradually to increase the proportion of individual income tax to tax revenues as a whole. Third, an individual income reporting system should be established, and unreported income should be treated as illegal income and subject to severe punishment.

**C. Readjust tax policies.** First, it is necessary to expand the tax base, and taxes should be fair. The rates at which town and township enterprises and other nonstate-owned enterprises are taxed should be raised gradually to bring their tax burden up to the same level as that of state-owned enterprises. Second, all enterprises should pay proportional income tax, and the levying of progressive income tax on enterprises should be discontinued. Because different enterprises require different amounts of labor and capital, and their levels of income are also bound to be different, it is unreasonable to try to bring their incomes to the same level. Therefore, it is not suitable to impose progressive income taxes on enterprises. Third, individually operated businesses can be regarded as individuals and levied with progressive individual income taxes. Fourth, it is necessary to strictly control the reduction, exemption, and deferred payment of taxes.

**D. Improve the state's financial credit and increase revenue by raising debts.** China is entering a period, in which large-scale structural readjustments will coincide with peaking debt repayments, and it is inevitable that the imbalance between revenues and expenditures will become worse. To maintain the present level of revenue generated by raising debts, it is imperative to improve the national debt management system. First, the time to repay national debts should be made longer, and bonds, maturing in 10 or more years, should be issued. Second, the practice of compulsory purchases of state-issued bonds should be changed to re-establish the state's financial reputation. Third, greater efforts should be made to develop a bonds market. Fourth, a debt repayment fund should be established.

**E. Reform the local financial contract system and move toward the implementation of the revenue-sharing system.** The present financial contract system is the root cause of the down slide of the proportion of state revenues controlled by the central government. The solution lies in the implementation of the revenue-sharing system. For the near future, consideration can be given to dividing the provinces, municipalities, and autonomous regions into several groups on the basis of per capita income, per capita financial revenue, and other indicators, and different revenue-sharing measures should be adopted for different areas. In areas with a higher per capita income, a larger proportion of the revenues should go to the central government, and in areas with a lower per capita income, a smaller proportion of the revenues should go to the central government. Some areas may even retain all the revenues and still receive some subsidies from the central government. Through the reform, efforts should be made to increase as soon as possible the central government's share of national income from less than 50 percent to 65-70 percent.

**F. Readjust the structure of expenditures.** It is necessary to strictly control the growth in administrative expenditures, appropriately reduce expenditures on public utilities, clear up the subsidies mess now being dispensed under all kinds of excuses, and reduce the price subsidies for consumer goods as appropriate in each case.

## INDUSTRY

### Machinery, Electronics Output Up, Stocks Still High

*HK2704053391 Beijing CHINA DAILY in English  
27 Apr 91 p 2*

[By staff reporter Ren Kan]

[Text] China's machinery and electronics industry registered a steady increase in production during the first three months of the year, but is still plagued by large stockpiles of unsold goods.

Total production value was up 19.95 percent on the same period last year, to reach 62.98 billion yuan (\$12.11 billion), according to the Ministry of Machinery and Electronics Industry.

Yet the planned increase for the whole year, according to the ministry, was only 1.5 percent.

The reason for the recent increase was still not known exactly but experts believed it was partly explained by the low level of production last year, with which it was being compared.

The industry's production value was 6.7 percent down in the first quarter in 1990 on the same period of the previous year.

This year the machinery sector had a total production value of 39.46 billion yuan (\$7.58 billion), an increase of 13.12 percent over last year.

Of the sector's 79 items of major products, 48 items saw increases.

The production of farm machinery and automobiles jumped sharply, increasing 27.65 percent and 30 percent, respectively.

The output of petrochemical machinery, heavy-duty mining equipment and machine tools also increased.

But the production of electro-technical products and basic machinery during the quarter was lower than that in 1990.

Electronics had a total production value of 19.8 billion yuan (\$3.81 billion) during the January-March period, more than 36 percent above the figure for last year.

The State Shipbuilding Corporation increased its production value by 17.6 percent to 1.78 billion yuan (\$342.3 million) by the end of March.

But a senior official of the industry warned that the industry could not be unrealistically optimistic since a great many products were still sitting around in stockpiles. Zeng Peiyan, vice-minister for the industry, said they could not just wait and see what would happen.

He called for the products structure to be changed so that domestic markets could be expanded.

Products should be developed that sold well in markets but are still relying on imports.

Meanwhile, Zeng said, the industry will expand exports to earn more foreign currency. The total export value of the machinery and electronics industry is expected to hit \$10 billion this year.

#### **Tianjin Electronics Industry Develops**

*OW1305074391 Beijing XINHUA in English  
0649 GMT 13 May 91*

[Text] Beijing, May 13 (XINHUA)—The electronics and instrumental industry in Tianjin City earned over 76 million U.S. dollars-worth of foreign exchange from the export of 60 kinds of products last year.

In the past few years, the industry designed and produced more than 300 new products annually, with 250 of them put into production each year, PEOPLE'S DAILY reported today.

So far, the trade has introduced 142 projects from abroad and stepped up 100 modern production lines, both of which have greatly enhanced the development and production of computers and communication automation instruments in the city, the paper said.

At present, the city's 20 Sino-foreign joint ventures in the trade have gone into operation, and most of their products are up to international standards.

#### **Shanghai Lists 43 Industrial Construction Projects**

*OW1405080591 Beijing XINHUA in English  
0643 GMT 14 May 91*

[Text] Shanghai, May 14 (XINHUA)—The economic commission of Shanghai, China's largest industrial city, has listed 43 major industrial construction projects for 1991.

These projects include a middle-thick steel rolling mill at the Shanghai No. 3 Iron and Steel Works, a factory funded by the Philips Company for creating integrated circuits for audio products and projects for technically transforming the machine-building industry of the Shanghai Machine Tool Corporation and the Shanghai Machine Tool Plant.

The total investment in these projects will reach 7.379 billion yuan. Construction of 20 of the projects is expected to be completed this year while the other 13 and 10 projects are expected to be completed in 1992 and 1993 respectively.

After completion, these projects will increase Shanghai's industrial output value by 9.111 billion yuan and its gross profits by 2.659 billion yuan.

The projects give the city an additional capacity to produce 750,000 tons of middle-thick rolled steel plates, 2,067 new-type machine tools, 560,000 tons of ethylene products, 300,000 sets of tires and 5,000 fiat-model tractors.

### **SMALL-SCALE ENTERPRISES**

#### **Expanding Central Control Over Township Enterprises**

*91CE0425A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
No 2, 20 Feb 91 pp 29-32, 62*

[Article by Chen Jun (7115 0193), of the Township Enterprise Regulatory Bureau of Nantong Municipality, Jiangsu, and edited by Zhang Qingzhong (1728 1987 1813): "Mesoeconomic Regulation and Control of Township Enterprises"]

[Text] The mesoeconomic regulation and control of township enterprises is defined in relation to the state's macroeconomic regulation and control. It refers to a regulatory behavior in which mesoeconomic bodies adopt administrative, economic, legal, and other comprehensive measures to regulate and control the economic operations of the township enterprises in their respective regions. The state's macroeconomic policies are transmitted and implemented at the mesoeconomic

level, and mesoeconomic bodies play the role of following those above them and leading those below. They serve the macroeconomy and make comprehensive regional plans. Therefore, strengthening the mesoeconomic regulation and control of township enterprises so as to reduce and avoid errors in regulation and control is a strategic issue. This issue affects whether the center's macroeconomic regulation and control policies can be implemented smoothly and whether township enterprises can achieve long-term, coordinated, and steady development in the entire national economy. The mesoeconomic bodies studied in this article refer mainly to those at the provincial, municipal, and county administrative levels.

### I. The Issue Arises

The newly and quickly emerging township enterprises have become an indispensable component in the national economy. Because of China's vast territory, the natural environments, economic bases, and social and cultural situations differ greatly across regions. The mesoeconomic level is situated at the "tail" of the macroeconomic level, and at the "head" of the microeconomic level. It should be noted that mesoeconomic bodies have played a significant role in conscientiously implementing the center's macroeconomic policies according to actual local situations. They did so in order to promote the healthy development of township enterprises. However, one must realize that, as a component of the entire national economy, township enterprises have developed amid friction and amid congruence, amid discord and coordination, just as have other economies with different ownerships. This has been the primary source of the many contradictions during their process of development, particularly recently, during several periods of readjustment. All of this is directly related to the quality of mesoeconomic regulation and control. There are rather large regional differences in terms of township enterprises' levels of development; this is certainly the result of the interaction of many factors. Practice has shown that such differences are closely related to the performance of the mesoeconomic regulation and control functions in a region.

The economic model for China at the present stage is that of a planned commodity economy. This is determined by the socialist system and by China's actual situation. From a macroeconomic perspective, regional economies must operate in an orderly way and develop appropriately, according to the state's industrial policies and its medium- and long-term development objectives. Since 1989, improvement and rectification has worked on the eight-character policy of "readjustment, consolidation, transformation, and improvement" for township enterprises. It demanded that township enterprises develop in coordination with big industry, and effectively transform the enterprise mechanisms so as to embark on a benign cycle of development, guided by the state's economic plan and in accordance with the state's industrial policies and direction. It should be noted that the role played by mesoeconomic regulation and control

has been "weak." In terms of regulation and control, this is indicated by a lack of strength of "economic levers and administrative means" to regulate and control; by the incompleteness of the legal system; by the obstruction of the bodies' regulation and control wills. In terms of the effect of regulation and control, it is indicated by the fact that regional township enterprise development still suffers from rather significant spontaneity and blindness. This is demonstrated in three areas.

First, from a macroeconomic perspective, the industries are drifting without direction. Looking at industry, township industries and state and large collective industries have a serious problem of "structural similarities," resulting in unclear industrial specialization. Take Jiangsu Province as an example. In 1989, five of Jiangsu's 15 major industries had similar operations in the machine-building, textile, chemical, building material, and food industries. The proportion of their deployments were also similar. For instance, the machine building, textile, and chemical industries—the first three—accounted for 34.03 percent, 23.76 percent, and 14.5 percent, respectively, of the gross output value of state and large collective enterprises. They accounted for 29.54 percent, 22.06 percent, and 12.6 percent, respectively, of the gross output value of township industries. The ratios of light to heavy industries were also similar. The ratio of light to heavy industries in state and large collective industries was 52.35:47.65, while in township industries it was 56.2:43.8.<sup>1</sup> As another example, the problem of shortages of basic industries in China has not grown just in the last two years. Yet even though the "alarm" has sounded for several years, the problem has still not been fundamentally solved. This is closely related to mesoeconomic regulation and control, which has reduced the effect of the macroeconomic wishes.

Second, from a microeconomic perspective, the transformation of enterprise mechanisms is being inhibited. Through regulation and control, township enterprises should be helped to gradually "change from extensive to scientific management; from a domestic orientation to being both domestically and externally oriented; from operating under debts to relying mainly on their own accumulation; and from expansive to in-depth development." These have been the main tasks of township enterprises as they regulated and controlled their uncoordinated systems. However, the mesoeconomic level lacks strong steering and guiding mechanisms for accomplishing any changes.

Third, it is difficult to manage the development objectives. Township enterprise development is a condition for the measured development of the entire macroeconomy, but existing mesoeconomic bodies have a weak ability to grasp the law-governed nature of development in various phases, and their effective coordination of the driving and restraining mechanisms is poor. Some localities have improper regulation and control measures, and as a result economic development tends to be driven by regional or enterprise interests. This leads to a state of blindness which is not in harmony with macroeconomic

resource allocations and market totals. In fact, the "heating" and "cooling" of township enterprises in the previous period was also caused by weak mesoeconomic regulation and control measures.

## II. Why the Mesoeconomic Regulation and Control of Township Enterprises Lacks Strength

Actually, China's township enterprises are rather special economic organizations that emerged from the womb of agriculture, but they also came from the same roots as urban industries. With regard to their ownership, those operated by townships are owned by townships, and those operated by villages are owned by villages, with the whole belonging to the region's peasantry. Because they developed within the overall national economy, they established all kinds of relations with it. Therefore, the situation regarding the mesoeconomic regulation and control of township enterprises is complicated, and operations are difficult. There are both systemic factors and regulatory-operational problems that affect mesoeconomic regulation and control.

1. **The lack of checks and balances in the regulation and control system results in a tendency to form administrative barriers.** Up to now, township enterprises have played a significant role with regard to local interests. In regions with more developed township enterprises, one-third to one-half of fiscal revenues comes from township enterprises. Thus, after implementing the fiscal system of "separating revenues and expenditures, and eating from separate pots," the amount expenditures required that local governments try every means to increase fiscal revenues. Also, the amount of fiscal revenues to a large extent indicated governments' performances. This has created a strong "internal motivation" for localities to strengthen "mesoeconomic regulation and control." However, this motivation does not entirely follow the same direction as the center's wishes for regulation and control. As a result there are administrative barriers between the macroeconomic and mesoeconomic levels, and among the mesoeconomic (provincial, municipal, and county) levels. Some localities tend to proceed from local interests; faced with macroeconomic regulation and control wishes, they practice according to "the upper level has the policy, while the lower level has a coping device." The mesoeconomic level would try its best to preserve projects that the macroeconomic level believes must be reduced. Administrative barriers can also lead to trade blockades, carved-up markets, redundant deployment, and blind development, thereby causing macroeconomic imbalances. Over the last few years some localities have unrealistically and blindly developed the "five smalls"—such as small cotton and wool textile industries—and "smokestacks in every village"; this is not unrelated to this background.

2. **The "discrepancies" between the goals and direction have led to a "reduction" in the intensity of regulation and control.** For instance, the slanted policy during improvement and rectification was designed to help township enterprises and products that were in line with the state's

industrial policies. The policy provides effective social supplies while restricting the development of township enterprises and products that consume large amounts of materials and energy and that are not in line with industrial policies. The intensity of regulation and control is greatly reduced because of "discrepancies" between the respective goals and direction of regulation and control bodies. This occurs mainly between government and finance, and among government departments (finance, taxation, pricing, auditing, industry and commerce, and land management). For instance, taxation departments in some localities started a tax-break policy to encourage and support township enterprise development. The state has reiterated many times that funds from tax breaks must be retained by enterprises and used for developing production. Yet such funds tend to be withheld by some departments through leveling transfers and used for other purposes. For instance, after implementing enterprise-like management in banks, practical work was in line with credit policies but not with industrial policies, or it was in line with industrial policies but not with credit policies, etc. All this has been caused by a lack of coordination in the regulation and control system. This is harmful to the optimization of township enterprises' industrial structure, especially with respect to the secondary and tertiary industries that appeared during improvement and rectification, and it has resulted in blocking market-guided production changes that were for the purpose of getting out of the slump. Thus it has led to the "demise and decay" of a portion of inventory assets.

3. **Price signals are distorted.** When arranging supplies of raw materials, township enterprises enjoy few of the "favors" of the state's planned, direct allocations. Their process of arranging raw materials supplies is much longer than the one for state and large collective enterprises; there are many links. The state often uses such economic regulatory means as low-priced raw materials to guide industries whose development they want to encourage. However, most township enterprises have to "look for rice to cook." In the circulation process, raw materials often have to pass through several, or even dozens of, links, with their value increased at each link, and their price increased at each layer. The raw materials do not transmit "low price signals" to township enterprises, but rather "high price signals." In addition, present commodity prices reflect neither their market value nor the market's supply-demand relationship, and thus the enterprise behavior stimulated by prices cannot stay in line with the industrial policies. Such distortions in the price signals (due largely to macroeconomic factors) have caused tremendous difficulties for mesoeconomic regulation and control.

4. **Regulation systems have not been properly ordered, resulting in systemic regulation and control obstacles.** First, with regard to the plan-based regulation system, there has always been the illogical, "absurd cycle" of affirming in theory and negating in practice. At present, township enterprises have acquired a legitimate status, and they are an important component of the national

economy, representing the only path to revitalizing the rural economy. Yet in practice, township enterprises have always been excluded from the state plan. In Jiangsu Province in 1989, industrial township enterprises generated an output value of 89.62 billion yuan, or 47.84 percent of the province's total industrial output value, and one-third of the fiscal revenues came from township enterprises. Nevertheless, township enterprises do not have their own place in the state plan. Excluding such a large part of the economy from the planning inevitably leads to defective plans, and also to "blind spots" in the mesoeconomic mandatory regulation and control that is based on those plans. Second, in the mesoeconomic system, the role of regulating township enterprises is played by township enterprise regulatory bureaus at various levels of the government. They function mainly to "guide, regulate, serve, and supervise." But the state and large collective enterprises are categorized on their respective industries, and the industrial departments do the regulating. Because of ownership barriers and defects in the regulation system, the mesoeconomic level cannot comprehensively plan for similar industries under different ownerships, or effectively adjust the fixed-asset inventories in one industry. This inevitably leads to problems of redundancy in construction, production, and importing, as illustrated by the large amounts of idle or semi-idle fixed assets on the one hand, and large-scale investments in fixed assets in the same industry on the other.

### III. Policies for Strengthening the Mesoeconomic Regulation and Control of Township Enterprises

The establishment of a system of mesoeconomic regulation and control for township enterprises must be in line with the following principles: A. Overall, it must be kept in line with the direction of the center's macroeconomic regulation and control. B. It must benefit the coordinated development of township enterprises and state and large collective enterprises. C. It must be beneficial to fostering and forming good operational mechanisms for township enterprises. D. It must be favorable to a rational macroeconomic industrial layout and to the formation of a unified market. E. It must manipulate the intensity of regulation and control so as to benefit both short-term regional development objectives and long-term development, and realize the rational congruence between the driving and restraining mechanisms. Based on this principle, we should establish an orderly system of mesoeconomic regulation and control using the "trinity" of administrative, economic, and legal means. Administrative means consist mainly of persuasion and guidance (administrative means cannot be given up at this time). Economic means consist mainly of stimulation and constraint. Legal means consist mainly of enforcement and supervision. To strengthen mesoeconomic regulation and control, it is necessary in some cases to take a macroeconomic perspective, combining the upper and lower levels and adjusting the functions.

1. **The mechanism of checks and balances in the mesoeconomic regulation and control of township enterprises is**

**to be established and perfected.** The mesoeconomic level is the regional system for transmitting the center's macroeconomic regulation and control to township enterprises. There are big regional differences in the resource backgrounds, conditions of the bases, and development levels of township enterprises. Therefore, the mesoeconomic regulation and control system should first have some flexibility. That is, the means and "intensity" of regulation and control to be adopted should be determined according to local realities, such as investment structures, industrial layouts, and the rate of development. Without such flexibility, the existence of the mesoeconomic level would no longer be necessary. Second, the mesoeconomic regulation and control system must be mandatory. That is, the means of regulation and control must accommodate the needs of macroeconomic regulation and control, so that commands are followed, prohibitions are not violated, and government policies are transmitted smoothly. The system must not be allowed to engage in practices where "the upper level has the policy, while the lower level has a coping device" or it "skirts around the red light." These are practices that reverse regulation and control. The lack of control at the mesoeconomic level must be prevented, so that a strong mechanism of checks and balances can be established between the macroeconomic and the mesoeconomic levels, and between the "upper mesoeconomic levels" and "lower mesoeconomic levels." This will achieve orderly regulation and control and facilitate the orderly operation of township enterprises.

2. **The coordination of regulation and control operations is to be enhanced.** First, it is a systematic coordination. Departments in the mesoeconomic regulation and control system must, as a whole, produce effects which have the same orientation and are cumulative in nature, thus reducing diversions in regulation and control. For example, under regulation and control, banks must weaken their business character, while enhancing their policy character, and proceed from the need to optimize the industrial structure. We must emphasize that the past method of ignoring industrial policies and assigning priorities solely according to the township enterprises' economic efficiency was not entirely appropriate. It is not possible to ensure regional—or even overall—optimization by considering only enterprises' economic efficiency. Second, it is a coordination of both the vertical and horizontal frameworks. It is imperative to coordinate the vertical and horizontal relations in the mesoeconomic regulation and control bodies' governmental systems (including fiscal, taxation, price, auditing, industry and commerce, land management, and other departments). In the past, some policies that local governments adopted for developing township enterprises were not implemented: relevant departments often resisted due to their own conditions and interests. As a result, mesoeconomic regulation and control suffered an early death. We must build up government

authority, and ensure the smooth transmission of government policies. For measures that promote (or constrain) township enterprises that are adopted by various departments, we must also achieve vertically and horizontally coordinated regulation and control, in accordance with the center's macroeconomic regulation and control policies.

**3. Township enterprise development should be steered towards urban-rural integration.** Governments at all levels must proceed from reality, in order to be gradually put into the category covered by planned regulation and to be in accord with the scale of township enterprises and with the state of the respective industries. We must conduct allocation plans for capital, energy, and materials according to the merit of township enterprises and state and large collective enterprises, and in accordance with industrial policies and the efficiency principle. With the existing resource-allocation policy, based on the type of ownership, the share of resources allocated to township enterprises is too small, far smaller than the enterprises' share of the national economy's total output value and employment. It represents resource quotas that are less than what township enterprises need for normal growth; this is very unjustified. At the present stage, China is developing an operational mechanism for the economy which combines the planned economy with market regulation. If township enterprises were to be dissociated from this mechanism and were to operate independently for a very long time, then it would be difficult to avoid the blind development of township enterprises, redundant deployments, and industries getting off the track. The mesoeconomic level must also consider preferential policies for attracting scientific, technical, and managerial personnel to work for township enterprises.

**4. We must establish a rational industrial layout.** From a mesoeconomic perspective, the "structural similarities" between the industrial structures of township enterprises and state and large collective enterprises were not created by township enterprises alone. Generally, labor-intensive industries should be developed mainly by township enterprises; state and large collective enterprises should develop mainly technology- and capital-intensive industries, and extensively conduct advanced processing. The macroeconomy has repeatedly emphasized that township enterprises should develop processing industries for agricultural and animal products, but the macroeconomic and mesoeconomic levels did not adopt corresponding measures to provide township enterprises with their due quotas; the state purchased most of the agricultural products needed for processing. In 1989, the industrial output value of Jiangsu's state and large collective enterprises that used agricultural products as raw materials was 33.57 billion yuan, or 33.4 percent of the total industrial output value of state and large collective enterprises. During the same period, the output value of township enterprises that used agricultural products as raw materials was 28.42 billion yuan, or 31.7 percent of the total industrial output value of

township enterprises.<sup>2</sup> Thus the proportion for state enterprises was even larger than that for township enterprises. Therefore, both the macroeconomic and mesoeconomic levels must manage urban and rural industrial specialization, and rationally determine the scope and levels of resource use for township and state enterprises by considering both social effects and economic efficiency. Otherwise, it would be hard to avoid a struggle for raw materials between township enterprises and state and large collective enterprises.

**5. A legal system is to be established and completed to standardize the behavior of mesoeconomic bodies.** At the present stage, the legal mechanism for regulating and controlling township enterprises is very fragmented. The state's macroeconomic regulation and control of the mesoeconomic level and of the economic activities of the whole society must be founded on corresponding legal norms. Only in this way can we ensure that: A. The state's various regulation and control intentions and measures are backed by necessary authority and effective enforcement capabilities. B. Regulation and control bodies behave and operate according to the law, so as to realize the standardization, continuity, and stability of regulation and control. C. Township enterprises' due rights and interests are protected, so as to avoid and reduce the frictions and collisions with other types of ownership that are caused by the disorderly operation of the economy. From a macroeconomic perspective, economic legislation is urgently needed on: imposing proper order on the distribution relationship between the center and localities; readjusting the industrial structure; supporting and restricting industries; and regulating investment through laws, competition, and market regulation, etc. As the existence of township enterprises has already been legalized, it is necessary to legally clarify township enterprises' standards of behavior, rights, and duties. Governments and departments at all levels must strictly enforce the promulgated *People's Republic of China's Regulations on Rural Collective Enterprises*, which should also become the standard of behavior for mesoeconomic regulation and control.

**6. The administrative mechanism for regulating township enterprises is to be perfected.** Departments at all levels that are in charge of township enterprises play a significant role in the mesoeconomic regulation and control system. They are responsible for the dual tasks of comprehensively regulating township enterprises and coordinating industrial departments. It is imperative to continue to let them play their roles of "guiding, regulating, serving, and supervising," and to strengthen their service means and functions. The present problem is that departments in charge of township enterprises lack responsibility and authority. We must grant relevant authority to these departments. They should play the main role in allocating the personnel, materials, and capital designated for supporting township enterprise development. With regard to regulation issues within an industry, such as upgrading enterprises, designating quality products, and starting projects to develop science

and technology, industrial departments should consult the departments in charge, and should not use internal industrial regulation as a reason for changing the status of township enterprises during system upgrading. From a mesoeconomic perspective, township enterprises' share of some industries is already larger than state and large collective enterprises' share. Therefore industrial departments at the mesoeconomic level must break through the confines of ownership, include township enterprises in industrial guidance according to their industrial features, and take them into account on such comprehensive issues as industrial layout. This will bring township enterprises into the whole national economy both in theory and practice.

#### Footnotes

1. Calculated on the basis of *The Jiangsu Economic Yearbook*, 1989, and *Jiangsu's Township Enterprise Statistics*, 1989
2. Calculated on the basis of *The Jiangsu Economic Yearbook*, 1989, and *Jiangsu's Township Enterprise Statistics*, 1989.

#### He Kang Press Conference on Township Enterprises

91CE0501A Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 5 Apr 91 p 1

[Report by staff reporter Sun Jian (1327 1696): "He Kang (0149 1660) Answers Chinese, Foreign Reporters' Questions on Development of Township Enterprises"]

[Text] On 29 March a press conference was held at the Conference Information Center of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC). He Kang, chairman of the China Township Enterprise Association, answered Chinese and foreign reporters' questions on the development of township enterprises.

In reply to the question of whether township enterprises could be foreign-run factories, He Kang said that there are now more than 50,000 township enterprises engaged in foreign trade export and more than 6,000 enterprises that are either Sino-foreign joint ventures or Sino-foreign contractual joint ventures. Some of them, he added, have begun to set up factories abroad, and more of them will gradually do so in the future.

**Hong Kong reporter's question: Should the good points of township enterprises be introduced into state-run enterprises?** He Kang replied that large state-run enterprises and township enterprises are different. The former comprise some basic industries and their supply of raw materials are affected by prices; township enterprises are small and medium-sized enterprises, the majority of which produce in line with market demand, and they operate on their own initiative and are responsible for their own profits and losses. Through a deepening of reform, the state-run enterprises will also operate on

their own initiative, be responsible for their own profits and losses, exercise self-restraint, and develop on their own. At the same time, the township enterprises in many aspects must depend on the basic facilities of large state-run enterprises and on their supply of raw materials. If these conditions did not obtain, the township enterprises would find it very difficult to develop rapidly. Therefore, the two are interdependent and must learn from each other.

**U.S. reporter's question: In the next 10 years, will the township enterprises be able to solve the problem of providing employment for the surplus labor force in China's rural areas?** He Kang replied that the township enterprises have assimilated a large amount of the surplus labor force in the rural areas, but the rate of this assimilation has slowed. In 1980 there were 30 million and in 1990 there were 92 million, a 10-year increase of 62 million persons. However, in the first five years the increase was 40 million and in the last five years 22 million, so in the former the annual average was 8 million and in the latter the annual average was 4 million. We estimate that in the next 10 years about 3 million persons will be assimilated every year, so that the grand total will be 120 million persons. This rate will be quite difficult to maintain, because the township enterprises must also become more efficient. Therefore, there must be a comprehensive development of primary industries; tertiary industries; and agriculture, forestry, animal husbandry, sideline products, and fishery.

In response to the question, **How many township enterprises were closed down last year?**, He Kang replied that during the process of improvement and rectification last year some township enterprises that showed poor economic returns and caused serious pollution were adjusted. These enterprises accounted for 10 percent of the total number. The greater part of these enterprises were transferred to other, better enterprises; and there were not many—roughly 100,000—that were truly closed down.

He Kang said that the amount of effluent from the township enterprises' waste water, waste gas, and waste matter accounted for about 10 percent of the amount of effluent from the "three wastes" in China as a whole. By exercising control the township enterprises each year have reduced the waste water effluent by 700 million and the waste gas effluent by 120 billion cubic meters, and 60 percent of the coking enterprises have adopted improved methods of coking.

**U.S. reporter's question: Could you evaluate the production efficiency, as well as the results, of China's state-run enterprises and its township enterprises?** He Kang replied that, speaking of production results as a whole, the scope of state-run enterprises is comparatively large and their technology comparatively advanced, and so they get higher results than the township enterprises. However, the latter get comparatively high results in assimilating and employing people. To place one member of the labor force, a township enterprise requires 4,000 or 5,000

yuan, but a state-run enterprise has to spend more than 20,000 yuan. Therefore, when looking at results one must also look at the benefits for society.

A reporter raised the issue: **Many people think that the reason township enterprises get such good results in this respect is that they enjoy preferences in taxes and other aspects.** He Kang explained that in the initial period of setting up township enterprises the state indeed gave them one to three years of tax exemption. But now, except for poor areas and for some areas where township enterprises are not developed in which preferential policies are still in effect, the remaining township enterprises are subject to the same tax system as the state-run enterprises.

A reporter asked: **Should the state through legislation insure a good external environment for the township enterprises, so that in the next 10 years they can develop according to plan?** He Kang said that some people figuratively speak of a township enterprise as a "climatic economy" because they lack a correct understanding of the position and role of a township enterprise. The State Council has specially promulgated regulations for the township-village collective enterprises. The NPC [National People's Congress] is now preparing a "Law on Township Enterprises," which will legally insure the rights and interests of the township enterprises.

In conclusion He Kang said that China's leaders had many times stressed that the policy of supporting and guiding the township enterprises would remain unchanged for a long time. At the national production work conference in October of last year, Premier Li Peng stated: Our invigoration of large- and medium-sized enterprises will not restrict the development of township enterprises, and we still must support and guide the healthy development of township enterprises. The seventh plenary session of the party Central Committee as well as the report at this NPC session put the development of township enterprises in an important position.

## CONSTRUCTION

### Capital Encounters Housing Reform Obstacles

91CE0371A Hong Kong CHIU SHIH NIEN TAI [THE NINETIES] in Chinese No 2, 1 Feb 91 pp 40-41

[Article by Xu Chengkang (6079 2110 1660): "Nobody's Buying—Beijing's Housing Reform Cannot Expand"]

[Text] It seems that housing reform in Beijing is encountering obstacles. The full-scale housing reform originally to be implemented right after last year's Asian Games is now slowing down, and there will only be experiments at selected units in state institutions.

Why are individuals not enjoying the pleasure of buying housing? Housing prices are enormously less in Beijing than in Hong Kong. One square meter of housing sells for 380 yuan RMB [renminbi]. Thus a house with an

area of 50 square meters, which would be for an ordinary household, sells for less than 20,000 yuan. Furthermore, a lump-sum payment could reduce the price 20 percent. Housing depreciation, subsidies, and preferential treatment provided by each work unit lower the price of a used house to less than 10,000 yuan.

Nonetheless, everyone is surprised that the expected panic buying has not taken place. There has been no response to the housing reform schemes that were tested in seven units in state institutions. Moreover, people even caution each other to never buy housing carelessly.

Having analyzed people's mentality, a specialist in the Housing Reform Office in the Ministry of Construction in Beijing believes that the following factors impede housing reform:

### Protection is Lacking, and Cadres Seek Personal Gains

1. There is no legal protection for privately owned housing. For many years, there has been no explicit legal protection as far as the issue of private houses on the mainland is concerned. Over the last 40 years, numerous private houses have been taken over without reason, purchased forcibly, or confiscated through various government political campaigns. A few remaining private houses are not in the hands of the owners. During the latter part of the Cultural Revolution, Beijing claimed that the city's policy on private housing had been carried out and that the issue of private housing had been fully resolved. Yet up to today most private houses are still in the hands of occupants who pay only 3 to 5 yuan in rent—the same level as in 1949. This has forced some people to sell their houses at low prices.

2. Leading cadres use their authority to seek personal gains. According to propaganda, one of the major objectives of housing reform is to restrict some people from using their authority for personal gain. However, in the housing reform scheme released before "4 June" 1989, it was stipulated that housing reform was not to apply to cadres at or above the ministerial level. Provisions like this indeed softened opposition to housing reform from the leading class of all major ministries and commissions in Beijing. After "4 June," such provisions failed to get passed on. However, undocumented variations were passed on to many units. These allowed leading cadres to enjoy the preferential treatment of working at home and deducting the rent on that area of the home used as an office, at the discretion of each unit. Thus, they could pay the same rate as ordinary people, but live in spaces that were several times larger. The restrictions on excessive occupation of public housing have therefore become empty promises. What is left of the scheme is only used to extort the people's property.

### From Where Does the Money for Purchasing Housing Come? Why Have Housing Reform?

3. The amount of wages does not include a portion for housing purchases. For many years, the mainland has been showing off its low wages and low consumption to

outsiders. The low rents have been admired by all. One hardly realizes that, under the wage system, after subtracting food, clothing, and dependent support expenses, there are no wages left for buying housing. Housing has always been assigned. Now suddenly people are told to take money out of their own pockets to buy housing. It is really impossible. In order to silence the people on this point, state institutions and some enterprises have raised individual salaries by two tiers since last year. However, these subsidies are far from what is needed. The income for a married household in which both members work in state institutions is less than 300 yuan RMB. For a three-person family, such an income level can hardly catch up with current price levels, let alone make ends meet if there are elderly people in the family who must be supported. Presently most households have an average savings of less than 1,000 yuan. Based on existing consumption conditions, it would take 10 to 20 years to save enough money to buy a house.

4. The policy has changed frequently. The chronic economic crisis after "4 June" exerted extremely heavy pressure on the government. The most ideal means for shifting away from the crisis was to initiate housing reform. Statistics show that if half of the housing reform could be accomplished, financially speaking, 200 billion RMB would be removed from circulation. However, this would be no different than killing the hen to get the eggs. The depressed market has not yet turned around. Inventories are piling up. Except for explosive rises in the prices of basic necessities, the prices of most other commodities are slumping. Bank interest rates have been lowered time and again, but could hardly solve the problem. Such a situation must be related to the implementation of housing reform. We can only proceed with caution with regard to the central finances that are mired in such difficulties. What happens if housing sales are not accepted by the majority? If the policy changes again, would those few who bought housing be the unlucky ones?

#### **Paying Rent is Preferable to Buying Housing**

5. There are too many restrictions. When one buys housing, the ownership is supposed to be in the hands of the individual. However, the regulations say that housing should not be transferred or sublet at one's own discretion. Furthermore, expenses such as public welfare funds, maintenance fees, heating fees, and other fees with fancy names are much higher than the previous rent. Such restrictions mean that those who want to buy housing can only hope and sigh. According to the reform scheme, in addition to housing purchases, one could also lease housing and pay in installments. In comparison, even if the rent increases to 1.5 yuan per square meter, which means 50 square meters would cost 75 yuan, the best option, though not a completely painless one, would still be to pay rent. Each work unit should think of every means to subsidize its own cadres and employees.

6. The difficult problem is yet to come. Residential housing in state institutions is centralized, and housing

standards are relatively more unified. For its own public housing, each unit tries as much as possible to provide more subsidies per square meter, so as to lower rents. Things are more complicated for enterprises. Their housing standards are not unified, and economic efficiency differs greatly among enterprises. The conditions attached to housing reform are beyond enterprises' control. Consequently, enterprises and individuals have to spend more. Those who are self-employed, as well as many non-state employees, have to spend much more under housing reform. They do not receive subsidies, and therefore must rely entirely on themselves. They have to spend three or four times as much as state employees. These people have no political status. In propaganda they are depicted as the beneficiaries of economic reforms, but in fact there is no one who will speak out on their behalf. The heavy burden of housing reform finally finds its place on the shoulders of those people.

The implementation of housing reform and housing commercialization are supposed to be good matters. However, under reform, housing prices are as high as 100,000-odd yuan. Who dares ask about housing then?

## **FOREIGN TRADE, INVESTMENT**

### **Current Exchange Rate Policies Effects Foreign Trade**

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[Article by Li Xunlei (2621 6598 7191): "Effects of China's Current Exchange Rate Policies on Foreign Trade"]

#### **[Text] 1. Evolution and Current Status of China's Exchange Rate Policy**

The rate of exchange is the ratio at which the unit of one currency can be exchanged for the unit of another currency. An exchange rate policy basically contains the choice of an exchange rate system and adjustments in the exchange rate.

The evolution of China's exchange rate policy can generally be divided into three stages: 1) From early 1949 to early 1953. The exchange rate of the renminbi with the dollar was determined in accordance with the weighted average of three variables—the comparative prices of exports, the comparative prices of imports, and the comparative purchasing power of overseas remittances, further refined with comparative prices on the international market. Basically, it was an elastic exchange rate determined mainly by comparative purchasing power. 2) Between 1953 and 1972, China practiced economic planning across the board and prices were stable. Meanwhile, the fixed exchange rates established under the Bretton Woods System were also fairly stable. Therefore, the exchange rate of the Chinese currency was essentially

fixed. No longer was the renminbi a tool of regulating foreign economic relations. Foreign trade surpluses and deficits were regulated or covered by the treasury. 3) Ever since 1973 to the present day, as most Western nations allowed their currencies to float, the renminbi, which previously was pegged to the dollar, is now pegged to a "basket" of currencies. In other words, the government selected a number of countries that had trade relations with China, worked out the value of China's international accounts settlement with them as a percentage of its total international settlements. Next it worked out the exchange rates of the renminbi with these currencies based on fluctuations in the values of these currencies vis-a-vis the dollar. Adjustments were made to the exchange rates from time to time in light of changes in the exchange rates of foreign currencies.

In the late 1970's, China launched economic structural reform and put an end to the long spell of inefficiency affecting all economic sectors, at the same time disrupting the price level hitherto almost frozen in time. Hence one burning issue in reform and the open policy is how to reconcile international prices with domestic market prices. At a time when prices were soaring at home, the renminbi became particularly overvalued. Since 1985, therefore, the rate of exchange of the renminbi has been adjusted several times, to 2.79 yuan:\$1 in January 1985, 3.20 yuan:\$1 in October 1985, and 3.70 yuan:\$1 in July 1986. In December 1989, the People's Bank of China announced another 21.2 percent devaluation of the renminbi vis-a-vis other major foreign currencies, to 4.73 yuan:\$1. In November last year, the renminbi was devalued 9.57 percent yet again, the fifth time since 1985.

## 2. Five Rounds of Currency Devaluation Have Done Nothing To Improve Terms of Trade

There are two reasons why the renminbi was devalued five times. First, in the wake of China's economic structural reform and the development of its commodity economy, the prices of some industrial and agricultural products have been deregulated and the price level has gone up. It was therefore necessary to adjust the exchange rate of the renminbi in light of changes in the prices on the domestic market and the international market. Second, since 1985 China has been running a deficit in its international payments and has seen its foreign exchange reserves drop. To promote exports, curb imports, and balance its international payments, it must adjust the exchange rate further. The reason behind the biggest round of adjustment was precisely to increase exports and hence foreign exchange earnings. Thus a primary goal behind the adjusting of the exchange value of the renminbi is to promote foreign trade and increase exports through currency devaluation. But what have the adjustments really accomplished?

**Chinese Imports and Exports 1971-1989**  
(in millions of U.S. dollars)

Year	Total Exports	Total Imports	Trade Balance (Exports - Imports)
1981	22,007	22,015	-8
1982	22,321	19,285	3,036
1983	22,226	21,390	836
1984	26,103,900	27,412	-1,273 [as published]
1985**	27,350	42,250	-14,854
1986*	30,942	42,904	-11,902
1987	39,437	43,216	-3,779
1988	47,516	55,268	-7,752
1989*	52,486	59,142	-66,560 [as published]

\*Indicates year in which currency was devalued. Twice in 1985. Source: "Customs Statistics," 1989, No 4, *China's Social and Economics Statistics Yearbook 1989*

As we can see in the above table, after running up a foreign trade deficit of 1.273 billion yuan in 1984, China devalued its currency in early 1985 only to see the deficit hit an all-time high in late 1985. It is true that it takes 18 months for the effects of a currency devaluation to be felt. Even so, by 1986 devaluation had not worked in any noticeable way; China's foreign trade deficit for that year was still a high \$11.962 billion. In absolute terms, exports did register a remarkable expansion in these nine years. Meanwhile, however, imports have risen even faster, worsening China's international payments. Currency devaluation has not put an end to the string of foreign trade deficits over the past few years but has actually failed to boost exports, which dropped 7.5 percent and 10 percent in 1988 and 1989, respectively, compared to the preceding year. We can thus see that devaluation does little to boost exports.

In the current international economic climate, numerous factors determine a nation's scale of exports and its ability to earn foreign exchange. An exchange rate policy has increasingly limited uses. In China, a new order containing a planned commodity economy has not yet been established, while market mechanisms cannot function properly, disrupted as they are by all sorts of noneconomic factors. Under these circumstances, there is a much greater tendency for an exchange rate policy to backfire than in a market economy. Moreover, in China both foreign trade and financial exchange are under state control. For all practical purposes there is no real foreign exchange market. Basically domestic prices and international prices bear no direct relationship to one another. Their structural differences too are substantial. This situation will not disappear anytime soon. All this limits the effectiveness of exchange rate as a tool of economic leverage in terms of time, extent, and frequency. Since the regulatory effects of exchange rates on China's exports and imports are undercut by so many factors, we must use caution in adopting an exchange rate policy.

Essentially the rate of exchange is an international price. To set a reasonable rate of exchange is to set a reasonable price. At a time when commodity prices and labor prices in the nation have not been sorted out and when the price system is in a state of disorder, adjusting the rate of exchange is like putting a cart before the horse and will result in the rationalization of exchange rates even though there is a desire to bring domestic commodity prices and labor prices in line with their international counterparts. What we should do, therefore, is to adjust the rate of exchange after price reform.

In modern international financial theory, the effects of currency devaluation on a nation's international payments are mainly determined by the supply and demand of foreign exchange under the new rate of exchange. If supply-demand is highly sensitive to devaluation, in other words, is highly elastic, then devaluation would be very effective in reversing the deficit in the nation's international payments. On the other hand, if foreign exchange supply-demand does not respond to devaluation, in other words, if it is inelastic, then devaluation would make little difference. Suppose there is total elasticity in imports and exports supply, that is, both the domestic prices of exports and the foreign exchange prices of imports are insusceptible to the impact of currency devaluation. When  $EDM$  (export demand elasticity) +  $EDX$  (export demand elasticity) is greater than 1, devaluation would help reduce the deficit in the nation's international payments. Western economists refer to this as the Marshall-Keller condition. In reality, however, this condition often does not obtain. Given less than total  $ESX$  (export supply elasticity) and  $ESM$  (import supply elasticity,) that is, when  $ESX \cdot ESM$  is greater than  $EDX \cdot EDM$ , devaluation would worsen the terms of trade. When  $ESX \cdot ESM = EDX \cdot EDM$ , devaluation would have no effect on the terms of trade. When  $ESX \cdot ESM$  is smaller than  $EDX \cdot EDM$ , devaluation would improve the terms of trade.

When we analyze the effects of devaluating the renminbi on China's terms of trade using this theory, we can perhaps better explain what went wrong with the several rounds of devaluation.

By and large, Chinese exports comprise primary products at the low end of the market with a small technical content, a situation determined by China's lopsided industrial structure. About 60 percent of Chinese exports are primary products (mainly agricultural products and special local products) and simple processed merchandise. The international demand for these products (such as petroleum and minerals) is limited, while light industrial and textile products are subject to quota restrictions by the United States and West European nations. Thus the  $EDX$  (export demand elasticity) is low, usually estimated at 0.857 percent. In other words, if we devalue the renminbi 10 percent, the value of exports will go up a mere 8.57 percent. The currency was devalued by 21.2 percent in 1989, that is, export prices dropped 21.2

percent on the average. Exports rose 18.17 percent. In theory, this means that total earnings from exports would be off 3.03 percent.

There are no data on  $EDM$  (import demand elasticity) as of to date. All Chinese imports must be approved by a government agency. Most imports are capital goods badly needed for national economic development, technical equipment, essential raw materials, and primary consumer goods. Because of foreign exchange controls and other restrictions and since there are often no domestic substitutes for the imports,  $EDM$  is very low and currency devaluation does little to cut imports. Even when  $EDX + EDM$  is greater than 1, it is just an adequate condition, not an absolute condition, for reducing the trade deficit. Only when  $ESX \cdot ESM$  is smaller than  $EDX \cdot EDM$  will the terms of trade improve. Chinese exports consist mostly of primary products and simple processed goods, almost all of them labor-intensive (eg., handicrafts, apparel, special local products). China's edge in manpower and a host of export preferential policies determine that our  $ESX$  is quite high, at least higher than  $EDX$ , that is,  $ESX/EDX$  is greater than 1. By the same token, since manufactured goods account for about 80 percent of Chinese imports, most of them technology- and capital-intensive products that the West can readily supply, its  $ESM$  is quite high, at least greater than  $EDM$ , that is,  $ESM/EDM$  is greater than 1. Since  $ESX/EDX$  is greater than 1 and  $ESM/EDM$  is greater than 1, this is what we have after  $(ESX/EDX) \times (ESM/EDM)$  is greater than 1:  $ESX \cdot ESM$  is greater than  $EDX \cdot EDM$ . As explained above, this will only widen the trade deficit.

It is not yet clear what the effects of the biggest currency devaluation in 1989 will be. But the previous devaluations have made it plain that relying on a downward adjustment of the rate of exchange will set off a chain of negative consequences. At a time when the macroeconomy is not in balance, devaluing the renminbi will mean, first of all, that exporters of primary products must export by slashing prices regardless of cost, thereby further exacerbating the shortage of industrial capital goods at home and jacking up their prices. This will lead to higher production costs and higher export costs, ultimately wiping out whatever competitive edge we may have gained through currency devaluation. When this happens, policy makers will be tempted to devalue the currency again, only to find that it too will fail to improve the terms of trade. Repeated often enough, this process could easily become a vicious cycle.

As with interest rates and other tools of economic leverage, adjusting the rate of exchange has both pros and cons. On the positive side, devaluation would help: 1) bring about a unitary currency, which is consistent with the long-term goal of turning the renminbi into an international currency; 2) attract direct foreign investment since a cheaper renminbi lowers production costs for the foreign businessman who wants to build a plant

in China. This is not true in all cases, however. Fluctuations in the rate of exchange would induce corresponding changes of disparate magnitude in foreign capital earnings, in the distribution and remittance of profits, in the purchase of raw materials, in product sales, and in the balance of foreign exchange, so the impact would vary from case to case; 3) attract more foreign tourists. Nevertheless, since China's tourist facilities and level of service are still fairly backward, there is a limit to what currency devaluation can do to promote tourism; 4) increase overseas remittances. Owing to an overvalued renminbi, it has become increasingly common for overseas Chinese to remit in kind or cash instead of sending foreign exchange. Devaluation can increase foreign exchange incomes from overseas remittances and may pave the way for the abolition of foreign exchange conversion certificates and overseas remittance certificates, which would improve foreign exchange control.

Do the pros of currency devaluation outweigh the cons, or vice versa? In my opinion, the main function of the rate of exchange as a tool of economic leverage is to balance international payments. And imports and exports account for a big part of such payments. Accordingly, whether a nation's terms of trade are good or bad is the most vital barometer the state can use of its international payments. We have shown above that the adjustments of the rate of exchange have done nothing to improve China's terms of trade. In other words, renminbi devaluation contributes little to help our international payments and does more harm than good.

### 3. Weaknesses of the Current Exchange Rate System and Ideas for Reform

We have evaluated the exchange rate adjustment policy above. Is the other part of China's current exchange rate policy—exchange rate system—suited to the nation's existing foreign trade environment?

China's current exchange rate system is basically one of pegging, so widely practiced by developing nations after the collapse of the Bretton Woods System. It is a relatively stable and appropriate system for a country which has little economic muscle, limited international reserves, and an underdeveloped foreign exchange market, and whose exports are relatively supply-demand inelastic. However, it also has some drawbacks: 1) Pegging is a fairly rigid system and is not flexible enough, making it difficult for the nation to respond to changes in foreign economic relations, trade, currency relations, and the increasingly competitive environment in international trade. Amid an ever-changing world market, the nominal exchange rate of the renminbi does not mirror economic realities. And in failing to reflect the real economic world, it makes domestic prices even further removed from international prices, hurting the development of foreign trade. 2) It is pegged to a "basket" of currencies. Because there was not sufficient objective data with which one can make choices regarding the type of currency to be pegged to, there is no reliable assurance

that the rate of exchange is set at a reasonable level. 3) In pegging its currency to another currency or currencies, a nation hands over its power to raise or lower the value of its currency to other countries, preventing it from standing on its own two feet. Exchange rate pegging was more suited to China's level of economic development in the 1970's and early 1980's. As reform intensified, the incompatibility between the inherent weaknesses of the pegging system and China's policies of opening up to the outside world and enlivening the domestic economy has sharpened. What is needed, therefore, is a new system to replace pegging. These days the predominant trend in the exchange rate systems in the world is to make exchange rates more flexible. Many developing nations are gradually giving up pegging in favor of an elastic exchange rate system, which comes in all forms and shapes. In my opinion, China shares common characteristics of economic development with other countries in the Third World and also resembles the latter in matters of finance and trade, so an elastic currency may be a feasible choice after all. The basic characteristic of an elastic exchange rate system is that the rate of exchange of the currency in question may float within a specified range. Generally speaking, a system that allows a currency to float upward or downward within 2.25 percent is a system of limited elasticity; the currency is still pegged to other currencies. When a currency is free to fluctuate beyond minus or plus 2.25 percent, it is basically a floating rate system. What China should strive for is a managed floating exchange rate system with a high degree of elasticity.

The adoption of a highly elastic system under planned management is profoundly significant for national economic development and will give foreign trade development a boost. 1) An elastic exchange rate system mirrors the economic conditions in our trading partners, such as ups and downs in economic growth rates, productivity, international payments, etc. 2) It can gradually end the divorce between domestic prices within China and prices in the world market, forcing foreign trade enterprises to improve management, conduct international comparisons in costs and benefits, and enhance their sense of international competition and their adaptability. 3) The state may regulate foreign exchange supply and demand using the rate of exchange as a tool and make the exports mix and imports mix even more rational.

Certainly, an elastic rate of exchange system cannot be accomplished overnight. It requires a transitional process during which a dual exchange rate system would be needed. During the transitional period, an official foreign exchange market where the rate of exchange is set by the government, possibly using the existing pegging system, will coexist with a parallel foreign exchange market where the rate of exchange is determined by supply and demand. To effect the transition from dualism to an elastic rate of exchange system, the government may take one of these two approaches. One, nudge the official rate of exchange gradually toward the parallel market rate. Two, reduce the volume of trade on

the official foreign exchange market while increasing that on the parallel foreign exchange market all the time, with the latter replacing the former completely in the end. When that comes to pass, we will have a uniform elastic rate of exchange system. Like the adjustment of exchange rates, the reform of the exchange rate system must be coordinated with the application of other policy tools and be compatible with price reform.

If we are certain that the highly elastic rate of exchange system under planned management is what we want from exchange rate reform, we should adopt the dual rate of exchange system now as a transitional measure that will finally take us toward our goal. As a matter of fact, there is already a variety of exchange rates in the country, such as the official exchange rate, foreign exchange regulated price, and so on. The so-called foreign exchange regulated price is determined through price competition between supply and demand on the foreign exchange regulatory market. That market was originally set up to regulate surpluses and shortages in the foreign exchange capital of enterprises of the three capital sources and to improve the return on capital. After four years of development, however, a foreign exchange regulatory market can now be found in every major opened city and has been broadening its scope of operations steadily. To date Chinese enterprises are permitted to take part in foreign exchange trading activities based on the amount of retained foreign exchange and their demand. There is now a nationwide network of foreign exchange regulatory markets, with prices on the various markets becoming more and more uniform. This will set the stage for the creation of a parallel foreign exchange market.

To improve the dual rate of exchange system, we must further develop the existing foreign exchange regulatory market and rely on market mechanisms to correct the weaknesses of distributing foreign exchange under unified planning, and ensure the reasonable allocation and full utilization of foreign exchange resources. To help the current foreign exchange regulatory market really fulfill its role of balancing the foreign exchange market, we must first diversify the sources of foreign exchange trading and allow foreign exchange owned by private individuals to be freely sold on the regulatory market. Second, there must be restrictions on the demand and use of foreign exchange. Foreign-exchange purchasing units shall be required to produce an import permit or other legal evidence in order to stabilize market prices. Third, establish a system and a set of procedures for the trading of foreign exchange. Avoid direct administrative interference.

Under the transitional dual rate of exchange system, two kinds of exchange rate exercise a regulatory effect on imports and exports: the official rate of exchange and the parallel foreign exchange market rate. We already know from the above analysis that lowering the official rate of exchange does nothing to improve China's terms of trade, but can we improve the terms of trade by adjusting the rate of exchange on the parallel foreign exchange

market? The answer is yes. The fact of the matter is that the parallel rate of exchange, determined by supply and demand, automatically loses value when the official rate of exchange is overvalued. If we raise the amount of foreign exchange that all localities and enterprises can keep without exception, unify the rate of foreign exchange retention, and allow enterprises to buy and sell foreign exchange on the foreign exchange market, we will mobilize the enthusiasm of foreign trade enterprises for earning foreign exchange and ease the dampening effects of an overly high rate of exchange on exports without affecting import enterprises by raising their importing costs. This will help stabilize the domestic market and commodity prices. Moreover, it will enable the market to work to balance and regulate foreign exchange funds.

### **Problems Facing Enterprises That Handle Their Own Exports**

*91CE0421A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Gao Binhuai (7559 3453 3232): "Problems Facing Enterprises That Handle Their Own Exports"]

[Text] Encouraging large- and medium-sized enterprises to handle their own exports and imports is an important part of foreign trade reform. It is also the direction that high-level, high-tech export-oriented enterprise groups should take in the future. Traditionally, the power to import and export was centralized in the hands of a few specialized foreign trade companies. The advantage of this system is its centralization. To a large extent, however, it separates industry from trade and dampens the enthusiasm of export production enterprises for foreign trade. In a semi-closed economy, it prevents enterprises from developing export production rapidly.

Judging from what has happened in recent years after enterprises were given the power to handle their own imports and exports, such power has injected new life into key large- and medium-sized enterprises, has paved the way for their outward expansion, and has expedited the adjustment and change of their production and operating mechanisms. In the process, they have become a new overseas marketing channel supplementing the specialized foreign trade company. As they monitor the international market and take part in international competition and in response to international consumption demand, enterprises have steadily raised their production technology and management standards. The prospects for export growth are bright for most enterprises. On the other hand, enterprises also face a range of difficulties and are hemmed in by a set of factors in handling their own exports and imports due to the weaknesses in their operating conditions and their external environment. Also, certain policies intended to encourage self-exporting are not well coordinated or not actually put into effect. The situation cries for improvement.

### 1. Changes in an Enterprise's Production and Management Mechanisms Resulting From Self-importing and Self-exporting.

1) Enterprises become much more conscious of their role as a major earner of foreign exchange. After a production enterprise is authorized to handle its own exports and imports, it becomes responsible for meeting the foreign exchange earning target. It becomes driven and comes under pressure at the same time. Gradually, to export and to earn foreign exchange becomes the principal mission for the enterprise. In the past the enterprise was simply a source of goods. Now it develops and does business on its own. Motivated by its own self-interests, the enterprise takes the initiative to speed up new product research and development, further improve internal management, make sure that supply and market are well coordinated, and work hard to improve the quality of its exports and preserve its reputation in the world. Practice proves that giving an enterprise the power to handle its own imports and exports is often the catalyst in its drive to become more export-oriented. After it is given the power to handle its own exports, it rapidly expands the scale of exporting and improves the overall quality of its operations notably.

2) Enterprises are able to interact directly with the international market. The transmission of information, product turnover, and structural adjustment are accelerated.

After an enterprise is allowed to handle its own imports and exports, it can gain direct access to the latest information on the international marketplace and understand its changing needs, price movements, and technological trends. That way it can fully realize the advantages of industry-trade integration: speediness, adaptability, and excellence.

**Speediness**—In production, readjust quickly; in technology, respond quickly, in management, make decisions quickly. In response to feedback from the international market, the enterprises promptly develop new products and varieties, expeditiously import applicable advanced technology and equipment, and organize series and batch production, greatly quickening the conversion of international information and products. A number of well-managed enterprises have tentatively put together an integrated export production and management system that combines negotiation, design, process, production, management, transportation, storage, and marketing under one roof. There is a general increase in the ability of enterprises to develop new products and in their adaptability. Product turnover has accelerated and the enterprise is gradually catching up with developed nations as far as the development of similar products is concerned.

**Adaptability**—Adapting to the international market and meeting the needs of consumers. In response to the market characteristics of different countries and regions and the specific needs of the consumer, enterprises have continuously adjusted and improved the performance,

variety, mix, and various technical and economic indicators of their products. With the market as their guide, they tackle head-on the problems brought to their attention by consumers and correct them promptly, thereby vastly enhancing the marketability of their products and increasing their share of the international market.

**Excellence**—Striving for excellence in product design, quality control, and after-sale service. After it is authorized to handle its own exports, the enterprise organizes production according to export standards. In product development and design, the enterprise starts from a high level and thinks ahead as it strives for standardization, serialization, and popularization. In the production of exports, it has tightened quality control all round by establishing a "horizontal, to the periphery, vertically, to the bottom" quality control and assurance system. It has made an effort to meet every quality standard and improved the reputation of its products on the international market. In after-sale service, it has gradually put together a network of maintenance and after-sale points in its major markets and lengthened to the utmost the life-span of its products, realizing the advantages of marrying industry with trade, technology with trade.

3) Fuels the exports of other enterprises in the group and related enterprises.

After they were given the authority to handle their own exports and imports, large- and medium-sized enterprise, with high-quality and famous products as their vanguard, have fully utilized the production capacity of specialized branch factories and cooperating factories, exploiting their price competitiveness, low-cost labor, the low-organic components of their funds, and the low costs of parts and components. Such production capability has been combined with the overall design, main engine production, and assembling quality control of their own factories to create a mass production capability. The enterprise plans comprehensively for production management and supply allocation, fulfilling the role of enterprise groups as a disseminator of technology. As a result, exports have shot up, the benefits of economies of scale have been realized, and the enterprise has become much better equipped to take its place on the international market and participate in international competition.

4) Strengthens the enterprise's international economic and technical cooperation.

The right to handle its own exports and imports has made it easier for the enterprise to enter into cooperative production, to establish joint ventures, to bid for projects, and to organize the export of a whole plant. The enterprise has gradually made its way into horizontal and vertical international specialization and opened up new channels of cooperation and earning foreign exchange, powerfully stimulating the development of its overseas operations.

5) Reconciles domestic sales with foreign sales, earning foreign exchange with making profits.

Given the fact that the domestic price system has not yet been straightened out, with distorted exchange rates and prices exacerbating one another, in many cases enterprises are better off selling their output at home than exporting them, making a profit than trying to earn foreign exchange. After it is authorized to handle its exports and imports, the enterprise becomes both the recipient of preferential government policies intended to encourage exports and the victim of losses induced by export policies. Most enterprises have responded by using exports to promote domestic sales and using profits generated domestically to make good losses sustained externally, thus taking care of both domestic sales and exporting and regulating surpluses in one area with losses in another. Some enterprises have even adopted this export-oriented business strategy: "lose money the first year, break even the second, and make a profit the third." "Break into the market, stabilize sales, make a name, and raise prices." They consider both immediate and long-term interests. Enterprises used to see a conflict between selling overseas and selling domestically. To them, earning foreign exchange was a "soft target," while making a profit was a "hard target." They used to behave in a short-sighted way: "When the domestic market is strong, they neglect to export; when the domestic market is sluggish, they turn to foreign trade." Now that enterprises are handling their own imports and exports, they have been able to reconcile domestic sales with exporting and stopped acting short-sightedly. In planning their production, they have been able to subordinate domestic sales to exporting in order to make sure on-time delivery of merchandise in accordance with the terms of the contract and establish a stable exporting channel.

At a time when the domestic market is in a slump and inventories in some lines of merchandise are high, self-exporting enterprises have been particularly successful in making full use of domestic and overseas sales channels and in using exports to supplement domestic sales, ensuring steady growth in both output and sales. Their experience fully demonstrates the stabilizing and regulatory effects of a dual market demand on the economy.

## 2. Major Problems Facing Enterprises That Handle their Own Imports and Exports

1) The costs of earning foreign exchange have gone up and export-related losses are piling up. Meanwhile, the enterprise's ability to run a business as well as its competitiveness and ability to regulate profits and losses has weakened.

Owing to differences between the domestic pricing system and international pricing system, the discrepancies between international market prices and foreign trade procurement price indexes at home, the soaring prices of domestic raw materials and increases in all kinds of expenses, the costs of earning foreign exchange for enterprises that handle their own exports and imports have risen sharply, making exporting a money-losing proposition. Moreover, hemmed in by the double constraint of contracting profit and tax target and rigid

loss-subsidy base figures, enterprises have been forced to cut back on the volume of exports in some commodities. It has been three years since some enterprises were authorized to handle their own imports and exports, but they have yet to reach the set minimum amount of foreign exchange earned, which is \$3 million.

2) Enterprises handling their own exports and imports are acutely short of funds. Right now a dire shortage of funds is a major factor constraining enterprise self-importing and self-exporting. The fund shortage is mainly caused by the following: 1) In recent years the government has adopted an austere macroeconomic policy by tightening the money supply and cutting back on the scale of lending. The result is a wide gap between the amount of money in circulation and the demand for export credits. At the same time, self-exporting and self-importing enterprises have not yet been able to form sound self-accumulating mechanisms and have precious little funds at their disposal, depending almost entirely on bank loans. After the government started trimming the scale of lending, therefore, enterprises became desperately strapped for funds. 2) After they went into the business of importing and exporting on their own, a considerable amount of their funds became tied up in the long and over-extended process of transporting, marketing, allocation, and storage, and in the time-consuming procedure of exchange settlements. In particular, the sale of electrical machinery products, which accounts for a big part of the exports handled by enterprises, usually involves the use of long- and mid-term letters of credit in keeping with well-established international practice, creating tremendous cash-flow difficulties for the enterprise. 3) The foreign sale channels for some commodities are blocked, while the domestic market is sluggish. The result is swollen inventories, which tie up an increasing amount of funds. Furthermore, the "triangular debt" relationship between enterprises handling their own exports and imports and their cooperating factories and the resultant chain effects have impeded the circulation of funds, thereby worsening fund shortages.

3) Enterprises handling their own imports and exports have no comprehensive macroeconomic management system, giving rise to "destructive" competition between themselves and between such enterprises and specialized foreign trade companies. This has made exporting even less profitable.

The foreign trade management system is not comprehensive. As production enterprises turning out similar products proliferated, the competition between specialized foreign trade companies spread to self-importing and self-exporting production enterprises. To date enterprises are scrambling for markets and competing for customers with both foreign trade companies and other enterprises by slashing prices and dumping goods; consequently, the amount of foreign exchange earned by per unit of merchandise has dropped sharply and exporting to earn foreign exchange has become a less profitable proposition overall. It used to be profitable to export

some popular commodities in high demand. Now that multiple units are trading in them, competing with one another destructively—companies and enterprises vying for a sale by cutting prices through all channels and in all ports—export prices have plunged, profits have been replaced by losses, and small losses have given way to big losses. Since contractors are different, as are industry-trade subordinate relations, and because there are no foreign trade laws and comprehensive import-export management regulations acting as a restraint, foreign economic relations and trade departments, departments in charge of industry, import-export trade associations, foreign trade corporations, and industry-trade corporations at all levels lack effective management tools to handle their own importing and exporting. They lack a good external environment to provide a level playing field. When it comes to the various preferential foreign trade policies, export loss subsidies, the comprehensive allocation of retained foreign exchange, participation in trade fairs and assorted overseas promotion trips, the submission of profits and taxes to the government, and the evaluation of foreign exchange target and the target of wages relative to profits, there are major objective differences between self-exporting and self-importing enterprises, on the one hand, and specialized foreign trade companies, on the other. Constrained by a host of factors, including the terms of doing business and the foundation in trade, and the fact that enterprises that earn foreign exchange and enterprises that do not have different contract evaluation criteria and incentives, enterprises have not been fully motivated to export and earn foreign exchange, their enthusiasm not yet effectively mobilized and their internal potential not yet fully tapped. This has limited the development of foreign trade by enterprises authorized to handle their own imports and exports.

### **3. Measures and Thoughts on Enhancing the Ability of Enterprises To Handle Their Own Imports and Exports and Expand the Scale of Exports**

1) Further improve the production and operating mechanisms of enterprises. Currently self-importing and self-exporting by production enterprises is still in its infancy. Most enterprises are ill-equipped to handle their own imports and exports and their production and operating mechanisms are in the transition from the domestically oriented model to export-oriented model. In view of some of the more widespread problems and weaknesses in enterprises that handle their own imports and exports, I propose that we accelerate the construction of the enterprise's internal development, production, and management systems and organically integrate the deepening of foreign trade reform with the deepening of internal enterprise reform so that enterprise self-importing and self-exporting will take off nationwide within the next few years.

(1) Establish comprehensive multi-function enterprise groups that combine development with production and management under one roof. Establish enterprise groups

centered on self-importing and self-exporting enterprises. Develop lateral and vertical economic associations. Use the key enterprises to bring along the other members. Use the production of main products to fuel the production of accessories, parts, and components. Through the optimal combination of elements of production within the group, rapidly expand production capacity and increase the supply of commodities to be exported by the group. Set up a board of directors within the group to be made up of leaders from the lead enterprises and member enterprises. Introduce a factory director/manager responsibility system under the leadership of the board of directors. Draw up a corporate development strategy and make the importing of whole sets of modern equipment, the development of high-grade, precision, and advanced products as well as series of products, and the creation of an export production system and an international sales and service network part of the medium- and long-term plan. The idea is to create a number of socialist enterprise groups that can develop and make decisions on their own, that assume responsibility for their own profits and losses, and that can take on international risks, and transform them into a vital force capable of taking on and competing with the multi-national companies of developed nations in international trade in the future.

(2) Speed up new product R&D, strive to improve the quality and grade of products, and increase their export added value.

The current trend in international trade is for nonprice factors to play a more and more dominant role in international competition. Yet run-of-the-mill industrial finished products with a low added value still account for the bulk of the exports of China's enterprises handling their own exports. It is still the marketing strategy of most of these enterprises to rely on traditional low-quality low-price products. These enterprises remain weak in the development of new, high tech-intensive, and high-quality products at the upper end of the market. To enhance the ability of enterprises to handle their own exports, therefore, we must make the development of new products and new varieties a top priority. Even as enterprises are producing one generation of products, they should be developing another generation and researching yet a third generation. The government should modify by an appropriate margin the depreciation rate of the equipment of production enterprises that handle their own exports and the percentage of funds to be retained by enterprises for production development in order to enhance their self-accumulating and self-development capabilities. As for the forms of trade, we may adopt such practices as borrowing foreign trademarks, joint ventures, cooperative management, and joint development. In particular, we must take pains to create our own famous name-brands on the international marketplace by absorbing, imitating, and improving upon others. When the famous name-brand stabilizes sales, increase prices and export-added value. Only thus can we solve the problems of losses, low-grade products, and sluggish sales in a fundamental way.

When an enterprise first begins handling its own exports and imports, it faces a new challenge on several fronts: the caliber of its personnel, its ability to do business, and its management standards. To meet the demand of self-importing and self-exporting, there is an urgent need for us to improve the training of specialized personnel and the quality of such personnel. Foreign economic relations and trade departments at all levels should mobilize specialized foreign trade companies and economic relations and trade institutes and colleges to help self-exporting enterprises organize all sorts of specialized skills training classes to improve the overall professional quality of the enterprises, create within the enterprises an army of foreign trade professionals who understand the international market, speak foreign languages, and are well versed in the business of importing and exporting; an army of engineering and technical personnel who can develop and design products independently and work together with foreign S&T personnel; an army of production workers armed with modern production technology and a knowledge of complex technological processes; and an army of cadres familiar with modern management.

2) Create a favorable external environment for enterprise self-exporting and self-importing. (1) Further implement the various policies and measures aimed at encouraging self-importing and self-exporting. Create a level playing field on which such enterprises can compete on equal terms with foreign trade companies.

An urgent demand on the part of self-importing and self-exporting enterprises, this is fundamental to mobilizing enterprise initiative, tapping their potential for earning foreign exchange through exports, and promoting fair competition in foreign trade. It is also pivotal to helping the law of value fulfill its regulatory function. The state should decide which should be given more protection in its trade policies: the self-importing and self-exporting enterprise or the specialized foreign trade company, taking everything into consideration and ensuring that everything dovetails with everything else: the determination of the loss subsidy base figure, the import of raw materials and equipment, the overall distribution of retained foreign exchange and the amount of foreign exchange to be turned over to the government in order to create favorable business conditions for the enterprise and even more trade opportunities.

(2) Favor self-importing and self-exporting enterprises in the supply of funds, electricity, and raw materials.

Without affecting the policy to limit the total volume of credit funds, to make the most of the existing reserve of funds, and to optimize the increase in funds, the government should increase the amount of export credit funds as appropriate depending on the characteristics of the production and operations of self-importing and self-exporting enterprises. One possibility is to work out an export credit quota based on the annual export foreign exchange earnings of the enterprise in question and set

aside a specified percentage of foreign exchange as a special export production fund. That way we can gradually create a comprehensive self-accumulating mechanism in the enterprise and enhance its ability to handle its own exports and imports and compete internationally. As far as the supply of raw materials is concerned, the proportion of planned supply should be increased as appropriate to put a lid on the costs of exporting to earn foreign exchange and narrow price differences between domestic sales and exports. Electricity required for export production should be made available as much as possible to ensure normal production and on-time delivery of merchandise. Make the most of self-importing and self-exporting enterprises as a leader in our march toward the overseas market. Increase the percentage of the output of large and mid-sized enterprises that is exported. Make enterprise groups more geared toward the outside world as a whole.

(3) Formulate a reasonable and feasible contract target evaluation system that links industry to trade.

The self-importing and self-exporting enterprise has a dual mission: earn foreign exchange and make a profit. In the new round of contracting, we should adjust the contract base figure and determine the annual increase rate properly in view of the enterprise's actual export production capacity and the new imports of capital goods. In designing the contract target evaluation and incentive mechanisms, we should treat foreign-exchange-earning enterprises more favorably than their nonforeign exchange earning counterparts in order to encourage enterprises to look outward and increase their exports. Allow enterprises to determine on their own the ratio of their output to be exported depending on changes in the international market and price movements. With foreign exchange substituting for profits and profits substituting for foreign exchange, we should replace the passive style of exporting that operates under the dual rigid target of earning foreign exchange and making a profit with an active style of exporting in which the volume of domestic sales and exports are properly balanced. Year-end evaluation must take into consideration the lag in the settlement of exchange by banks. When an enterprise cannot afford to turn over foreign exchange before the settlement of exchange by banks in accordance with a set ratio, it may be allowed to turn over foreign exchange to the central government in accordance with a ratio to be worked out based on the enterprise's actual volume of exports and the amount of foreign exchange actually collected. The shortfall may be made up by dipping into the retained foreign exchange of the provincial or municipal government first, to be cleared later on a "foreign exchange settlement year" (from the second quarter of a year to the first quarter of the following year) basis. This way we can both ensure the base figure for the foreign exchange to be turned over to the state and make assessing the turnover of foreign exchange the target of contracting profits, and the earning of foreign exchange both feasible and reasonable.

3) Tighten the macro-management of self-importing and self-exporting enterprises and improve the economic results of exporting as a whole.

The main thrust of foreign trade reform—"delegate the power to handle exports and imports mobilize the enthusiasm of export production enterprises to export and earn foreign exchange promote industry-trade integration develop foreign economic relations and trade through a variety of channels in every way"—must be supplemented by the establishment of an effective foreign trade management system if trade is to have the anticipated results. The state should create a "three in one" macroeconomic regulatory and control management system that combines economics, administration and law under one off and is specifically designed with the characteristics of enterprises in the new foreign trade system, namely the power to handle their own exports and imports. Crack down on irregular economic or trade conduct, and harmonize the relationship between enterprises and companies dealing in the same kind of commodity so that the production and management mechanisms of self-exporting and self-importing enterprises can develop healthily in a standardized, institutionalized, and systematic manner.

### Shifting Emphasis to Direct Foreign Investment

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[Article by Deng Jianqin (6772 1696 0530): "Foreign Capital Infusion Should Emphasize Direct Foreign Investment—On the Strategic Readjustment of China's Foreign Capital Structure"]

[Text] Direct investment refers to the investment manufacturers used to run enterprises abroad. Its main forms include establishing new enterprises, buying the shares of foreign enterprises, and retaining profits for reinvestment. As of the end of 1989, China approved 22,000 foreign-funded enterprises from 47 nations and areas and 58 offshore oil development cooperation projects. Foreign investors agreed to invest \$33.7 billion, and of which, \$15.4 billion was actually invested. Like indirect foreign investment, direct foreign investment has become an effective supplement to China's construction funds.

#### I. The Objective Inevitability of Structural Readjustment

As the scale of foreign capital import expands daily, China should promptly shift work focus from raising a large amount of external debts to expanding direct foreign investment while continuing to utilize foreign funds from all directions and through various forms and channels.

1. China should go along with today's international investment trend. The reformation of international

investment pattern has freed a large amount of international capital from speculative investment and shifted it to practical investment. Since the second half of the 1980's, global direct foreign investment has made unprecedented development, and the direct foreign investment of major nations with overseas investment has all increased at a double-digit increase rate. In 1988 the balance of direct foreign investment of all countries in the world exceeded \$1,000 billion for the first time. The most direct cause triggering the abrupt expansion of international direct investment within such a short period of time is that the world economy has been witnessing an increasingly obvious trend of regionalization and grouping which may lead to trade barriers and competition between international economic groups in the future. All investing countries are in fact taking precautions and regard direct foreign investment as a precursor and a "cushion" for opening, expanding, occupying, and controlling overseas markets. In addition, the readjustment of industrial structure, the increase of foreign exchange reserves, and the pressure of currency appreciation in developed countries and areas have also facilitated the flow of international capital. The Asia-Pacific region is an area that is currently most active economically and has the strongest prospect of growth in the world. The Asia-Pacific region, along with West Europe and North America, are listed as the three poles of the world economy or the three great economic circles. Due to this, it is a hot spot for the competition of international capital. Objectively it has the international opportunity to absorb a large amount of direct foreign investment. As the biggest developing country which has the greatest potential in the world and the Asia-Pacific region, China should naturally become one of the areas that absorb most direct international investment.

2. China basically has the tangible environment for accepting large-scale investment. In the 1980's China achieved splendid results in major construction. It made arrangements for a total of 319 major construction projects whose investment (including infusion of external debts) totalled 311.7 billion yuan. Of this, basic industries, energy resource, communications, and raw material projects accounted for about 80 percent. Major construction projects in this period have three characteristics: 1) The scale of investment is enormous, averaging nearly 1 billion yuan per project. Among them are 17 super projects whose investment is over 2.5 billion yuan. 2) The technology is advanced. About 40 projects have advanced technologies imported from abroad in complete sets. Some of them have filled technological gaps at home; others have raised China's technological level and become the leading technologies of some industries. 3) The newly increased production capacity is enormous. The increase of power generating capacity in the 10-year period is equivalent to the sum total of generating capacity in the first 30 years after the PRC's founding; the increase of crude oil development capacity is equivalent to the total of increases in the first 30 years after the PRC's founding. Coal mining capacity increased nearly one-fourth. The newly increased cargo handling capacity

of coastal ports is 1.5-fold of the total capacity in the first 30 years after the PRC's founding and the newly increased mileage of electric railways is 5 fold. This has enabled China's one-time gross energy production output to jump to third place in the world, one-time energy flexibility coefficient to reach 0.7 or so, electricity flexibility coefficient to reach 1 or so, and transportation conditions to improve substantially. The state has also built a number of iron and steel, nonferrous metal, petrochemical, building materials, and other large projects and formed significant raw materials production capacity. Judged from the situation as a whole, China basically has the environment for accepting large-scale investment. As a matter of fact, the investment environment of some special economic zones (SEZ's), coastal open cities, and some large- and medium-sized inland cities' high and new technology industrial development zones in China is on a par with that of the newly industrialized economic communities of Asia and of the ASEAN nations which are already considered as hot spots for international investment. If we say that in the past China used mainly indirect foreign investment (namely external debts) to strengthen the basic industries of the national economy, then in the future China should mainly try to obtain direct investment to consolidate and intensify the effects of indirect investment and develop hi-tech industries, new industries, and high value-added processing industries.

3. China needs to speed up the technological progress of its enterprises. In recent years China's industrial output value has increased, but many important indexes concerning economic efficiency have shown a declining trend. According to the information of the State Statistical Bureau, between 1984 and 1988 the tax and profit-delivery rate of the capital of state-owned industrial enterprises which practiced independent accounting declined from 24.2 percent to 20.63 percent and that of output value declined from 23.2 percent to 17.84 percent. Undoubtedly the poor economic returns of Chinese enterprises is directly related to their poor technological standards. A 1985 survey of production equipment in major enterprises throughout China shows that less than 13 percent reached or were near the international level at the time, less than 22 percent reached the advanced domestic level, over 60 percent were at the average domestic and backward levels, and over 20 percent of all equipment extended its life of service. Through what shortcut to speed up the transformation of Chinese enterprises, especially old enterprises, has become an extremely urgent issue. The statistics of pertinent materials show that about 40 percent of technologies provided by the foreign investors of foreign-funded enterprises are obviously more advanced than domestic technologies, that about 7 percent have filled domestic gaps, and that many products produced by foreign-funded enterprises have become important export and foreign exchange-earning items and import substitutes. Because of this, utilizing direct foreign investment—more specifically grafting foreign funds, advanced technology, and management methods through such forms as

joint venture, cooperation, or "one factory, two systems"—is of special significance to transforming China's old enterprises, narrowing the gap between China and the advanced world level, and thus giving an impetus to the readjustment of the industrial structure as a whole. For instance, Shanghai has a total of 35 industrial joint ventures whose technological transformation is financed with foreign capital. It is estimated that technological transformation needs 3 billion yuan of investment and nearly a third of which has been provided by foreign investors after the founding of joint ventures. In the course of making Santana sedans a domestic product, the Dazhong Automobile Company has not only raised the level of Shanghai's auto industry by 30 years but also given a great impetus to the technological transformation and renovation of many supporting and pertinent enterprises such as machine-building, electrical, chemical, metallurgical, and meter and instrument. Its technological effect has been spread to 126 enterprises and units across the country.

4. Using direct foreign investment can help slowing down the accelerating mechanism of external debts. In the 1980's China basically adopted the model of using foreign capital in the nature of debts (namely indirect investment) to develop its economy. In 1988 foreign capital used in the form of direct investment accounted for only 15.8 percent of the total amount of foreign capital used by China. In 1989, the percentage rose to only 18.4 percent. As a result the scale of external debts expanded abruptly and the average annual increase between 1985 and 1988 was 36 percent, much higher than the average annual increase of GNP, national income, and foreign exchange earnings from trade and non-trade activities. As of the end of 1989 China's external debt balance reached \$41.3 billion, putting China in the rank of major debtor nations in the world. Although currently the macroeconomic regulation and control mechanism of China's external debts is fairly effective, the debt structure is basically rational, and pertinent indexes are controlled within the universally accepted safety range, the excessive growth of external debts has indeed produced some negative effects on China's economy. Using external debts is overdistributing national income. To raise a large amount of debts to import economic resources, make up financial deficits, and provide loans to production enterprises, corresponding efforts should be made to increase investment capital, the issue of domestic currency, and working funds. This will result in the false growth of revenue (internal debts have exceeded 80 billion yuan) and the overload of credit operation, which will then intensify the trend of economic overheating and premature consumption and directly or indirectly accelerate inflation. In 1991 China begins to enter into the peak repayment period of external debt. Due to the double pressure of internal and external debts, the state treasury, which is near its limit, cannot afford to arrange for such a huge supporting capital construction plan, nor can financial departments easily provide such an huge amount of credit. Obtaining foreign investors' direct investment

not only can guarantee the continuous expansion of the overall scale of the use of foreign capital but also can keep external debts under a fairly low level, thus reducing the amount of supporting funds needed at home, weakening the accelerating mechanism of external debts, and optimizing the structure of China's foreign capital.

5. Using direct foreign investment can give an impetus to the development of regional economies. Compared with foreign capital of debt nature, direct foreign investment is generally characterized by concentrated regions and high density, which is conducive to forming the momentum and advantage of scale, creating strong and widespread "magnetic field effect," promoting the regrouping and optimization of productive factors, and starting up the mechanism of economic development in investment areas. A promising trend now occurring in China is that foreign investment is developing from short-term to long-term, small- and medium-sized to large- and super-sized, from labor-intensive to technology-intensive, and from general processing and assembly industries to basic, raw materials, and hi-tech industries. Following the models—investing with state loans to form development zones to attract foreign capital infusion and accumulating funds through "processing of imported materials and compensation trade" for development—a new model which is using foreign capital to bring along the development of regional economy has appeared. For instance, in Huizhou of Guangdong, the current biggest wholly-owned foreign enterprise—the China Panda Automobile Company invested a total of \$1 billion and planned to produce 300,000 small cars a year (all to be exported). Supporting facilities such as deepwater port, highway, and a power station are under construction. This has brought along a number of Chinese-foreign joint ventures such as the oil refinery of 5 million tons of annual capacity and the ethylene plant of \$400,000 tons of annual capacity which are being negotiated, planned, or carried out. In April 1990 Pudong of Shanghai began to open up to the outside, allowing foreign investors to rent land and build plants, invest in infrastructure such as airport, railroad, highway, and energy resources, and establish financial organizations. We can predict that judged by Pudong's advantageous conditions in regard to location, port, and space, large-scale direct foreign investment not only will effectively support Shanghai's status as China's biggest economic center but also will substantially facilitate the export-oriented economic development and the integration of regional economies in the Chang Jiang Delta area. It will also create significant follow-up effect on the economic development of the entire Chang Jiang river basin.

## II. Policy Orientation in the Implementation of Structural Readjustment

Opening up to the outside world is a basic national policy of China, and utilizing foreign capital is a long-term task of ours. Facing increasingly fierce competition in the international investment market, we need to make China's investment market more attractive and expand

foreign investors' direct investment. On the one hand, we should unswervingly continue the reform and open policy and increase the confidence of foreign investment; on the other hand we need to work on the range and quality, "do something unconventional," and introduce some new "big moves" in regard to policies and measures.

1. Opening up further to the outside. First, China is far away from the world's major consumer markets such as North America and West Europe; its neighbors are Japan, the "four small tigers," and ASEAN nations, which are, or will be, export-oriented. The most basic economic motive of foreign investors investment in China is focused on its huge market. Currently China's market has great potential, but its real capacity is limited, consumption structure is fairly unitary, and level is fairly low. By demanding that foreign-funded enterprises export a percentage of their products, we indeed had the original intention of "protecting national industries" and "benefiting the balance of foreign exchange." But due to our national conditions, this makes it impossible to form an economic structure favoring large-scale import and export as a whole. Especially under the condition of a shortage economy, preventing foreign-funded enterprises to sell their products on domestic markets is undoubtedly a short-term behavior intended to seek quick success and instant benefit, and turning the subjectively "wide-open" door of the open policy to an objectively "half-closed" one also seems to be a kind of "unfair exchange" in international economic cooperation. It may also cause negative effects both internally and externally. Because of this, to get direct foreign investment, a wiser choice is to part with what is so dear to us and give up a part of the domestic market. Second, we should open up some backbone enterprises. We should change our past concept of cooperating with foreign countries which is to "save the dying and help healing the wounded" "old, weak, ill, and disabled" enterprises, and establish a concept of facilitating enterprises' technological progress and increasing the staying power of development. We should change the passive working method of making frantic last-minute efforts, establish the strategic concept of fighting a "war of attrition," dare to open up in an all-round way some backbone enterprises which have sophisticated equipment, well-established products, and good economic returns, and provide ideal targets of cooperation for foreign investors. We should allow cooperation to take a variety of flexible forms. We may use existing factory facilities to run joint ventures and enterprises of cooperative management. We may lease out or auction off some enterprises, change the right to management or ownership, and let foreign investors take over. We may pick out a unit of enterprise (such as a workshop, an auxiliary plant, or a production line) to carry out cooperative management in the form of "grafting" and implement the practice of "one plant, two systems." We may use the method of processing imported materials to process commodities for foreign investors. Third, we should speed up the construction of special economic

zones and development zones. SEZ's are premium areas selected for foreign investment. As of the end of 1989, the number of foreign investment projects approved and the amount of foreign capital actually used by China's five SEZ's accounted for a fourth of the nation's total. Because of this, we should gradually change the foreign economic pattern of China's coastal areas that "emphasizes the south over the north." We should establish in a planned and selective manner free ports and SEZ's in coastal open cities in northeast, north, and east China where geographical position is superior, larger economic hinterland is available, and investment environment is mature. This is to attract foreign capital, especially from Japan, South Korea, and Taiwan. Currently the total acreage of development zones in China's coastal cities has reached 28.56 square km, but the density of development is low (averaging only 30 enterprises and \$13 million of export output value per square km as opposed to Taiwan's 190 enterprises and \$800 million). Due to this, while stressing scale and speed, we should pay attention to increasing the density of development and tap the potential of areas which have been developed with a large amount of investment. In addition, we may also add some high and new technology development zones in coastal and inland areas where industrial and scientific and technological foundations are better. They may resemble the "Hsinchu Scientific and Industrial Garden" of Taiwan, the "Scientific Garden" of Singapore, and the "Daeduk Scientific and Industrial Garden" of South Korea which are designed mainly to absorb direct foreign investment in the organizational form of SEZ's. Fourth, we should speed up the opening of inland areas. We should step up the study of border economic development strategy, coordinate efforts to develop foreign economic cooperation along the middle and upper reaches of the Chang Jiang River and along the continental bridge between Europe and Asia, direct investment feelers into the thick of the inland, increase the number of "landing points" of foreign investment, and gradually change the pattern of direct foreign investment in China that is "busy in the east and quiet in the west." And compared to China's policy of developing western China and improving the industrial distribution and regional structure of the national economy, this approach may be different but the results remain the same.

2. We should continue to improve the environment of investment and reproduction. An ideal investment environment consists of many factors such as the stability of policy, the degree of openness of the market, the supply of raw materials and energy, the control of foreign exchange, labor quality and price, transportation, postal service, electricity, tax, legal systems concerning foreign nationals, the degree of government intervention, and the observance of international practice. As the competitive pattern of international investment market is firmly established, the strategy of attracting direct foreign investment should be gradually changed from mainly improving the tangible aspects to improving the intangible aspects of investment environment and from

granting one-time preferential treatment to providing long-term and relatively relaxed conditions for reproduction. For this we should first further improve the tangible aspects of investment environment. In addition to continuing the slanted industrial policy in state financial and monetary departments, we should do a good job in utilizing foreign capital to improve investment environment and guide foreign investors into some infrastructure projects that require a huge amount of investment but can make a profit. With regard to certain transportation, raw materials, and energy projects, foreign-funded enterprises may be allowed to get comprehensive compensations, or foreign investors may be allowed to contract or rent a tract of land to carry out development or construction and to establish industrial zones and other infrastructure facilities. To attract foreign capital to carry out tract development and management, the state should also consider establishing bonded warehouses for capital goods in SEZ's and coastal open cities and open up special bonded industrial zones in areas with more concentrated foreign capital (such as Hong Kong, Macao, and Taiwan). Second, we should improve the quality of the national economic climate. In the course of rectification and improvement, we should pay attention to preventing economic overheating as well as economic slide. We should hold back the inflationary trend and also guard against falling into the trap of stagflation. We should conscientiously analyze the effect of retrenchment, readjust in a timely manner the degree of retrenchment, handle well the relation between retrenchment and development, and ensure that some sectors of the national economy are subjected to retrenchment while others are not and some are hot while others are cooling, thereby maintaining a momentum of development from the beginning to the end. This will create an ideal external environment for foreign-funded enterprises to operate in accordance with "the principle of maximizing profits." Third, we should include foreign-funded enterprises in the macroeconomic planning and control. In 1989 foreign-funded enterprises amounted to 5 percent of the total number of state-run enterprises in China and the economy they represented already became an important component of China's national economy. The statistics of the State Statistical Bureau show that between January and May of 1991 industrial production carried out mainly by foreign-funded enterprises across the country increased 43.7 percent, which played an important role in the economic recovery of the industry as a whole. The characteristic of the capital of foreign-funded enterprises makes it impossible for such enterprises to be completely entered into the "cage" of planning, but under the system of China's socialist economy, it is very difficult to imagine that it would be allowed to separate from the macroeconomic national economic plan and regulated freely by the market mechanism. In view of these realities, when the central and local governments formulate long-term and annual social and economic development plans and when the departments concerned adopt plans and policy decisions in regard to credit, raw materials, energy resources, transportation, and market sales, they

should make overall plans and take all factors into consideration and give foreign-funded enterprises an appropriate amount of rights. When "dividing up the central and local authorities," foreign-funded enterprises should be given some operational space that corresponds with their economic status. Under the current condition where basic industries and infrastructure facilities are operating at full capacity, the state may consider adopting slightly slanting and protective policies for foreign-funded enterprises. With regard to the supporting domestic funds needed by the projects of direct foreign investment which is considered rational investment, government and monetary departments should do their best to assist and ensure through planning arrangements that the growth of the total amount of credit of foreign-funded enterprises balances that of direct foreign investment. Fourth, we should nurture and perfect the markets of various productive factors. In areas where foreign investment is concentrated, we should gradually establish open and plan-guided money, capital goods, technology, and labor markets, create a "minor climate" whose conditions are as close as possible to those of a market economy, and enable foreign-funded enterprises to obtain fairly stable channels for borrowing and lending money and regulating foreign exchange, raw materials, labor, and technology and to operate in accordance with international practice.

3. We should strengthen the policy guidance for direct foreign investment. To use direct foreign investment to optimize China's industrial structure (also one of the basic conditions for implementing the foreign investment profit plan), we need to do a good job in the following three areas: 1) Industrial slanting. In accordance with the state industrial policy and the regulations for guiding the direction of foreign investment, we should strengthen control over the power to examine and approve foreign-funded projects and follow strict procedures for screening and optimizing such projects. We should persist in unifying the scale and efficiency and, in accordance with the demand of industrial structural readjustment, gradually ensure that products are developed from low-grade to high-grade, scale is developed from small to medium, and capital composition is developed from labor-intensive to technology-intensive. Investment projects for infrastructure and basic raw materials which conform to the order of industrial development stipulated by the state and investment projects which employ advanced technologies and managerial experience, raise the grade level of products, develop new products, or earn more foreign exchange should be given priority assistance in regard to credit, raw material and energy supply, and tax. The method of preferential treatment should be properly readjusted, regional preferential treatment should be changed as soon as possible to industrial preferential treatment. Preferential treatment should be gradually reduced in the order of leading industries, general industries, and restricted industries. 2) The orientation of forms. As of April 1990, wholly owned foreign-funded enterprises totalled 1,879 in China, accounting for about 8 percent of the total

number of foreign-funded enterprises, and the amount of foreign capital agreed upon reached \$5.06 billion, accounting for 13 percent of the total amount of such capital of foreign-funded enterprises. In order to use foreign funds on a greater scale and reduce as much as possible pressures on supporting domestic funds, we should emphatically encourage foreign investors to establish wholly owned enterprises while continuing to encourage them to make various forms of investment. Due to this we should distinguish the degrees of preferential treatment in the concrete policies of foreign-funded enterprises and give wholly owned foreign-funded enterprises a special status to enable them to develop more rapidly in a short period of time. 3) The selection of method. Currently a large amount of equipment is left unused and the use rate of production capacity is low in many industrial enterprises in China. Pertinent information shows that in 1988 the unused, useless, and sealed fixed assets of budgetary state-run industrial enterprises across China reached 25.8 billion yuan. If we add the idle and semi-idle assets of other budgetary enterprises and extra-budgetary enterprises, the figure is estimated to be no less than 100 billion yuan. Judged by this situation, in addition to grafting old enterprises onto foreign funds and technology, we may transfer to foreign investors the property rights of some state-run old enterprises, enterprises which are closed down or semi-closed during the rectification and improvement campaign, enterprises which are "closed, suspended, merged, and transformed" during industrial structural readjustment, and enterprises whose products have no clear market and future. This will turn the idle, latent productive force to real productive force. At the same time we should also do a good job in social security work accordingly.

4. We should improve and perfect the legal system concerning foreign nationals. Whether or not the legal system is sound is usually the most important parameter in addition to the political situation that are used internationally to measure the degree of investment risk in a country. Foreign-funded enterprises are a special part of China's enterprise community for their operational and management methods are very different from domestic enterprises. An environment of sound legal system concerning foreign nationals is a key to ensuring that foreign-funded enterprises can "come in, stay, and stand steadily." Currently China has formulated and enforced over 400 economic laws and regulations concerning foreign nationals, signed investment protection agreements with 24 nations, signed agreements with 26 nations to avoid double taxation, and joined the organization of the "Treaty of Recognizing and Enforcing Foreign Arbitration and Ruling" of the United Nations, the organization of "Protecting Industrial Property Rights of the Treaty of Paris," and the organization of the "World Intellectual Property Right." China's legal system concerning foreign nationals has been basically established. From now on we desperately need to step up our efforts to formulate laws concerning the use of direct foreign investment such as corporation, banking, trust, arbitration, real estate, competition, and labor-capital

relation laws. Along with the emergence of new forms of foreign capital use such as umbrella-shaped control companies, paid transfer and rent of land, tract development, the transfer of property right of state-run enterprises, and the contract management of foreign investors, we also desperately need to conscientiously study and sum up corresponding legal and policy standards. In SEZ's, coastal open cities, and inland cities where there are many foreign-funded enterprises, we should establish and develop legal and accounting offices specializing in legal and accounting affairs concerning foreign nationals. In short, we should ensure, through an effective foreign legal system, the decision-making power of foreign-funded enterprises in management and the lawful investment profit of foreign investors.

5. We should develop a highly efficient service system. Cities where conditions for opening up are better, there are many foreign-funded enterprises, and the export-oriented economy is fairly developed should establish a foreign-funded enterprise supervising organ and a foreign investment service center to make unified planning for such matters as receiving investors, giving advice, examination, and approval, rendering service, and exercising management so as to strengthen macroeconomic guidance and control. The foreign investment supervising organ and service center should enhance the concept of policy and service, simplify the procedures for the examination and approval of foreign investment projects, increase work efficiency, and live up to "one organization, one window, and one stamp." The customs, banks, and foreign exchange, supplies, commercial inspection, tax, insurance, legal, accounting, storage, transportation, postal, telecommunications, industrial, commercial, urban construction, and public utility departments should base themselves on the characteristics of their own trade and do a good job in serving foreign-funded enterprises. With regard to problems which are tendentious, involve many aspects, and cause strong reactions from foreign-funded enterprises, the government should take the lead in organizing the departments concerned to work together through the joint or periodic work system to find a solution. The foreign investment supervising organ should attach great importance to the complaints of foreign investors and foreign-funded enterprises and ensure that every complaint filed is accepted and every case handled is resolved. The departments concerned should strengthen the training of economic and technical professionals and labor force so as to send qualified managers and skilled workers to foreign-funded enterprises. Moreover, in view of the situation that the number of foreign investors, foreign-funded enterprise managers, and technicians of foreign nationality is increasing day by day in SEZ's and coastal open cities, we should gradually develop and perfect businesses and facilities that render service to the daily life of foreign nationals.

6. We should promote the strategy of regional alliance in the international economy. The increasingly obvious trend of regionalization in the international economy

has caused direct international investment to concentrate within economic groups to a greater extent. This can avoid tariff and nontariff trade barriers and enjoy many privileges given by economic groups to "inside" enterprises. Facing the pressure of economic groups that are highly unified such as the European Community and the North American Free Trade Zone, many countries and areas of the Asia-Pacific region have adopted a positive attitude toward cooperation and the outline of the Asia-Pacific Economic Circle is becoming clearer with each passing day. There are now many tentative ideas for the economic and technological cooperation system of the Asia-Pacific region such as the Pacific economic forum, the West Pacific cooperation system, the Northeast Asia economic circle, the economic circle around the Sea of Japan, the Huang Hai economic circle, and the Chinese common market. The echelon pattern of industrial structures—ranging from knowledge-intensive to capital-intensive to labor-intensive industries—and the complementary economic development model of competition and cooperation between various nations of the Asia-Pacific region have provided extremely important realistic basis and great possibility for a yet higher level of regional economic cooperation. China is the biggest developing country in the Asia-Pacific region. Its major trade partners and investments all come from this region. The degree of incorporation into the economy of this region and the degree of involvement in the economic group will have direct influence on China's ability to compete in attracting foreign investment and even on China's future international political and economic status. Based on this strategic interest, China should judge the hour, size up the situation, be prepared for danger in times of peace, and promptly readjust foreign policies and tactics. While upholding the independent principle of "political non-alliance," China should actively study and promote the strategy of "economic alliance" on the basis of equality and mutual benefit. There are now two questions worth studying: One is whether or not the central government should give greater decision-making power in all areas to coastal provinces and municipalities and the northeast, north, south economic coordination zones centering in such provinces and municipalities to help them readjust and improve internal mechanism and, when conditions and opportunities are ripe, allow them to have some or greater freedom to participate in international economic cooperation and even regional economic groups. The other is to suggest that the central government take the initiative, adopt effective measures, and actively create conditions to facilitate the process of economic integration of Hong Kong, Macao, Taiwan, Guangdong, and Fujian, based on the background of Hong Kong and Macao's return to China, increasing contacts between the two sides of the Taiwan Straits, and the tendency of growing integration of the economies of Hong Kong, Macao, Taiwan, Guangdong, and Fujian. I think that this is the most practical, basic, and feasible first step in China's participation in the economic regional cooperation of the Asia-Pacific region. If this idea is put into

action, it will definitely strengthen China's status in competing for direct international investment.

### **World Bank Loans Used To Buy Helicopters**

*OW0804214291 Beijing XINHUA in English  
1456 GMT 8 Apr 91*

[Text] Beijing, April 8 (XINHUA)—The China National Machinery Import and Export Corporation signed a purchase contract today with the Aerospatiale of France for eight helicopters.

The purchase of the eight two-ton helicopters is one of the projects funded by the World Bank loans for forest fire prevention and forest resources restoration in the Da Xinggan mountains.

Daures Bruno, an engineer with Aerospatiale, said that six of the eight aircraft are equipped with fire extinguishing equipment including water tanks and chemical foam tanks. The other two helicopters are equipped to serve as anti-fire aerial command centers.

The Da Xinggan mountain area is one of China's main forestry bases. A massive fire in the mountains in May 1987 burned over 1.04 million hectares of forest and resulted in economic losses of over 500 million yuan.

Zeng Shouli, an official in charge of World Bank loans, said that the World Bank has provided loans of 56.9 million U.S. dollars to aid in forest recovery efforts in the mountains.

Since 1988 the Chinese Government has used the loans in projects to recover and ship the burned trees, and in reforestation of the area.

At present, projects are underway in the mountains to install anti-fire telecommunications equipment, automatic meteorological and lightning detecting systems, and computerized data processing systems facilities.

The loans are expected to be used to complete projects through 1992.

### **Guangzhou Plans Joint Venture Polyethylene Factory**

*OW2304133091 Beijing XINHUA in English  
1203 GMT 23 Apr 91*

[Text] Hong Kong, April 23 (XINHUA)—Four corporations of Hong Kong and the Chinese mainland have reached an agreement on the joint establishment of a polyethylene factory in Guangzhou.

The new joint venture is expected to have a total investment of about 566 million U.S. dollars to 755 million U.S. dollars.

These corporations are Ananda Holdings Limited of Hong Kong, the Guangzhou Economic Construction Company, the China Petrochemical Company and the Yue Xiu Enterprises Limited in Hong Kong.

According to Chan Yeuk Wai, chairman of Ananda Holdings Limited and New Foulard International Limited, the factory is scheduled to be completed within three years.

After coming into operation, the annual output of the factory could reach 115,000 tons. About 50 or 60 percent of its products will be sold to overseas markets.

### **Trade Unions Assist Joint Ventures**

*OW1904035691 Beijing XINHUA in English  
0109 GMT 19 Apr 91*

[Text] Shenyang, April 19 (XINHUA)—Many foreign investors in China were uneasy at first when learning that trade union organizations would be set up even within enterprises involving foreign investment.

However, they have found the trade unions have served not only the interest of the workers, but also that of the enterprises and even of foreign investors. They have also served as "bridges" between investors and workers. In addition, they have helped solve problems in the successful operation of the enterprises.

"I hesitated for several months before accepting the demand for the establishment of a trade union in our company," said Ezo Takanobu, president of the Dalian Harada Industry Co., Ltd.—a company owned solely by the Japanese side.

During that period, Takanobu encountered two sit-ins. "The workers sat in the canteen and refused to work. I did not know the reason, nor did I know how to deal with it. I had to ask the local Federation of Trade Unions for assistance," he recalled.

Following a brief investigation, the trade union leaders from the Dalian Economic and Technological Development Zone found that the reason for the workers' complaint was low wages. "The workers said they were exploited too heavily," said Yu Huaijiang, chairman of the Federation of Trade Unions in the development zone.

Trade union leaders explained to the workers that since the company had just begun operation, its profits were low. The leaders also explained that an increase in wages could occur only when the enterprise's performance improved. The union leaders then persuaded the workers to return to work.

Once the workers returned to work, the Federation of Trade Unions organized discussions among the workers to allow them to contribute their ideas to help the company develop.

The happy Takanobu said: "I was very glad to find that trade unions in the development zone were not 'trouble makers.' They were really helpful in solving any dispute between the investors and workers."

Trade union leader Yu Huaijiang commented: "We hope the foreign investors will understand that trade unions which operate in foreign-funded enterprises will not incite Chinese workers to pull against them. What we try to do is to protect the interests of both the investors and workers, and thereby to help the enterprises prosper."

The assistance and information provided by the trade union has helped Takanobu's company to develop smoothly. At present, the company employs some 600 workers, or more than double the previous year's work force.

The Dalian Economic and Technological Development Zone is one of China's largest coastal development zones. Thus far, the Chinese Government has approved 180 foreign-funded enterprises in the zone, of which 60 are now in operation. All of the operating enterprises have allowed the formation of trade unions.

In the past three years, the Federation of Trade Unions in the Dalian Development Zone have solved more than 30 cases involving conflicts between foreign businessmen and workers. All of the cases have been solved to the satisfaction of both parties and the success of the trade unions has ensured the smooth development of the enterprises.

"In our attempts to solve any dispute, trade unions always consider the interests of three entities—the state, the workers, and the investors, since as trade unions our work is closely related to the state's open policy, as well as to the fate of foreign-funded enterprises, and the welfare of workers. We share a common goal with investors—helping to ensure the success of the enterprises and ensuring satisfaction in all respects," said Yu.

As part of their daily activities, trade unions have long used flexible measures in order to adapt to the needs of foreign-funded enterprises. For instance, Chinese enterprises give workers special leave to take part in sports activities. In the foreign-funded enterprises, trade unions sponsor sports activities during the work breaks to avoid conflicting with production schedules.

Some trade unions have organized exhibitions of the products produced by the foreign-funded enterprises in an effort to enable the workers to gain a better understanding of their enterprise. Other trade unions have organized the workers and urged them to put forward rational suggestions for improving productivity.

Many foreign businessmen are now interested in the activities of the trade unions, including activities such as "learning from Lei Feng," according to Yu.

"When they learned that Lei Feng was a man who always helped others, some foreign businessmen even arranged work schedules to allow time for the workers to 'learn from Lei Feng,'" said Yu.

Information released at a meeting organized by the All-China Federation of Trade Unions to study the work of trade unions in coastal open cities revealed that most

foreign-funded enterprises in the development zones of the 14 coastal open cities have allowed the formation of trade unions.

The All-China Federation of Trade Unions has also decided that it will not issue national unified rules on trade unions in foreign-funded enterprises, thereby allowing the various provinces and regions to formulate their own rules and regulations which are in line with local conditions.

### Customs Administration Adopts New Import Evaluation Rules

*OW2604160591 Beijing XINHUA in English  
1552 GMT 26 Apr 91*

[Text] Beijing, April 26 (XINHUA)—The Chinese customs administration will adopt new regulations governing price appraisal of imported goods starting May 1, a spokesman from the General Administration of Customs said today.

According to the spokesman, the new regulations are set to curb the increasingly popular practice amongst some Chinese and foreign smugglers of declaring lower prices or no prices for imported goods in order to evade customs duty.

Under the new regulations, price appraisals will be conducted on the following imports:

- Goods whose declared value is apparently lower than that declared by other importers, and without legal instruments and proper reasons;
- Goods whose buyers and sellers have extraordinary economic relations or goods transacted under peculiar circumstances;
- Goods whose declared value is apparently lower than that of similar goods on international markets, and without legal instruments and proper reasons.

It was learned that the appraisals will be based on open market prices. International appraising practices will be adopted in those instances when open market prices are not available.

The regulations also point out that the declared value is required to be presented to the customs administration for examination before it is accepted as the value for paying duties.

The spokesman added that the new regulations will provide Chinese customs officers with an important basis for appraising imported goods.

## ECONOMIC ZONES

### 'Hainan Fever' Loses Vigor

HK0304035791 Beijing CHINA DAILY in English  
3, 4, 5 Apr 91

[Three-part report by staff reporter Zhu Yinghuang after recent three-day visit—date not given]

[3 Apr 91 p4]

[Excerpts] "Hainan fever" seems to have lost its vigour as both official and public attention is said to have shifted to Shanghai's Pudong New Area. Is it true that Hainan, once a hot spot for China's reform adventurers, is being cold-shouldered? Or was this three-year-old province born in an inauspicious year? And what is the temperature today anyway?—We made a three-day trip to this southern island to find out the answers.

People still remember when this tropical island officially became a province and China's largest special economic zone, with the greatest flexibility in policies for economic development. There was great talk of the so-called "Hainan fever," referring particularly to the massive influx of people from the mainland in quest of wealth and career opportunities.

Apparently all hotels and inns in Haikou, the provincial capital, were suddenly packed with these outsiders. It was as if overnight thousands of signs appeared along the streets, proclaiming the foundation of new business companies, many of which nobody knew were doing what.

### Outsiders

"Hainan is taking off," everybody was saying. They considered that provided conditions were favourable, Hainan would become another and much larger Shenzhen, China's first prospering SEZ bordering Hong Kong. Officials of the Haikou municipal government claimed that the city could develop into another Hong Kong in 10 years' time.

"Where is the fever now?" we asked the people we met.

"The fever is still here, but not it is not as blind as it once was. People here have become more practical and down to earth," said 42-year-old Ye Boli. Ye, who came from a science research institute in the northeast city of Dalian, later became the magistrate of Dongfang County on Hainan, and is now the director of the Provincial International Economic and Technological Cooperation Office. He said he had been wrong three years ago in believing Hainan could become prosperous like Shenzhen by merely making more business deals. "The island is much larger," he explained, "and the conditions are very different."

### Foundation

"After staying for a while, you realize that this is not the place for easy pickings," said Xiao Chen, a college graduate who came to the island from Beijing two years ago. "Those who have decided to stay on have got to be prepared to work for a long time before they can start talking about prosperity."

Local government officials are now emphasizing that this is the time for Hainan to lay a solid foundation for future economic development. "No doubt, the past three years since the founding of this province have seen the fastest development in history," one government official said. "But since we started at such a low point, we couldn't possibly reach such a high level in one leap."

"We were over-anxious to catch up," admitted Liu Jianfeng, the Hainan governor who came to the island in April of 1988, adding that many people, including provincial officials, who once believed that the island could follow the example of Shenzhen, now realize it was a mistake.

"What Hainan needs is to make steady efforts for the next five years or so to greatly improve its economic base and infrastructure," Governor Liu said.

"This strategy for Hainan's economic development is devised according to the island's conditions," he told us during an interview on the first night we arrived in Haikou.

The next day we set off to find out what the "conditions" were, in what a Chinese saying describes as "riding-on-horseback-to-look-at-flowers" style.

This time, riding in a Toyota van, we started from Haikou along the island's east coast towards the south. Fresh from a trip to Guangdong's Pearl River Delta, where visitors are often overwhelmed by the booming of cities like Shunde, Fushan, Zhuhai and Shenzhen, we saw Haikou as a relatively old-fashioned city with unrenovated, crowded downtown districts and few modern skyscrapers.

Three years ago, there were not even any traffic lights in the city, and at night, shops in the downtown areas had to start their own diesel generators for lighting. But today, Hainan claims to be one of only two provinces in China that enjoy a surplus of electricity.

In suburban areas of Haikou, five development zones have been mapped out for special uses. We came across one called Yongwan Zone, which is earmarked to cater for Taiwan investors. Already several large one-storey workshops are turning out sports shoes in response to the great demand from the United States market. Vast areas of land have had their red-soil leveled, in preparation for new projects to take off.

[4 Apr 91 p 4]

After crossing the Nandu River to the south of Haikou, the van ran along a well-surfaced two-lane highway at a 100 kilometres an hour. Again, as a striking departure from what one expects to see in the Pearl River Delta, there were few vehicles or pedestrians on the highway. It might be an exaggeration to say "it handles more chickens than cars." Our van did have to stop once when a pig was crossing slowly in front of us. [passage omitted]

[Txet]

Hainan is still, for the most part, a farming area. There are 97 State-run farms on the island, of which 92 are rubber plantations and five are farms run by returned overseas Chinese. Most of Hainan's farms grow cash crops, and even now the island is unable to provide enough grain for its 6 million residents. Eighty percent of the population, however, make a living from either farming or farm-related industries.

#### Grain

Deputy director of the provincial Department of Trade, Xie Ruxi, told us that Hainan has never been self-sufficient in grain supply in the past, and the island has to import an average 550 million jin (275 million kilograms) of rice despite the fact that it scored a record harvest of 1.66 million tons of grain last year. The grain output per mu (0.164 acres), is only 370 jin (185 kg), much lower than that of many other parts of the mainland.

This is easy to understand when you see small the paddy fields, a young man driving a buffao to plough the land, women clothed in black with white scarves bending low as they transplant rice seedlings.

However, Xie did say that Hainan would be self-sufficient in grain supply in 3-5 years. With the approval of the State Council, the province has drafted plans to set up China's first large-scale experimental zone for the comprehensive development of agriculture. This zone is to cover an area of 3.7 million mu (about 246,700 hectares). The aim is to invest large amounts in the use high technology and make high profits through tapping the island's natural tropical resources.

About 20 kilometres away from Sanya, we passed a vast empty piece of land where a few bulldozers were working in the red soil. In two year's time the international "Phoenix Airport" will be completed here. As Governor Liu said: "By then, Hainan will be wide open to the outside world." So far, the land has been leveled and construction of the runways has started.

Since the founding of the province, the island has increased its air service from four to over 20 flights a today, linking it not only with the mainland, but also with Hong Kong, Bangkok and Singapore.

It took us 6 hours in the van to cover the distance from the island's northern capital to its southern extremity. In the old days the journey would take two to three days on horseback.

We were told that a new 272-kilometre expressway along the eastern coast is under construction, with a total investment of 1.05 billion yuan. When completed in three years time, people will be able to have both breakfast and supper in Haikou after making a one-day round trip to Sanya. Another expressway along the west coast of the island is also in the blueprint. [passage omitted]

Before we entered the city of Sanya, we made a quick trip to one of the subtropical beaches—Yaklong Bay—about 20 kilometres away from Sanay.

Yalong Bay, they say, is to be developed into an international tourist centre for winter vacations by a well-known Hong Kong tycoon. It is hoped that such plans, though profit-making, will not spoil the natural beauty of the area.

In a drive to "get rich quick," modernization can sometimes mean short-sighted action at the expense of the environment. Examples of such cases are readily found in many parts of the country, and also unfortunately on this virgin island. [passage omitted]

[5 Apr 91 p 4]

Governor Liu told us that in the three years since the founding of this new province, more than 5 billion yuan (\$961 million) had been put into the island's economic construction. The sum is equal to the total investment over the 32 years between 1950 and 1982. [passage omitted]

[Txet]

The provincial government is drafting a strategic programme for the development of the island's natural resources. In minerals alone, experts have found the island is rich in deposits of iron ore, oil, natural gas, gold, titanium, and quartz.

[passage omitted] The reduction of forest coverage of the island from 70 percent in 1949 to the present 24 percent has already served as a warning to the Hainan people. [passage omitted]

#### Output value

Since 1988 the island's gross industrial and agricultural output value has increased by 22.8 percent, reaching 5.6 billion yuan 941.1 billion0 in 1990. Foreign trade has grown by \$100 million a year to \$430 million. [passage omitted]

Experts predict that Hainana will need at least 200 billion yuan (about 438.5 billion) for construction over the next 15 years. But the total revenue of the provincial government in 1990 was only 650 million yuan (\$125

million). In the past few years, the State was only able to give 200 million yuan (\$38.5 million) in low-interest loans per annum, and is unlikely to make a larger contribution in the near future. How to fill this huge gap remains a major problem for those planning the island's economy.

Mao Zhijun [director of the Provincial Economic Cooperation Bureau] believed that Hainan's development funds would mainly rely on two sources - the mainland and overseas.

So far this strategy has been working well. Even after some enterprises from the mainland were closed down after a government austerity policy was adopted two years ago, the island has more than 4,700 enterprises with investment from government departments and companies on the mainland. Total investment amounts to two billion yuan (\$384 million).

By the end of last year, there were 1,388 foreign-funded enterprises, 432 of which were financed completely from overseas sources, involving a total investment of \$1.03 billion.

Governor Liu said that since September last year, investment from overseas had exceeded that in 1989, and had continually increased. The fact that 48 percent of foreign-invested enterprises approved by the government last year were solely-owned by foreign investors, 4 percent more than 1989, is a clear indication of investors' growing confidence in Hainan. [passage omitted]

The strategic goal set in a three-step development plan for Hainan is clear: in three to five years, the province will concentrate on basic construction to improve infrastructure and the investment environment; by the end of this century, it will have caught up with other developed areas nationwide; and then Hainan can attempt to match the level of developed countries and regions in Southeast Asia.

"I'm optimistic about Hainan's prospects," said Governor Liu. "We need another five to 10 years of hard work to take advantage of the potential in rich resources, geographical advantage, and talent before the island can really take off." [passage omitted]

## LABOR

### Evolution of Employment Structure During Reform Era

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[Article by Feng Litian (7458 4539 1131), Beijing Academy of Economics, Institute on Population and Economics: "An Overview of the Evolution of Employment Structure in the Reform Period"]

[Excerpts] [passage omitted] I. Employment Structure in the Two Major Production Categories

[passage omitted] Employment structure in the two major production categories is the most comprehensive labor distribution structure. It has the broadest significance, and it reflects the economic structure through the structure of the labor population. It can be seen in table 1 that if we take 1978 as the pivotal year for reform and opening up,<sup>1</sup> then in the 25 years from 1952 to 1977 the percentage of employed people engaged in physical production went down 2.5 percentage points, for an average of 0.1 percentage points per year, while in the 11 years from 1978 to 1989 this figure declined 4.2 percentage points, for a yearly average of 0.35 percentage points. The percentage fell 3.5 times faster from 1978 to 1989 than during the previous 25 years. The basic reason why the rate of decline increased is the fact that reform and opening up liberated the social forces of production and accelerated increases in productivity in physical production. For example, in the 25 years from 1952 to 1977, productivity in physical production only grew by an annual average of 3.1 percent, while it grew at an annual average of 6.9 percent from 1978 to 1989. This latter rate was 2.23 times faster than before reform and opening up.

Table 1. Employment Structure in China's Two Major Production Categories (%)

Year	Category	National Employment	Production of Physical Goods	Nonphysical Production
1952		100.0	96.5	3.5
1957		100.0	95.4	4.6
1962		100.0	94.7	5.3
1965		100.0	94.3	5.7
1970		100.0	95.1	4.9
1975		100.0	95.0	5.0
1977		100.0	94.0	6.0
1978		100.0	93.0	7.0
1979		100.0	92.7	7.3
1980		100.0	92.5	7.5
1981		100.0	92.2	7.8
1982		100.0	92.4	7.6
1983		100.0	91.9	8.1
1984		100.0	90.8	9.2
1985		100.0	90.8	9.2
1986		100.0	90.6	9.4
1987		100.0	90.2	9.8
1988		100.0	89.9	10.1
1989		100.0	89.8	10.2

Source: Zhongguo Tongji Nianjian, 1990 Chinese Statistical Yearbook, 1990

The ratio between the two major production categories is roughly 9:1, i.e.—about 90 percent of the labor force is engaged in physical production and only about 10 percent is engaged in non-physical production. This is an overall indication of the low level of development of the social forces of production in China. The economy is still underdeveloped.

**Table 2. A Comparison of Employment Distribution Between the Two Major Production Categories in China and Abroad (%)**

	United States (1987)	England (1987)	France (1987)	Canada (1987)	West Germany (1986)	Italy (1987)	Japan (1987)	China (1989)
production category								
total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
physical production	56.8	58.4	60.1	60.4	65.5	69.1	71.1	89.3
nonphysical production	43.2	41.6	39.9	39.6	34.5	30.9	28.9	10.2

Source: *World Labor Statistics Yearbook*, 1988, International Labor Organization, Geneva

If you do an international comparison of the distribution of employment between the two major production categories, you can arrive at the following conclusions:

1. A much higher percentage of the labor force is engaged in physical production in underdeveloped countries than in developed countries. The reason is very simple: non-physical production depends upon the development of physical production. Per capita GNP in China in 1988 was only US \$347 (calculated on the basis of the exchange rate that year), and the nation had to devote nearly 90 percent of its labor force to physical production. In Italy, which has the lowest per capita among the developed nations listed in Table 2, it was over US \$10,000. The figure in the United States was \$18,530 (all figures are for 1987), and the proportion of their labor force engaged in physical production fluctuated between 57 and 71 percent, which is between and 18.8 and 33.1 percent lower than in China.

2. To a great extent, the percentage of the labor force that is engaged in physical production is determined by agriculture (broadly defined), i.e.—it is determined by the percentage of the total labor force accounted for by employment in primary industry. The percentage of total employment accounted for by primary industry is in the single digits for all the developed nations listed in Table 2 except for Italy, where it accounts for 10.3 percent of total employment. Among the seven industrialized nations the gross national product of England ranks sixth (US\$10,420), ahead of only Italy, but the percentage of its labor force engaged in physical production is very low (higher only than the United States). The most direct structural reason for this is the fact that primary industry employment only accounts for 2.4 percent of total employment, which is even 0.6 percentage points lower than the figure of 3.0 percent in the United States. In China, the high percentage of the total labor force engaged in physical production (89.8 percent) is related to the fact that the percentage of employment accounted for by primary industry (60.2 percent) is so high.

3. The percentage of total employment accounted for by commerce, transportation, posts and telecommunications, and information generally has an inverse relationship with the percentage of employment accounted for

by physical production. The percentage of total employment accounted for by commerce, transportation, posts and telecommunications, and information in the seven industrialized nations listed in Table 2 exceeds 20 percent at the very least, and for the highest country the figure exceeds 30 percent, while in China the figure is only 7.8 percent.

## II. Employment Distribution Among Primary, Secondary, and Tertiary Industry

In comparison with the period of reform and opening up, changes in employment distribution among the three industrial categories occurred very differently in the period when China cut itself off from the world.

1. The percentage of total employment accounted for by primary industry has declined at a much faster pace in the period since reform and opening up than during China's years of isolation. During the 25 years from 1952 to 1977, the proportion of primary industry employment only fell nine percentage points (an annual average of 0.36 percentage points), but in the 11 years from 1978 to 1989 this proportion fell 14.3 percentage points (1.19 points per year). The rate of decline in the latter period was 3.31 times faster than before.

2. The percentage of total employment accounted for by secondary and tertiary industry has risen noticeably. Comparing secondary and tertiary industry during the latter period, we find that the proportion of total employment accounted for by secondary industry has risen by 0.59 percentage points per year, slightly slower than the 0.6 percent average annual increase in the same figure for tertiary industry. If we make a comparison with the earlier period, we find the following pattern—the percentage of employment accounted for by secondary industry rose twice as fast in the latter period as in the former, while for tertiary industry this figure climbed 10.37 times faster in the latter period. One can discover in Table 3 that the percentage of total employment accounted for by tertiary industry only rose 1.6 percentage points in China's 25 years of isolation, so it was in virtual stagnation. In fact, tertiary industry only accounted for 9.7 percent of total employment in 1976, which was only 0.6 percentage points more than 24 years earlier.

**Table 3. Employment Distribution Among Primary, Secondary, and Tertiary Industry (%)**

year	Primary Industry	Secondary Industry	Tertiary Industry
1952	83.5	7.4	9.1
1957	81.2	9.0	9.8
1962	82.1	8.0	9.9
1965	81.6	8.4	10.0
1970	80.8	10.2	9.0
1975	77.2	13.5	9.3
1977	74.5	14.8	10.7
1978	70.7	17.6	11.7
1979	69.9	17.9	12.2
1980	68.9	18.5	12.6
1981	68.2	18.6	13.2
1982	68.3	18.7	13.0
1983	67.2	19.0	13.8
1984	64.2	20.2	15.6
1985	62.5	21.1	16.4
1986	61.1	22.1	16.8

**Table 3. Employment Distribution Among Primary, Secondary, and Tertiary Industry (%) (Continued)**

industry	Primary Industry	Secondary Industry	Tertiary Industry
1987	60.1	22.5	17.4
1988	59.5	22.6	17.9
1989	60.2	21.9	17.9

Source: *China Statistical Yearbook, 1990*

3. The percentage of total employment accounted for by primary industry went through some sharp fluctuations in the period prior to reform and opening up. For example, it plummeted from 81.2 percent in 1957 to 58.2 percent in 1958, then climbing rapidly back up during the following few years. In addition, employment structure in tertiary industry was also erratic; the percentage of employment accounted for by secondary industry was sometimes lower than the figure for tertiary industry, and sometimes higher. Statistics indicate that in the 25 years from 1952 to 1977, the percentage of employment accounted for by secondary industry was greater than the figure for tertiary industry 13 times, and the opposite situation also occurred 13 times. It could be said that the changing distribution of employment among the three industrial categories during this historical period was a sign of instability. In fact this sign of instability arose because instability in the superstructure affected the economic base and economic life, and this effect was reflected in employment distribution among the three industrial categories. [passage omitted]

**Table 4. A Comparison Between the Rate of Change in the Percentage of Employment Accounted for by Primary Industry in China and Abroad (%)**

country (territory)	period	number of years	rate of change in the percentage of employment accounted for by primary industry	annual rate of decline
Japan	1887 - 1917	30	76.2 - 56.2	1.0
United States	1820 - 1850	30	78.8 - 54.8	1.2
South Korea	1950 - 1965	15	74.1 - 58.7	1.5
China	1977 - 1989	12	74.5 - 60.2	2.0

Source: For the figures on the foreign countries see Han Jun and Wang Yong, "An Analysis of Shifts in the Agricultural Labor Forces of Various Countries."

4. Since the beginning of reform and opening up the percentage of employment accounted for by primary industry in China has been declining at a rate faster than it has abroad. Table 4 shows that the rate of decline in China has been faster than in Japan, the United States, and South Korea, respectively, by factors of 2, 1.7, and 1.3. Of course, the momentum for this rapid decline will not necessarily continue unabated; it could be temporarily dampened by elements of the larger picture, such as readjustments and improvement, because readjustments and improvement signify a cooling of the overheated economic environment, a strengthening of macroeconomic regulation and control, the maintenance of equilibrium between overall supply and demand, and the lowering of inflation. Furthermore, by merely cutting

back on the scale of infrastructure construction, the state caused five million construction workers (a primary industry) to return to their rural villages in 1989.

The growth or decline of the percentage of employment accounted for by the three industrial categories is determined by the strength or weakness of the push provided by primary industry and the pull provided by secondary and tertiary industry. The point where these two forces meet in different periods results in different employment structures.

The strength or weakness of primary industry is subject mainly to the following limitations:

1. The rational utilization by primary industry of natural resources, and the potential for expansion. The main

agricultural resource is arable land. The total area of arable land in China is about 1.9 billion *mu* [roughly 313 million acres], about 13 percent of China's total land area. China has always been famous throughout the world for its intensive farming practices, which shows that it is already using a high proportion of its arable land. There are only about 200 million *mu* [approximately 33 million acres] of unused arable land located mostly in Heilongjiang, eastern Inner Mongolia, and Xinjiang, and even if all of this land were opened up only 50 percent, or 100 million *mu* would actually be planted, so our reserve store of arable land is almost exhausted. Furthermore, the situation is exacerbated by the land use needs of industry, transportation routes, urban development, and rural housing, as well as erosion, the spread of desert sand, salinization, and pollution. China has lost as much arable land in the last 30 years as there is in all of France. It is certain that we will still be losing arable land at the end of this century. In 1952 each agricultural laborer in China had an average of 9.24 *mu* [1.5 acres] of arable land; the figure had dropped to 5.88 *mu* [0.97 acres] by 1988. If we base our calculations upon 1952, we would only have needed 205.63 million people in primary industry in 1988, but in fact there were 332.84 million, of whom 127.21 million were well off. The labor surplus in primary industry resulting from the serious shortage of agricultural natural resources has strengthened the push that comes from primary industry.

2. When you examine labor productivity of primary industry you discover that the lower labor productivity is, the lower economic benefits are in agriculture, and greater the push from primary industry. The opposite holds true as productivity rises. From a national perspective, in 1989 comparative labor productivity was 0.445 for agriculture, 2.132 for secondary industry, and 1.48 for tertiary industry. That means that the comparative labor productivity of agriculture was only 20.9 percent that of secondary industry, while in 1952 this figure stood at 22 percent. This shows that the labor productivity gap between agriculture and secondary industry is widening rather than shrinking. When comparative labor productivity in agriculture is low, the economic benefits of agriculture are correspondingly low. The direction of the flow of economic benefits strengthens the tendency of primary industry to push labor away, and as soon as the opportunity arises peasants will switch to some other industry.

3. The rate of rural population growth and the rate of increase in working age laborers. There is no clear distinction between rural and urban populations; the standard dividing line between them has been through several changes. The result is that statistics cannot give an accurate reflection of urban and rural populations. Leaving aside this question, it is indisputable that overall population and the working age population are rising much faster in rural areas than in urban areas. This is reflected in birth rates among women of child bearing age. For example, in 1988 a random national survey was carried out in four sectors of society (urban neighborhoods, outlying urban areas, towns throughout the nation, and townships throughout the nation under the jurisdiction of towns), where the average birth rates,

respectively, were 1.37, 2.53, 2.54, and 2.94. The high growth rate of rural population will inevitably result in a high growth rate of the working age population sooner or later. During the current historical period, in which we are unlikely to break down and restructure China's dualistic (agriculture and industry, urban and rural) economy, unless there are opportunities to enter secondary and tertiary industry, members of rural society will have no choice but to crowd into primary industry when they reach working age and enter the ranks of the laboring population. This is the demographic reason why primary industry in China has continued for such a long time to expand, in spite of the surplus of agricultural labor.<sup>2</sup>

Against the backdrop of reform and opening up, a relatively large proportion of China's newly added agricultural labor force has gone into nonagricultural secondary and tertiary rural industry, and the proportion of laborers entering directly into nonagricultural urban occupations is also growing by the day.

**Table 5. Movements in the Rural Labor Force, 1978-1988**  
(units: 10,000 people)

Year	Laborers in Rural Secondary and Tertiary Industry	Laborers Entering Urban Areas		Total Movement
		Current Year	Cumulative Total	
1978	31.50	1.484	1.484	32.984
1979	31.90	.708	2.192	34.092
1980	35.05	1.274	3.466	38.486
1981	36.92	.920	4.386	41.306
1982	38.05	.660	5.046	43.096
1983	43.40	.682	5.728	49.128
1984	58.88	1.230	6.958	65.838
1985	67.14	1.502	8.460	75.600
1986	75.22	1.665	10.125	85.345
1987	81.30	1.668	11.793	93.093
1988	86.11	1.599	13.392	99.502
1989	84.98	1.200	14.592	99.572

Source: *China Statistical Yearbook*, 1989, 1990.

From Table 5 it can be seen that during the nine years from 1979 to 1988, 54.61 million new laborers engaged in rural non-agricultural production, and 11.908 million new laborers went to urban areas to engage in nonagricultural production. The combined total comes to 66.511 million people, of whom 82.1 percent switched occupations within their home area, and 17.9 percent of whom left both home and occupation. The result was a flood of agricultural laborers switching occupations on a scale seldom seen anywhere in the world. During the same period the number of primary industry laborers

still increased by 39.35 million persons, or about 37.2 percent of the total new rural labor force. The rate of surplus primary industry labor continues to rise.

The strength of the pull exerted by secondary and tertiary industry is subject mainly to the following limitations:

1. Social accumulation capacity. The strength or weakness of accumulation influences nonagricultural industry in two ways. First, changes in the demand for labor created by the construction industry influence the pull exerted by secondary and tertiary industry. The greater the capacity for accumulation, the greater the scale of infrastructure development, which means that the construction industry will have an increased demand for workers and staff. Most working age people who have grown up in the cities are unwilling to do strenuous construction work, and under these conditions large scale development of the construction industry serves as an important sponge for absorbing surplus labor from primary industry. Statistics indicate that the number of social laborers engaged in construction had already increased to 25.27 million, which is 2.87 times higher than 8.97 figure of 1978. Since reform and opening up this has been the sector with the fastest growing total of social laborers, and among the 25.27 million social laborers, 15.26 million have come from rural villages (approximately 60.4 percent of the total). Second, the fact that so many construction projects have been completed and so much new plant and equipment has gone into production has strengthened the ability of nonagricultural industry to absorb labor. From 1952 to 1978, an average of 16.35 billion yuan worth of newly acquired fixed assets were added every year, while the annual figure from 1979 to 1988, at 63.7 billion yuan, was four times as high. This expanded the ability of nonagricultural industry to absorb labor.

There is one characteristic of social accumulation and newly acquired fixed assets that is worth noting. Since reform and opening up the government has adopted concessionary policies toward township enterprises (providing bank credit and favorable tax treatment), which has spurred the development of nonagricultural rural industry. The result is that township industries have sprouted up everywhere like mushrooms after a spring rain. Because most township enterprises are labor-intensive, little investment is required and they are able to go into production quickly. There were 18,648,800 township enterprises in 1988, or 17 times as many as in 1979, and in the last ten years they have absorbed 70,773,300 surplus agricultural laborers, greatly expanding rural nonagricultural industry in the process.

2. The level of the support index for agricultural production. The term support index refers to the number of nonagricultural laborers who can be supported by the physical output of agricultural laborers. The greater the number of people who can be supported, the more quickly nonagricultural industry will develop and the more capacity it will have to absorb surplus agricultural

labor. From 1979 to 1989, total agricultural output value rose an average of 5.9 percent per year (calculations based on unchanging prices), while the average yearly increase from 1952 to 1978 was only 3.4 percent. When you take into account the fact that the natural rate of population increase in the latter period was much lower than in the former period (1.3 percent in the latter period versus 2 percent in the former period), you find that the average annual growth rate of agricultural output value in terms of population was 2.9 times higher in the latter period than in the former. Taking grain production as a case in point, production rose by an annual average of 1040 tons from 1978 to 1989 (2.13 times higher than the 475 ton average annual growth posted in the period prior to reform and opening up), breaking through the 400 million ton barrier three times (in 1984, 1987, and 1989). Increases after reform and opening up in the production of other agricultural products, such as cotton, pork, beef, mutton, and aquatic products, also exceeded by several times the increases in the preceding period. A few short years of reform have resulted in a significant rise in the support index and have basically assured that China's population of 1.1 billion will have sufficient shelter and food. This has provided the necessary material conditions for further development of secondary and tertiary industry, and has strengthened the capacity of nonagricultural industry to absorb surplus agricultural labor.

**Table 6—A Comparison of Per Capita GNP and Labor Force Structure in China and Abroad (unit: US \$)**

Country	per capita GNP	Labor Force Structure	
		Primary Industry	Nonagricultural Industry
United States (1987)	18,530	3.0	97.0
Canada (1987)	15,160	4.9	95.1
Malaysia (1987)	1,810	31.8	68.2
Philippines (1987)	590	32.6	67.4
Pakistan (1985)	380	50.6	49.4
China (1989)*	379	60.2	39.8

Sources: 1987, 1988, and 1989 World Development Reports, World Bank; *Labor Statistics Yearbook*, 1988, International Labor Bureau, Geneva. China's per capita GNP calculated on the basis of the official 1989 exchange rate.

3. The level of economic development on a per capita basis. Per capita GNP is the standard by which economic development is measured. The higher the per capita GNP, the smaller percentage of the work force employed in primary industry and the greater the capacity of nonagricultural industry to absorb labor.

Table 6 shows a clear inverse relationship between per capita GNP and the proportion of the labor force employed in primary industry, and a clear positive

relationship between per capita GNP and the proportion of the labor force employed in nonagricultural industry. Although the quantitative relationship between these two variables is quite complex because of different situations in different countries (different industrial structures, different natural resources and demographics, etc.), the distribution of the labor force may differ in countries with the same per capita GNP. The proportion of the labor force employed in primary industry may even be high in countries with a relatively high per capita GNP. For example, per capita GNP in Thailand in 1986 was \$810, but primary industry employed 63.7 percent of the labor force. Even though such variations between countries may exist, though, it is still true that raising per capita GNP is an essential factor in any country's efforts to strengthen the capacity of nonagricultural industry to absorb labor. If we study the quantitative relationship between per capita GNP and the capacity of nonagricultural industry to absorb labor from a dynamic perspective, we can calculate a particular coefficient describing the capacity of nonagricultural industry to absorb labor in terms of every one percent rise in per capita GNP. During the years of reform between 1979 and 1988, per capita income was 132<sup>3</sup> percent higher than what it had been during the period from 1953 to 1978. The proportion of the labor force employed by nonagricultural industry rose from 22.15 percent to 35.01 percent. In other words, the proportion of the labor force engaged in nonagricultural industry rose 58.1 percent. On the basis of these figures we can calculate that during the ten years of reform the coefficient for the capacity of nonagricultural industry to absorb labor was 0.4398 for every one percent increase in per capita income.

The preceding part of this article has been an empirical description of the pushing and pulling forces that affect the distribution of labor among primary industry and nonagricultural industry. In normal circumstances primary industry provides the push while nonagricultural industry provides the pull. In theory, these pushing and pulling forces can combine in four different ways: strong push, strong pull; strong push, weak pull; weak push, strong pull; or weak push, weak pull. In China, natural agricultural resources are relatively scarce, the great majority of the population lives in rural villages, the birth rate is high, the average amount of resources per laborer is declining, and the surplus of agricultural labor is growing steadily. Under these circumstances, the push is strong, but during China's period of isolation the pull provided by nonagricultural industry was weak due to political and economic ideology. The emphasis on heavy industry meant that the number of jobs created per unit

of investment was relatively low, so the pull provided by nonagricultural industry was weak. Only the strictly regimented dualistic economy and the separation of cities and rural areas by means of ration tickets and household registration kept the push from primary industry from having a huge impact upon nonagricultural industry and the cities. Primary industry was forced to accommodate this labor power, even at the cost of lowering labor efficiency to below average levels. During the reform period the pull from nonagricultural industry has been greatly strengthened. The relaxation of policy has opened up a path between primary industry and nonagricultural industry, bringing about a new situation in which strong push combines with strong pull. This is the fundamental reason why employment distribution among the three industrial categories has moved so rapidly toward modernization during the last ten years of reform. Because the economy overheated, social demand for a long period of time exceeded social supply, and excessively high inflation appeared. By 1988 there was no choice but to carry out readjustments. Because fixed asset investments were scaled back, the number of social laborers in the construction industry fell by 833,000. Most of these people went back to the countryside. In 1989 not only did 400,000 fewer people from rural villages enter cities and towns to find work, but the cumulative number people who had switched to employment in nonagricultural industry within their own home villages also decreased in absolute terms. For details see Table 5. During the period of readjustment the pull from nonagricultural industry has necessarily been weakened, but this is a temporary setback within the context of progress and will not affect the strong push/strong pull combination which has been established. The only thing it will do is enable more rational development within a healthy economic environment.

### III. Occupational and Cultural Structure of the Work Force

There are no regularly kept statistics on the occupational and cultural structure of the work force, and the first and second census counts did not touch upon these questions, so section 2 of the article can only base an analysis upon data from the 1982 blanket census and the 1987 random sample census. This can give a fairly good reflection of changing trends in the occupational and cultural structure of the work force in the period since reforms began, but we have no way of making a comparison with what happened in the pre-reform period.

The term "occupation" refers to the job classification of each member of the working population. China has eight job classifications, and the employment distribution among them is shown in table 7:

Table 7—Occupational and Structure of the Work Force\*

Year	Technical Personnel of All Specialties	Persons Responsible for State Organs, Party and Mass Organizations, and Public Institutions	Functionaries and Related Personnel	Persons Working in Commerce	Service Personnel	Laborers in Agriculture, Forestry, Animal Husbandry, and Fishing	Workers and Related Personnel Employed in Production and Transportation	Total
1982	5.1	1.6	1.3	1.8	2.2	72.0	16.0	100.0
1987	4.5	1.8	1.4	2.7	2.4	70.8	16.4	100.0

Sources: 1982 blanket census and 1987 1 percent random sample census.

\*One classification (those not easily classified) has been eliminated.

The occupational structure of the work force and its changes are a reflection of the degree of a country's social, political, and economic development. Based on the table above we can come to the following conclusions:

1. The occupational structure of China's work force, just like China's industrial structure, is a reflection of the impact of an underdeveloped social economy upon quantitative relationships between different occupations. For example, the percentage of people employed as technical specialists in the various industries is too low, while the proportion of employment accounted for by agriculture, forestry, animal husbandry, and fishing exceeds 70 percent. In developmental terms, the percentage of the labor force employed in commerce and service occupations rose slightly between 1982 and 1987, while the percentage of the labor force employed in agriculture, forestry, animal husbandry, and fishing declined a little. This change was very regular.

2. The percentage of the labor force employed as technical specialists in the various industries, which was low to begin with, declined another 0.6 percentage points. This cannot be regarded as normal.

3. The proportion of persons responsible for state organs, party and mass organizations, and public institutions rose 0.2 percentage points, while the proportion of those employed as functionaries rose 0.1 percentage points. Of course, there was a rational element in the large increase in the number of these personnel. The Population Division of the State Statistical Bureau believes that "this is related to the strengthening of economic management, the strengthening of the legal system, and the strengthening of consultation in the policy making process, regulation and oversight, auditing, and the work of information departments." In the opinion of this writer, it would seem appropriate to point out that this situation could also be regarded as a yellow cautionary flag. This situation is not sufficiently in sync with the modernization drive, the main purpose of which is to raise economic benefits; nor is it in sync with efforts to establish a party and governmental management system that will

lead to simpler and cleaner government, subject to the rule of law, endowed with authority, and characterized by efficiency.

When studying the occupational structure of the labor force, it is possible to carry out a horizontal comparison between provinces, autonomous regions, and municipalities under the direct jurisdiction of the central government, and in so doing arrive at a comprehensive quantitative relationship. Here we take the total output value of each province, autonomous region, and directly administered municipality to represent the level of economic development (Y) in each of these regions. Y is the variable being interpreted. The percentage of the labor force employed as technical specialists ( $X_1$ ), the percentage of the labor force responsible for party and mass organizations and public institutions ( $X_2$ ), and the percentage of the labor force employed in agriculture, forestry, animal husbandry, and fishing ( $X_3$ ) are the interpretive variables. Using these variables to carry out a monadic linear regression, the model looks like this:

$$Y = -472.6341 + 464.0015X_1 \quad (1) \quad \text{F.test value} = 44.11745 \quad \text{correlation coefficient} = 0.7876207$$

$$Y = -58.19214 + 556.3491X_2 \quad (2) \quad \text{F.test value} = 48.17993 \quad \text{correlation coefficient} = 0.8005383$$

$$Y = 7304.24 - 78.0925X_3 \quad (3) \quad \text{F.test value} = 101.8008 \quad \text{correlation coefficient} = 0.8890299$$

The results from these regressions indicate: Regression (3) shows the highest degree of correlation for a reason that everyone understands. This question has already been discussed in section two of this article, so I will not repeat myself here. Regression (2) shows that when the percentage of the labor force responsible for party and mass organizations and public institutions is high, the level of economic development is high, and when this percentage is low, the level of economic development is low. In one aspect, this is in accord with the law of structure. For example, in developed countries,  $X_2$  is usually 10 percent or higher. The figure for Malaysia, a medium income country, is 2.4 percent, which is higher than in China. The problem is that we have to get rid of the irrational part of this portion of the labor force. The regression (3) shows the lowest degree of correlation. To

a certain extent this is a reflection of the fact that the impact of technological progress upon the level of economic development is not extremely significant. Perhaps this is a phase through which we must pass in our transition from the old to the new system, but it merits careful contemplation on the part of policy makers. The only hope for success in reform lies in establishing, perfecting, and implementing the type of microeconomic

profit mechanism that can only come into existence through technological progress.

The cultural structure of the labor force refers to the cultural level of the people employed in different occupations. It can be measured in terms of a culture and education index, which we can calculate.<sup>4</sup> Table 8 illustrates the issue as follows:

Table 8. Cultural Index of the Labor Force by Occupation

Year	Overall Index	Occupation						
		Technical Personnel of All Specialties	Persons Responsible for State Organs, Party and Mass Organizations, and Public Institutions	Functionaries, Related Personnel	Commerce Personnel	Service Personnel	Agricultural, Forestry Animal Husbandry, and Fishery Laborers	Workers, Related Personnel Employed in Production, Transportation
1982	4.57	9.58	7.60	8.1	6.77	5.23	3.62	6.33
1987	4.92	10.04	8.92	8.91	6.77	5.89	3.90	6.68

Sources: 1982 blanket census, 1987 one percent random sample census.

1. The overall culture and education index of the labor force was higher in 1987 than in 1982, and the individual index rose for every occupation except for persons working in commerce, where the figure remained unchanged. This is a welcome trend, but in studying the culture and education indices of different age groups, this writer has discovered that the index for the youngest sector of the labor force (ages 15 to 19) declined sharply from 5.81 in 1982 to 4.97 in 1987. This situation cries out for the attention of policymakers. Particularly in the last ten years of reform, for various reasons people have begun to place more importance on physical labor than intellectual labor. In recent years an increasing number of primary and middle school students have dropped out of school to go into business. If we do not make use of the profit mechanism to resolve this problem, it will be difficult to turn this situation around, and in the end it will threaten to make impossible any further rise in the overall culture and education index of the labor force as a whole.

2. The culture and education indices of different occupations have been rising in an uneven manner. The gap between occupations with the highest and lowest culture and education indices was 5.96 in 1982, but this gap had widened to 6.14 by 1987. The lowest index is for workers employed in agriculture, forestry, animal husbandry, and fishing, where it is under 4. It is highest among technical personnel in the various industries, but even there is only equivalent to a senior high graduate level.

3. The culture and education index of China's labor force is low, and especially so for women. The average for men in 1982 was 5.19, while for women it was 3.78. By 1987 these figures had changed to 5.50 and 4.18. This gender gap in culture and education indices to a great extent

reflects our present stage of social and economic development, as well as the real position and role of women in social development. Women account for a large proportion of China's labor force (44.52 percent in 1987). Raising the culture and education indices for the female population will not only afford women room for survival and development in the competitive environment of reform and opening up, but it will also help to lower the birth rate among women of child bearing age and make it more possible to achieve our birth control targets.

4. The index rose fastest for people responsible for state organs, party and mass organizations, and public institutions, which shows that the cultural level of candidates has been taken into account in choosing leaders, but the index is still under 9. A work force with culture and education indices as low as these is not very qualified for the task of modern leadership. This is a serious obstacle to reform and opening up. More importantly, in this leadership echelon 55.8 percent of the people have a junior high school education or less, 17 percent only have a primary school education, and 1.1 percent are illiterate or semi-illiterate.

5. The current culture and education indices of China's labor force are too low for our level of economic development. In most foreign countries which have achieved a level of technology and equipment equivalent to what China had achieved by the early 1980's, primary school education has become universalized, but this had not yet been achieved in China by 1987. The number of illiterate and semi-illiterate workers in China's labor force in 1987 was 140 million, or roughly 23 percent. Of these, 94.3 percent are concentrated in the agricultural sector. [passage omitted]

NOTES

1. 1978 was a crossroads. It can be regarded as both the final year of China's isolation from the rest of the world and the first year of opening up.
2. The number of primary industry laborers in China has risen from 173.17 million in 1952 to 293.4 million in 1977 and 323.08 million in 1988.
3. The State Statistical Bureau has never issued data on GNP for any individual year before 1978, so we have used national income instead.
4. I have set up the following culture and education indices:  $E_1$ ,  $X_1$ ,  $X_2$ ... $X_6$ , which represent, respectively, university graduates, those who have received some university level training, senior high school graduates, junior high school graduates, elementary school graduates, and semi-illiterates and illiterates. The author defines the number of years of education received for each category as, respectively, 16, 14, 10.5, 7.5, 4, and 0.  $L_1$ ,  $L_2$ ... $L_6$  represent corresponding levels of culture.  $L$  represents the entire the labor force, thus:  $E_1 = (X_1 L_1 + X_2 + L_2$ ... $X_6 L_6)/L$ .

**Urban Incomes Rise 8.5 Percent**

91P30135A Beijing ZHONGGUO TONGJI XINXI BAO in Chinese 4 Apr 91 p 1

[Article: "Urban Incomes Rise; Average Annual Personal Income in 1990 Was 1,387 Yuan Per Person, Representing the Largest Increase in the Past Four Years"]

[Text] In the wake of the strengthening of the state's macroeconomic control and the stabilization of market prices, urban residents' income levels have clearly risen. According to the State Statistical Bureau's Urban Survey Division, a 30,000-urban-household sample survey showed that in 1990, the average urban family's personal income was 1,387 yuan per person. After adjustment for inflation, the actual rate of growth was 8.5 percent over 1989. This not only reversed the trend of falling incomes in 1989, but also represented the highest rate of increase in the final four years of the Seventh Five-Year Plan.

The new features of last year's income increase include:

- In sharp contrast with the first four years of the Seventh Five-Year Plan, the growth rate of wage income was higher than that of non-wage income. According to statistics, the average urban resident's wage income in 1990 was 1,208 yuan, a 10.1-percent increase over 1989, which is higher than the nine-percent increase in non-wage income.
- The size of the increase in standard wages is clearly larger than that of bonus increases. According to statistics, the average standard wage increase in 1990 was 13.5 percent over 1989, making 1990 one of the better years for wage increases. On the other hand, the

average bonus income fell by four percent, and contract income, which has been rapidly and steadily growing in recent years, fell by 10.4 percent last year. This shows that the macroeconomic measures taken by the state to readjust urban incomes have been effective.

—There are fewer families with shrinking incomes, and the extent of income reduction has become smaller. Compared with 1989, households with falling incomes diminished from 54.7 percent to 29.8 percent of those families surveyed. It is understood that this drastic reduction is due to wage readjustment.

POPULATION

**Effects of Population Growth in 'West Region'**

91CE0474A Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 1, 25 Feb 91 pp 19-25

[Article by Yang Xingxian (2799 5281 2009): "Population, Environment, and Development of China's West Region"]

**[Text] I. The Importance of the West Region to China's Economic Development**

China's west region includes the 11 provinces and autonomous regions of Sichuan, Yunnan, Guizhou, and Guangxi in the southwest, Shaanxi, Gansu, Ningxia, Qinghai, and Xinjiang in the northwest, plus Inner Mongolia and Tibet, and occupies about 70.3 percent of China's land area.

The west region has complex and diverse natural conditions and very rich natural resources of all types. According to a 1985 assessment of its proven reserves, it has 57.34 percent of China's coal reserves, enticing oil reserve prospects, 64.52 percent of China's natural gas, 1.52 percent [as published] of China's developable hydroelectric resources, about 30 percent of China's iron ore reserves, about 35 percent of China's bauxite reserves, about 0 percent [as published] of China's copper deposits, 58.2 percent of China's grasslands, 91.48 percent of China's natural prairies, and 49.6 percent of China's forested area. It is estimated that China's west region has natural resources with a potential value of 5.8805 trillion yuan, including mineral deposits with a potential value of 49.31 percent of those throughout China.

The west region has most of China's minority nationality population, with a minority nationality population of 64.2481 million, or 74.79 percent of China's minority nationality population and 20.92 percent of the west region's population. Most of China's current poor and backward areas and impoverished population are also located in this region. Developing the economy of our

west region will affect not only China's minority nationalities policy, but also the economic stability of the west region and the whole country.

Taking a closer look, the west region has a unique geographical position. It borders on certain Southeast Asian countries, as well as India, Pakistan, the Soviet Union, Afghanistan, and Mongolia, which gives it distinctive conditions for developing an externally oriented economy and a key position in national defense.

This shows that the economic development of the west region is crucial to China's national economy, and will have a definite impact on the realization of economic development strategy objectives for the year 2000. While the west region is generally a slowly developing area, it is still quite far behind the east region, and has been getting further behind over the last decade. Comparing the provinces and autonomous regions in the west region to Jiangsu Province, it is estimated that the GVIO [Gross Value of Industrial Output] gap widened 30 to 40 times and the per capita national income gap widened about 10 times from 1952 to 1988. Thus, developing the economy of the west region has become a very pressing matter.

What is of special concern is that, along with its low level of economic development, the west region's population and environmental problems have become particularly glaring, and are especially severe in some areas. Population growth and environmental deterioration have caused a series of problems, becoming obstacles to economic development and limitations to further economic growth.

## II. Population Growth and Economic Development

The west region's 1987 population reached 307.12 million, or 28.76 percent of China's population, and almost double that of the first census in 1953, for an average growth rate of 2.4 percent a year, which is high for population growth.

The west region's population growth had the following characteristics:

1. A high growth rate: Its population in the second census in 1964 was 187.31 million, or 1.25 times that in the first census in 1953, for a 2 percent average annual growth rate. Its population in the third census in 1982 was 287.83 million, or 1.54 times that in 1964, for an average annual growth rate of 2.5 percent, which was higher than the 2.1 percent national average for the period, and an average annual growth rate of 3.3 percent to 3.5 percent in some provinces and autonomous regions, such as Ningxia and Xinjiang. According to a 1 percent spot check in 1987, its population had reached 307.12 million, or 1.07 times that in 1982, for an average annual growth rate of 1.5 percent, being still higher than the 1.2 percent national average, and reaching 1.5 percent to 1.9 percent in Xinjiang and Guangxi.

2. An increasing percentage of China's population: The west region has accounted for a bigger percentage of China's population year after year. This figure was 27.10 percent in 1964, 28.67 percent in 1982, and 28.76 percent in 1987, for almost a 2 percent increase.

3. A high minority nationality population growth: Differences in habits and customs, and family planning policies, have allowed the minority nationality population in the west region to grow faster. This can be seen in the higher population growth rates mentioned above for places, such as Xinjiang, Guangxi, and Ningxia. The west region's minority nationality population was about 20 million in the first census in 1953, but had reached 64.2481 million by 1987, for about a 3.5 percent average annual growth rate, which was far higher than the national average for the period.

4. A younger population age breakdown: High employment pressure on one hand, and large population growth pressure on the other, are creating great difficulties for future family planning and population control. In 1987, the west region had 162.2975 million young people under 19 years of age, or 49.6 percent of its population, which was 7 percent higher than the national average, and 126.4559 million people between the ages of 20 and 50, or 41.2 percent of its population, which was 1 percent higher than the national average.

5. A low literacy rate: A large percentage of the west region's population is illiterate or semiliterate, and this percentage is particularly large among the rural labor force. The 1987 spot check of the west region's population showed that only 6.7 percent, or 2 percent less than the national average, were college educated, 23.1 percent, or 5 percent less than the national average, had high school educations, and 72.7246 million of the population that was 12 or more years old were illiterate or semiliterate, for a 30.7 percent illiteracy and semiliteracy rate, or 4 percent higher than the national average.

6. An uneven population distribution: As to the urban-rural distribution, about 70 percent of the population, or 7 percent more than the national average, lives in rural areas. The provincial distribution is uneven in that Sichuan has 34 percent of the west region's population, Guangxi has 13 percent, and the rest of the provinces and autonomous regions have the other 53 percent. The regional distribution is uneven in that the population is concentrated in economically developed basins and river valleys, and is sparse in backward mountainous and remote border areas. While Xinjiang has a population density of only eight per sq km, which is certainly not high, it is as high as 300 per sq km in autonomous prefectures with irrigated greenbelts.

Population growth exceeding socioeconomic development has saddled the west region with a heavy socioeconomic burden. Part of the socioeconomic successes that it has achieved since liberation have been offset by its population growth. While the west region generally had a relatively high economic growth rate from 1949 to

1988, its population growth has left it with a low per capita economic growth rate. While Qinghai Province's national income increased from 1.07 billion yuan in 1949 to 4 billion yuan by 1988, for an average growth rate of 7.6 percent a year, its per capita national income increased from 722 yuan to 921 yuan, for an average growth rate of only 0.6 percent a year. And while its grain output rose from 407,000 tons in 1949 to 1.0582 million tons by 1988, for an average growth rate of 2.5 percent a year, its per capita grain output fell from 550 jin to 487 jin, which has turned it into a grain-deficient province.

Along with this population growth, an agricultural crisis is quietly approaching and threatening the west region's socioeconomic stability and development. During the initial post-liberation period, the west region was basically self-sufficient in grain and other agricultural products, being a grain-surplus region and shipping out an average of 1.35 billion kg of grain a year from 1953 to 1968. But since the 1970's its agricultural situation, particularly grain, has deteriorated steadily, most of its provinces and autonomous regions are no longer self-sufficient in grain and other key agricultural products, and it shipped in an average of 810 million kg of grain a year from 1969 to 1980, and an average of 3 billion kg of grain a year from 1981 to 1988. Except for Sichuan and Guangxi, the other provinces and autonomous regions now rely on grain shipped in from other areas. Moreover, the agricultural and particularly grain pressure on the west region is increasing. By the year 2000, the west region will have nine grain-deficient provinces or autonomous regions, with only Sichuan and Guangxi still having grain surpluses, and the west region's grain shortage will reach 18.716 billion jin, including 7.092 billion jin in Guizhou, or 35.7 percent of its grain output. Even if Sichuan and Guangxi's grain surpluses of 11.448 billion jin are used to make up the regional deficiency, there will still be a shortage of 7.268 billion jin. Relying on shipping in grain from other areas not only increases the pressure on local finances to a certain extent, but also increases the pressure on transportation, and on rail shipping in particular. An even worse problem is that steadily increasing grain shortages will limit the successful development of the west region's natural resources.

This population growth has long burdened the region's poor ecology. Its severely imbalanced ecology and population growth have exceeded the supportable limits of its ecosystem. From the perspective of the relations between its land productivity and its population, resources, and grain supply and demand, most of the west region's provinces and autonomous regions already suffer from population overload or are approaching critical population limits. Studies show that Guangxi, Guizhou, Yunnan, Tibet, Gansu, and Qinghai, with 43.3 percent of the west region's population and 46.3 percent of its land area, are already suffering from population overload; while Inner Mongolia, Sichuan, Shaanxi, Ningxia, and Xinjiang, with 56.7 percent of the west region's population and 53.7 percent of its land area, are

approaching critical population limits. With such poor land productivity, the west region has been forced to level, reclaim, and cultivate too much infertile wasteland, expand its cultivated area, and increase its grain production in order to feed its huge population. Moreover, this large-scale land reclamation and cultivation has increased its denuded land area, decreased vegetation, and exacerbated soil erosion, causing severe desertification and land loss and a steadily worsening environment.

This population growth has obstructed the west region's industrialization and urbanization as follows: 1) Too rapid population growth has made it hard to accumulate capital quickly. It is estimated that the annual population growth in the region's provinces and autonomous regions eats up about 10 percent of their increased annual consumer funds. 2) Surplus labor has created a severe unemployment problem. The capital shortage has made it impossible to shift the labor force quickly, and "concentrated" it in primary industries. Surveys show that over 30 percent of the rural work force is "potentially unemployed." Employment of the township work force has also become a major problem in recent years. 3) There have been too few industrial contributions, with industry developing at a slow pace and technology advancing slowly. Too rapid population growth, low literacy levels, slow industrialization, and too many primary industries, have left the west region with too few high-tech, capital-intensive industries. Industry accounted for only about 35 percent of national income in the west region's provinces and autonomous regions in 1988, or 10 percent less than the national average, and almost 20 percent less than in the Jiangsu-Zhejiang zone. 4) The township population is too low, while the rural labor force is too big. The township population accounted for only about 30 percent of the west region's population in 1988, or 20 percent less than the national average. Industrial workers account for only 3.64 percent of the work force, while farm workers account for more than 88.39 percent.

While there are many factors involved in the population growth of the west region, the major ones are as follows:

1. Ideological concepts are backward, traditional ideas are still prevalent, and the population control difficulties are in the rural areas.
2. There are faults in our national family planning policy. The west region's population has not been promptly controlled since liberation, which has given it a growth momentum.
3. Improved rural medical and health care have caused sharp increases in birth and population growth rates.
4. Preferential family planning policies for minority nationalities have made it hard to control the population and made multiple pregnancies prevalent. Some of the nonminority nationality population have used various means to legally join the ranks of those allowed to have "more than one child."

5. While certain economically backward areas are unsuited to human habitation and are suffering from population overload, current welfare policies in the areas of money and food have not only maintained, but also steadily expanded, the population in places where it should have been reduced.

### III. The Environmental Crisis and Economic Development

Even though the west region is economically undeveloped, with a low level of development of natural resources and a mineral resources development and utilization rate of only 0.42 percent, its ecosystem is still imbalanced, with glaring environmental deterioration that is particularly severe in some areas.

1. Soil erosion has increased. The general situation is that while soil erosion has been brought under control on small tracts of land, it has worsened on large tracts, and is increasing steadily. In addition to the Liao He [Liao River] valley and southeastern mountainous and hilly areas, the rest of China's severely soil eroded areas are in the west region, such as the loess plateau area, the middle and upper reaches of the Huang He [Yellow River], and our transverse mountain ranges. Using our river valley silt discharge volume as a particular indicator of soil erosion, measuring stations report that silt discharge volume is increasing steadily, and control effectiveness has weakened. The Guide Station on the in the Qinghai-Tibet Plateau reported a silt discharge volume of 24.8 million tons and a control rate of 11.15 percent in 1973, which figures were 28.8 million tons and 7.6 percent, respectively, by 1980, and are still worsening. The Yichang Station on the Huang He in the Yunnan-Guizhou Plateau and the Sichuan Basin reports that its silt discharge volume has increased from 510 million tons in 1973 to 527 million tons in 1980 and 609 million tons in 1985, and that its control rate has dropped from 30.91 percent to 25.2 percent. Its best case scenario for the year 2000 is that its control rate might increase to still only 29.3 percent.

2. Desertification is becoming increasingly serious, expanding at a rate of 1,500 sq km a year. As China's deserts are basically located in Inner Mongolia, Ningxia, Gansu, and Xinjiang, desertification is an environmental problem that is unique to the northwest. This region is an arid or semi-arid zone, with very little annual precipitation, only 50-600 mm which, added to man-made damage and decreased vegetation, is causing increasingly serious desertification. Desertification is most serious in an interlocking zone east of Helan Mountain (Alxa Ul) and the Wuqiao mountain range, starting from the Ke'erqin Prairie in the east and passing through the flatlands and E'erduosi to the pastures south of Ningxia. Desertification caused a loss of 39,000 sq km of land resources from the late 1950's to the late 1970's. At present, about 59 million mu of farmland, 74 million mu of grasslands, and over 2,000 km of railways are threatened by desertification. Scientists say that the major cause of desertification is the loss of vegetation

caused by man's irrational over-utilization of natural resources, such as land. Of the factors causing desertification, 25.4 percent involve overcultivation of grasslands, 25.3 percent involve overgrazing, 31.8 percent involve overmining and overcutting, 9.0 percent involve improper use of water resources, and the other 8.5 percent are due to other things. Concerned specialists warn that unless effective steps are taken, another 75,300 sq km of land, or more than twice the size of Taiwan Province, will have turned to desert by the year 2000.

3. Environmental pollution is particularly serious in some areas. Pollution sources are urban sewage and garbage, industrial discharge of the three wastes (waste gas, waste water, and industrial residue), and discharge of the three wastes by township enterprises. Statistics on waste discharge volume for the west region from 1981 to 1988, show that waste water increased from 6.898 billion tons to 8.168 billion tons, waste industrial residue increased from 100.64 million tons to 138.7 million tons, and waste gas increased from 1.0527 trillion cu m to 1.846 trillion cu m, with waste treatment rates being only 25 percent for water, only 50 percent for industrial residue, and only about 30 percent for gas. Huhhot, Guiyang, and Chongqing led the list of China's 10 most polluted cities from 1983 to 1985. The atmospheric acid rain zone around Chongqing, where precipitation has an average pH value of less than 5 and the acid rain probability is more than 90 percent, is growing steadily. It must be noted that township enterprises, focused on mining and primary manufacturing, have developed rapidly in recent years to become the second major source of pollution. Moreover, their pervasiveness and decentralized control cannot be ignored.

4. Many years of low input, high demands, and pillaging of grasslands have caused an increasingly severe loss of grasslands. China lost 15.7 percent of its grasslands in the 1970's, and over 30 percent in the mid-1980's, at a rate of over 10 million mu a year. Xinjiang has lost over 120 million mu of grasslands, reducing its output by about 25 percent, reducing its hay output by 3.78 billion kg, and sustaining losses of 1.764 billion yuan. An MSS video shows that while Inner Mongolia had not yet clearly begun to lose its pasturelands in the 1950's, it had begun to lose glaring amounts of them by the mid-1960's. It has now lost 320 million mu, or 35.6 percent of its grasslands, and its hay output has dropped 30-50 percent. The former "Wind blows across fertile prairies revealing cattle and sheep," has become "Wind blows across grassless deserts exposing dust farms."

5. Reckless and indiscriminate felling of trees has left the cut exceeding the growth, and lowered the percentage of forest cover. Sichuan's percentage of forest cover, which was about 20 percent during the initial post-liberation period, dropped sharply in the late 1970's to 12.55 percent, and is now about 8 percent. Sichuan felled trees in the first 30 some years after the founding of the PRC at a rate far exceeding that of the past hundreds of years, with the cut being more than twice the growth. At this rate, Sichuan will have hardly any forest resources left by

the year 2000. The natural forest cover rate in the Xishuangbanna region, which was 60 percent during the initial post-liberation period, is now less than 34 percent. A survey found that 35.39 million mu of forest land in Xinjiang's Junggar Basin is more than 10 percent covered with desert shrubs. This is 68.4 percent less than in 1958, for a decrease of 3.2 million mu a year, or 74 percent of the 4.31 million mu that Xinjiang reforested in over three decades. Xinjiang has lost 818 million mu of forest in just over three decades, with its forest cover rate dropping from 1.6 percent in 1949 to 1.03 percent by 1986.

6. The environment is deteriorating, with natural disasters occurring more frequently, their effects and causes increasing, their direct economic losses growing, and the social damage they cause becoming increasingly severe. In 1988, 172 million mu of land in the west region, or 38.1 percent of its cultivated area, was hit by natural disasters, accounting for 23 percent of the area hit by natural disasters throughout China, and 71.85 million mu, or 15.9 percent of its cultivated area, was turned into natural disasters, accounting for 20 percent of the area turned into natural disasters throughout China. The major natural disasters that occur in places, such as the northwest and Inner Mongolia, are droughts, hailstorms, and windstorms. In particular, droughts are occurring more often, at an average of two every three years, and a major one every seven years. Winters are bitterly cold, freeze damage is severe, blizzards and cold currents occur frequently, and these "black disasters" (freeze damage) and "white disasters" (snowstorms) cause difficulties for the livestock industry and residents' livelihoods. The southwest suffers mostly from drought, soil erosion, mud and rock slides, and waterlogging, most of which occur simultaneously and frequently. During the initial post-liberation period, the southwest had a major drought once a decade and a medium-sized one every five years, in the 1960's it had two major ones and three medium-sized ones per decade, and in the 1980's it had a major one and a medium-sized one every six years, with Sichuan Province being hit by drought almost every year. Mud, rock, and landslides are some of the more damaging natural disasters that cause huge economic losses in the southwest. Over 50,000 sq km in Yunnan Province alone have been hit by mud, rock, and land slides, Sichuan Province has over 2,370 mud- and boulder-strewn gullies, and Guizhou Province has suffered from over 2,000 landslides, of which more than 150 were major natural disasters. Mud and rock slides cause direct economic losses of more than 50 million yuan a year in Guizhou, more than 30 million yuan a year in Yunnan, and as much as 200-300 million yuan in the worst years. The accumulative economic losses from landslides are over 200 million yuan in Guizhou alone.

This shows that the west region's environmental problems have become quite glaring and are having a wide-spread impact.

This continuing environmental deterioration is threatening the existence and development of the Chinese

nation in the following ways: 1) Soil erosion in the upper reaches of our rivers, and silting of riverbeds and reservoirs in the lower reaches of our rivers, are causing serious economic losses and having a severe social impact. The middle and lower reaches of the Huang He are becoming increasingly silted up, with the riverbed at Zhengzhou being more than 10 m above ground level, which is creating a dangerous "suspension river." As the silt discharge volume of the Yangtze He is clearly increasing, it is not unreasonable that some are concerned about it becoming another Huang He. Silting is shortening the service lives of reservoirs, and even causing them to be scrapped; 2. Decreasing vegetation, declining soil fertility, and loss of grasslands are lowering land productivity, shrinking human subsistence space, and affecting China's climate on a large scale<sup>1</sup> 3) The frequent occurrence of desertification, natural disasters, and soil erosion are endangering human security and forfeiting large amounts of precious soil resources. 4) The west region's increasing environmental pollution in areas, such as water quality, air, and food, is having a very adverse impact on China's densely populated and economically developed East region in the lower reaches of our rivers. Allowing the west region's environment to continue to deteriorate will be bound to create a series of adverse consequences.

Continued environmental deterioration will jeopardize agricultural production. Increasing soil erosion shrinks cultivated area, reduces soil fertility, and threatens increases in per unit area agricultural yields. For instance, topsoil erosion in the loess plateau has reduced soil humus content from over 3 percent to 0.5-0.3 percent, nitrogen content from 0.2-0.3 percent to 0.03 percent, and effective phosphorus content from about 50 ppm to less than five ppm. While the west region's productive potential for resources, such as sunlight and water, and certain representative data, theoretically show that its agricultural yield should be about 500 jin per mu, it is actually now less than 100 jin per mu. The key problem here is inadequate soil nutrients. It is estimated that erosion of soil nutrients by the Huang He causes a loss of 1.15 million to 2.15 million tons of nitrogen a year for the loess plateau cultivated area, thus reducing its grain output by 14 million to 26.2 million tons. Environmental pollution has such an adverse impact on crop growth that some severely polluted farmlands have to be taken out of cultivation. Steadily increasing atmospheric pollution and acid rain have become new threats to agricultural production in recent years. A survey in Baogang found that atmospheric flourine pollution clearly affects crop growth. From April to June, when atmospheric flourine pollution is at a daily average value of 4.64, barley plants are 56.9 cm tall with 12.66 grains per tassel, but when atmospheric flourine pollution is at a daily average value of 0.49, barley plants are 66.05 cm tall with 17.17 grains per tassel. Increasing desertification not only swallows up large amounts of cultivatable land, but also creates a more arid climate, which makes it even harder to bring under control. Natural disasters cause huge agricultural

losses. In the southwest, 52.9152 million people a year, or 26.5 percent of the population, are affected by natural disasters, which cause 2,335 deaths and reduce grain output by 9.91 billion jin.

Increasing desertification, loss of grasslands, and natural disasters are limiting development of the livestock industry in grazing areas. Decreased hay output, lower hay quality, and fodder shortages have caused large numbers of livestock deaths in recent years. Certain areas have been forced to buy and import forage grass and feed from other areas, which has increased production costs and put heavier economic burdens on herdsman. Droughts, blizzards, and windstorms gave Chifeng City in Inner Mongolia a livestock death rate of 6.3 percent from 1980 to June 1985. Its livestock death rate reached 8.1 percent in 1984, causing 547,000 livestock deaths in 1984 alone. Environmental pollution through the food chain affects household livestock growth. Atmospheric flourine pollution in Baotou causes livestock diseases in surrounding areas, mostly skeletal and tooth diseases, a disease incidence of 48.3-76.3 percent, and many livestock deaths due to immune deficiencies.

This environmental deterioration is also having an increasingly severe impact on other sectors. Soil erosion and mud, rock, and land slides in the southwest also threaten the safety of transportation lines and urban industrial mining. Floods in Sichuan Province shut down 3,115 industrial mining enterprises in 1981. The Chengdu-Kunming line has been hit by 194 landslides, has 367 mud- and boulder-strewn gullies of varying sizes, and has seven stations that have been destroyed by mud and rock slides since it was opened to traffic. The four southwestern provinces and autonomous regions sustain direct economic losses of 150-200 million yuan a year due to flood damage. Increasing desertification is threatening the safety of transportation lines in the northwest and the northern part of north China, and limiting the development of resources in the northwest.

Environmental deterioration is affecting social stability and offsetting economic development achievements. Although the west region has had a rapid economic growth rate since liberation, the increasing direct and indirect economic losses that it has sustained due to environmental deterioration, have crippled its economic development.

The major causes of environmental deterioration in the west region are as follows:

1. Man-made factors are the major cause of environmental deterioration. Population growth has led to overdevelopment and overutilization of natural resources, and the plundering of nature has damaged the natural environment. A host of facts show that slightly more than 70-80 percent of environmental deterioration is caused by man-made factors, while a little less than 20-30 percent is caused by natural factors. Over 90

percent of desertification, loss of grasslands, and environmental pollution in particular, are caused by man-made factors.

2. The west region's ecosystem is particularly fragile and inflexible. The northwest and Inner Mongolia is an arid and semi-arid region, with only 50-600 mm of precipitation a year, extensive deserts, long days of sunshine, much evaporation, an annual accumulated temperature ( $>10^{\circ}\text{C}$ ) of less than 3,500 $^{\circ}\text{C}$ , and an aridity index of 2.0 to 4.0. Places, such as deserts in western Inner Mongolia and northern Gansu, and the Tarim Basin, have an aridity index higher than 16.0. Thus, any man-made damage of vegetation is very likely to cause increased desertification, a decline in soil fertility, and loss of grasslands. As the loess plateau is covered with a thick layer of loess, and has loose soil, over 60 percent of which is powdered sand, man-made damage to vegetation exposes the loess and is very likely to cause erosion. In addition, its monsoon climate, many hard rainstorms, and concentrated precipitation cause severe soil erosion in the loess plateau. The loess plateau has an erosion modulus of 3,000-10,000 tons per sq km.<sup>2</sup> The border region in the southwest and the Qinghai-Tibet Plateau has high mountains with steep slopes and a thin layer of surface soil, is mostly a sandstone area, and has a high annual precipitation, averaging 1,600 to 2,000 mm. Man-made wasteland reclamation and felling of forests is very likely to cause soil erosion and mud, rock, and landslides, resulting in barren land and "petrification."

3. The third cause of environmental deterioration in the west region is resource development with little or no protection. Without proper attention being paid to environmental protection, the environment cannot be protected effectively. The current severe overloading of grasslands, land load capacity being at or near its limit, indiscriminate, reckless, and uncontrolled felling of trees, and direct dumping of untreated "three wastes," is bound to cause environmental deterioration.

#### IV. Obstacles to Development

Development is a perpetual theme. While developing the west region's economy quickly is necessary for the west region itself, as well as for China's overall economic development, we must take note that population growth and the environmental crisis have put certain limits on and become obstacles to the west region's economic development. Unless we pay attention to this, we are going to pay a heavy price.

The west region's population growth momentum is very strong in the following areas: 1) The west region's natural population growth rate is high, having always been higher than that in the east. Based on its current 1.5-percent natural growth rate, the west region's population will reach 380 million by the year 2000, or 29.2 percent of the population of China, and 740 million by the year 2050, or more than 35 percent of the population. 2) The west region is already in a state of doubling and redoubling population. The population born between 1963

and 1973 had reached 37.78 million by 1987, or 23.58 percent of the west region's population. Moreover, as it has all reached childbearing age, the population will increase sharply if it is not promptly controlled. 3) The minority nationality population growth rate is high, and will be hard to control in the future. Based on a 3 percent natural growth rate, the minority nationality population will reach 94.4447 million, or 24.85 percent of the west region's population, by the year 2000. 4) Rural population growth is hard to control, and there is a severe problem of beyond-plan births. The overall birth rate among women in the west region had reached 2.57 by 1987, being as high as 2.65-2.83 in places, which was far higher than the national average of 2.27. The multiple birth rate was over 80 percent in rural areas.

The west region's environmental deterioration is going to continue to worsen. The area affected by soil erosion will continue to expand. The Yunnan-Guizhou Plateau, the Sichuan region, and the loess plateau in particular will be hit by increasing soil erosion due to increased population pressure and faster resource development. Desertification is going to continue to expand until effective steps are taken to control it. If intense land utilization continues, the desert area will have expanded from 176,000 sq km in 1983 to 251,300 sq km by the year 2000, grassland loss and desertification will worsen, and there will be huge pressure on the livestock industry. The unavoidable loss of grasslands will make the west region's grassland area 20 percent less by the year 2000 than it is now, hay output will drop, and the amount of pollutants will increase sharply. The west region's faster economic growth and resource development will sharply increase its discharge of "the three wastes." Studies show a clear relationship between dumping of "the three wastes" and industrial development, at a correlation of 0.955 and a coefficient of elasticity of 0.59. The correlation between dumping of waste residues and industrial development is 0.989, and the coefficient of elasticity is 0.438. It is estimated that by the year 2000, the west region will be discharging more than twice as much of "the three wastes" than at present.

Worsening population and environmental problems and their interrelated accumulation are obviously insurmountable obstacles to the west region's economic development. Having to maintain the subsistence of its existing population by speeding up resource and economic development, while dealing with their unavoidable environmental deterioration in the interests of posterity, has always presented the west region with a tough choice between subsistence and development. Moreover, the steadily widening gap between east and west makes development of the west region seem even more crucial.

Thus, we must take the following effective control steps:

1. As the west region's population and environmental problems have not been dealt with since the founding of the PRC, and controlling them effectively, particularly the population problem, which has been gaining

momentum for almost 50 years, will require long-range thinking and steps, we should draw up a long-range economic development plan for the west region, make population control as well as environmental protection and control basic policies, and use administrative, economic, and legal means to ensure their implementation.

2. We must carefully deal with the complex relationships among agricultural development, population control, and environmental protection.

While in principle, the west region should give priority to development of industries with high employment rates and low environmental pollution, as far as the west region's existing resources and economic development are concerned, its basic industries are still agriculture, livestock raising, energy, raw materials, and manufacturing, whose development will create unavoidable environmental problems. The crux of the problem is that we must either take effective control steps or continue to travel the old path of "pollute first and control later."

Some have suggested immigration from east to west to speed up the west region's resource development. We think that this could only increase the west region's burdens for the following reasons: 1) As to biological output, the west region has only 12.5-16 percent of the east's ecological and climatic potential, and its land load capacity is obviously lower than in the east; 2) As the west region is already basically overloaded, immigration would be bound to increase the pressure on its ecosystem. Thus, the west region must rely basically on its own manpower to develop its economy, and should import only certain scientists and technicians from the east.

3. We must strictly enforce family planning policies to curb population growth. We must persist in enforcing the policy of "vigorously encouraging firstborns, strictly controlling secondborns, and firmly stopping thirdborns." Only by ensuring that population growth is moderate can we greatly lower demand and alleviate economic development pressure. As current family planning difficulties are in rural and minority nationality areas, we must take effective steps to plug these two "major loopholes." Based on their respective conditions, all areas should improve their legislation to give more legality and stricter enforcement to family planning.

4. In order to meet the west region's economic development needs, we must raise its literacy level as quickly as possible, make grade school universal for peasants, eliminate illiteracy and, in particular, improve vocational training. Current priorities should be as follows: 1) to eliminate rural illiteracy; 2) to make sure that more youngsters enter and continue school in order to raise the literacy level of the future work force; 3) to set up an effective and flexible vocational training network.

5. We should make environmental protection and control a coordinated national process for the following reasons: 1) The key obstacle to controlling soil erosion, decreased vegetation, and loss of grasslands is the grain shortage. As far as the west region's natural resources are concerned, it will obviously be impossible for it to become self-sufficient in agricultural products, and grain in particular. As there are limitations on expanding cultivated area, certain areas that must be taken out of cultivation, and basically no untapped land resources except in Xinjiang, Gansu, and Inner Mongolia, in addition to increasing natural disasters, severe capital shortages, and difficulties in raising per unit area yields quickly, the whole nation must become involved in solving the west region's grain problems. 2) Environmental control requires large amounts of money and technology, which is precisely the west region's weakness and the east's advantage. 3) As the west region's environmental development affects the existence of the Chinese nation as well as the secure economic development of the east region, China should have centralized plans that rely on national strengths to control the west region's environment.

#### Footnotes

1. "Large scale" is a term used in climatology to refer to either general regional or worldwide climatic changes, but refers here to general regional climatic fluctuations.
2. Erosion modulus indicates silt erosion volume per unit area per unit of time in a drainage area or region, with the unit being either ton per sq km per year or m<sup>3</sup> per sq km per year.

## TRANSPORTATION

### Guangdong Province Begins Construction of New Railway

*OW3105145491 Beijing XINHUA in English  
1415 GMT 31 May 91*

[Text] Guangzhou, May 31 (XINHUA)—The construction of a long-awaited new railway officially started in the eastern part of south China's Guangdong Province today.

The 480-kilometer railway, which will link Guangzhou, the provincial capital, with Shantou, a special economic zone via Meixian County, is scheduled for completion in 1995.

The eastern part of Guangdong is the ancestral home of over 10 million overseas Chinese. The lack of railways has hindered economic development in the area.

The provincial government raised funds to construct the railway in order to speed the development of natural resources in the area.

### Ocean Shipping Company Opens New International Routes

*OW2505124891 Beijing XINHUA in English  
1228 GMT 25 May 91*

[Text] Beijing, May 25 (XINHUA)—The China Ocean Shipping Company opened two new international routes today to facilitate the development of trade between northeast China and Southeast Asian countries.

One route links Dalian, a port city in Liaoning Province, with Bangkok in Thailand and the other links Dalian with Singapore.

A ceremony marking the opening of the two routes was held in Dalian today.

Ships belonging to the Guangzhou Ocean Shipping Company will make a round trip voyage on each of the two routes monthly.

### Guizhou Expressway Opens to Traffic

*OW1605134491 Beijing XINHUA in English  
1217 GMT 16 May 91*

[Text] Guiyang, May 16 (XINHUA)—A modern expressway from Guiyang, capital of Guizhou Province, to Huangguoshu, one of the scenic spots in the province, opened to traffic today.

This is the first such tourist line to be built in mountainous southwest China, the Ministry of Communications announced.

The 137-kilometer expressway passes over 122 bridges, is crossed by 210 underground pedestrian passageways and bridges, and goes through one tunnel. The total construction costs amounted to 300 million yuan.

As part of the Yunnan-Guizhou trunk expressway, the Guiyang-Huangguoshu expressway passes through Guizhou's grain and edible-oil crops production bases and the province's large and medium-sized enterprise areas. It is expected to greatly benefit the province's economy.

## AGRICULTURE

### Officials Urge Peasants' Burdens Be Lightened

*91CE0500A Beijing NONGCUN GONGZUO  
TONGXUN [RURAL WORK NEWSLETTER]  
in Chinese No 2, 5 Feb 91 pp 38-39*

[Article by Fan Xiaojian (5400 1420 1696) et al: "Persevere in Doing a Better Job Managing the Peasants' Burdens";]

[Text] **Lighten the Peasants' Burdens**

**Editorial Note:** *The issue of lightening the peasants' burdens has become a hot point that has attracted much*

attention in society. Although the party Central Committee and the State Council have issued repeated orders and the provinces, municipalities, and autonomous prefectures as well as other relevant departments have also formulated pertinent measures and have done a lot of work in this area, the burden of peasants in many localities not only has not eased but has in fact become increasingly heavy. Leaders at all levels and the relevant departments must pay more attention to this problem. We simply cannot let it go on. Whether the peasants' burdens are too heavy and whether they are unreasonable are not just an economic issue but also a political issue. They affect not only the development of the rural productive forces but also the relationship between the party and the masses as well as the alliance between industry and agriculture. Facts prove that reducing the peasants' burdens is not just a matter of ideology but that we must put in practical and meticulous work before we can produce results. The article "Persevere In Doing a Better Job Managing the Peasants' Burdens" by Fan Xiaojian, the Ministry of Agriculture's economic advisor on rural cooperation, and other comrades analyzes the reasons behind the peasants' increasingly heavy burden and makes several suggestions on how to lighten them. We believe it will serve as an inspiration to others. Only if the leaders pay special attention and only if we have effective measures can the peasants' burdens be lightened.

#### **Why Have the Peasants' Burdens Grown Heavier Despite Efforts To Lighten Them?**

Upon visiting and looking into conditions in several counties in Hubei Province, we have discovered that although Hubei's governments at all levels have done much to ease the peasants' burden in recent years, the per capita burden of Hubei's peasants is still growing. For each year from 1985 to 1989, per capita collective retention, town and township unified plans, and other fund gathering and apportionment items took up 22.9 yuan, 25.03 yuan, 27.3 yuan, 30.18 yuan, and 35.51 yuan, respectively, which came to 5.84 percent, 5.94 percent, 6.13 percent, 6.55 percent, and 7.13 percent of rural per capita net income in the preceding year. The main reasons behind the peasants' increasing burdens year after year are:

**1. There are many "causes" in addition to the fixed items:** Most localities have not exceeded the limit set for the "three items of collective retention and five items of town and township unified planning" as stipulated by the State Council. Statistics show that for each year from 1985 to 1989, the "three retentions and five plans" took up 4.1 percent, 4.06 percent, 4.14 percent, 4.39 percent, and 4.56 percent, respectively, of the rural per capita net income in the previous year in Hubei. But there are many charges, fund raisings, and apportionments in addition to the "three retention and five plans." In particular, some expenses should have but have not been included in the "three retentions and five plans," and instead, new "titles" are created so that more money can be collected. Statistics show that each year from 1985 to 1989, the peasants' per capita burden in addition to the

fixed items in the province came to 6.83 yuan, 7.93 yuan, 8.86 yuan, 9.96 yuan, and 12.81 yuan, which accounted for approximately one-third of the peasants' total burden over the years. Our survey showed that in 1989, besides agricultural tax, special product tax, water charges, and the "three retentions and five plans," the peasants in a certain county also paid 1.98 million yuan for various fund gatherings and apportionments, 1.416 million yuan in unreasonable service-related charges, and 6.711 million in joint production charges. One small town in that county collected 222,600 yuan, or 4.75 yuan per person, for various fund raisings and apportionments. Out of this sum, 46,400 yuan was earmarked for the town's disaster fund, 17,400 yuan for national defense, 51,300 yuan for guaranteed veterinarian service, 42,200 yuan to fund schools, 61,200 yuan for oil price differential, 2,100 yuan for office (that is, town and township agencies) administrative outlay, 1,800 yuan to pay wages for party training, and 200 yuan to subsidize barefoot doctors. In our survey, we discovered that the township, village, and group levels each sets its own "joint production fee," some of which should have been listed as accumulation fund, and some should have been deemed management fee. In calculating the percentage limits, these items are omitted, and some expenses are listed under new headings, and that is how some localities managed to "lighten" the peasants' burdens.

**2. Fund gatherings and apportionments are getting out of hand.** With the slogan, "the people take care of the people's affairs," we find "the people paying for their own education, building their own hospitals, hiring their own police, supplying their own electricity, and holding their own peasants' sports meet." Every business and every industry holds out its hands to the peasants for money, competing with one another to get more. As a result, a one-time fund raising started by one department becomes regular fund raisings by several departments, and the peasants are left to moan and groan. When the state held its Second National Games in Xiaogan Prefecture, to fulfill its obligation, Hanchuan County had raised 2.7535 million yuan by 1990. Of that amount, 1.02 million was raised directly from the peasants. This meant 1.28 yuan per person. In 1989, one township in Xiangyang County gathered as much as 255,800 yuan, or 17.30 yuan per person, from the peasants to fund seven projects, including building schools, repairing local police stations, repairing the courthouse, and building welfare facilities. The peasants have always complained the most about raising rural education funds. Some localities disregard the public's ability to pay and set standards which aim to upgrade the schools from "one have-not and two haves" to "six completes" and "four modernizations." A town in Hanchuan County levied 325,000 yuan in education fee surcharge, and in addition, it collected and apportioned 210,000 yuan from the middle and elementary school students. Some peasants mock educational fund gathering in the saying, "Those who live near the mountain live off of the mountain. Those who live by the water live off of the water. Those who live around students live off of the little devils."

3. **Joint production fund is overcharged and wasted.** The joint production fund should mainly be used by the villages and groups to fight drought, drain flooded fields, buy farm machinery, and prevent and cure plant diseases and insect pests. These projects are for sustaining simple reproduction, fighting and preventing floods and droughts and natural disasters, and facilitating production in the current year. It should not have been a burden, but in fact, it has become a kind of "cure-all" fund. Some accumulation-type expenditures, management fees, and nonproductive expenditures are added to the joint production fee, causing its sharp increase. Hanchuan County collected 6.711 million yuan in joint production fund in 1989, 147 percent more than in 1985. Of this amount, only 4.231 million yuan was spent on actual production and as much as 2.48 million, or 37 percent, was spent on non-productive items such as cadre subsidies, receptions, various fund raisings, insurance, and apportionments. In addition, according to incomplete data, in 1989, Hubei Province spent 33.6 percent of that year's joint production fund on nonproductive expenditures and payment for various fund raisings and apportionments. In other words, currently, one-third of the joint production fund is spent on non-productive items.

4. **Percentage-wise, the rural education fee surcharge is excessive.** In its "Circular On Problems Relating to Raising Educational Funds," the Hubei provincial government stipulates that "rural education fee surcharge should not fall below 1.5 percent of the previous year's per capita net income." Since this document only sets a lower limit to the surcharge but does not set an upper limit, our survey showed that education fee surcharge has been increasing very rapidly. Hanchuan County collected 1.369 million yuan in education fee surcharge in 1984, 3.601 million yuan in 1989, and a whopping 5.3823 million yuan in 1990. Education fee surcharge has become the "big ticket item" among the peasants' burdens. Statistics show that for the province as a whole, education fee surcharge takes up around 64 percent, and more than 80 percent in some localities, of the funds earmarked for the five unified plans. In addition, the way rural education fee surcharge is spent is also flawed: One, the locally run schools have hired too many teachers which takes up too much of the school funds at the township and village levels. Reportedly, Hanchuan County alone has more than 1,000 above-quota teachers in their locally run schools. These teachers are paid out of the rural education fee surcharge. Two, because there is always a shortage of public funds for rural education, or because the schools are always underfunded, there is a widespread practice of localities spending the rural education fee surcharge on various teacher's subsidies and bonuses. Three, town and township plans are often turned into county plans, and indiscriminate and egalitarian transfer of rural education funds is routine. Some localities put all rural education fee surcharges and school funds raised in the town and township levels under the county, spending the money at the county level

to facilitate their indiscriminate and egalitarian appropriation, transferring collective funds earmarked for town and township schools. Some even spend this money on the county towns' middle schools and on dorms for teachers.

#### How Do We Lighten the Peasants' Burden?

On the issue of the peasant's excess burden, we feel that our immediate task is to put the rules and regulations and policies promulgated by the Central Party Committee, the State Council, the provinces, the municipalities, and the autonomous regions to work diligently and in earnest.

1. We must strengthen the centralized and unified leadership of the party committees and governments at all levels. Today, many problems relating to the peasants' burdens are due to the vicious increase in benefits in the departments, ineffective macro-coordination, and our inability to make unified planning with due consideration for all concerned, which eventually lead to "document scuffles" between departments and between governments. For this reason, to resolve the problem of the peasants' excess burden as quickly as possible, besides restructuring the economic system and implementing price reform and other thorough reform, we must change the situation where we run government departments in name but are overrun by departmentalized government. In fact, we must eliminate the "autocratic rule from above" and strengthen the centralized and unified leadership of the party committees and governments at all levels, and give play to all levels of the supervisory role of the people's congresses.

2. We must strictly follow the principle of determining projects and fixing quotas. This is one of the most important principles in the supervision and management of the peasants' burdens. All localities and departments must comply with the State Council's regulation which limits the peasants' contracted burden to three items of retention and five items of unified planning and that, using townships as base, the per capita collective retention and unified plan charges should be limited to within 5 percent of the per capita net income in the previous year. The localities are not allowed to create new burdens arbitrarily, even less are they allowed to shift the earmarked funds to other uses and evade supervision. After the departments decide on the percentage limit for each item, it must be examined and approved by the peasant burden supervisory and management department so as to achieve unified planning with due consideration for all concerned. With regard to the major projects under unified planning, the localities should obtain a fund quota for each project individually. For example, depending on the actual situation in most localities, we can stipulate that the levy of rural educational fee surcharge should not exceed 1-1.5 percent of the per capita net income in the previous year. We must resolutely do away with all contracted items outside of the three retentions and five unified plans, and above-quota percentages should be examined and reduced. Various

fund raising and charges outside the set projects and fixed quotas must strictly go through the project-setup, examination, verification, and approval procedure before proceeding.

3. We must strengthen the centralized and unified management of collective retention and town and township unified plan funds. The retention and unified plan funds handed over by the peasants to the township and village collectives are in essence collective funds and should be used only to fund local-run and publicly subsidized undertakings and projects. With regard to fund management, we must separate state funds from collective funds to avoid encroachment on each other's rights. We should continue to let the township (town) economic management stations handle the management and accounting tasks. With respect to the collective retention funds, we can let "townships oversee the villages" but without changing the township rights. As for the town and township unified plan funds, we should proceed in steps to settle the accounts centrally, set the direction of their use, and audit and monitor their spending. Separate books should be kept for village and group retention funds and for each unified plan project, and special funds should be reserved for special use. Egalitarian and arbitrary transfer and appropriation of funds should be banned, and the departments and units should be prohibited from collecting money or goods from the peasants or the villages and groups.

4. We should integrate the tasks of rectifying the practices of collecting fees arbitrarily, imposing fines arbitrarily, and making all sorts of apportionments, and we should make a resolute decision to deal with the problems the peasants are most concerned about, such as education, sanitation, and insurance apportionments, corruption, property seizure, and misappropriation of collective funds, so as to win the people's trust.

5. We must increase our collective economic strength and lighten the peasants' direct burdens. Today, in localities where township and village collective economies prosper, the peasants' direct burdens are usually lighter. Therefore, the localities can gradually lighten the peasants' direct burdens by developing and strengthening the collective economies and invigorating rural social public welfare undertakings.

6. We must emphasize the importance of legislation and put the supervision and management of the peasants' burdens onto the legislative track. We want to make sure that there are laws to follow and that violations will be prosecuted, so that we can protect the peasants' legal rights and privileges.

#### **Anhui Livestock, Aquatic Output Increases**

*91CE0132C Hefei ANHUI RIBAO in Chinese  
28 Apr 91 p 1*

[Summary] At the end of the first quarter, Anhui Province had 12,925,000 hogs in stock, a 3.9 percent increase over the same period in 1990, and 3,991,000 porkers

were slaughtered, a 7.8 percent increase. Anhui had 139,667,000 chickens, ducks, and geese in stock, an 11.7 percent increase, and 382,000 head of cattle were slaughtered, a 12.5 percent increase. In the first quarter, the fish breeding area was 5,300,000 mu, an increase of 170,000 mu over the same period in 1990; and aquatic product output exceeded 94,000 tons, a 7.1 percent increase.

#### **Jiangsu Rural Savings**

*91CE0132F Nanjing XINHUA RIBAO in Chinese  
30 Mar 91 p 1*

[Summary] As of 20 March, rural saving deposits in Jiangsu Province totaled 26.67 billion yuan, an increase of 2.82 billion yuan over the beginning of 1991.

#### **Hunan Agricultural Funds**

*91CE0132D Changsha HUNAN RIBAO in Chinese  
19 Apr 91 p 1*

[Summary] By the end of March, Hunan Province had allocated 3.12 billion yuan in funds to support agriculture, a 24 percent increase over 1990.

#### **Jiangxi Farmer Income**

*91CE0132E Nanchang JIANGXI RIBAO in Chinese  
20 Apr 91 p 1*

[Summary] In the first quarter of 1991, farmer income in Jiangxi Province was 150.87 yuan (excluding income from savings and loans), an increase of 18.1 yuan, or 13.63 percent over the same period in 1990.

#### **Shanxi Cotton Area**

*91P30142A Taiyuan SHANXI RIBAO in Chinese  
22 Apr 91 p 1*

[Summary] At present the cotton area in Shanxi Province is 2,120,000 mu, an increase of 170,000 mu over 1990.

#### **Yunnan Sets Guaranteed Price for Wheat**

*91P30142B Kunming YUNNAN RIBAO in Chinese  
20 Apr 91 p 1*

[Summary] Yunnan Province has set guaranteed prices for grain procurement this year. The lowest guaranteed price for negotiated purchases of wheat is 76 yuan per 100 kilograms.

#### **Yunnan Farmer Income Increases**

*91P30142C Kunming YUNNAN RIBAO in Chinese  
22 Apr 91 p 1*

[Summary] According to a survey of 2,400 rural households in 40 counties in Yunnan Province, per capita cash income of farmers in the first quarter was 135.09 yuan, an increase of 11.91 yuan over the same period in 1990.

**Shanxi Increases Grain Storage Capacity**

91P30142D Taiyuan SHANXI RIBAO in Chinese  
7 May 91 p 2

[Summary] In 1991 Shanxi Province will invest 56,580,000 yuan to increase grain storage capacity by 700 million kilograms and increase oil storage capacity by 10 million kilograms. At present Shanxi has a grain storage capacity of 2.5 billion kilograms, but the actual amount of grain reserves is 4.6 billion kilograms. In addition to renting storage facilities and storing grain in private residences, over 2 billion kilograms of grain is placed outdoors.

**Shanxi Meat, Milk Output Increases**

91P30142E Taiyuan SHANXI RIBAO in Chinese  
5 May 91 p 2

[Summary] By the end of March, Shanxi Province had slaughtered 787,000 hogs, 58,800 cows, and 523,100 sheep, increases of 15.8 percent, 56.8 percent, and 21.8 percent over the same period in 1990. Gross output of meat was 76704.1 [as published] tons, a 25.5 percent increase. Milk output was 39921.8 tons, a 21.3 percent increase.

**Heilongjiang To Increase Water Conservancy Investment**

91P30142G Harbin HEILONGJIANG RIBAO  
in Chinese 22 Mar 91 p 1

[Summary] During the Eighth Five-Year Plan, Heilongjiang Province will increase water conservancy investment by 1 billion yuan.

**Jiangsu Cotton Area**

91P30142H Nanjing XINHUA RIBAO in Chinese  
17 Apr 91 p 1

[Summary] At the beginning of April, the cotton area in Jiangsu Province was 8,700,000 mu. The planned cotton area for 1991 is 9,400,000 to 9,500,000 mu, an increase of 800,000 to 900,000 mu over 1990.

**Yunnan Spring Grain Output**

91P30144A Kunming YUNNAN RIBAO in Chinese  
2 May 91 p 1

[Summary] Estimated output of spring grain and soybeans in Yunnan Province is 1.75 billion kilograms, a 3.2 percent increase over 1990. Estimated rape output is 100 million kilograms.

**Heilongjiang Farmer Income Declines**

91P30144B Harbin HEILONGJIANG JINGJIBAO  
in Chinese 4 May 91 p 3

[Summary] According to a survey of 2,240 farm households in 28 cities, counties in Heilongjiang Province, per capita cash income (excluding income from savings and

loans) of farmers in the first quarter was 165.14 yuan, a decline of 25.86 yuan or 13.5 percent from the same period in 1990. Deducting price increases, real income declined 20.8 percent.

**Heilongjiang Grain Purchases**

91P30144C Harbin HEILONGJIANG RIBAO  
in Chinese 14 Apr 91 p 1

[Summary] At the end of March (end of the 1990 grain year), Heilongjiang Province had procured over 12,000,000 tons of grain at state and negotiated prices; of this amount contracted purchases were 5,346,000 tons, special grain reserves were 3,740,000 tons, and negotiated purchases were 3,070,000 tons. Procurement increased 3,980,000 tons over 1990.

**Shaanxi Plans To Increase Cotton Area**

91P30144D Beijing JINGJI RIBAO in Chinese  
18 Apr 91 p 2

[Summary] By the end of the Eighth Five-Year Plan, the cotton area in Shaanxi Province will be 2,500,000 mu, and gross output 2,500,000 dan.

**Jiangxi Rice Storage**

91P30144E Beijing JINGJI RIBAO in Chinese  
23 Apr 91 p 2

[Summary] At present, Jiangxi Province has 7 billion kilograms of rice in storage.

**Hebei February Hog Prices**

91P30144F Beijing NONGMIN RIBAO in Chinese  
10 Apr 91 p 2

[Summary] In February, the procurement price for hogs in Hebei Province was 313.31 yuan per 100 kilograms, an increase of 43.76 yuan over the same period in 1990. Major reasons for the price increase was that supplies declined, and demand increased. At the end of February, Hebei had 381,800 hogs in stock, a decline of 555,600 head, or 31.28 percent from 1990. In 1988 the price ratio for hogs and corn was 1:8.4; in 1989 1:6.1; in 1990 1:5.4; and in February 1991 1:7.8. In 1988 the price ratio for hogs and wheat was 1:5.9; in 1989 1:4.5; in 1990 1:4.4; and in February 1991 1:4.6.

**Hunan Hog Shipments to Guangdong**

91P30145A Changsha HUNAN RIBAO in Chinese  
8 May 91 p 1

[Summary] In the first quarter of 1991, Hunan Province shipped 690,000 hogs to Guangdong Province, a 45.7 percent increase over the same period in 1990.

### **Shanxi Wheat Area**

91P30145B Taiyuan SHANXI NONGMIN in Chinese  
30 Apr 91 p 2

[Summary] In 1991 the wheat area in Shanxi Province will exceed 15 million mu, and account for 31 percent of the total grain area.

### **Yunnan Agricultural Funds**

91P30145C Kunming YUNNAN RIBAO in Chinese  
22 Apr 91 p 1

[Summary] At the beginning of 1991 Yunnan Province allocated 325 million yuan for agriculture, a 19.4 percent increase over the beginning of 1990.

### **Yunnan Agricultural Loans**

91P30145D Kunming YUNNAN RIBAO in Chinese  
22 Apr 91 p 1

[Summary] In the first quarter of 1991, agricultural banks and credit cooperatives in Yunnan Province provided 774 million yuan in loans for spring planting, an increase of 170 million yuan over the same period in 1990.

### **Sichuan Agricultural Loans Increase**

#### **January, February Loans**

91P30145E Chengdu SICHUAN RIBAO in Chinese  
4 Apr 91 p 2

[Summary] In the first two months of 1991, agricultural banks and credit cooperatives in Sichuan Province provided 1.27 billion yuan in agricultural loans, a 25 percent increase over the same period in 1990.

#### **April Loans**

91P30145E Chengdu SICHUAN RIBAO in Chinese  
2 May 91 p 1

[Summary] As of 20 April, agricultural loans in Sichuan increased 963 million yuan over the beginning of the year, and was 45 percent increase over the same period in 1990.

### **Sichuan Hog Output**

91P30145F Chengdu SICHUAN RIBAO in Chinese  
19 Apr 91 p 2

[Summary] At the end of February, Sichuan Province had 57,600,000 hogs in stock, maintaining the level during the same period in 1990. Sows numbered 4,200,000, a 2.3 percent decline; porkers numbered 44,600,000, a 1.6 percent decline; and piglets numbered 8,800,000, a 10 percent increase.

The Sichuan Provincial Food Corporation plans to purchase 4 million hogs and sell 2,300,000, maintaining the same level in 1990; ship 50,000 tons of meat outside the

province and export 6,000 tons, increases of 39.2 percent and 13.8 percent respectively over the same period in 1990.

### **Jiangxi 1995 Crop Output**

91P30146A Nanchang JIANGXI RIBAO in Chinese  
12 Apr 91 p 1

[Summary] By 1995, Jiangxi Province plans to produce 110,000 tons of cotton, 265,000 tons of oil, 2,400,000 tons of sugarcane, 40,000 tons of flue-cured tobacco, 15,000 tons of silkworm cocoons, and 500,000 tons of fruit.

### **Jiangxi Sugarcane Area**

91P30146B Nanchang JIANGXI RIBAO in Chinese  
19 May 91 p 1

[Summary] In 1991 the sugarcane area in Jiangxi Province will be 484,400 mu, an increase of 58,900 mu over 1990.

### **Sichuan Procurement Funds**

91P30146C Chengdu SICHUAN RIBAO in Chinese  
15 May 91 p 1

[Summary] At present, agricultural banks in Sichuan Province have allocated 400 million yuan for spring grain and oil procurement.

### **Henan Wheat Area**

91P30146D Zhengzhou HENAN RIBAO in Chinese  
14 May 91 p 1

[Summary] At present, the wheat area in Henan Province exceeds 80 million mu.

### **Shanghai Scientists Breed New Strain of Rape Seed**

OW0606174291 Beijing XINHUA in English  
1327 GMT 6 Jun 91

[Text] Shanghai, June 6 (XINHUA)—Shanghai agro-scientists have succeeded in breeding a new fine-quality and high-yielding strain of rape.

The new strain has been named "Sheng You Qing." It was bred through cross breeding and introduction of the gene of low erucic acid. It took the researchers eight years to complete the project.

Oil pressed from "Sheng You Qing" rape seeds is bright, transparent and tasty and produces little smoke. Its erucic acid content is merely 0.25 percent, only half of the standard set by the World Health Organization (WHO).

The content of linoleic acid, which is beneficial for the health, is between 22 percent and 24 percent, almost double that of ordinary [word indistinct].

Over the past three years, experimental planting along the lower reaches of the Yangtze River has proved that the new rape strain is high yielding and highly resistant to disease. Its output reaches 2,400 kg per ha.

### Further Increases Registered in Agricultural Investment

*HK2205071991 Beijing JINGJI RIBAO in Chinese  
3 May 91 p 3*

[Report: "Further Increase in Funds for Agricultural Investment"]

[Text] According to a recent survey of the preparations for spring plowing production in some 800 counties conducted by the rural sample-survey teams of 27 provinces, autonomous regions, and municipalities under the State Statistics Bureau, governments at all levels and departments concerned are active in pooling funds. The funds earmarked for investment in various agricultural sectors this year are expected to rise over the previous year's increased agricultural investment.

The 800 or more counties surveyed have allocated 4.24 billion yuan in support to agriculture this year, an increase of 0.7 percent over the preceding year. They have allocated 1.55 billion yuan for their agricultural development funds, which are designed to spread the extensive use of science and technology, transform medium- and low-yielding land, and building commodity grain production centers, up 4.7 percent from a year ago. In Fujian, the funds slated for agricultural development are expected to increase by 41.7 percent and the figure for Guizhou, Xinjiang, Shaanxi, Hunan, Tianjin, Shanxi, Sichuan, and Henan will be over 10 percent. Agricultural loans arranged for 1991 are also expected to be up 9.2 percent from the previous year. Of the agricultural loans, loans for crop cultivation, fish breeding, and poultry raising constitute 21.1 percent and those for purchasing farm and sideline products account for 50.4 percent. The survey also shows: The peasants' planned investment this year is expected to increase five percent over the previous year. In Jilin such investment will rise by 19 percent and in Heilongjiang, Ningxia, Beijing, and Jiangsu, the investment will increase by over nine percent. The planned investment by the peasants is expected to decrease in Guizhou, Hubei, and Jiangxi.

### Japan To Help Fujian Develop Forestry

*OW0406091991 Beijing XINHUA in English  
0647 GMT 4 Jun 91*

[Text] Fuzhou, June 4 (XINHUA)—The Japanese Government is to provide 500 million yen to help east China's Fujian Province develop forestry.

A cooperation agreement stipulates that the project will be carried out over five years. Half of the Japanese fund will be used to buy research equipment for the Fujian

Forestry Development Research Center, and the rest will be used for scientific cooperation between forestry experts of the two sides.

According to the Fujian Forestry Bureau, the first group of local postgraduates will leave soon to study in Japan. Meanwhile, four Japanese experts will arrive in Fujian in July to spend two years at the research center.

### Minister Urges Grain Producers To Maintain Output

*HK2505022491 Beijing CHINA DAILY in English  
25 May 91 p 1*

[By staff reporter Wang Dongtai]

[Text] Agriculture Minister Liu Zhongyi yesterday urged officials from major grain-producing provinces to spare no efforts in maintaining the continued growth of the country's grain production.

Speaking at a meeting held in Tongxian County, a Beijing suburb, the minister said the acreage of this year's autumn crops is expected to decrease—unless immediate efforts are made by local governments.

The minister made the call just after the conference was told that this year's summer wheat and rape-seed crop—to be harvested within weeks—will surely top last summer's record harvest.

The minister expressed concern for two main problems which, in the wake of the 1989 and 1990 bumper harvests, will be aggravated by the record summer harvests expected this year.

First, the minister pinpointed the difficulties farmers face in selling their grain. Although the State Council set prices to protect farmers' interests, the government policies could not be fully implemented because of a lack of warehouse space and the fall of grain prices on the free market.

With considerable amounts of last year's grain crop still being stored at home, farmers will find another 25 billion kilograms of grain on their hands after reaping this year's summer harvest.

If farmers thought they could not sell their grain, they would grow less grain and more cash crops in the future. But at the same time, government officials are fully aware that per capita output of grain in China is still under 400 kilograms a year and in the future grain output must continue to rise to keep up with the country's population growth.

The minister said that another area of concern is the rising cost of grain production, including fertilizer, plastic film, water and electricity.

The minister told local officials that the central government has paid much attention to the problem and has taken such measures as investing more money in warehouse construction.

The minister asked local governments to share the burden with the central government and try to prevent any further decrease in the acreage of this year's autumn grain crops.

At the meeting local officials also presented problems found in their provinces and put forward several suggestions, including one that the government should raise the purchase price of grain products.

Another suggestion was the establishment of better storage facilities for grain along with the more convenient transportation.

It was also recommended that the government should control the rising prices of production materials.

And local officials suggested the establishment of a disaster warning system so that farmers could be better prepared to face any threats to the grain harvests.

#### **Anhui Farmers Benefit From New Rice Strain**

*OW3105063491 Beijing XINHUA in English  
0212 GMT 31 May 91*

[Text] Hefei, May 31 (XINHUA)—The popularization of a new rice strain, the "Wanjing No. 1", has helped increased rice output by about 470 million kg in east China's Anhui Province during the past five years.

Anhui is one of the five largest grain producers in China. However, its annual grain output started to stagger during the early 1980s due to the serious degeneration of the rice strains, which were all introduced from other parts of China.

To tackle the problem, the rice institute under the province's agricultural academy bred "Wanjing No. 1" in 1985 with the help of a rice breeding farm in the province's Feidong County.

The new high yielding and good quality rice strain is well fitted with the middle and lower reaches of Yangtze River, where people reap two crops of rice a year.

Local governments have made great efforts to popularize the new strain by providing farmers with technical information and holding lectures.

As a result, the acreage sown with the new rice strain has increased from several thousand hectares in 1985 to over 280,000 hectares in 1990.

Meanwhile, Anhui has provided some other provinces with the new strain. At present, the total acreage sown with the rice strain in other provinces exceeds 66,000 hectares.

This year, Anhui Province has planned to sow the new rice strain on 500,000 hectares of land, or 70 percent of the province's total late rice paddy fields. Moreover, the acreage of land in other provinces sown with the new rice strain is expected to surpass 200,000 hectares.

#### **RENMIN RIBAO Reports on New Liquid Compound Fertilizer**

*OW2505120291 Beijing XINHUA in English  
1128 GMT 25 May 91*

[Text] Beijing, May 25 (XINHUA)—PEOPLE'S DAILY reported today that Chinese scientists have developed a new type of liquid chemical fertilizer which is expected to help increase the output of grain, cotton or vegetables by up to 15 percent.

Researchers from the Liaohai Compound Fertilizer Institute of Shenyang in north China's Liaoning Province said that the fertilizer is concentrated and the content of nitrogen, phosphorus and potash, as well as other trace elements exceeds 30 percent. They also said that the new fertilizer is highly effective in helping to increase output.

The daily reported that experiments have shown that by applying 15 kilograms of the compound fertilizer per one hectare farmers on average have harvested 450 kg more grain or approximately 10 to 15 percent more output.

The effectiveness of the fertilizer is also evident in the production of vegetables, melons and fruits, according to the daily.

According to the article, 11 factories across the country are now engaged in the manufacture of the new compound fertilizer, and total output exceeds 16,000 tons annually.

### Negative Connotations of Traditional Personality Type

91CM0371A Shanghai SHEHUI [SOCIETY]  
in Chinese No 73, 20 Feb 91 pp 8-11

[Article by Zhao Tiantang (6392 3240 8835): "The Negative Factors of the Chinese Traditional Personality Type and Their Causes"]

[Excerpt] [Passage omitted] The connotations of the Chinese traditional personality type are very broad; there are positive and negative connotations. The most important negative one is trying to survive. It is reflected in the following 12 specific tendencies:

1. A love of living. In traditional society, people have a boundless love for being alive and continuing to live. They regard "continuing to live" as the ultimate, highest pursuit in one's life; this reflects a powerful love of living. Literary scholars make it an art, saying "it is beautiful to be alive." One might say these six words reveal the profound mystery of the Chinese personality, and fully describe the inherent nature of the Chinese spiritual world. A love of living is also reflected in the pursuit of material things and in the low standards of the things pursued. People very rarely pursue spiritual matters; even when they subsist materially, they demand little. They are like a grass seed pressed under a rock; with only a tiny bit of water, it will burrow out through a crack and sprout. The tendency to love living can also be seen by the fact that they search for a suitable environment rather than changing the environment to fit their needs. Only when they reach a point where they cannot live at all would people "ascend Liang Shan" and take up arms to struggle against the conditions. Even at that stage, the goal is still to exist, to move from an inability to live to an ability to continue existing. Over a long period of historical evolution, people have continuously beautified this tendency to love living, and have regarded it as the best choice through the ages. They have considered it most suited to equilibrium and harmony between man and the world. It is better than the life of a westerner, with his material wealth and spiritual poverty, and can even save man from a life of luxury and dissipation, and open an inevitable path and be a mainstay in the lives of future mankind.

2. An emphasis on the material. Its direct source is the importance people attach to material existence and how they make it a goal. People consider the satisfaction of a material need a most fortunate thing. In recent years, it has been fashionable to define this personality tendency as "stressing the real benefits." People only pursue food, clothes, and usable goods, and only consider those who can furnish them with such items important; they want to deal only with these people. The extent of one's material possessions has become a yardstick and a symbol of one's position, status, and worth.

3. Power worship. First, people consider power the highest master; all others can be defied or ignored, but not power. Bowing to power is the way to establish

oneself. Second, power has been considered correct all along. This goes one step further than merely regarding power as the final master; it holds that power is infallible and omniscient in its judgment. Third, power is considered omnipotent. Society's safety or peril, rise or fall, and even one's personal fortune or disaster is determined by power. Fourth, the acquisition of power is viewed as the sole initiative of a man's life. People believe that the only way to have one's life go according to one's desires is by squeezing into an official career and joining the power system. Although one is still subject to others' control after becoming an official, one also can control others. One only needs to attain a certain grade or rank before public pay, private favors, good treatment, and extra income come flooding in. There is no more worthwhile pursuit.

4. One's share. There are two views in the world on one's share. The first is that one's share is a personal one, based on one's lineage and position; one speaks and acts according to this. The second is that it is a legal share, based on law; one works and acts according to the law. The Chinese view is that one's share is a personal one. This personality tendency is seen in the following: First, people act according to their personal position and play a certain role in meeting obligations. People use their family and social standing to do what they are called on to do. Second, people accept their fate. They sum up every difficulty or suffering that cannot be solved and every inequity with the word "fate." Third, people are contented. Fourth, people refrain from disputes. Fifth, people are self-effacing. They meet others' demands, and before acting always ask themselves, "How will others see this?" There is always the fear of reproach by others.

5. Painstaking work. Traditional society has really wreaked too much suffering upon the Chinese people. In material life, they suffer as they try, and fail, to stay fed and warm. There is suffering from economic exploitation, political oppression, back-breaking labor, cultural deception, various inequities in life, spiritual repression, and an inability to express themselves. In addition there are various natural environmental disasters. People do not have the same attitudes, sensations, or tolerance for different kinds of suffering. The most tolerable kind is the suffering from hard labor; the least tolerable is that from cold and hunger. The most deeply felt is suffering as a human being; the suffering they care least about is that from inequity. The suffering felt least is that from having one's self-development hindered.

6. Tolerance. Some of the things that are results of and reflect this tendency are the following: First, in Chinese society, "tolerance" is a particularly flourishing social theory. Confucianism, Daoism, and Buddhism all spared no effort in engaging deeply in scholarship on "tolerance." Second, people are very adept at "tolerance"; except for death, people can tolerate anything. As long as they are not pushed to the desperate point where they lack food and clothing, they will tolerate things to the bitter end. Third, people will only be tolerant when they are weak and have no choice. The moment they feel they

have nothing that others can ask for, or that they cannot be harmed, they will talk very little about the "golden mean." They will only put up with things when the situation requires it. Fourth, tolerance does not come voluntarily, from one's ethics, but from external pressures; the goal is to avoid disaster or turn it into good fortune. If there were no such need, there would be no such tolerance; on the contrary, it would become rather easy to become the opposite—ruthless.

7. Seek common ground. People seek to be like others, and want others to be like them; this shows an enthusiastic attitude for a great unity. The characteristics of this tendency are the following: First, its scope is very broad, and includes almost all aspects of social and personal life. Second, people seek commonality at their own level or grade. Xunzi referred to this as "maintaining uniformity without uniformity." The Chinese people have a strict concept of egalitarianism, but few consider it to be egalitarianism across society. Instead it is egalitarianism within each grade or level. Third, people seek identical results, not identical rights or opportunities. They stretch everything out or press everything down evenly in order to attain this. Fourth, people do not look for the same beliefs, but for strength in numbers. They hide the individual inside the group in order to protect him from being taken advantage of, or to at least allow some to benefit. Fifth, seeking unity leaves no room for differences; particularly in human relations, one defends one's own side and attacks others.

8. Defending the old ways. This tendency has led the Chinese people to stay with antiquated, feudal ways that are 2,000 years old. It is expressed mainly in the following: First, people make the past the standard, worship the ancient, value experience above all else, and look to the past for theories. People have a kind of awe of things that "have always been so." The longer ancestral rules have lasted, the more sacred—and the less changeable—they are. People sanctify experience, and cannot do anything without a precedent. They cannot walk a road that has not been previously trod. Everyone lives as their elders have. They always look backward, seeking social theories from the past. Second, people have an affection for stability and peace and a distaste for change. People fear change and seek stability and peace; if one can stay alive, then one less change is better than one more change.

9. Practicality. This tendency makes people lack principles and faith. They place pragmatic gain above principles, which degrades faith and leads to activities in life and society that are expedient and calculating. Both man and society become narrow and stingy. This tendency is reflected first by selfishness and snobbery. In doing anything, people first plan and scheme for themselves. They head for power, money, and material gain, and towards those that own them, like ducks towards water. They have increasing adulation for these people, and less enthusiasm for other people and matters. Second, in human relations, people take advantage of each other and lack sincerity, keeping their own gains in mind.

Third, people are shortsighted, focusing their undivided attention on immediate gains, coping with the moment, and not planning future benefits. Fourth, a "strong wind" is whipped up as people rush to anything that hints of benefits, for fear of being left out. Fifth, people are cynical: nothing in the world is sacred if one cannot feel or touch it for practical benefit.

10. Some other rules. These are expressed as rules of law, ethics, and social rules in many areas of people's personal and public life. If there is no external pressure to do good things, people generally will not do them; if there is no pressure not to do bad things, people will do them. A person's goal is to let others think he is proper and law-abiding. This is just for show, much like an actor who goes on stage with makeup and a mask; they regard life and society as a stage. This is where the true nature and tragic fate of the feudal ethics of Confucian culture lies. It denies to society any support from a sense of responsibility, and it puts people on a dead-end road of just "muddling along."

11. Stressing one's connections. People rate their connections above food and clothing as an important source of survival and as the first topic in discussions on human affairs. First, there is stress on harmony and nobility, on giving in to others, and on knowing one's place. People consider settling matters and pacifying others the highest priority. Second, there is emphasis on "face" and interpersonal interests. As one respects the "face" of others, one fights for one's own, and is willing to circumvent things. Even if things are not as they seem in other respects, one can still be pleased in all ways. Third, there is emphasis on actually benefiting from one's connections, particularly in material ways. There would be no pickup in connections without material benefits lubricating the way. Fourth, people gravitate towards the power system. People regard power as the key to their connections, and spare no effort in cultivating those who have it. Fifth, there is the intimidation of others and inner waste. People save almost everything for those they know, but ignore those outside familiar circles. At the same time, they fear those they know best: not only do these people know all about them, but there might be conflicts of interest, whereas a stranger would have no hold whatsoever. Thus people like and fear the familiar. They bully strangers, yet waste themselves within a circle of familiar people.

12. There is a penchant for spiritual self-comfort. This is typified by Lu Xun's Ah Q. This tendency adheres tenaciously to the following principles: First, fate is inescapable; do not blame this life, but the one before. There is nothing that cannot be thought through. Second, survive. If one can stay alive, then it is a great good fortune, a great advantage, and a great victory; nothing else counts. "This old guy is going to keep right on living!" Third, there is the principle of comparing oneself to those below. Look down, and only compare oneself with those below. If all else fails, compare oneself with the dead: He's dead, I'm still alive! [passage omitted]

**'Secret' Paper Describes Myriad Problems in PLA**  
91CM0363A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 236, 16 Mar 91 pp 3-5

[Article by Hui Huiyan (2585 1979 3601): "The People's Liberation Army Is Internally Unstable—There Is Desertion, Plotting of Coups, and Underground Organizations"]

#### [Text] **Conspiratory Bands, Reactionary Cliques**

A secret research paper that was circulated among the top levels of Communist China's military has been supplied to a publication of the democratic movement, "Freedom Forum," sponsored by overseas Chinese university students and scholars in the United States. The paper was supplied by a former low-level officer in the General Staff Department of the Chinese People's Liberation Army.

The paper is a special analysis of the current situation among mid- and low-level officers in the People's Liberation Army [PLA]. It discussed ways of strictly controlling the military and included inside information known by few others, such as the attitude of the junior officers toward the "4 June counter-revolutionary rebellion" and their varying degrees of involvement in the plotting by political organizations. Also included was information on changes in soldiers' morale, formation of factions and cliques, on deserters, and on plots to counter policies. Using the language of the document: Bourgeois liberalization has also spread into the military, particularly affecting the performance of mid- and low-level officers. It has attracted their attention and in some cases, the results have been shocking.

This research paper was jointly funded by a certain research institute of the PLA General Staff Department [GSD] and the Research Department of the National Defense University over a period of nearly two years. These activities were closely watched by the Political and Legal Commission of the CPC Central Committee and were under the direction of Yang Baibing, secretary general of the party's Central Military Commission [CMC]. Over 300 researchers were mobilized and three major generals were assigned to be in charge of the work. The report was started before the "democracy movement of 1989" and was completed in December 1990, in over 200 pages. It was said that Jiang Zemin, chairman of the CMC and party general secretary, put special importance on this report.

The report revealed that during the last five years, units under the PLA military court and PLA military procuratorate handled over 600 political cases involving low-level officers. Among these, 35 were "plots to organize reactionary cliques" involving over 400 personnel with the highest ranking being two colonels. Also involved were four lieutenant colonels, seven majors, and 29 captains.

The report pointed out that the majority of deserters after 4 June were mid- and low-level officers. By the end of September 1990, a total of 39 officers had deserted, nine of which went to the United States, eight to Taiwan, three to South Korea, two to Vietnam, two to India, and the others to Europe and Australia. According to what has been said, "this type of betrayal of the motherland has been very rare (note: prior to 4 June)."

The secret document pointed out that there are currently over 47,800 mid- and low-level officers in military service from first lieutenant to major. This number includes more than 3,800 females and over 8,700 officers in rear- service units. The number of these officers that are graduates of various military academies and colleges totals 78.19 percent, those promoted from the enlisted ranks totals 21.03 percent, while the rest came in as technical officers from various civilian specialties.

#### **The Forming of Political Organizations by Low-Level Officers**

It was pointed out in the document that when the navy's warship "Zheng He" visited Hawaii, U.S. military experts obtained first-hand knowledge and concluded that PRC naval officers would soon catch up with their English and U.S. counterparts. U.S. instructors also had high praise for the PRC Air Force personnel that went to the United States for advanced study. The instructors said: Generally speaking, PRC personnel have already attained the quality of Taiwan Air Force officers, and if an air war occurs in the Taiwan Strait and the performance of aircraft of both sides is roughly equal, the PLA will defeat Taiwan.

The document criticized Zhao Ziyang, former first vice-chairman of the CMC and party general secretary, as having "slackened on political and ideological work inside and outside the military, and in some aspects, totally abdicating leadership, with the effect that bourgeois liberalization spread to the military. This is especially evident in its negative impact on mid- and low-level officers, which has caused many to take notice and in some cases, feel shock."

The document mentioned that although the officers who had graduated from military academies and colleges have not yet set up formal organizations, they often form close-knit groups. These unofficial organizations, called "fellowship associations," are very common, and many meet at fixed times and locations.

The document stated that 1,342 (not counting those not yet caught) mid- and low-level officers were involved in various degrees in the plotting of political organizations. Among these, 132 were considered leaders and 457 were fairly active members. Officers that had some contact with this activity totalled 8,948 (ranking from second lieutenant to captain). There were 132 children of veterans and 84 children of high-ranking generals or department-level cadre involved in the activities. It was pointed out that in accordance with Jiang Zemin's instructions to "go easy and not make the situation

worse," the majority were merely discharged and returned to their home areas to be dealt with, except for 19 of the most diehard leaders that received sentences from two to four years.

Analysis shows that some of these organizations were serious while others were just groups of friends or people that hailed from the same locality. The political orientation of these organizations can be divided into the following: 1) Those that carried the banner of the democracy movement, supported democratization of the military and government, and opposed party leadership of the people and military. 2) Mid- and low-level officers that see the South Korean military system as their model (these are diehards). 3) Those that have the goal of seizing state power by armed force (a vain attempt to establish a military dictatorship).

The secret document also pointed out that: "China belongs to the Third World. During ten years of opening up, an anti-Marxism-Leninism wave has swelled up and permeated the ranks of the military. The GSD, Ministry of National Defense, their affiliated colleges and universities, and the various service arms have continually sent officers abroad to observe, visit, or study. Although the majority of these officers are in good or fairly good shape mentally after they return, there is a small portion that have suffered serious spiritual pollution. Officers that do not leave China are also not completely immune, but each person can consciously resist this type of pollution."

#### **The Military Carries Out a Campaign Against Smuggling**

The document points out that the number of officers that have attended military academies and colleges now constitute 73.14 percent of all active duty officers. Graduates from these specialized institutions often form closely-knit groups after arriving at their units, and although these groups are not as formal as the ones that they had in college, the so-called fellowship associations are very common. While a certain army was based at Tianjin, officers that graduated from the Harbin Military and Industrial School often assembled at a dancehall in Haihepan. There were also groups formed by graduates of the Nanjing Military Institute and the Nanjing Higher Army School that held meetings in the barracks. When a certain army was stationed in Chengdu, the graduates of the Xi'an Military Electronics School had set times and locations for meetings. A Major Liao, when drinking alcoholic beverages, would talk about "Egypt's Nasser and ask why a Nasser did not emerge in China." When a certain army was based in Xizang, there was a shooting incident during a dispute between graduates of two military schools. After the incident, there was also an attempt to block the investigation carried out by the military procuratorate.

The report points out that a majority of mid- and low-level officers are accompanied by their dependents and 70.68 percent of the dependents live in the officers'

quarters. Although officers with dependents are usually serious in their attempts to earn extra income, quite a few are attracted to trade as a means of making a profit. An army based at Zhengzhou had 64.51 percent of its officers with dependents involved in various forms of trade profiteering. This led to the CMC instructing the General Political Department to issue a notice throughout the military.

The report said: Economic profit has caused some officers to become very much like petty bourgeoisie, petty urbanites, and sordid merchants. In order to reap big profits they have used strategic vehicles, aircraft, and vessels to transport goods. An air unit in Shanghai through the management of the Lantian Company, used its aircraft to transport smuggled goods from Xinjiang to Shanghai. During the flight, engine trouble developed that did some serious damage. An army in Gansu utilized tanks to transport goods, the leader was a Major Xiao and those involved received over 10,000 RMB in profits. Joint operation with local commerce departments has resulted in an increase of more than 600 cases of state secrets being stolen and the number of cases where military materials have been stolen and sold totals over 2,100. Members of an army based in Jilin sold 68,748 uniforms that were in a warehouse and when discovered by superiors, this is what they had to say: "This is to improve our lives, it's the same type of thing as the Red Army's food savings." [quotation marks as received]

The report revealed that a certain unit of the Nanhai Fleet at a certain base in Hainan province used large landing craft to transport smuggled vehicles eight years ago. A notice was issued throughout the military sternly criticizing this, but last year they again used large landing craft to transport smuggled machinery. Also, mid- and low-level officers decided to sell a large portion of the base land to a certain U.S. businessman. (This created a very bad impression internationally).

The report pointed out that economic problems had brought on hidden problems: "A network from east to west and north to south has connected a large number of mid- and low-level officers, and even though they only engage in economic activity, they are still destroying the basic capabilities of the military. The seriousness of the problem is that the details of this network cannot as yet be clearly defined. Even the military procuratorate and military court have not been able to make a clear investigation. The above network cannot seriously be considered as an organization but should be viewed as a hidden communication system. However, because of the network's secrecy and the resulting difficulty in defining it, the network has become a major problem for the military."

#### **Support Expressed for the 1989 Democracy Movement Within the Military**

The document also revealed a systematic survey of positions and attitudes regarding the 4 June incident. It

can be determined from the report that the military was not in total accord concerning the "June 4th counterrevolutionary rebellion." Around this time the military mobilized emergency forces to go to Beijing, but after the event, surveys showed that 21.34 percent of mid- and low-level officers thought that this campaign should not have been carried out in this way, and 9.19 percent thought it should not have been carried out at all; this directly contradicts Deng Xiaoping's remarks. Only 13.14 percent of the officers felt that the campaign should be "resolutely carried out." This shows fully how urgent it is now to strengthen ideological work in the military. Even after 4 June, three low-level officers from an airborne division got up during a meeting and voiced grievances "attacking Premier Li Peng"; a captain gave a truckload of weapons to some "thugs"; and a Major Chen from Wuhan circulated a petition opposing Deng Xiaoping containing the names of over 400 officers and men. The main theme of this petition was supposedly that we should not oppose patriotic students, but opposition to the military's righteous actions in protecting the republic. To equate thugs with students is reactionary in the political sense.

In addition to support within the military for the student movement prior to 4 June, a well-connected and well-planned organization of mid- and low-level officers had also emerged. The members of this organization came from the GSD, General Political Department, General Logistics Department, and all of the various service arms, and extended openings to noncommissioned officers and lieutenants at the grass-roots platoon level. In the seven months following 4 June, organizations of such types as the above were widespread. In 1990, they increased at a lesser rate. However these types of organizations that were formed shortly after 4 June have an obvious tendency to act rashly. The ones that emerged after 1990 are more secretive. This is because the military's campaign against disruptive systems, personally directed by Lieutenant General Tan of the General Political Department, has uncovered a large number of these organizations. However, there may still be some secret organizations carrying out underground activities.

The most prominent examples of these explosive incidents are the following: On 5 June, a Captain Wang who was the leader of a "military reactionary organization" in a certain division got together over 80 officers and men from the division headquarters and various division units in an attempt to force the division commander to capitulate to the democracy movement. They also made public "reactionary speeches," and said that "we should obey the orders of Zhao Ziyang, then first vice-chairman of the CMC."

The following was stressed in the report: "Fortunately our forces to counter destructive elements were able to stabilize the situation and 'peacefully, rationally, and nonviolently' persuade everybody involved. Authorities quickly transferred friendly forces to remove the law-breaking forces and put a stop to the underground communications of that division. What was really

shocking is that during the trials conducted by the military tribunal, a lieutenant general and three major generals showed up to vouch for the offspring of high-ranking cadre. In public, they spoke glowingly of these officers that 'violated the law and discipline' and did not hesitate to 'make an unwarranted ruckus' at the Military Tribunal's administrative building."

From the facts revealed in this secret document, it is clear that not one person expected "an army fighting for a just cause to rise in rebellion." It was only due to certain factors that these new trends were stamped out.

The following situation brought up in the report is also worth noting: After 4 June, the General Political Department organized a "republican guard" lecture troop to travel throughout the military giving speeches, "enlisted personnel were generally moved when they heard the speeches, but mid- and low-level officers were not as easily moved and some even showed apathy."

#### **Yang Baibing Orders First Rectifying Problems With Political Workers**

The report pointed out that the plotting of political organizations by mid- and low-level officers were mostly halted in the preliminary stages, but there were some exceptions. A Captain Zhang from an army stationed in Xinjiang instigated an armed revolt by a reinforced company. Zhang said that he "would become the Nasser of China." He attracted 200 officers and men and forcibly seized a military camp, depot, and local town. "Fortunately the CMC quickly learned of this incident and sent paratroopers in to put it down and prevented it from spreading." A First Lieutenant He from an army stationed in Guangxi led a platoon-sized unit into the mountains. They roamed the hills of Guizhou and Guangxi for three months, distributing leaflets promoting the "establishment of a Jinggang mountain stronghold," and looted public foodstuffs and strategic materials.

The report stressed the importance of mid- and low-level officers, it emphasized that they are "truly the pillar on which the people's army operates, without which the military would face a breakdown, and if there is a slowdown in their ranks, the military will not be able to operate normally."

The report stated that "mid- and low-level officers will not raise anything that runs counter to love of nation and people, but they do have some conflicts with love of the party and the military. Some people have put this forward: Does love for the party also mean love for the deterioration of the party? Does love for the military also mean love for the backwardness of the military?"

The report pointed out that some "activities that run counter to socialism" have also emerged among the low-level officers in the military who are responsible for political work. Therefore, Yang Baibing has instructed that "we should first rectify the problems of political

workers." Personnel involved in military political work have become extremely vexed at times.

The report also put forward the following detailed ways to strictly control mid- and low-level officers: 1) Strengthen political and ideological education and lead by positive example. 2) Seek truth from facts to solve the real problems of mid- and low-level officers and "win the hearts of these officers." Policies should "proceed from actual conditions" in solving actual problems. The report suggested some "feasible" policies that included the following: 1) Speed up promotion boards so low-level officers will have an opportunity to advance to a higher rank. 2) Establish an effective awards system to stir up

morale and increase a sense of honor. 3) Institute a higher pay system; the salary of officers should be 100 to 300 percent higher than the salary of local cadre of similar grade. 4) Reform the punishment system and go easy on personnel involved in illegal organizations within the military. Sending them back to their local areas only as an emergency measure. 5) Eliminate dissident elements and grasp every available minute to guard against possible trouble. 6) Reform the army establishment so that battalions and regiments act more independently and can fully utilize modern military technology and the role of mid- and low-level officers, and their role in the prevention of armed rebellion.

**CENTRAL-SOUTH REGION****Guangxi Air Force Units Stage Parade**

*HK0705023591 Nanning Guangxi People's Radio Network in Mandarin 1030 GMT 2 May 91*

[Text] On the eve of the 1 May International Labor Day, the Air Force units stationed in Guangxi held a grand parade.

(Liu Chunliang), political commissar of the Air Force units stationed in Guangxi, and other leaders reviewed the troops participating in the parade.

The parade is a comprehensive review of the situation concerning the new Common Regulations implementation and the standardization building carried out by the Air Force units stationed in Guangxi. Since promulgation of the Common Regulations, which were signed by Jiang Zemin, chairman of the Central Military Commission on 9 June 1990, the Air Force units stationed in Guangxi have conscientiously carried out propaganda and education on the new Common Regulations, held more than 30 training classes in this regard, trained more than 2,000 backbone cadres, strengthened the concept of managing troops in accordance with the law, and heightened the consciousness of both officers and soldiers in doing things in accordance with the Common Regulations.

**Gansu Secretary Addresses Defense Education Meeting**

*HK0205092191 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 29 Apr 91*

[Excerpt] A three-day provincial meeting on national defense education for the people was opened in Lanzhou yesterday morning.

The meeting was chaired by Sun Cuiping, commander of the People's Liberation Army Gansu Provincial Command and a member of the provincial party committee Standing Committee. Vice Governor Mu Yongji, deputy director of the provincial National Defense Education Committee, read out the resolutions jointly adopted by the provincial party committee, government, and military command which commended pacesetting units and advanced units and individuals in national defense education. The participating leaders awarded honorary certificates to those units and individuals who had been commended.

(Kong Zhaowen), director of the Lanzhou Military Region Political Department, addressed the meeting.

Provincial party committee Secretary Gu Jinchu delivered a speech entitled "Heighten Our Awareness, Strengthen Leadership, and Deepen National Defense Education for the People." He pointed out, "To deepen national defense education among the people, it is necessary to make this education a part of ideological education, to combine the education and education in

socialism into an organic whole, to carry out the education in a more scientific way with respect to the form and method of teaching, and to legalize and systematize the education."

Comrade Gu Jinchu stressed, "All levels of party committees must regard national defense education as a political task and place it high on the agenda. It is necessary to set up and perfect all levels of authoritative leading centers comprising members from party committees, governments, and military departments, apply a scientific approach in making policy decisions and exercise effective leadership over national defense education for the people, and mobilize all sectors in the society to pay close attention to and exercise joint control over the work."

**SOUTHWEST REGION****Ambassador to Nepal Marks Tibet's Peaceful Liberation**

*OW1605221591 Beijing XINHUA in English 1605 GMT 16 May 91*

[Text] Kathmandu, May 16 (XINHUA)—Chinese Ambassador to Nepal Li Debiao gave a film show and buffet reception in the Chinese Embassy here today to mark the 40th anniversary of the peaceful liberation of Tibet.

Some 100 Tibetans residing in Nepal were present on the occasion.

In his address, Li introduced great changes and achievements gained in the past 40 years, especially in the last decade, by the Tibetan people.

He stressed that "now the Tibetan people are enjoying full human rights by leading a colorful and well-being life as well as personal and religious freedom."

Two documentaries depicting changes in Tibet and a well-known Tibetan woman singer were shown at the reception.

After the film show, 69-year-old Thutop Gonpo told XINHUA that he has been back to his hometown for several times in recent years. Each time he found new development in his hometown. He added that the Tibetan people are enjoying religious freedom fully and life is going better and better. "I like the central government's present policy being carried out in Tibet," he said.

Denouncing the assertion that "Tibet is an independent state", he said, "Tibet has always been a part of China".

## NORTH REGION

### Crisis of Faith in Socialism Discussed

91CM0394A Tianjin QIUZHI [SEEK KNOWLEDGE MONTHLY] in Chinese No 3, 5 Mar 91 pp 16-17

[Article in "Discussion on the 'Three Beliefs'" column by Wang Shengli (3769 0524 0448), Tianjin Municipal Party Committee Party School; edited by Liao Xiaomei (1675 1420 2734): "The Current State of Socialism and the Crisis of Faith"]

[Text] The world communist movement has run into a series of setbacks in recent years. Many socialist countries have, to various degrees, made some mistakes in their reform and opening up since the end of the 1970's. The political situation in some Eastern European socialist countries has been turned upside down, and the ruling communist parties have lost power—some have been forced to step down, and others have been reduced to just another political party. The world communist movement has once again sunk to a low ebb. As a result, some people are suffering from a kind of "crisis of faith." First, they are beginning to doubt whether Marxism is correct. In their opinion, since Marxism is the theoretical base and the guiding ideology of the socialist countries, and in view of the problems many of these countries are running into today and the cataclysmic changes some of them have gone through, there must be something inherently wrong with Marxism, or, taking a step backward, perhaps Marxism might have been correct a century ago but is outdated now. Second, people are beginning to doubt the vitality of the socialist system. They believe that most socialist countries have fallen behind the capitalist countries economically, and because of the upheaval in the socialist countries in Eastern Europe, they are convinced that the socialist system has lost its vitality, and in turn, they also believe that the socialist system is not as good as the capitalist system, and their faith in communism is shaken, and they are beginning to have doubts about the future of China's socialist undertakings. Third, people are beginning to question the necessity of the communist party's leadership. They feel that the socialist system led by the communist party has been plagued by all sorts of mistakes over the past decades. The communist parties in some Eastern European countries have lost popular support as well as political power. Meanwhile, under the leadership of the bourgeois political parties, some well-developed capitalist countries have grown steadily. People have come to believe that their country too can become rich and strong without the communist party's leadership.

Obviously, these viewpoints are wrong. But then why is the world communist movement at an ebb? In particular, what caused the cataclysmic changes in some socialist countries in Eastern Europe? The following are the main reasons:

One, people have an unscientific attitude toward scientific socialist theories: Marxism is a science, and we must

have a scientific attitude toward science, otherwise we will turn it into a fallacy, and inevitably we will fail in practice. Communist party members in some Eastern European countries have exactly made this mistake. They have either treated Marxism and scientific socialist theories dogmatically and too rigidly, believing that a socialist society should not be regulated by the market and that a commodity economy is an innate characteristic of capitalism, or they have formed the opinion that all members of a socialist society should get the same economic benefits, that everybody should be equal, lest they head down the capitalist road. Some even believe that Marxism is outdated and that the socialist system has lost its vitality, and they therefore abandon the scientific socialist theories of Marxism. Upon losing the proper guiding ideology, mistakes after mistakes are being made in their socialist undertakings, and eventually the whole society goes astray.

Two, people have the wrong ideas about reform and opening up: In the several decades of socialist construction, some Eastern European countries have basically just followed the Soviet Union's formula. This is due to historical causes. As time goes by, however, this old system has become more and more outdated and is obstructing these countries' political, economic, and social developments. It has become necessary to implement reform and open up. But the thinking of some of these countries' leaders have become ossified, and even when faced with an old system which has lost its vitality, they refuse to implement reform and open up, and as a result, the economy stalls, prices soar, commodities become scarce, and the living standard falls. Some leaders, on the other hand, think that reform and opening up mean wholesale rejection of the socialist system and total acceptance of the capitalist outlook on value. They restructure the political and economic systems without first analyzing what they are doing, and they do away with even the good things. They denounce the accomplishments of socialist construction as mistakes. As a result, there is economic chaos and political instability, and the people are getting fewer and fewer real benefits, and they begin to think that they have come to the end of the socialist road and have serious doubts about the communist party's leadership.

Three, people have let down their guard in the ideological realm and are unable to resist the many erroneous capitalist and even reactionary ideologies. These ideas are therefore able to develop and give the enemies at home and abroad an opportunity to launch an attack on socialism. As a result, the people are confused in their thinking, and eventually the reactionary thinking that refutes Marxism and socialism are able to prevail over the correct ideas.

Four, the ruling party itself is riddled with serious problems. Nobody has ever really addressed the problem of corruption among the leading cadres. Corruption has become a fairly serious problem among the communist party leaders in some countries, and the people are very upset. Also, some countries have stuck by the extreme

"leftist" line and have shut out and even eliminated other progressive political groups, and this has ruined the united front and closed the communists political allies, and as a result, the communist party is isolated at the time of crisis. In addition, factional struggle within the party is fierce, and this extreme "leftist" practice has spread to the organs of state power and even among the people, so that the people's democratic rights exist in name only; many innocent people are being persecuted and oppressed. As a result, the people are very resentful, and at the end, when triggered, things just explode.

Five, imperialism's "peaceful evolution" strategy is also an important factor behind the cataclysmic changes in the Eastern European socialist countries. For a long time, Western mass media have stepped up their ideological and cultural infiltration in Eastern Europe, and some Western political figures have also interfered directly and wielded influence in Eastern Europe. They have intensified the conflicts in some Eastern European countries and have hastened the process of drastic changes.

The truth is, for decades it was the socialist system and the communist party's leadership that had brought tremendous success to the Eastern European countries. After the upheaval, those countries not only have not solved any of their previous problems, but things have actually become worse. In Poland, if we compare January and February 1990 with the same period in 1989, we will find that the GVIO has fallen by 50 percent; goods are scarce, and the unemployment rate has soared. In 1989, Hungary ran up as much as \$20.7 billion in foreign debt, which came to \$2,700 per person; the inflation rate was 22-25 percent in 1990, and at the end of that year, around 400,000-500,000 people were unemployed in the former German Democratic Republic, and the GVIO in the first quarter of 1990 was 30 percent lower than in the same period in 1989.

From the above analysis, it is not difficult to discern that the reason the world communist movement is at an ebb and some socialist countries in Eastern Europe are in turmoil is not because Marxism is outmoded or because the socialist system has lost its vitality; rather, it is a tragedy resulting from the fact that the communist party members in some socialist countries have strayed from the essence of Marxism and have violated socialist principles and eventually lost popular support.

In reviewing our experiences and lessons, we should take concrete measures to end this crisis of faith:

One, we must do a better job in the ideological realm. For many years, the imperialist countries have been clamoring for "a war without gunpowder" in our ideological realm. They have long tried to infiltrate our ideological and cultural realms, while we have been neglecting this area, and that is why we have made all kinds of mistakes. We can say that to a very large extent the current crisis of faith is the result of our negligence in the ideological realm. We must pay serious attention to

this problem. Ideologically, we must hold steadily to the guidance of Marxism, enforce unremitting communist ideological education, and take a clear-cut stand against all corrupt ideas.

Two, we must make sure that the party's ideologies are sound. The CPC is the ruling party. The soundness of the party's ideologies and even each communist party member's state of mind can have a significant impact on the masses. Currently, there is a crisis of faith in society, and to a large extent, it is due to some communist members' lack of faith in communism. If 48 million of us communist members hold steadfastly to our faith, we can deal with this crisis.

Three, we must study the basic theories more diligently and make ideological and political education work more scientific and systematic. For many years, we have accumulated much experience in the area of ideological and political education, but we lag behind in theoretical studies, and this has caused us to make mistakes in our work in ideological and political education and has even caused a flood of ideas that lead us to doubt or even reject Marxism, socialism, and the communist party's leadership. We have reached a point where we must deal with this problem immediately.

#### **Inner Mongolia Holds Civil Defense Work Conference**

*SK0305074791 Hohhot NEIMENGGU RIBAO  
in Chinese 4 Apr 91 p 1*

[Text] During the Seventh Five-Year Plan period, 30 percent of the region's civil air defense and war preparedness projects were utilized under the guidance of the principles of first making preparations for wartime needs and secondarily serving the economic construction during peacetime. The target for use of these projects for the Eighth Five-Year Plan period is 41.4 percent. This was released at the regional civil air defense and war preparedness work conference that ended a few days ago.

In his speech at the conference, Bu He, chairman of the regional government, fully affirmed the region's achievements in building civil air defense projects and using these projects to serve economic construction. He stressed, "We should understand the current world situation and the important historical and practical significance of civil air defense projects. The construction of civil air defense projects is a key component of national defense construction, as well as a great strategic matter relating to the safety of the nation. Inner Mongolia is a border region of the motherland. Defending the safety of the motherland is our historical duty. Departments at various levels must pay close attention to this."

While talking about the target and the guiding principle for developing civil air defense projects for the Eighth Five-Year Plan period, Bu He said, in line with the people's air defense committee's principle of "persistently linking peacetime with wartime for a long period of time and making an overall plan for construction of key air defense

projects," departments at various levels should attend to the work as follows. That is, they should link the construction of air defense projects with air defense strategic awareness, education on the general knowledge of air defense and war preparedness, and economic construction, so as to build the civil air defense projects into an indestructible fortress to resist the foreign enemy during wartime and to serve economic construction during peacetime. War preparedness efficiency should be regarded as a central link of the construction of the war preparedness projects, and economic results and social benefits should be regarded as an important factor penetrating the entire process of the construction of civil air defense and war preparedness projects. The construction of civil air defense and war preparedness projects should be linked to management and maintenance of these projects. Responsible departments should cooperate with all professions and trades in society to build the projects.

The conference also commended some advanced units and individuals with civil air defense and war preparedness work achievements in the Seventh Five-Year Plan period.

**Wang Zhen, Wang Renzhong Honor Hubei School**

*OW0106171691 Beijing XINHUA Domestic Service  
in Chinese 0645 GMT 31 May 91*

[By reporter Fang Zhengjun (2455 2398 6511) and correspondent Zhang Zhen (1728 2182)]

[Text] Wuhan, 31 May (XINHUA)—On the eve of the "1 June" International Children's Day, "Xiwang [Hope] Primary School" was recently inaugurated in the Dabie Mountain region in Hubei. The school was built with funds from the Communist Youth League Central Committee and the China Youth Development Fund.

Vice President Wang Zhen wrote an inscription for the school's completion. Wang Renzhong, vice chairman of the Chinese People's Political Consultative Conference National Committee, wrote the name of the school.

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